



## ***Access to Finance for SMEs: creating growth and jobs in Europe***

### **ESBA Position on Improving access to finance for SMEs ([2012/2134\(INI\)](#))**

#### **Key ESBA recommendations on improving access to finance for SMEs**

- *SMEs are the backbone of the European economy; ensuring their access to finance is essential for growth and job creation.*
- *Small businesses are highly diverse; therefore, a one-size-fits-all approach is not an option. Tailor-made programmes need to be established to support businesses in their start-up, growth and transfer phase, taking into account their size, turnover and financing needs.*
- *ESBA cautions against overreliance on venture capital instruments as they are compatible only with the business models of a small minority of SMEs.*
- *Honest entrepreneurs that have gone bankrupt need to be able to obtain financing to start up a new business; a second chance for entrepreneurs.*
- *The European Institutions, banks and supporting platforms must better inform SMEs about programmes facilitating their access to finance. A lack of knowledge leaves funding opportunities unused.*
- *Banks should be obliged to give reasons for denying credit to businesses.*
- *The economic crisis has led to a credit-crunch for small businesses. Viable businesses go bankrupt every day from not being able to obtain overdrafts or credit lines to cover for the period between paying suppliers and receiving payment by customers.*
- *The implementation of the revision of the Capital Requirements Directive threatens to worsen SMEs' ability to obtain credit; the results of the new EU rules should be mitigated by EU support programmes. SMEs did not cause the crisis, yet they suffer most from higher capital requirements for banks.*
- *A monitoring system should be put in place to ensure that EU funds and guarantees are distributed to the smallest companies. One way to do this could be through reporting schemes and a code of conduct for SME lending by banks and other financial intermediaries.*
- *Awareness programmes need to be developed so as to make SMEs, especially the smallest enterprises, familiar with the different possibilities for them to get financial support.*

#### **Facts and figures:**

Representing 99.8% of all European businesses, accounting for 66.9% of private sector employment<sup>1</sup> and being responsible for 85% of newly created jobs in the EU,<sup>2</sup> SMEs are the backbone of the European economy. Their viability is essential for growth and job creation, which is why **access to finance must be a top priority.**

<sup>1</sup> European Commission, *Annual Report on EU Small and Medium sized Enterprises 2010/2011*, p. 8 (available [here](#)).

<sup>2</sup> EIM, *Do SMEs Create More and Better Jobs?*, November 2011 (available [here](#)).

The financial crisis left SMEs struggling to access financing, and the **Capital Requirements Directive threatens to worsen the credit crunch for entrepreneurs**. Therefore, decisive EU action is needed to keep credit flowing to Europe's SMEs.

ESBA urges the European Parliament to take into account the **high diversity among European SMEs**. Whether measured by size, sector or age, businesses are highly varied. This means a **one-size-fits-all approach for 20.8 million SMEs will not work** and in finance too, the *Think Small First* principle should be applied. The EU's financing instruments should reflect the rich diversity of European enterprises: a combination of micro-credits, loan guarantees, crowd funding, and other forms of financing is required.

Further to the point above, ESBA cautions against relying too much on venture capital and similar financing instruments. While suitable for kick-starting high-tech firms with great potential, **equity financing is not appropriate for the large majority of SMEs**. Most SMEs would benefit more from the increased availability of small loans or loan guarantees.

ESBA stresses that the vast majority of businesses are not highly innovative. Although it is important to stimulate start-ups with a very high growth potential as a result of technological innovation, the EU should focus on funding gaps and market failures that affect **mainstream SMEs**.

ESBA urges the Institutions to  **earmark more funds** for the upcoming **Programme for the Competitiveness of Enterprises and SMEs**. The budget for the financial instruments, currently set at 1.436 billion euro, is too low to make a considerable difference to SME Access to Finance in the EU.

ESBA calls on the European Commission and the EU's Member States to **improve the provision of information** about European financing instruments to SMEs. Most micro and small businesses do not have the resources to delve deep into EU programmes; they need comprehensive information and transparent procedures. EU instruments facilitating access to finance can only succeed if entrepreneurs know where to find them.

The EU should make serious effort of **second chances for failed entrepreneurs**. If the EU wants to stimulate 'entrepreneurial spirit', entrepreneurs should not be discouraged by the fear that banks will never give them credit to start a business if they fail the first time.

ESBA calls upon the European Commission to undergo **a mapping exercise of successful programmes for the support of second chance entrepreneurs** and to **distribute the best practices** of these programmes.

#### *Importance of SMEs*

- 99.8% of all EU companies are SMEs. 92.1 % are micro-businesses and 6.6% are small businesses.<sup>3</sup>
- SMEs provide 66.9% of all private sector jobs.<sup>4</sup>

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<sup>3</sup> European Commission, *Annual Report on EU Small and Medium sized Enterprises 2010/2011*, p. 8 (available [here](#)).

<sup>4</sup> European Commission, *Annual Report on EU Small and Medium sized Enterprises 2010/2011*, p. 8 (available [here](#)).

### *Importance of access to finance*

- 17% of Euro area SMEs state access to finance is their number one concern, making it the most important issue after finding customers.<sup>5</sup>
- 76% of EU SMEs report they need some external source of financing for their business.<sup>6</sup>
- 81% of respondents to a Eurobarometer study indicate that “It is difficult to start one’s own business due to a lack of available financial support”.<sup>7</sup>

### *Deteriorated availability of bank loans*

- With 30% of European SMEs using them in 2011, bank loans are among the most important sources of external financing for these businesses.<sup>8</sup>
- In 2011, SMEs were more than twice as likely to experience a decline in the availability of bank loans (27%) than to experience an improvement (13%).<sup>9</sup>
- Up until March 2012, a net 20% of SMEs reported the availability of bank loans had deteriorated.<sup>10</sup>
- Of the SMEs who requested a bank loan between October 2011 and March 2012, 13% got rejected. This is an increase compared the previous six months (10%) and it is the highest level since the second half of 2009.<sup>11</sup>

### *Increased costs of financing*

- Among SMEs who requested a loan between October 2011 and March 2012, 42% reported that the interest rate had increased; 50% reported other costs (such as fees and commissions) had increased; and 36% reported the required collateral had increased.<sup>12</sup>

### *Equity financing not relevant for most SMEs*

- The overwhelming majority of European SMEs (79%) indicates that equity financing is not applicable to their business.<sup>13</sup>
- Only 7% of European SMEs use equity as a source of external financing.<sup>14</sup>

### *Second chances for Entrepreneurs*

- 50% of businesses do not survive the first five years of their life.<sup>15</sup>

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<sup>5</sup> ECB, *Survey on the access to finance of small and medium-sized enterprises in the euro area (October 2011 to March 2012)*, p. 3 (available [here](#)).

<sup>6</sup> European Commission, *SMEs’ Access to Finance Survey 2011. Analytical Report*, p. 16 (available [here](#)).

<sup>7</sup> Flash Eurobarometer 283 – The Gallup Organization

<sup>8</sup> European Commission, *SMEs’ Access to Finance Survey 2011. Analytical Report*, p. 18 (available [here](#)).

<sup>9</sup> European Commission, *SMEs’ Access to Finance Survey 2011. Analytical Report*, p. 46 (available [here](#)).

<sup>10</sup> ECB, *Survey on the access to finance of small and medium-sized enterprises in the euro area (October 2011 to March 2012)*, p. 6 (available [here](#)).

<sup>11</sup> ECB, *Survey on the access to finance of small and medium-sized enterprises in the euro area (October 2011 to March 2012)*, p. 8 (available [here](#)).

<sup>12</sup> ECB, *Survey on the access to finance of small and medium-sized enterprises in the euro area (October 2011 to March 2012)*, p. 9 (available [here](#)).

<sup>13</sup> European Commission, *SMEs’ Access to Finance Survey 2011. Analytical Report*, p. 18 (available [here](#)).

<sup>14</sup> European Commission, *SMEs’ Access to Finance Survey 2011. Analytical Report*, p. 18 (available [here](#)).

<sup>15</sup> European Commission, ‘Overcoming the stigma of business failure-for a second chance policy’, COM(2007) 584 final (available [here](#)).

- Only 4 to 6% of bankruptcies are the result of fraud.<sup>16</sup>
- Bankruptcy procedures can be a lengthy and costly process taking anywhere between 4 months and 9 years.<sup>17</sup>
- 81% of the respondents to a 2009 Eurobarometer study state that failed businesses should be given a second chance.<sup>18</sup>
- Second chance entrepreneurs are generally more successful with creating more jobs and realising a higher turnover rate than first time entrepreneurs.<sup>19</sup>
- Most entrepreneurs are not willing to start their own company if they know in advance that they will not be given a second chance.<sup>20</sup>

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<sup>16</sup> European Commission, 'Overcoming the stigma of business failure-for a second chance policy', COM(2007) 584 final (available [here](#)).

<sup>17</sup> European Commission, 'Overcoming the stigma of business failure-for a second chance policy', COM(2007) 584 final (available [here](#)).

<sup>18</sup> Flash Eurobarometer 283 (available [here](#)).

<sup>19</sup> European Commission, 'Review of the "Small Business Act" for Europe', COM(2011) 78 final (available [here](#)).

<sup>20</sup> Lee, S.H. et al. (2010), 'How do bankruptcy laws affect entrepreneurship development', *Journal of Business Venturing*, Vol. 26, Issue 5, pp. 505-520 (available [here](#)).