**Opinion of the European Economic and Social Committee on the 'Communication from the Commission to the Council, to the European Parliament, to the Committee of the Regions, and to the European Economic and Social Committee — An action plan to improve access to finance for SMEs'**

*COM(2011) 870 final*

(2012/C 351/10)

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On 7 December 2011, the European Commission decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, on the

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The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 30 August 2012.

At its 483rd plenary session, held on 18 and 19 September 2012 (meeting of 19 September), the European Economic and Social Committee adopted the following opinion by 174 votes, with 3 abstentions.

## 1. **Conclusions and recommendations**

1.1 The EESC welcomes the EU action plan to improve access to finance for SMEs at a time when many European countries are facing an uncertain economic outlook. The EESC is of the opinion that Europe's economic recovery can only be achieved if SME policy is high on the agenda of European policy-makers. It therefore clearly supports the efforts of the European institutions to increase the resilience of the financial system in order to be an instrument at the disposal of the real economy.

1.2 The EESC notes that dedicated actions cannot be successful without clear involvement from the Member States. The EESC therefore invites them to implement the action plan and unlock all possible support mechanisms for SME finance by concentrating on the priorities of Europe 2020. The Member States should for instance develop guarantee funds and better use structural funds for financial instruments.

1.3 The EESC acknowledges that loan finance is and will remain one of the most widely used instruments for SME development. In this respect, the Committee fully supports regulatory and financial measures aiming at reinforcing debt finance and guarantee instruments for SME growth.

1.4 The Committee insists that the Basel III proposals must be properly implemented in Europe with the forthcoming CRD IV Directive, to avoid adverse effects on the financing of the real economy.

1.5 The EESC welcomes the Commission proposals on boosting venture capital in Europe. It is essential for the European VC market to be given decisive new impetus with a view to overcoming market deficiencies and regulatory barriers, rendering the VC segment more attractive to private investors.

1.6 European SMEs are varied and heterogeneous. Initiatives to improve access to finance must consist of a full portfolio of diverse and innovative measures to effectively reach this diverse group of actors taking into account their specific features. Social enterprises and the liberal professions, for instance, have different legal forms and models of operation from "traditional" businesses, which further complicates their access to finance since these forms or models are not always recognised or understood by financial actors.

1.7 Hybrid capital that presents an alternative to bank lending must be boosted as well. The emergence of new financial actors must be supported, as must that of new intermediaries providing both innovative financial solutions and business advice. Crowd funding is a good example to mention and participative banking could be another option to take into consideration.

1.8 The EESC stresses the need for the EIB group, in close cooperation with the European Commission, to play a key role in investing in SMEs, through a full range of general and targeted instruments. As regards the EIB loans for SMEs, EIB intermediaries are invited to increase their communication efforts to promote that financial scheme to the SME community in cooperation with SME organisations.

1.9 The EESC takes note of the proposal to simplify and make more transparent the next generation of financial instruments (*EU Debt Financial Instrument* and *EU Equity Financial Instrument*) under the forthcoming Multiannual Financial Framework Programme (MFF). The EESC is supportive of the proposals because of the high leveraging effect of these two schemes.

1.10 The EESC welcomes the Commission's decision to foster dialogue between different stakeholders in order to monitor market developments and make recommendations on how to improve access to finance for SMEs. The EESC hopes to be regularly invited to the "SME Finance Forum" to discuss and present concrete proposals on how to alleviate SMEs' financial problems.

1.11 The Committee is of the opinion that specific training for entrepreneurs, such as *investment readiness programmes*, should be stimulated.

1.12 The EESC stresses the fact that European programmes supporting SME finance that are implemented via European, national or regional intermediaries must be made easier for SMEs to access. Transparent, understandable and consistent procedures at all levels, are the keys to their success.

## 2. Commission proposal

2.1 The action plan outlines the main obstacles to stimulating finance for SMEs such as:

— access to loans;

— access to venture capital;

— access to capital markets.

2.2 Furthermore, the documents describe the measures taken between 2007 and 2012 to ensure financing reaches SMEs, these being:

— the Competitiveness and Innovation Programme (CIP);

— the EIB allocation for SME loans;

— Cohesion policy funds;

— the Risk Sharing instrument in FP7.

2.3 The Commission identifies a number of measures so as to facilitate financing for SMEs. These include:

— regulatory measures;

— financial measures to improve lending and venture capital across the EU;

— measures to improve the environment for SMEs.

## 3. General observations and comments

3.1 The European Central Bank (ECB), in close cooperation with the European Commission, regularly publishes the results of the "*Survey on the access to finance of small and medium-sized enterprises (SMEs) in the euro area*" [1]. According to the results of the latest survey, euro area SMEs' external financing needs increased between October 2011 and March 2012. At the same time, the survey results show that access to bank loans continued to deteriorate but with differences between Member Sates [2]. On balance, firms reported a worsening in the availability of bank loans. Moreover, the survey results point to somewhat higher rejection rates when applying for a loan. Meanwhile, the percentage of respondents reporting access to finance as their main problem remained broadly unchanged. In view of this situation, the EESC invites the Commission to ensure that alternatives ways to access to finance can be fully exploited.

3.2 The EESC emphasises that each survey needs to be closely followed up in order to respond rapidly by proposing specific policy measures. Information available at the SME Finance Forum, in the Member States and from SME organisations can complement this follow-up. This exercise should be carried out by the Commission with the involvement of the EESC and civil society.

3.3 The EESC supports the study the Commission is conducting to evaluate the definition of SMEs and especially asks for specific attention to be paid to micro and small enterprises. Given the diversity and size of SMEs [3] (family businesses, liberal professions and social business to name but a few), the EESC reminds the Commission that tailored financial support measures for them must be a priority. The Commission is therefore requested to take into consideration their different characteristics, paying special attention to micro enterprises, when preparing financial programmes to support their development. The Commission needs to avoid any discrimination as there is no "*one size fits all*" answer to their needs.

## 4. Specific observations and comments on the regulatory measures

4.1 *Venture Capital Regulation*

4.1.1 The EESC supports the introduction of a harmonised regime for cross-border operations by VC funds. The proposal is laudable as it is likely to alleviate market deficiencies thanks to the creation of a "European Passport" enabling EU venture

(1) This survey round was conducted between 29 February and 29 March 2012, covering a sample of 7 511 firms in the euro area.
(2) Ibid, see specific figures p. 14-15.
(3) OJ C 318, 23.12.2009, p. 22, OJ C 376, 22.12.2011, p. 51.

funds to market their products and raise capital on a pan-European basis. The EESC made a number of comments in its previous opinion on venture capital [4] and asks the Commission to take them into consideration.

4.1.2 The EESC strongly supports the study that the Commission will carry out in 2012 on the relationship between prudential regulation and venture capital investments by banks and insurance companies. The study should assess whether these instruments are creating an oligopoly of large international banks or need to be changed in the medium or long term.

4.1.3 As the majority of SMEs are small businesses (less than 10 employees), the EESC invites the Commission to pay special attention to micro venture funds. These funds invest in enterprises whose projects are not attractive enough for the attention of traditional venture capitalists but are too big or risky to attract capital from traditional lending sources. Such funds strengthen a company's capital base and develop entrepreneurs' business skills using coaching methods throughout the investment period [5]. Member States are invited to propose tools such as specific taxation measures that could stimulate the development of those funds in order to fill the financial gap.

4.2 *Tax reforms*

4.2.1 We welcome the Commission's proposals on taxation reforms for cross-border VC investments. The Committee invites the Commission and the Member States, at the same time, to propose clear measures to prevent tax avoidance and evasion.

4.2.2 As well as addressing the tax obstacles to cross-border transactions, the Commission should also ensure that Member States encourage tax reform in their own countries for SME financing schemes.

4.2.3 Good practices that exist in some Member States should be looked into and expanded across the EU and disseminated to SMEs [6]. In a number of countries fiscal stimulus packages are already in place. An example of these could be Belgium/Flanders, which introduced a *win-win-loan* a few years ago, whereby individuals can lend money to SMEs and get a tax reduction in return. Another good example is the Dutch system known as the *Tante Agaath loan* [7].

4.2.4 Tax exemptions such as France's *ISF PME* law [8] can also be of real benefit to high-growth SMEs. The EESC is in favour of such schemes as long as the amount of exempt taxation is reasonable and would not impinge on contributions to other equally important sectors.

4.3 *State Aid Rules*

4.3.1 The EESC supports the envisaged State Aid Modernisation proposal to simplify current state aid rules for SMEs. It takes note that 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. The EESC urges that these rules be improved, simplified and clarified. Our Committee invites the Commission to ensure that state aid is only used to target market failure.

4.4 *More visible SME markets and listed SMEs*

4.4.1 The EESC welcomes the fact that the MIFID directive proposes to develop homogeneous SME growth markets and make them attractive for investors thanks to the *SME growth market label*. However, the EESC suggests [9] laying down specific provisions and measures which will enable it to be implemented efficiently and effectively.

4.5 *Reporting burdens for listed SMEs*

4.5.1 The Commission and Member States are invited to reduce accounting rules and reporting burdens for listed SMEs in Europe. The Committee acknowledges the fact the Commission presented a proposal for a directive simplifying and amending the Accounting Directives and, at the same time, a proposal revising the Transparency Directive. The EESC reminds the Commission to take on board its two opinions issued early in 2012 [10] and feels that SMEs need to free up resources to invest in their businesses in order to deliver further growth.

4.6 *Basel III future implementation and its consequences for SME finance*

4.6.1 The EU needs to continue to be at the forefront in implementing the internationally agreed financial regulatory reforms. The EESC however notes that the various capital requirements implementing Basel III in the EU coming into force and currently being discussed (CRD IV/CRR) may cause various problems for SMEs [11].

(4) OJ C 191, 29.06.2012, p. 72.
(5) See for example Financités: *http://www.financites.fr/*
(6) See EBAN report: *Tax Outlook 2010 Executive Summary - http://www.eban.org/resource-center/publications/eban-publications.*
(7) Tante Agaath regeling (http://www.tanteagaath.nl/agaath_regeling.htm).
(8) *http://pme.service-public.fr/actualites/breves/reduction-isf-pour-investissements-pme.html.*
(9) OJ C 191, 29.06.2012, p. 80.
(10) OJ C 143, 22.05.2012, p. 78, OJ C 181, 21.06.2012, p. 84.
(11) OJ C 68, 6.3.2012, p. 39.

4.6.2 The EESC supports the efforts of the European institutions to increase the resilience of the financial system, in order to avoid future crises. However, more regulation of the financial markets therefore cannot be made at the expense of the financing of small and medium-sized enterprises. The EESC fully supports the "*Karas Report*" adopted by the European Parliament in May 2012 which is a further step in the right direction towards a sensible and workable implementation in the EU of the "Basel III" rules on capital requirements.

4.6.3 The EESC takes note that the Commission will consult the European Banking Authority (EBA) within 24 months after the entry into force of the new Directive (CRD IV) and that the EBA will report on lending to SMEs and natural persons. The Committee urges the Commission to be fully involved in the reassessment of the risk weight by expressing its opinion on the report to be sent to the Council and the European Parliament.

4.7 *Late Payment Directive*

4.7.1 The Commission envisages implementation of this Directive by 16 March 2013. The EESC presses Member States to act to ensure that SMEs can benefit more quickly from the system. It is also very important for the Commission to monitor the timely implementation of this Directive in all Member States. Furthermore, the Commission needs to follow-up very closely the way Member States implement Article 4(5), which gives them the possibility of lengthening the verification procedure to over 30 days, unless this would be grossly unfair to the creditor. The Commission should closely monitor Member States to prevent them from using this article to artificially delay payment, especially since delays in payments by public authorities have a significant impact on SMEs' cash flow and liquidity management.

4.7.2 In order to set an example, the EESC invites the European Institutions to pay their contractors on time and avoid imposing unnecessary administrative and financial burdens on them.

4.8 *European Social Entrepreneurship Funds*

4.8.1 The EESC welcomes the European Commission's proposal for a Regulation on European Social Entrepreneurship Funds and reminds the Commission that improving access to appropriate capital for social enterprise needs to be high on the agenda. The EESC expressed its opinion ([12]) on that issue early in 2012. One of the challenges is the need to measure and report on the social effects and impact on society of portfolio undertakings. The EESC recommends undertaking a joint study at EU level in order to develop criteria and indicators to tackle such issues. The Committee reminds the Commission that such funds can only be one tool of many much-needed financial instruments that still need to be developed.

4.8.2. The EESC also invite Member States to improve the recognition of different forms of social enterprises. If they had greater recognition, these businesses would see a reduction in the risk weight for loans granted to them and would no longer be disadvantaged in this area, compared to traditional businesses.

## 5. **Specific observations and comments on EU financial measures for SMEs**

5.1. The Committee is fully aware that a large number of SMEs, particularly smaller ones, will continue to depend mainly on credits when it comes to external financing.

5.2 The EESC welcomes the sustained activity of EIB SME loans as one of the main SME lending instruments at EU level, and recognises the financial advantages passed on to the SMEs to decrease the borrowing cost through these intermediated loans. The EESC invites the EIB to continue their effective implementation and to report regularly on the results achieved. In order to reach the expected results, intermediary banks are requested to increase their communication efforts to better promote these loans to the SME community in close cooperation with SME organisations.

5.3 It is equally important to support the emergence of new forms of intermediary, which in many cases better suit the diversity of SMEs. Experiences from the cooperative and social banking sectors are valuable, since they offer tailored financial support often coupled with other support services.

5.4 The EESC invites the Commission to expand risk-sharing facilities for equity and quasi-equity investments, in close cooperation with the EIB group, and to support the issuance of pooled corporate bonds. As regards the quasi-equity market, the EESC particularly invites the Commission and EIB group to explore ways to improve mezzanine finance and look into new mezzanine products, such as a guarantee for mezzanine loans.

5.5 The EESC recommends that the European Commission continues the promotion of EU financial schemes with SME organisations in order to ensure higher visibility and rapid take-up for these instruments especially for Member States which are still lagging behind. Since effective financing of SMEs can be seen as one of the most important tools in the "Growth Pact", the subject should be properly addressed in the National Reform Programmes.

([12]) OJ C 229, 31.07.2012, p. 55.

5.6 The Committee is of the opinion that specific attention should be paid to supporting SMEs through the equity and debt instruments provided for by the Programme for the Competitiveness of enterprises and SMEs (COSME) and the Horizon 2020 programme. The EESC strongly support to increase the maximum threshold stipulated by the loan guarantee facility (LGF) in COSME (EUR 150 000) as already stipulated in our former opinion on the Competitiveness Programme ([13]).

5.7 The EESC stresses the need to have cohesion policy regulations which do cater for a smooth and efficient implementation of SME programmes as the current framework is not conducive enough. The EESC regrets that the EU financial regulations are currently too heavy or too complex, thus creating problems for national intermediaries in charge of implementing them. There is indeed a clear need for better monitoring of the use of financial instruments under the Cohesion Policy ([14]).

5.8 It is also important to shift from project financing to more sustainable financing instruments to avoid public funding dependency. Here the Commission should provide guidance on good practice in combining and leveraging financial instruments from different sources during all stages of the SME lifecycle.

5.9 The EESC takes note of the proposal to facilitate access to finance for SMEs in the long term with new financial instruments (*EU Debt Financial Instrument* and *EU Equity Financial Instrument*) under the Multiannual Financial Framework (MFF) in the form of dedicated platforms. By pooling resources from various sources, the EESC estimates that financial instruments can provide a catalyst for investments for identified gaps in the market, achieve economies of scale and/or minimise the risk of failure in areas where it would be difficult for individual Member States to achieve the required critical mass. The EESC therefore invites the Commission to implement the new generation of financial instruments on the basis of lessons learned from existing instruments (*CIP financial instruments, RSFF*). It is important to establish appropriate rules, guidance and standardisation in accordance with market requirements and best practices, to avoid overlaps and simplify implementation modalities in order to promote efficiency and financial discipline. The EESC stresses the fact that adequate monitoring, reporting, auditing and good governance are of the utmost importance in order to ensure that EU resources are being used for the purpose intended.

## 6. Specific observations and comments on measures to improve the environment for SMEs

6.1 *Better information & communication for SMEs*

6.1.1 The EESC welcomes the proposal to bolster information to financial intermediaries and to encourage banks and financial institutions to provide their clients with all the necessary tools to help them find financing. Furthermore, the EESC considers it important to boost financial education for SMEs. Member States are strongly encouraged to participate in that exercise by setting up specific "*investment readiness*" programmes for SMEs in close cooperation with SME organisations.

6.1.2 One of the major problems for the vast majority of SMEs is that of access to specially tailored advice. The EESC supports the principle and the role of the Enterprise Europe Network (EEN) yet considers that its potential should be fully used ([15]). Consequently, the EESC suggests strengthening the financial advisory capacity of the EEN. It stresses, however, that SME organisations must be closely involved in this campaign as well and that it should be tailored to highlight the diversity of SMEs.

6.2 *Improve monitoring and data collection of the SME financing market*

6.2.1 The Committee notes that the Commission has already worked on this issue ((*SMEs' Access to finance surveys and SME Finance Index*). It welcomes the proposal from the Commission to work more closely with bank federations and to gather advice from other institutions (ECB, EBA). The EESC recommends involving SME organisations and institutions at Member State level too. The EESC regrets that the Action Plan does not refer to reinforce cooperation with international organisations such as the OECD to produce data and statistics ([16]) on access to finance.

6.3 *Qualitative rating*

6.3.1 Purely quantitative rating models are often not suited to the evaluation of SMEs because they are too rigid. Using qualitative factors in addition to the common quantitative analysis is more than welcomed. Banks could therefore consider balancing their scoring methods for assessing SMEs' credit-worthiness with adequate room being left for "relationship banking". This issue also needs to be addressed by exchanging best practices. The EESC regrets that some banks seem to be moving away from this idea rather than promoting it.

6.4 *Business Angels and other early stage actors*

6.4.1 The EESC believes for instance that it is important to develop the link between business angels and early stage VC funds with later stage venture funds in order to ensure a healthy innovation finance chain. Moreover, initiatives to support greater dialogue at regional level between business angels, VC funds and local entrepreneurs are strongly encouraged.

([13]) OJ C 181, 21.06.2012, p. 125.
([14]) Special Report No 2/2012 "Financial instruments for SMEs co-financed by the European Regional Development Fund" – Report from the European Court of Auditors - *http://eca.europa.eu/portal/pls/portal/docs/1/13766742.PDF.*
([15]) OJ C 376, 22.12.2011, p. 51, OJ C 181, 21.06.2012, p. 125.
([16]) See examples such as "*Financing SMEs and Entrepreneurs 2012: an OECD scoreboard*" (http://www.oecd-ilibrary.org/industry-and-services/financing-smes-and-entrepreneurship_9789264166769-en).

6.4.2 Innovative approaches to venture funding ought to be looked into and implemented. One such approach is crowd funding, in which citizens, and not banks or specialists, invest in SMEs through an online platform, instead of the stock exchange market.

6.4.3 Tailored forms of hybrid capital [17] containing elements of grants, equity and debt capital (such as profit sharing loans) should be strengthened, because they suit SMEs better both in the early stages and throughout their life cycle.

## 7. **Other recommendations to secure SME finance**

### 7.1 *Best practices in the banking sector*

7.1.1 Consideration should be given to developing a framework within which credit could be encouraged from lenders operating on the basis of a philosophy of risk- and profit sharing, since SMEs could certainly benefit from it. Phenomena such as participatory banking should be seriously considered by the Commission. The EESC would like the Commission to prepare a Green Paper as a basis for launching a debate on participatory banking at European level. Separate initiatives taken by countries such as the UK, France, Germany, Italy, Luxembourg and Malta are positive but may hinder further integration of the financial services industry within the EU. Furthermore, separate non-coordinated initiatives may not give the most efficient outcomes that this type of finance could achieve, such as risk sharing, profit sharing and a social approach to finance. The encouragement of micro-finance with specific investment policies referring to Islamic finance could also give rise to new entrepreneurial activities whilst helping to fight poverty in certain regions. In this context, a Commission communication envisaging, addressing and encouraging alternative financing methods should be developed to ensure that these are on a level playing field with financing methods such as conventional finance.

7.1.2 The EESC takes note that the Commission has analysed the work and the results obtained by credit mediators as well as problems faced by SMEs in their search for loan finance [18]. The EESC invites all Member States to create such a function in order to improve transparency in the lending process. The Committee notes that Article 145(4) of the Capital Requirements Directive (CRD III), and Article 418 (4) of the proposed Capital Requirement Regulation (CRD IV) include provisions that allow SMEs to ask banks to inform them of their rating and scores. It would be important to fully implement these provisions in practice.

7.1.3 With regard to competition in the banking sector, the EESC asks the Commission to study the situation and ensure that there is enough competition in the banking sector within and between the different Member States in the field of financial products for SMEs. For example, there is the problem of funding loss (see below); at the same time, overdraft rates for small enterprises remain at a very high level, even though ECB bank refinancing interest rates are at a historically low level. Big companies can use alternatives (such as straight loans), but small enterprises cannot use these products.

7.1.4 Funding loss: In many Member States, charges are levied on businesses by banks when they repay their loans ahead of schedule. Whenever a loan is paid back earlier than envisaged in the contract, the bank charges this so-called "funding loss" fee to compensate for the fact that the bank might have to re-invest the money at a lower interest rate than the one they would have got if the loan was not paid back earlier than expected.

7.1.5 The problem, however, is that these funding loss charges are often quite high. Moreover, these charges are often not very clearly explained in the contract, which also refers to future, as yet unknown interest rates. This makes it very difficult for a business to estimate the possible funding loss charge in the event of early repayment. In any case, most businesses are not even aware of the obligation to pay a funding loss charge.

7.1.6 It is therefore crucial for banks to provide clearer information on such charges before any loan agreement is signed. In addition, the amount of the funding loss charge should be limited and reasonable.

### 7.2 *Visibility and administration of European programmes for SMEs finance*

7.2.1 The EESC is in favour of creating a single multilingual online database of different sources of finance, integrating European, national and regional measures to facilitate SMEs access to finance. The Committee invites the Commission to disseminate widely the practical guide [19] that it drew up providing information on how to access EUR 50 billion of public finance in the 27 Member States.

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[17] http://www.schwabfound.org/pdf/schwabfound/SocialInvestmentManual.pdf.

[18] http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1186&format=HTML&aged=0&language=EN&guiLanguage=en.

[19] Final Report, *Evaluation of Member State Policies to facilitate Access to Finance for SMEs,* – June 2012 http://ec.europa.eu/enterprise/policies/finance/guide-to-funding/indirect-funding/files/evaluation-of-national-financing-programmes-2012_en.pdf.

7.2.2 The EESC is of the opinion that, with regard to the "Horizon 2020" programme, a dedicated budget of 15 % of the overall programme and a single management structure are key to making the most of the innovation potential of SMEs. As regards the procedure, improvements must be made concerning financial and administrative issues. For instance, many SMEs participating in EU-funded research projects still face enormous VAT-related issues in their respective countries when participating in projects. Very often this is one of the main stumbling blocks to those actually participating from the start. Clear regulations relieving SMEs of these burdens should be implemented in all Member States. VAT should be recoverable in all circumstances in EU funded projects.

Brussels, 19 September 2012.

*The President*
*of the European Economic and Social Committee*
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