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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL,  
THE EUROPEAN PARLIAMENT, THE COMMITTEE OF THE REGIONS  
AND THE EUROPEAN AND SOCIAL COMMITTEE**

**An action plan to improve access to finance for SMEs**

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## 1. MAIN OBSTACLES TO SME FINANCING

### 1.1. Access to lending

Surveys show that SMEs to a very large extent are dependent on bank loans for their external financing and that they practically have very few alternatives. 30% of companies are using bank loans and 40% bank credit line or overdraft facilities. For 63% of SMEs bank loans are also the most preferable external financing solution to realise firms' growth ambitions.<sup>1</sup> Yet, SMEs loans generally create specific difficulties: (i) management costs for the provider of funds can be significant as loans are small in size; (ii) access to information on the enterprise can be difficult, as SMEs can operate on niche and local markets, and, unlike their larger peers, are not subject to external ratings and extensive disclosure requirements; and (iii) the central importance of management quality in SMEs creates additional complexity for appraising risks, making the automation of the credit process for SMEs more difficult.

These factors also explain why SMEs rely heavily on local institutions for debt financing, who are committed and have a better expertise in managing SMEs in their local area. While very useful in providing loan financing, this financing model may be less effective in allowing SMEs to access wider sources of capital in the financial markets and across borders.

The financial crisis and the ensuing economic recession have made debt financing even more expensive and difficult to obtain. SMEs perceive that in the period of March – August 2011 the conditions of bank financing worsened in terms of interest rate and other costs, collateral and required guarantees. Moreover, the willingness of banks to provide a loan was also perceived as deteriorating<sup>2</sup>. Banks are more risk-averse, asking for higher risk margins and demanding more collateral and security<sup>3</sup>.

The results of the October 2011 ECB Bank Lending Survey show a significant overall tightening of credit standards on loans to SMEs in the third quarter of 2011. In the period of March – August 2011 6% of SMEs did not apply for a bank loan because of fear of possible rejection, and out of those who applied - 11% was rejected, 4% refused because of high costs and 17% received less than applied for. The highest rejection rate of 16% was among the micro companies employing less than 10 people. In the last two years constantly almost a third of SMEs which applied for a bank loan did not get any credit or got less than they applied for.<sup>4</sup> Compared to 2007, the success rate in obtaining finance decreased by 19% in 2010.<sup>5</sup>

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<sup>1</sup> ECB and European Commission, SMEs' Access to Finance Surveys, 2009-2011

<sup>2</sup> Ibidem

<sup>3</sup> UEAPME, European SME finance Survey/Results, 2009

<sup>4</sup> ECB and European Commission, SMEs' Access to Finance Surveys, 2009-2011

<sup>5</sup> EUROSTAT, Access to finance statistics, September 2011

## 1.2. Access to venture capital

Insufficient access to appropriate sources of risk capital, in particular at the early stage, continues to be one of the most significant constraints to the creation and development of growth-oriented firms. This is particularly true for young, R&D intensive and innovative firms. In 2000, €2 billion of venture capital (VC) were raised in Europe. In 2010, the amount raised fell to only €3 billion.<sup>6</sup> The average VC fund size fell considerably and initial public offerings have also dropped, creating additional difficulties for venture capital to exit their investments.<sup>7</sup>

The EU venture capital market is underdeveloped, especially compared to the United States.<sup>8</sup> This is also true for the business angel market. It is estimated that there are 75,000 business angels in Europe, who invest annually an estimated total of €4 billion, compared to about 260,000 business angels in the US, investing annually about \$20 billion.<sup>9</sup> Long-term VC investments in the EU have been at the level of a quarter of that of the US. Innovative growth-oriented enterprises need a stable funding base to flourish. This requires the European VC market to reach a critical mass, economies of scale, increased cross-border flows, improved efficiency as well specialisation and diversification of funds' portfolios.

The most commonly cited<sup>10</sup> weaknesses of the European VC industry are difficulties in raising capital from institutional investors, the quality of the investment opportunities available and the fragmentation of the market along national lines, which prevents the achievement of economies of scale in terms of both fund raising and investment.<sup>11</sup>

Also on the demand side there are issues to address. In the 2011 survey on SMEs' access to finance only 7% of SMEs responded that they used equity in the period of March – August 2011, when asked about sources of external financing. The main challenge here is the lack of investment readiness or financial knowledge. 60% companies replied that equity is not applicable for them and further 22% that they are not confident to talk with equity investors or venture capital firms to obtain desired results.<sup>12</sup>

It is therefore essential that the European VC market is given a decisive new impetus with a view to overcoming market deficiencies and regulatory barriers, rendering the VC segment more attractive to private investors and business angels, and creating a self-sustaining market, generating high returns and more

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<sup>6</sup> EVCA (2011)

<sup>7</sup> EVCA (2011)

<sup>8</sup> In 2010 the share of public funding in total VC funds raised amounted to 30% in Europe, therefore incentives for private VC financing are needed. EIF (2011)

<sup>9</sup> European Business Angel Network (2011)

<sup>10</sup> Meyer (2010): "Venture capital adds economic spice", Deutsche Bank Research

<sup>11</sup> European Commission 2009 «Summary report on Cross-border VC in the EU» and European Commission 2007 Communication on «Removing obstacles to cross-border investments by VC funds»

<sup>12</sup> ECB and European Commission, SMEs' Access to Finance Surveys, 2011

capital for innovative SMEs. It is also essential that the EU continues to directly contribute to the provision of venture capital, leveraging through the large experience and long practice of the EIB/EIF as well as other appropriate financial intermediaries with the necessary expertise.

### **1.3. Access to capital markets**

When trying to expand their business, SMEs need to be able to tap into larger sources of capital. However the costs and requirements associated to listing on capital markets often deter SMEs from accessing this source of finance.

Listed SMEs are not sufficiently visible to potential investors or not considered attractive enough because of the reduced liquidity of their shares. In 2011, around 12 000 enterprises are listed on regulated markets<sup>13</sup>. Two thirds of these have a market capitalisation lower than €150 million. In addition, around 2000 enterprises are listed on Multilateral Trading Facilities (MTFs) in Europe<sup>14</sup>, the vast majority with limited market capitalisation. However, despite being quite numerous in terms of listing, SMEs are very small in terms of number of trades, turnover and liquidity.<sup>15</sup> Trading in equity markets is more and more concentrated on blue chips, and less and less on SMEs.

Stock listing by SMEs could be further enhanced and a wider set of investors made more aware of the opportunities of covering the SME segment of the equity market. This is particularly important taking into account the role of exchanges as exit routes for earlier-stage investors. By contrast, large corporations are benefiting from an integrated EU financial system and are able to access funds at relatively low rates and can use different financial instruments. It is now time to try and extend these benefits also to SMEs.

## **2. EU FINANCIAL MEASURES FOR SMEs (2007-2013)**

Europe is already providing a balanced mix of flexible financial instruments, essential in addressing the diverse financing needs of SMEs.

The financial instruments of the Competitiveness and Innovation Framework Programme (CIP) have been successful in improving access to finance for SMEs. With a total budget of over €1.1 billion for the period 2007-2013, the CIP financial instruments will enable financial institutions to provide about €30 billion of new finance<sup>16</sup> for more than 315 000 SMEs.

In 2008-2011, the European Investment Bank (EIB) provided around €40 billion of lending for SMEs, which benefitted more than 210 000 SMEs. These operations are complemented by the European Investment Fund's (EIF) SME equity/mezzanine and

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<sup>13</sup> Federation of European Stock Exchanges.

<sup>14</sup> This compares to 14 000 listed companies in the US.

<sup>15</sup> According to 2009 data from FESE, SMEs with a market capitalisation of up to €1 billion represent 86% of listings of regulated markets in terms of number, but only 14% and 4% in terms of trades and turnover respectively.

<sup>16</sup> i.e. for every Euro invested through CIP, about €30 are finally obtained by the beneficiary

risk-sharing operations. In 2009, the EIF launched the €1 billion Mezzanine Facility for Growth to be invested in hybrid Debt /Equity funds throughout Europe, for high growth SMEs and Midcaps, with a view to playing a catalytic role in this market segment. This facility is expected to be fully committed by 2012.

Moreover, EU Structural Funds also offer SMEs access to financing through the JEREMIE initiative and are expected to continue doing so in the next programming period 2014-2020. JEREMIE, Joint European Resources for Micro to Medium Enterprises, is an initiative of the Commission developed together with the EIF in order to promote the use of financial instruments to improve access to finance for SMEs via Structural Funds interventions.

Cohesion policy does not finance individual projects directly at the EU level, instead it funds multi-annual national or regional operational programmes aligned with EU objectives and priorities and managed by national or regional authorities ("shared management"). In the framework of 2007-2013 operational programmes, Member States and regions can use financial instruments to finance SMEs by means of repayable forms of assistance such as equity investments, loans or guarantees. Resources invested in or paid to SMEs and paid back by them shall be subsequently reinvested by the Member States or the regions again for the benefit of SMEs. Where the managing authorities decide to use financial instruments to support enterprises, they contribute resources from an operational programme to a holding fund ("fund of funds") or directly to financial engineering instruments ("specific funds") such as venture capital funds, loan or guarantee funds ("financial intermediaries"). Special emphasis is given to supporting the growth and jobs agenda, by emphasising technology transfer, innovation, start-ups, and micro credit.

At end 2010, an aggregate amount of €8.4 billion of the European Regional Development Fund (ERDF) and national contributions (private and public) was estimated to be committed to 386 funds, whether through holding funds or directly to specific funds. The ERDF part of the resources committed to all funds amounted to €6.2 billion. At end 2010, assistance to enterprises provided through equity investments, guarantees and loans is estimated to amount to at least €3 billion. Resources leveraged at the level of enterprises, in addition to the resources allocated through operational programmes but which complement ERDF and national contributions to specific funds, amounted to €4 billion.

In addition to the use of Structural Funds, access to finance for agricultural SMEs and rural micro-businesses is facilitated by the European Agricultural Fund for Rural Development (EAFRD) where various financial instruments (such as loan and/or guarantee funds) are developed in the context of the rural development programmes. At present, more than €550 million are allocated by Member States for such type of operations in the current programming period.

## Annex 1: Current key EU measures to facilitate access to finance for SMEs

<p>1. Current EU financial measures for SMEs (2007-2013)</p>	<p>The financial instruments of the Competitiveness and Innovation Framework Programme (CIP) with a budget of €1.1 billion will enable financial institutions to provide about €30 billion of new finance for more than 315 000 SMEs.</p> <p>In 2008-2011, the European Investment Bank (EIB) provided around €40 billion of lending for SMEs, which benefitted more than 210 000 SMEs.</p> <p>In the field of Cohesion Policy, the Commission already adopted measures to provide assistance to enterprises through equity investments, guarantees and loans under structural funds. In the current financial period the measures are estimated to amount to at least €3 billion. These measures have been further reinforced allowing investments in SMEs in all Member States at any stage of their normal business activity and represent thus an important alternative financial source to gain access to credit.</p>
<p>2. Current measures to facilitate access to mezzanine financing</p>	<p>In 2009, the EIF launched the €1 billion Mezzanine Facility for Growth to be invested in hybrid Debt /Equity funds throughout Europe, for high growth SMEs and Midcaps, with a view to playing a catalytic role in this market segment. This facility is expected to be fully committed by 2012.</p>
<p>3. Current measures to facilitate access to risk capital</p>	<p>In 2011 the EIB group has increased its Risk Capital Mandate to €5 billion and extended the scope to include co-investing with business angels.</p> <p>In order to provide better access to loan finance a specific Risk Sharing Instrument (RSI) is being created under the EU's Seventh Framework Programme for Research (FP7) Risk-Sharing Finance Facility as of 2012. The RSI will provide partial guarantees to financial intermediaries through a risk-sharing mechanism, thus reducing their financial risks encouraging them to provide lending between €25 000 and €7.5 million to SMEs undertaking research, development or innovation activities.</p>
<p>4. Current measures to increase financial stability</p>	<p>At the end of October, the Heads of State and Government agreed on a comprehensive set of measures to address the current tensions in financial markets whilst also safeguarding the flow of credit to the real economy and avoid excessive deleveraging.</p>
<p>5. Current measures to simplify accounting rules</p>	<p>In order to simplify accounting rules for SMEs and further reduce their administrative burden, the Commission adopted a proposal for a Directive on the</p>

	annual financial statements, consolidated financial statements and related reports of certain types of undertakings <sup>17</sup> which could allow SMEs to save up to €1.7 billion per year.
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<sup>17</sup> COM(2011) 684 final

## Annex 2: EU Action Plan to improve access to finance for SMEs: List of actions

### Key measures to facilitate access to finance for SMEs in the short-term (2011-2013)

6. A new EU venture capital framework	Together with this Action Plan, the Commission is presenting a new EU venture capital framework creating a genuine internal market for VC funds. The Commission invites the Parliament and the Council to adopt this legislative proposal by June 2012.
7. Review state aid rules impacting risk capital	By 2013 the Commission will review the General Block Exemption Regulation and a number of State aid guidelines, including on Risk Capital, to achieve Europe 2020 objectives and respond to SME needs.
8. Improving the visibility of SME growth markets	In October 2011, an SME growth market label was proposed in EU capital markets legislation (MIFID). The Commission invites the Parliament and the Council to adopt this legislative proposal as swiftly as possible
9. Increasing visibility of listed SMEs	The Commission, with the assistance of ESMA, will enhance the existing storage system and develop a single access point to regulated information at EU level. The Commission will facilitate access to high quality information on listed SMEs. The Commission invites the Parliament and the Council to adopt this legislative proposal by end 2012.
10. Reducing reporting burdens for listed SMEs	In October 2011, a legislative proposal revising the Transparency Directive was made to reduce the regulatory burden for small issuers. The Commission invites the Parliament and the Council to adopt the legislative proposal by end 2012.
11. Reducing issuance costs	By July 2012, delegated acts in the context of the Prospectus Directive will be proposed, specifying the content of a proportionate disclosure regime for SMEs and small issuers.
12. Review the impact of bank capital requirements on SMEs	Based on the report from EBA and its recommendations, the Commission will consider appropriate measures addressing the issue of SMEs risk weighting in the context of the CRD IV and CRR framework.
13. Support by EIB Group to improve lending to SMEs	The European Investment Bank will maintain its SME loan activity at a sustained pace close to the 2011 level, subject to market conditions and in line with its funding capacity. The EIB will continue to contribute to improving loan conditions, increasing flexibility and ensuring rapid allocation. EIB and EIF will continue developing synergies through risk-sharing operations,



	including for the securitisation of portfolio of SME debt, partly in cooperation with the Commission.
14. Support by EIB Group to venture capital and other risk financing	The EIB Group will continue supporting the growth of SMEs through its wide range of equity products and particularly the enlarged EIB Risk Capital Mandate.
15. Better information for SMEs	<p>The Commission will</p> <p>a) reinforce the financial advisory capacity of the Enterprise Europe Network in order to provide SMEs with better information about the different sources of finance by complementing existing national information structures</p> <p>b) ensure that all the information on EU finance will be pooled and made available through a single, multilingual online portal covering the different sources of EU finance available for SMEs;</p> <p>c) Member States' authorities are encouraged to create similar single online databases of national and regional sources of finance.</p>
16. Facilitate access to EU financial instruments	The EIB Group, in cooperation with financial intermediaries, will expand SMEs' access to information about the various EU financial instruments. Efforts will be made to simplify the administrative burden and broaden the scope of language.
17. Stimulate the activity of "Business angels" and cross-border investments	<p>a) The Commission will further encourage co-investments with business angels in different forms in co-operation with the EIF and Member States within the possibilities under Structural Funds.</p> <p>b) The Commission will consider measures to further develop cross-border matching between enterprises and investors, in particular business angels, based on proposals from an expert group in 2012.</p> <p>c) The Commission will improve the matching of offers and requests for venture capital within the Enterprise Europe Network</p>
18. Promote SMEs' access to capital markets	<p>a) The Commission, together with the stakeholders in the SME Finance Forum, will continue to contribute to information campaigns regarding access to capital markets by SMEs and prepare a European information guide for companies aspiring to go public.</p> <p>b) Stakeholders and stock exchanges in particular are</p>

	<p>encouraged to increase their information to SMEs about the advantages of a market listing.</p> <p>c) The Commission will consider how to promote access to SME bond markets and securitisation.</p> <p>d) The Commission will increase awareness of stock listing by promotional activities such as an award for the SME listing of the year.</p> <p>e) The Commission will work with relevant partners to promote the establishment of an independent institute to promote analyses and research on listed medium-sized enterprises thereby increasing investors' interest in this segment</p>
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### Other measures to facilitate access to finance for SMEs in the short-term (2012-2013)

19. Improve the regulatory framework for investment in venture capital	In 2012, as part of a wider reflection on long-term investment, on the basis of technical work to be jointly done by the European Banking Authority and the European Insurance and Occupational Pensions Authority, the Commission will carry out a study on the relationship between prudential regulation and venture capital investments by banks and insurance companies.
20. Taxation reforms benefiting SMEs	In 2012, the Commission will complete its examination of the tax obstacles to cross-border venture capital investment with a view to presenting solutions in 2013 aimed at eliminating the obstacles while at the same time preventing tax avoidance and evasion.
21. Accelerate the implementation of the Late Payments Directive	The Commission strongly encourages Member States to accelerate the implementation of the Late Payments Directive in advance of the transposition deadline of March 2013
22. An innovative regime for European Social Entrepreneurship Funds	The Commission is presenting a new and uniform set of rules on "European Social Entrepreneurship Funds". These rules will enable EU investment funds to raise capital from private investors across the EU, using a specific and distinctive label. The Commission invites EP and Council to adopt this new regulation before the end of 2012
23. Improve monitoring of the SME lending market	The Commission will work together with bank federations and will take advice from other concerned institutions (ECB, EBA) to reinforce the analytical framework for SME lending striving for better comparison and more coherent methodology. .
24. Promoting the use of EU financial instruments	The Commission and stakeholders will organise workshops with Members States that are still lagging behind in the use of EU financial instruments at the moment, in order to facilitate institution-building and to promote the use of the EU guarantees and venture capital.
25. Facilitate access to microfinance	The Commission will continue enhancing the supply of loans to micro enterprises and promote the adoption of the European Code of Good Conduct for Microcredit Provision.
26. Promote qualitative rating	The Commission will promote the exchange of good practice and encourages the banking sector and SME

	federations to promote the use of qualitative rating as a tool to complement the standard quantitative assessment of SMEs' creditworthiness.
27. Better information to SMEs by banks	Banks and other financial intermediaries have declared that they will promote actions among their members to reinforce information about EU financial instruments and public grants to SMEs.
28. Encourage the establishment of national SME Finance fora	The Commission encourages Member States and stakeholder associations to establish national SME Finance fora to provide solutions for an improved access to finance.
29. Encourage the drafting of national guidelines to increase transparency in the lending process	Banks, other financial institutions and SME federations are encouraged to establish national codes of conducts and guidelines to improve transparency in the lending process and, if appropriate, support credit mediator functions.
30. Review the transparency mechanisms concerning lending practices	<p>In 2012, the Commission intends to review current lending practices, including transparency mechanisms.</p> <p>Based on the outcome of that review, the Commission may consider taking regulatory action to encourage responsible and transparent lending to SMEs.</p>

## Measures to facilitate access to finance for SMEs in the long-term (2014-2020)

<p>31. Proposal of EU Debt Financial Instrument for enterprises' growth and research and innovation</p>	<p>The Commission has proposed:</p> <ol style="list-style-type: none"><li>1. A reinforced and expanded EU Debt Financial Instrument to improve lending to SMEs, including R&amp;I-driven SMEs. The Instrument encompasses a Loan Guarantee Facility under the COSME Programme (2014-2020) and an SME Window under Horizon 2020's Debt facility.</li></ol> <p>The EU Debt Financial Instrument will also include a Cultural and Creative Sectors Facility financed under the Creative Europe Programme (2014-2020), to enhance access to finance for SMEs in the European cultural and creative sectors.</p> <ol style="list-style-type: none"><li>2. Under the EU Programme for Social Change and Innovation (2014-2020), a specific Microfinance and Social Entrepreneurship Axis that will support notably microfinance for micro-enterprises, the build up the institutional capacity of microcredit providers and financing for the development of social enterprises.</li></ol>
<p>32. Proposal of an EU Equity Financial Instrument for EU enterprises' growth and research and innovation</p>	<p>The Commission has proposed:</p> <ol style="list-style-type: none"><li>1. A reinforced and expanded equity financial instrument to improve SMEs' access to venture capital and other risk financing, from their early stage (including seed) to their growth stage. The equity financial instrument will be funded by the Programme for the Competitiveness of Enterprises and SMEs and by Horizon 2020.</li><li>2. The establishment of funds-of-funds, within the EU Equity Financial Instrument, to provide capital to venture capital funds that target notably investments in more than one Member State. National public financial institutions, as well as private investors, will be invited to participate in the fund.</li></ol>