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EU Action Plan: helping SMEs access more financial resources

The EU Action Plan to improve access to finance for SMEs presents the various EU policies and measures to make access to finance easier for Europe's 23 million SMEs. It covers actions to improve the venture capital market and facilitate access to financial resources. It contains also financial products to ease access to bank lending, for an amount of at least € 20 billion allocated to SMEs from the new Multiannual Financial Framework. A new survey published today shows that difficult access to finance is among the top concerns (15%) of SMEs. Almost two-thirds (63%) of the EU SMEs who applied for a bank loan during the last six months received the whole amount they asked for. However, 11% of the applications were rejected and 17% received less than they applied for. In addition 4% declined the loan offer from the bank because they found the conditions unacceptable. So about one third of the SMEs did not get the finance they had planned for (for more details see below).

Proposed actions to improve access to finance

- The Commission **will reinforce its loan guarantee and venture capital facilities** under the Programme for the Competitiveness of Enterprises and SMEs (COSME). These loan guarantees are used in cases where the entrepreneur or the small enterprises do not have sufficient collateral to offer and the bank will not provide a loan. 90% of the beneficiaries have 10 or less employees and this is the category that has most difficulties to get a loan. The average guaranteed loan is about €65 000.
- Guarantees for loans will be extended to the **expanding cultural and creative sectors** and increased resources will also be available for **microfinance**, Additional financing for research- and innovation driven enterprises will be provided under Horizon 2020. All together these initiatives will amount to €3.5 billion.
- The **European Investment Bank will maintain its SME loan activity** at a sustained pace, close to the 2011 level and in line with its funding capacity. The volume of SME loans in 2011 is targeted to be around €10 billion.
- Under the **Cohesion Policy** 2014-2020 the effectiveness of the **financial instruments will be enhanced**, by extending their scope and by rendering their implementation frameworks more flexible. A close coordination between COSME programme and Member States' measures can be achieved through a new possibility to pool resources

- The Commission will **facilitate access to EU financial instruments** by reinforcing the financial advisory capacity of the Enterprise Europe Network bringing together 600 business support organisations and providing a single online portal on EU financial instruments. The European bank federations have declared that they will promote actions among their members to reinforce information about EU financial instruments.
- The Commission will **improve the monitoring of SME lending** in order to better assess the impact of measures in support of SMEs' finance and the new capital requirements applicable to banks.
- The Commission will **facilitate access to capital markets** by encouraging better information to SME about the possibilities of stock exchange listing as well as better analyses and research on listed medium sized enterprises.

See IP/11/1513

Proposed regulatory measures to improve access to finance

- Together with this Action Plan the Commission is adopting a regulation on **Venture Capital Funds**, that should enable a true integration of the venture capital market in Europe and strengthen the supply of venture capital;
- The Commission is adopting a regulation on **Social Entrepreneurship Funds**, designed to allow funds investing in social enterprises to raise funds and invest across Europe;
- The Commission has put forward a series of regulatory proposals designed to **improve SMEs' access to capital markets**. These include measures to **make more visible SME markets** (in the Markets in Financial Instruments Directive) and SME shares (in the Transparency Directive). Further, the Commission is proposing to **reduce the costs and the burden for SMEs** (Transparency and Prospectus Directive), by simplifying and reducing reporting requirements. The aim is the increase larger SMEs' use of capital markets to facilitate growth.
- The Commission is also making the European financial system more stable, through legislation proposed to **increase capital requirements for banks** (the Capital Requirements Directive implementing the Basel Agreement in Europe). The proposal includes a review clause to look at SME lending and to test the possibilities to reduce the current SMEs risk weights by one third in relation to the current situation
- The Commission encourages Member States **to accelerate the implementation of the Late Payments Directive** in advance of the transposition deadline of March 2013. Late payments are costly for European businesses, amounting to some € 1.1 trillion in terms of delayed turnover.

Current EU Financial instruments for SMEs

The financial instruments (loan guarantees and venture capital) of the Competitiveness and Innovation Framework Programme (CIP) with a budget of €1.1billion will enable financial institutions to provide about €30 billion of new finance for more than **315 000 SMEs**.

The SME guarantee facility (SMEG) provides guarantees to encourage financial institutions to make more debt finance available to SMEs by reducing their exposure to risk. SMEG provides co-, counter- and direct guarantees to financial intermediaries providing loans and mezzanine finance to SMEs. This will help SMEs with limited or no collateral to obtain loans. 90% of the beneficiaries have 10 or less employees and this is the category that has most difficulties to get a loan. The average guaranteed loan is about €65 000.

The high growth and innovative SME facility (GIF) contributes to the establishment and financing of SMEs. GIF provides risk capital – usually in the order of millions of euros – for innovative SMEs in their early stages and risk capital for SMEs with high growth potential in their expansion phase**.**

The CIP financial instruments are managed by the European Investment Fund through national and regional financial intermediaries (banks and venture capital funds) in the Member States of the European Union. A list of the **CIP financial intermediaries** by country can be found at: www.access2finance.eu

In 2008-2011, the **European Investment Bank** (EIB) provided around **€40 billion** of lending for SMEs, which benefitted more than **210 000 SMEs**. 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. 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.

http://www.eib.org/about/news/eib-loan-for-smes.htm

In the field of **Cohesion Policy**, the Commission has 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**.

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. It is expected to unlock a further €6 billion of loans until the end of 2013, including up to **€1.2 billion for SMEs** and up to €300 million for research infrastructures. 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. (IP/11/1505)

A pilot scheme concerning loan guarantees to research - and innovation-driven enterprises – the Risk Sharing Instrument – will start in January 2012.

One third of the SMEs did not get the finance they had planned for

In general, the SME respondents in Europe consider that the conditions of bank financing worsened during the previous 6 months of 2011 in terms of the interest rate and other costs, collateral and required guarantees. However the most pressing problem continues to be finding customers (24%).

Forms of financing used by SMEs

30% of companies are using **bank loans** and 40% are using **bank credit line** or overdraft facilities. Bank loans are also the most widely preferred external financing solution to realise firms' growth ambitions (63%).

Generally it is the **larger** (both in terms of staff and turnover) **and older enterprises** that are more likely to get the external finance that they request.

Younger and smaller firms are more likely to get only some of the finance they requested, and, indeed, to be rejected outright. The highest rejection rate was among the micro companies employing less than 10 people (16%) and among SMEs active between 2 and 5 years (24%).

Regarding **equity financing**, it was used by 7% of the SMEs and the main challenge concerning this source of financing is the lack of investment readiness or financial knowledge.

Background

The survey was developed together by the European Commission and the European Central Bank. A joint survey, published today, is conducted every two years.

The survey on the access to finance of SMEs was conducted between 22 August 2011 and 7 October 2011 covering a sample of more than 15,000 firms across a total of 38 countries - the European Union, the European Free Trade Association as well as other countries participating in the Entrepreneurship and Innovation Programme. The report provide information on the financial situation, financing needs, access to financing and expectations of SMEs, compared with large firms, in the six preceding months. The full report is available at:

http://ec.europa.eu/enterprise/policies/finance/data