Improving access to finance for SMEs

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PURPOSE: to propose an action plan to improve access to finance for SMEs.

BACKGROUND: Europe's economic success depends largely on the growth of Small and Medium sized Enterprises (SMEs) achieving their potential. SMEs contribute more than half of the total value added in the non-financial business economy and **provided 80% of all new jobs in Europe** in the past five years.

SMEs often face significant difficulties in obtaining the financing they need in order to grow and innovate. One of the key priorities set out in Europe 2020, the EU's growth strategy for the coming decade, as well as in the Commission's Single Market Act and the Small Business Act is to facilitate access to finance for SMEs.

The **Annual Growth Survey** has underlined the crucial role of a healthy financial system to support growth and set out priorities for action in the short-term perspective. In this context, the reform programme for financial services, implemented as a response to the financial crisis, can bring about regulatory benefits to SMEs. In addition, the Commission is proposing to release new targeted funding at EU level to address the key market failures that limit the growth of SMEs. The Commission is presenting in this Action Plan the various policies that it is pursuing to **make access to finance easier for Europe's 23 million SMEs** and to provide a significant contribution to growth.

CONTENT: difficulties in accessing finance are one of the main obstacles obstructing the growth of SMEs. There are multiple causes for such obstacles, some cyclical, some structural. Information asymmetries between the suppliers and demanders of funds play a major role.

SMEs are to a very large extent dependent on bank loans for their external financing, therefore suitable alternatives should be put at their disposal.

To respond to these challenges, the Commission has opted for a three-fold approach:

1. the Commission will use **regulation** to make SMEs more visible to investors and markets more attractive and accessible for SMEs. Regulatory changes will keep the right balance between prudential regulation and financing of SMEs, and between investor protection and tailored measures for SMEs.
2. the Commission intends to continue using the **EU budget** to facilitate access to finance for SMEs to address the key market failures (i.e. information asymmetries and fragmentation of venture capital market) that limit the growth of SMEs. EU intervention must have a clear added value complementing financial resources available at national level and mobilise additional finance (presence of a "financial multiplier effect").
3. the Commission will use its **coordinating** role, working in particular with Member States, to exchange best practices and develop synergies between actions taken at the national and EU levels.

Current and future budget: the financial instruments of the Competitiveness and Innovation Framework Programme (CIP) with a budget of €1.1 billion should enable financial institutions to provide about **€30 billion of new finance 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.

In the field of Cohesion Policy the Commission already adopted measures to provide investments for SMEs in 15 Member States through financial engineering instruments designed by structural funds.

Assistance to enterprises provided through equity investments, guarantees and loans is estimated to amount to at least €3 billion in the current financial period.

Lastly, 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.

Regulatory measures: the following measures are proposed:

- present 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;
- 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;
- 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;
- review, by 2013, 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;
- adopt as swiftly as possible, the proposal on an SME growth market label in EU capital markets legislation (MIFID);
- put in place by the end of 2012, with the assistance of ESMA, a **single access point to regulated information at EU level**. The Commission will facilitate access to high quality information on listed SMEs;

on an accounting level: (i) adoption of a legislative proposal amending the Accounting Directives in order to simplify and improve accounting rules for SMEs; (ii) revision of the Transparency Directive in order to reduce the regulatory burden for small issuers; (iii) propose, by July 2012, delegated acts in the context of the Prospectus Directive, specifying the content of a proportionate disclosure regime for SMEs and small issuers;

- consider appropriate measures addressing the issue of SMEs risk weighting in the context of the CRD IV and CRR (credit risk rating) framework;
- encourage Member States to accelerate the implementation of the Late Payments Directive in advance in respect of the transposition deadline of March 2013;
- present a new European Social Entrepreneurship Funds regime that will enable EU funds to specialise in this field and to be marketed across the EU under a specific and distinctive label. The Commission invites the EP and Council to adopt this new regulation **before the end of 2012**.

Financial measures: the Commission proposes a certain number of new financial instruments to facilitate, including long-term (2014-2020), access to finance for SMEs:

- a **reinforced and expanded EU Debt Financial Instrument to improve lending to SMEs**, including R&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;
- 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;

- 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;
- 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;
- 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;
- 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;
- 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.

Coordination measures: to better inform SMEs, the Commission proposes to:

- 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;
- 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;
- 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**;
- 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;
- 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;
- 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;
- further develop cross-border matching between enterprises and investors, in particular *business angels*;
- improve the matching of offers and requests for venture capital within the Enterprise Europe Network;
- encourage stakeholders and stock exchanges in particular to increase their information to SMEs about the advantages of a market listing and how to go public;
- promote the establishment of an **independent institute** to promote analyses and research on listed medium-sized enterprises thereby increasing investors' interest in this segment;
- encourage Member States and stakeholder associations to establish national SME Finance fora to provide solutions for an improved access to finance;
- encourage Banks, other financial institutions and SME federations to establish national codes of conducts and guidelines to improve transparency in the lending process and, if appropriate, support **credit mediator** functions;
- take regulatory action to encourage responsible and transparent lending to SMEs.