

CMU WORKSHOP ON ADVISORY SUPPORT FOR SME ACCESS TO FINANCE BRUSSELS, 12-13 SEPTEMBER 2016

This workshop brought together more than 70 representatives of business and alternative finance associations, Member States, development banks and agencies, and other interested market participants to discuss the need to further develop support and advisory capacities to help SMEs identify, understand and access alternative forms of finance. It was organised in the context of the Capital Markets Union (CMU), which has as one of its objectives the improvement of the access to finance of European businesses and the diversification of their funding sources.

DAY 1

Session 1 – The case for raising SME awareness and understanding of alternative finance

The first session focused on the need to increase awareness of alternative finance among entrepreneurs and to develop support and advisory services to break down information barriers that stand between SMEs seeking finance and alternative funding providers. The session was introduced by the Cambridge Centre for Alternative Finance with a presentation centred on the 2nd European Alternative Finance Industry Report published in September 2016¹. This study shows that the industry continues to grow strongly (90% year-on-year for EU-28) with substantial expansion in transaction volumes recorded across almost all online alternative finance models. The presentation also underlined the growing participation of institutional investors in this market. Research confirms a lack of awareness and understanding of alternative finance among entrepreneurs.

Eurochambres presented an overview of the results of its mapping exercise of existing finance-related support and advisory capacities provided to SMEs². Their mapping exercise revealed 27 initiatives in 18 Member States, divided into four categories: coaching and seminars, guarantees, guidance and matchmaking.

Finally, the SME Envoy Network³ presented its work on access to finance and its views on the opportunities for action to diversify SME funding.

The presentations and subsequent discussions confirmed support for raising SME awareness and understanding of alternative finance. As highlighted by the Cambridge Centre for Alternative Finance, the level of development and availability of alternative finance diverges significantly across the European Union. Several participants underlined the broad spectrum of alternative finance, which includes a wide variety of funding instruments covering equity, financial loans and asset finance. There is no one single market failure or one-size-fits-all approach to stimulate SME use of alternative finance.

¹ https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf

² <http://www.eurochambres.eu/Content/Default.asp?PageID=1&DocID=7480>

³ https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-envoys_en

A comprehensive programme should be implemented in order to stimulate the interest of institutional investors in alternative finance opportunities, support the development of alternative forms of finance and diversify SME funding sources. CMU initiatives such as the establishment of a pan-European venture capital fund-of-funds or the review of the EuVECA legislation were welcomed by many participants. An appropriate legislative framework is crucial for supporting the development of alternative forms of finance. Estonia was cited as an example in that respect. Beyond supporting the development of alternative funding channels, there is a need to take actions to better connect SMEs with alternative lenders and investors.

As stated by one participant, it is essential to consider the way SMEs behave and insights from behavioural economics when designing policy actions in that area. In particular, it is crucial to organise information and support so that it is received by SMEs at a point when they are faced with decisions on funding and are looking for solutions (e.g., when a loan application has been rejected and a firm is searching for alternatives). It was also underlined that SMEs should be better prepared to dialogue with alternative lenders and investors - the difficulty to properly draft a business plan was repeatedly cited - and that the latter should also have a better understanding of how businesses work. SMEs need tailor-made guidance; publications or brochures are not fit for purpose. The role to be played by intermediators such as accountants or chambers of commerce to improve these information flows and understanding was highlighted by several participants. However, there needs to be awareness about the limits to rely on intermediaries who risk being over-burdened or who may have conflicting considerations.

Session 2 – National legislative initiatives to help SMEs gain access to finance

The second session addressed the question of the availability of credit information on SMEs seeking finance from alternative funding providers. Three different legislative initiatives were presented: a) the Spanish law⁴ giving specific information rights to SMEs when the flow of their financing is cancelled or significantly reduced by their credit entities; b) the UK Regulations⁵ requiring designated banks to offer a referral to SMEs they decline for finance to designated finance platforms; and c) the UK Regulations⁶ requiring designated banks to share information on their SME customers with designated credit reference agencies who must also provide equal access to this information to all finance providers who are willing to share their own data.

Many participants welcomed the concrete insights on these initiatives aimed at opening up access to SME credit data and at seeking to level the playing field between the major banks and alternative finance providers. Similar initiatives were reported during the discussions: i) the Open Banking Working Group set up in September 2015 at the request of the HM Treasury in the UK to ensure that SMEs have access to their data about their financial performance; ii) the possibility for certain crowdfunding platforms to access the FIBEN database managed by the Banque de France⁷, an important tool for analysing risk, making decisions and monitoring companies; and iii) Bancopass⁸, a tool developed by Assolombarda

⁴ Law 5/2015, dated 27 April, for the promotion of business financing: https://www.boe.es/diario_boe/txt.php?id=BOE-A-2015-4607

⁵ The Small and Medium Sized Business (Finance Platforms) Regulations 2015: http://www.legislation.gov.uk/ukxi/2015/1946/pdfs/ukxi_20151946_en.pdf

⁶ The Small and Medium Sized Business (Credit Information) Regulations 2015: http://www.legislation.gov.uk/ukxi/2015/1945/pdfs/ukxi_20151945_en.pdf

⁷ <http://www.fiben.fr/>

⁸ <http://www.assolombarda.it/servizi/bancopass>

in Italy to help SMEs present their company in a structured way and ease their communication with the financial community. One participant raised the need to refer SMEs with rejected credit applications to the full range of alternative finance forms, including equity instruments. In this way, banks could play an important role in overcoming barriers to equity and even partner with equity investors in a co-financing scheme. The importance to reinforce the equity component of the capital structure of European businesses was underlined several times. This highlights the challenge of helping SMEs to transition from a bank-centric, debt-finance environment to sources of equity funding where these represent a superior form of finance for the envisaged investment. A first obstacle facing such a transition path is the limited appetite or understanding of equity finance by company owners who often focus on the risk of control dilution. While education was cited as part of the remedy, other participants insisted on the constraints on SME management time and interest in learning about finance. Solutions have to be ready-to-use and a good match with the business needs.

DAY 2

The second day of the workshop started with an opening speech on the importance of technology innovation for facilitating SME access to finance. The presenter explained how important it is to accompany SMEs during their journey to finance. The majority of them are still unfamiliar with any forms of alternative finance (e.g., 56% of SMEs surveyed in the UK were unfamiliar with any type of alternative finance⁹). The number of firms going online to find finance is growing rapidly; however, half of them still approach only their bank. But around 50% of first-time SME borrowers are rejected by their bank in the UK, and 37% of them appear to give up their search for finance and cancel their spending plans after their first rejection¹⁰. Niche and specialist financial providers often don't have the resources to market themselves to the pool of SMEs. Matching firms to these alternative funding providers can be done in a swift and efficient way via technology.

The Q&A session which followed this presentation focused on i) the need to diversify the funding sources of European SMEs, notably towards more equity funding; ii) the importance of this diversification for the resilience of the European financial sector and businesses; iii) the role of competition to sustain innovation; and iv) the need to ensure complementarity between bank and alternative finance.

Session 3 – Information and advisory online platforms on SME access to finance

The third session showcased three online information platforms developed by public authorities to signpost SMEs to alternative finance forms: i) the Finance Desk of the Netherlands Chamber of Commerce¹¹; ii) the FINMIX panel of financing experts of the Flemish Agency for Innovation & Entrepreneurship in Belgium¹²; and iii) the Irish Government's Supporting SMEs Online Tool¹³.

⁹ <https://www.nesta.org.uk/sites/default/files/understanding-alternative-finance-2014.pdf>

¹⁰ <https://www.gov.uk/government/consultations/sme-finance-help-to-match-smes-rejected-for-finance-with-alternative-lenders/sme-finance-help-to-match-smes-rejected-for-finance-with-alternative-lenders>

¹¹ <http://www.ondernemersplein.nl/ondernemen/geldzaken/geld-voor-uw-onderneming/info-en-advies/kvk-financieringsdesk/>

¹² <http://www.vlaio.be/artikel/finmix-voor-een-gezonde-en-optimale-bedrijfsfinanciering>

¹³ <http://www.supportingsmes.ie/BusinessDetails.aspx>

The Netherlands Chamber's Finance Desk has an omni-channel approach to supporting SME access to finance consisting in online proposition complemented by personal advice. It is a platform for first line support on finance, providing a comprehensive set of information on the alternative funding options, their characteristics, advantages and disadvantages, suitability and eligibility criteria. It also provides support to increase the companies' investment readiness. It is built around different tools such as scans of alternative types of finance, webinars, videos, animations and publications, and is constantly adapted. This online proposition is complemented by personal advice provided free of charge by certified experts through telephone, email, chat and social media. The availability of tailored advice through in-depth telephone consulting is seen as a key added value (more than 16.500 consultations over the last 18 months with 45% of warm referrals to relevant public or private organisations).

The Flemish FINMIX mechanism provides entrepreneurs looking for alternative financing with the opportunity to present their project to a panel of financial experts who provide advice on the optimal financing mix. Members of the panel are representatives of the banks, public and private risk capital providers, innovation centres and business representative organisations. Business founders use this advice to improve and accelerate the implementation of their business plans, better use their own resources and reach out to the right funding partners. The mechanism is perceived as providing high-quality support and tackles the question of the optimal funding mix for the proposed company/investment head-on. The key question concerns scalability of the solution - the mechanism as currently operated can only cater for a limited number of companies per year.

The Supporting SMEs Online Tool has put all available Irish state supports in one interactive place and made the language presenting them business-friendly for SMEs. It helps redirect companies to the right source of funding advice or finance (at national or regional level) based on answers to eight simple questions. It aims to remedy the low SME awareness of state supports and the spread of information on these supports among many websites.

The presentations sparked a lively discussion. Two different models were discussed - mass education and referral through online platforms, and personalised advice to specific SMEs in need of finance by experts. The question of how to ensure the quality and appropriateness of the referral to alternative funding providers was raised during the discussion. The designation of the three finance platforms under the UK mandatory referral system (see above) through a call for expression of interest / requests for proposal and the ex-post evaluation system were explained. And the Netherlands Chamber of Commerce highlighted the main principles underlying the automated tool guiding Dutch SMEs to certain alternative funding options - total amount of funding required, stage of development of the firm seeking finance, its sector of activity and the urgency of the financing need.

Session 4 – Intermediating platforms connecting SMEs to investors and alternative lenders

The fourth session showcased three platforms for matchmaking SMEs with alternative lenders and investors developed with public support – VentureUp¹⁴, EuroQuity¹⁵ and FINK¹⁶.

¹⁴ www.ventureup.it

¹⁵ <https://www.euroquity.com/en/home>

¹⁶ <http://www.financieringslink.nl/>

VentureUp is an Italian institutional platform, launched by the Italian Private Equity, Venture Capital and Private Debt Association (AIFI) and Fondo Italiano d'Investimento at the end of 2015, with the aim of promoting and catalysing contacts between startupper and venture capitalists, seed investors and other players active in the ecosystem (e.g., accelerators, incubators, universities, and science and technology parks)

EuroQuity is a web platform aimed at matchmaking developing companies with investors and other potential partners for their growth. EuroQuity was created by Bpifrance in 2008 in partnership with KfW in Germany and was extended by Sowalfin to Belgium in 2014. It is active in Europe and Africa. Beyond its digital service, EuroQuity organises events to support the matchmaking process, notably ePitches and investment forum events.

FINK is a platform launched by the Dutch Ministry of Economic Affairs with the support of the Chamber of Commerce as a pilot project in 2015. This platform allows SMEs in need of finance and their advisors to be connected with a wide range of alternative funding providers via the submission of a single application. It also aims to improve and standardise SME credit information by using the standard business reporting language and making this information accessible to lenders. The results of the pilot project are currently under evaluation and different options for FINK's future are discussed.

The majority of participants agreed on the added value brought by such intermediating platforms connecting SMEs with a wide range of alternative funding providers. More particularly, one participant underlined the increased internationalisation of business angels' investments and the importance to get better informed about growing companies in need of equity located in other Member States. The presented intermediation infrastructures are helpful in that respect. They could also help create exit opportunities for early-stage equity investors. The best way to interconnect or create synergies between the existing platforms for equity investment was debated: some participants called for interconnecting the different existing platforms while others pushed for one single platform to be expanded in different Member States and managed at local level. The workshop enabled first discussions among platform managers and between these managers and Member States interested to develop their information architecture.

A second theme that was debated was the question of the information on SMEs seeking finance. There were differing views as regards the standardisation of information. Its proponents were of the opinion that a standardised presentation of numbers and information would help SMEs obtain financing. Its opponents believed that while it is good to have common basic data on SMEs seeking funding, a particular data provision model should not be imposed as the needs of SMEs and investors differ. The question of how to increase the credibility of SMEs applying for finance was also addressed. One possible solution is to introduce some kind of certification or labelling system as used by EuroQuity or in Slovenia where an SME certificate is issued by the local Chamber of Commerce. Such systems could contribute to improving SME access to finance by increasing their visibility, enhancing their credibility and serving as a sign of confidence.

Finally, several participants identified the patchwork of regulatory regimes in the European Union as an important impediment to the development of the European alternative finance market and cross-border investment.

European Investment Advisory Hub

The European Investment Bank briefly presented the European Investment Advisory Hub¹⁷ (EIAH) which is a joint venture with the European Commission and the EIB to support the real economy through the provision of technical assistance to investment projects according to the European Fund for Strategic Investments (EFSI) Regulation, the legal base for the EIAH. It has been in operation since July 2015. The Hub is intended to provide a single access point for wide ranging support for projects and investments engaging with clients at all levels of the project cycle, from very upstream project identification, through to planning, preparation and implementation. Financial advice may also be provided to enhance companies' ability to access adequate sources of financing. Currently, direct EIAH support for SMEs is often limited to signposting to national advisory services and to financial intermediaries delivering EU financial support in cooperation with the European Investment Fund (EIF). The national promotional banks are therefore seen as a key partner for the delivery of advisory services on behalf of the Hub in areas where they have expertise, such as with SMEs. Synergies with existing Commission initiatives on SME advisory support are to be used and complementarities explored.

Concluding debate

The workshop concluded with a tour de table asking participants to give their final thoughts on supporting SMEs on their journey to alternative finance.

The alternative forms of finance are growing rapidly. The CMU project aims at supporting this growth by breaking down information barriers that stand between SMEs and prospective lenders and investors. A large majority of SMEs are still unaware of the alternative forms of finance.

There is no silver bullet to improving SME access to finance and helping SMEs identify, understand and access alternative forms of finance suitable to their financing needs. The level of development and availability of alternative finance diverges significantly across Europe. And the alternative finance world is broad including a wide variety of funding instruments covering equity, financial loans and asset finance. A mix of policy responses seems to be necessary. Current local solutions in place to address this market failure need to be identified and their effectiveness and potential for replication across the European Union assessed.

Participants to the workshop welcomed this exchange of good practices as an efficient way to get a comprehensive view on initiatives taken in other Member States to improve SME access to finance and contemplate opportunities for replication. Several participants called on the European Commission to continue to promote progress in this area in a systematic way. The technical assistance to be provided by the Structural Reform Support Service of the European Commission could support Member States in need of help in their efforts to replicate successful approaches and develop their information architecture.

It is essential to consider the way SMEs behave when designing policy actions to improve their access to finance. SMEs have to be in the driving seat when developing policy responses to address their financing needs. They do not have time to spend learning about the different alternative funding options. They need to be guided efficiently. Innovation in finance can help

¹⁷ <http://www.eib.org/eiah/index.htm>

ensuring SMEs can easily find the finance providers with the most appropriate product for them. Legislation and regulation are needed at national and European level to support this innovation, as it was the case in the United Kingdom.

Two other major areas of progress are an increased use of equity instruments by European businesses and a better access to financial data on firms seeking finance.

The European Investment Advisory Hub could emerge as the nucleus of a pan-European network comprising national and regional promotional banks, and having as objective the fostering of the Hub's presence on the ground and proximity to current and potential beneficiaries. The potential of this network could be further explored in order to benefit from a pan-European network to introduce SMEs to a wider range of alternative funding opportunities.