Banche Assicurazioni Finanza

Italian Banking Insurance and Finance Federation

RIF ROME INVESTMENT FORUM 2019

FINANCING LONG-TERM EUROPE

Rome Investment Forum 2019

In co-operation with afme/ Finance for Europe

9–10 December 2019, Scuderie di Palazzo Altieri, Rome

#RIF2019

Gianluca Riccio

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BUSINESS at OECD

Financing Sustainable Growth: SMEs and GVCs at the heart of the G20 agenda

December 2019 | Gianluca Riccio, CFA

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Achieving Sustainable Growth needs SMEs at the core of policies

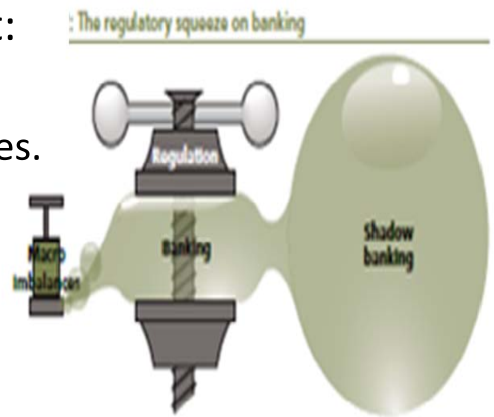
Growth is sustainable when it balances economic, environmental and social considerations, with a long-term and global horizon. The type and quality of growth matters.

At macroeconomic level warnings signs are increasing:

- *"Debt-at-risk"* ($19 trillion; 40% of corporate liabilities); *"Debt-to-Ebitda"* (all-time high of 5.8)
- *Covenants* at a minimum and *"Mark-ups on intangibles"* for debt-funded takeovers have jumped.
- *Highly leveraged deals* (~60% of US buyouts in 2019; surpassing pre-2008 peak)
- *Funds go longer and into more risky assets, leading to greater illiquidity risk.*
- *Financing trade key challenge; especially SMEs struggle to bridge cash-flow gap.*

From a Regulatory perspective – Capital base has strengthened but:

- *Excesses from Banks moving to shadow lenders*
- A **fragmentary approach** to financial regulation poses material challenges. Economic policies need to be coordinated with financial regulation.
- Trade finance **negatively affected with Banks being crowded out** & increased systemic risks (capital & KYC requirements, cross-border fragmentation).



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Risk Management not Risk Avoidance

SMEs deliver on average more than 40% of GDP and 50% of employment globally, and provide 80% of new jobs in the EU → hence all are keen to support SMEs … but

❖ ***The Perception Trap → Banks are not lending***

- Banks cannot prosper without being at the heart of local businesses and communities, and therefore cannot prosper without supporting SMEs.
- Key role of a bank is not "simply" to lend, but to support customers with products tailored to their needs, and this includes the correct assessment of their risk profile inclusive of a proper understanding of the business' objectives and development stage.
- A successful entrepreneur, SME or just client is the primary interest for any bank as it ensures both low credit risk and long term business.

❖ ***The Perception Trap → Non-bank finance sources are alternative to Banks***

- Surveys in recent years show that successful SMEs are likely to use more than one source of finance to both start and sustain their business – BUT most SMEs in practice only use one source of finance.
- Different sources complement each other ensuring that firms are more appropriately financed, resulting in banks have better risk profiles on their books and ultimately both being more successful.

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The G20 Process

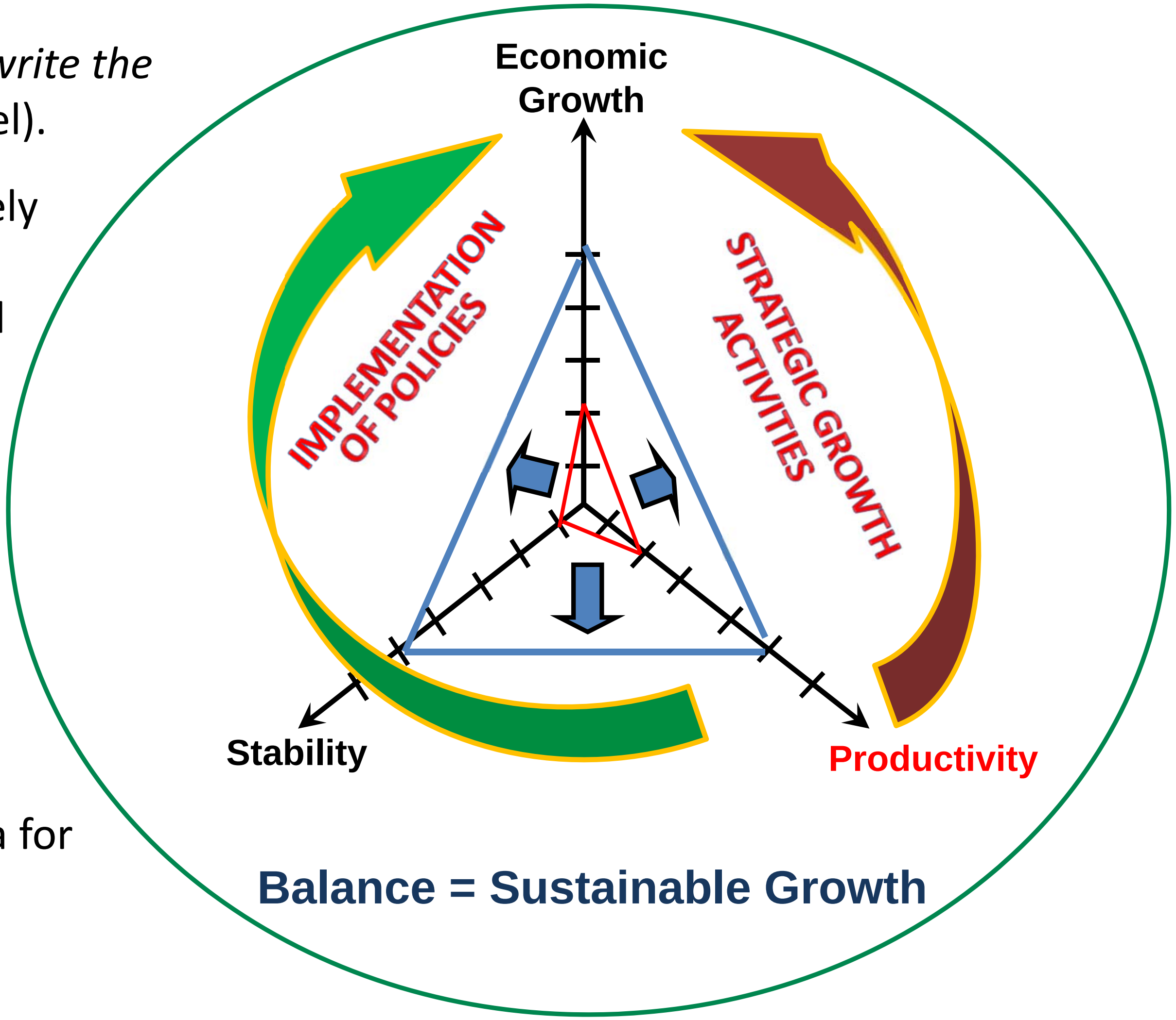
"The G20 process is the platform that offers Governments and social stakeholders the opportunity to write the world's future agenda" (A. Merkel).

From Turkey in 2015, B@O actively supported each Presidency to ensure continuity in agendas and progresses.

It established an annual B@O-B20 roundtable on SMEs and GVCs. Key to this work is "Join the dots".

In 2021, Italy will hold the Presidency; a timely & unique opportunity to shape the agenda for the future with SMEs at its core.

The Sustainable Growth Triangle



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Fostering Productivity to achieve sustainable growth

Think Small First – Integrate, enabling finance to SMEs throughout Global Value Chains across international borders; important to avoid thinking of single SMEs in a vacuum

Access to credit ultimate engine to support growth; focus on enabling accessible financing. There is no "one solution fits all" in SME financing ➔ finance alternatives need to be tailored around the firms' needs, as complements NOT competitors.

Harmonize Productivity policies with Economic Growth and Financial Stability –
Productivity is about "working smarter", not "working harder"

- At *individual firm* level: reduce gap from "frontier" firms
- At *macroeconomic level:* harmonise **strategic growth activities** and **implementation of regulations**

Few examples

- § Reinforce SMEs innovation **vs.** regulatory burden build-up
- § Investing in infrastructure and PPPs **vs.** rules settings' consequences on long-term investment
- § Sustain inclusive productivity **vs.** regulatory fragmentation and cross-border inconsistencies

Leveraging digital – Innovation must be at the heart of any new strategy.

➔ A practical recommendation: **SME passports** across Global Value Chains

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