Evaluation of data and sources underlying the analysis of market gaps in access to finance for SMEs in the EU
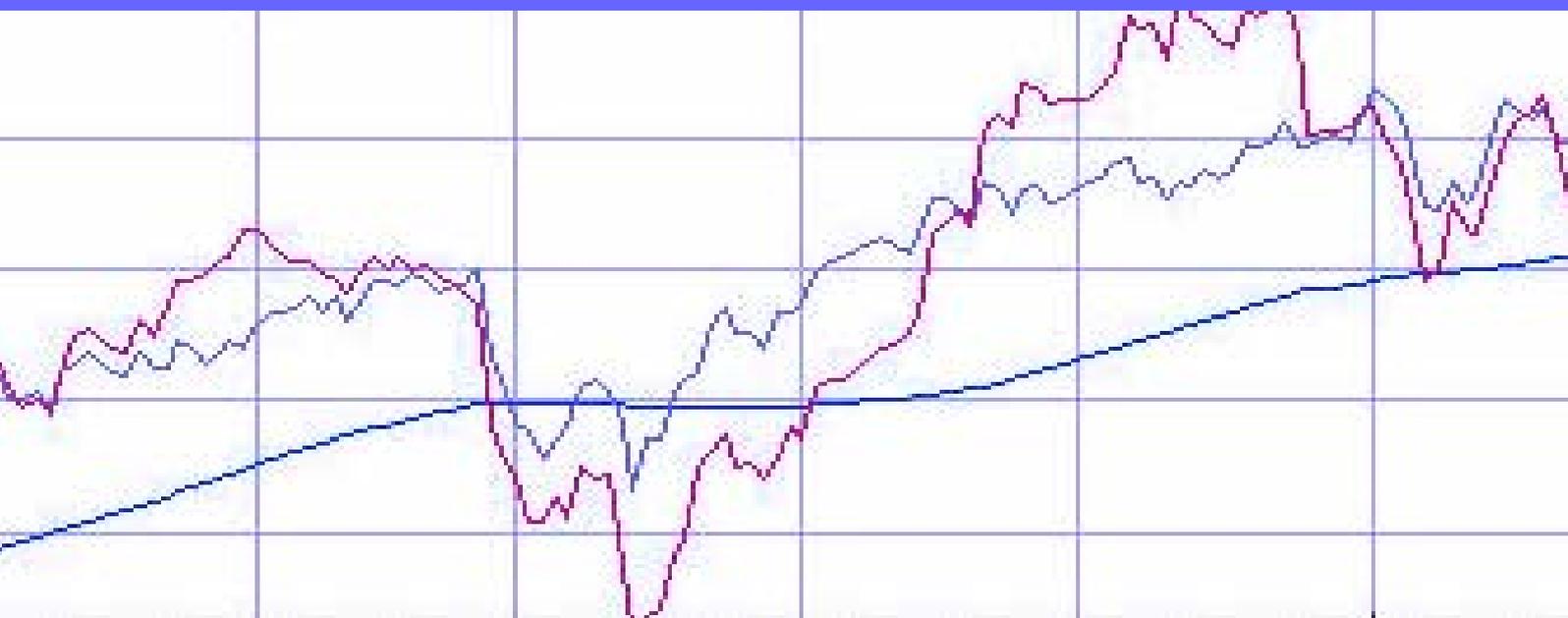
European Commission

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**EVALUATION OF DATA AND SOURCES UNDERLYING
THE ANALYSIS OF MARKET GAPS IN ACCESS TO FINANCE FOR SMES IN
THE EU**

Final Report (9 July 2007)

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TECHNOPOLIS

This evaluation was carried out under the Specific Contract No ENTR/D3/04/093/1/06/8, assigned by DG ENTERPRISE AND INDUSTRY OF THE EUROPEAN COMMISSION based on the Framework Contract No ENTR/04/093 Lot1 with GHK / Technopolis.

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1 EXECUTIVE SUMMARY

This is the Final Report on the 'Evaluation of data and information sources underlying the analysis of market gaps in access to finance for SMEs'[1] commissioned by the Directorate General for Enterprise and Industry of the European Commission (DG Enterprise and Industry).

1.1 Background

As indicated in the Commission Communication "Financing SME Growth - Adding European Value[2]" The intervention logic underpinning EU (and other) public sector support for improving SMEs' access to finance stems from: **the presence of 'market failure'** (such as information asymmetry between potential users and suppliers of finance); **the presence of 'market gaps'** (where there are profitable opportunities to provide SMEs with finance but these are not being undertaken because of a lack of interest among potential private sector finance suppliers); **the underdeveloped supply of finance for SMEs** (where, for example, certain types of finance are in limited supply or unavailable); **institutional factors** that prevent the development of financing for (investment in) SMEs; and, **cultural factors** that limit the ambitions of SMEs and the demand for external finance.

Whatever the rationale, policy formation and the design of interventions must be based on reliable and adequate information. The quality of information is particularly important given that inappropriate public sector interventions have the potential to 'crowd out' and deter the development of private sector finance for SMEs.

Deficiencies in access to appropriate finance for SMEs of all types are of interest to DG Enterprise and Industry whilst access to finance for new and growth oriented SMEs is of great concern. The forms of finance of particular interest include both loan/debt finance and equity finance from external sources including mezzanine products.

1.2 Objectives of the evaluation

The overall aim of the evaluation was *'to assess the relevance, effectiveness and utility of the sources, types and methods of collection of information used by DG Enterprise and Industry to analyse access to finance for SMEs in the EU'.*

This included: **reviewing existing methods and information** used in the new financial environment influenced by the risk-oriented bank behaviour and in view of the new Competitiveness and Innovation Framework Programme; and **identifying ways of supporting solid analysis** contributing to sound policy development in the area of access to finance for SME.

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[1] The term 'market gap' in the title is used generically to refer to aspects of market failure weakness and development.

[2] Financing SME Growth - Adding European Value COM (2006) 349 FINAL

http://ec.europa.eu/enterprise/entrepreneurship/financing/docs/com2006_financing_sme_growth/sec2006_841_financing_sme_growth_en.pdf

1.3   Method

The evaluation involved four main tasks: identification of the main sources and types of information, and their characteristics; assessment of the underlying key concepts in relation to the data needs in assessing access to finance; assessment of existing sources and types of information; formulation of recommendations. Each of these tasks was informed by a combination of desk research, interviews and consultations. The workshop on "Use of Data to Assess SMEs' Access to Finance", held in December 2006 was an integral part of this research assignment.

1.4   Strengths, weaknesses and suggestions for the main information sources used by DG Enterprise and Industry

The Euro-barometer Household Survey on Entrepreneurship. There would be benefit in introducing supplementary questions on the actual behaviour of respondents with respect to seeking (or providing) SME finance and asking supplementary questions to those with directly relevant experience.

Flash Euro-barometer surveys of SME managers on SMEs' access to finance. It would be very helpful if the survey focused on growth oriented SMEs. This would require a number of filter questions. The interviews could then explore further actual behaviour with respect to seeking access to finance.

European Network for SME Research (ENSR) Surveys and analyses from the Observatory of European SMEs. (ENSR Surveys were undertaken in 2001, 2002 and 2003). In practice, the information source does not offer any advantages over the Flash Euro-barometer surveys.

The Review of SMEs' Access to Finance 2003. There is merit in applying the evidence from different sources to more precise policy related questions on the state of the market.

The International Business Owner Survey (IBOS): Grant Thornton Business Survey. There is only limited coverage of European countries (France, Germany, Greece, Ireland, Italy, Poland, Spain, Sweden and UK) and only one question (concerning the ranking of business constraints) is relevant for SMEs' access to finance.

European Venture Capital Association (EVCA) Survey and Yearbook. There would be benefit in complementing the surveys of Venture Capital (VC) associations with surveys of SME that have considered and/or used VC finance.

Round tables of financial institutions and SME representative organisations. Fora like the round tables could be used to validate propositions on the circumstances in which public sector interventions are likely to be most effective.

1.5   Strengths, weaknesses and suggestions for the main other information sources reviewed

International level

World Business Environmental Survey (WBES). The survey has good international coverage of SMEs. It is possible to analyse data by firm size. However, the survey covers only ten European countries.

OECD Entrepreneurship Indicators Project: Entrepreneurship Statistics and Data. The project, still at a very early stage, might include some indicators on SME access to

finance. It will be important for DG Enterprise and Industry to liaise with Eurostat and to closely follow the development of this project.

Kauffman Foundation: Kauffman Firm Survey. This new longitudinal study aims to create a data set of publicly accessible information on new businesses during their first four years of existence in the US. DG Enterprise and Industry should follow this project, and observe the types of data collected and information provided, in view of examining the possibility for a survey in Europe that would allow for comparative analysis with the US.

European Level

Eurostat Structural Business Statistics Database. Specific European regulations or voluntary agreements with Member States are necessary to undertake further research. A sample of SMEs could be selected to undertake a survey on access to finance problems of growth-oriented SMEs.

Eurostat, Survey on Factors of Business Success. The systematic consideration of factors influencing success could provide a basis for assessing the relative importance of access to finance.

European Central Bank (ECB) Bank Lending Survey. The survey provides interesting information on banks' lending behaviour and expectations in the Euro area. There is not however, any information on SMEs demand for credit that was rejected.

European Business Angels Network (EBAN) Annual Enquiry. It provides an insight into financial trends from business angels. Supplementary information on the factors underpinning unsuccessful applications would be of value.

European Investment Bank (EIB) Research Paper: "Are finance constraints hindering the growth of SMEs in Europe?" This rigorous investigation based on information from databases on companies' balance sheets does not provide actual aggregates of stocks and flows of bank loans. The research needs to be complemented by the results of surveys.

European Commission, Directorate General for Economic and Financial Affairs (DG Economic and Financial Affairs) - BACH Database. The database enables annual cross-country and trend analysis of financial structures of companies by sector and size from 1987. The information needs to be complemented by that derived from surveys.

Examples of information sources at Member State level

UK Finance for Small and Medium Enterprises Survey - Warwick Business Centre. There would be merit in this survey being replicated at pan-European level. The support of the main stakeholders (business organisations, finance providers and governments) would be necessary for undertaking such a survey.

Germany KfW Start-up Monitoring Survey. This is the most representative survey on start-ups in Germany. It is a telephone survey undertaken every year.

Germany KfW SMEs Panel. The panel technique enables trend analysis. There is a large sample size. The use of a written questionnaire enables thorough responses.

Finland, Finnvera Survey on SMEs. Surveys are undertaken every six months. The survey has the potential to be integrated with other analyses of the problems of SMEs access to finance and the effectiveness' of public interventions in this field.

1.6 **The use of information sources to identify 'market gaps', 'market failures', 'market weaknesses' and 'gaps' or 'lags' in the development of capital markets**

SMEs experience a wide variety of problems related to access to finance. However, there are other constraints and in most instances access to finance is not the most severe problem.

Table 1.1 identifies the main problems and categorises them (market failures, market gaps, market weaknesses and gaps and lags in the development of capital markets). The table also indicates: the main methods used to identify the problems; the public sector sponsored responses to the problems that are made; and some suggestions for improvements to the information base to inform public policy and practice with respect to SMEs' access to finance.

The scale and nature of **'market failure'** could be better calibrated through:

- **Large scale surveys of SMEs repeated regularly**. They should be structured by: age of SME, size, sector, growth performance and experience of seeking external finance.

- **Surveys of a standing panel of representatives of finance providers**. The emphasis of the survey questions would be on the steps they have taken to generate demand and to develop and publicise 'new' financial products.

The scale and nature of the **'market gaps'** could be better calibrated through the above two surveys together with:

- **The analysis of individual cases and specific sub groups of SMEs**. The purpose of the analysis would be to assess whether, in the context of a developed capital market, the particular types of SMEs would be reasonable investments.

The scale and nature of the problems of '**market weaknesses'** could be better calibrated through:

- **Trend analyses of the findings of a panel of growth oriented SMEs**. This would be useful to ascertain how the problems are changing and whether differences between countries in the scale and nature of problems of market weaknesses are growing or declining.

- **Structured cross-national studies** to assess the influence of factors such as the scale of domestic markets and peripherality on the scale and nature of these problems.

- **Evaluation of guarantees** (and other interventions) to see whether they improve the supply of finance through enabling companies to establish track records and/or discourage risk taking by private sector finance providers.

- **Bespoke studies of aspects of the variations in regulatory and taxation environments** between Member States. Some of these variations have been cited as factors inhibiting the development of capital markets.

Assessing the **development of a capital market** requires the combination of a number of information sources, which could be improved through:

- **Comparative studies of the factors inhibiting the development of financial markets** in parts of the EU where there is currently little venture capital activity and apparently few SMEs that are both growth oriented and seeking external finance. Such studies would need to include: surveys of: SMEs; existing finance providers; prospective finance providers (including on an international basis and in 'neighbouring' countries), and analyses of the regulatory, institutional and fiscal contexts.

- **Trend analyses of the findings of a panel of growth-oriented SMEs** would be useful to ascertain the 'penetration' of changes in the capital markets.

Table 1.1 Summary of suggestions for improving the information base to inform the problems of Access to Finance of SMEs in Europe

Concept	Problems	Means of measuring the problems	Public Sector Interventions	Suggestions and recommendations to improve the information base
'Market failures'	SMEs unaware of possible sources of finance.	Surveys of SMEs. Surveys of those dealing with SMEs.	Support for targeted information actions such as conferences, internet presence and brochures. Funding intermediaries and brokers. Funding pilot measures.	Large scale and repeated surveys would be useful.
	Banks and finance suppliers unaware of demand for finance.	Surveys of banks and other finance providers.		There would be benefit in establishing a 'permanent' panel of finance providers.
'Market gaps'	'Profitable' opportunities for providing debt finance missed.	Surveys of SMEs. Examination of individual cases/markets (i.e. particular regions/sectors/types of SME finance). Analysis of borrowing/financing behaviour of SMEs.	The public sector demonstrates that the market is 'profitable' by supplying finance and/ or stimulating the establishment of new suppliers, then publicising the 'commercial' returns achieved.	SME surveys need to focus on SME 'most likely to' require external loan finance. Include surveys of when access refused.
	'Profitable' opportunities for providing equity finance missed.			SME surveys need to focus on SME 'most likely to' require external equity finance. Include surveys of when access refused.
'Market weaknesses'	High costs for SMEs to get access to loan /equity finance (costs of search, application, interest rates, barriers (track record), collateral etc.).	Surveys and cases of (individual) SME to ascertain actual costs of finance. Surveys and case studies of suppliers to identify the costs due to factors such as: distance; lack of competition between providers; lack of autonomy of decision taking; lack of economies of scale.	Public sector provides guarantees. Support to assist SMEs in the preparation of applications for finance (consultancy advice, training etc.). Support to reduce costs to finance suppliers of SME finance.	Need to evaluate whether guarantees (and other interventions) increase supply through enabling companies to establish track records and/or discourage risk taking by the private sector finance providers.
	High cost of provision of finance. Linked to previous experience, losses, administrative costs etc.			
	Credit rationing. SME willing to pay more for finance but cannot.	Surveys of SMEs. Application of econometric methods.	Provision of guarantees and/or finance on a commercial basis.	
	Reluctance by SME to seek external finance.	Surveys of SMEs.	Initiatives to improve entrepreneurial culture.	Trend analysis, panel of growth oriented companies.
	Variations in regulations and costs of 'non Europe' (e.g. no single market for VC in Europe).	Studies of regulatory environment. Surveys of finance suppliers.	Initiatives to complete single market and improve regulation.	Need for structured cross national studies to assess influence of issues such as small domestic markets and peripherality.
	Variations in taxation environment.	Studies and mapping of the taxation environment.	Recommendations to MS on harmonisation and approximation.	
'Gaps' and lags in the development of capital markets.	Levels of supply of VC less than in competitor economies.	Surveys of VC suppliers in EU and elsewhere.	Support for development of VC market, enabling higher returns.	Need for comparative and longitudinal studies on development of capital markets.
	Financial sector non responsive.			

1.7   Recommendations for better use of existing information sources

There would be merit in exploring further the use and development of the following existing sources of information to enable transnational comparisons and more thorough analyses:

- *Eurostat Structural Business Statistics Database*. This has the potential to generate samples of growth-oriented SMEs.

- The use of **large scale SME surveys** such as the *Flash Euro-barometer*, but targeted on growth-oriented SMEs where issues of access to finance are likely to be most critical.

- **The surveys of business angels**. Supplementary questions on the reasons why finance had not been provided to applicants would be of benefit.

- **The surveys of EVCA members**. These might further distinguish between types of venture capital and the circumstances in which it is invested.

There would be merit in the further application of the following information sources at national level.

- *UK SMEs' Access to Finance Survey (2004)*.This comprehensive survey could be replicated in other countries. As in the UK, the support of the main stakeholders at national level (e.g. SMEs organisations, finance providers and governments) would be necessary to undertake such surveys. The UK survey replicated the US Federal Reserve survey and thus, if replicated in other countries it would enable further comparative observations.

- **The existing surveys of finance institutions such as banks** (for example the British Banker Association annual monitor of SMEs' banks lending and borrowing).

- The approach being undertaken in Finland that is trying to **create a comprehensive and open access system of data and information on SMEs** by connecting the existing database of the Ministry of Trade and Industry, containing SMEs' surveys and data, with the database of the National Statistics Institute.

- Following the **development of the Kauffman Foundation Firms Survey**. A similar longitudinal survey could be replicated in Europe. Comparability with the Kauffman Firms Survey should be maintained.

There would also be merit in **producing summaries of the key findings** from existing information sources, extracting the findings related to the problems identified in Table 1.1 and the key indicators and questions identified in the toolkit prepared as part of this study. More use could be made of these information sources if the findings were organised in this way within a simple knowledge management system.

1.8   Recommendations on the generation of new information

Questions over the optimum use of public sector resources to improve SMEs' access to finance are subtle rather than black and white. Financial markets are dynamic and there are important potential interactions (both positive and negative) between public sector interventions and the wider market. In these circumstances there would be merit in having a **long-term strategy to improve the spatial and temporal comparability of the information base**. One important aspect in this strategy is to avoid any unnecessary burden on SMEs. Given the emphasis of DG Enterprise and Industry on

economic rationales for public sector support of SMEs' access to finance, the components of such a strategy should include:

- **Co-ordinating the efforts of the ECB, Eurostat, OECD and DG Enterprise and Industry**. There would, for example, be merit in establishing a Task Force charged with developing a strategy to improve the coverage and comparability of the information base from publicly funded surveys, company databases and financial records pertinent to SMEs access to finance.

- **Focusing on a collection of key types of data** relevant to the assessment of access to finance. In particular, information on the steps taken to secure finance, either successfully or not, is of critical interest.

- **Focusing SMEs survey resources on growth oriented SME and exploring the behaviour of SMEs** rather than perceptions.

- Having **a larger scale annual SME survey** (e.g. based upon the one used in the UK in 2004, see section 1.7.).

- **Comparing the performance of companies using EU-Financial Instruments with others not using them**.[3]

- **Creating panels of growth oriented SMEs** whose progress and use of financial resources can be monitored and analysed. Such panels have the potential to provide insights into trends and the factors that are influencing SME access to finance over time.

- **Creating panels of finance suppliers**: banks; venture capital suppliers; and business angels that would regularly provide opinions on the development of markets and factors influencing SMEs' access to finance. The Euro Information Centres (EICs) could play a pivotal role in this process. The value of information of this type would be greatly enhanced if: the panels were formed on a similar basis; the (bulk of) questions asked were the same; and, the timing was comparable across countries within the EU.

- **The development of standardised approaches to assess access to finance, such as a general toolkit** (see section 1.9) would facilitate the assessment of access to finance for SMEs in the EU.

The generation of new information will have less impact on the administrative costs of SMEs when it is sourced through **improved exploitation of existing databases** in addition to **better cooperation** between intermediaries, administrations in the Member States and other institutions. The cost implications of generating new information will be proportionate provided the following considerations are borne in mind. First, **the sample sizes should be sufficient** to enable key comparisons between groups, sectors and geographical locations of SMEs and suppliers. A choice to determine which of the comparisons would be most useful, however, should be made in order to optimise the sample size since there are rapidly diminishing returns in expanding sample sizes. Second, efforts should focus on constructing the samples and panels so that **survey resources are focused on the SMEs and actors of interest**. For example, only a small proportion of SMEs is likely to ever consider venture capital as an option. However, this small proportion may be very important from an economic and

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[3] This suggestion was made by DG Economic and Financial Affairs during the presentation of the Final Report. The Stakeholders present felt it was of particular interest.

competitiveness perspective. The use of **screening questions** to identify such SMEs prior to more detailed questions being asked would increase the cost effectiveness of the survey processes. Third, the burden on the SMEs or actors involved in the survey and provision of information and opinion, will be much reduced if the surveys include exploratory questions and if the respondents have access to the findings of the survey.

1.9   Key elements of a toolkit

The toolkit outlined in the report provides guidance to policy actors and those concerned with the development and implementation of policies and initiatives to improve SMEs' access to finance. More specifically it indicates how best use can be made of existing methods/information (bearing in mind that the quality of information varies between countries) and how practical means can be devised to identify conditions in particular geographical contexts, for particular types of finance and for particular types of SME.

The toolkit indicates how the following can be better informed:

- *Establishing needs.* The concepts of interest are: the performance of SMEs; the availability of loans, equity and other forms of finance; the presence of existing relevant public sector interventions; and, the existence of specific problems of SMEs' access to finance.

- *Choosing interventions and resource allocation.* The key questions and criteria, the generic types of information sources and the potential of existing sources are identified for each type of intervention.

- *Designing interventions.* The parameters of interventions include: target groups; guarantees required (or provided); interest rates offered; rates of return expected and the efficiency of finance provision.

The potential application of the Toolkit

The toolkit could be applied to a country, a region or a particular SME group/sector. It could be of value to those developing policy at the national, regional or SME sectoral group level, either those inside government or 'project promoters' wishing to convince Government of the merits of interventions in this field. The key benefit of the toolkit is that it systematically focuses on the most important concepts, questions and criteria to help inform policy judgements.

2 INTRODUCTION

This is the Final Report on the 'Evaluation of data and information sources underlying the analysis of market gaps in access to finance for SMEs' commissioned by Unit D3 of DG Enterprise and Industry, in cooperation with Unit L02 of DG Economic and Financial Affairs. DG Enterprise and Industry is, amongst other responsibilities, responsible for "Financing of SMEs, entrepreneurs and innovators" whereas Unit L02 of DG Economic and Financial Affairs deals with "European Investment Fund programme management". In practice, and as elaborated further in Section 4.4 the study has considered market failures, market weaknesses and lags in the development of capital markets as well as 'market gaps'. The term 'market gap' is used in the title of the assignment to embrace all these phenomena. The assignment was undertaken by GHK/Technopolis in the period August 2006 to January 2007 under the aegis of the Framework contract ENTR 04/093 Lot 1 for evaluation services.

The report presents the results and conclusions of the evaluation, and puts forward recommendations.

2.1 Background

2.1.1 The origin and purpose of the EU policy on SMEs' access to finance

SMEs play an important role in the achievement of the Lisbon Agenda through boosting innovation and competitiveness, and thereby promoting economic growth and job creation[4]. At European level, the Recommendation 2003/361/EC provides a standardised definition of small, medium and micro enterprise as in figure 2.1.[5]:

Enterprise category	Number of employee	Turnover	Or	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

However, playing this role can be complicated by a complex and challenging financial environment. On the demand side, many European SMEs experience difficulties in obtaining appropriate finance to start and develop their businesses. On the supply

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[4] Common Action for Growth and Employment: The Community Lisbon Programme SEC (2005) 981

http://ec.europa.eu/growthandjobs/pdf/COM2005_330_en.pdf

[5] http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm

side, many providers of financial services perceive SMEs financing (both debt financing and equity investment) to be a high risk activity that generates high transaction costs and/or low returns on investment.

2.1.2 Policy context

The Communication "Implementing the Community Lisbon Programme: Financing SME Growth – Adding European Value[6]" reiterated the demand and supply-side issues which were presented and addressed in the policy priorities of the 2003 Commission Communication on "Access to finance of small and medium-sized enterprises[7]". These demand and supply-side issues were presented as follows:

"Improving access to finance is an important aspect of fostering entrepreneurship in Europe. The role of the public sector should primarily be to improve the general framework conditions of finance and take limited direct action only when market failures warrant it. Experience has shown that best results in SMEs finance are achieved when the public sector works with the markets and acts as a catalyst to encourage their development.

Use of financial instruments*: The problems of finance that start-up and established businesses face require long-term solutions involving the public sector. Most Member States have programmes and institutions that aim to overcome the gap in early-stage (and other stage) SMEs finance caused by high risk and high overhead costs. Efficient public support mechanisms need to be tailored to local conditions and need to be simple and accessible. This can only be achieved by using local banks and venture capital funds as intermediaries – as happens with the Community financial instruments.*

Bank lending*: Experience from the EU financial instruments shows that loan guarantees are a very efficient way to use limited public funds and directly address the problems of lacking collateral and intangible assets. To improve the conditions of bank lending, the Commission has facilitated discussions about a code of conduct for credit institutions and SMEs. It has also produced a report on best practices in micro-lending. The Community financing institutions, the European Investment Bank (EIB) and the European Investment Fund (EIF) provide important support to SMEs access to finance. The increasing risk awareness of banks has led them to expand the use of internal rating of SMEs, which will gradually lead to a rating culture where SMEs need to signal their creditworthiness to the banks, regularly discuss their credit standing and deliver timely information.*

Equity finance*: Many SMEs need stronger balance sheets although formal venture capital is an option only for entrepreneurial growth companies. In addition to developing European venture capital markets, promoting the possibilities provided by*

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[6] Implementing the Community Lisbon Programme: Financing SME Growth – Adding European Value
Brussels, 29.6.2006, COM(2006) 349 final

http://ec.europa.eu/enterprise/entrepreneurship/financing/docs/com2006_financing_sme_growth/sec2006_841_financing_sme_growth_en.pdf

[7] Access to finance of small and medium-sized enterprises COM (2003) 713 of 01.12.2003

http://ec.europa.eu/enterprise/entrepreneurship/financing/docs/com(2003)713_en.pdf

business angels and business angel networks should continue to receive attention at regional, national and European level…"

The Task Specifications also pointed out that, looking ahead, these policy priorities and issues will be affected by the new, emerging financial environment. Firstly, the *"forthcoming implementation of the new Capital Requirement Directive (Basel II) in Europe is influencing the banks' risk sensitiveness with regard to lending to SMEs. Secondly, concerning equity finance, the European venture capital markets do not operate at their full potential, due to the fragmentation of markets along national lines which hinders cross-border investments and limits exit opportunities. This is compounded by the reluctance of seed and early-stage private investors to invest in SMEs, which prevents the development of the market."*

Current EU policy aims to improve policies and framework conditions and to raise awareness of the key issues in SME finance (by, for example, identifying problems, and identifying and spreading good practices) and to provide a catalytic effect to the supply of financial instruments for early-stage finance (by, for example, the provision of loan guarantees and venture capital investments).

2.1.3 *Current EU financial instruments concerning SMEs' access to finance*

Various financial instruments and initiatives addressing market gaps in access to finance for SMEs have been set up at EU level such as the financial instruments specially designed for SME within the new CIP and the Joint European Resources for Micro to Medium Enterprises (JEREMIE).

The CIP will contribute to *'tackling market gaps in SME Finance'* from 2007-2013. Three financial instruments are foreseen within the CIP and cover SMEs' different needs according to their position in their lifecycles:

- The High Growth and Innovative SME facility (GIF) will provide equity to venture capital funds for the pre-seed and early stage (GIF 1) and expansion stage (GIF 2).

- The SME Guarantee (SMEG) facility is an instrument for debt finance. This is the main source of external finance for the majority of SMEs, but not necessarily the most favourable for the growth of the company within the new financial context (Basel II). Given the different financial needs according to the development stage of the SMEs, SMEG addresses four different types of financing:

  – Loan guarantees;

  – Micro-credit guarantees;

  – Equity guarantees;

  – SME securitisation.

- The Capacity Building Scheme (CBS) will have two components:

  – The Seed Capital Action (SCA) which will provide grants for the recruitment of staff with financial or technical expertise.

  – The Partnership Action (PA) which will provide grants for technical assistance to improve credit appraisal procedures for SME debt financing in countries with limited banking intermediation, notably the new Member States.

The characteristics and targets of these instruments are illustrated in Figure 2.1. These instruments within the CIP are managed by the EIF and have a budget of EUR 1,129 million (which includes EUR 228 million for an eco-innovation component).

Figure 2.2 CIP financial Instruments
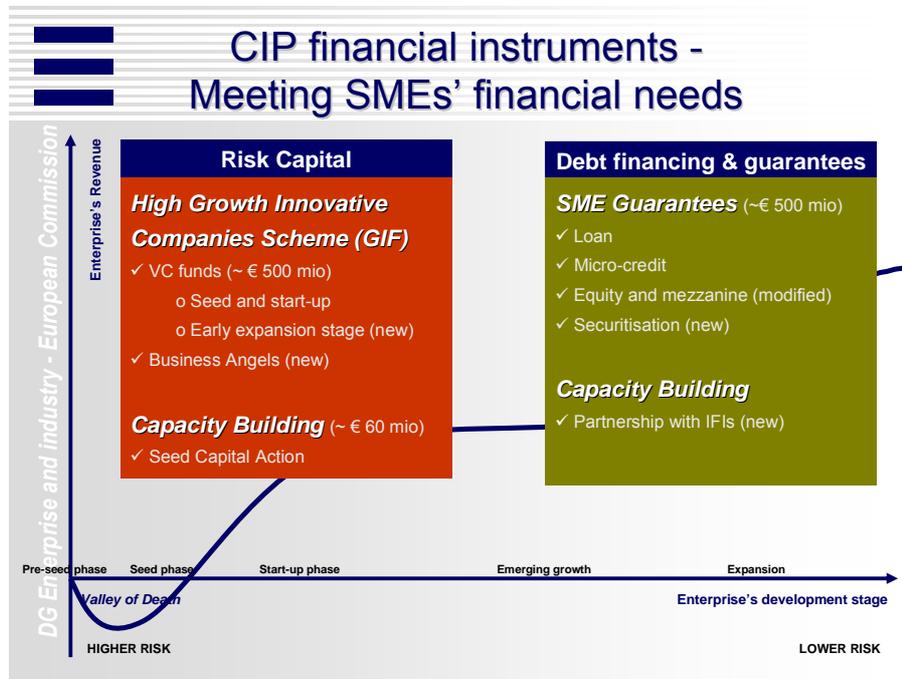
(The graph is from Mario W. Cardullo, "Technological Entrepreneurism", Trowbridge 1999).

JEREMIE is a joint initiative to improve SMEs' access to finance in European regions launched by the European Commission, European Investment Bank (EIB) and EIF.

The aim of JEREMIE is to enable EU Member States and regions to use the EU Structural Funds (in particular the European Regional Development Fund –ERDF-) to develop a set of financial instruments that are specifically designed to support micro and small and medium enterprises. The JEREMIE initiative foresees three main financial instruments focused on priority regions, they are:

• Advisory and technical assistance;
• Equity and venture capital;
• Guarantees (both for micro credit loans and SME loans);

The programme authorities have the option of using EIF to manage JEREMIE.

Another instrument of importance to access to finance at the EU level is the "Risk-Sharing Finance Facility" which is included in the 7th Framework Programme. It is aimed at fostering private investment in research by improving access to European Investment Bank (EIB) loans for large European research actions.

2.2 Key assumptions, rationale and aims of the evaluation

As indicated in the Communication "Financing SME Growth - Adding European Value[8]", the Commission aims to improve the functioning of the single market, to foster investment in the commercialisation of research. These aims are in line with the objectives of the previous Communication on SMEs' access to finance[9]. The intervention logic underpinning EU (and other) public sector support for improving SMEs' access to finance stems from one or more of the following:

- The presence of 'market failure' such as asymmetric information between potential users and suppliers of finance.

- The presence of 'market gaps' where there are profitable opportunities to provide SMEs with finance but these are not being undertaken because of the behaviour of potential private sector finance suppliers (see section 4.5 for further explanation).

- The under-developed supply of finance for SMEs, where for example certain types of finance are in limited supply or are unavailable. Due for example to the structure of the financial markets.

- Institutional factors that increase the risk of financing for (investment in) SMEs.

- Cultural factors that limit the ambitions of SMEs and/or the demand for external finance.

Whatever the rationale, it is important that policy formation and the design of interventions are informed by good information such as data/statistics and surveys. The quality of information is particularly important given that inappropriate public sector interventions have the potential to 'crowd out' and deter the development of private sector finance for SMEs.

2.3 Scope and orientation

This assignment has been undertaken for DG Entreprise and Industry. The policies and interventions supported by DG Entreprise and Industry emphasise the Lisbon Agenda economic objectives, innovation and competitiveness. Deficiencies in the access to appropriate finance for SMEs of all types are of interest to DG Entreprise and Industry whilst access to finance for new and growth-oriented SMEs is of great concern. The forms of finance of particular interest are both loan/debt finance and equity finance from external sources including mezzanine products. There are in addition, other means of financing SME including factoring and leasing which have not been in the focus of this evaluation.

There are also social, industrial, environmental and regional policy rationales for public sector support to improve the access to finance of SMEs. For example, support for finance to start-ups may have social and employment objectives and there are forms of

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[8] Financing SME Growth - Adding European Value COM (2006) 349 final

http://ec.europa.eu/enterprise/entrepreneurship/financing/docs/com2006_financing_sme_growth/sec2006_841_financing_sme_growth_en.pdf

[9] Communication on SMEs' access to finance COM(2003) 713 final)

http://ec.europa.eu/enterprise/entrepreneurship/financing/docs/com(2003)713_en.pdf

social enterprise where there may be wider benefits resulting from improvements to SMEs' access to finance. However, the use of information sources to inform such policies has not been the focus of this study.

The assignment focused on the work of Unit D3 'Financing SMEs entrepreneurs and innovators' of DG Entreprise and Industry which aims at facilitating the process of a better access to finance for SMEs through developing policy, instruments and communications in this area. DG Economic and Financial Affairs was also member of the Steering Group for the assignment. It deals with policies concerned with financial markets. DG Economic and Financial Affairs cooperates with the European Investment Fund (EIF) that implements measures to support SMEs in gaining access to finance (the SMEs Guarantee Facility). Unit D3 of DG Entreprise and Industry, DG Economic and Financial Affairsand the EIF are each users of information on the access of SMEs to finance.

2.4   Evaluation objectives

As indicated in the Task Specifications the overall aim of the evaluation was *'to assess the relevance, effectiveness and utility of the sources, types and methods of collection of information used by DG* Entreprise and Industry *to analyse access to finance for SMEs in the EU'.*

The evaluation has been undertaken to assist DG Entreprise and Industry to:

- Review existing methods and information to be used in the new financial environment influenced by the risk-oriented bank behaviour and in view of the new CIP.

- Identify ways of supporting solid analysis contributing to sound policy development in the area of access to finance for SMEs.

The specific objectives of the evaluation were to:

- *identify underlying sources of information used* by DG Entreprise and Industry *on the level of SMEs' access to finance;*

- *assess the strengths, weaknesses, relevance and quality of this information and other data and indicators on SMEs' access to finance;*

- *consider the actual and potential use made of information, for example its influence on public sector interventions designed to overcome market failures;*

- *consider and recommend improvements (including identifying the cost implications) that could be made to the information base on access of SMEs to finance.*

Table 2.1 below lists the evaluation criteria and questions identified in the Task Specifications concerning the effectiveness, efficiency, utility and sustainability of the sources, types and methods of information collection. These criteria were the starting point of the interviews which were carried out within the evaluation.

Table 2.1 – Specific evaluation criteria and questions for the assignment

Evaluation criteria	Evaluation questions
Effectiveness	(1) To what extent have the data and the way they are used enabled DG Enterprise and Industry to address market gaps in SMEs' access to finance, and to what extent has this contributed to the goals of the Lisbon Agenda to promote growth and jobs? (2) How effective has the data used been in enabling DG Enterprise and Industry to perform the analysis and assessment of access to finance for SMEs, with regard of the objective to identify and address market gaps in access to finance in Europe? (3) What, if anything, could be done to deliver better data more effectively to enable reliable and dynamic assessment and analysis of the situation regarding access to finance for SMEs? (4) What is the added value of data currently used to ensure the identification of market failures in SMEs' access to finance on the EU level for stakeholders? What – if anything – can be done to improve the added value of this data? (5) Are there any methods or information sources used in the analysis by DG Enterprise and Industry which consistently form an obstacle to them obtaining a clear picture on the situation regarding access to finance for SMEs in the EU?
Efficiency	(6) What aspects of information sources underlying the analysis of access to finance for SMEs in the EU are the most efficient or inefficient, especially in terms of resources that are mobilised by stakeholders? Are there any administrative and reporting burdens on stakeholders and/or other actors which could be reduced? (7) Are there overlaps/complementarities between the information sources underlying the analysis of access to finance for SMEs in the EU and any other Community or Member State action in the relevant areas? If these exist, where are they visible?
Utility	(8) To what extent could measures be taken to improve the utility of the information sources underlying the analysis of access to finance for SMEs in the EU and what measures would these be?
Sustainability	(9) To what extent are the information sources underlying the analysis of access to finance for SMEs in the EU on a European level helping to provide a reliable picture of market failures in this area?

The remainder of the report is structured as follows:

- Section 3 summarises the evaluation methodology that was developed and implemented in response to the evaluation objectives and questions.

- Section 4 presents the results of the evaluation.

- Section 5 presents the conclusions of the evaluation based on the results. It also puts forward a series of recommendations, accompanied by ideas and guidance for their practical implementation that would need to be further discussed for the Final Report. It includes an outline of the proposed toolkit.

The main text is supported by a series of annexes

Annex 1 Details of the key data sources.

Annex 2 Background information on data sources, policy papers and research.

Annex 3 List of consultees.

Annex 4 Format participation and main results of the workshop.

Annex 5 Task Specifications.

Annex 6 Responses to the technical questions raised by DG Enterprise and Industry on the key data sources.

A glossary and list of acronyms is also provided.

3   RESEARCH METHOD

The evaluation involved four main tasks:

- Task 1 - Identification of the main sources and types of information, and their characteristics.

- Task 2 - Assessment of the underlying key concepts in relation to the data needs in assessing access to finance.

- Task 3 - Assessment of existing sources and types of information.

- Task 4 - The formulation of recommendations.

Each of these tasks was informed by a combination of: desk research; interviews and consultations[10]. The tasks are elaborated in the sub-sections below.

3.1   Task 1 Identify the main sources and types of information, and their characteristics

This task involved the mapping and classification of documents and information from various sources on SMEs' access to finance. It was carried out through desk research. Three main activities were necessary to present a review of key information sources that are relevant for addressing SMEs' access to finance and used by DG Entreprise and Industry:

- Identification and classification of the main documents addressing SMEs' access to finance;

- Mapping relevant websites of organisations dealing with this issue; and,

- A more detailed review of key information sources that measure the problem of SMEs' access to finance.

The activities are elaborated below.

3.1.1   *Identification and classification of main documents addressing SMEs' access to finance*

The starting point was to identify and review the most relevant documents and papers addressing or referring to the problem of SMEs' access to finance from a wide perspective. The review covered:

- the initial documentation received or accessed via DG Entreprise and Industry;

- the other sources of information collected on this topic and available from different organisations at different levels, including: European Central Bank (ECB), EIF,

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[10] This study covers and refers to EU25 as that the research, interviews and consultations with stakeholders were undertaken in 2006 when Romania and Bulgaria were still not part of the European Union

other Directorates General of the European Commission (for example, Directorate General for Regional Policy), Eurostat, and the OECD.

Given the large number of documents available from the different sources, they were classified according to:

- the type of institution (international, European and national);

- the purpose of the document (e.g. policy papers, working documents and policy programmes, conference reports, general guidelines, evaluations and study, general economic outlooks and surveys).

Short descriptions were made providing further information on each of the classified documents and information sources. Section 4 of this report gives an overview of the main findings and Annex 2 lists all documentation reviewed. The most important sources are considered in more detail in Annex 1.

3.1.2 *Mapping relevant organisations dealing with this issue*

Information on SMEs' access to finance is also available through a number of other institutions and organisations which publish their information on various websites. For example SMEs policies, including access to finance, are part of the programmes for delivering socio-economic development of most international organisations, such as the World Bank, the International Monetary Found (IMF), the OECD (Organisation for Economic Co-operation and Development) and the International Labour Organisation (ILO). These international institutions undertake research on SMEs issues, prepare policy recommendations, and may also support specific programmes for SMEs. At European level, in addition to the key organisations mentioned in 3.1.1, some information on SMEs access to finance is provided by DG Competition, which supervises Member States policies on states aids, including policies of public support for SMEs access to risk capital, and by business and SMEs organisations, such as, the European Association of Craft, Small and Medium-Sized Enterprises (UEAPME), the Union of industrial and Employer's Confederation of Europe[11] (UNICE) , that voice the interests and needs of SMEs on access to finance. The relevant websites have been mapped and are identified in Annex 2.

The table in Annex 1 lists the different organisations dealing with the issue of SMEs' access to finance according to:

- the type of institutions/organisations and the coverage (e.g. international organisations such as OECD, IMF; financial institutions such as banks, cooperatives; research institutions and networks such as the Observatory of European SMEs);

- an overview of their role and mission in this field (e.g. providing financial support to SMEs, carrying out studies on SMEs' access to finance, etc).

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[11] As from January 2007 UNICE has changed its name into BusinessEurope

3.1.3 *More detailed review of key information defining and measuring the problem of SMEs' access to finance*

This activity involved a more detailed review of information, data and documents to identify:

- the aspects of the problem of SMEs' access to finance;

- the sources of information that exist;

- the methods used to collect and analyse the information.

The aim of this detailed review was to identify:

- how the problem of SMEs' access to finance has been defined;

- how the problem of SMEs' access to finance has been measured.

Information has been collected through a variety of existing sources, such as surveys, empirical research papers and reports, from organisations operating at different levels (international, European and national). Annex 1 presents the analysis of these documents in detail.

This desk research was complemented by the interviews conducted. These are described under the headings "Qualitative interviews" and "Wider consultations".

Qualitative interviews

A series of qualitative interviews were undertaken with representatives from the Directorates and Units in DG Entreprise and Industry and European-level organisations that provide information on aspects of SMEs' access to finance. In total 18 interviews were undertaken. The interviewees are indicated in Table 3.1. Further details of the consultees are given in Annex 3.

Table 3.1 Organisations interviewed

Organisations interviewed	Number of interviews
European Commission: Unit D3 of DG Entreprise and Industry, DG Economic and Financial Affairs Unit L02 Staff, DG Regional Policy – including those directly cooperating with Eurostat	6
Eurostat	2
European Investment Fund	2
European Central Bank	2
European Venture Capital Association (EVCA).	2
European associations of bankers including the Banking Federation of the European Union (FBE), European Savings Banks Group (ESBG), European Association of Cooperative Banks (EACB)	4

Wider consultations

In addition to the interviews indicated in Table 3.1, further consultations were undertaken with key actors concerned with SMEs' access to finance such as the OECD and organisations at national level that have experience in the field of access to finance for SMEs through policy work or the collecting and analysis of data. Interviews with independent academics and experts were also held. The number of consultations undertaken is shown in Table 3.2. Further details of the consultations are given in Annex 3.

Table 3.2 Wider consultations

Organisations interviewed	Number of interviews
International organisation: OECD	2
National Organisation: Kreditanstalt für Wiederaufbau	1
Independent academics and experts	2
Member States	
Italy	4
Slovenia	1
Finland	1
France	2

3.2 Task 2 Assessment of the underlying concept of 'SMEs' access to finance' market failures and factors contributing to market failures

This task was informed by the desk research and fieldwork undertaken in Task 1. It became evident that the terms `market failures' and `market gaps' are not used consistently. In practice a series of problems affecting SMEs' access to finance have been identified. These are elaborated in Section 4.

3.3 Task 3 Assessment of existing sources and types of information

This task built on the review work undertaken during Task 1. The assessment responded to and addressed the evaluation objectives and questions described in Section 2. The assessments made were validated during the workshop that took place on December 13th 2006. Annex 4 provides a record of the workshop.

3.4 Task 4 The formulation of recommendations

In the light of the findings of Tasks 1, 2 and 3, this task led to recommendations on improvements that could be made. These recommendations as well as the development of a toolkit for the use of data relevant for the assessment of SMEs' access to finance were also considered at the Workshop. The conclusions and recommendations are given in Section 5.

4   RESULTS OF THE EVALUATION

4.1   Introduction

This section provides the main findings of the study, based on the literature review and interviews with stakeholders at European and national level. The section is structured as follows:

- A review and assessment of the strengths, weaknesses, relevance, quality and efficiency of the sources of information used by Unit D3 of DG Enterprise and Industry (Section 4.2).

- The assessment of the sources of information used by others in considering SMEs' access to finance (Section 4.3).

- The use of information sources to identify 'market gaps' and 'market failures' (Section 4.4).

4.2   Information Sources used by DG Enterprise and Industry

The sources of information on SMEs' access to finance that are currently used or have been used in the past by Unit D3 of DG Enterprise and Industry are described below under the following headings:

- Household Surveys: Euro-barometer households surveys;

- SMEs surveys: Euro-barometer SMEs surveys and Observatory of European SMEs;

- Data on Venture Capital: EVCA Yearbook;

- Consultations with banks and SMEs associations: Round Tables.

4.2.1   Household Surveys

Gallup Europe has undertaken several cross-country Euro-barometer household surveys on behalf of DG Enterprise and Industry, where sample of households have been interviewed over the telephone. The household surveys cover the topic of entrepreneurship but included some questions relevant for SMEs' access to finance.

Euro-barometer Household surveys on Entrepreneurship. From 2000 to 2004 Gallup conducted annual surveys on the topic of entrepreneurship. The aim was to assess the development of entrepreneurship in the EU Member States and to identify the underlying factors influencing entrepreneurial cultures. Comparisons were made with other countries such as the United States, Lichtenstein, Norway and Iceland. From 2000 to 2003 the surveys covered EU15, while the 2004 survey covered EU25. The main features of the surveys are:

- It is a household survey, only a minority of interviewees were SME managers. The sample sizes of the four surveys were: 8,063 EU15 and 507 US (in 2000); 8,045 EU15 and 500 US (in 2001); 7,506 EU15, 500 US, 500 Norwegians, 502 from Iceland and 501 from Liechtenstein (in 2002); 10,024 EU15, 1,011 US, 503 Norwegians, 501 Icelandic and 500 from Liechtenstein (in 2003); and 18,547 EU25, 1,003 US, 501 Icelanders, 500 natives of Liechtenstein and 500 Norwegians (in 2004).

- The surveys do not specifically address SMEs' access to finance, but in each survey there is a section to assess the extent of some specific factors in constraining the set up of a business. Each survey had a question asking people to express their level of agreement with the statements that it is difficult to set up a business due to lack of available financial resources[12].

- The surveys ask respondents to also express their views on other factors of constraint in setting up a business, such as the administrative complexity. This enables an assessment of the relative incidence of the problem of SMEs' access to finance in comparison with constraint factors.

- Findings were broken down in 2004 by country enabling some comparisons (for example, between the EU and US, EU15 and EU25 and at country level).

- Results of the 2004 survey are also broken down by other socio-demographic characteristics of the respondents such as gender, age, employment statues (employees or self employment).

The same questions have been repeated in all the four surveys, making an analysis of trends possible over the period 2000- 2004.

Box 4.1 provides a summary of the main findings of the Euro-barometer Household surveys for the purpose of outlining the types of information and data given by these surveys.

Box 4.1 Outline of the information provided by the Euro-barometer Household Surveys on Entrepreneurship

- The number of respondents indicating that financial support is a major constraint in setting up a business has been declining both in the EU15 and in the United States.

- Lack of available financial support still ranks as the single most important factor in both Europe and in the US.

- There are considerable variations between European countries when indicating the lack of financial support as a major business constraint.

- Lack of financial support ranks much lower amongst those who have actually established a business, than amongst respondents in general.

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[12] The 2000, 2001, 2002 and 2003 surveys the questions asked were: do you strongly agree, agree, disagree or strongly disagree with the following opinion?
a) It is difficult to start one's own business due to a lack of available financial support.
b) It is difficult to start one's own business due to the complex administrative procedures

The 2004 survey asked respondents to comment on three other factors of difficulties: it is difficult to obtain sufficient information on how to start a business; one should not start a business if there is a risk it might fall; the current climate is not favourable for people that want to start their own business.

Strengths and weaknesses of the Euro-barometer household surveys

The Euro-barometer Household Surveys provide useful comparisons of the state of entrepreneurship in Member States. However, the focus is on start-ups and access to finance is considered as just one of the several factors that might influence entrepreneurship. The information is useful to assess aspects of entrepreneurial culture and could be used to influence the allocation of resources and design of interventions to improve entrepreneurship education and to address factors influencing entrepreneurial culture and the institutional context for SME. However, the information does not provide a useful basis for identifying 'market gaps' and designing public sector financial interventions. For example, it does not provide information on the reasons that made access to finance difficult, or on the types of finance sought for by SMEs, and it does not make a distinction between 'perceived' and 'experienced' difficulties.

The information source would be of more use to identify 'market gaps' and to inform the design of financial interventions and in particular the provision of loan guarantees to start-ups if the following suggestions were taken on board:

- Behavioural questions were included on whether (in last 12 months) interviewees had: set up businesses; had secured finance (loan and equity) from external sources; had themselves invested in SME (within which they work and others).

- Supplementary questions were asked to the (small number of respondents) that answer these behavioural questions positively.

- Behavioural questions were asked on whether respondents had tried to set up a business but were unsuccessful because they could not find adequate finance.

- Supplementary questions were asked to the (small number of respondents) that answer these behavioural questions positively on: what sources of finance did they pursue; what kind of products did they ask for; what were the reasons they failed to secure adequate finance.

- Questions on the relative value of different public sector interventions in the field of SMEs' access to finance for start-ups could be included.

However, in order to generate sufficiently large sub samples of respondents that had set up businesses, made investments in SME or had tried but failed to gain access to finance to allow cross country comparisons would require a considerable expansion of the overall sample size.

4.2.2 *Surveys of SMEs*

Flash Euro-barometer SMEs' survey on access to finance[13].

In 2005 the Euro-barometer survey targeted SMEs' access to finance. A total of 3,047 SME managers were interviewed by telephone with the sample selected according to three criteria: country, company size and activity sector. Results are presented by country enabling cross-country comparisons.

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[13]http://ec.europa.eu/enterprise/entrepreneurship/financing/docs/Surveys/sme_access_to_finance_survey_report_2005.pdf (Flash Euro-barometer no. 174)

The survey aimed to assess the difficulties that SMEs experience in accessing finance covering the following aspects:

- The state of SMEs: SMEs financial situation, their growth and development.

- The use of financial instruments: financial institutions used and types of financing.

- Access to finance from banks: the use of banks, ease of access now and compare to past, attitudes toward banks.

- The use of small loans: whether SMEs have asked for loans, their views about them and reasons that would encourage them to ask for small loans.

- The use of venture capital: to what extent it is currently being used, whether SMEs foresee this as a form of future financing and for what reasons.

- Financial management: the kind of information and advice on finance for which SMEs look.

Flash Euro-barometer SMEs' access to finance in New Member States 2006. This survey replicated that carried out in the EU15 in 2005. The findings enabled comparisons between the old and new Member States. A total of 1,536 managers in the new Member States were interviewed by telephone.

Euro-barometer SMEs' access to finance: summary of the two surveys. A report by the Commission[14] provides a summary of the two surveys carried out in new Member States and old Member States and a brief comparative analysis.

Strengths and weaknesses

The Flash Euro-barometer surveys on access to finance of SME managers provide useful information on the sources of finance used by SME and allows for broad comparisons between countries. However, the surveys' findings illustrate that only a minority of SME are growth oriented and most SME in Europe rely on internal sources of finance. The current policy focus of DG Enterprise and Industry is on the minority of firms that have growth potential and need external finance.

In these circumstances it would be very helpful if the survey of SMEs' managers only included SMEs that were established and that were growth-oriented. To achieve this there would need to be two or three filter questions on whether growth had already occurred and was planned. A priori filter questions could also be introduced relating to the size (micro companies could be excluded), sector and market orientation of the SMEs. The survey could then explore in some detail the actual behaviour and constraints encountered with respect to the SMEs seeking access to finance for expansion. Questions on the relative value of different public sector interventions in the field of SMEs' access to finance could be included. There would be merit in extending the survey to countries outside of the EU where it is perceived that the finance markets for SMEs are 'well developed'. The overall costs of the survey would not need to be very much greater than at present.

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[14] http://ec.europa.eu/enterprise/entrepreneurship/financing/docs/Surveys/sme_access_to_finance_survey_2 5ms_ec_summary.pdf

Surveys and analyses of the Observatory of European SMEs

The Observatory of European SMEs was established by the Commission in 1992 in order to provide information on SMEs to policy-makers, researchers, economists and SMEs themselves. The Observatory was run by the European Network for SME Research (ENSR) which undertook regular SME surveys and produced regular reports touching upon various SMEs related issues, including a specific study on SMEs' access to finance in 2003.

The 2001 ENSR Survey: The survey addressed general SMEs issues. A total of 7,662 telephone interviews were conducted with SMEs' entrepreneurs in 19 countries (EU15 plus Iceland, Liechtenstein, Norway and Switzerland). Questions on business constraints have been used as an indicator of SMEs' problems in access to finance. Respondents were asked to rank the most important constraint on their business performance over the last two years amongst: lack of skilled labour, accessing finance, administrative regulations and implementing new technology. Findings were presented by size of firm. Findings by country were not provided. Box 4.5 highlights the type of findings available from the ENSR survey.

The 2002 ENSR Survey was similar to the 2001 Survey (in particular, the same question about major business constraints was asked) but it covered a wider range of topics and a specific section on access to finance focusing on debt finance was added. The data have been analysed in a specific report by the Observatory of European SMEs[15] and have been also used by the DG Enterprise and Industry to inform the Enterprise Scoreboard[16]. Findings were presented by firm size and sector.

In the section on access to finance the questions were: number of credit lines with banks; liabilities; terms for largest bank loan; information in possession of bank; satisfaction with bank service; reasons for dissatisfaction with bank; most important reasons for not acquiring bank loans; whether the company had changed bank accounts; most important reason for bank account changes; financial support services used; and reasons for not using financial support services.

The 2003 ENSR Survey was similar to the 2002 survey, with similar questions about business constraints and a section dedicated to access to finance focusing on debt financing. However, the results were not exactly comparable because new elements of business constraints were added.

SMEs report on access to finance. In 2003 the Observatory of European SMEs prepared a specific report on SMEs' access to finance which combined the information from the 2002 ENSR Enterprise Survey with secondary data such as existing literature, national and international publications, case studies, a database (in particular the

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[15] The findings from the 2002 Survey were presented in the "Highlights from the 2002 Survey" 2002/No 8 http://ec.europa.eu/enterprise/enterprise_policy/analysis/doc/smes_observatory_2002_report8_en.pdf

[16] The Enterprise Policy Scoreboard was an exercise for co-ordinating, benchmarking and monitoring key aspects and providing overviews of developments in the business environment that are crucial to economic growth. Progress and benchmark is based on indicators. Access to finance was an area covered by the Scoreboard exercise.

http://ec.europa.eu/enterprise/enterprise_policy/competitiveness/index_en.htm

BACH database on balance sheets[17]) and interviews conducted by the ENSR partners with experts from banks, leasing companies and mutual/loan guarantee organisations in all the countries covered by the data sources. Findings were provided by sector and firm size and sometimes by country.

The report addressed the following:

- Major developments in the financial, economic and policy framework affecting SMEs' access to finance;

- Characteristic of SMEs' bank financing (e.g. number of credit lines, terms of loans.);

- Information that the banks request from SMEs (i.e. balance sheets, profit loss/statements, budget for the nest years, financial plan, cash flow forecast, information on inventories, information on unpaid invoices or no information at all);

- SMEs reasons for being dissatisfied with the banks (i.e. interest rate too high, banks charges too high, poor services, additional bank loan was refused, existing credit facilities was reduces or withdrawn);

- The relevance of loan/mutual guarantee schemes for SMEs;

- Reason for not obtaining additional bank loans (for example, not enough guarantee collateral, bank not satisfied with business performance, etc).

The contract with the research institute running the Observatory of European SMEs ended in 2004. An external evaluation was carried out on the work undertaken[18]. According to this evaluation, the scientific quality of the surveys and reports provided by the Observatory of European SMEs were satisfactory overall, however, some critical elements were pointed out, such as the lack of focus on good practises, the little contribution to the scientific knowledge of SMEs in Europe, and the lack of dissemination of findings and poor impact of the reports.

Strengths and weaknesses

The ENSR surveys preceded the Flash Euro-barometer survey on access to finance. They provided useful information on the incidence of constraints facing SMEs. However, there were only two questions on SMEs' access to finance. The main advantage of the ENSR surveys over the Flash Euro-barometer survey of SME managers was that they allowed comparisons with non EU countries. The sample was also structured by size of company and comparisons of findings between companies of particular size are available. Revisions were made to the surveys in 2002 and in 2003 and the findings from the surveys were combined with those from other sources which improved the quality of the analysis.

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[17] A description of BACH database in provided in section 4.3.1. under DG Economic and Financial Affairs

[18] Ex post evaluation of the Observatory of the European SMEs
http://ec.europa.eu/enterprise/enterprise_policy/mult_entr_programme/doc/evaluation_observatory.pdf

(pp: 6)

If the suggestions made above for the Flash Euro-barometer SMEs' access to finance survey were taken on board, there would be little merit in repeating the ENSR survey for the purposes of informing issues of SMEs' access to finance.

Grant Thornton Business Surveys

The International Business Owner Survey (IBOS) covers over 7,000 medium-sized enterprises in 30 countries[19] and also provides a special section on Europe only (covering France, Germany, Greece, Ireland, Italy, Luxembourg, Spain, Sweden, the Netherlands, Poland and the UK). The survey is mainly conducted over the telephone. There is no uniform definition of medium-sized businesses but the national definition of each country is used. The official European definition[20] (firms with a number of employees from 50 to 249) is used for countries that are part of the EU. The survey is carried out every year and trend data are available.

The IBOS survey provides information on businesses' opinions on the economic outlook and expectations for the future. It does not specifically address the issue of access to finance but business people are asked to score the constraints on their business expansion, (with the suggested constraints being: regulations/red tape; lack of a skilled workforce; shortage of orders, shortage of working capital, shortage of long term finance; cost of finance). Trend analyses and cross-country comparisons on the importance of access to finance for business expansion are possible.

Strengths and weaknesses

The key advantages of the IBOS survey is the broad geographical coverage and the insights it provides into trends at the national level on the relative importance of access to finance as a constraint on SME.

The main disadvantages are that it does not specifically cover the issue of SMEs financing and it does not cover all the EU Member States.

Overall observations on the surveys of SMEs

There is scope for using longitudinal data in which a panel of enterprises could be followed year after year and/or a sample of newly-founded enterprises could also be added each year. It would provide the opportunity not only to describe enterprises' characteristics over time and space, but also to analyse the dynamics at a firm level. Analyses distinguishing between Eurozone and other EU countries could also be informative. It would be useful if the costs of finance can be unpicked from the influence of other factors affecting SMEs' access to finance.

4.2.3   *Data on Venture Capital*

The European Private Equity and Venture Capital Association (EVCA) represents the interests of the private equity industry to public agencies and policy makers. It covers

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[19] Argentina, Australia, Botswana, Canada, China, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Japan, Luxembourg, Malaysia, Mexico, Netherlands, New Zealand, Philippines, Poland, Russia, Singapore, South Africa, Spain, Sweden, Taiwan, Thailand, Turkey, United Kingdom and United States.

[20] http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm

the whole range of the private equity industry: venture capital (from seed and start-up to development capital); buy-outs and buy-ins. EVCA carries out regular research on the private equity industry such as the Annual Survey of Private Equity and Venture Capital Activity. The results are presented in the EVCA Yearbook. The survey is undertaken in cooperation with Thomson Financial and PriceWaterhouseCoopers (PWC) and it is the most widely used source of information on the equity markets in Europe.

The figures provided in the 2006 Yearbook cover Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, The Netherlands, Norway, Portugal, Slovakia, Spain, Sweden, Switzerland, United Kingdom. Information on other countries is less detailed: Estonia, Latvia and Lithuania are aggregated, Slovenia and Croatia are aggregated. For Romania there is a summary of private equity market and set of detailed statistics.

The publication gives information on the overall volume of private equity raised in the countries analysed. Information is provided on:

- New funds raised: private equity raised by source, by type of investors, geographical breakdown, allocation of funds (i.e. high tech early-stage, non-high tech early-stage, expansion/development, venture capital, buyout), funds raised by location of the management company and by origin from 2005 only.

- Investments made: stage distribution of investments (seed, start-up, expansion, replacement capital, buyout), geographical distribution of investments

- Sectoral distribution: communications, computer-related, biotechnology, medical/health related, energy, consumer-related, industrial products and services, chemical and materials, industrial automation, other manufacturing, transportation, financial services, other services, agriculture, construction, high-tech investment.

- Investments by location of the management company and by destination (for 2005 only).

- Investment during year by number of employees (for Europe only).

- Divestments: by trade sale, by public offering, by write-off, repayment of preference shares/loans, sale to another venture capitalist, sale to financial institutions, divestment by other means.

- Portfolio at cost.

- Geographical flows of private equity.

- Indicators of the scale of equity investment: private equity investment as a percentage of GDP, GDP, interest rates, etcetera.

DG Enterprise and Industry has used the EVCA publication to compare the volume of Venture Capital across Member States and the overall level of Venture Capital in Europe with the United States.

Strengths and weaknesses

The survey is useful because it describes the activities of venture capital based on the responses of those supplying the finance. The survey findings enable comparisons between countries on some useful indicators. There are however difficulties in interpreting the findings. The survey method has limitations. Data are provided by EVCA members, not all EU countries are covered. EVCA is a private association that collects information on the private equity market for the purpose of promoting better European regulations of the private equity market. The EVCA yearbook is not designed to demonstrate or to identify 'market failure'.

Information has been used to compare the financial markets of the EU and the US. However the US NVCA data and the EVCA data are not directly comparable. EVCA data include both venture capital and buyouts, whereas the NVCA data usually present venture capital only.

Direct comparisons between the lower overall volume of venture capital in Europe and that in the US may not imply that there is a 'market failure' in Europe. There are important differences between the markets. Europe is a relatively new market for venture capital. The EU market is not integrated; there are 25 different regulatory and taxation systems. The entrepreneurial culture in Europe is very different from that in the US. For example, European family-run businesses may not wish to give up ownership, asking for external finance may be seen as a sign that the business is in trouble. European entrepreneurs are less familiar with the different types of financial instruments. The US has regulations on public procurement that encourage investment in high–tech SMEs. Furthermore, the situation varies within the US and much of venture capital investment is concentrated in high growth regions such as Silicon Valley.

It may be appropriate therefore to distinguish between a "market failure" where demand exists but there is insufficient supply of finance, and the concepts of 'market gap' or "market lagging behind" in the development of the financial market that derives from benchmarking the European market with the US[21].

EVCA data provide the possibility to develop benchmarks for the EU. However, even in circumstances where the financial markets are well developed, only a very small minority of SMEs are likely to seek and to use venture capital. Venture capital seems to be most suited to SMEs that are strongly growth-oriented, given that venture capital has high transaction costs and the expectation of high returns.

4.2.4   *Consultation with banks and SMEs*

Since 1993 DG Enterprise and Industry has held consultations with leading representatives of the financial institutions and SMEs associations with the aim of improving information flows between them and making practical recommendations to improve SMEs' access to finance[22]. There have been four Round Tables so far: the first in 1993, the second covering the period from 1995 to 1997, the third covering the period from 1998 to 2000, and the fourth covering the period from 2000 to 2003. For

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[21] The process of assessing the potential of a market through benchmarking is usually referred as gap analysis.

[22] http://ec.europa.eu/enterprise/entrepreneurship/financing/round_table.htm

the Second and Third Round Tables, reports providing summaries of the main issues of concern to banks, SMEs, best practice and suggestions were published.

The Second Round Table[23] was anticipated by a desk research on the problem of SMEs' access to finance and a small-scale survey among SMEs organisations, banks and accountants at national level. The rate of response from SMEs organisations was rather low. Out of 50 organisations contacted only ten replied and only eight Member States were covered (there was no reply from SMEs associations in Denmark, Ireland, Germany, Belgium, Luxembourg, France and Portugal). Face-to-face interviews took place with banks from all the EU15 Member States. The interviews with accountants were mainly conducted with affiliates of Moores Rowland, a medium-size international accountancy group with a focus on SMEs. The round table aimed at discussing and validating the findings from the desk research and surveys, and presenting case studies on ways to improve SMEs' access to finance.

The Third Round Table[24] enabled participants to explain and discuss the critical issues of both banks and SMEs.

Strengths and weaknesses

Discussions and exchanges of information between representatives of SMEs and financial institutions provide a basis for common understanding and for identifying the scale and incidence of factors inhibiting SMEs' access to finance. However, the process may not lead to an accurate weighting of the order of importance of different factors. Fora such as these could be used to help interpret statistical information and to define the circumstances in which different forms of public sector interventions are likely to be effective. They could, for example, validate the propositions put forward in the case study and the approach advocated in the 'Toolkit' (see section 5.4).

4.2.5   *Future plans*

Interviewees consulted in this study pointed out that there is room for improving the quality of information on SMEs' access to finance. Currently DG Enterprise and Industry has commissioned Euro-barometer to undertake two surveys; one in 2007 and one in 2008, covering EU25 plus Romania and Bulgaria, which will contain two questions on SMEs' access to finance.

After the evaluation of the activities of the Observatory for European SMEs, DG Enterprise and Industry decided to split the contract in two parts, with one part focusing on data collection and one on data analysis. It was not however, possible to find a contractor that could undertake data collection and at the moment things are on hold.

Table 4.1 summarises the main strengths and weaknesses of the main information sources used by DG Enterprise and Industry.

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[23] http://ec.europa.eu/enterprise/entrepreneurship/financing/docs/rt2-en.pdf

[24] http://ec.europa.eu/enterprise/entrepreneurship/financing/docs/rt3-en.pdf

Table 4.1 Summary of the main strengths and weaknesses of the information sources currently used by DG Enterprise and Industry

Information source	Main strengths	Main weaknesses	Suggestions
Euro-barometer Surveys			
Euro-barometer Household survey on Entrepreneurship From 2000 to 2004	The sample size allows cross-country comparisons between EU15 and between EU15 and the US. The survey took place annually from 2000 to 2004 enabling descriptions of trends. Enables estimates of entrepreneurship culture. Provides information on the extent of the perception that access to finance is difficult.	It measures the perception of the general population (both entrepreneurs and non-entrepreneurs) on SMEs' access to finance. Mainly concerns finance with respect to start-ups. No focus on growth oriented SMEs. The analysis and interpretation of data on SMEs' access to finance is not detailed.	There should be behavioural questions on whether (in last 12 months) interviewees had: set up businesses; secured finance (loan and/or equity); themselves invested in SME (within which they work and others). Ideally for those interviewees that respond positively to these questions supplementary questions should be asked. Further behavioural questions should ask whether interviewees have tried to set up a business but were unsuccessful because they could not find adequate finance, with supplementary questions on: where did they look for finance; what kind of products did they consider; what were the reasons for being turned down.
Flash Euro-barometer Surveys of SME managers SMEs access to finance 2005 (EU15) 2006 (EU10) Commission prepared a report comparing results of two surveys.	The surveys were focused on SMEs' access to finance and fully addressed the issue. Sample size allows for comparisons between countries. Useful information of nature of finance used by SMEs. Information on SMEs perception of banks and types of information on finance SMEs need.	Survey is only of SME managers' perception, not behavioural (except the Flash Euro-barometer). Presentation of results more descriptive than analytical. No trends to date. Most respondents, (approximately two thirds are not growth oriented) hence not of direct interest to considerations of 'market gaps.'	It would be very helpful if the survey only included SMEs that were growth-oriented. This would require a number of filter questions. The interviews could then explore further actual behaviour with respect to seeking access to finance.

Information source	Main strengths	Main weaknesses	Suggestions
European Network for SME Research (ENSR) Surveys and analyses from the Observatory of European SMEs			
ENSR Surveys were undertaken in 2001, 2002 and 2003. The 2002 and 2003 surveys included a section covering access to finance, focused on debt financing. (Information on SMEs' access to finance from banks, relationships with banks, types of finance requested from banks etc).	Good coverage (EU15 plus Iceland, Liechtenstein, Norway and Switzerland). Includes information on SMEs' view of access to finance as a business constraint. Information provided by company sized enabling comparison between micro and medium enterprises. Some trend analysis possible	Survey just records SMEs perceptions. In 2001 there was only one question on SMEs' access to finance. Findings by country are not provided in the analysis.	The data source offers no advantages over the Flash Euro-barometer except that some time series analysis has been possible.
Review of SMEs' access to finance 2003	A wide range of data sources were used: • findings from the 2003 ENSR survey; • interviews of banks and loan guarantee organisations; • data from literature review, case studies; • BACH database on companies' balance sheets; Findings are provided by firm size and sectors, and sometimes by country.	Data presentation and analysis was not very detailed. Data by country was not always provided (comprehensive cross-country analysis was not possible).	The use of a combination of sources was helpful. There would be merit in applying the evidence from different sources to more precise policy related questions on the state of the market.
Other surveys			
The International Business Owner Survey (IBOS): Grant Thornton Business Survey	Definition of SMEs for EU countries is in line with the European Commission definition. The survey is carried out every year enabling trend	Limited coverage of European countries (France, Germany, Greece, Ireland, Italy, Poland, Spain, Sweden and UK). SMEs definitions for non-EU countries vary.	The survey informs a wide international perspective and trends.

Information source	Main strengths	Main weaknesses	Suggestions
	analysis. Cross-country comparisons are possible.	Only one question that is relevant for SMEs' access to finance (ranking of business constraints).	
EVCA Survey and Yearbook	Annual publication Good amount of information: • volume of private equity raised, geographical distribution; • sectoral distribution, • stage distribution of investments (seed, start-up, expansion, replacement capital and buyout); • investment by location of the management company and by destination (for 2005 only).	There is some missing information: the data are collected by EVCA through a questionnaire sent to all their associations. The return rate is 75%. There is no information on Venture capital association that are not part of ECVA. Cross country comparison is not possible when countries are grouped together (e.g. Slovenia and Croatia, Estonia, Latvia and Lithuania). There is no information on informal investments such as Business Angels.	There would be benefit in complementing survey of VC associations with survey of SME that have considered and/or used VC finance.
Round Tables of financial institutions and SME representative organisations	Combination of sources of information: desk research and interviews from SMEs organisations and Banks covering EU15. Consultations were used to validate findings from the desk research and survey. Good qualitative analysis of the issues.	It is hard to draw strong conclusion from general consultations.	Fora could be used to validate propositions on the circumstances in which public sector interventions are likely to be most effective.

4.3   Assessment of the sources of information used by others in considering SMEs' access to finance

The sources of information that are used by other organisations to inform SMEs' access to finance, or that have some wider relevance for this topic are described below under the following sub headings:

- International level;
- European level;
- National level.

4.3.1   International level

The World Bank

World Business Environmental Survey (WBES). This is a one-off project of the World Bank that collected data on firms from over 80 countries between 1999 and 2000. The surveys provide a large amount of general information from firms' size, industry, growth, finance pattern, to the business environment, including an assessment of growth obstacles that firms face. There are some questions that are relevant for SMEs' access to finance and concern the extent to which entrepreneurs perceived finance as an obstacle to the growth of their own business. The survey provides information on the source of finance used by firms (i.e. internal fund, commercial banks, equity, etc.) and on the different aspects of access to finance (i.e. high interest rate, lack of access to long term loan, collateral requirements, inadequate credit information, etc.) that hinder business growth.

Important strengths of this survey are its coverage of SMEs, being defined as firms with less than 500 employees, and the possibility of analysing responses by firm size. Its main limitation in the context of this study is that it covers only a small number of European countries (France, Germany, Italy, Portugal, Spain, Sweden and United Kingdom, Poland, Slovak Republic and Slovenia).

OECD

The OECD recognises that the empirical evidence and data that can be used to inform the overall policy on SMEs are rather poor. On the specific issue of access to finance, information gaps have been identified in the underlying statistical base, making it difficult to undertake comparative studies, high quality empirical analysis at cross-country level and longitudinal studies. A major problem is that SME statistics tend to be a subset of general structural business statistics. Also there is a need to contain the cost and the burden on SMEs when collecting data[25]. The OECD Statistics Directorate[26] has recently launched a the "Entrepreneurship Indicators Project" to develop comprehensive statistics, data and indicators on entrepreneurship, with the support of the Kauffman Foundation, a number of OECD countries and Eurostat[27]. The aim is to

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[25] http://www.oecd.org/dataoecd/5/24/31919590.pdf

[26] http://www.oecd.org/document/3/0,2340,en_2825_495649_35377795_1_1_1_1,00.html

[27] OECD Entrepreneurship Indicator Project

have internationally-comparable indicators that will support entrepreneurship policy and other entrepreneurship support-related initiatives.

Although this project does not specifically address the topic of SMEs' access to finance, it plans to collect data on the factors that influence entrepreneurship and start-ups. The project it is still at its early stage of development.

The OECD carried out a survey of SMEs policy experts from some twenty OECD and ten non-OECD countries[28] for the occasion of the 2nd OECD Ministerial Conference on SMEs in Istanbul in June 2004. This helped to develop an initial understanding of the existence and/or character of the SMEs 'financing gap' in countries, as well as the state of empirical measurement of various aspects of SMEs financing. The survey was directed at both government policy actors and central bank personnel with expertise in SMEs financing. The limitations of the survey were that there are no commonly understood definitions and concepts pertaining to SMEs financing, and particularly pertaining to the notion of a 'financing gap'; it was difficult to aggregate data from those countries that have undertaken empirical studies in this field. As a consequence it was difficult to produce internationally comparable statistical information on SME financing. However, the responses were interesting in terms of what they revealed about the different characteristics of the OECD and non-OECD economies under consideration.

IMF

Each year, the IMF publishes the World Economic Outlook[29]. This is a review of the world economic developments and contains a database on several macroeconomic indicators, such as national accounts, inflation, unemployment rate, balance of payments, fiscal indicators, trade for countries and commodity prices. Data is available from 1980 to the present; projections are also given for the next two years. The dataset for some countries is incomplete as information it is not always available. There is no specific information on SMEs access to finance, although indicators are provided on interest rates. From 1980, the IMF published the "International Capital Market Report[30]", a review and assessment of the development in capital markets and banking systems. The report contained data and indicators on credit market, equity market and major banking systems. The report has now been replaced by the Global Financial Stability Report[31], which provides data and information twice a year (April and September) and in the quarterly `Emerging Market Financing'[32].

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http://www.oecd.org/document/3/0,2340,en_2649_201185_35377795_1_1_1_1,00.html

[28] The SME Financing Gap: Theory & Evidence, DAF/CMF(2006)7, OECD-2006

[29] http://www.imf.org/external/ns/cs.aspx?id=29

[30] http://www.imf.org/external/pubs/ft/icm/2000/01/eng/index.htm

[31] http://www.imf.org/external/pubs/ft/gfsr/index.htm

[32] http://www.imf.org/external/pubs/ft/emf/index.htm

Kauffman Foundation (US)

The Kauffman Foundation has launched a Firm Survey and aims to create a dataset of publicly-accessible research on new businesses and their development in the United States. The Firm Study will consist of a longitudinal survey beginning in 2005, with the aim of collect data on the financial development of new businesses in their first four years of life. Currently, there is not any data available[33].

4.3.2   *European Level*

Eurostat

Eurostat collects data on businesses (structural business statistics) on a regular basis and undertakes business surveys. However there is no specific statistical domain on SMEs and specific surveys on SMEs' access to finance have not been undertaken. Eurostat does not have the power to initiate its own research but depends on the inputs from the interested DGs, even though it can make suggestions. In addition, given that data collection falls under the remit of the Member States, Eurostat research activities need to have a legal basis (e.g. a specific European regulation) or to be based upon a specific voluntary agreement that has to be worked out with Member States.

With regards to business statistics, there is a specific regulation (Regulation on Statistical Business Register[34]) requiring Member States to collect data on national firms and send them to Eurostat for the Eurostat Structural Business Statistics Database[35].

The Eurostat Structural Business Statistics Database aims to collect in a single European register, harmonised data on businesses covering the EU25. This is considered to be the most comprehensive database on business in Europe, containing information on ownership, legal form, establishment, employment, and turnover. The Database is used by Eurostat as a basis to undertake surveys on business.

Consultees pointed out that the business register contains information on all types and size of enterprises. Micro enterprises and sole traders, above the threshold of half a person employed are included as a general rule, although in some countries there are problems in including the smallest enterprises due to incomplete coverage by the national administrative sources. The minimum requirement is that the business register must be updated at least annually; however, most countries exceed this minimum requirement and update their information more often (e.g. monthly).

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[33]http://research.kauffman.org/cwp/appmanager/research/researchDesktop?_nfpb=true&_pageLabel=research_dataDetail&awebcurl=Research/DataSet_13.htm

[34] Council Regulation (EEC) No 2186/93 of 22 July 1993 on Community coordination in drawing up business registers for statistical purposes

[35] The regulation has been recently re-discussed following a proposal from the Commission (COM/2005/ 0112) for a new regulation on national business registers for statistical purposes that will cover multinational companies, as well as agricultural and public sectors. The proposal is still in the process of being adopted under the co-decision procedure.

The main strength of the database is that it provides data on business across the EU25 and that this data can be used to undertake specific business surveys.

The main weakness, for the purpose of this assignment, is that the Structural Business Statistics Database does not contain specific information on capital structure of businesses or access to finance. Moreover, the Database is not accessible to people external to Eurostat (e.g. external researchers) and that a specific European regulation or voluntarily agreement with Member States would be needed in order to use its information or to undertake further research on SMEs. Another element that needs to be taken into account is that, despite the efforts to harmonise data, there are still concerns over its comparability since data are collected by national statistics agencies under different regulations, legislative systems and definitions.

Eurostat **Survey on Factors of Business Success (FOBS**)[36]. This survey covers thirteen European countries and two acceding countries[37]. The Structural Business Statistics Database has been used to select young companies which were set up in 2002 and were still operating with the same entrepreneur in 2005. The survey provides some useful information on the issue of the difficulties faced when setting up an enterprise, according to entrepreneurs' gender and experience. Questions that are relevant for SMEs' access to finance are:

- How did you finance the enterprise start-ups?

- How difficult was it to get financing when starting up the enterprise?

- How important are each of these factors (availability of bank loans/availability of risk capital/availability if short term credit) as impediments to developing your business activities?

The main strength of the FOBS is that it focuses specifically on recent start-ups and that it provides data by country.

The main weakness is that it is a one-off voluntary survey not covering all the EU countries and has missing data because certain Member States raised issues about confidentiality. In addition, it does not really explore in detail the problem of access to finance (for example it only addresses the issue of early stage finance and not of later stage finance) and its focus it is not on SMEs, even if it can be assumed that the large majority of start-ups are SMEs.

Furthermore, Eurostat provides only raw data (e.g. a percentage needs to be worked out from the tables by the user) and a short publication of twelve pages containing a summary of the most pertinent findings. In-depth analysis, is not undertaken by Eurostat, and rests with policy-makers and researchers.

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[36] http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-NP-06-029/EN/KS-NP-06-029-EN.PDF

[37] The European countries covered are: CZ, DK, EE, FR, IT, LV, LT, LU, AT, PT, SI, SK, SE, plus Romania and Bulgaria.

European Central Bank (ECB)

The Euro Area Bank Lending Survey[38]. This is a quarterly publication started in 2003 that provides information collected through a panel survey of 85 senior loan officers from a representative sample of banks in the Euro area. The survey provides some useful information on bank lending both to enterprises and household, asking questions on:

- The factors affecting the approval of loans and credit lines;

- Terms and conditions for approving loans and credit lines;

- Demand for loans and credit lines;

- Factors affecting the demand for loans or credit lines;

- Expectations for the future.

The survey also provides information on the factors affecting the banks' decisions to provide credit to SMEs, demands for credit which were successful for SMEs as well as the banks' expectations of future demand.

The main strengths are that data are given by firm size (large enterprises and SMEs), and that trend analysis of SMEs credit demand is provided. A further strength is that the response rate of the survey is as high as 100%.

The main weakness is that there is no information on SMEs demand credit which were rejected. In addition, the working definition for SMEs is cited as being firms with an annual turnover of less than 50 million EUR, and thus it is different from the European Commission standard definition. The survey also only covers the Euro area and is therefore not representative of the entire EU.

Consultees from the ECB pointed out that there is an internal demand for having more and better data for monitoring the financial environment of SMEs and assessing whether SMEs are suffering from credit rationing[39].

The ECB is in the process of taking stock of the information that is available at a national level on the financial situation of SMEs, as well as SMEs balance sheets, through consultations with national bank institutions. So far, the initial review of the information available indicates that data is collected in such different ways that it would be very hard to use it at European level. For example, in some Member States banks collect the data, while in others it is up to the national statistics bodies – furthermore, questions are formulated in different ways, and different data are collated.

It is also very hard to obtain hard data from the banking sector (for example banks generally do not provide data on lending by firm size), data collected by banks in different Member States would not be comparable, and there is also a need not to overburden banks with complex reporting requirements. It is believed that well

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[38] http://www.ecb.int/stats/money/lend/html/index.en.html

[39] Consultees also pointed out that they would welcome some forms of cooperation and coordination with DG ENTR on the issue of SMEs access to finance with the view to improve the information and data currently available.

designed surveys covering both banks and SMEs are a better way to obtain information.

ECB does not collect information on Venture Capital but uses information provided by EVCA publication. It is also argued that the share of Venture Capital that finances SMEs is too small to justify an ECB investigation in this specific field.

European Investment Bank (EIB)

In 2003 the EIB held a seminar on SMEs' access to finance aimed at empirically investigating whether SMEs suffer from a structural financing problem that hinders their growth. The EIB undertook in-house research through its research unit and commissioned external research on the evidence on credit rationing for SMEs.

The EIB paper *Are finance constraints hindering the growth of SMEs in Europe*?[40] addressed two underlining research questions:

- Do capital structures of firms differ across size classes?
- Does a distinct capital structure of SMEs hinder their growth?

The empirical investigation at European level was undertaken by analysing firms' capital structure. Statistical analysis and theoretical models of firm growth were applied to data taken from the Bureau Van Dijk databases on companies' balance sheets.

The main strength of the paper is that it provides a rigorous empirical investigation based on hard data and not just on SMEs perception of finance constraints. It also uses information from the AMADEUS database, providing comprehensive information on companies' balance sheets, profit and loss accounts and ratios for ten years.

The main weaknesses can be summarised as:

- The paper provides only indirect evidence of possible financing problems encountered by SMEs in the credit market, since actual aggregates of stocks and flows of bank loans are not shown;
- The assumptions of the paper might not always hold;
- The paper used some complex statistical calculations and findings are not self explanatory and remain open to debate and interpretation;
- Data is not presented by country;
- The database has two main limitations: lack of data comparability, as the definition of financial debt is not consistent with the definition across different countries and; the coverage of SMEs is limited resulting in a sample size that is too small to draw strong conclusions.

Bank Surveys Evidence on Bank Lending to SMEs in the EU (2003)[41]. The EIB undertook a bank survey with the purpose of filling a gap in the information available

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[40] http://www.eib.europa.eu/Attachments/efs/eibpapers/y03n2v8/y03n2a02.pdf

[41] http://www.eib.org/Attachments/efs/efr03n01.pdf

on SMEs bank credit in EU. The aim was to obtain a better understanding of the credit market for SMEs and of the prospect for banks lending to SMEs. The survey provides information on the volume, performance and condition of bank lending to firms in different size bands. It covered EU15 and focused exclusively on SMEs. The survey was addressed to the "directors of lending operations" of 381 EU credit institutions, covering commercial banks, saving banks, co-operatives, mortgage banks, investments banks, non-bank credit institutions, medium and long term credit banks, and specialised governmental credit institutions. Out of a total 381 questionnaires sent out, only 74 were returned completed (one out of five). The questionnaire consisted of 22 multiple-choice questions on:

- The structure and development of bank's lending to SMEs in 2000-2002;

- The development of the bank's lending to SMEs in 2003;

- Information on the expected future development (2004-2006) on the bank's lending to SMEs;

- Information on recent trend in interest rates, loan loss provisions and profit margins on the bank's lending to enterprises.

The SMEs working definition was firms with an annual turnover of less that EUR 50 million[42]. SMEs are also differentiated by size band: small firms have an annual turnover of less than EUR 5 million and medium-sized firms have annual turnover between EUR 5 million and EUR 50 million.

SMEs access to bank lending was analysed through the following main research questions:

- Is there evidence that banks have reduced lending to SMEs in recent years, by looking at the past volume of outstanding credits, the volume of leasing contracts and maturity distribution of the loan portfolio?

- Is there evidence that banks are going to restrict SMEs lending in the future by comparing banks expectations on SMEs lending[43]?

- What are the main obstacles holding back bank-lending to SMEs amongst lack of equity, unavailability of collateral, low expected profit margin credits, high credit risks, alternative source of finance available, constraints on the bank's balance sheet, poor information on the firm?

- What interest rate do banks apply to enterprises?

The key strength of the survey is that it provided useful information on the supply side. In addition information on SMEs lending is broken down by different financial institutions (i.e. commercial banks, co-operatives, etc) and bank size.

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[42] This definition is based on the definition used by the Basel Committee on Banking Supervision in the final consultative document on capital requirement. BIS (2003) "The New Basel Capital Accord – Consultative Document". Basel Committee on Banking Supervision, http://www.bis.org/bcbs/cp3ov.pdf

[43] The expected change in the composition of enterprise loan portfolio is constructed by comparing banks reply on the expected changes in the composition of enterprises loan portfolio in the next 2 years. Unfortunately only 10% of the banks provided the information making it difficult to make predictions.

The main weakness is the low number of respondents and the fact that information is not provided by country (even if some information on broad regional variations is given (i.e. Mediterranean countries, Central Europe).

DG Economic and Financial Affairs

DG Economic and Financial Affairs provides analysis of the financial environment affecting investment in the Member States and accession countries, with the aim to define best practice and to formulate relevant policy proposals. DG Economic and Financial Affairs is also involved in funding programmes for SMEs.

DG Economic and Financial Affairs has used a large variety of tools to assess the financial market situation for SMEs. These tools include surveys of SMEs and finance providers, consultations with major stakeholders, and visits on the ground to Venture Capital funds. It also uses studies and evaluations realised by a wealth of organisations like the UK Department for Trade and Industry and EVCA, as well as direct contacts through meetings and conferences.

DG Economic and Financial Affairs is also responsible for the BACH database. The BACH database contains harmonised annual accounts and statistics on non-financial enterprises from 12 European countries (Germany, Finland, France, Italy, Spain, Belgium, the Netherlands, Portugal, Austria, Denmark, Sweden and UK) plus the United States and Japan. Data are provided for 23 sectors of economic activity, three company-size classifications and a total of 94 accounting items, starting from 1987 and updated annually. Data is included on the structure and development of the enterprise sector, as well as comparable data on annual accounts.

The main strengths of this database are that data can be used for cross-country and trend analysis of financial structures of companies by sector and size. In addition considerable efforts have been made to harmonise the data collected and access to the database is free.

Its main weaknesses are that the database does not cover all EU25 and it cannot be considered representative of SMEs because it covers only registered companies and excludes a large number of SMEs, such as sole traders. A further problem is that data are not of immediate use and calculations need to be undertaken on the data in order to obtain information that can be useful in informing questions on SMEs' access to finance. Data are also provided only at aggregate level for each country.

European Business Angels Network (EBAN)

The EBAN Annual Enquiry: EBAN supports the development and coordination of national business angels' networks. EBAN undertakes an enquiry every year to collect some information on business angels activities across Europe. In 2006, out of a total of 211 business angels networks identified, EBAN received information from 97 (a 45% return rate). Information provided covers: the number of active angels, the number of projects submitted, the number of deals, the total amount invested, the average amount of deal, the number of commercial networks and the sectors of investments, co-investments and funding source. Information is provided by country and trends are available for some indicators such as the number of business angels network established in each country.

According to the latest survey, the ratio between the number of businesses that have asked for financial support from business angels network and the number of entrepreneurs that have been given support is 1:10 (i.e. out of ten requests only one receives financial supports) and this figure tends to be similar across Europe.

The main weaknesses of the EBAN Annual enquiry is that it does not provide much information to assess the problem of SMEs' access to finance given that no information is provided which details the reasons for turning down entrepreneurs (e.g. have they asked for too much money? Did they have bad entrepreneurial ideas or an inadequate business plan? Was there a lack of finance on the business angels' side?)[44]. Moreover, EBAN data provide a limited coverage of business angels' investments. The overall level of business angels investments is substantially higher than the level of investments coming from business angels networks, given that most business angels are not part of any networks. Yet, the EBAN survey only covers business angels networks (mainly EBAN members but also non-EBAN members).

4.3.3   *Member States level*

United Kingdom

In the UK there are many SMEs surveys touching upon the issue of access to finance that are undertaken by various associations such as Chambers of Commerce, Business Associations, Banks or Business Research Centres. This section presents only the most relevant of these for the purpose of this evaluation study.

Annual Small Business Surveys: the UK Department for Trade and Industry has sponsored annual SMEs business surveys since 2003[45]**.** The surveys cover general small and medium business issues, interviewing a sample of over 8,000 SMEs over the telephone. The European Commission definition of SMEs has been used. A specific section of the questionnaire is dedicated to financing the business, providing information on the reasons for seeking finance, the types and amount of finance sought, the problems encountered in raising finance, the impact of difficulties in raising finance on the business, the use of equity finance and the reasons for not using equity finance. Other questions of interest concern business plans for growth in the future.

A point of strength of these surveys is that they enable comparisons over time.

Finance for Small and Medium Enterprises (2004): a consortium of nineteen public and private organisations led by the Bank of England commissioned Warwick Business School to undertake a comprehensive survey on SMEs' finance. The aims of the survey were to:

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[44] However, EBAN plans to include some questions on the reasons for turning down entrepreneurs requests for finance in the future enquiries.

45 The full list of Small Business Surveys can be found at this website:
http://www.sbs.gov.uk/sbsgov/action/detail?r.l3=7000000231&r.l2=7000000239&r.t=RESOURCES&r.i=7000 017547&r.l1=7000000229&r.s=sc&type=RESOURCES&itemId=7000027837

- Provide benchmarking data on the availability of credit to SMEs and the types of finance used.

- Collect information on the relationship between SMEs and finance providers.

- Develop a general micro-database for quantitative research on business finance, offering scope for comparison with the United States business finance.

The survey was conducted through telephone interviews on a sample of 2,500 SMEs. The report presents an accurate analysis of the issue of SMEs' access to finance covering:

- Potential sources of 'market failure' in SMEs finance markets, in particular information asymmetries between lenders and borrowers;

- General overview of data relating to the demand and supply of SMEs financial products (i.e. the range of financial products currently used by SMEs, new finances sought in the last three years);

- Extent of unsatisfied demand for finance amongst SMEs (i.e. extent of outright rejection, partial rejection (the business was offered less than they wanted), discouragement (the business did not apply for new finance because they believed that would be rejected);

- Examination of issues relating to the supply of SMEs financial services (i.e. the market shares of the main providers of financial services to SMEs, the number of different providers used);

- Analysis of the average and total amounts used of the different forms of finance.

The survey replicated the US Federal Reserved SMEs survey[46], enabling cross comparison and benchmarking. The consortium financing this project has already provided funding to repeat the survey in 2007 as this will enable trend analysis[47]. Several consultees have highlighted that this is one of the most complete surveys on SMEs' access to finance.

The main strengths of this survey are that it was a comprehensive research project focusing on SMEs' finance in the UK and it enabled comparison between the US and the UK. There would be merit in a similar survey being undertaken at a pan-European level.

British Bankers Association (BBA): The BBA undertakes an annual exercise to monitor SMEs banks' lending and borrowing (e.g. overall value of overdrafts, overall value of debts). The working definition of SMEs is any firm with a turnover up to one million[48] pounds, which is different from the official SME definition of the European Commission.

This exercise is based on voluntary arrangements between banks that are part of the BBA (approximately 90% of the overall banks in the UK). Although potentially this

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46 In the US this survey is carries out every 5 years.

47 It is estimated that the survey will cost £250,000

48 For British Bankers Association (BBA) statistical purposes, small businesses are defined as those having an annual account turnover of up to £1 million (see also Bank of England Finance for SMEs- Tenth Report http://www.bankofengland.co.uk/publications/financeforsmallfirms/fin4sm10.pdf)

represents a good source of information on SMEs debt finance, data is collected for internal use and is confidential.

Italy

Consultees from the Ministry of the Economy pointed out that supporting SMEs is high on the political agenda and it is generally assumed that there are 'market failures' in the supply of finance. The information that it is used to drive policy interventions is based on general data such as income and unemployment. Similarly, consultees from the Italian national research institute (ISTAT) highlighted that they do not undertake research or survey on SMEs' access to finance or empirical work that is relevant to this issue. Specific studies and surveys tend to be carried out by research institutes and SMEs organisations.

SMEs Trends Survey[49]: Unicredit Italia (investment bank) and CONFAPI (an Italian association of SMEs) undertake a semestral survey on SMEs covering general issues. The survey is online and is sent to all the SMEs associated with CONFAPI. Some questions are asked on the financial situation of SMEs to establish SMEs trends in access to credit, short-term debt, medium-to-long term debt and auto-finance. Data is by firm size and macro-regions.

The strength of this survey is that it gives some indicators of SMEs trends in accessing finance from the banks by firm size. The major weaknesses are that it does not cover all SMEs, but just those associated with CONFAPI, nor does it shed light on the factors which hinder or help SMEs' access to finance.

Small Business Finance in Italy[50]: this is an assignment to assess whether SMEs are facing a credit rationing problem by analysing their capital structure and their access to finance. The analysis used data from the *Centrale dei Bilanci*, a Bank of Italy database on firms' balance sheets[51], to calculate several indicators of the capital structure (ratio of total debt assets, ratio of financial debt to capital) and of the firms' liabilities (ratio of trade debt to assets, ratio of bank debt to financial debts, ratio of equity to assets). Statistical calculations and econometric analysis were applied. Data from the database is integrated with the results from an SMEs survey asking questions that allow the analysis of whether there is a correlation between being excluded from the credit market and firm size. More specifically SMEs were asked whether they:

- demanded an additional loan at prevailing market interest rates;

- were willing to pay a slightly higher interest rate to obtain additional loan finance;

- applied for additional loans but were turned down.

The main strength of the study is that it provides a rigorous econometric analysis of SMEs capital structures combining data on SMEs capital structure with an SMEs

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[49] "Laboratorio PMI indagine congiunturale" Unicredit and CONFAPI

[50] Paper by Luigi Guiso, presented during the EIB seminar on SMEs access to finance in 2003.
http://www.eib.org/Attachments/efs/eibpapers/y03n2v8/y03n2a05.pdf

survey. The main weakness is that the paper relies on complex econometric analysis based on theoretical models which leave the findings open to debate.

Germany

Kreditanstalt für Wiederaufbau (KfW) is a State-owned German Bank. The bank undertakes two main research programmes on SMEs that are relevant for SMEs access to finance: the KfW Start-up Monitoring and the KfW SMEs Panel.

KfW Start-up Monitoring[52]. This is an annual household survey that started in 2002. Approximately 40,000 people are interviewed over the telephone and asked if they have tried to set up a business, then 800 of those that have tried to set up a business are interviewed in detail. Some of the questions asked cover access to finance (e.g. types of financial needs, difficulties and the main issues in accessing finance).

The findings of the survey are used by the Ministry of Economy and data can also be used to undertake specific studies and research[53].

The KfW Start-up Monitoring is the most representative survey on start-ups in Germany because of its large sample size. However, with regards to detailed questions, such as the different types of finance used, the sample becomes too small to draw robust conclusions. In addition, it is sometimes difficult to get accurate information over the telephone as people might not be able to remember and discuss detailed and complex information. A larger sample would be costly.

KfW SMEs Panel.[54]It consists of a written questionnaire sent to a panel of German SMEs every two years. It started in 2003. The questionnaire is sent to 80,000 SMEs with a return rate of 9,000 for 2006 (there were 15,000 replies in the first year).

The Panel is about SMEs' issues in general (e.g. investments plans, business climate, innovation behaviour, and plans to hire new staff) with some questions on SMEs' financial needs and difficulties in accessing finance (i.e. reasons for credit refusal).

The panel's strengths are its large sample size and the fact that it enables trend analysis. In addition, being a written questionnaire, replies on detailed questions tend to be complete and of good quality. However, for specific questions the number of replies remains too small to draw conclusions.

Finland

Consultees from the Ministry of Trade and Industry pointed out that Finland is very keen to pursue a policy for SMEs that is based on evidence, and consequently data

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[52] http://www.kfw.de/EN_Home/Research/KfWStart-u.jsp

[53] The consultees could not provide the full list of questions covered by the questionnaires used for the Start up Monitoring and SMEs Panel nor disclose information on the cost of running these researches because KfW works with a private market research company and there are issues of confidentiality.

[54] http://www.kfw.de/EN_Home/Presse/Press_Conferences/KfW_SME_Panel_2005.jsp

and information are very important for policy-makers. The Ministry of Trade and Industry tends to rely on firms' surveys (the Bank of Finland General Firm Survey and the Finnvera Survey on SMEs). When necessary, the Ministry can commission studies on specific topics.

Bank of Finland General Firm Survey: every two years the Bank of Finland undertakes a survey on all firms, covering a wide range of issues, including access to finance[55]. The project is run jointly by the Ministry of Trade and Industry and the Business Associations. The relevant questions asked are: does the company need to access finance; has the company sought for external finance in the last six months; and, is the company planning to seek external finance in the next six months. There is a question on venture capital, asking whether the demand for venture capital has increased.

The main strength of this survey is that data is presented by size and thus it is possible to compare SMEs to larger companies. However, the number of questions on access to finance is limited to assessing the extent of SMEs financial needs, without investigating whether SMEs face structural difficulties.

Finnvera Survey on SMEs: Finnvera[56] is the public agency responsible for granting banks' loans and guarantee to SMEs that undertakes a SMEs survey every six months[57]. The survey has more questions on SMEs' access to finance than the Bank of Finland General Firm Survey. The main strength of this survey is that it is produced every six months, providing policy-makers with up-to-date information and data. However, the survey should be complemented with other studies, such as econometric analysis, to fully assess the problem of SMEs access to finance and to establish the effectiveness of public intervention.

Consultees have suggested that it is very difficult to gather information on informal investments such as Business Angels, while data on venture capital are provided by the Finish Venture Capital Association. Banks are not asked to provide information on bank lending, in the view of the consultees these questions are better explored by SMEs' surveys, even if officials from the Minister of Trade and Industry meet members from the bank associations once a year. Information on loan guarantee and micro credit is available from the Public Agency Finnvera.

Consultees also explained that Finland is currently working on a project for improving the information on SMEs access to finance. This consists of connecting the database of the Ministry of Trade and Industry, with surveys and data on SMEs, with the database of the National Statistical Institute, with the view to creating a comprehensive system of open access data and information on SMEs. This project is still at too early a stage to draw any comments on its success or limitations.

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[55] http://www.bof.fi/fin/3_rahoitusmarkkinat/3.6_Raportit/index.stm (in Finish only)

[56] http://www.finnvera.fi/

[57] http://www.yrittajat.fi/sy/home.nsf/pages/29078E68A0C526FFC22572020039B08C (in Finish only)

France

Consultees from OSEO (a National Agency that provides assistance and financial support to SMEs) have explained that the Agency collects information from different stakeholders (the Bank of France, the National Institute for Statistics (INSEE), Ministry for SMEs, Ministry of Research and Innovation). The OESE publishes the "SMEs conjuncture".

The OSEO SMEs Conjuncture[58] is an SMEs survey undertaken every six months. The questionnaire is sent to around 8,000 SMEs with a return rate of 15/20%. The survey aims to identify indicators on entrepreneurship and to collect information on employment. The survey also provides information on the financial situation of SMEs.

The main strength of the survey is that it is undertaken on a regular basis, enabling trend analysis. However, information on the financial situation of SMEs is limited and tends to be only descriptive and does not investigate the issues of access to finance.

Slovenia

Consultees from the Enterprise Fund Agency have explained that there is some information on the topic of SMEs access to finance (e.g. through the work of the Slovenian Entrepreneurship Observatory and the Statistical Office) but that there is a need to improve the stock of data available. The main challenges mentioned have been the cost of obtaining information, the confidentiality of data, the lack of comparability and the accuracy of data[59].

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[58] http://www.oseo.fr/mieux_connaitre_oseo/rapports_etudes_plaquettes/bilans_etudes/generalistes

[59] The information provided by consultees and the fact that publication of information in only in Slovenian, do not allowed for a full assessment of the source of information and data on SMEs access to finance.

Table 4.2. Summary of the main strengths and weaknesses of the information sources reviewed

Information source	Main strengths	Main weaknesses	Suggestions
International level			
WBES	Coverage of SMEs. Possibility to analyse data by firm size.	It covers only a limited number of European countries (France, Germany, Italy, Portugal, Spain, Sweden and United Kingdom, Poland, Slovak Republic and Slovenia).	
IMF	Regular reporting.	Limited coverage of SMEs access to finance. Issues of comparability.	
OECD Entrepreneurship Indicators Project: Entrepreneurship Statistics and Data	The project is still at a very early stage. Some indicators on access to finance might be included.	The project is still at a very early stage. There are issues of comparability. The issue of access to finance is not yet well developed.	The project sees the participation of Eurostat. It is worth liaising with Eurostat to closely follow the development of this project.
Kauffman Foundation (US) Kauffman Firm Survey	This is a new initiative aiming to create a data set of publicly accessible research on new businesses and their development in the United States. The survey will be a longitudinal study looking primarily at the financial development of new businesses in their first four years of existence. Data from this survey is not currently available.	The survey focuses on start-ups and early development only (the first four years of SMEs).	It would be interesting to see the development of this project, the types of data collected and information provided. A similar longitudinal survey could be replicated in Europe. Comparability with the Kauffman Firm Survey should be maintained to draw a useful comparative analysis with the US.
European Level			
Eurostat Structural Business Statistic Database	Provides data on business covering EU25. Data can be used to undertake specific	Does not contain specific information on capital structure of business or access to finance. It is not accessible to people external to	A specific sample could be selected to undertake a survey access to finance problems of growth -oriented SMEs.

Information source	Main strengths	Main weaknesses	Suggestions
	business surveys.

Regularly updated (at least every years).

Data cover all SMEs. | Eurostat.

A specific European regulation or voluntarily agreement with Member States are necessary to use undertake further research.

Concerns about the comparability of data remain. | |
| Eurostat – Survey on Factors of Business Success | It focuses specifically on recent start-ups.

It provides findings by country. | It is a one-off voluntary survey not covering all the EU countries and with some missing data as some Member States have raised issues of confidentiality.

It does not explore in any detail the problem of access to finance.

Its focus is not on SMEs (even if it can be assumed that the large majority of start-ups are SMEs).

The analysis of data remains with policy makers. | |
| ECB

European Central Bank

"Bank Lending Survey" | Data are given by firm size (large enterprises and SMEs).

Trend analysis of SMEs credit demand.

Survey response rate is as high as 100%. | There is no information on SMEs demand for credit that was rejected.

SME definition is a firm with an annual turnover of less than 50 million EUR.

It covers only the Euro area. | The survey provides some interesting information on banks lending behaviours and expectations. |
| EIB – Research Paper: "Are finance constraints hindering the growth of SMEs in Europe?" | It provided a rigorous empirical investigation based on hard information from database on companies | It does not provide actual aggregates of stocks and flows of bank loans.

The paper is based | |

Information source	Main strengths	Main weaknesses	Suggestions
	balance sheets.	on theoretical assumptions. The paper used some complex statistical calculations whose findings are not self explanatory. Data from the database is not fully comparable and there is a limited coverage of SMEs.	
EIB-Banks Survey: Evidence on Bank Lending to SMEs in the European Union	Information on the supply side. Data are broken down by different financial institutions.	Low rate of response. Information is not provided by country.	
DG ECOFIN- BACH Database	Cross-country and trend analysis of financial structures of companies by sector and size from 1987, updated annually. Efforts to harmonise the data collected. Access to the database is free.	Does not cover all EU25. It cannot be considered representative of SMEs as it excludes a large number of SMEs such as sole traders. Data analysis is necessary to use the information for addressing SMEs' access to finance.	
EBAN – annual enquiry	Information on number of demands for business angels support and number of successful applications.	No information on the reasons for turning down entrepreneurs. Information covers only data from business angel networks.	
Member States Level			
United Kingdom			
Finance for small and medium enterprises Survey - Warwick Business Centre	Comprehensive survey focusing specifically on SMEs' access to finance. The survey is similar to the SMEs survey of the Federal Reserve in the		There would be merit in this survey being replicated at pan-European level.

Information source	Main strengths	Main weaknesses	Suggestions
	US and enables UK-US comparisons. SMEs official European Commission Definition used.		
Annual Small Business Survey – Department for Trade and Industry	Regular survey enabling comparison over time.		
British Banks Association (BBA)- Annual monitoring of SMEs lending	Potentially a good source of information on SMEs lending and borrowing.	Based on voluntarily agreement between banks. Data are not official and there are issues of confidentiality. SMEs definition is a firm with up to one million pounds turnover which is different from the official European Commission definition.	
Italy			
SMEs Trend Survey – Unicredit and CONFAPi	Bi-annual trend information on SMEs' access to finance.	Coverage limited to SMEs associated with CONFAPI No detailed information on SMEs' access to finance issues.	
Research Paper- Small Business Finance in Italy- Einaudi Research Centre	Rigorous econometric analysis. Data based on Bank of Italy database on firms balance sheets.	Complex econometric analysis. Findings are open to interpretation.	
Germany			
KfW Start-up Monitoring	It is the most representative survey on start-ups in Germany. Regular survey (every year).	On detailed questions (e.g. the different types of finance used) the sample becomes too small to draw strong conclusions. It is sometimes difficult to get	

Information source	Main strengths	Main weaknesses	Suggestions
		accurate answers over the telephone.	
KfW SMEs panel.	Large sample size. Trend analysis. Written questionnaire enabling more articulate answers.	On detailed questions the sample becomes too small to draw strong conclusions.	
Research Paper "Financing the German Mittlestand"	Attempt to analyse 'hard data' based on SMEs financial structure.	Limited access to SMEs financial data. Strong and clear conclusions on credit rationing cannot be inferred from the analysis of SMEs financial structure.	
Finland			
Bank of Finland General Firm Survey	Regular survey (every year). Covers all firms, enabling comparative analysis between SMEs and larger firms.	Limited coverage of the access to finance issues.	
Finnvera Survey on SMEs	Regular survey (every six months). Better focus on SMEs access to finance.	The survey needs to be integrated with further analysis to assess the problems of SMEs access to finance and the effectiveness' of public intervention.	
France			
OSEO SMEs Conjuncture	Regular survey (every six months). Trend analysis is possible.	Limited information on SMEs access to finance. Mainly descriptive.	

4.4   **The use of information sources to identify 'market gaps', 'market failures', market weaknesses and gaps or lags in the development of capital markets**

Evidence from the various information sources indicates that SMEs experience a wide variety of problems related to access to finance. However, most surveys indicate that there are other constraints on the development of SMEs and in most instances access to finance is not the most severe problem.

The problems of SMEs' access to finance can be classified in broad terms as those relating to 'market failures, 'market gaps', 'market weaknesses' and 'gaps and lags in the development of capital markets'. However, there are no universally-accepted definitions of these terms and some SMEs' access to finance problems could be classified under more than one of them. When considering the potential of different information sources it is more straightforward to focus on the problems that have been cited and to consider how best they could be measured.

Table 4.3 identifies the main problems and categorises them according to market failures, market gaps, market weaknesses and gaps and lags in the development of capital markets. The table also indicates: the main methods used to identify the problems; the public sector sponsored responses to the problems that are made; and some suggestions for improvements to the information base to inform public policy and practise with respect to SMEs' access to finance.

'Market failure' is a term used to describe a situation in which markets do not efficiently allocate goods and services. Market failure is used as a basis for public sector provision of goods and services. A common cause of market failure is the presence of externalities. In the context of SMEs' access to finance it is rarely argued that the public sector should be a main provider of finance. However, it is evident that some of the conditions for markets to work efficiently do not pertain. In particular there may be problems of lack of awareness by SMEs of the possibilities to gain access to finance and lack of awareness from financial institutions of the demand for finance. It is relatively easy to estimate the scale of such problems through surveys. Typical public sector interventions to address the problem include the sponsoring of information campaigns and brokers able to provide advice and act as intermediaries between SMEs and finance suppliers.

There are several ways in which the scale and nature of these problems could be better calibrated:

- Large scale surveys of SMEs repeated regularly. In order that the surveys should provide good information of the problems most pertinent to competitiveness and growth oriented SMEs, they should be structured by: age of SME, size, sector, growth performance and experience of seeking external finance.

- Surveys of a standing panel of representatives of finance providers. The emphasis of the survey questions would be on the steps they have taken to generate demand and to develop and publicize 'new' financial products.

'Market gap' is not a technical term that is commonly used. It is reasonable to define the term as meaning that a commercial market opportunity exists but the market is, for whatever reason, choosing not to exploit it. In such circumstances the public sector might take steps to fill the gap and directly or indirectly provide finance, with a view to demonstrating to the market that the commercial opportunity exists. Such interventions

could apply to both debt and equity finance. Interventions of this type run the risk that no 'gap' exists and therefore costs will be incurred. Such interventions may also assume that a 'gap' may emerge as SMEs increase their demands for finance in response to the intervention generating successful outcomes. In effect the public sector intervention may be seen as a pilot or demonstration project where society is willing to underwrite the risk of being the 'first mover' in order to help establish a market.

There are several ways in which the scale and nature of the 'market gaps' defined in this way could be better calibrated:

- Large scale surveys of SMEs repeated regularly. In order that the surveys should provide good information of the problems most pertinent to competitiveness and growth oriented SMEs, they should be structured by age of SME, size, sector, growth performance and experience of seeking external finance.

- The analysis of individual cases and specific sub groups of SMEs. For example, young SMEs without trading records but with very strong market potential. The purpose of the analysis would be to assess whether in the context of a developed capital market the particular types of SMEs would be reasonable investments.

'Market weaknesses' Again this is not a technical term but it is useful as a generic description of the range of problems that suggest that markets exist' but they do not function as well as they might. SMEs' problems of access to finance of this type include: the high costs of access to finance; the high costs of provision of finance; credit rationing; the reluctance of SMEs to seek finance; variations in the regulations and taxation environments affecting the operations of SMEs between member states. Dimensioning these problems requires a range of information sources including: surveys of SMEs, case studies of individual SMEs and finance providers, and bespoke analyses of aspects of the regulatory and taxation environments. Public sector and in particular EU interventions to address these weaknesses include: public sector provision of guarantes; support to assist SMEs in the preparation of applications for finance (for example, consultancy advice); support to reduce the costs to finance suppliers of SMEs' finance; initiatives to improve entrepreneurial cultures (for example entrepreneurial education); initiatives to complete the single market and to improve regulations; and, recommendations to member states on the harmonisation and approximation of taxation. The rationales for such interventions are particularly strong in national and regional contexts where the problems are most marked.

There are several ways in which the scale and nature of these problems of market weaknesses could be better calibrated:

- Trend analyses, of the findings of a panel of growth oriented SMEs would be useful to ascertain how the problems are changing and whether differences between countries in the scale and nature of problems of market weaknesses are growing or declining.

- Structured cross national studies could be undertaken to assess the influence of factors such as the scale of domestic markets and peripherality on the scale and nature of these problems.

- There is a need to evaluate whether guarantees (and other interventions) improve the supply of finance through enabling companies to establish track records and/or discourage risk taking by private sector finance providers.

- There is a need for bespoke studies of aspects of the variations in regulatory and taxation environments between member states. Some of these variations have been cited as factors inhibiting the development of capital markets.

'Gaps and lags in the development of capital markets' Several of the problems of SMEs' access to finance cited in the literature and by interviewees concern the differences between the current situation in the EU (or in particular countries and regions) and the situation in countries where the capital markets are 'more developed' and in particular the situation in the US. Within the EU, the UK has been identified as having the most developed market for venture capital. In broad terms a developed capital market is characterised by there being:

Large numbers of growth-oriented SMEs aware of the options to secure external finance, and willing and equipped to pursue it; competition amongst finance suppliers willing to take risks and having a full range of financial products on the market; mechanisms in place that ensure that appropriate contacts between SMEs and finance providers take place; strong regulations and enforcement of laws affecting patents and IPR; SMEs have access to large markets; little or no direct role for the public sector in the provision of finance to SMEs for economic objectives.

In contrast, less developed capital markets are characterised by there being:

Few growth oriented SMEs seeking external finance; little competition amongst relatively risk adverse finance suppliers; little or no presence of venture capital; few mechanisms for entrepreneurs to meet prospective investors; relatively weak enforcement of laws affecting business and protecting patents and IPR; and, the presence of the public sector in the provision of guarantees and subventions to reduce the risks of potential (private) investors.

Assessing the development of a capital market requires the combination of a number of information sources. The following improvements in information sources would be useful:

- Comparative studies (involving three or four countries) of the factors inhibiting the development of financial markets in parts of the EU where there is currently little venture capital activity and apparently few SMEs that are both growth oriented and seeking external finance. Such studies would need to include surveys of SMEs, surveys of existing finance providers, surveys of prospective finance providers (including those that are operating on an international basis and in 'neighbouring' countries), analyses of the regulatory, institutional and fiscal contexts.
- Trend analyses, of the findings of a panel of growth-oriented SMEs would be useful to ascertain the 'penetration' of changes in the capital markets.

Table 4.3 Summary of suggestions for improving the information base to inform the problems of Access to Finance of SMEs in Europe

Concept	Problems	Means of measuring the problems	Public Sector Interventions	Suggestions and recommendations to improve the information base
'Market failures'	SMEs unaware of possible sources of finance.	Surveys of SMEs. Surveys of those dealing with SMEs.	Support for information campaigns. Funding intermediaries and brokers. Funding pilot measures.	Large scale and repeated surveys would be useful.
	Banks and finance suppliers unaware of demand for finance.	Surveys of banks and other finance providers.		There would be benefit in establishing a 'permanent' panel of finance providers.
'Market gaps'	'Profitable' opportunities for providing debt finance missed.	Surveys of SMEs. Examination of individual cases/markets (i.e. particular regions/sectors/types of SMEs finance) Analysis of borrowing/financing behaviour of SMEs.	Public sector demonstrates that market is 'profitable' by supplying finance and/ or stimulating the establishment of new suppliers, then publicising the 'commercial' returns achieved.	SMEs' surveys need to focus on SMEs 'most likely to' require external loan finance. Include surveys of when access refused.
	'Profitable' opportunities for providing equity finance missed.			SMEs' surveys need to focus on SMEs 'most likely to' require external equity finance. Include surveys of when access refused.
'Market weaknesses'	High costs to SMEs of access to loan /equity finance (costs of search, application, interest rates, barriers (track record), collateral etc.).	Surveys and cases of (individual) SMEs to ascertain actual costs of finance. Surveys and cases studies of suppliers to identify the costs due to factors such as: distance; lack of competition between providers; lack of autonomy of decision taking; lack of economies of scale.	Public sector provides guarantees. Support to assist SMEs in the preparation of applications for finance. (consultancy advice etc.) Support to reduce costs to finance suppliers of SMEs finance.	Need to evaluate whether guarantees (and other interventions) increase supply through enabling companies to establish track records and/or discourage risk taking by the private sector finance providers.
	High cost of provision of finance. Linked to previous experience, losses, administrative costs etc).			
	Credit rationing. SMEs willing to	Surveys of SMEs.	Provision of guarantees and/or	

Concept	Problems	Means of measuring the problems	Public Sector Interventions	Suggestions and recommendations to improve the information base
	pay more for finance but cannot.	Application of econometric methods.	finance on a commercial basis.	
	Reluctance by SMEs to seek external finance.	Surveys of SMEs.	Initiatives to improve entrepreneurial culture.	Trend analysis, panel of growth oriented companies.
	Variations in regulations and costs of 'non Europe' (e.g. no single market for VC in Europe).	Studies of regulatory environment. Surveys of finance suppliers.	Initiatives to complete single market and improve regulation.	Need for structured cross national studies to assess influence of issues such as small domestic markets and peripherality.
	Variations in taxation environment.	Studies and mapping of the taxation environment.	Recommendations to MS on harmonisation and approximation.	
'Gaps' and lags in the development of capital markets	Levels of supply of VC less than in competitor economies.	Surveys of VC suppliers in EU and elsewhere.	Support for development of VC market.	Need for comparative and longitudinal studies on development of capital markets.
	Financial sector non responsive.			

5   CONCLUSIONS AND RECOMMENDATIONS

This section of the report provides conclusions and recommendations.

5.1   Responses to the key evaluation questions

Table 5.1 summaries the evidence of the assignment with respect to the key evaluation questions given in the task specifications (Annex 5).

Table 5.1 – Responses to the key evaluation questions

Evaluation criteria	Evaluation questions	Responses
Effectiveness	(1) To what extent have the data and the way they are used enabled DG Enterprise and Industry to address market gaps in SMEs' access to finance, and to what extent has this contributed to the goals of the Lisbon Agenda to promote growth and jobs? (2) How effective has the data used been in enabling Unit D3 of DG ENTR to perform the analysis and assessment of access to finance for SMEs, with regard of the objective to identify and address market gaps in access to finance in Europe (3) What, if anything, could be done to deliver better data more effectively to enable reliable and dynamic assessment and analysis of the situation regarding access to finance for SMEs? (4) What is the added value of data currently used to ensure the identification of 'market failures' in SMEs' access to finance on the EU level for stakeholders? What, if anything, can be done to improve the added value of this data? (5) Are there any methods or information sources used in the analysis by DG ENTR Unit D3 which consistently form an obstacle to us obtaining a clear	A wide range of information on SME access to finance has been used by DG Enterprise and Industry to inform the development of policy. The combination of different sources has in particular helped to ensure policy was consistent with the evidence and opinions that were available. However, the data available to DG Enterprise and Industry do not enable a fine grained analysis of 'market gaps' and the optimal circumstances for public sector support of SMEs' access to finance. A broader basis of data would be required to achieve this. Larger scale EU level annual SME surveys based on the UK Access to finance SME survey (2004) would be useful particularly if coupled with panel surveys of finance providers covering all Member States and bespoke studies of constraints influencing the demand and supply of finance for SME of different types. The added value of data available at the EU level is still small because of limitations of sample size, coverage and periodicity. Pertinent and accurate information addressing the questions elaborated in the

Evaluation criteria	Evaluation questions	Responses
	picture on the situation regarding access to finance for SMEs in the EU?	toolkit would increase the value of this information. There is an over reliance on information on the perceptions of SMEs rather than information derived from data on their trading and financial position and their experience of seeking finance.
Efficiency	(6) What aspects of information sources underlying the analysis of access to finance for SMEs in the EU are the most efficient or inefficient, especially in terms of resources that are mobilised by stakeholders? Are there any administrative and reporting burdens on stakeholders and/or other actors which could be reduced? (7) Are there overlaps/complementarities between the information sources underlying the analysis of access to finance for SMEs in the EU and any other Community or Member State action in the relevant areas? If these exist, where are they visible?	Large scale structured interview surveys at the national level that are complemented with data of different types on the supply of finance and case studies of specific individual or types of SME provide the most efficient means for informing the analysis of access to finance of SMEs. The reporting burdens on SMEs are not disproportionate but the returns on participation would be greatly enhanced through there being regular surveys. Complementarities between the surveys and analyses at EU and national levels could be improved. (For example, undertaking the UK Access to finance survey at the EU level would be of value.) There is not a coherent strategy to improve the information base.
Utility	(8) To what extent could measures be taken to improve the utility of the information sources underlying the analysis of access to finance for SMEs in the EU and what measures would these be?	See response to question 3 above.
Sustainability	(9) To what extent are the information sources underlying the analysis of access to finance for SMEs in the EU on a European level helping to provide a reliable picture of 'market failures' in this area?	The absence of a strategy to improve the information sources in this area means that the value of the data collected is reduced.

5.2 **Recommendations for better use of existing information sources**

There would be merit in exploring further the use of the following existing sources of information to enable transnational comparisons:

- Eurostat Business Register. This has the potential to generate samples of growth oriented SMEs that could be investigated further.

- The use of large scale SME surveys such as the *Flash Euro-barometer*, but targeted on growth-oriented SME where issues of access to finance are likely to be most critical.

- The surveys of business angels. Supplementary questions would be of benefit.

- The surveys of EVCA members, that might further distinguish between types of venture capital and the circumstances in which it is invested.

There would be merit in the further analysis of the following information sources at national level.

- UK SMEs' access to finance survey (2004). This comprehensive survey could be replicated at pan-European level. As in the national case, the support of the main stakeholders at national level (e.g. SMEs organisations, finance providers and governments) would be necessary to undertake this survey. The UK survey replicated the US Federal Reserve Survey and thus if extended, it would offer comparative observations.

- The existing surveys of financial institutions such as banks (for example the British Bankers Association annual monitor of SMEs bank's lending and borrowing), and also the national data on bank lending which is compiled by ECB in the "Euro Area Bank Lending Survey".

- The approach being undertaken in Finland in trying to create a comprehensive and open access system of data and information on SMEs by connecting the existing database of the Ministry of Trade and Industry, containing SMEs' surveys and data, with the database of the National Statistics Institute.

- Following the development of the Kauffman Foundation Firms' Survey. A similar longitudinal survey could be undertaken in Europe. Comparability with the Kauffman Foundation Firms' Survey would be of benefit.

There would be merit in producing summaries of the key findings from existing information sources. Such summaries should extract the findings related to the problems identified in Table 4.3 and the key indicators and questions identified in the toolkit and presented in Tables 5.2 and 5.3. The current reports tend to be long, often complicated, and full of descriptive information with little interpretation. More use could be made of these information sources if the findings were organised within a simple knowledge management system.

Such a knowledge management system could usefully have the following configuration; its content would be based on abstracts of the existing and new information sources. Each time a report of a study or survey is published an abstract would be prepared. The abstracts would identify the types of SME referred to (by size, sector and location), the information cited relating to each of the twelve problems listed in Table 4.3 and the type of evidence (survey of SMEs, results of consultations, analysis of financial records etc.). Users of the knowledge management system would

be able to search the abstracts on at least the following criteria: geography, SME sector, and problem type, and would be able to access both the relevant abstracts and the information sources themselves.

5.3   Recommendations on the generation of new information.

Even though better use could be made of the existing information, it is at best still very limited in terms of specificity and depth and breath of coverage. Questions over the optimum use of public sector resources to improve SMEs' access to finance are subtle rather than black and white. Financial markets are dynamic and there are important potential interactions (both positive and negative) between public sector interventions and the wider market. In these circumstances there would merit in having a long-term strategy to improve spatial and temporal comparability of the information base. Given the emphasis of DG Enterprise and Industry on economic rationales for public sector support of SMEs' access to finance the components of such a strategy should include:

- Co-ordinating the efforts of the ECB, Eurostat, OECD and DG Enterprise and Industry There would for example, be merit in establishing a Task Force charged with developing a strategy to improve the coverage and comparability of the information base from publicly funded surveys, company databases and financial records pertinent to SME access to finance.

- Having larger scale annual SMEs' surveys based on that used in the UK in 2004.

- Focusing SMEs' survey resources on growth oriented SMEs and exploring the behaviour of SMEs rather than perceptions. In particular, information on the steps taken to secure finance, either successfully or not, is of critical interest.

- Comparing the performance of companies using EU-Financial Instruments with others not using them[60].

- Creating panels of growth oriented SMEs whose progress and use of financial resources can be monitored and analysed. Such panels have the potential to provide insights into trends and the factors that are influencing SMEs access to finance over time. The monitoring process could build on the factors model.

- Creating panels of finance suppliers: banks; venture capital suppliers; and business angels that would regularly provide opinions on the development of markets and factors influencing SMEs' access to finance. The Euro Information Centres could play a pivotal role in this process. For example, each EIC could, on a commonly defined basis, identify 'samples' of banks, venture capital suppliers and business angels operating in their territory and systematically and on a regular basis ask for their opinions on the development of SMEs' access to finance. The value of information of this type would be greatly enhanced were the panels formed on a similar basis, the (bulk of) questions asked the same, and the timing comparable across countries within the EU.

- Developing the toolkit (see section 5.4).

The generation of new information will have less impact on the administrative costs of SME's when it results from the better exploitation of existing databases and the cooperation between intermediaries, administrations in the Member States and other

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[60] This suggestion was made by DG Economic and Financial Affairs during the presentation of the Final Report. The stakeholders present felt it was of particular interest.

institutions. The cost implications of generating new information will be proportionate provided the following considerations were borne in mind. Firstly, the sample sizes should be sufficient to enable key comparisons between groups, sectors and geographical locations of SMEs and suppliers but the choice of which comparisons would be most useful should be made in order to optimise the sample size. There are rapid diminishing returns in expanding sample sizes. Secondly, efforts should focus on constructing the samples and panels so that survey resources are focused on the SMEs and actors of interest. For example, only a small proportion of SMEs is likely to ever consider venture capital as an option. However, this small proportion may be very important from an economic and competitiveness perspective. The use of screening questions to identify such SMEs prior to more detailed questions being asked would increase the cost effectiveness of the survey processes. Thirdly, the burden on the SMEs or actors involved in the survey and provision of information and opinion, will be much reduced if the surveys include exploratory questions and if the respondents have access to the findings of the survey.

5.4 Key elements of a Toolkit

Background and purposes

The toolkit provides guidance to policy actors and those concerned with the development and implementation of policies and initiatives to improve SMEs' access to finance.

More specifically it indicates how best use can be made of existing methods/information (bearing in mind that the quality of information varies between countries) and how practical means can be devised to identify conditions in particular geographical contexts, for particular types of finance and for particular types of SME.

It should be emphasised that the optimum choice of public sector interventions to improve the access of SMEs to finance must take into account the particular circumstances affecting the country, region, SMEs sector or group, and the state of evolution of the development of both demand from SMEs and the supply of different financial products.

Establishing needs

Table 5.2 indicates in broad terms how the potential for improving SMEs' access to finance could be assessed. The approach outlined could apply to a country a region or a particular SMEs group/sector. The table identifies the concepts of interest: the performance of SMEs (where the SMEs sector is already dynamic there is likely to be less scope for improvement); the availability of loans, equity and other forms of finance (where existing availability and use of loans and equity finance is relatively high there is likely to be less scope for improvement); the presence of existing relevant public sector interventions (where these are relatively underdeveloped then the scope for improvement may be greater); and the existence of specific problems of SMEs' access to finance (Table 4.3 indicated the range of problems and the information sources that can be applied to inform them).

Table 5.2 Key indicators, questions and information sources to assess the potential for improvements in SMEs' access to finance.

Concept	Key indicator	Questions and criteria	Information sources
Performance of SMEs.	Proportion of all employment in SMEs. Changes in proportion of employment in SMEs. Number of new start-ups. Proportion of SMEs that are growth oriented. Proportion of SMEs using external finance.	The indicators help establish the relative dynamism of the SME sector. However, interpretation needs to take account of economic structure and factors such as the number of sole traders.	Employment surveys. Records of registrations. Ideally longitudinal studies. SMEs' surveys. SMEs' surveys.
Availability of loan finance.	Proportion of SMEs using loan finance. Level of gearing (via loans) of growth oriented SMEs. Number/amount of loan request. Number/amount of loan requests turned down	Comparisons with countries with more developed capital markets are appropriate.	Mapping of loan providers. SMEs' surveys. Analysis of SMEs cases.
Availability of equity finance.	Number of VC suppliers. Number of business angels. Proportion of SMEs using equity finance. Number/amount of SMEs requests for equity finance. Number/amount of requests turned down. Level/percentage of equity finance backed by guarantees.	Comparisons with countries with more developed capital markets are appropriate.	Mapping of equity finance providers. SMEs' surveys. Analysis of SME cases.
Presence of public sector interventions in domain.	Level/percentage of loans backed by guarantees. Number of projects that provide finance or offset the costs/risks of private	In general terms the potential for improvements to SMEs' access to finance is likely to be highest where there is some experience of public	Mapping of public sector interventions. Management records. Public records.

Concept	Key indicator	Questions and criteria	Information sources
	sector finance providers. Level/percentage of (public sector) finance for start-ups and SMEs (including those for regional policy, employment and social objectives). Number of professional entrepreneur trainings offered (per region) Number/percentage of new SMEs using trainers/coaches	sector interventions but these have been small in scale relative to the potential market. There is a need to ensure that interventions are complementary.	Evaluations of interventions.
Existence of problems of SMEs' access to finance.	See Table 4.3 that identifies the range of problems and the sources of information used to inform them.		

Following the guidance would enable the identification of circumstances in which pubic sector interventions are most likely to be fruitful.

Choosing interventions and resource allocation

Measuring the scale and nature of the problems of SMEs' access to finance identified in Table 4.3 would provide insights into the types of interventions that are most likely to be successful and the scale of interventions that might be required. Table 5.3 indicates how different information sources may be used to select the most appropriate intervention and/or the package of interventions to improve SMEs' access to finance. Such interventions may range from 'providing information to improve awareness targeted at specific groups of SMEs or other actors, through the assistance to SMEs to prepare submissions for finance to the 'subsidy' of finance by the public sector through the provision of guarantees, and pilot projects to demonstrate the viability of finance provision to SMEs. The key questions and criteria, the generic types of information sources and the potential of existing sources are identified for each type of intervention.

Table 5.3 Key questions, criteria and information sources to judge the applicability of particular public sector interventions to improve access to finance of SME

Intervention	Key questions and criteria	Type of information source	Existing sources
Information to improve awareness of SMEs for accessing appropriate and available finance.	What are the levels of awareness? How do these levels compare between countries/ regions/ SME sectors?	SMEs surveys	EU level surveys do not allow for sufficient disagregation. Fora of finance providers and SME representative organisations may act as both a source of information and as a means of improving awareness
Information to improve awareness of finance suppliers.		Finance provider surveys	
	Relatively low levels provide decision criteria.		
Encouragement of intermediaries to advise and broker SMEs/ finance provider contacts.	What are the levels of experience and competences of SME to identify potential sources and prepare applications? Are advice services available to SMEs? Are the costs of advice services commensurate with the benefits?	SMEs' surveys Surveys of SMEs representative organisations. Surveys of existing intermediaries (including those in private sector working for SMEs on a commercial basis).	EU level surveys do not explore the questions in sufficient detail for sufficient numbers of cases. Currently there are not mechanisms for surveying active intermediaries.
Loan guarantees.	What are the levels of collateral demanded by lenders? Are these levels of collateral disproportionate to the risk of default? Do existing private sector finance providers base their criteria on inadequate information and or perceptions of high administrative costs?	SMEs' surveys. Cases of failed applications for finance by SMEs. Returns and losses made on provision of previous similar guarantees. Surveys of financial institutions. Consultations with financial institutions.	EU level surveys do not inform these questions in sufficient detail for sufficient numbers of cases.
Support to venture capital finance providers.	What proportion of SMEs is suited to take advantage of venture capital? What proportion of	SMEs' surveys. Surveys of financial institutions. Consultations with	EU level SMEs' surveys do not inform these questions in sufficient detail for sufficient numbers of cases.

Intervention	Key questions and criteria	Type of information source	Existing sources
	SMEs has pursued the possible access to venture capital? Are venture capitalists active in the country/region/sector? Do existing private sector finance providers base their criteria on inadequate information and or perceptions of high administrative costs?	financial institutions. Analysis of cases.	EVCA data allow for indicative comparisons.
Direct financing of SMEs.	Is there a complete (or near complete) absence of private sector provision of external finance to SMEs? Do existing private sector finance providers base their criteria on inadequate information and or perceptions of high administrative costs?	SMEs Surveys (particularly growth oriented SMEs). Surveys of banks.	EU level surveys may be able to inform circumstances where supply of finance is quasi non existent.

Designing interventions.

The detailed design of public sector interventions to improve SMEs' access to finance is of critical importance. The key parameters of different interventions and the information sources that could inform these are shown in Table 5.4. The parameters of interventions include: target groups; guarantees required (or provided); interest rates offered; rates of return expected and the efficiency of finance provision.

Table 5.4 Key parameters of interventions and the use of information sources to inform them

Intervention	Key parameters of interventions	Information source to inform parameters	Existing sources
Information to improve awareness of SMEs for accessing appropriate and available finance.	What are the SMEs' target groups? What are the finance supplier target groups? What are the key messages?	SMEs' surveys.	EU level surveys do not allow for sufficient desegregation. Fora of finance providers and SME representative organisations may act as both a source of information to inform campaigns and as a means of improving awareness.
Information to improve awareness of finance suppliers of demand and opportunities to provide 'profitable' finance to SME'.		Finance provider. Surveys.	
Actions to facilitate intermediaries to advise and broker SMEs/ finance provider contacts.	What are the SMEs' target groups? What are the services that should be provided? Should there be charges for the services? What are the procedures for allocating the service? How can the tendency to 'crowd out' private sector service providers be avoided?	SMEs' surveys. Surveys of SMEs' representative organisations. Surveys of existing intermediaries (including those in private sector working for SME on a commercial basis).	EU level surveys do not explore the questions in sufficient detail for sufficient numbers of cases. Currently there are not mechanisms for surveying active intermediaries.
Loan guarantees.	What are the SMEs' target groups? What should be the conditions of the guarantees (including for example matching guarantees from the beneficiaries)? Which lenders should be included in loan guarantee schemes? What contributions should the lenders make to sharing risk? What rates of losses	SMEs' surveys. Cases of failed applications for finance by SMEs. Returns and losses made on provision of previous similar guarantees. Surveys of financial institutions. Consultations with financial institutions.	EU level surveys do not inform these questions in sufficient detail for sufficient numbers of cases. Information from the EIF currently informs the design of interventions.

Intervention	Key parameters of interventions	Information source to inform parameters	Existing sources
	should be considered acceptable? What procedures should be applied to publish the returns made and to evaluate the intervention, including the impacts on the development of the capital markets.		
Venture capital.	What are the SMEs' target groups? How could venture capital be promoted within the EU? What procedures should be applied to publish the returns made and to evaluate the intervention, including the impacts on the development of the capital markets?	SMEs' surveys. Surveys of financial institutions. Consultations with financial institutions. Analysis of cases.	EU level SMEs' surveys do not inform these questions in sufficient detail for sufficient numbers of cases. EVCA data allow for indicative comparisons.
Direct financing of SMEs.	What are the SMEs target groups? What rates of returns/ losses should be considered acceptable over what period? What procedures should be applied to publish the returns made and to evaluate the intervention, including the impacts on the development of the capital markets?	SMEs Surveys (particularly growth-oriented SMEs). Surveys of banks.	EU level surveys of finance providers may be able to inform variation in the rates of return/losses that should be achieved.

The potential application of the Toolkit

As stressed above, the toolkit could be applied to a country, a region or a particular SMEs group/sector. The toolkit could be of value to those developing policy at the national, regional or SMEs sectoral group level, either those inside government or 'project promoters' wishing to convince Government of the merits of interventions in

this field. The key benefit of the toolkit is that it systematically focuses on the most important concepts, questions and criteria to help inform policy judgements. Its main weakness is that the quality of information available is in many cases currently weak. Thus, in many circumstances those applying the toolkit might be frustrated that they are still reliant on 'judgement' and the views of actors that are informed by partial and often anecdotal information. Furthermore it is likely that the toolkit will be of only limited value in contexts where the market for SMEs access to finance is already mature and well developed, and in contexts where the development of the market is embryonic or immature.

In order to further the application of the toolkit there would be merit in pursuing the following steps:

- Articulating the toolkit in a separate (draft) document.

- Inviting actors, both within government and potential 'project promoters,' in a number of national/ regional contexts to apply the Toolkit on a trial basis with support from the developers of the Toolkit if required.

- In the light of results of the trial application developing the toolkit in an interactive electronic format suitable for use throughout the EU but only including references to European and international level information sources.

- Localising the toolkit so that it embraces references to all relevant information sources at national and regional levels. This step would need to involve inputs from the national and regional levels in the development process, but should be coordinated at the EU level.

5.5 Priority recommendations

The sub sections above have provided a large number of recommendations. In the light of the findings of the evaluation it is recommended that immediate priority is given to:

- Developing the knowledge management system outlined in Section 5.2 that would ensure that access to existing relevant information would improve;

- Developing the toolkit outlined in Section 5.4.

At the same time, as indicated in Section 5.3, steps should be taken to ensure that a coherent strategy for the generation of new information is put in place building upon close coordination between the key actors in the field.

GLOSSARY AND ACRONYMS OF THE KEY TERMS USED IN THE REPORT

GLOSSARY

Basel II	Reform of the capital requirements for banks, drafted by the Basel Committee on Banking Supervision. Aims to make the international financial system safer by having the risks of banks' loan portfolios to be reflected in the capital charges they need to set aside against unexpected losses. It is implemented in the EU for credit institutions and investment firms through the Capital Requirements Directive that has been approved by the European Council and European Parliament.
Business Angel	A wealthy private individual who invests directly in new and growing unquoted businesses and provides them with advice. Business angels usually get an equity stake in the business, but may also provide other long-term finance. This capital can complement the venture capital industry by providing finance at an earlier stage than most venture capital firms want to invest.
Buyout	Purchase of at least a controlling percentage of a firm's equity from the current shareholders, taking over its assets and operations. In a management buyout the current managers are the buyers. In a management buy-in a group of outside managers are the buyers.
Capital market	A market in which long-term capital is raised by industry and commerce, the government and local authorities. Stock exchanges are part of the capital market.
Collateral	Assets pledged by a borrower to secure a loan or other credit and subject to seizure in the event of default. Also called security.
Corporate Venturing	When a larger company takes a direct minority stake in a smaller unquoted company for strategic, financial or social responsibility reason. Predominantly used by large corporates to support external technology development.
Credit Rationing	When a bank limits the supply of loans to the point where the supply of loans is not sufficient to cover the demand of prospective borrowers. Changing the price of the loans (interest rate) does not equilibrate the demand and supply of the loans. A bank may credit ration its borrowers if it cannot distinguish the risky borrowers from the safe ones (information asymmetries).
Debt Finance	Debt Finance is finance raised by taking out business loans or company overdrafts. The debt is usually secured against assets held by the company or entrepreneur.
Divestment	It is the reduction of some kind of asset, for either financial or social goals. A divestment is the opposite of an investment.
Early-Stage Capital	Financing to firms before they initiate commercial manufacturing, service production and sales, prior to generating a profit. Includes seed and start-up financing.
Equity	Ownership interest in a company as represented by the shares issued to investors.
Equity Finance	Investment from outside sources such as Business Angels or venture capitalists.
Equity Gap	Exists when there is a persistent capital market imperfection preventing supply from meeting demand at a price acceptable to both sides. The gap may concern, on one hand, high-tech innovative and mostly

	young companies with high growth potential and, on the other hand, a wide range of companies of different ages and sectors with smaller growth potential that cannot find financing for their expansion projects without additional external risk capital.
Exit	Liquidation of holdings by a risk capital investor. Usual ways of doing this are trade sale to another company; public offering (including an initial public offering) on a stock market; write-off of the investment; sale to another investor; or repayment of the investment (when part of the investment agreement).
Expansion Capital	Financing provided for the growth of a firm, which may or may not break even or be profitable. Capital may be used to finance increased production capacity, market or product development, or to provide working capital.
Factoring	The selling of a company's invoices to a third party (a factor) who in return will process the invoices and allow the company to draw loans against the money owed to the business. It is commonly used by companies to improve cashflow but can also be used to reduce administration overheads.
Growth-Oriented SMEs	SMEs that have demonstrated growth in recent years or that are planning significant growth.
High-tech Company	A company that has exclusive ownership of certain intellectual property rights such as design rights, patents, copyrights, etc.
Information Asymmetry	When one party of the transaction has more or better information than the other party. It might be that the seller knows more about the product than the buyer, or that the buyer knows more than the seller.
Institutional Investors	Refers mainly to insurance companies, pension funds and investment companies collecting savings and supplying funds to the markets, but also to other types of institutional wealth (e.g. endowment funds, foundations, etc). Usually these have substantial assets and are experienced investors.
Initial Public Offering (IPO)	The process of launching a public company on a stock exchange for the first time by inviting the public to subscribe in its shares.
Limited Partnership	A legal structure that is used by many venture capital funds. A partnership is usually formed for a fixed period of time between the investors in a venture capital fund and the management company making the investments in SMEs. The investors have limited liability and the management company has unlimited liability. The details on management policy and profit-sharing are laid out in a partnership agreement.
Loan Guarantee Scheme	It is a scheme whereby banks are able to lend to SMEs that would not otherwise qualify for bank finance (e.g. due to lack of track record or insufficient collateral). Under these schemes, governments or other public agencies provide the guarantee to the bank, covering a certain percentage of the value of the loan against the risk of default.
Market Failure	A situation in which markets do not efficiently allocate goods and services (e.g. because of information asymmetries) and public intervention is justified on efficiency grounds.
Mezzanine financing	A hybrid of debt and equity financing. Mezzanine financing is typically used to finance the expansion of existing companies, and it is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies.
Microcredit	Small loans, usually smaller than EUR 25 000, granted most often by specialised institutions.
Micro Enterprise	Under the European Commission definition a micro enterprise has less than 10 employees and a turnover (or balance sheet total) equal or less than EUR 2 million.
Panel Survey	A panel survey is a longitudinal survey where a cross-sectional sample of units is selected and surveyed at usually regular intervals. The advantage of panel data is the longitudinal observation of the observation unit over time, and the collection of data at regular intervals.

Private Equity	Equity capital for enterprises not quoted on a stock market. Private equity refers mainly to management buyouts, management buy-ins, venture capital, replacement capital and venture purchase of quoted shares.
Quasi-Equity	Instruments that have a return to the holder mostly based on the profits or losses of the firm. These are usually unsecured in the event of default and can be convertible into ordinary equity. Includes instruments like convertible loans and preference shares. Part of a wider class of hybrid instruments.
Replacement Capital	Purchase of existing shares in a firm from another private equity investors or shareholders. Also called secondary purchase.
Risk Capital	Equity and quasi-equity financing for firms during seed, start-up and expansion phases. Risk capital financing includes (1) informal investment by business angels; (2) venture capital; (3) stock markets specialised in SMEs and high growth companies.
Seed Capital	Financing provided to study, assess and develop an initial concept. The phase preceding the start-up phase, which are together called early-stage.
Small and Medium-sized Enterprise (SME)	Under European definition an SME should have less than 250 employees, a turnover at most €50m or balance sheet total at most EUR 43 million.
Small Enterprises	Under the official European Commission's definition small enterprises have less than 50 employees and a turnover (or balance sheet total) equal or less than EUR 10 million.
Start-up Capital	Financing provided to firms for product development and initial marketing. Firms may be in the process of being set up or may exist but have not sold their product or service commercially. Together with seed capital called early-stage capital.
Venture Capital	In Europe (EVCA definition) venture capital is a subset of private equity. It is a form of investment in unquoted companies and refers to equity investments made for the launch, early development or expansion of a business.
Venture Capital fund	A vehicle for enabling pooled investments by a number of investors in equity or quasi-equity of a firm. A venture capital fund can be managed either by a company or a limited partnership but only a few of these are quoted in stock markets
Working Capital	The liquid assets a company has available to build its business and a measure of its efficiency and financial health. Working capital can be positive or negative, depending on how much short-term debt the company is carrying. A negative working capital means that a company currently is unable to meet its short-term liabilities with cash, accounts receivable, and inventory.

ACRONYMS

BBA	British Bankers Association
CBS	Capacity Building Scheme
CIP	Competitiveness and Innovation Programmes. It brings together several existing EU activities that support competitiveness and innovation for the period 2007-2013
DG Enterprise and Industry	General for Enterprise and Industry
DG Economic and Financial Affairs	General for Economic and Financial Affairs
EBAN	European Business Angel Network
ECB	European Central Bank
EIB	European Investment Bank
ENSR	European Network for SME Research
EVCA	European Private Equity and Venture Capital Association
FOBS Survey	Survey on Factors of Business Success undertaken by Eurostat
GIF	High Growth and Innovative SME Facility (GIF) will provide equity to venture capital funds for the pre-seed and early stage (GIF 1) and expansion stage (GIF 2).
IBOS Survey	The International Business Owner Survey (Grant Thornton)
IMF	International Monetary Fund
IPR	Intellectual Property Rights
JEREMIE	Joint European Resources for Micro to Medium Enterprises
KfW	Kreditanstalt für Wiederaufbau. State-owned German Bank for the promotion of social and economic development.
OECD	Organisation for Economic Co-operation and Development
PA	The Partnership Action. This programme provides grants for technical assistance to improve credit appraisal procedures for SME debt financing in countries with limited banking intermediation, notably the new Member States
SCA	The Seed Capital Action. It is a programme to provide grants to intermediaries for the recruitment of staff with financial or technical expertise.
SMEG	Small and Medium Enterprises Guarantee Facility
UEAPME	European Association of Craft, Small and Medium-Sized Enterprises
UNICE	Union of Industrial and Employers' Confederation of Europe
VC	Venture Capital

WBES	World Business Environmental Survey