



Rabobank



Position Paper on Action plan for SME access to financing

Introduction

The Lower House of the Dutch Parliament will be considering the (supplementary) action plan for SME access to financing on 19 November 2014. Rabobank welcomes the initiatives announced in the action plan, as SMEs play a crucial part in the economy. Moreover, Rabobank traditionally sets great store by SMEs.

In this position paper we will provide responses to seven elements of the action plan, of which we have also informed the government and the Lower House by letter:

1. The importance that the plan attaches to greater 'resilience' of SMEs.
2. The need to provide more information on available government schemes and to combine information services for businesses.
3. The call for new forms of financing.
4. The available budgets for SME Loan Guarantee (BMKB) and Corporate Finance Guarantee (GO) schemes.
5. The availability of capital for businesses.
6. The proposed expansion of Standard Business Reporting to SBR+.
7. The expansion of Qredits.

Response to seven elements in the action plan

SMEs need more capital but must accept the price this entails

The emphasis in the supplementary action plan on increasing the resilience of SMEs is very opportune, in our view. The increased volatility of society in general means that doing business in 2015 entails greater risks than in the past. More than ever, businesses need to be able to adapt quickly to changing circumstances. This applies to technological innovation, but equally to customer behaviour. It has become more difficult for businesses to base long-term plans on customers' current wishes. A greater financial buffer is therefore required to absorb shocks. This leads to a shift in the composition of the right side of the balance sheet, with more equity and/or more risk-bearing financing being required.

The Netherlands Investment Institution (NII) could play a part in raising additional capital for SMEs, even though it is still in its infancy. A degree of realism is called for here: parties such as pension funds and private equity apply thresholds for returns that exceed the current level of bank financing. In their business plans, businesses must accordingly factor in higher costs for risk-bearing capital compared to bank loans, as well as extra requirements set by financiers, such as being given a say in the business. Not all businesses are prepared to do so. Nonetheless, a good combination of equity and loan

capital provides the best basis for a strong balance sheet for businesses, in our view.

Better information can be provided to businesses on forms of financing and government schemes

The transformation of the balance sheets of SMEs requires not just time but also a thorough understanding of the various solutions on offer in order to choose the right ones. It is important to provide more information about the different forms of financing and the available government schemes for SMEs, and Rabobank wants to contribute to helping businesses with this. Not just with the knowledge available on websites such as www.rabobank.nl and www.ikgastarten.nl, but also by providing information in customer meetings and mini-master training modules for our members. In tandem with the Royal Association MKB-Nederland, we are offering programmes such as The Next Entrepreneur and Port4Growth that are centred on developing the skill-set of entrepreneurs across a range of areas (please note that websites are in Dutch. Another initiative described in English is www.rabopreseedfund.nl, for Utrecht based startups), These programs involve informal networks and exchanging knowledge and experience between businesses. These initiatives on our part pursue several of the ambitions stated in the action plan. Naturally, the local Rabobanks' extensive network is used in that context to draw customers' attention to the various providers of financing who, in addition to banking facilities, enable businesses to pursue an optimum growth track. At present, there is a range of schemes for businesses, both public and private. In some regions these number over 200. Accordingly, we support the government's aim of combining several services for businesses.

Rabobank is open to new forms of financing and emphasises the importance of the supervisory framework to make this properly possible

Rabobank welcomes the continuing efforts of the government to stimulate a range of different providers of financing. Many of our customers can benefit from this and in practice, the number of examples of businesses that can put a robust financing structure in place by drawing on a variety of sources is growing continually. Safeguarding confidence in those

financing structures will however require suitable supervision of the conduct and financial stability of these new providers of finance. This is necessary not just in the interests of businesses but also of the investors, many of them private, in these forms of financing. This supervision is required to be appropriate in terms of size and complexity.

Loans are available for good businesses, including small businesses

With a view to healthy operations, it is important for Rabobank to continue to provide financing to businesses with promising prospects. This certainly also applies to small businesses. Businesses, large and small, are the core of our customers and members and our commitment to these businesses means that Rabobank does not discriminate in terms of the size of a business. To provide some perspective: 1 out of 5 approved loan applications at Rabobank is for financing for a business of a scale below EUR 50,000. Rabobank organises these services to be as efficient as they are customer-focused. Virtual channels are an increasingly important part of this.

Guarantee schemes provide support, let budgets ebb and flow in step with the economy

In our view, guarantee schemes such as the SME Loan Guarantee (BMKB) and Corporate Finance Guarantee (GO) schemes play a crucial part where the risks of financing are slightly too high from a banking perspective and the business itself is unable to provide adequate security. With these instruments, the government is supporting businesses in a way that the market itself cannot provide for (in full). We advocate keeping the available budgets at adequate levels, now that the economy is set to pick up again and demand for them will increase accordingly. After all, these schemes require solid future prospects before they can be deployed. Conversely, their scope would be reined in again as soon as the economy is fully up and running.

SBR+ is an important step

SMEs have a relatively pronounced risk profile owing to their limited size, their dependence on the entrepreneur himself or herself and the limited product-market combination. It is clearly easier for larger businesses to diversify their activities.

In addition, information asymmetry is often a limiting factor for SMEs in attracting financing. Particularly with regard to relatively risky investments, an adequate management information system is essential. In order to facilitate the comparability, exchange and interpretability of reporting information, Rabobank has already been involved in the Standard Business Reporting Programme since 2008 (www.sbr-nl.nl/english/). Standardisation and automation make it possible to exchange uniform reporting information with the tax authorities, Chamber of Commerce and banks. This improves the quality, reliability and ready availability of corporate information throughout the chain.

Adopting SBR+, the successor to SBR, as a contribution to the facilitating the financing of Dutch SMEs represents an important next step in improving information exchanges and thus limiting information asymmetry.

SBR+ should in our view however not be confused with a data safe in which all stakeholders can view the financial information of a business. That is something for which the Chamber of Commerce is in place. It will however enable other parties than those requesting information at present to seek alignment with the SBR methodology. The infrastructure that has been jointly put in place for this purpose by the banks, and that is technically and functionally the same as the government's infrastructure, is already suitable for this. The major Dutch banks involved accordingly invite all parties that believe they can benefit from access to the financial information of Dutch SMEs to initiate this alignment process as soon as possible. The fact is and should in Rabobank's view remain that the customer, the business in this case, is and remains the owner of the data and that only the customer can decide who should be a designated recipient of the corporate information.

Expansion of Qredits will benefit small businesses but this does require more monitoring

At the end of 2008, Qredits was established as a safety net behind the banks to support the most vulnerable businesses, for which no financing can be provided within the framework of ordinary banking operations. Rabobank is involved as a

financier of Qredits and over 80 employees of Rabobank are active as voluntary coaches at one or more vulnerable businesses to give them a chance to get their business off the ground and to turn to a commercial party for possible follow-up financing. The proposed expansion of the SME loan product to EUR 250,000 can contribute to the business case of Qredits and also help a number of slightly larger businesses to get started. In view of the additional risks entailed by the higher lending, not least for the government, which will take on the greater part of the risks, adequate monitoring of the performance of those businesses is very important. And Qredits itself will also need to improve its management, partly in view of the increased size of individual loans. In the months ahead, banks will engage in extensive consultation with Qredits to make the payment transactions of our mutual customers transparent for Qredits.

In order not to lose sight of the original purpose of Qredits, Rabobank believes that the increase currently proposed should be the last. The focus must be on quality in providing loans to businesses with an acceptable risk profile for investors and the government, with appropriate support to maximise those businesses' chances of success. Rabobank will continue to be committed to encouraging its employees to take on the role of coach at a business via Qredits.

Government policy aimed at exports, innovation and entrepreneurship also provides stimulus

In addition to the seven elements of the action plan highlighted above, Rabobank also considers the government's long-term initiatives for SMEs to be important, such as the policy aimed at promoting exports, the Dutch Good Growth Fund that was recently established, stimulating entrepreneurship, limiting the degree of regulation for businesses, creating extra opportunities for start-ups and increasing the exchange of knowledge between businesses and knowledge institutes such as senior secondary vocational education institutions, universities of applied sciences and other universities.

Conclusion

'Making each other stronger'. Rabobank also applies this motto in full to SMEs, which play such a crucial part in

our economy. On the whole, Rabobank welcomes the government policies for SME's and it is open to consultation with all parties concerned to discuss the implementation of the measures and the contribution our bank can make.

Information

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