Access to finance for SMEs and increasing the diversity of SME funding in a capital markets union

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The Committee on Economic and Monetary Affairs adopted the own-initiative report by Othmar KARAS (EPP, AT) on access to finance for SMEs and increasing the diversity of SME funding in a Capital Markets Union.

Members recalled that micro-, small and medium-sized enterprises and mid-caps play an **important role for the European economy** in terms of employment and growth. SMEs account for 67 % of total employment, 71.4 % of the increase in employment and 58 % of the value added in the non-financial business sector in the EU in 2014.

European SMEs are very diverse and operate mainly at national level. 77 % of outstanding SME funding in Europe is provided by banks.

Diverse funding needs of a diverse SME sector: acknowledging the diversity of SMEs and the challenges that SMEs are facing in accessing financing, Members considered that the **financing of SMEs should be as broadly based as possible** in order to ensure optimal access to finance for SMEs at every stage of the development of an enterprise.

Stressing the **need for a diversified, tailor-made approach** in terms of regulation and in terms of initiatives to be supported, the report called on the Commission to support the development of a broad range of tailored programmes, instruments and initiatives, in order to **support businesses in their start-up, growth and transfer phases**, taking into account their size, turnover and financing needs whilst ensuring that its programmes aimed at facilitating access to finance for SMEs do not disfavour women entrepreneurs.

The Commission is called upon to:

- follow-up to the Small Business Act which would further assist businesses in overcoming both physical and regulatory barriers;
- ensure coordination, **consistency and synergies between European instruments and programmes** for SMEs such as the European Structural and Investment Funds;
- promote a **holistic approach to the dissemination of information** on all EU funding opportunities;
- make significant progress towards further **simplification** so as to make funding more attractive for SMEs;
- ensure that **cross-border activities** in the field of retail financial services lead to better access to finance for SMEs.

Members encouraged the Member States to continue their efforts to reduce administrative hurdles and to create **one-stop shops** as hubs for all regulatory requirements for entrepreneurs.

Stressing the fact that achieving a well-functioning European capital market is one of the most important initiatives for the financial sector, Members underlined the importance of simplifying or modifying rules which gave rise to unintended consequences for SMEs or inhibited their development.

Bank lending to SMEs: Members acknowledged that bank lending is traditionally the most important external financing source for SMEs in the Union, as bank funding accounts for over three quarters of SME financing. They invited the Member States to fully collaborate with the financial sector regarding their obligation to **ensure full and equal access to bank lending for SMEs**. They underlined the important and well-developed role of banks with specific regional and local knowledge in providing funding to SMEs.

Members recalled the decision of the co-legislators to introduce the SME supporting factor into the Capital Requirements Regulation CRR and the Capital Requirements Directive CRD IV framework and that it was designed to leave the capital requirements for SME lending consistent with Basel II rather than Basel III levels. The report emphasised the importance of the **SME supporting factor** for maintaining and increasing bank lending to SMEs. It called on the Commission to explore the possibility of making the **factor permanent** and called on the Basel Committee for Banking Supervision (BCBS) to back the SME supporting factor and to consider lowering the capital charges for exposures on SMEs.

Non-bank sources for SME funding: the report called on the Member States to foster a risk-taking and capital market culture, in particular by improving the financial the financial literacy and access to financial skills and knowledge of SMEs.

Members welcomed the Commission's CMU action plan, which aims to ensure easier access for SMEs to more diverse funding options, while highlighting that bank-based and capital-based financing models should be complementary.

The report highlighted the following issues:

- the need for a proportionate regulation, with less complex and burdensome disclosure and listing requirements for SMEs to avoid duplication and lighten the burden for SMEs;
- the importance of the transparency, standardisation and public availability of SME financing information for banks, investors, supervisors and other stakeholders in order to understand the risk profile and take informed decisions and to reduce financing costs;
- fostering innovation through lending platforms; underline the potential of new innovative **financial technology** (FinTech) for better matching SMEs with potential investors and explore potential risks and the need for an appropriate harmonised EU regulatory framework without stifling innovation;
- encouraging **safe lending** to companies by private individuals through peer-to-peer lending or retail bonds;
- **securitisation** could offer a possibility to increase the lending capacity of banks to SMEs. The legislative initiative for simple, transparent and standardised (STS) European securitisations should be encouraged;
- simplified and harmonised rules on **insolvency** could help reduce obstacles to cross-border investment in SMEs and start-ups;
- striving for a **fair, effective and transparent taxation system** that attracts finance and investments given that the taxation system has a strong influence on the internal finance capacity of SMEs.

Lastly, Members called for the Commission to deliver an annual report to the European Parliament, outlining the status of implementation initiatives and its impact on the improvement of access to financing for SMEs in Europe.