SPEECH TO SME ENVOYS NETWORK MEETING: FROM START-UPS TO SCALE-UPS, BUILDING THE STRENGTH OF SMALL BUSINESS TO EXPAND OPPORTUNITY

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Mrs Bie?kowska, your excellencies, ladies and gentlemen, I’m honoured to attend this meeting today that brings together knowledge and expertise about small and medium sized enterprises from all over Europe. As a member of the Dutch Committee for Enterprise and Finance, I share your commitment in expanding opportunities for SMEs in Europe.

The past 'seven lean years' have been a severe test for hard-working entrepreneurs. SMEs are the engine driving job creation in Europe, but from 2008 to 2014 the engine faltered and SMEs had to lay off 800,000 people. Fortunately, the engine is starting to revive in most places. In 2014, SMEs accounted for over 70 percent of new jobs in the non-financial sector.

SMEs' strength lies partly in their diversity. They range from family businesses that have been household names for decades, to self-employed people starting a new business. All of them make the economic system more flexible. From small bakeries serving the local community, to innovative companies helping us to meet today's social and environmental challenges.

A good example is the Turkish bakery cafe Simit Sarayi, franchised by a Dutch couple of Turkish origin, Gulnaz and Kerem. Their bakery in a regular neighbourhood in The Hague was financed with help of Qredits, a microcredits institution. They started only four years ago but are currently employing eight people. Another example: Dutch entrepreneur Boyan Slat, who devised a way of reducing the plastic waste clogging the oceans. And let me mention Jos Joore, who is here today: his company Mimetas is developing 'organs-on-a-chip', for determining the effects of pharmaceutical drugs on the human body.

SMEs need a stimulating business environment that enables them to grow. The Netherlands is one of the leading countries in the world when it comes to successful start-ups. However when it comes to scale-ups there is certainly room for improvement. Not only in the Netherlands, but in many other European economies as well. Just to put things into perspective, in Europe companies with a strong ambition to grow (meaning more than 5 employees in 5 year) amount to only 20 percent, where this figure in the U.S. surpasses the 30 percent.

The key to changing that, is increasing the level of ambition of entrepreneurs and creating the right environment in which SMEs can prosper.

An environment with enough financing possibilities, a good labour market and rules and regulation supporting SMEs. Equally important are good timely data that will help both decrease the costs of risk assessment of lending or investing in SMEs as well as the development of better products and services for them, both from the financing and the policy side.

SMEs operate in a rapidly changing environment. Financial markets have become more volatile and businesses have needed more risk capital in order to access other sources of finance.

In Europe, bank financing still plays a prominent role, providing some 85 percent of SME funding, according to the Association for Financial Markets in Europe. But in recent years the financing market has undergone a fundamental change. Diversification of sources of finance offers new forms and a revival and evolution of existing ones, like crowdfunding, venture capital, private equity and credit unions. The European market for these new forms of finance is worth about 45 billion euros today.
If we only consider internet platforms that match SMEs and investors, the current figure is three billion euros. And this is set to increase. Online financing platforms are used mainly in northwest Europe, but are now being adopted in other countries. Malta is a good example: its government is providing financial help for the crowdfunding platform ZAAR to get it off the ground.

So the fintech movement can be of great help, bringing a new generation of products tailored to the needs of small businesses. It is offering funding solutions that are efficient and effective even for smaller loans. Solutions such as peer-to-peer lending and e-commerce finance have the potential to become a game changer for SMEs. And with all the data emerging, fintech tools therefore become more sophisticated. This process of digitalization will lower underwriting costs, it will help to better assess risks and channel more funds into enterprises, from which growing SMEs will profit.

The government can and should anticipate fintech developments by supporting and guiding them during their path of growth and by avoiding over-regulation.

It's vital to allow enough room to experiment in order to encourage new forms of financing, even though we don't yet know what the exact end result will be. Of course they might impose risks to the system, so the more reason to walk with them in their development. Governments could also provide the right incentives for stimulating these new forms of financing. The Dutch government for example recently announced a call to provide a funding guarantee for new and innovative providers of SME finance.

Besides regulation, governments can provide good conditions that will also strengthen Fintech. For example: making public data available which improves transparency, creating a level playing field for new entrants, facilitating standardization and simplifying processes. And finally, countries could focus on education to improve skills of entrepreneurs. With all these public goods, governments can support SMEs in their growth. And when SMEs grow and prosper, the economy prospers too.

There are, of course, still other alternative finance forms; as far as microfinancing is concerned, we see good examples of financing platforms in Italy, with PerMicro, and in France, with ADIE. In my country, the funding of the Dutch microfinance institution Qredits was recently increased by 100 million euros, in cooperation with the European Investment Bank.

All in all, the SME financing market is clearly starting to become broader. This is particularly important for start-ups and scale-ups. For banks, extending credit to small businesses is often too costly and too risky which has resulted in decreased lending exposure to SMEs over the past years. As a result, many young businesses in search of funding tend to pass through a 'valley of death' during their growth process.

Start-ups in Europe need ever-greater investments in order to compete on the global market. We ought to make sure that our capital markets succeed in making this jump in scale. That is why the discussions on a capital markets union are very relevant. In many member states national promotional banks are stimulating the cross-border character of investments. And this will give SMEs more opportunities to spread their wings, but all of this is only possible in a strong single European market, something we should continue to work on.

Making the European instruments more cohesive and making new forms of financing accessible is no easy task. And we should not forget that this is not only about money. As we know, growing places a great demand on entrepreneurs. They need to be constantly on top of their game. And they need to see what is happening in the market, draw up expansion plans and be bold enough to alter them when necessary. They also need to make effective use of their network to access knowledge about markets, technology, human resources and finance. Only then can entrepreneurs grow into the globalized world.

Why is that level of ambition lower than in the U.S.? This is often because they don't feel the urge to grow, they may not see the added value of coaching and training or they just don't know how to grow. They might feel that their business is doing fine, or they simply don't have the time. When speaking with entrepreneurs most of them see their potential markets only in their own country. And not the entire European market.
Governments can play an important role here, as they are increasingly bringing parties together to give entrepreneurs a push in the right direction. The Dutch government recently launched a public-private multiyear programme called NL Groeit, which translated would be NL Grows. It aims to increase SMEs' growth potential by stimulating ambition and helping entrepreneurs find the right coach, mentor or programme to turn their ambition into reality.

Like everything in life, it is better if you start young, so it is also vital to encourage an entrepreneurial spirit among primary and secondary school pupils as well as students in higher education. The Netherlands is not unique in this: policymakers in nearly all EU countries are working to strengthen enterprise education.

Research of the Dutch Young Entrepreneurship Foundation shows that young people in the Netherlands who have taken enterprise courses find it easier to get a job, often at the management level. In schools, exchanging one day of theory a week for a day of practical training of their entrepreneurial skills can lead to better study results and a lower dropout rate. In this way, enterprise education helps create not only successful entrepreneurs, but also better employees. We need to implement entrepreneurship education programmes as well as carry out high level research on entrepreneurship. The Kauffman Foundation, also present here, is a source of inspiration in this regard. Wouldn't it be great if we achieved the same success in Europe!

Ladies and gentlemen, together we can reduce inequities in the credit and financing market for SMEs. Together we can help them to get the best out of themselves. Policymakers, regulators, innovators, and financial institutions of all shapes and sizes can create the conditions necessary for the European market to offer affordable financial services tailored to the needs of small businesses. Services that they will actually use to the best of their abilities.

Your job as SME Envoys is of the utmost importance. Supporting SMEs means supporting economic growth, job creation and innovation. It means giving perspectives to the youth of Europe that needs it so badly. So therefore you are key players. I wish you every success!