



Association for Financial Markets in Europe

AFME Member Call - Introduction to the AFME Pan-European SME Finance Guide

**“Raising Finance for Europe’s Small & Medium-
Sized Businesses : A practical guide to obtaining
loan, bond and equity funding”**

22 September 2015

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Finance for Europe

- In February 2015 AFME published “Bridging the growth gap” with BCG, **to compare differences between EU and US financing in the areas of SMEs**, as well as infrastructure and private placements
- The report highlighted that despite GDPs being approximately the same, **Europe provides significantly more funding to SMEs** (€2.0 trn) than the US (€1.2 trn).
- **Europe has significantly less listed equity capital:** €10tn in Europe vs €19tn in the US

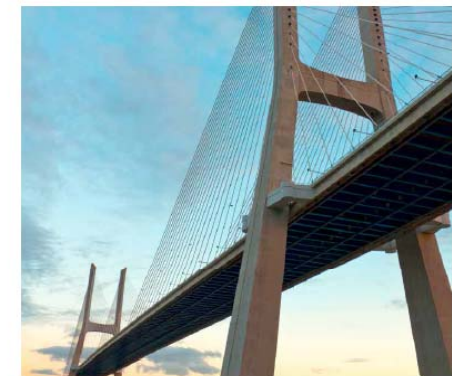
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BCG
The Boston Consulting Group

Bridging the growth gap

Investor views on European and US capital markets
and how they drive investment and economic growth

Summaries



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- **Europe's savings market structures are less geared to equity investing.**
 - EU pension funds provide €4.3tn in investable assets, vs €14.9tn in the US
- **Pension funds' equity allocation is lower in Europe than in the US (37% vs 53%)**
- European Commission figures indicate **5% of financing in Europe is from family and friends**, vs US SBA survey that shows 60% of firms rely on personal savings or friends and family
- **Angel investors** provided €20bn to US SMEs while only €6 bn in Europe; **venture capital** provided €26bn to US, with only €5bn in Europe.

SME funding: US vs EU comparison

		Source	Stock (of outstanding financing)		Flow (of new financing in 2013 ¹)	
			US (€B)	EU (€B)	US (€B)	EU (€B)
Banks		Loans	464	1,425*	281*	712
		Securitised loans	30	118	5*	36
		Bonds/Equity ²	Desk research and investor interviews indicate only marginal investments			
		Subtotal	494	1,543	286	748
Non banks		Mutual funds	107	88	10	7
		Segregated Mandates	~5	~10	~1	0
		Pension Funds ³	Desk research and investor interviews indicate only marginal investments via funds, mandates or securitisation			
		Insurance ³	Desk research and investor interviews indicate only marginal investments via funds, mandates or securitisation			
		SWF ³	Desk research and investor interviews indicate only marginal investments via funds, mandates or securitisation			
		Private Equity Funds	59*	32*	14*	9*
		Venture Capital Funds	104*	22*	26	5
		Family and friends	371*	168*	186*	84*
		Crowdfunding	3*	1* ²	1	1
	Angel Investing	39*	11*	20	6	
	Subtotal	688	332	258	112	
Government		Government guarantees and sponsored loans	54*	132*	27	66*
	Subtotal	54*	132*	27	66*	
Total			1,236	2,007	571	926

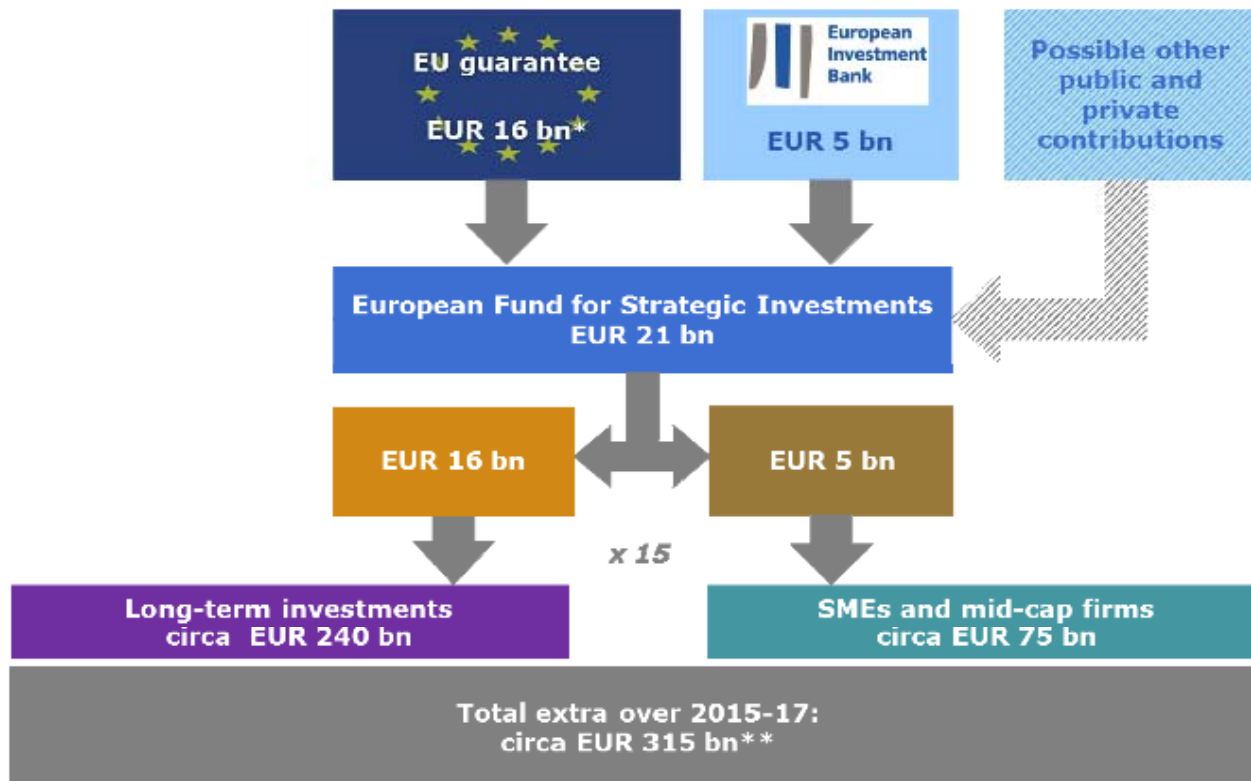
* Estimates used, see Appendix 2

- Prepared by AFME SME Finance Working Group, comprised of members from all of the five largest EU countries.
- AFME's goal is to improve awareness by its members' SMEs clients of ALL the financing alternatives available to them – bank as well as non-bank loans, private placements and various sources of equity
- Also to encourage SMEs to think more broadly about where to look for finance, in addition to their traditional relationship bank
- Members are encouraged to distribute the guide to their SME client base and SME relationship staff and to make it available on online platforms.
- The AFME team would be happy to present the guide to colleagues in your organisation responsible for SME finance activities.

afme / Juncker Plan – Support for SMEs

Finance for Europe

- The guide supports Commissioner Juncker’s €315 bn Investment Plan for Europe, which includes both infrastructure finance and SME finance (25%)

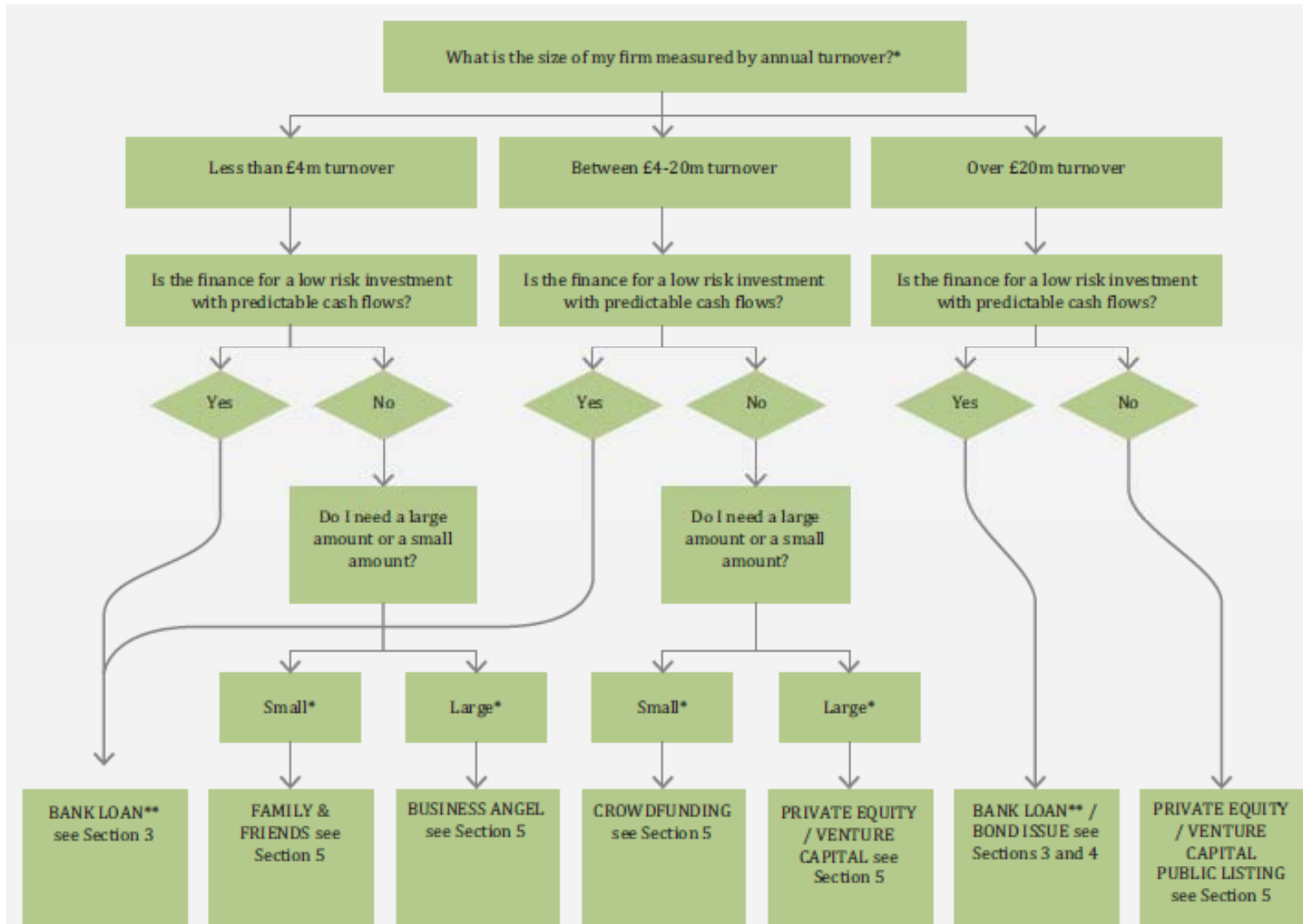


* 50% guarantee = EUR 8 bn from Connecting Europe Facility (3.3), Horizon 2020 (2.7) and budget margin (2)
 ** Net of the initial EU contributions used as guarantee: EUR 307 bn

What's Included in the SME Guide

- Not a policy document – it is written in easy to understand language that businesspeople will understand
- Practical tips on how bank and non-bank lenders and equity investors evaluate applications, and what to do if your application is not accepted
- Decision tree on what type of finance is best for the SME, and types of funders that can provide it
- Real-life examples of SMEs obtaining funds in various industry sectors
- Details are provided of the differences in major member state special SME listing regimes/ junior stock exchanges
- Includes an extensive directory of national and pan-European organisations and schemes which provide SME support

SME Financing Decision Tree



Key advice for SMEs highlighted

- Banks and non-banks would rather lend to established business with stable and positive cash flow, offering collateral or guarantee.
- Equity may be the most suitable form of finance for start-ups or existing businesses with significant expansion plans, with uncertain cashflows.
- Many pan-European and national government-sponsored programmes help start-up businesses and established businesses in need of finance.
- Obtaining good independent advice at an early stage from accountant or other professional advisor is strongly recommended.
- Preparing a good business plan is an essential first step before approaching funders. Accountant or advisor can assist with this.
- VC/PE investors often insist upon some level of management control, but they also contribute valuable business experience and contacts.

- Prepared in consultation with EIB, EIF, corporate, banking and SME trade associations, SME bankers and others
- Guide will be made available by not only AFME but also other associations to their members
- Quotes to be featured in press release:
 - **George Passaris, Head of Securitisation at the European Investment Fund** said: “The AFME Guide will help European SMEs make educated choices about the type of funding they need and will help to improve their chances of achieving success with loan applications and bond and equity fund-raising. It includes a useful overview of the financing programmes available from the EIF, EIB and other European institutions to support the growth of European SMEs.”
 - **Gerhard Huemer from the EU SME association UEAPME**, who supported the work on the Guide, said: “Especially in times when many SMEs have difficulties with access to finance, this Guide helps SMEs to learn about the full range of financing sources and how to profit from them.”

- AFME is working with the European Banking Federation and its national affiliates on setting up six events across Europe in the autumn.
- Also actively involved in the programmes are non-banking institutions who support SMEs – national stock exchanges, accountants and advisors, SME associations, business angels and crowdfunders, EIF, and others.
- First event is later this week in Madrid on 24 September, followed by others in Berlin, Paris, Rome, London and Brussels.

The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets that support economic growth and benefit society.

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