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

An action plan to improve access to finance for SMEs

{SEC(2011) 1527 final}

1. SMES – DRIVERS OF GROWTH

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.¹

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 Act² and the Small Business Act³ is to facilitate access to finance for SMEs. The Annual Growth Survey⁴ 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.⁵

2. RESPONDING TO THE PROBLEMS

Difficulties in accessing finance are one of the main obstacles obstructing the growth of SMEs, as presented in the annex in more detail.⁶ There are multiple causes for such obstacles, some cyclical⁷, 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.

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.

¹ Structural Business Statistics (Eurostat)
http://epp.eurostat.ec.europa.eu/portal/page/portal/european_business/data/database

² COM 2011 206

³ COM (2011) 78

⁴ COM (2011) 815 final

⁵ Future initiatives following this Action Plan will be prepared carefully and include appropriate impact assessments where relevant.

⁶ ECB, Survey on the Access to Finances of SMEs, February 2010

⁷ EIM, Cyclicity of SME Finance, March 2009

Secondly, 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")⁸.

Thirdly, 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.

While most of the measures will have a medium to long term horizon, it is also important to stress that Europe is already taking a number of **steps to address the immediate difficulties**.

The main objective is to stabilise the economic and financial situation. 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.

More specifically for SMEs, Europe has been providing a balanced mix of flexible financial instruments under the current programme period (2007-2013), essential in addressing the diverse financing needs of SMEs. 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 finance⁹ 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. 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. Assistance to enterprises provided through equity investments, guarantees and loans is estimated to amount to at least €3 billion in the current financial period.

Finally, 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.

⁸ The actions are consistent with the present and future financial framework. Any envisage action in this action plan is coherent with the proposal for both the Programme for the Competitiveness of Enterprises and SMEs and for the Horizon 2020 Programme. The cost for the agencies and the European Enterprise Network will be covered by allocations already foreseen in the official programming of the Commission.

⁹ i.e. for every Euro invested through CIP, about €30 are finally obtained by the beneficiary

3. REGULATORY MEASURES

3.1. Improving the regulatory framework for venture capital

3.1.1. *A new legislation on venture capital*

Venture capital funds are operators that provide mostly equity finance to companies that are generally very small, in the initial stages of their corporate development. In the EU, venture capital funding has high, but largely unexploited, potential for development of SMEs. Despite the huge size of the asset management industry in the EU, no specific provisions in current EU legislation have been designed to channel equity funds to SMEs. Venture capital funds managers can rarely benefit from the passport that has been introduced in the Directive on Alternative Investment Fund Managers (AIFM), because its threshold of €500 million is higher than the size of most EU venture capital funds' portfolios.

The Commission¹⁰ is therefore proposing a new European venture capital regime that will enable EU venture capital funds to market their funds and raise capital on a pan-European basis across the Single Market. The new regime will reduce fragmentation of the venture capital markets along national lines that prevent cross-border operations and limit the supply of venture capital.

The new framework will be simple and efficient, with a single registration in the home Member State, and with simplified reporting obligations, and adapted organisation and conduct of business rules.

Once in place this framework should increase the scale of the VC market and lead to: (i) larger, more efficient VC funds, with more possibilities to specialise by type of investments; (ii) increased competition between funds and better diversification of their investments; and (iii) more cross-border financing available for SMEs.

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.

3.1.2. *Regulatory framework for investment in venture capital*

Institutional investors, in particular insurance companies, but also to some extent banks, are potential investors in VC funds. In some Member States, they are already significant investors today.

The new prudential frameworks for insurance (Solvency II¹¹) and banks (Capital Requirements Regulation and Directive¹²) have given rise to concerns that it could

¹⁰ The Commission 2007 proposal of mutual recognition of venture capital funds, although backed by the Member States in 2008, has not reduced regulatory fragmentation along national lines.

¹¹ Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

¹² On 20 July 2011, the Commission adopted a legislative package to strengthen the regulation of the banking sector. The proposal replaces the current Capital Requirements Directives (2006/48 and 2006/49) with a Directive and a Regulation and constitutes another major step towards creating a sounder and safer financial system. The directive governs the access to deposit-taking activities while

discourage investments in VC funds, treated as non listed investments or high risk assets (along with commodities and hedge funds) in the calculations for prudential requirements¹³.

This treatment responds to prudential concerns. However a well-calibrated legislative framework for venture capital, that recognises in particular the benefits of diversification, may allow for a certain amount of VC investments in a way that does not cause prudential concerns.

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.

3.1.3. *Taxation reforms benefiting SMEs*

The Commission worked together with national and industry experts on ways to remove regulatory and tax barriers to cross-border VC investments. . A group of tax experts¹⁴ has identified the main tax problems for cross-border VC investment which can lead, due to the lack of coherence between the 27 tax systems across the EU, to double taxation, tax treatment uncertainties and administrative obstacles.¹⁵ Although the bilateral double taxation conventions between Member States should normally prevent these difficulties, they may not always cater for the complex commercial structures used in VC investment.

The European regime for venture capital will remove obstacles to cross-border fund-raising but will not as such solve the taxation problems that funds invested across borders face. However, a common notion of a venture capital fund would be a good starting point for further exploring with Member States solutions to the tax problems which may hinder the cross-border investments of such funds.

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.

3.2. State aid rules relevant for SME access to finance

State aid policy can support SME access to finance in different ways, allowing aid to banks for reasons of financial stability, and providing guidance to Member States on how to design aid schemes that promote the Europe 2020 objectives (R&D and

the regulation establishes the prudential requirements institutions need to respect. See COM(2011) 453 final, COM(2011) 452 final, proposed by the Commission on 20 July 2011 and currently under negotiation in Council and Parliament.

¹³ See for instance article 123 in the proposed Regulation on prudential requirements for credit institutions and investment firms, COM(2011) 452 final of 20.7.2011.

¹⁴ http://ec.europa.eu/taxation_customs/resources/documents/taxation/company_tax/initiatives_small_business/venture_capital/tax_obstacles_venture_capital_en.pdf

¹⁵ The diverging definitions of what constitutes a permanent establishment often oblige VC fund to set up subsidiaries and to face increased administrative and tax burden.

innovation, regional and social cohesion, etc.) and take account of the specific needs of SMEs.

The Risk Capital Guidelines¹⁶ allow supporting early stage financing for SMEs, leveraging private capital and alleviating market failures. The Commission has recognised a wider equity gap and increased the threshold for equity investment in a start up company from €1.5 million to €2.5 million. The State aid rules allow intervention even beyond this threshold, in specific circumstances.

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.

3.3. Improving SME access to capital markets

In order to improve SME¹⁷ access to capital markets, the Commission is proposing a number of regulatory changes that aim at improving the visibility of the SME markets and reducing wherever possible the costs and the regulatory burden for SMEs, while keeping an adequate level of investor protection.

3.3.1. *More visible SME markets*

The Commission wants to facilitate the development of homogeneous SME growth markets attractive for investors. In the proposal on the Directive on Markets in Financial Instruments (MIFID)¹⁸, it has proposed to attribute the label SME growth market to those Multilateral Trading Facilities (MTFs) that would respond to a common set of characteristics. The aim is to find an adequate balance between proportionate requirements for SMEs, and a high level of investor protection¹⁹.

This label should allow these markets to gain more visibility, attracting investors and making them more liquid. The label would be voluntary and would be based on requirements to be adopted by the Commission based on a proposal by the European Securities Markets Authority (ESMA). The label would be granted by national competent authorities. The label will in turn allow markets to develop more standardised tools (indexes, specialised funds investing in those markets), to create networks between MTFs and to follow best practices.

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.

¹⁶ Community guidelines on state aid to promote risk capital investments in small and medium-sized enterprises, OJ C 194, 18.8.2006, p. 2–21.

¹⁷ In the context of financial markets, SMEs include also firms with limited market capitalisation (below 100 million EUR).

¹⁸ Directive on markets in financial instruments repealing Directive 2004/39/EC of the European Parliament and of the Council, COM(2011) 656 final, adopted on 20.10.2011.

¹⁹ The level of investor protection would be further strengthened by the proposed extension of the scope of application of the Market Abuse Directive to MTFs.

3.3.2. *More visible listed SMEs*

The proposal for a modification of the Transparency Directive²⁰ aims at improving access to regulated information in Europe. Currently, access to financial information on listed companies is unnecessarily difficult: interested parties need to go through 27 different national databases in order to find this information.

High quality comparable information widely available from a central access point at the EU level would facilitate a larger use of information on listed SMEs by investors. A central access point could lower barriers and entry costs for new commercial information providers that may wish to enter the market to address the gap in the provision of information on smaller companies. Equally, smaller issuers themselves may also be encouraged to invest in producing improved information and document formats targeted at cross border investors.

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.

3.3.3. *Reducing reporting burdens for listed SMEs*

In order to simplify **accounting rules** for SMEs and further reduce their administrative burden, the Commission adopted a proposal for a Directive on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.²¹ This could allow SMEs to save up to €1.7 billion per year. Increased comparability of financial statements and a better focus on essential information should result in better investment decisions and a better allocation of capital.

The Commission is also proposing to reduce **requirements and costs for small issuers**, notably eliminating quarterly reporting and through a wider use of templates prepared by ESMA, which would facilitate comparability of information for investors. The lighter regime of the new Transparency Directive will apply to all issuers, and it will have a greater impact in terms of cost reduction on small issuers. Investor protection would be guaranteed through the mandatory disclosure of half-yearly and yearly results, as well as through the disclosures required by the Market Abuse and Prospectus Directives. Companies would of course be free to continue to provide more information to investors.

The recent amendment to the Prospectus Directive²² introduced a **proportionate disclosure** regime for SMEs and companies with limited market capitalisation. This

²⁰ Directive amending Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and Commission Directive 2007/14/EC, COM(2011) 683 final, adopted on 25.10.2011.

²¹ COM(2011) 684 final

²² Directive 2010/73/EC, OJ L 327 of 11.12.2010

regime should limit the amount of disclosures and reduce administrative burdens for SMEs and small issuers, without prejudice to investor protection.

In October 2011, a legislative proposal amending the Accounting Directives was presented in order to simplify and improve accounting rules for SMEs.

At the same time, the Commission presented a proposal revising the Transparency Directive in order to reduce the regulatory burden for small issuers.

The Commission invites the Parliament and the Council to adopt these legislative proposals by end 2012..

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.

3.4. Reviewing the impact of bank capital requirements on SMEs

The existing capital framework for banks developed by the Basel Committee for Banking Supervision - transposed in EU law via two adaptations of the Capital Requirements Directive (the CRD III²³ and the proposed CRD IV and CRR) - aims at strengthening prudential banking rules. In addition to requiring more and higher quality capital, it imposes higher capital charges for market activities and enhances rules on the management of liquidity risk. This will provide for enhanced financial stability, more robust banking business models and stronger balance sheets.

In the CRD IV, the current prudential treatment of SME loans will continue to benefit from the provisions of Basel II (a preferential risk weight for SMEs exposures of 75% under the standardized approach). An even more beneficial regime for exposures to SMEs would require a revision of the international Basel framework. It would especially require demonstrating that the current approach is too stringent. This is why the risk weight for SMEs exposure is subject to a review clause in the Commission's proposal.

The Commission, consulting the European Banking Authority (EBA), will, within 24 months after the entry into force of the new Regulation, report on lending to SMEs and natural persons. It will submit its report to the European Parliament and the Council, together with any appropriate proposal concerning the review of the SMEs' risk weight. In this context, the EBA is requested to analyse and report by 1 September 2012 on the current risk weights, testing the possibilities for a reduction, taking into consideration a scenario of a reduction by one third in relation to the current situation.

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.

²³ Directive 2010/76/EU, already in force.

3.5. Accelerating the implementation of the Late Payments Directive

Many payments in commercial transactions between businesses or between businesses and public authorities are made much later than agreed. This is costly for European businesses, amounting to some € 1.1 trillion in terms of delayed turnover.²⁴ Cash flow for SMEs is expected to be improved through reduced payment times as a result of the provisions of the revised Late Payments Directive.²⁵ This could lead to reduced needs for short term external financing.

The Commission strongly encourages Member States to accelerate the implementation of the Late Payments Directive in advance in respect of the transposition deadline of March 2013.

3.6. An innovative regime for European Social Entrepreneurship Funds

Social businesses are an emerging sector in the EU. They are undertakings whose primary objective is to achieve social impacts, rather than generate profits for shareholders or other stakeholders.

Being socially innovative and often newly created businesses, they are mostly composed of a large population of SMEs, facing problems of access to finance similar to all small businesses.

The Commission is presenting 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.

4. EU FINANCIAL MEASURES FOR SMEs

The Commission has proposed a number of new financial instruments to facilitate SMEs' access to finance also in the future (2014-2020). It is important to ensure more simplicity and better coherence between the different EU funding schemes. The Commission introduced the principles of debt and equity platforms that will standardise the common mechanics of the instruments, streamline relations with financing partners and foster administrative efficiency.²⁶ Under the Cohesion Policy 2014-2020 the scope of the financial instruments will be enhanced, by extending their scope and by rendering their implementation frameworks more flexible and effective.

4.1. Measures to improve lending to SMEs

The Commission has proposed an EU Debt Financial Instrument for enterprises' growth and research and innovation, which will provide guarantees and other forms of risk-sharing to improve lending to SMEs, including research and innovation-driven SMEs.

²⁴ SEC(2009) 315

²⁵ Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions. It will have to be transposed into national law by 16 March 2013 at the latest

²⁶ COM(2011)662

The financial instrument will be an integrated structure comprising different facilities with specific policy objectives, in line with the Commission Communication on a *"Framework for the next generation of innovative financial instruments – the EU Equity and Debt Platforms"*²⁷. It will be funded by the Programme for the Competitiveness of Enterprises and small and medium-sized enterprises 2014-2020)²⁸ (COSME), by the Horizon 2020²⁹ programme and the Creative Europe Programme.

Through COSME³⁰, the Commission will be providing enterprises and in particular SMEs with a Loan Guarantee Facility, which will offer guarantees for:

- (i) debt financing via loans, subordinated and participating loans or leasing to reduce the particular difficulties SMEs face in accessing finance for their growth;
- (ii) securitisation of SME debt finance portfolios, aimed at mobilising additional debt financing for SMEs.

The Loan Guarantee Facility shall, except for loans in the securitised portfolio, cover loans up to €150 000 and with a minimum maturity of 12 months.

Furthermore, the Commission will, through the Horizon 2020³¹ programme, provide a Debt facility with an SME Window to support research and innovation (R&I)-driven SMEs. The SME Window will target R&I-driven SMEs with loan amounts that complement finance to SMEs by the Loan Guarantee Facility under the COSME Programme.

Additionally, the Commission is also proposing to set up a guarantee facility aimed especially at those SMEs which are operating in the cultural and creative sectors. The facility will also be implemented under the EU debt Financial Instrument.

Finally, under the EU Programme for Social Change and Innovation, the Commission proposes financial support to microfinance for micro-enterprises and financing for social enterprises.

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.

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.

²⁷ COM(2011)662
²⁸ COM(2011)834/2
²⁹ COM(2011) 808 final

³⁰ The indicative budget for the debt and equity facilities under COSME is €1.4 billion.

³¹ The indicative budget for the debt and equity facilities under Horizon 2020 is €3.8 billion.

The Commission has proposed:

1. 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.

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;

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.

4.2. Measures to improve access to venture capital and other risk financing

The Commission has proposed an EU Equity Financial Instrument for EU enterprises' growth and research and innovation, which will provide venture capital and mezzanine financing to enterprises from their early stage (including seed) to the growth stage.

The financial instrument will be an integrated structure comprising different facilities with specific policy objectives, in line with the framework for the next generation of innovative financial instruments. It will be funded by the Programme for the Competitiveness of Enterprises and SMEs (COSME) and by Horizon 2020.

COSME will include an Equity Facility covering enterprises in their expansion and growth-stages. The facility will also have the possibility to make early-stage investments in conjunction with the Horizon 2020 Programme.

The Horizon 2020 Programme will include an equity facility targeting enterprises in their early-stage. The facility will also have the possibility to make expansion and growth-stage investments in conjunction with the COSME Programme.

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. Further cooperation between the EIB Group and the European Commission, including

through risk-sharing arrangements, will be developed in order to facilitate the mobilisation of additional public and private resources.

The Commission has proposed:

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.

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.

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. Further cooperation between the EIB Group and the European Commission, including through risk-sharing arrangements, will be developed in order to facilitate the mobilisation of additional public and private resources.

5. OTHER MEASURES TO IMPROVE THE ENVIRONMENT FOR SMEs

5.1.1. *Better information for SMEs*

SMEs would greatly benefit from easier access to information at local and regional level. Member States' authorities are encouraged to improve SMEs' access to different national and regional sources of finance and, in this context, to evaluate the possibility of creating a single national online database of sources of finance based on good practices.

The European Commission and the EIB Group, in cooperation with financial intermediaries, will expand SMEs' access to information about the various EU financial instruments and the SME Loan facility. Similarly the information to intermediaries, including smaller banks, will be improved. Efforts will be made to simplify the administrative burden and broaden the scope of languages.

Banks and other financial institutions are encouraged to provide clients with information about alternative financial instruments and actively support networks of mentors, advisors and business angels.

The Commission will:

1. 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.

2. 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.

5.1.2. Improve monitoring of the SME lending market

Currently, exact statistics on loans to SMEs are not collected. Available approximations such as loans below €1 million or below €250,000 show that the SME share in total new loans in the euro area is on average about 20%.³²

Improving the monitoring of the SME lending market would allow better and more evidence-based policy making. It would also help assessing the impact of measures in support of SMEs' finance, as well as the new capital requirements applicable to credit institutions.

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.

5.1.3. Promote qualitative rating

Qualitative indicators of performance - the entrepreneur's track record, the competitive position of the company in the market or other intangible assets - are essential to complement the standard valuation of SMEs.

The submission of qualitative questionnaires is already a common practice among European banks. However, the process of statistically modelling such information is not immediate, and most models are facing the difficulty of losing information when transforming qualitative data into quantitative models.

Further, there are already provisions in place that allow SMEs to request from the banks to be made aware of their rating and scores³³. It would be important to fully implement these provisions in practice.

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.

³² ECB MFI Interest Rate Statistics, Euro area new loans to NFC volumes, average for Aug 2010 – Jul 2011

³³ Article 145(4) of the Capital Requirements Directive, and article 418 (4) of the proposed Capital Requirement Regulation.

5.1.4. *Stimulate the activity of “Business angels” and cross-border investments*

Business angels provide both financing and managerial experience, which increase the likelihood of start-up enterprises surviving. They often constitute the largest source of external funding, after family and friends, in newly established ventures. Due to their informal nature their activity is difficult to measure.

The Commission will study the European business angel market and other informed markets and explore ideas to stimulate it by supporting investment and investor-readiness programmes, encouraging potential investor groups to become business angels, and building the capacity of business angel network managers.

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.

The Commission will:

- 1. 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.**
- 2. 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.**
- 3. Improve the matching of offers and requests for venture capital within the Enterprise Europe Network**

5.1.5. *Promote information on SME access to capital markets*

Significant measures are needed to create a favourable environment for SMEs seeking growth capital, focusing on ways to attract a wider set of investors and helping to lower the cost of capital of SMEs. There is a need to increase the information to mid-sized enterprises about the advantages and costs associated to listing. The Commission will also consider how to promote access to SME bond markets and securitisation. The Commission, together with the stakeholders in the SME Finance Forum, will continue³⁴ to contribute to information campaigns and prepare a European information guide for companies aspiring to go public. The Commission will also carry out promotional activities such as an award for the SME listing of the year.

Stakeholders and stock exchanges in particular are encouraged to increase their information to SMEs about the advantages of a market listing and how to go public.

The Commission will promote the establishment of an independent institute to promote analyses and research on listed medium-sized enterprises thereby increasing investors' interest in this segment.

³⁴

«EU Finance Days for SMEs» about funding for SMEs were organised in 2008/10 in all the EU capitals

5.1.6. Policy coordination and implementation

The Commission will continue to work within the SME Finance Forum to explore new strategies to facilitate access to finance for SMEs. Mutual policy learning is essential to improve the performance of the European financial system. Several Member States already established national SME Finance fora with business organisations, banks and other financial institutions to provide practical solutions to improve access to finance.

National experiences are particularly relevant for the lending practices and process. In various Member States several actions have been taken in order to enhance the transparency of the lending process, including feedback to SMEs when loan applications are refused.

In some Member States, national lending codes or credit mediators have been established in order to address the problem of information asymmetry in the risk assessment process of SMEs and to improve the lending process. In some Member States, the Consumer Credit Directive has been extended to small enterprises. While these various models may reflect different national circumstances, there is scope for an overall enhancement of their functioning.

The Commission encourages:

Member States and stakeholder associations to establish national SME Finance fora to provide solutions for an improved access to finance.

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.

In 2012, the Commission intends to review current lending practices, including transparency mechanisms.

Based on the outcome of that review, the Commission may consider taking regulatory action to encourage responsible and transparent lending to SMEs.

6. CONCLUSION

SMEs will be a source for growth and jobs in Europe only if their access to finance is improved. In the short term, this means stabilising financial markets and strengthening the banks, while ensuring that credit continues to flow to SMEs.

In the medium term, the Commission intends to significantly improve the regulatory environment for SMEs, fostering a single market for venture capital, improving capital markets and reducing costs and burden for SMEs. The Commission intends to reinforce its guarantees and venture capital facilities, complementing the efforts carried out by the EIB and Member States. Finally, the Commission intends to promote information for SMEs, to SMEs and on SMEs, to improve access to financial instruments, to reduce the information gap faced by SMEs in accessing finance and to facilitate their access to capital markets.

The EU and Member States must work together in order to improve SMEs' access to finance. The Commission is playing its part with actions envisaged in this Action Plan and will work with Member States, the financial sector and SME federations to ensure that the actions bear fruit and contribute to economic recovery.