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CORRIGENDUM

This document corrects document SWD(2017) 229 final of 06.06.2017.

Pages 7 and 11: Change of cross-references from footnote 11 to footnote 15

The text shall read as follows:

COMMISSION STAFF WORKING DOCUMENT

Addressing Information Barriers in the SME Funding Market in the Context of the Capital Markets Union

Table of Contents

1. INTRODUCTION

This Staff Working Document of the European Commission services presents the results of a work stream, launched under the Capital Markets Union (CMU) Action Plan[1], to document and present national and regional initiatives to tackle information barriers in the field of SME access to finance. This work is one of a number of concerted measures under the CMU Action Plan to improve the conditions for finance to European small and medium-sized enterprises (SMEs). Other notable actions under the CMU Action Plan include a reform of the European Venture Capital Funds (EuVECA) Regulation[2] and steps to establish a pan-European Venture Capital Fund-of-Funds. The European Commission is also deploying significant efforts to enhance the flow of finance to SMEs through the SME Window of the European Fund for Strategic Investments.

All of these activities stem from the need to broaden access to finance for SMEs - start-ups, innovative companies and other unlisted firms. The importance of this objective was starkly underlined by the financial crisis. Efforts to remedy this issue are at the heart of the CMU Action Plan. On average around 60% of start-ups survive the first three years of activity, and those that do contribute disproportionately to job creation[3]. Young firms account for an average of only 17% of employment, but they create 42% of new jobs[4]. Therefore, the success of these firms is crucial to the future of jobs and economic growth in Europe.

This document contributes to this objective by describing promising initiatives that have been taken by some Member States and regions to improve information flows to small businesses about access to finance. Access to finance is an important determinant for the development of an enterprise. Securing finance is rarely core strength of smaller businesses and entrepreneurs, which often lack the resources to employ a dedicated team for managing their finances. One SME out of three is not confident about talking with banks and only 20% are comfortable in negotiating with equity investors and venture capital firms[5]. In a recent survey, SMEs named "accessing external finance" as their poorest area of expertise, falling sharply behind all other capabilities, including people management, managing taxes or introducing new products[6].

Besides friends and family, banks provide the majority of funding to SMEs thanks to their strong branch networks facilitating access to SMEs and ongoing relationships. Turning to a

1 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Action Plan on Building a Capital Markets Union, COM(2015) 468/2, 30.09.2015

2 Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds, OJ L 115, 25.4.2013, p. 1–17

3 OECD (2015), OECD Science, Technology and Industry Scoreboard 2015: Innovation for growth and society, OECD Publishing, Paris

4 Calvino, F., C. Criscuolo and C. Menon (2015), (2016), "No Country for Young Firms? Start-up Dynamics and National Policies", OECD Science, Technology and Industry Policy Papers, No. 29, OECD Publishing, Paris.

5 European Commission, Annual Report on European SMEs 2015/2016 "SME recovery continues"

6 World Economic Forum, The Future of FinTech: A Paradigm Shift in Small Business Finance, October 2015

bank to apply for credit is the natural step for SMEs in search of finance. European SMEs receive 75% of their funding from banks. However, their financing needs cannot always be serviced by banks in the amounts or on the terms needed. This overexposes SMEs to tightening bank lending policies. Despite a significant improvement in the availability of bank financing over the last years, SMEs in some Member States still face a lack of access to credit. According to the latest SAFE survey, only 10% of enterprises reported ‘access to finance’ as their most pressing problem; however, in Cyprus and Greece this remains a major issue for SMEs, with approximately a quarter of them reporting this as their most pressing problem. Less than half of SMEs perceive no limitations in their access to future financing, namely 41% in the European Union. Those that do perceive such limitations most often cite insufficient collateral or guarantees, and interest rates and prices of financing being too high[5].

While bank financing will continue to be the leading funding channel for SMEs, a more diversified set of options is needed to finance their growth and enhance their resilience through the business cycle. These alternative financing sources range from asset-based finance (asset-based lending, leasing, factoring etc.) and alternative debt (crowdfunding, private placement, debt funds etc.) to hybrid and equity instruments (private equity, venture capital, business angels, crowdfunding etc.)[7]. These diverse financing techniques are needed to serve adequately diverse types of businesses and their different financing needs along the business lifecycle. In particular, equity finance holds particular promise for firms seeking long-term investment to sustain innovation, value creation and growth.

Widening the funding mix of small businesses requires, amongst other things, to address the information barriers present in the SME funding market. Broad awareness about financing sources for diverse business needs and financial skills' development are preconditions for SME financing diversification strategies and the uptake of most financial instruments other than straight debt[8]. There is a need to accompany SMEs during their journey to finance by helping them identify what type of finance is right for their business considering their stage of development and how best to secure it. Furthermore, investors and lenders need verifiable information about a company before supporting it financially. Asymmetric information is a serious problem in SMEs since they often do not produce audited financial statements that yield credible financial information. Relationship banks benefit from a competitive advantage over other finance providers: their ongoing relationships with SME customers produce very valuable information for assessing their creditworthiness. This information is difficult to access for other finance providers.

A number of initiatives to improve the flow of information in the SME funding market have recently been implemented at national or regional level. The purpose of this paper is to present some of the initiatives that have come to the attention of the Commission services through a dedicated workshop on these issues in September 2016[9]. This workshop was followed by a deeper exchange of information between the participating initiatives enabling a better documentation of the functionalities offered. The focus is principally on the effectiveness of the information mediation function performed by these systems, and not on their governance or financing.

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[7] OECD (2015), New Approaches to SME and Entrepreneurship Financing: Broadening the range of instruments, OECD Publishing, Paris

[8] OECD, G20/OECD support note on diversification of financial instruments for SMEs, July 2016

[9] https://ec.europa.eu/info/finance-events-160912-sme-access-finance_en

The examples provided here may serve as a source of inspiration for Member States willing to develop their information infrastructure with the aim of improving access to finance for SMEs. These examples do not represent an exhaustive mapping of all systems that have been developed or supported across the European Union. They represent a selection of some of the interesting and innovative systems from amongst those that emerged in the context of the Commission services' preparatory work. Member States which are currently most active in respect of these issues were more forthcoming in proposing initiatives. However, the Commission services are aware that many other systems serving similar objectives have been developed at national and regional level, often with the support of the EU Structural Funds. However, it is hoped that the features and experiences reported here can serve as a starting point for Member States or regions reflecting on similar actions.

The Commission services stand ready to support Member States in need of assistance in their efforts to replicate successful approaches and develop their information architecture to support SME access to finance. In this respect, it should be noted that the Commission has launched a call for proposals for a maximum amount of EUR 2.5 million to improve access by innovative SMEs to alternative forms of finance under the Horizon 2020 programme[10].

2. INFORMATION BARRIERS IN THE SME FUNDING MARKET

The information barriers in the SME funding market affect both the SMEs seeking alternative sources of finance and the alternative finance providers seeking investing or lending opportunities.

The lack of financial knowledge by SMEs and the lack of a recognised source of business finance advice for SMEs, able to guide them through the complexities of bank and non-bank finance and help them secure access to the most appropriate form(s) of finance, hamper the use of financing options by SMEs[11].

Recent qualitative research on access to finance found that two-thirds of a small sample of growth companies across the European Union intended to remain loyal to bank funding as their sole source of finance. Half of them had little or no knowledge of complementary and alternative sources of finance. Most of the interviewees recalled however the difficulties they had experienced in raising funds during the economic and financial crisis, and recognised that exposure to a single source of finance could leave them vulnerable[12]. Another study found that 56% of SMEs in the UK – the EU's most diversified business funding ecosystem - were unfamiliar with any forms of alternative finance[13]. Around 50% of first-time SME borrowers

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10 http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/topics/altfi-01-2017.html

11 Economic Analysis accompanying the communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Action Plan on Building a Capital Markets Union, SWD(2015) 184 final, 30.09.2015.

12 TheCityUK and EY, Capital Markets Union. The perspective of European growth companies, October 2015

13 Nesta and University of Cambridge, Understanding Alternative Finance. The UK Alternative Finance Industry Report 2014, November 2014

are rejected by their bank in the UK, and 37% of them appear to give up their search for finance and cancel their spending plans after their first rejection[14].

Many SMEs do not shop around when seeking finance; empirical research suggests that convenience, time and effort are important factors for explaining SME funding choices. The number of potential funding choices might also work against SMEs by obscuring the best funding choice and making them less able to choose[15]. It is also worth underlining that this is not only a matter of increasing knowledge about individual financing instruments. There is a need to understand how different instruments can serve different needs at specific business development stages, the advantages and risks of each instrument, and the complementarities and opportunities for leveraging between different funding sources. If businesses were aware of their options, it might help them to seek alternative investors and lenders or products that would better suit their needs and help them fulfil their growth ambitions.

Beyond raising their awareness and understanding of alternative finance, SMEs must be sufficiently educated and prepared to enter into dialogue with alternative finance providers. Many SMEs lack the financial skills to adequately present their funding case to equity investors and venture capital firms. The difficulty for start-ups to properly draft business plans was repeatedly underlined by alternative investors during the Capital Markets Union workshop on advisory support for SME access to finance held in September 2016[16].

Financial education provides SMEs with the skills and knowledge needed to manage their finances, improve their financial position and avoid unnecessary risks. It allows them to improve their understanding of alternative funding opportunities and prepare better for their financial dialogue with potential investors / lenders. The lack of financial knowledge presents challenges to the development of alternative finance forms and often prevents SMEs from identifying those forms which are most suited to their needs[17]. To respond to this information barrier to SME access to finance, some Member States have introduced national strategies for financial education[18].

The role of SME advisors is also very important in improving financial knowledge of companies and counselling them on the type of finance most appropriate for their risk profile and stage of development. There is some evidence that complementing SME funding with non-financial elements such as advice and monitoring provides good results. SME advisors are well placed to provide the financial expertise needed by SMEs and guide companies on their journey to finance, taking advantage of new technologies and offering tailor-made solutions.

As the leading funding provider for SMEs, banks are in a good position to improve the understanding of European SMEs of their financing opportunities, for example through the

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14 Financial Conduct Authority, Consultation Outcome - SME finance: help to match SMEs rejected for finance with alternative lenders, December 2014

15 Pierre Schammo, Market building and the Capital Markets Union: addressing information barriers in the SME funding market, February 2017

16 https://ec.europa.eu/info/finance-events-160912-sme-access-finance_en

17 OECD (2017), Financing SMEs and Entrepeneurs 2017: An OECD Scoreboard, OECD Publishing, Paris

18 OECD (2016), Financial Education in Europe: Trends and Recent Developments, OECD Publishing, Paris

provision of feedback on declined credit applications. Enhanced feedback would enable companies to make informed funding choices, improve their financial position, avoid unnecessary risks and increase over time the quality of credit applications leading to more financing for SMEs. The banking industry is adopting today a set of high-level feedback principles to spread existing good national practices across the EU and strengthen the dialogue between SMEs and their banks.

The lack of standardised, verifiable and accessible financial information about SMEs represents a significant barrier for alternative finance providers to invest into / lend to European SMEs. Tackling this shortcoming is essential to broaden SME funding avenues.

Information that is used for deciding on an SME's creditworthiness typically includes non-financial information (e.g. business details), but also crucially financial information. The latter commonly includes information found in a business' annual accounts, information about its credit history, and information on its repayment capacity and payment performance (i.e. positive payment performance – information about payments that were made, and negative payment performance – information about payments that were missed)[15].

Small businesses often lack the required data, such as history of audited financial statements, for a finance provider to appropriately assess their cash flow situation. The disclosure of credit and financial information on SMEs differs considerably between Member States as highlighted in a recent report of the European Commission[19]. This is generally seen as an advantage for banks. Usually, banks have built up a long-term relationship with their SMEs, know well their financial situation, indebtedness and payment behaviour, and are therefore best placed to assess their true creditworthiness. Their ongoing relationships with SME customers produce very valuable information for assessing their creditworthiness. For example, information gained from the provision of current and credit card accounts adds to their comparative advantage. The sharing by banks of data with other market participants (such as business registers, credit bureaus, and business information and scoring firms) is limited and varies from one Member State to another. This may 'lock in' bank customers and limit their access to alternative sources of financing.

3. ADVISORY SUPPORT ON SME ACCESS TO FINANCE

As part of the Capital Markets Union project, the Commission services conducted a mapping exercise of the existing support and advisory capacities on alternative finance developed at regional or national level across the European Union. This mapping exercise was focused on online information systems whose primary function is to inform, advise and guide SMEs seeking alternative finance. It was limited to those systems benefitting from some form of public sponsorship, funding or endorsement. The remainder of this section will explain the main categories of systems identified during this mapping exercise and illustrate them by examples.

The primary function of such support and advisory capacities on alternative finance is to inform about the available different financing sources. As already mentioned, securing finance is rarely core strength of smaller businesses, which often lack the resources to employ a dedicated team for managing their finances. A number of **one-stop shop portals on access**

[19] European Commission, European Financial Stability and Integration Review, Ch. 7, April 2015

to finance have been developed across the European Union to assist entrepreneurs. These portals provide a single point of access to a wealth of information on alternative finance. They list and give general explanations on the available alternative financing instruments, explaining their characteristics, suitability and eligibility criteria, and advantages and disadvantages. They also provide support to increase companies' investment readiness. And they facilitate the access to providers of finance by indicating how to enter into contact with them.

The range of alternative financing instruments covered by the portals is strongly correlated to their sponsor. Some portals are managed by public bodies in charge of supporting the development of enterprises, such as promotional and development banks (KfW in Germany, AWS in Austria, BBB in the UK etc.), state agencies for SMEs (IAPMEI in Portugal, Malta Enterprise in Malta, TEKES in Finland etc.) or other similar structures (for example, the Local Enterprise Offices in Ireland). Such portals are mainly focused on publicly supported funding schemes, instruments and vehicles which are usually administered by promotional and development banks, in some cases in co-operation with partners from the private sector. Most of these portals also include information on funding supports provided by the European Union. There are also some state-supported portals that present an overview of all financing products supported by national public funding programmes[20]. Other portals are managed by entities representing the private sector, such as national chambers of commerce or alternative funding providers. Such portals are mainly focused on alternative funding sources provided by the private sector. Some of them also include information on publicly supported funding schemes, but in less detail than the portals managed by public entities.

- *The **Finance Desk developed by the Netherlands Chamber of Commerce**[21] has an omni-channel approach to supporting SME access to finance consisting in online proposition complemented by personal advice. It is a platform for first-line support on finance, providing a comprehensive set of information on the alternative funding options, their characteristics, advantages and disadvantages, and suitability and eligibility criteria. It also provides support to increase companies' investment readiness. It is built around different tools such as scans of alternative types of finance, webinars, videos, animations and publications. This online proposition is complemented by personal advice provided free of charge by certified experts through telephone, email, chat and social media. The availability of tailored advice through in-depth telephone consulting is seen as a key added value (more than 16,500 consultations over the last 18 months with 45% of warm referrals to relevant public or private organisations).*

- *The **web portal developed by Enterprise Ireland**[22] provides information on the different publicly supported programmes and funding schemes under Enterprise Ireland responsibility, and on the European Regional Development Fund. It allows companies to select the range of funding supports that best reflects their stage of development and specific funding needs (i.e. high-potential start-ups, SMEs or large companies). Eligible*

[20] http://foerderdatenbank.de/ and http://www.aides-entreprises.fr/

[21] http://www.kvk.nl/financiering

[22] Enterprise Ireland is the state agency responsible for supporting the development of manufacturing and internationally traded services companies. Its priority is the achievement of export sales' growth from Irish-owned companies. Enterprise Ireland works with entrepreneurs and business people across the full business development spectrum - from early-stage entrepreneurs to established business owners and Irish multinational companies - https://www.enterprise-ireland.com/en/funding-supports/

companies are assigned a project executive to discuss their business needs, growth plans and, where appropriate, relevant supports available from Enterprise Ireland. The web portal has an information store providing general information. Topics include, among others, business plan templates, registration and employment information, market access guides, incubation space and sources of private investment, notably of equity finance (business angels, venture capital etc.). In 2016 Enterprise Ireland supported financially 229 start-ups, invested in 101 new high-potential start-ups and approved 128 new early-stage businesses for investments of up to EUR 50,000 each.

Beyond providing information on alternative finance, some portals also provide advisory services. For example, some portals propose **online navigating tools** to help SMEs find their way in the alternative finance world and identify relevant publicly supported funding schemes or the most suitable private alternative finance options based on some simple questions such as the business area, location, business lifecycle stage, purpose of finance and amount of finance needed. Valuable examples of such navigating tools are the Access2finance tool developed by the European Commission to search for EU-supported funding schemes, the Supporting SMEs Online Tool to search for Irish Government supports for accessing credit and the Nationale Financieringswijzer jointly created and managed by private and public stakeholders, notably the Ministry of Economic Affairs, to scan the alternative types of finance available to Dutch entrepreneurs. Other portals provide **support for investment readiness**, for example for the preparation of a business plan, or advise start-ups on the optimal financing mix.

- *The European Union supports entrepreneurs and businesses with a wide range of EU programmes providing financing through local financial institutions. The **Access2finance portal**[23] provides complete and up-to-date information on how businesses can access EU financial instruments from various EU programmes in each country and language. In the past, access to EU financial instruments was difficult since information on the different EU financial instruments was spread over various websites and Commission reports. The search for eligible programmes and funding schemes is facilitated by a funding navigating tool built around a limited number of criteria. Every year the EU supports more than 200,000 businesses. This website allows getting access to over EUR 100 billion of finance from various EU programmes, such as the COSME Programme, the InnovFin Programme (Horizon 2020), the Programme for Employment and Social Innovation, the European Structural and Investment Funds (ESIF), and the European Investment Bank and European Investment Fund[24].*

- *The **Irish Government's Supporting SMEs Online Tool**[25] puts a range of State supports for SMEs in one interactive easy-to-use online guide. Before its launch, the information on State supports was spread over more than 34 Government websites. Currently, the Online*

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23 http://europa.eu/youreurope/business/funding-grants/access-to-finance/index_en.htm

24 ESI Funds provide in 2014-2020 over EUR 65 billion for SME support, including via financial instruments, but also via developing entrepreneurship skills (over EUR 10 billion), providing advanced support services for SMEs (EUR 4.3 billion), e.g. helping to draft business plans, developing infrastructures and their support for SMEs (e.g. incubators, accelerators, clusters, co-working spaces etc. for about EUR 4.8 billion), and providing support to benefit from resource and energy efficiency (EUR 5 billion). Besides financial instruments, ESIF also provide grants for SMEs, in particular for more risky, innovation and research activities.

25 http://www.supportingsmes.ie

Tool contains information on over 170 Government supports for SMEs from 30 different Government Departments and Agencies. It helps direct companies to the right source of funding advice, finance or soft supports (at national or regional level) based on answers to eight simple questions. It is promoted through online marketing campaigns and outreach events, as well as by SME representative groups. Since the Online Tool was launched in May 2014, it registered over 104,000 sessions. Almost 3,000 unique users used it per month on average in 2016, with 77% of them being new users.

Using newly emerging sources of finance might constitute a degree of additional and unwanted risk for businesses. **There is a need to generate trust and confidence in the alternative finance sector among start-ups and SMEs.** Some public authorities have recently introduced an **accreditation system for alternative finance providers** based on certain eligibility criteria. Such a system has notably been introduced by the Government of Catalonia.

➢ *To promote alternative forms of finance, the Department of Enterprise and Employment of the Government of Catalonia has recently introduced an* ***accreditation system for alternative finance providers administered by the Catalan Agency for Business Competitiveness*** *(ACCIÓ). The accreditation is based on eligibility criteria specified in a regulation*[26]*. They include, for example, the type of alternative finance provider, the ability to manage, requirements to have a minimum a) number of companies / projects financed, b) amount of financing provided and c) number of registered investors over a certain past period of time, as well as the compliance with tax obligations. To be accredited, companies must provide documentation verifying their compliance with the requirements. This accreditation and its seal give visibility to the accredited finance providers and the right to participate to alternative finance events. To keep the accreditation, certain obligations have to be met: a) submission of indicators on a quarterly basis; (ii) participation in events on request; and (iii) maintenance of ethical behaviour, notably in terms of transparency and information. The accreditation is valid for a certain period of time and can be revoked under certain conditions. Currently, 20 finance providers are accredited - 3 equity crowdfunding platforms, 3 crowdlending platforms and 2 invoice trading platforms, as well as 12 business angels' networks. ACCIÓ has also organised workshops and showrooms on alternative finance throughout Catalonia starting in 2015.*

Certain information systems act as matchmaking platforms connecting finance-seeking SMEs with investors and lenders. The effectiveness of these systems increases with scale – the wider the networks of SMEs and potential investors and lenders, the more successful they are. Most of these systems operate locally, thus resulting in little cross-border activity in general. Nevertheless, there are also initiatives successfully progressing and gradually moving into more countries. From the investor perspective, the usefulness of the system is boosted by access to a structured set of business and financial information on SMEs, allowing them to perform a preliminary investment or credit analysis. Existing systems differ in terms of a) funding instrument - some of them are focused on equity funding such as for example EuroQuity, easing access to information and contacts between start-ups and incubators, business angels, venture capital funds, public finance initiatives etc., while others are focused on alternative credit and asset finance; and b) breadth of information and analysis on the SMEs in search of finance - some of them propose for example a creditworthiness analysis of the funding applicant by a third party. They form a useful referral system for SMEs whose

[26] http://accio.gencat.cat/cat/binaris/DOGC-EMO-12-2016_tcm176-215956.pdf

financing needs cannot be serviced by the banking sector. By way of illustration, in the UK, a newly adopted law introduces the obligation for the biggest SME lending banks to refer SMEs they reject for finance products to the alternative finance sector via designated finance platforms. These online platforms are essentially comparison sites.

- ***EuroQuity***[27] *is a web platform aimed at matchmaking developing companies with investors and other potential partners for their growth (advisors, technological partners etc.). EuroQuity was created by Bpifrance in 2008 in partnership with KfW in Germany and extended by Sowalfin to Belgium in 2014. It is active in Europe and Africa. Its goal is to gradually move into other countries each time a major public operator is available to lead it. The targeted companies are those looking for equity to develop their business. The* ***service*** *is available to all types of investors, notably venture capitalists, business angels, corporate ventures, private individuals, and to advisory companies. Recommendations from partners, expressions of interest from other users and belonging to one or several communities and labels will enable a company to promote itself to its future contacts and facilitate its deals, notably its funding. Beyond its digital service, EuroQuity organises events around this matchmaking platform such as e-pitches, investment breakfasts, fundraising trainings and web conferences to facilitate funding deals. Cross-border regional events to match growing companies with foreign equity investors are also organised, for example between France and Germany. There are more than 5,500 SMEs and founders, 6,500 investors and 2,500 advisors on the platform. At least EUR 415 million have been raised since its creation.*

- *The UK government recently adopted* ***The Small and Medium Sized Business (Finance Platforms) Regulations 2015***[28] *which provide for the establishment of private sector finance platforms. These platforms are designated by the UK government. They match SMEs to a range of finance providers, both traditional and alternative. From 1 November 2016, the UK's biggest SME lending banks (by market share and geographical coverage) are obliged to offer to SMEs rejected for finance the opportunity for their details to be referred to these designated platforms. The information which the latter receive relates notably to the contact details of the business, the amount and type of finance it requested, its legal structure, the period in years and months for which the business has been trading and receiving income, and the date by which it requires finance. The referral is subject to agreement from the applicants. Such finance platforms change the dynamic between borrower and funder. Once information is referred to finance platforms, SMEs are essentially put in a reactive mode: while they remain in control of the process via consent requirements, the initiative rests with the finance platform and its panel of lenders. SMEs are no longer required to actively search for finance alternatives. Hence, these finance platforms provide a way to address or mitigate issues affecting the funding demand side: for example, a lack of experience in navigating the SME funding market or in approaching alternative finance providers; or simply unwillingness on the part of SMEs to invest time and effort in researching finance options*[15].

[27] https://www.euroquity.com/en/home

[28] http://www.legislation.gov.uk/uksi/2015/1946/pdfs/uksi_20151946_en.pdf

4. APPROACHES TO SHARING SME CREDIT INFORMATION

Improving the availability of SME credit and financial information for (alternative) investors and lenders is essential to support their access to a broader range of funding options. Increasing the flow of information could be addressed by way of disclosure regulation. However, SMEs are very sensitive to increases in regulatory burden. Only a fraction of them are interested to diversify their funding sources. And many SMEs are unwilling to make their information public for confidentiality reasons and bear the costs associated with ongoing disclosure requirements. Any measure in this area must therefore be applied in a proportionate way. The purpose of this section is to highlight some actions and policies undertaken by public authorities to improve the flow of credit data information on SMEs to alternative investors and lenders.

A first source of credit information on SMEs are the credit registries which compile credit-related information and data on both firms and individuals from banks and other regulated lenders, and are maintained by public authorities such as central banks or financial supervisors. In the majority of cases, usage is restricted to banks and other regulated financial institutions that report data to the registry. Some national public authorities have however taken actions to ensure the access of alternative funding providers to credit registries. It is notably the case of the central credit registry managed by the Banque de France which collects data on business loans above a certain threshold. All the companies recorded in this database are also awarded a rating that provides information on their ability to meet their financial commitments. This rating enables banks and other funding providers to have a highly reliable indicator which they can use to make funding commitments to companies. It is also essential in the business - financial community relationship since it provides companies with an indication of their position on the credit risk scale.

- *The **FIBEN Companies Database**[29] was set up by the Banque de France to facilitate the implementation of monetary policy. This database, originally intended to verify the credit quality of issuers of bills presented for rediscounting, evolved in line with changes in refinancing procedures. Only claims on the most highly-rated companies are eligible for bank refinancing. Updated on a daily basis, it is based on information obtained from various stakeholders. These include banks, businesses, registries of commercial courts, the National Institute of Statistics and Economic Studies, newspapers with legal announcements and many others. Credit institutions have had access to the FIBEN database since 1982. For such players, the information collected and processed, which makes up the database, is an important tool for analysing risk, making decisions and monitoring companies. Its access has recently been extended to crowdfunding platforms and, under the Macron Act, to insurers and asset managers.*

Credit information sharing can also take place through privately owned credit bureaus. Their business consists in collecting and processing financial and non-financial information from various sources, and subsequently providing credit reports and other analytical tools that support decision-making when it comes to providing credit to individuals and businesses. One of the biggest challenges surrounding credit bureaus is access to data. The sharing of information through closed user groups[30] impedes access to it

[29] http://www.fiben.fr/

[30] A company which shares credit information is only entitled to information of the same level that it contributes.

by market entrants that are not able to supply like-for-like information. The credit data sharing scheme recently adopted by the UK government will increase the reliability of credit scores and make it easier for alternative finance providers to check creditworthiness of potential business customers through designated Credit Reference Agencies (private credit bureaus). Some associations leverage on these credit reports and scores produced by privately owned credit bureaus to increase business safety and trust. A good example of such initiative is the business performance certificate issued by the Chamber of Commerce and Industry of Slovenia to the most successful SMEs in the country.

- *The **Small and Medium Sized Business (Credit Information) Regulations 2015**[31] require the UK's biggest SME lending banks (by market share and geographical coverage) to share specified information on their SME customers with designated Credit Reference Agencies (CRAs). These designated CRAs must provide equal access to this data to all finance providers that agree to share their own credit data (but the Regulations do not require like-for-like sharing). The biggest banks currently have access to much more data than challengers and the new regulations will enable over 100 alternative finance providers to compete effectively in the SME lending market. It will help more businesses find the funding they need to grow. SMEs will need to give permission at the point of applying for finance for their data to be used in this way. SMEs will also have the right to access and challenge the information which is shared about their business.*

- ***'Excellent SME Slovenia'**[32] is a business performance certificate issued by the Chamber of Commerce and Industry of Slovenia to the most successful small and medium-sized companies in the country. The certificate enables local and international business partners to verify a company's existence and creditworthiness, thus increasing business safety and trust. In addition, it helps business partners and customers to decrease their financial risks when signing business agreements with the certified companies. A credit report and daily monitoring from the credit agency COFACE Slovenia is required to obtain the annual certification. The certificate is also available in seven other countries (Serbia, Montenegro, Romania, Hungary, Macedonia, Croatia and Bulgaria) through cooperation with related Chambers of Commerce and/or COFACE representative offices. 2,307 companies currently hold the 'Excellent SME' certificate, including 808 in Slovenia, 807 in Serbia, 257 in Montenegro, 178 in Romania, 136 in Hungary, 83 in Macedonia, 27 in Croatia and 11 in Bulgaria[33]. An international project team is currently developing a new platform – a marketplace for all certificate holders – enabling users to communicate between themselves, make individual presentations, search partners, announce offers and make inquiries.*

Banks build up a long-term relationship with their SMEs, know well their financial situation, indebtedness and payment behaviour, and are therefore best placed to assess their creditworthiness. Their ongoing relationship with SME customers produces very valuable information for assessing their creditworthiness. It creates information across different banking services (loans, current accounts, credit card accounts etc.). A law recently adopted in Spain introduces the concept of a right for SMEs to receive financial and credit

[31] http://www.legislation.gov.uk/uksi/2015/1945/pdfs/uksi_20151945_en.pdf

[32] https://excellent-sme.gzs.si/vsebina/About-Excellent-SME-Slovenia

[33] Data as of 15 May 2017

risk information from their relationship banks. This information could be used to support new credit applications to competing banks or to search for alternative funding.

- *The **Spanish Law 5/2015 for the Promotion of Business Financing**[34] aims to respond to Spanish companies' traditional dependence on bank financing, which is particularly critical among SMEs, by supporting them in their search for alternative sources of financing. Under the Law, banks must notify SMEs three months in advance of their intention either to terminate certain financing agreement, or reduce the maximum commitment by 35% or more. The advance notice strengthens the ability of SMEs to manage their liquidity, allowing more time to find alternative refinancing options. The Law also contributes to more transparency in the relationship between SMEs and banks. This transparency should allow SMEs to find alternative funding in the event of withdrawal or reduction in financing. It introduces the concept of a right for SMEs to receive financial and credit risk information report from their credit institutions, information they could use to support new credit applications to competing banks or in their search for alternative funding. The report is prepared in accordance with a standardised format and methodology developed by the Bank of Spain. Its content is mainly based on the information provided by each credit institution to the Bank of Spain's Central Credit Register.*

Efforts to facilitate information sharing are also underway at European level. The revised EU Payment Services Directive caters for the possibility of third-party payment service providers to have access to information that is kept at payment accounts. This will enable new and innovative players to compete for digital financial services alongside banks and other traditional payment service providers, including for the provision of finance. Monitoring movements of funds in and out of payment accounts and watching maximum / minimum account balances or overdraft limits are very valuable for assessing the creditworthiness of businesses.

- *The revised **EU Payment Services Directive (PSD2)**[35] makes a distinction between two types of services: payment initiation services and account information services. A 'payment initiation service' is a service to initiate a payment order with respect to a payment account held at another payment service provider. An 'account information service' is an online service to provide consolidated information on one or more payment accounts with either another payment service provider or with more than one payment service provider. PSD2 will oblige a bank to share data on a payment account to a given third-party payment service provider (TPP) with the consent of the account owner and as long as this TPP is authorised through a licence under the Directive. The TPPs will have to follow the same rules as the traditional payment service providers: registration, licensing and supervision by the competent authorities. If authorised under PSD2, alternative funding providers may benefit from the new possibilities offered by this Directive to access data on payment accounts of SMEs seeking finance, provided that an SME has given its consent. This increased access to financial data would strengthen the creditworthiness analysis of such providers and possibly improve their pricing to the benefit of SMEs.*

34 https://www.boe.es/diario_boe/txt.php?id=BOE-A-2015-4607

35 Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, OJ L 337, 23.12.2015, p. 35–127

5. CONCLUSION

The alternative forms of finance are growing rapidly. Recent research[36] shows that the European online alternative finance market grew by 92% in 2015, with substantial expansion in transaction volumes recorded across almost all online alternative finance models.

The Capital Markets Union project aims at supporting this growth by breaking down information barriers that stand between SMEs and prospective investors and lenders. The level of development and availability of alternative finance diverges significantly across Europe[37]. The alternative finance world is broad, including a wide variety of funding instruments covering equity, financial loans and asset finance. For their part, European SMEs are very diverse ranging from micro-enterprises through start-ups and fast-growing innovative firms to well-established companies; these business models face different problems and therefore have different funding needs. Addressing the information barriers in the SME funding market therefore requires a mix of policy responses.

A number of initiatives have recently been adopted by EU Member States or with their support to improve the flow of information in the SME funding market. Their two primary functions are to inform, advise and guide SMEs seeking alternative finance, and to improve the availability of SME credit and financial information for alternative investors and lenders. These local initiatives have replication potential for Member States willing to develop their information architecture on SME access to finance. Getting a comprehensive view on these initiatives is useful in this context. It is necessary to support Member States in their efforts to replicate successful approaches and develop their information architecture to support SME access to finance.

The examples presented in this document– with the exception of EuroQuity – are developed in a national or regional setting. Funding circuits for small businesses remain largely local, reflecting proximity effects between small businesses and their investor base. The bottom-up and organic development of these national/regional initiatives is therefore in keeping with the dynamics of these markets. The best practices presented here can hopefully serve to help Member States and regions in the building of effective operational solutions that are relevant to their SME base. While these systems will ultimately benefit from being linked to a wider catchment area in order to increase the pool of potential investors, lenders and investees, they need first to prove their relevance at national and regional level before addressing the inter-connectivity challenge.

[36] University of Cambridge, Sustaining Momentum, The 2nd European Alternative Finance Industry Report, September 2016

[37] For a more detailed description of cross-country differences in the availability of risk finance, please see Chapter 2 of the Economic Analysis Staff Working Document accompanying the CMU Mid-Term Review Communication: https://ec.europa.eu/info/business-economy-euro/growth-and-investment/capital-markets-union/capital-markets-union-action-plan_en