Sieps
Swedish Institute for European Policy Studies

2016:6

SME Financing in a Capital Markets Union

Morgane Fouché
Katja Neugebauer
Andreas Uthemann

EUROPEAN ECONOMIC POLICY

Morgane Fouché, Katja Neugebauer and Andreas Uthemann

SME Financing in a Capital Markets Union

– SIEPS 2016:6 –

Report No. 6
May 2016

Published by the Swedish Institute for European Policy Studies

This publication is available at www.sieps.se
The opinions expressed in the publication are those of the authors.

Cover design by LuxLucid
Printed by EO Grafiska AB

Stockholm, May 2016

ISSN 1651-8942
ISBN 978-91-86107-63-5

Preface

The latest financial and economic crisis revealed deficiencies with regard to the financing of small and medium-sized enterprises (SMEs) in the EU. Compared to their US counterparts, European SMEs are still heavily dependent on traditional bank financing. Consequently, the falling demand in the economy brought on by the crisis was exacerbated when banks were forced to deleverage their balance sheets due to tougher legislation. The European Commission therefore recently launched a plan for a Capital Markets Union (CMU), with the aim to diversify the funding channels available to European SMEs.

The authors of this report describe the financing needs and sources of European SMEs and try to identify strengths, weaknesses and pitfalls of the Commission's initiative. They argue that while a CMU may create a more shock-resilient investment system, it also carries with it its own systemic risks. Moreover, national differences in legislation and taxation are important impediments for a future CMU that are unlikely to be solved in the short to medium term. Lastly, they warn that activities may shift to unregulated areas, which may or may not require a new regulator.

With SMEs accounting for close to 70 per cent of total employment in the EU, attempts to improve their prospects is arguably a worthwhile ambition. With this report, SIEPS hopes to make an important contribution to the discussion on SME financing.

Eva Sjögren
Director

About the authors

Morgane Fouché
Morgane Fouché is a researcher at the Systemic Risk Centre at the London School of Economics and Political Science. Her research interests lie in the areas of macro and micro prudential policies, central banking, and sovereign debt. She holds a dual Master's degree in International Economic Policy and International Political Economy from SciencesPo Paris and the London School of Economics and Political Science.

Katja Neugebauer
Katja Neugebauer is a research officer at the Systemic Risk Centre at the London School of Economics and Political Science. She received a doctoral degree in economics from the University of Tübingen. Her research interests include international banking, bank risk, international financial markets, real effects of international banking, firms' financing constraints, and competitiveness.

Andreas Uthemann
Andreas Uthemann is a research officer at the Systemic Risk Centre of the London School of Economics and Political Science. He received a Ph.D. in economics from University College London. His research focuses on financial markets with a special emphasis on financial stability, liquidity, and regulation.

Table of contents

Executive summary 6

1 Introduction 10

2 SME financing: what makes SMEs special? 12
2.1 What is an SME? 12
2.2 The economics of SME financing 15
2.3 Banks as natural lenders: relationship lending 17

3 The state of SME financing in Europe 19
3.1 A brief overview of the literature 19
3.2 Current developments in SME financing in Europe: a snapshot 20
3.3 What are the main financing sources for SMEs in the EU? 24
3.4 Cross-regional comparison: US vs. EU 25
3.5 Capital market instruments for SME funding in the EU 30

4 Impediments to a common capital market for SME funding 38
4.1 Harmonisation, standardisation, and transparency 38
4.2 Cultural barriers 42

5 CMU: What needs to be done? 45
5.1 European business databases 45
5.2 Harmonisation of financial products 46
5.3 Financing growth beyond the SME status 47

6 Conclusion 48

References 50

Svensk sammanfattning 54

Executive summary

The recent financial crisis has shown that there is a need to diversify the channels through which European small and medium-sized enterprises (SMEs) access financing. Traditionally, European SMEs have almost exclusively relied on bank financing, mostly supported by a long established relationship between bank and borrower, so-called "relationship lending". While Europe is a predominately bank-based system, bank financing is even more important for SMEs. Their opaqueness makes it difficult for lenders to judge the financial soundness of the SMEs' business models. However, changes in the banking regulation now require banks to deleverage and shrink their balance sheets. This inevitably leads to cuts in the amounts banks lend to firms, especially to SMEs. The European Commission's Capital Markets Union (CMU) project aims at overcoming these problems by facilitating SMEs' access to financing through capital markets.

The European Commission has defined six goals it wants to achieve through a fully implemented CMU:

1. creating a single market for capital by removing barriers to cross-border investments,
2. improving access to financing for all businesses in Europe,
3. diversifying funding of the economy and reducing the costs of raising capital,
4. maximising the benefits of capital markets so they can support economic growth and job creation,
5. helping SMEs to raise funds more easily,
6. and helping the EU to attract investments from all over the world and become more competitive.

These are very ambitious goals given the current state of SME financing in Europe and the economic situation in some of its peripheral countries. Currently, European SMEs mainly rely on banks to finance their investments, although the degree of bank dependence varies across the member states. Rules and market practices for private placements and securitisation differ across Europe, making cross-border investments difficult. This results in a significant home bias in investments, and it remains to be seen whether this bias will be easy to overcome.

Ultimately, the CMU should be designed to support banks and capital markets in performing their main task: helping the European economy to start growing again by efficiently channelling private savings into profitable investment projects. The main focus of any European initiative should be to make sure that European firms, and especially SMEs, have access to the resources needed to innovate, grow, and become more productive. However, at the same time, it

needs to ensure that capital is allocated to the most productive projects. This is especially true for some peripheral countries.

Currently, European banking and capital markets remain fragmented. Whereas SME financing seems to have reverted back to normal in countries such as Germany, peripheral countries such as Italy still struggle to provide sufficient funding for their small and medium-sized firms. With fully integrated banking and capital markets, this discrepancy would simply be an indication that core countries such as Germany provide more profitable investment opportunities. However, given the degree of capital market fragmentation in Europe, deriving such a conclusion from the absence of capital flows from core to periphery is not warranted. Thus, one of the most important aims of the CMU is the integration of European capital markets so that capital can flow to the European firms with the most profitable investment opportunities, irrespective of their country of residence.

More closely integrated capital markets should ultimately broaden the financing possibilities of firms, especially those of SMEs, allowing them to diversify their financing structure. This might prove to be very valuable in times of crises, especially if the interbank market dries up, leading to credit rationing on the side of the banks. This does not mean that non-bank financing should be a substitute for bank financing. Indeed, it should ideally be complementary to conventional bank financing, providing additional funds to the real economy. It is very likely that, at least in the foreseeable future, banks will remain the main provider of SME financing in the EU due to their ability to build up long-lasting relationships and to monitor performance. This ability is particularly important in times of crises, when distinguishing between good and bad investment projects becomes even more crucial, given the scarcity of available funds.

SME financing is supposed to be one of the cornerstones of the CMU. So why do SMEs merit special attention? Within the EU, they make up 99% of non-financial companies, and they account for 58% of value added and 66% of all jobs. Nevertheless, lending to small firms in the euro area declined by 35% between 2008 and 2013. One problem SMEs are facing is that they are much more opaque than large firms, and therefore, more difficult to monitor. Retail banks, with their extensive local branch networks, are therefore still the obvious lender for SMEs. In fact, about 70% of firms' financing in the EU is through bank lending. This contrasts with the US, where it only makes up about 30% of financing; firm financing through capital markets is still underdeveloped in the EU. Tackling this issue should be high up on the priority list for a successful CMU. Providing, for example, an Italian SME with the option to choose between its local bank, a bank from another European country, or accessing European capital markets for funding should be a mid-term goal for policy makers within the Commission.

This report reviews existing and novel channels for SME financing in Europe. It presents alternatives to bank financing such as debt- and equity-based schemes and discusses why these channels have so far been underdeveloped in Europe. It also discusses the securitisation of SME loans as a possible option for freeing up European banks' balance sheets, while at the same time enabling these banks to provide important intermediation services. This topic has attracted increasing attention, as evidenced by the Commission's Action Plan for the CMU (European Commission 2015a). However, to date, no consensus has been achieved on how such a securitisation market for SME loans would work in practice.

Financing needs and sources of SMEs are diverse and differ across the different stages of a firm's development. Not all sources of financing are available to firms at each stage of their development. This is especially true for start-up firms, which usually have to rely on their own resources, as well as family and friends. "Classic" SME funding through banks is often not available at this very early stage, because relationship lending has not yet been established, and transaction-based lending is difficult, as young firms typically do not have collateral that they can pledge, and there is no credit history available for them. In recent years, however, business angels and peer-to-peer lending markets in Europe have opened up as an additional financing option for these younger firms. This report reviews the functioning of these funding options and provides estimates of their current importance in the European market for SME financing.

In order to benchmark the current state of SME financing in Europe, the report will also look at the differences between the US, a market-based system, and the EU, a predominantly bank-based system. A priori, it is not clear if one of the two systems should be regarded as being superior, both having their particular strengths and weaknesses. Proponents of the bank-based system argue that banks have a clear advantage in terms of overcoming agency problems between borrowers and lenders as they engage in long-term relationships with customers, collecting valuable soft information on them. Banks are indeed well suited to provide more standardised products for fairly standard projects. However, they are less well equipped to finance innovative and highly risky projects. This is the strength of capital markets, which can match risk-loving investors with these types of projects.

Whereas the discussion of the CMU is often centred on SMEs, it is also worth taking a step further and asking how best to help firms grow beyond SME status and what might prevent them from doing so. Policy makers should make sure that the CMU is not exclusively tailored towards the needs of small firms. First and foremost, firms that are on the verge of growing out of the SME status should receive particular attention. It is important for these firms to be able get the necessary financing that will help them to grow and to become truly international players.

Among the most important impediments for the creation of a common European capital market are national differences in legal and regulatory frameworks and considerable disparities in tax systems and financial market infrastructures across countries. These problems are compounded by a lack of detailed firm information that is comparable across countries. The report reviews these hurdles in detail. However, it also points out that these are issues that will not be resolved in the short or medium term, as national differences are often the results of deeper-rooted cultural and social differences.

While the CMU has the potential to create a more shock-resilient, decentralised investment system, linking savers and firms across borders, it will most likely come with its own systemic risks. For instance, there is a significant risk that home-bias can flare up in periods of stressed market conditions, bringing about the panicked repatriation of funds. Furthermore, excessive harmonisation of systems can destroy their diversity and resilience, and to be successful, the CMU will have to steer clear of this danger while trying to create a single European capital market.

One further aspect about which policy makers should stay alert, however, is that there is the risk that market participants could shift activities from more regulated markets into unregulated areas. This has to be kept in mind when supporting the development of new markets and financial instruments. Problems relating to maturity mismatches, informational asymmetries, and contagion will, in some form, reappear in these markets. Whether this requires a new regulator remains an open question.

1 Introduction

The recent financial crisis has shown that there is a need to diversify the channels through which European small and medium-sized enterprises (SMEs) access financing. Traditionally, European SMEs have almost exclusively relied on bank financing, mostly supported by a long established relationship between bank and borrower, so-called "relationship lending." While Europe is a predominately bank-based system, bank financing is even more important for SMEs. Their opaqueness makes it difficult for lenders to judge the financial soundness of SMEs' business models. However, changes in the banking regulation now require banks to deleverage and shrink their balance sheets. This inevitably leads to cuts in the amounts banks lend to firms, especially to SMEs. The European Commission's Capital Markets Union (CMU) project aims at overcoming these problems by facilitating SMEs' access to financing through capital markets.

Ultimately, the CMU should be designed to support banks and capital markets in performing their main task: helping the European economy to start growing again by efficiently channelling private savings into profitable investment projects. When looking at the latest figures, it becomes obvious that Europe still has not fully recovered from the crisis. Unemployment stood at 11.6% in the euro area at the end of 2014, an increase of more than four percentage points from its pre-crisis level. Furthermore, according to the European Commission (2015b), an investment gap has opened up in the euro area, further hampering already ailing competitiveness in countries like Italy.

The main focus of any European initiative should be to make sure that European firms, and especially SMEs, have access to the resources needed to innovate, grow, and become more productive. However, at the same time, it needs to ensure that capital is allocated to the most productive projects. This is especially true for some peripheral countries. Indeed, recent research (Hassan and Ottaviano 2013) shows that Italian total factor productivity (TFP) could be increased by almost 6% if labour and capital were taken away from firms and thrown back at them randomly, an admittedly drastic example of the inability of the current Italian banking system to allocate credit efficiently. Ultimately, the loss in productivity leads to losses in jobs and welfare. An efficient allocation of capital is essential.

The European Commission has defined six goals it wants to achieve through a fully implemented CMU:

1. creating a single market for capital by removing barriers to cross-border investments,
2. improving access to financing for all businesses in Europe,

3. diversifying funding of the economy and reducing the costs of raising capital,
4. maximising the benefits of capital markets, so they can support economic growth and job creation,
5. helping SMEs to raise funds more easily,
6. and helping the EU to attract investments from all over the world and become more competitive.

These goals are highly ambitious given the current state of SME financing and the economic situation in some of the peripheral countries. The degree of bank dependence varies across member states. Rules and market practices for private placements and securitisation differ across Europe, making cross-border investments difficult. This results in a significant home bias in investments, and it remains to be seen whether this bias will be easy to overcome.

This report reviews existing and novel channels for SME financing in Europe. It presents alternatives to bank financing, presenting both debt- and equity-based schemes, and discusses why these channels have so far been underdeveloped in Europe. It also provides an analysis of the securitisation of SME loans that would allow European banks to free up their balance sheets, while at the same time, continuing to provide important intermediation services. This topic has attracted increasing attention over the last few months, as evidenced by the Commission's Action Plan for the CMU (European Commission 2015a). However, to date, no consensus has been achieved on how such a securitisation market for SME loans would work in practice.

While the CMU has the potential to create a more shock-resilient, decentralised investment system, linking savers and firms across borders, it will most likely come with its own systemic risks. For instance, there is a significant risk that home-bias can flare up in periods of stressed market conditions, bringing about the panicked repatriation of funds. Furthermore, excessive harmonisation of systems can destroy their diversity and resilience, and to be successful, the CMU will have to steer clear of this danger while trying to create a single European capital market.

This report is structured as follows. Chapter 2 takes a closer look at what it is that makes SMEs different from large firms, and why they merit special attention. Chapter 3 takes stock of the current state of SME financing in Europe. Chapter 4 considers the impediments for a common capital market for SME funding. Chapter 5 discusses what needs to be done in order to successfully build the Capital Markets Union, and chapter 6 concludes.

2 SME financing: what makes SMEs special?

This section considers the factors that distinguish SMEs from larger firms and assesses whether these structural differences justify a special treatment of SMEs when considering funding options.

2.1 What is an SME?

Before discussing the special nature of SMEs, it is useful to start by defining what constitutes an SME. This definition has been harmonised in the EU, but it differs, for example, from the definition used in the US, a fact that has to be born in mind when drawing comparisons between the two regions.

2.1.1 Definition

EU recommendation 2003/361 establishes a number of common criteria for the characterisation of SMEs in the European Union. The criteria are defined depending on the number of employees in the business and either the business' turnover or its balance sheet total. The criteria used are presented in Table 1.

Table 1 Criteria for micro, small and medium-sized businesses in the EU

Company category	*Employees*	*Turnover*	*Balance sheet total*
medium-sized	< 250	≤ € 50 m	≤ € 43 m
small	< 50	≤ € 10 m	≤ € 10 m
micro	< 10	≤ € 2 m	≤ € 2 m

It illustrates that SMEs can be quite heterogeneous in nature, ranging from micro enterprises, such as small hair salons, to fast-growing medium-sized biotech firms preparing to go public. Given these large differences between types of SMEs, the financing needs among them can differ substantially.

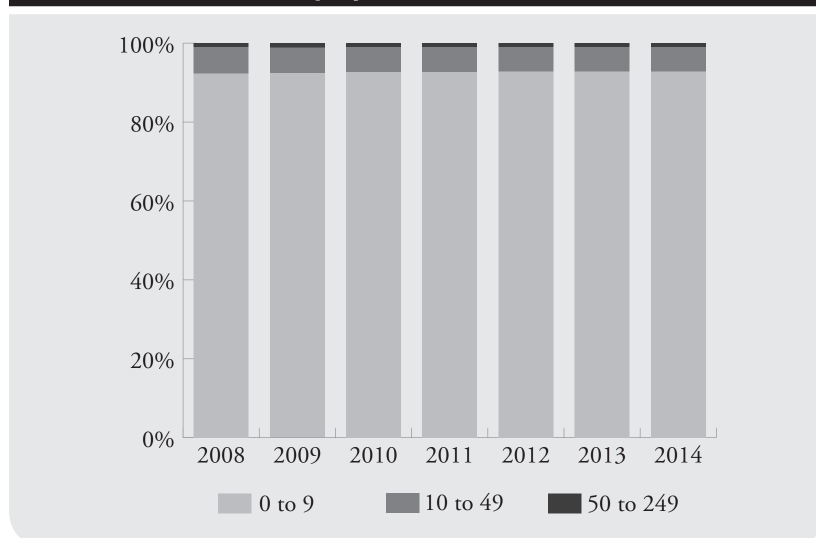
The public debate on SME financing typically points to the US, stressing that SME financing problems are much less pronounced there. It is, however, important to bear in mind that the US and the EU have different criteria for the definition of SMEs. The US Small Business Administration (SBA), the US federal agency in charge of supporting entrepreneurs and small businesses, broadly defines a small business as one that is "organized for profit; (…) independently owned and

operated; and is not dominant in the field on a national basis"[1]. The definition of an SME can vary within different sectors, as well as across sectors. For example, in the utilities sector, to be considered an SME, a firm must have fewer than 750 employees; if it operates in the fossil fuel and nuclear energy field, the limit is set at 250 employees for the renewable electric power generation sector and at 500 employees for hydroelectric power generation. In the information industry, in turn, small businesses encompass firms with fewer than 1,500 employees for telecommunication companies, while in the satellite and telecommunication services sector, the criterion is set at an average annual receipt of $32.5 million. These examples show that US SMEs are, on average, much bigger than their European counterparts, making a direct comparison difficult.

2.1.2 Descriptive statistics

SMEs are the backbone of the European economy. They constitute 99.8% of all EU firms, employ 66.9% of all workers in the EU, and generate 57.8% of the total value added. Figure 1 shows the distribution of firm sizes in the EU28 over time. It shows that the vast majority of firms belong in the category of micro enterprises, i.e. enterprises with less than 10 employees. This pattern seems to be stable, both across time and across European countries.

Figure 1 Share of firms in the EU (% of all enterprises) by number of employees

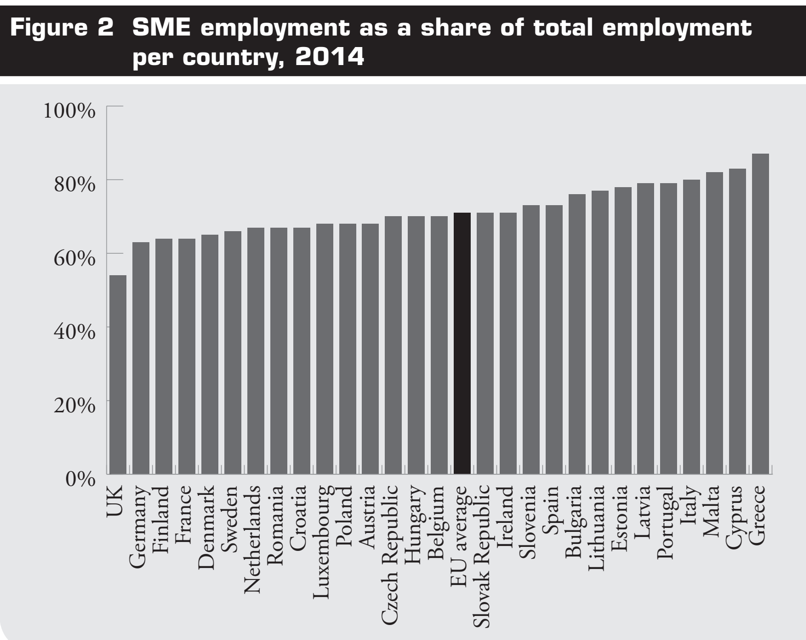


Source: DIW Econ (2015), own calculations. Data collected by DIW for the 2014/15 EC "SME Performance Review".

[1] US Small Business Administration, Table of Small Business Size Standards. URL: https://www.sba.gov/sites/default/files/files/Size_Standards_Table.pdf.

A similar conclusion can be drawn when looking at employment figures (Figure 2). SMEs provide the majority of jobs in all EU countries. On average, SMEs accounted for 67% of total employment across all EU countries in 2014. However, there are some interesting differences across countries: While SMEs represented 54% and 63% of total employment in the UK and Germany in 2014, respectively, they accounted for 87% of total employment in Greece and 83% in Cyprus.

Figure 2 SME employment as a share of total employment per country, 2014

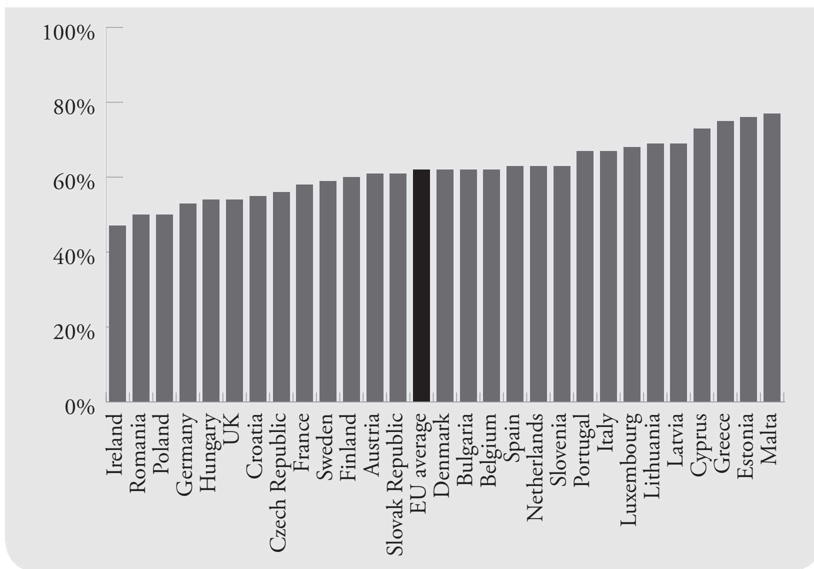


Source: DIW Econ (2015), own calculations. Data collected by DIW for the 2014/15 EC "SME Performance Review".

In most European countries, SMEs account for a large share of the total value-added (Figure 3). This is particularly the case in smaller countries, such as Malta, Estonia, and Cyprus, where SMEs represent 77%, 76%, and 75% of the total value-added, respectively. Most Western European countries, on the other hand, have a more varied industrial structure, including large national and multinational companies. These can account for a significant part of the total value-added.

These figures make clear that SMEs form an essential part of the European economy, both in terms of output, as well as employment. The next section will take a closer look at why SMEs' financing needs are different from those of larger firms.

Figure 3 SME value-added as a share of total value-added, per country, 2014



Source: DIW Econ (2015), own calculations. Data collected by DIW for the 2014/15 EC "SME Performance Review".

2.2 The economics of SME financing

Why should firm size matter for funding decisions? Investment projects with positive net present value should attract external investors, irrespective of the size of the business that intends to undertake them. The two main economic caveats to this line of reasoning are fixed costs and informational asymmetries between lenders and firms. The following section argues that both are more aggravating factors for SMEs than for larger firms.[2]

2.2.1 Fixed costs

Fixed costs matter more for SMEs than for larger firms for a simple reason: The investment projects for which SMEs require funding tend to be smaller in size. If the appraisal and monitoring of these investments by lenders involves a non-negligible fixed-cost component, that is, a cost that is unrelated to the project's size, then the per-unit costs of funding will decrease in the project-size scale of the investment. Smaller investment projects face higher costs and are therefore more expensive. A priori, these higher unit costs simply reflect real economic cost components. Because of the economies of scale arising from these

[2] For an extensive treatment of the economic aspects of SME lending and a discussion of the relevant literature, see also Barba Navaretti et al. (2015).

fixed costs, larger projects might be more efficient. However, as will be discussed below, such cost differences can be amplified by informational asymmetries. This can lead to real economic distortions in funding decisions, and ultimately, inefficient credit rationing.

2.2.2 Informational asymmetries

A primary reason why potential investors face greater informational asymmetries when considering SMEs as opposed to larger firms is that, for the former, "hard" information on performance is relatively scarce. This has several reasons, chiefly among them the lower reporting requirements for smaller firms, and for the majority of SMEs, their absence from publicly traded asset markets. Additionally, SMEs tend to be young firms that have created little historical performance data at the time of evaluation. Such unavailability of "hard" accounting data renders the appraisal of credibility by standardised statistical methods difficult and forces investors to rely on "softer" information. Such information is open to interpretation and potentially not verifiable in courts. Paradoxically, small size itself can contribute to a firm's opaqueness. While it might seem easier to evaluate a small business, larger operations can become more predictable through a "law of large numbers" logic: Uncertainties tend to balance themselves out in large enough aggregates.

A well understood consequence of informational asymmetries between lenders and borrowers is inefficient credit rationing (Stiglitz and Weiss 1981). When investors cannot differentiate between "good" and "bad" debtors, the price mechanism can fail to allocate capital efficiently. Curbing excess demand for capital by raising interest rates predominantly attracts "bad" borrowers, as they deem it less likely that they will actually have to pay the higher rates: They are more likely to default on their debt. When increasing interest rates worsens the pool of firms that seeks funding, often the only way for investors to break even is to ration capital, that is, to invest less than is demanded by potential borrowers at the going rates. The consequence of such rationing is an economic inefficiency: Investment projects with positive net present values can go unfunded. As mentioned above, any fixed costs that increase interest rates exacerbate this problem; the pool of economically worthwhile, yet unfunded, projects in the economy grows.

One way to overcome informational problems between investors and SMEs is repeated interactions. How long-term relationships can help to generate "soft" information about the borrower's business and thereby reduce informational asymmetries is discussed at length in Section 2.3.

2.2.3 Insurance, incentives, and market structure

Apart from remedying informational asymmetries, long-term interaction between investors and borrowers can also help firms survive temporary, idiosyncratic income shocks. This is particularly relevant for young and growing firms, which

tend to have a volatile income profile. The possibility of recovering temporary losses by increasing future lending rates allows investors to smooth income shocks over time. However, both the incentive provision and the ability to insure against shocks through repeated interaction depend, to a certain degree, on the exclusivity of the partnership. Readily available alternative financing options for the borrower undermine this mechanism by destroying the continuation value of the investment relationship. This has implications for the optimal market structure for SME lending. Somewhat surprisingly, more competitive markets might hurt SMEs by providing outside options. Petersen and Rajan (1995), for example, found that small firms have easier access to credit in more concentrated credit markets. On the other hand, while long-term relationships are a way to overcome incentive problems and provide insurance, to the extent that "soft" information is created that is not easily transferable to other lenders, they can create switching costs, and thus, market power for lenders. Higher borrowing costs due to market power will then create an additional inefficiency and potentially suboptimal investment levels.

2.3 Banks as natural lenders: relationship lending

Banks have been the natural lenders for companies, especially for SMEs, over the last centuries. Banks, with their vast network of branches, are specifically suited to provide financing to their local customers. Since SMEs are often very opaque, they usually rely on relationship lending with their local banks. Following Boot (2000, p.10), relationship lending can be defined as "the provision of financial services by a financial intermediary that (1) invests in obtaining customer-specific information, often proprietary in nature; and that (2) evaluates the profitability of these investments through multiple interactions with the same customer over time and across products." This suggests that relationship lending is economically beneficial and desirable, as it ensures that banks can obtain and use the information necessary in order to make informed judgements about the viability of a loan. Indeed, the lack of available information can lead to moral hazard and information asymmetries, and thereby, reduced access to credit. As argued by Petersen and Rajan (1994), long-term lending relationships considerably reduce the information asymmetry problem. Though banks gain market power by acting as a relationship lender with respect to a firm, they might not be interested in exercising it through an increase in loan rates, but are probably more interested in keeping a company as a long-term customer. This is one of the reasons why bank credit to small firms is less volatile over time than bank credit to large firms, as large firms are more likely to switch between different lenders and different forms of funding (Barba Navaretti et al. 2015). There is a vast literature on relationship lending and the access to credit for SMEs. Studies for SMEs in the US, Germany, and Italy have found a positive relationship between the duration of a bank-firm relationship and access to credit (Petersen and Rajan 1994, Harhoff and Körting 1998, and Angelini et al. 1998). Focussing on the recent crisis and employing data from the ECB's Survey on Access to Finance of Enterprises in the Euro Area (SAFE), a number

of studies have taken a closer look at the determinants of the access to financing of European SMEs (Artola and Genre 2011, Ferrando and Griesshaber 2011, Ferrando and Mulier 2013, Holton et al. 2014, Bremus and Neugebauer 2015). Their results suggest that access to financing is more difficult, the smaller and the younger a firm is. This is not surprising, as those firms rarely have substantial collateral to pledge. Furthermore, the results suggest that firms that are owned by shareholders are less financially constrained. This result is interesting, as it points out that alternative sources of financing might alleviate SMEs' financing constraints. The following section examines this in more detail.

3 The state of SME financing in Europe

We start by providing a brief overview of the literature on SME financing before we discuss the current state of SME financing in Europe. We then compare the financing of SMEs in the US and the EU, and conclude this section by discussing the capital market instruments that are available to SMEs in the EU.

3.1 A brief overview of the literature

Before we take a closer look at the current state of SME financing in Europe, we start by briefly discussing recent empirical findings. There is a steadily growing literature on SME financing in Europe. This is due to the fact that the onset of the crisis spurred interest in this topic and led to the dedicated collection of data. There are mainly two micro datasets that allow for the detailed analysis of firms' financing conditions in Europe. The one that is already slightly more "mature" is the Business Environment and Enterprise Performance Survey (BEEPS), jointly collected by the European Bank for Reconstruction and Development (EBRD) and the World Bank. In Europe, the BEEPS covers a large number of Eastern European countries and allows researchers to assess financing obstacles in the respective countries. A more recently established dataset is the Survey on the Access to Finance of Enterprises (SAFE), which mainly covers the euro area, as well as some neighbouring countries.

Several studies have now employed these surveys, providing in-depth analyses on the state of SME financing in Europe, among them Ferrando and Mulier (2013), which used the SAFE. The authors found that firms that are less productive, young, and more levered have a greater likelihood of being financing constrained. These results are not surprising. If banks allocate capital efficiently, then it should be indeed the less productive firms that are facing financing constraints. In fact, the SAFE asks firms if they are being financing constrained. A firm will most likely answer with "yes" if it did not receive the credit for which it applied, though the bank, after careful screening, might rightly have decided that the respective firm's business plan was not viable. Therefore, those results should always be interpreted with caution. The same holds true for more levered firms, which banks might deem as being too risky to finance, especially during the crisis. On the other hand, the result that young firms had problems obtaining financing is not crisis-specific, as young firms often do not have the necessary collateral to pledge. Artola and Genre (2011), using the SAFE data for the years 2009-2010, confirmed that young and small firms were especially financing-constrained during the crisis. Another important driver seems to be firm ownership, as confirmed by Ferrando and Griesshaber (2011). They found that firms that are owned by shareholders or other firms faced less financing

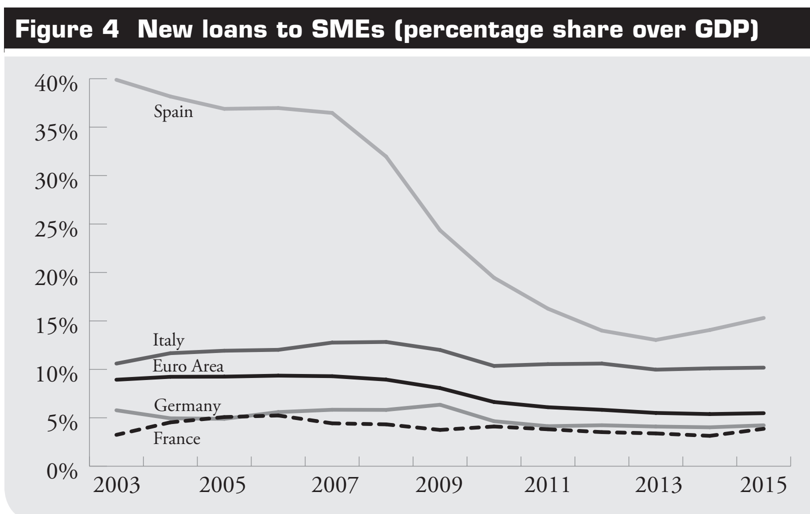
constraints than, for instance, family-owned firms. This has to do with the different sources of external financing that these firms are able to tap.

One other important aspect that has often been overlooked during the crisis is the demand side of credit. Though Holton et al. (2014) indeed found evidence for tighter lending standards by banks during the crisis, they also found that firms demanded less credit. In another study on Eastern Europe and the Caucasus, Beck et al. (2014) found that banks' lending techniques are an important factor for credit constraints for SMEs. Whereas relationship lending by banks seems to alleviate financing constraints during downturns, the same is not true during boom periods.

3.2 Current developments in SME financing in Europe: a snapshot

Figure 4 shows the development in the issuance of new loans for the euro area, as well as for France, Germany, Italy, and Spain, using the ECB's Survey on the Access to Finance for SMEs (SAFE).[3] According to this figure, the crisis has had a considerable impact on the availability of new loans to SMEs. However, the magnitude of this shock has been very heterogeneous across countries.

Figure 4 New loans to SMEs (percentage share over GDP)



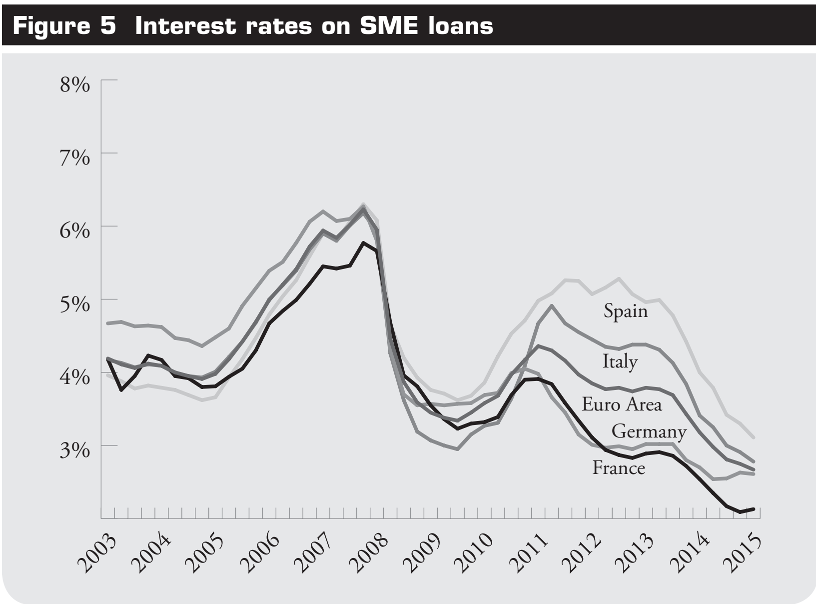
Source: DIW Econ (2015), own calculations. Data collected by DIW for the 2014/15 EC "SME Performance Review".

[3] The choice of countries is due to the fact that SAFE is representative at the euro area level, as well as for France, Germany, Italy, and Spain.

Whereas the decline was in the magnitude of a few percentage points as a share of GDP for Germany, France, and Italy, Spain experienced a massive drop of about 25 percentage points.

However, SME funding problems cannot only be defined in terms of the available volume of loans, but also with respect to the interest rate charged. Looking at the funding costs of SMEs, Figure 5 suggests that they experienced a large increase in interest rates in the run-up to the crisis. Interest rates then peaked in the second half of 2008, before plummeting sharply. In the case of France and Germany, they still remained below their pre-crisis level at the end of 2014, whereas they were roughly back at their pre-crisis level for Spain and Italy.

Figure 5 Interest rates on SME loans

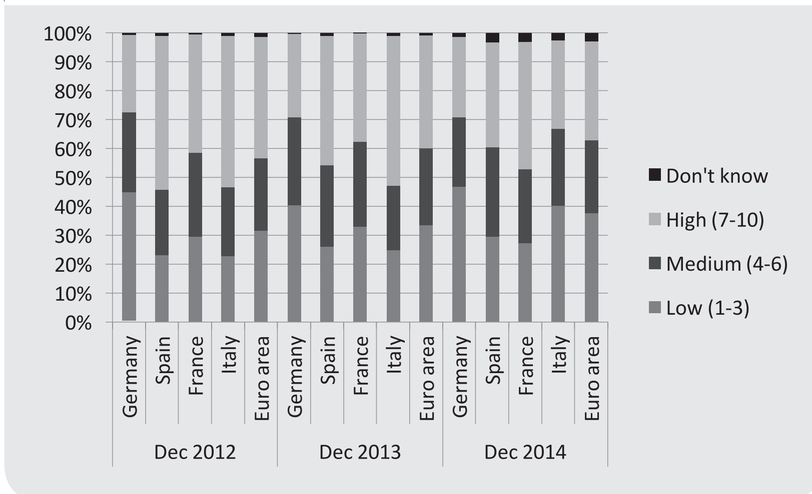


Source: ECB statistical data warehouse; Loans to SMEs are defined as loans of up to and including €1million.

When looking at data provided by the SAFE on the perceived pressingness of access to financing of euro area SMEs, there are some considerable differences across countries, as can be seen from Figure 6. Whereas access to financing is considered to be only a minor problem now in Germany, and to a somewhat lesser extent, in France, it is still a substantial problem for SMEs in Italy, with almost half of the firms surveyed attaching a high urgency to it.

These results are further underlined by Figure 7, which shows the availability of external financing in the form of bank loans and overdrafts for a selection of

Figure 6 Pressingness of access to finance as perceived by SMEs across euro area countries (weighted averages)

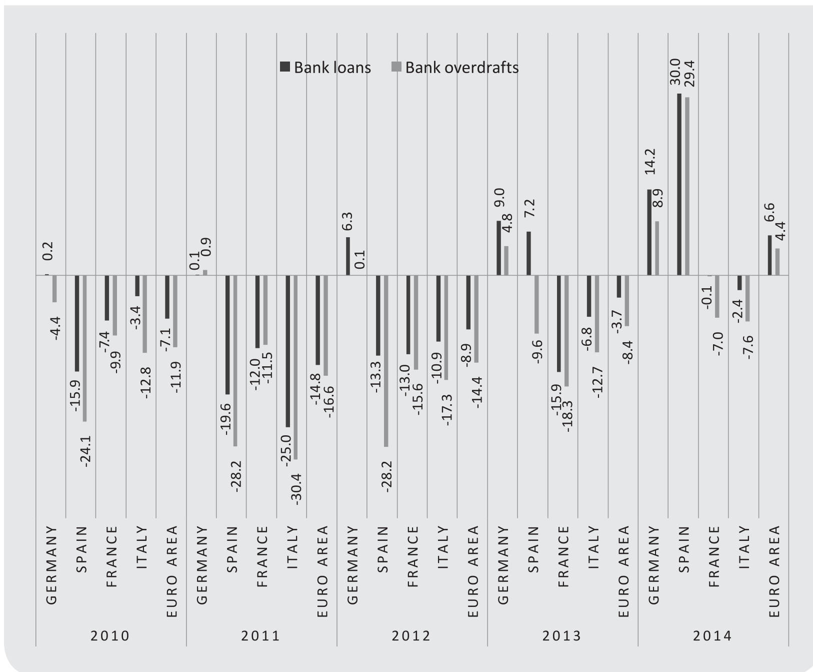


Source: ECB Survey on the Access of Finance for Enterprises, Report October 2014-March 2015 and own calculations. Companies were asked to assess how pressing access to finance was on a scale from 1 (not at all important) to 10 (extremely important). Responses were then grouped into three categories: Low (1-3), Medium (4-6), High (7-10).

euro area countries and the euro area average. It shows that the availability of these major financing instruments was reduced dramatically during the crisis, especially for firms in Spain and Italy. However, the availability of bank loans and overdrafts picked up significantly for Spanish firms in 2014, whereas it is still in decline for France and Italy.

One reason for the differences in access to financing between countries also lies in the retrenchment in cross-border banking during the crisis, as discussed by Bremus and Neugebauer (2015). The authors showed that not only did domestic credit decline during the crisis, but that there was also a large reduction in cross-border lending, to banks as well as to non-banks. They found that it was indeed the wholesale funding channel, i.e. the drying up of the cross-border interbank market, which caused problems in credit availability for euro area firms. As cross-border lending still has not returned to its pre-crisis level, firms located in countries where the banking systems still cannot provide enough domestic credit are still struggling. Again, if banking markets were more integrated across borders, this should not be the case. It still remains to be seen whether this retrenchment in cross-border banking will be short-lived or whether it marks the

Figure 7 Change in the availability of external financing for euro area SMEs (weighted percentage)



Source: ECB- Survey on the Access of Finance for Enterprises, Report October 2014-March 2015.

start of a period of financial market disintegration, as discussed in Buch et al. (2013) for the case of German banks' international activities.

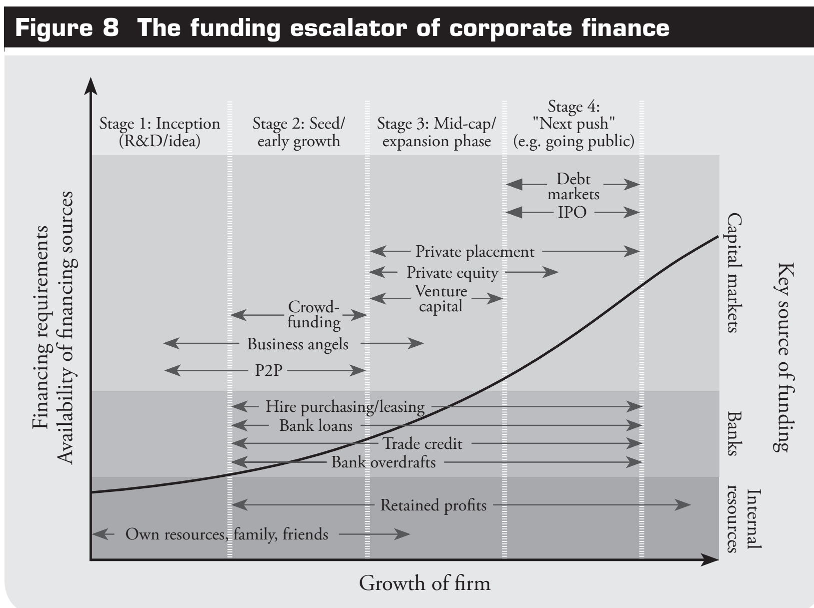
Overall, these figures suggest that capital really does not seem to be fully mobile within the EU. If it were, it would flow to where it could be employed most fruitfully. This means that, for instance, German investors who are looking for profitable investment opportunities should consider investing in an Italian firm, where they might gain higher profits. However, this does not seem to happen for a number of reasons, some of which are related to cultural differences and some to legal ones. This will be discussed in depth in Section 4.2. This is also linked to the discussion on home bias in lending markets. According to Schoenmaker (2013) and Battistini et al. (2013), home bias in lending markets became much more pronounced during the crisis, as banking activities shifted from foreign markets back into domestic ones. However, this problem is not specific to EU markets, but is even more pronounced in the US.

3.3 What are the main financing sources for SMEs in the EU?

The financing needs and sources of SMEs are diverse and differ across their different stages of development. As noted by Churchill and Lewis (1983), further factors, such as the level of innovation, risk attitude, sector of operation, as well as a firm's growth objective, play a crucial role in the means of financing required. As the funding escalator model in Figure 8 suggests, not all sources of financing are available to firms at each stage of development. This is especially true for start-up firms, which usually have to rely on their own resources, family, and friends. In recent years, business angels and peer-to-peer lending markets in Europe have also opened up to them. However, "classical" SME funding through banks is often not available at this very early stage, because relationship lending, as discussed in Section 2.3, has not yet been established, and transaction-based lending is difficult, as young firms typically do not have collateral that they can pledge, and there is no credit history available for them.

According to the funding escalator model, different sources of financing are tailored to the different stages of a firm's development, e.g. venture capital, private equity, and private placement for mid-cap firms. However, what this model also shows is that bank loans and bank overdrafts, along with hire purchasing / leasing, as well as trade credit, are the main sources of firm financing throughout almost all stages of firm growth.

Figure 8 The funding escalator of corporate finance



Source: European Commission (2015b).

These results are confirmed when looking at the latest results from the ECB's SAFE (ECB 2015). Not surprisingly, bank overdrafts and loans, as well as leasing or hire purchase, have been the most frequently used financing sources, followed by trade credit. This fits well with the model stating that banks are the main funding source for SMEs. Indeed, bank overdrafts are the most widely used instrument, as they allow firms to handle mismatches between flows of funds. On the other end of the spectrum are debt securities and equity, which are used by less than 2% of firms in the euro area. Even more striking is the fact that 83.7% of SMEs deemed equity financing to be irrelevant for their business model, whereas even 93.6% of SMEs said this about debt securities. Taking a closer look at the data by size category, some interesting patterns emerge. The share of firms having used bank financing over the past six months increases with firm size. This holds true across all waves of the survey. Looking at the usage of equity and debt securities, one would expect considerable differences across size classes. Looking first at equity, it is indeed only 0.8% of micro firms, i.e. firms with less than 10 employees, who make use of it, compared with 3.2% of medium-sized enterprises. The SAFE also provides a sample of large companies for means of comparison. Firms in the large size class have a higher usage of equity, though at 4.8%, it can still be considered to be relatively low. Looking at debt securities, there are hardly any differences within the SME size classes in terms of usage (1.3% for micro firms and 1.1% for large firms, respectively). However, this might be due to the very heterogeneous nature of products that can be subsumed under the term "debt securities".

The question remains of why non-bank instruments are hardly being used by SMEs, even the larger ones. One popular explanation, apart from the relationship lending argument, is that SMEs are often simply not aware of the different financing opportunities and sometimes also lack qualified personnel who know how to apply for and handle these types of instruments. It remains to be seen whether this will change over the course of the coming years.

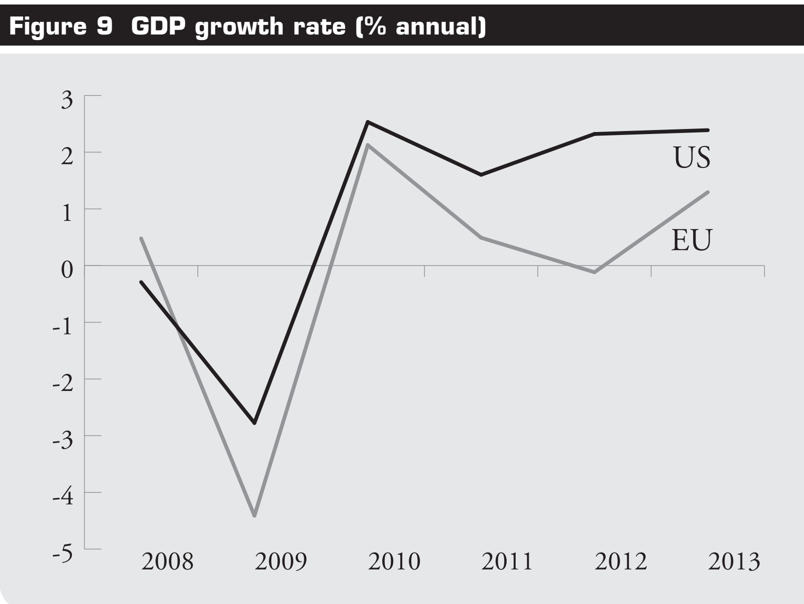
3.4 Cross-regional comparison: US vs. EU

In order to benchmark the current state of SME financing in Europe, it is useful to look at the differences between the US, a market-based system, and the EU, a predominantly bank-based system. A priori, it is not clear if one of the two systems should be regarded as being superior, as both have their strengths and weaknesses. Proponents of the bank-based system argue that banks have a clear advantage in terms of overcoming agency problems between borrowers and lenders as they engage in long-term relationships with customers, thereby collecting valuable soft information on them. Banks are indeed well suited to provide more standardised products for fairly standard projects. However, they are less well equipped to finance innovative and highly risky projects. This is the strength of capital markets, which can match risk-loving investors with these types of projects.

From a macroeconomic perspective, the US and the EU are of comparable economic size. The former had a GDP of $16.77tn in 2014, while the latter's reached $17.9tn the same year[4]. Furthermore, in both regions, SMEs represent the bulk of the non-financial corporate sector's activity. In 2014, firms with fewer than 500 employees represented roughly 99% of all non-financial firms in the US, represented 50% of private sector employees, and contributed around 34% of total US export revenue (OECD 2015, Tradeup 2015). In the EU, SMEs represent about two thirds of total employment in the private sector and approximately 58% of the total value-added by European firms (European Commission 2014).

However, as shown earlier, the analysis of SMEs' access to financing reveals that larger difficulties are encountered by European firms than by their US counterparts. First, adopting the initial macroeconomic stance, the two regions have not followed similar recovery paths since the financial crisis, as is shown in Figure 9. Overall, the US experienced a quicker and deeper recovery than the EU after the financial crisis, although trends among European countries have been mixed. As a result, demand and further firm creation and investment have remained relatively more fragile in the EU than in the US.

Figure 9 GDP growth rate (% annual)

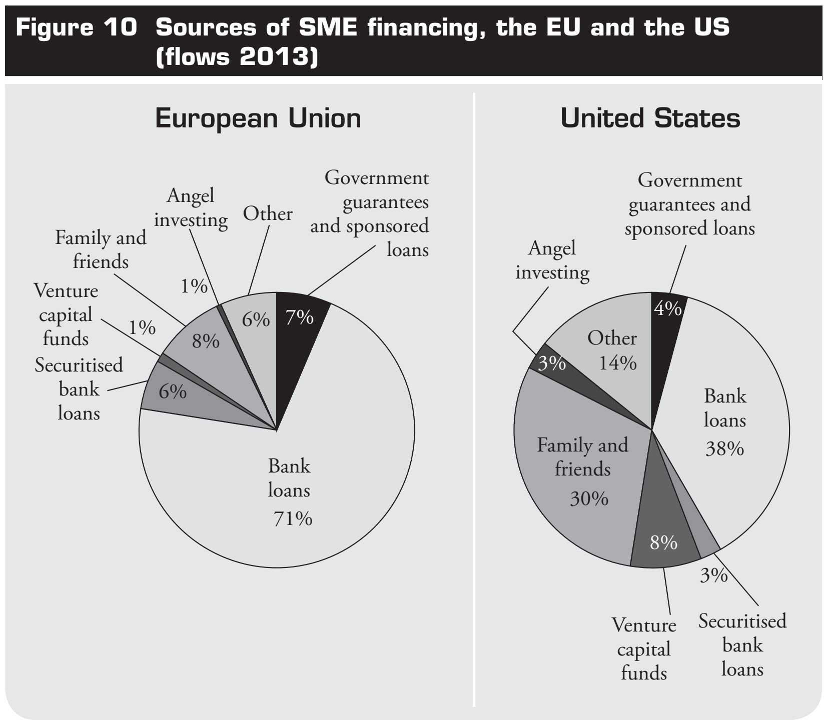


Source: World Development Indicators, World Bank.

[4] OECD statistics, 2014.

Figure 10 shows the sources of financing for SMEs in the EU and the US. The figures display the percentage shares of different funding sources for total new SME financing in 2013. The heavier reliance of European firms on bank loans, compared to their US counterparts, is immediately visible. US SMEs are more reliant on capital market sources such as, for example, venture capital funds, which make up 8% of total new funding. A major share of SME financing in the US comes from friends and families: 30% as compared to 8% in the EU. This could be a consequence of different attitudes toward financial risk, a topic discussed in more detail in Section 4.2.

Figure 10 Sources of SME financing, the EU and the US (flows 2013)



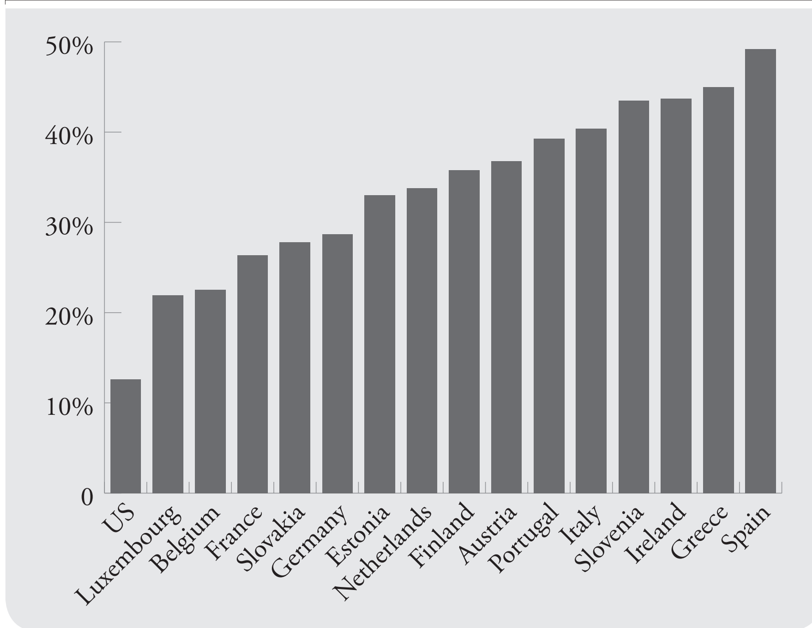
Source: AFME and BCG (2015).

Diverging financing structures and capital markets

The EU and the US have fundamentally different market structures for the financing of their small and medium-sized businesses. SMEs in the EU traditionally rely more on bank lending than their US counterparts, as is shown in Figure 11. Overall, in 2013, loans to non-financial corporations represented 55% of the European GDP, compared to 15% of GDP in the US (AFME 2015).

Consequently, in the aftermath of the 2008 financial crisis, more stringent regulations imposed on banks and the subsequent "retrenchment" of European

Figure 11 Total loans (short and long-term) to non-financial corporations as % of total liabilities, 2013



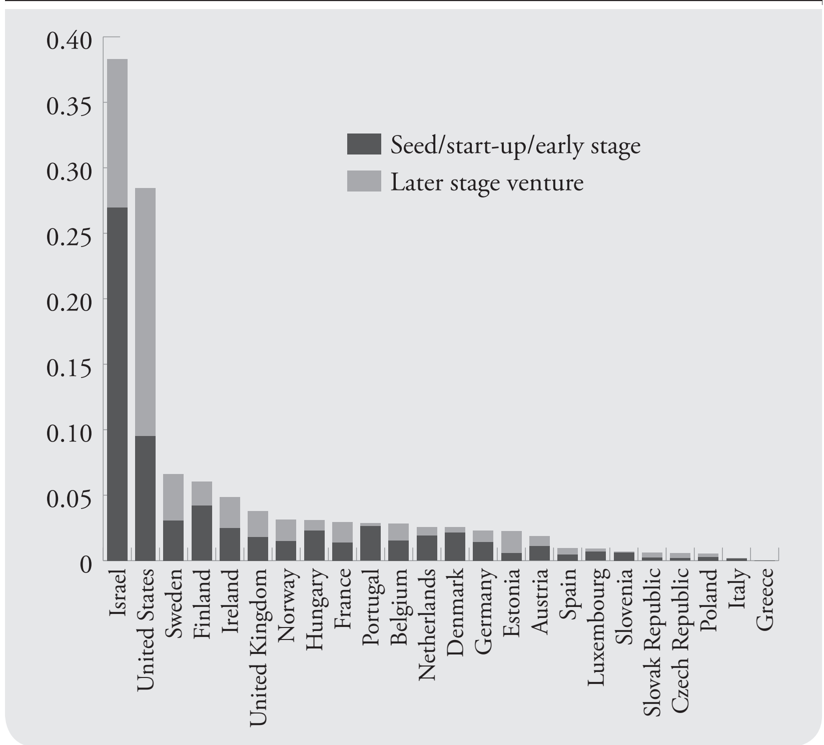
Source: OECD Stat.

banks from their overseas operations (mostly in risky jurisdictions, as well as from the US) severely impacted the supply of credit to European SMEs. In the US, total loans allocated to small and medium-sized businesses have also experienced a decline in recent years and have not yet reached their initial peak of $711bn of 2008; nevertheless, as the September 2015 survey provided by the National Foundation of Independent Business (Dunkelberg and Wade 2015) revealed, the overall financing conditions for small businesses in the US have improved over the last few years. First, in their last report, the NFIB indicated that only 1% of interviewed US SMEs perceived bank financing and credit conditions as the main problem for their business development. This figure must be compared to the 11% of EU SMEs which reported access to financing as their main concern over the period between October 2014 and March 2015, as reported in the Survey on the Access to Finance of Enterprises (SAFE). Second, and most importantly, US SMEs have benefited from a wider range of funding sources, provided by traditional capital markets, but also by newer financing structures, especially peer-to-peer lending and crowdfunding.

Unlike in the EU, US SMEs rely much less on bank lending, instead benefiting from more developed capital markets. Indeed, when looking at the corporate

bond market, according to data provided by Datastream, at the end of 2013, the US non-financial corporate bond market amounted to $3.3tn, compared to about $1.1tn in the EU. Furthermore, the use of equity financing for US SMEs is more developed. According to the European Commission's "Action Plan on Building a Capital Markets Union" (European Commission 2015a), about half of the equity on US SMEs' balance sheets is in the form of listed shares, compared to one third in the case of European SMEs. Listed shares are more liquid and are usually charged a lower premium compared to their unlisted counterparts. In other words, companies with listed shares are inherently more likely to attract investors than companies relying more heavily on unlisted shares. As presented in section 2.4.1, securitisation is used much less in the EU than in the US. As of the last quarter of 2014, the total amount of Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS)-related securities issuance reached more than $1.3tn in the US (including $1.1tn in MBS and $0.2tn for ABS), compared to about $62.5bn of ABS issued and $156.32bn of MBS issued in Europe that

Figure 12 Venture capital as a ratio of GDP, 2014 or latest available year



Source: OECD (2015b).

same year (including $1.2tn for MBS)[5]. Finally, US businesses can rely on a larger pool of angel and venture capital investors, as well as private pension funds. The difference in the use of venture capital in investment financing between the two regions is significant, as is shown in Figure 12. According to the OECD's report "Entrepreneurship at a glance 2015", total venture capital investments in the US accounted for more than 80% of the OECD total in 2014.

Furthermore, while overall venture capital investment grew worldwide in the aftermath of the crisis, in most European countries, the use of venture capital finance has experienced a decline. According to the aforementioned OECD report, while global venture capital investments have doubled in the last two years, the figures were lower in 2014 than in 2007 for all EU countries except Hungary. Moreover, in its 2014 statistics compendium, the EBAN (European Business Angel Network) indicated that the total market for early stage investors had reached $8.5bn of investments in 2013, including $6.2bn for business angels alone. In contrast, in the US, angel investors and venture capital provide approximately 90% of outside equity for start-ups. In 2014, angel investment reached $24.1bn and venture capital investment equalled more than $29bn (Angel Capital Association 2014, Center for Venture Research 2014). Additionally, according to a study conducted by the Financial Times in 2014, European start-ups received $808m in 2010 from growth funding rounds, either from US investors exclusively or from joint-investments between European and American venture funds. In 2013, the total amount raised through growth funding rounds increased to $1.9bn (Financial Times 2014). Similarly, according to the International Capital Market Association, European companies raised $15.3bn in the US private placement market in 2013.

3.5 Capital market instruments for SME funding in the EU

Broadly speaking, SMEs can access the market for capital either indirectly through banks or directly by issuing financial instruments that investors can buy, and potentially also trade, on secondary markets. There is evidence (see Section 3.2) that the former channel, SME loans intermediated via banks, was damaged in the recent financial crisis, harming SMEs' access to funds for profitable investment projects. Bank deleveraging, partly induced by tougher capital requirements, has been identified as a key suspect. In the following, we discuss both direct and indirect access options for SMEs that have the potential to improve the flow of funds from capital market investors to SMEs.

3.5.1 Indirect access

We start by looking at instruments that allow firms to access capital markets indirectly, such as securitised SME loans and covered bonds, as well as monetary policy measures.

[5] Securities Industry and Financial Markets Association (SIFMA) statistics.

Securitisation of SME loans

The securitisation of SME loans involves the assembly of a multitude of loans into a common pool that receives the interest and principal payments originating from the individual loans. Claims to these pooled payment streams are then sold off as marketable financial instruments. In most cases, the pool is tranched in order to create claims of varying seniority. The most junior of these tranches is typically retained by the issuer to alleviate moral hazard problems - owners of the most junior tranches absorb the first losses on the loan portfolio and therefore have the strongest incentives to monitor borrowers' performance.[6] This is often referred to as "keeping skin in the game".

By securitising loans, banks are able to offload these loans to the capital market through the sale of asset-backed securities, the end product of the securitisation process. This should then free up their balance sheet for new lending. The hope is that this new lending capacity is used to extend additional loans to SMEs. Under the securitisation logic, banks serve as conduits for funds from the capital market to SMEs. They are still originating loans and are incentivised to monitor them by holding the most junior claims, the equity tranche. Banks have a comparative advantage in the appraisal and monitoring of loans founded on experience and historical data on past loan performance. A key benefit of the securitisation process is that banks continue performing these tasks. However, they no longer have to commit significant resources at long maturities that are typically financed by short-term deposits or other sources of short-term funding, a maturity mismatch that is a major cause of the fragility of the traditional model of banking.

So where are the problems? First, there is a potential clash between the risk-transfer function of securitisation and the logic of retention of the junior tranche to create incentives for prudent behaviour on the side of the issuer of loans. Can securitisation really reduce a bank's exposure to the risks emanating from SME loans and thereby free up capital for new loans when, in order to reduce moral hazard, it is required to hold on to the risk that is concentrated in the equity tranche? Certainly, the requirement to retain some "skin in the game" does not preclude any risk transfer, but it limits its extent. The riskiest part of the cash flow will have to stay on the originator's balance sheet. Pursuing the logic of risk transfer further, the natural buyers of SME securitisations are other banks - they have a comparative advantage in evaluating SME loans. However, to the extent that the banking sector itself buys up the securities, the risk will stay on banks' balance sheets. It might, however, be shared more efficiently across banks by allowing banks to diversify their exposure across regions and industries. This can reduce the total amount of risk in the system.

[6] For an extensive discussion of the economics of securitisation, see Gorton and Metrick (2012). Nassr and Wehinger (2015) provided a detailed analysis of the securitisation of SME loans.

An additional implication of banks' superior ability to evaluate loan portfolios is that any market for SME securitisations will be marred by adverse selection problems that might scare off outside investors. To alleviate this concern, outside investors should be granted as much information as possible on the underlying SME loans. European loan databases and credit registers would be crucial steps in the direction of more transparency. However, banks are likely to retain a comparative advantage in terms of "soft" information and historical, proprietary data on past loan performance. Credit enhancement through public guarantees for SME loans such as those provided, for example, by the Small Business Administration (SBA) in the United States or the European Investment Bank (EIB) in Europe can be an avenue to attract outside investors, despite existing informational asymmetries. This, however, only shifts the burden to the public purse unless there are reasons to believe that public institutions are better positioned to obtain and evaluate data on SME loans.

A precondition for an active SME securitisation market is a steady supply of underlying, i.e. SME loans. While a more integrated European market should help alleviate the scarcity of underlying, it remains to be seen how far the pooling of SME loans can be pushed. From a risk diversification perspective, the more diverse the pool of SME loans, say Spanish tech start-ups pooled with Finnish hair salons, the more that idiosyncratic risks will be smoothed out in the aggregate stream of payments. However, documentation of the underlying loan portfolios and pricing of the individual tranches relies on homogenous data inputs and on the ability to compute default correlations. This task will become more difficult, the more diversity there is in the pool of loans. Here, to ensure the scalability of the SME securitisation market, the harmonisation of European loan data might be of crucial importance.

Covered bonds

An alternative to channelling funds from capital markets to SMEs, while at the same time holding on to banks as originators and monitors of loans, is to use such SME loans as collateral for bonds issued by the banks themselves. Bonds backed by a designated pool of collateral are called covered bonds. They are an obligation by the issuing bank that provides a secondary recourse in case of default in the form of the collateral - the so-called cover pool is bankruptcy remote. In contrast to securitisation, covered bonds stay on the balance sheet of the bank; no risk transfer takes place. The use of SME loans as collateral for covered bonds is not common. Many jurisdictions with an active covered bonds market, such as Germany, with its Pfandbrief market, currently do not permit the use of SME loans in the cover pool.

Monetary policy

Monetary policy can, in principle, support banks' SME lending by either purchasing securitised SME loans directly through non-conventional monetary policies such as Quantitative Easing (QE) or by accepting securities backed by

SME loans as collateral in conventional refinancing operations. However, under the latter option, there is no capital relief for banks, as the exposure stays on their balance sheets. A fundamental problem with such central bank interventions into the SME financing market is that they have the potential to harm secondary market liquidity by locking up the securitised assets at the central bank. Lending the securities out through the securities lending market could be a potential remedy for this problem.

3.5.2 Direct access

In the following, we discuss a range of financial instruments that allow SMEs to directly access capital markets without bank intermediation in the form of loans. Capital markets provide a large variety of both debt and equity instruments for SME financing, depending on size, age, and business model (see SME financing escalator, Section 3.3). We will describe the most prominent among them below.

Private placements, corporate bonds, and other SME debt instruments

Private placements

A private placement is the issuance of securities to a small number of selected investors through a private, rather than public, offering. Through private placements, securities can usually be allocated to a small group of accredited investors, such as investment banks, insurance companies, or pension funds. For this type of operation, businesses in need of capital usually do not need to disclose detailed financial information or produce a prospectus. This makes private placements a cheaper and less complicated option as compared to public offerings. Consequently, they tend to be preferred over public offerings by businesses in need of moderate amounts of capital, such as SMEs.

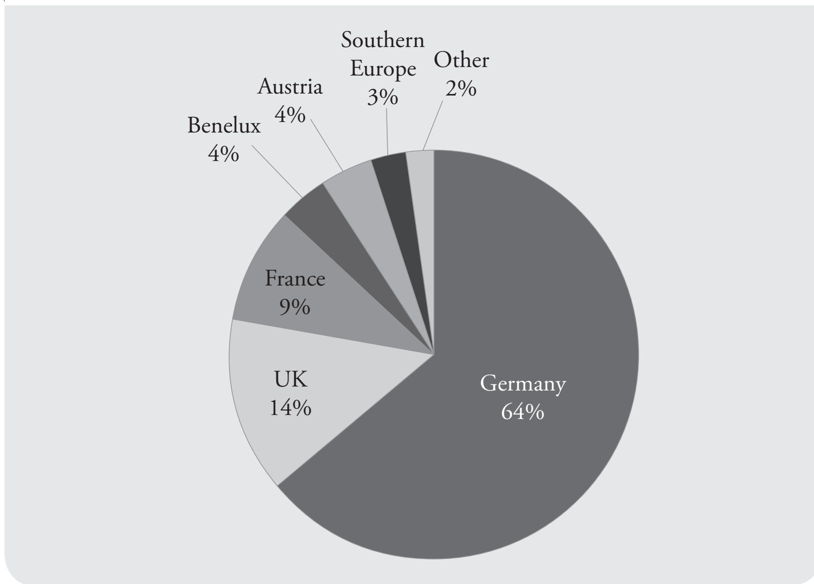
In 2013, in the US, the market was about $50bn, compared to $15bn in the EU (ICMA 2014). According to the International Capital Market Association (ICMA), in 2013, European companies raised $15.3bn in the US private placement market. Furthermore, many European companies go to the US for private placements, as markets there are deeper and more liquid than at home.

In Europe, Germany has the most active market in private debt placements, the Schuldschein market. A significant share of the issuance volume in the German Schuldschein market comes from firms in neighbouring European countries, such as Austria and France (see Figure 13).

Corporate bonds

While corporate bonds are not typically issued by SMEs due to high transaction costs, particularly those arising from documentation requirements, some European countries have recently implemented legislative changes that reduce the administrative burden for SME bond issuances. A prominent example is the

Figure 13 Schuldschein issuance to corporates (by country, as of 2012)



Source: Thomson Reuters LPC.

Italian minibond market. Legislative changes in Italy in 2012[7] and 2013[8] have removed fiscal and statutory obstacles that prevented Italian SMEs from issuing minibonds and have encouraged their use. The development of the Italian minibond market is widely seen as a welcome move towards alternative funding sources for Italian SMEs. Indeed, whereas 95% of Italian SMEs use banks in order to secure external funding, only 5% make use of alternative financing instruments. However, the Italian minibond market seems to be picking up rapidly. There had been 137 emissions on ExtraMOT Pro through 31 October 2015, equal to a value of about €5.3bn. Among those emissions, 117 were in the range of €0-50 million, seven in the range of €50-150 million, and 13 in the range of €150-500 million.[9]

Angel investors and venture capital

Business angels, either as private individuals or as part of a network, are wealthy investors who decide to invest their capital in innovative start-ups and businesses

[7] Law Decree June 22,. 83, with urgent measures for the country's growth, converted into law with amendments on August 7, 2012; Law Decree October 18, 2012, converted into Law no. 179 with amendments on December 17, 2012. (http://epic.it/en/what-are-minibonds).

[8] Destination Italy Decree.

[9] See the October 2015 edition of the minibond barometer published by minibonditaly.it.

with strong growth potential in exchange for equity. Business angels operate by providing equity to a firm after the latter has exhausted other potential resources, such as family, friends, and internal funds. Given the risk associated with investments in early-stage companies, such as large technological uncertainties, untested business models, or uncertain consumer demand, business angels invest in businesses with high expected returns on investment. Most angels are former entrepreneurs themselves, and investing in new and promising start-ups is also a way for them to transmit their entrepreneurial knowledge and skills. In other words, business angels provide "smart money" (Mason and Botelho 2014). Therefore, while business angels generally invest for profit and control purposes, an important aspect of the investment can be seeing new technologies emerge and new businesses develop. They usually own minority positions in the investee (on average, less than 20% of the total capital), but contribute actively to its daily operations and decision making. Typically, angel investors provide funding in the order of €25,000 to €500,000 (OECD 2011).

At the European level, according to the European Business Angel Network (EBAN), angel investment reached €5.5bn in 2013. In the same year, EBAN counted 271,000 members in the European angel investment community (European Trade Association for Business Angels 2014). Most investees are at the start-up, seed, or pre-seed stage, and mostly operate in the biotech, life sciences, mobile, and manufacturing sectors. In the EU, the UK is the most active country for angel investment.

Venture capital (VC) is a more recent term for "risk capital" and shares several features with angel investing. Like business angels, VC firms usually invest with a long-term perspective, mostly in firms operating in promising sectors with high growth potential. Furthermore, like angels, VC firms invest by providing cash in exchange for equity. However, VC investment is conducted by firms, not by individual investors. VC firms invest with other people's money, public and private. Moreover, only a minority of VC firms actually invest in seed-stage firms, except when the business is in the high technological sector or is managed by already successful founders. Typically, VC firms invest in businesses that are at a more advanced stage, when the technological development work has been completed, and the project has started generating revenues. Most VC firms specialise in new technologies, such as the internet or telecommunications. Apple, Microsoft, and Google all received investments from VC firms in their early stages.

VC firms are less involved in sharing entrepreneurial skills and knowledge than angel investors; their main focus is the return on their investments. Usually, a 10-year period is agreed between the young business and the VC firm for the invested funds to be repaid. At the end of this agreed period, the VC firm either sells the shares back to the company's owners or the VC firm sells its shares via an IPO. VC firms typically invest much larger amounts than angel investors.

In the EU, according to the European Private Equity and Venture Capital Association (EVCA 2014), total VC fundraising stood at €4.1bn in 2014. Overall, in 2014, out of the €4.1bn raised through VC firms, €2.3bn were raised by VC firms focused on early-stage businesses, €0.3bn were focused on later-stage firms, and €1.5bn targeted both types of firms. The majority of funds raised came from France, Belgium, and the Netherlands (46.1%), followed by Germany, Austria, and Switzerland (8.4%) and Norway, Denmark, Finland, and Sweden (8.4%).

FinTech

With the rapid expansion of financial technologies, also called "FinTech", some new forms of financing have emerged for SME funding. Particularly, crowdfunding and peer-to-peer lending (P2PL) have increased significantly.

Crowdfunding

Crowdfunding works by raising many small amounts of money through a common platform, mostly online, to fund new businesses, projects, and individual entrepreneurs. Crowdfunding is heavily dependent on social networks. Entrepreneurs usually launch a project online and obtain the first and second rounds of financing from relatives (family and friends). To get more funding, the project's creator must try to make it "viral" by increasing the visibility of its project on a crowdfunding platform.

Peer-to-peer lending

Peer-to-peer lending (P2PL) allows savers and lenders to interact directly without the need for third party intermediation. In that sense, it is part of the "sharing economy" movement, promoting the shared production, consumption, and distribution of goods and services among groups of people. AirBnb and Uber are major examples of this recent movement.

P2PL platforms base their customer screening on objective, hard-information criteria: Usually, a digital application is used to determine whether or not an investor would be eligible for the platform's lending and how much he or she could receive. This erases the subjectivity of the screening process as practised in traditional financial intermediation by banks. Generally, P2PL platforms are supposed to provide faster access to capital, particularly due to fewer screening and administrative procedures.

In Europe, crowdfunding and peer-to-peer lending activities have grown significantly in recent years. Between 2012 and 2014, peer-to-peer lending grew, on average, by 272%, reward-based crowdfunding increased by 127%, equity-based crowdfunding by 116%, and peer-to-peer consumer lending by 113% (Wardrop et al. 2015). According to Massolution[10], a research and advisory firm

[10] www.massolution.com.

specialising in crowdfunding sources for private sector companies and public agencies, crowdfunding platforms raised $16.2bn worldwide in 2014. For example, Kickstarter, the largest crowdfunding platform in the world has raised about $2bn in funding for more than 85,000 projects since its inception in 2009. The P2PL market has grown rapidly and significantly in recent years. According to a study by PwC (2014), P2PL platforms provided $5.5bn of loans in 2014 worldwide, and the market could grow to $150bn by 2025.

4 Impediments to a common capital market for SME funding

This section considers the current impediments to a fully functioning Capital Markets Union. It discusses the most important hurdles for the harmonisation, standardisation, and transparency of European capital markets and financial products, before turning to the existing cultural barriers.

4.1 Harmonisation, standardisation, and transparency

Among the most important impediments to the creation of a common European capital market are the national differences in legal and regulatory frameworks, and the considerable disparities in tax systems and financial market infrastructures across countries. These problems are compounded by a lack of detailed firm information that is comparable across countries. This section will take a closer look at these problems.

4.1.1 Legal and regulatory aspects

National differences in corporate law and governance

Similar to corporate tax systems, responsibility for corporate law and governance remains at the national level. EU legislation only entails various directives regarding the harmonisation of rules concerning disclosure, takeover bids, mergers, or the division of shareholder rights, among others (European Commission 2015b). However, traditions regarding corporate law and business models can vary significantly across countries. This constitutes a first obstacle to cross-border transactions, and from the point of view of the founders, can deter investments or business developments in other member states. The mobility of companies remains low within the EU. According to a study by the European Commission in 2011 (European Commission 2011), on average, only 2% of European SMEs had invested abroad that year, and less than 1% of those SMEs had established a branch in another European country.

From the point of view of investors, there is still a lack of harmonisation in rules regarding minority shareholder protection, and the Shareholder Rights Directive[11] is currently being revised in order to enhance the attractiveness of European firms to foreign investors.

[11] "DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement and Directive 2013/34/EU as regards certain elements of the corporate governance statement".

More generally, European companies and national governments do not make efficient use of new technologies to improve the sharing of information and investors' participation across the EU. For instance, investors still cannot vote electronically, and the entitlement procedures remain highly complex in the case of cross-border voting (European Commission 2015b). Similarly, data sharing across countries is still weak. On this issue, the Business Registers Interconnection System (BRIS), which requires business registers to provide information on the rules in their national law, only covers 45% of legal entities across the EU.

The fragmentation of corporate law and governance regimes across the EU can be very costly for investors, who must then compare different national regimes and their rights across member countries. Furthermore, such fragmentation increases transaction costs, particularly for smaller businesses that intend to expand internationally (European Commission 2015b).

Fragmentation of regulation on financial instruments

The EU also lacks a harmonised legal framework for certain financial instruments. The absence or weakness of market rules can impede the development of asset markets. Recent initiatives, such as Solvency II, for example, have been considered insufficient to improve the transparency and the simplicity of the securitisation process in the EU. Therefore, creating a common rulebook for the regulation of securities in the EU will constitute an inevitable and fundamental prerequisite for the development of such a market.

The same reasoning applies to the covered bond markets, which have been increasingly used by credit institutions since the financial crisis. According to the European Commission (European Commission 2015b), to date, 26 countries in the EU have passed legislation regarding covered bonds. At the supranational level, harmonisation remains confined to prudential and risk management issues (ECB 2008).

As for the private placement market, described in Section 3.5.2, there is still no common regulatory framework. This partly explains why European companies continue to rely on the US market for such financing instruments. To date, the largest market for private placements is the "Schuldschein" market in Germany. The "Euro Private Placement" (Euro PP) in France has also been growing rapidly over the last few years, although it remains very small compared to the US market.

As a final example of the fragmentation in the EU regulation of financial instruments, financial collateral flows across EU member states remain fragmented. On this issue, the Financial Collateral Directive[12] was implemented

[12] DIRECTIVE 2002/47/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 6 June 2002 on financial collateral arrangements

in 2002 to provide a harmonised framework for the taking of collateral and the protection of close-out netting. However, the implementation of the directive has been highly uneven among the members, and for this reason, the remaining legal uncertainty (particularly regarding the reporting of financial collateral in different member states) has prevented the market from growing more intensively in the EU.

Insolvency and resolution

As reported in the World Bank's Doing Business report (World Bank 2015), insolvency and resolution frameworks still differ considerably across the EU member states. As an illustration, while insolvency proceedings last, on average, 1.9 years in France and one year in the UK, they last roughly 3.5 years in Greece, 3.3 years in Romania, and 3.0 years in Poland.

Such discrepancies can generate two major issues. First, shorter insolvency proceedings and resolutions imply lower costs for investors, and consequently, investors may avoid countries where proceedings last longer. Furthermore, fragmentation in insolvency and resolution legislation increases market research and transaction costs for investors; the absence of harmonisation in this field constitutes an additional obstacle to cross-border investments.

In 2014, the European Commission proposed a Recommendation[13] regarding business failure and insolvency. Its major objective was to modernise and increase the efficiency of insolvency and restructuring procedures in the EU. The Recommendation included the implementation of a debt restructuring process to enable viable debtors in difficulty to restructure before becoming insolvent. The document also suggested allowing insolvent entrepreneurs to be given "a second chance" within the three years following their first failure. As presented in the study undertaken for the European Commission on "Bankruptcy and second chance for honest bankrupt entrepreneurs" (ECORYS 2014), about 18% of successful European entrepreneurs actually failed in their first venture.

However, the Recommendation still does not touch upon the formal proceedings of insolvency, particularly the procedures to liquidate the insolvent debtor and the distribution of the discounted claims to the creditors. Nevertheless, investors need to be confident in their ability to recover their funds, or at least part of them, in the case of their investee's insolvency. As those formal procedures continue to be set at the national level, cross-border investments will be slowed down and constrained to a favoured group of countries where proceedings tend to be more transparent, faster, and less costly. In the long run, the EU should strive to implement a more stringent solution to this problem.

[13] "COMMISSION RECOMMENDATION of 12.3.2014 on a new approach to business failure and insolvency".

4.1.2 Taxes

In the EU, fiscal integration is still at the project stage, and taxation remains under the authority of the member states. But the lack of fiscal integration, or at least, harmonisation of corporate taxation and fiscal incentives for non-financial corporations across the EU member states remains a major obstacle to deeper integration of the area's capital markets.

In 1996, the European Commission created a group of financial market experts to discuss the reasons for poor securities trading in the EU (Mayer Brown 2015). The Group identified three main fiscal obstacles: capital gains taxes, transaction taxes (stamp duty), and national withholding tax regulations. First, the fragmentation among the national fiscal systems has an impact on the location of market participants. As the latter tend to reside in countries with the most attractive tax systems, the concentration of market participants may ultimately result in a serious misallocation of capital across the EU. According to the European Commission, most European countries' corporate tax systems favour debt over equity. In other words, tax incentives tend to be provided principally for the payment of interest on debt, without offering such incentives for dividends and capital gains. However, from a systemic risk perspective, De Mooij et al. (2014) argued that such a bias of corporate taxation towards debt can actually undermine regulations aimed at improving financial institutions' resilience to shocks by increasing their capital buffer. Tax incentives on debt may encourage financial institutions to contract more debt instead of financing themselves through equity. Similarly, Langedijk et al. (2014) argued that eliminating this bias towards debt may reduce public financial losses by between 60% and 90% in the case of banking crises. In addition to potentially increasing systemic risk, a corporate tax bias towards debt is a clear disincentive for non-financial corporations to finance themselves through equity. Finally, weak coordination among countries may lead to double taxation. On this issue, the European Commission insisted on the need to facilitate tax refunds of withholding taxes from high source countries. In 2009, total refund claims reached approximately €1bn (European Commission 2015b). In addition, the annual foregone tax relief is estimated to amount to €5.5bn annually. Similarly, several European countries impose stamp duties that can act as disincentives for cross-border investment in the EU. However, attempts by the European Commission to harmonise financial transaction taxes in the EU have so far proved unsuccessful.

To sum up, more coordinated corporate taxation schemes and fiscal incentives may be needed for deeper and more liquid capital markets to emerge in Europe. In response to this long-lasting issue, the Tax Barriers Business Advisory Group (initially under the direct authority of the European Commission, now an independent group of financial experts) published its report in 2013 (European Commission 2013). The group identified the lack of standardisation in documentation as a major obstacle. Particularly, more than 56 documents can be required in the EU to claim tax relief. Such an administrative burden is costly

and time-consuming, both for investors and companies. Therefore, the Group suggested the creation of an electronic and harmonised documentation and some easier solutions for tax relief directly at the source (when securities income is paid). Such simplification and harmonisation of the administrative process is particularly relevant in the case of SMEs, which have lower financing means than their larger counterparts, and therefore, can only afford lower transaction costs.

4.1.3 Credit information

According to the European Commission (European Commission 2015b), around 25% of companies in the EU still lack a credit score. This figure emphasises the informational problem that investors face when considering European SMEs. In Europe, there is still no centralised credit rating agency in charge of rating SMEs. As was presented in Section 2.2.2, SMEs are relatively opaque. In some EU member states, the central bank has created a database with financial statements and income information about non-financial institutions. Since 2012, access to these databases is available through the ECB's Bank for the Accounts of Companies Harmonized (BACH). However, in most cases, contributions to the national databases are not mandatory, and SMEs generally do not contribute to them (World Bank 2014).

More generally, the gathering of financial information on SMEs is challenging in the EU. Listed companies' financial statements must comply with the International Financial Reporting Standards (IFRS). However, accounting standards for non-listed companies can vary among member states, and small companies tend to report only according to local GAAP. This makes it more difficult for international investors to read and compare such statements, especially when comparing companies from different countries. The adoption of IFRS is costly for small companies, as this requires more elaborate reporting, along with the necessary knowledge to complete it. In reaction to that, the European Securities and Markets Authority (ESMA) and the International Accounting Standards Board (IASB) have raised the possibility of creating a simplified standard framework for smaller companies, which would improve transparency and access to financial information by investors, while at the same time, decreasing administrative costs for small businesses.

To sum up, from the investors' point of view, facilitating access to market data will encourage investment by increasing transparency and reducing the costs of conducting cross-border transactions. From the point of view of smaller investees, improving credit information and harmonising accounting standards constitutes a necessary condition for SMEs to signal their credibility and thereby gain access to additional funding.

4.2 Cultural barriers

Fiscal, legal, and regulatory differences across the EU ultimately reveal deeper and recurrent cultural differences. These cultural differences might be a key

factor for European SMEs' revealed preference for more traditional sources of funding. Ultimately, they could be the root of the lack of depth in the capital markets in Europe.

First, one simple yet significant factor is the language diversity across European countries. Translating contracts, procedures, and prospectuses into different languages increases transaction costs, which may not be affordable for many SMEs.

Moreover, the investment and business risk culture has been increasingly cited as a potential explanatory factor for Europe's lower attraction to capital markets. It seems that there is a significant transatlantic divide with regards to corporate risk culture. Indeed, Harris and McDonald (2004) noted:

"The differences between the American and the European political, social and cultural environment help explain the main differences between American corporate culture – high risk, immediate feedback, hands-on style management – and European corporate culture – which is more based on proceedings and rules" (p.125).

This point is further emphasised in a sequence of interviews with leading European asset managers, pension and investment funds, private equity funds, and fund management associations conducted by the Association of Financial Markets in Europe (AFME) and the Boston Consulting Group in 2014 (AFME and BCG 2015). Many of these prominent investors argue that higher risk aversion among European firms and investors may be seen as a contributing factor to Europe's higher reliance on bank lending.

Cultural differences may also appear in entrepreneurs' desire for control over their firms. According to the European Commission, more than 60% of businesses in Europe are family-owned, with the majority of ownership and control concentrated in the hands of one or several family members. One frequent issue encountered with family businesses is that the family is reluctant to lose control of the company when additional capital is needed to increase the firm's investment potential. On this issue, Holmén and Högfeldt (2004) found that family-owned businesses, even when they have significant growth and development potential, tend to be undercapitalised, compared to businesses with a different business structure. Using the example of the Swedish ownership model, the authors showed that this undercapitalisation comes partly from the founders' fear of control loss implied by the issuance of additional equity. Similarly, Morck et al. (2000), studying Canadian firms, found that businesses for which control has been inherited tend to invest less in R&D, and therefore, tend to grow less quickly. To be sure, family-owned businesses are also numerous in the US. However, as Huizinga and Jonung (2005) argued, entrepreneurs tend to be less reluctant to transfer control of their companies. Following a study

by Hellman and Puri (2002), Huizinga and Jonung (2005) found that US entrepreneurs tend to sell their companies at early stages to venture capitalists. Moreover, Gompers and Lerner (2001) indicated that those entrepreneurs, while losing control of their companies, also become significantly wealthy by selling their claims through IPOs.

Finally, cultural differences could also express themselves in bankruptcy and resolution laws. According to Martin (2005), "[i]nsolvency systems profoundly reflect the legal, historical, political, and cultural context of the countries that have developed them" (p.4). In line with the previous discussion on the legal origins of market fragmentation, the latter may well influence how countries perceive the status of creditors and debtors and the extent to which they value the protection of shareholders.

In Europe, the Netherlands, Britain, and the Scandinavian countries tend to be the most favourable to creditors. Italy, Spain, and Germany tend to adopt a much stricter view (The Economist 2008). Belgium, Portugal, and Switzerland adopt an intermediate position. According to a study by Fitch Ratings (2014), while common-law based countries tend to give strong protection to creditors, countries such as Italy, France, or Spain rely more strongly on administrative courts for bankruptcy and resolution procedures and tend to give more weight to other stakeholders, including employees and suppliers.

5 CMU: What needs to be done?

This section aims to outline potential avenues along which progress towards a Capital Markets Union can be made. To this end, we suggest alleviating informational problems through European business databases and encourage the creation of harmonised financial products. We then briefly discuss how to finance growth beyond the SME status.

5.1 European business databases

One way to reduce the opaqueness of SMEs is the introduction of a common credit database. Ideally, this would be accessible to all potential lenders, making it easier for them to gain information on the creditworthiness of a firm. For some European countries, such databases already exist at the national level in the form of credit registers. What is needed, however, is a European database encompassing information on all firms in all EU countries. The information provided must be standardised and available in a common language.

One important step in this direction is the AnaCredit project, led by the ECB. AnaCredit stands for "analytical credit database", which will contain loan-level information provided by banks in the euro area. The reporting threshold for individual loans will be EUR 25,000, and the data collection is scheduled to start in 2018. AnaCredit aims to make use of national credit registers and newly collected data in order to create a harmonised database, which will then feed into decision-making processes for monetary policy, financial stability, and macroprudential supervision. This database will be a huge leap forward in analysing and identifying credit exposures across countries and industries using highly disaggregated information that is based on harmonised concepts and definitions. As the information collected will cover loans to large companies, as well as SMEs, this is a big improvement, as information on SMEs so far is only partially available through survey data. However, while AnaCredit is hugely valuable from a regulator's point of view, it might not be able to fully address the initially raised opaqueness problem of SMEs, as access to the database by reporting agents will be restricted due to confidentiality reasons.

There are also initiatives to collect data on more specialised market segments. One of these is the European Data Warehouse, which, according to its website (https://eurodw.eu/), is "the first centralised platform in Europe that collects, stores and distributes standardised ABS loan level data." One aim of this platform is to make European ABS deals more transparent, thereby aiding the assessment of the risks involved.

While initiatives like the European Data Warehouse are highly valuable, they only cater to a specific market segment. What is needed is a publicly accessible database into which every European firm can feed some basic and standardised information that investors can then use to assess their creditworthiness. Without such a database, it will be difficult, if not impossible, to overcome the informational problem with which SMEs are faced.

5.2 Harmonisation of financial products

A prerequisite for the scalability of European financial markets will be a degree of uniformity of the financial claims that trade in those markets. Some aspects pertaining to the legal treatment of claims, such as those arising from differences in national insolvency regimes, will prove difficult to harmonise. They are often the outcomes of historical processes concerning the allocation of property rights, that is, social contracts that codify a consensus that has been achieved among the interest groups in a given jurisdiction, in some cases, through century-long struggles.

Other aspects defining financial claims appear more amenable to European harmonisation. As discussed above, collateral eligibility criteria for covered bonds differ across European jurisdictions, with many countries ruling out the use of SME loans in the cover pool. As covered bonds backed by SME loans could play an important role in channelling resources from capital markets to SMEs via bank intermediation, making SME loans eligible as collateral for covered bonds across all member states of the EU could provide a boost to this market segment. This is particularly likely as it would open up the deep German "Pfandbrief" market for such instruments.

To strengthen the European securitisation market for SME loans, the EU could support the efforts of the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) to implement a framework for "simple, transparent and comparable" securitisations (BCBS and IOSCO 2015). There already is an ongoing joint effort by the European Central Bank and the Bank of England to further this agenda, as witnessed by their joint discussion paper (BoE and ECB 2014). A key policy recommendation is the standardisation of information disclosure, particularly concerning loan-level data and ensuring access to such credit data by market participants.

A further policy option to help revitalise the securitisation market for SME loans could be the privileged provision of credit enhancements provided by European institutions such as the European Investment Fund (EIF) for securitised instruments that meet certain criteria for high-quality securitisations, criteria that should be the outcomes of the abovementioned regulatory debate. More controversially, there could be favourable treatment for SME loans that are pooled across national borders. Currently, national differences in enforcement

and insolvency procedures make such pooling difficult. The granting of public credit enhancements for such efforts might help widen the pool of underlying for SME securitisations beyond national borders and thus counteract the existing home bias in this market.

5.3 Financing growth beyond the SME status

Whereas the discussion on the CMU is centred on SMEs, it is worth taking a step further and asking how best to help firms grow beyond SME status, and what might prevent them from doing so. Why should firms strive to become larger than an SME in the first place? Indeed, a country like Germany, with an industrial structure that is heavily reliant on its so-called "Mittelstand", that is, its medium-sized firms, seems to be doing very well. However, it is sometimes overlooked that it is the big "superstar" firms that are the driving forces of economic development. Mayer and Ottaviano (2007) dubbed them "the happy few", referring to the big international firms that have higher productivity, generate higher value added, and attract highly-skilled workers. Interestingly, those happy few are more likely to be foreign-owned than other firms, pointing to the problem mentioned above, that the majority of Europe's firms are family-owned and that owners are often reluctant to give up (part of) their control over decision making. However, Altomonte et al. (2012) argued that it is not necessarily the structure of firm ownership per se that plays a crucial role for the success of international companies, but the fact that the successful firms are often not family-run businesses. This is not surprising, as the skills that are needed to run a successful international company are not necessarily to be found within the founding family, which typically started out its business as a small and local firm.

Whatever it is that exactly determines a firms' ability to become successful in international markets, it is clear that firm owners should reconsider the involvement of non-family members and possibly even foreign investors. This would potentially help to address agency issues by lowering the concentration of decision-making power and thereby facilitate access to outside financing, making firms less dependent on relationship banking. Policy makers should make sure that they do not tailor the CMU only towards the needs of small firms, but also towards those firms that are on the verge of growing out of their SME status. It is important for these firms to be able to obtain the necessary financing that will help them to grow and become truly international players. Currently, only two European companies are among the top 10 largest companies (by revenue) in the world, Royal Dutch Shell and BP. Perhaps unsurprisingly, these two companies are headquartered in the UK, a country that is less bank-based than the rest of Europe. This is a further indicator of the necessity for deep and integrated capital markets in the European Union.

6 Conclusion

This report has provided a critical examination of the current debate on the Capital Markets Union, focussing specifically on the access to financing for SMEs. What becomes clear when reviewing the existing literature and looking at the available data is that European banking and capital markets are still very fragmented. Whereas SME financing seems to have reverted back to normal in countries like Germany, peripheral countries like Italy still cannot provide sufficient funding for their small and medium-sized firms.

More closely integrated capital markets should ultimately broaden the financing possibilities of firms, especially those of SMEs, allowing them to diversify their financing structure. This might prove to be very valuable in times of crises, especially if the interbank market dries up, leading to credit rationing on the side of the banks. This does not mean that non-bank financing should be a substitute for bank financing. Indeed, it should ideally be complementary to conventional bank financing, providing additional funds to the real economy. We believe that, at least in the foreseeable future, banks will remain the main provider of SME financing in the EU due to their ability to build up long-lasting relationships and monitor performance, which is particularly important in times of crises, when distinguishing between good and bad investment projects becomes ever more important.

Naturally, the question arises if an ever closer integration of capital markets will lead to an increase in systemic risk, as discussed by Danielsson et al. (2015). Indeed, there is the possibility that a higher degree of interconnectedness between countries might facilitate the spreading of shock from one country to another, especially in times of crises. Allen and Gale (2000) discussed how different degrees of integration have an impact on the spreading of shocks across markets. They pointed out that while the complete integration of markets acts as an effective shock absorber, incomplete integration can lead to a considerable degree of contagion. Thus, the resilience of the financial system to shocks will have to be a key aspect of any push for further capital market integration.

An additional danger about which policy makers should stay alert is the risk that market participants will shift activities from more regulated markets into unregulated areas. This has to be kept in mind when supporting the development of new markets and financial instruments. Problems relating to maturity mismatches, informational asymmetries, and contagion will, in some form, reappear in these markets. Whether this requires a new regulator remains an open question.

In terms of concrete steps towards achieving a CMU, we recommend the creation of common credit databases to create a transparent market for SME credit, with equal access to information on creditworthiness for all market participants. Such information will also support the development of a pan-European market for loan securitisation. We furthermore encourage the harmonisation of financial instruments inside the EU to help foster trading across European borders. A first step in this direction could be a harmonisation of the collateral eligibility criteria for covered bonds, in particular enabling SME loans to serve as cover for such bonds. To revive securitisation inside the EU, we also support the adoption of certain base rules for securitisations, such as the Basel committee's "simple, transparent, and comparable" securitisation proposal (BCBS and IOSCO 2015).

References

Allen, F. & D. Gale (2000). “Financial Contagion,” Journal of Political Economy 108(1):1-33.

Altomonte, C., T. Aquilante & G. Ottaviano (2012). “The Triggers of Competitiveness: The EFIGE Cross-Country Report,” Blueprints, Bruegel, no. 738.

Angel Capital Association (2014). “US Angel Update: Angel Market and Key Trends”.

Angelini, P., R. Di Salvo & G. Ferri (1998). “Availability and Cost of Credit for Small Businesses: Customer Relationships and Credit Cooperatives,” Journal of Banking & Finance 22(6-8):925–954.

Artola, C. & V. Genre (2011). “Euro Area SMEs under Financial Constraints: Belief or Reality?,” CESifo Working Paper No. 3650, Munich.

Association for Financial Markets in Europe (AFME) and Boston Consulting Group (BCG) (2015). “Bridging the Growth Gap. Investor views on European and US Capital Markets and How they Drive Investment and Economic Growth”. February 2015.

Bank of England (BoE) and European Central Bank (ECB) (2014). “The Case for a Better Functioning Securitisation Market in the European Union,” Discussion Paper, May 2014.

Barba Navaretti, G., G. Calzolari & A.F. Pozzolo (2015). “Is Special Treatment for SMEs Warranted?,” European Economy 2015.2:9-33.

Basel Committee on Banking Supervision (BCBS) and Board of International Organization of Securities Commissions (IOSCO) (2015). “Criteria for Identifying Simple, Transparent and Comparable Securitisations”. July 2015.

Battistini, N., M. Pagano & S. Simonelli (2013). “Systemic Risk and Home Bias in the Euro Area,” DG ECFIN Economic Papers No. 494.

Beck, T., H. Degryse, R. De Haas & N. van Horen (2014). “When Arm’s Length is Too Far. Relationship Banking over the Business Cycle,” BOFIT Discussion Paper No. 14/2014.

Bremus, K. & K. Neugebauer (2015). “Don’t Stop Me Now: The Impact of Credit Market Segmentation on Firms’ Financing Constraints,” mimeo.

Boot, A.W.A. (2000). “Relationship Banking: What Do We Know?,” Journal of Financial Intermediation 9(1):7–25.

Buch, C.M., K. Neugebauer & C. Schröder (2013). “Changing Forces of Gravity: How the Crisis Affected International Banking,” Discussion Papers 48/2013, Deutsche Bundesbank, Research Centre.

Center for Venture Research (2014). “The Angel Investor Market in 2014: A Market Correction in Deal Size”.

Churchill, N.C. & V.L. Lewis (1983). “The Five Stages of Small Business Growth,” Harvard Business Review 61:30-50.

Danielsson, J., E. Micheler, K. Neugebauer, A. Uthemann & J.-P. Zigrand (2015). "Europe's Proposed Capital Markets Union: Disruption Will Drive Investment and Innovation," VoxEU.org, 23 February.

De Mooij, R., M. Keen & M. Orihara (2013). "Taxation, Bank Leverage, and Financial Crises," IMF Working Paper 13/48.

Dunkelberg, W.C. & H. Wade (2015). "NFIB Small Business Economic Trends," September 2015 report.

The Economist (2008). "Out of Pocket - Europe's Flawed Insolvency Regimes Will Face a Severe Test in 2009". 30 December 2008.

ECORYS (2014). "Bankruptcy and Second Chance for Honest Bankrupt Entrepreneurs," 31/10/2014

European Central Bank (ECB) (2008). "Covered Bonds in the EU Financial System".

European Central Bank (ECB) (2015). "Survey on the Access to Finance of Enterprises, October 2014 to March 2015".

European Commission (2011). "Opportunities for the Internationalisation of European SMEs," Final Report.

European Commission (2013). "Workable Solutions for Efficient and Simplified Fiscal Compliance Procedures Related to Post-Trading Within the EU – The Tax Barriers Business Advisory Group – T-bag".

European Commission (2014). "Annual Report on European SMEs".

European Commission (2015a). "Action Plan on Building a Capital Markets Union". 30 September 2015. Brussels.

European Commission (2015b). "Economic Analysis Accompanying the Document 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Action Plan on Building a Capital Markets Union". 30 September 2015. Brussels.

European Private Equity and Venture Capital Association (EVCA) (2014). "2014 European Private Equity Activity – Statistics on Fundraising, Investments and Divestments".

European Trade Association for Business Angels, Seed Funds, and other Early Stage Market Players (2014). "Statistics Compendium".

Financial Times (2014). "US Investors Pump Funds into Europe's Digital Scene". 19 August 2014.

Ferrando, A. & N. Griesshaber (2011). "Financing Obstacles among Euro Area Firms: Who Suffers the Most?," European Central Bank WP No. 1293, February.

Ferrando, A. & K. Mulier (2013). "Firms' Financing Constraints: Do Perceptions Match the Actual Situation?," European Central Bank WP No. 1577, August.

Fitch Ratings (2014). "Comparing Major Bankruptcy and Insolvency Regimes – United States, UK, Germany, France and Luxembourg".

Gompers, P. & J. Lerner (2001). "The Venture Capital Revolution," The Journal of Economic Perspectives 15(2):145-168.

Gorton, G. & A. Metrick (2012). "Securitization". National Bureau of Economic Research, Working Paper No. 18611.

Harhoff, D. & T. Körting (1998). "Lending Relationships in Germany: Empirical Results from Survey Data," Journal of Banking and Finance 22(10-11):1317–1353.

Harris, P. & F. McDonald (2004). "European Business and Marketing," SAGE Publications Ltd.

Hassan, F. & G.I.P. Ottaviano (2013). "Productivity in Italy: The Great Unlearning". VoxEU.org, 30 November.

Hellman, T. & M. Puri (2002). "Venture Capital and the Professionalization of Start-Up Firms: Empirical Evidence," The Journal of Finance 57(1):169-197.

Holmén, M. & P. Högfeldt (2004). "A Law and Finance Analysis of Initial Public Offerings," Journal of Financial Intermediation 13(2004):324-358.

Holton, S., M. Lawless & F. McCann (2014). "Firm Credit in the Euro Area: A Tale of Three Crises," Applied Economics 46(2):190-211.

Huizinga, H. & L. Jonung (2005). "The Internationalisation of Asset Ownership in Europe," Cambridge: Cambridge University Press.

International Capital Market Association (ICMA) (2014). "ICMA Quarterly Report – Assessment of Market Practice and Regulatory Policy," Issue 34, third quarter 2014.

Kaya, O. (2014). "SME Financing in the Euro Area – New Solutions to an Old Problem," Deutsche Bank Research, EU Monitor Global Financial Markets.

Langedijk, S., G. Nicodème, A. Pagano & A. Rossi (2014). "Debt Bias in Corporate Taxation and the Costs of Banking Crises in the EU," European Commission, Working Paper no. 50.

Nassr, I.K. & G. Wehinger (2015). "Unlocking SME Finance through Market-Based Debt," OECD Journal Financial Market Trends 2014(2): 89-190.

Martin N. (2005). "The Role of History and Culture in Developing Bankruptcy and Insolvency Systems: The Perils of Legal Transplantation," International and Comparative Law Review 28(1):1-77.

Mason, C. & T. Botelho (2014). "The 2014 Survey of Business Angels in the UK: A Changing Market Place," University of Glasgow, October 2014.

Mayer Brown (2015). "A European Capital Markets Union: What? Why? How?," Legal Update, March 2015.

Mayer, T. & G.I.P. Ottaviano (2007). "The Happy Few: The Internationalisation of European Firms," Blueprints, Bruegel, no. 12.

Morck, R. et al. (2000). "Inherited Wealth, Corporate Control and Economic Growth: The Canadian Disease?," In Concentrated Corporate Ownership, University of Chicago Press.

OECD (2011). "Financing High-Growth Firms: The Role of Angel Investors," December 2011.

OECD (2015a). "Financing SMEs and Entrepreneurs 2015: An OECD Scoreboard," OECD Report to G20 Finance Ministers and Central Bank Governors, April 2015.
OECD (2015b). "Entrepreneurship at a Glance 2015," August 2015.
Petersen, M.A. & R.G. Rajan (1994). "The Benefits of Lending Relationships: Evidence from Small Business Data," Journal of Finance 49(1):3–37.
Petersen, M.A. & R.G. Rajan (1995). "The Effect of Credit Market Competition on Lending Relationships," The Quarterly Journal of Economics 110(2): 407-443.
PricewaterhouseCoopers (PWC) (2014). "Increasing European SME Access to Credit with Non-Bank Lenders," April 2014.
Schoenmaker, D. (2013). "Post-Crisis Reversal in Banking and Insurance Integration: An Empirical Survey," DG ECFIN Economic Papers No. 496.
Stein, J.C. (2002). "Information Production and Capital Allocation: Decentralized Versus Hierarchical Firms," Journal of Finance 57(5): 1891-1921.
Stiglitz, J.E. & A. Weiss. (1981). "Credit Rationing in Markets with Imperfect Information," The American Economic Review 71(3): 393-410.
Tradeup and Nextrade Group LLC (2015). "State of SME Finance in the United States in 2015," March 2015.
Wardrop, R., B. Zhang, R. Rau & M. Gray (2015). "Moving Mainstream – The European Alternative Finance Benchmarking Report," University of Cambridge and Ernst and Young.
World Bank (2014). "Facilitating SME Financing Through Improved Credit Reporting," Report of the International Committee on Credit Reporting, March 2014.
World Bank (2015). "Doing Business 2015 – Going Beyond Efficiency".

Svensk sammanfattning

Den senaste finanskrisen har visat att det fanns ett behov av att förbättra finansieringsmöjligheterna för små och medelstora företag. I Europa förlitar sig dessa företag framför allt på traditionella banklån för finansiering, något som i sin tur ofta bygger på långsiktiga förhållanden med en specifik bank – så kallad relationsbaserad utlåning. Långvariga förhållanden mellan banker och företag innebär att bankerna får en god och insiktsfull bild av det företag man lånar ut pengar till. Små och medelstora företag brister ofta i transparens, vilket leder till svårigheter för potentiella finansiärer att bedöma den finansiella styrkan i affärsmodellerna.

De bankregleringar som har följt i krisen kölvatten har inneburit att bankerna nu tvingas att krympa sina balansräkningar, vilket leder till att mängden pengar som finns tillgängliga för företagsinvesteringar minskar ytterligare. Europeiska kommissionens förslag till en kapitalmarknadsunion är ett försök att lösa dessa problem, genom att möjliggöra även för små och medelstora företag att skaffa finansiering via kapitalmarknaderna.

Kommissionen vill med kapitalmarknadsunionen uppnå sex mål:

1. skapa en inre marknad för kapital genom att riva ned hinder för gränsöverskridande investeringar;
2. förbättra finansieringsmöjligheterna för alla företag i EU;
3. diversifiera finansieringen och minska kapitalanskaffningskostnaderna;
4. maximera nyttan av kapitalmarknaderna för att kunna öka såväl den ekonomiska tillväxten som sysselsättningen i ekonomin;
5. hjälpa små och medelstora företag att lättare skaffa kapital;
6. hjälpa EU att attrahera investeringar från hela världen samt att bli mer konkurrenskraftigt.

Målen är mycket ambitiösa, inte minst i ljuset av det tillstånd som råder i EU:s periferi samt med tanke på hur finansieringen av små och medelstora företag fungerar i dag. De förlitar sig främst på bankfinansiering, även om bankberoendet varierar mellan olika länder. Regler och marknadspraxis för värdepapperisering och privata placeringar skiljer sig i Europa, något som hämmar gränsöverskridande investeringar. Ett resultat av detta är inhemska investeringar föredras och det återstår att se om denna partiskhet kan motverkas.

En optimalt fungerande kapitalmarknadsunion bör utformas så att den hjälper bankerna och kapitalmarknaderna i deras – sett ur ett samhällsperspektiv – huvudsakliga verksamhet: att hjälpa den europeiska ekonomin att börja växa igen, genom att kanalisera privatsparandet till lönsamma investeringar. Framför allt bör ett initiativ som tas på EU-nivån leda till att små och medelstora företag

ges tillgång till resurser så att de kan nyskapa, växa och bli mer produktiva. Det är samtidigt viktigt att kapitalet fördelas till de mest produktiva projekten; i synnerhet gäller detta i EU:s mer perifera länder.

De europeiska bank- och kapitalmarknaderna är fortfarande fragmenterade. Medan finansieringen av små och medelstora företag tycks ha normaliserats i ett land som Tyskland, kämpar man fortfarande i Italien och andra länder i EU:s periferi med att skapa tillräckligt med resurser. Om bank- och kapitalmarknaderna vore helt integrerade, skulle den här diskrepansen endast vara en följd av att ett kärnland som Tyskland erbjuder lönsammare investeringsmöjligheter. Med den marknadsfragmentering vi ser i dag kan vi dock inte dra den slutsatsen. Ett av de viktigaste målen med en kapitalmarknadsunion är därför att främja marknadsintegrering, så att kapitalet kan flöda till de europeiska företag som ger högst avkastning på investeringarna, oberoende av i vilket land de befinner sig.

En kapitalmarknadsintegration skulle innebära att i första hand små och medelstora företags finansieringsmöjligheter breddas, vilket i sin tur skulle ge dem möjlighet att ha en mer varierad finansieringsstruktur. Detta skulle vara mycket värdefullt i kristider, inte minst om bankerna tvingas att ransonera sina krediter när kapitalet minskar på interbankmarknaden. Resonemanget innebär inte att nya finansieringsmodeller ska ersätta den traditionella bankfinansieringen; snarare bör de se som komplement. Det är mycket troligt att bankerna under överskådlig tid kommer att vara den huvudsakligen finansieringskällan för små och medelstora företag i EU, givet bankernas förmåga att utveckla långsiktiga relationer med företagen och övervaka deras prestationer. Den här förmågan är särskilt viktig i tider av finansiell och ekonomisk kris, då det med knappa resurser i ekonomin är extra angeläget att kunna skilja bra investeringar från dåliga.

Finansieringen av små och medelstora företag är en av hörnstenarna i kapitalmarknadsunionen. Man kan fråga sig varför just dessa företag kräver särskild uppmärksamhet. Svaret är att små och medelstora företag utgör 99 % av alla icke-finansiella företag i EU och står för 58 % av mervärdet och 66 % av alla jobb i ekonomin. Således är det mycket problematiskt att utlåningen till euroområdets småföretag minskade med 35 % åren 2008-2013.

Som nämns ovan lider små och medelstora företag av bristande transparens, något som gör dem svårare att övervaka. Den mest uppenbara finansieringskällan är därför affärsbanker, vilka ofta har en omfattande lokal verksamhet och därmed god lokalkännedom. Faktum är att bankutlåningen står för ca 70 % av företagsfinansieringen i EU. Det kan jämföras med USA, där bankutlåningen svarar för endast 30 % av finansieringen. Företagsfinansiering via kapitalmarknaderna är med andra ord ännu förhållandevis outvecklad i EU. Att finna alternativa finansieringslösningar borde därför stå högt på dagordningen i arbetet med att upprätta en kapitalmarknadsunion. Europeiska kommissionens mål på medellång sikt bör vara att systemet ska kunna erbjuda

exempelvis ett italienskt företag möjlighet att välja mellan finansiering från flera källor, som den lokala banken, en bank från ett annat europeiskt land, eller från kapitalmarknaderna.

I rapporten går vi igenom såväl etablerade som nya finansieringskanaler för små och medelstora företag i EU. Vi presenterar olika alternativ till bankfinansiering – såsom skuld- och aktiebaserade system – och diskuterar varför dessa kanaler ännu är outvecklade i Europa. Vi resonerar även kring värdepapperisering av lån till små och medelstora företag som en möjlig väg att avlasta de europeiska bankernas balansräkningar, samtidigt som bankerna i dessa fall ges möjlighet att agera mellanhand. Frågan om företagsfinansieringen har klättrat på EU:s dagordning, vilket kommissionens handlingsplan för en kapitalmarknadsunion är ett tydligt uttryck för. Än saknas emellertid konsensus när det gäller hur en marknad för värdepapperisering av lån till små och medelstora företag ska fungera.

Finansieringsbehov och finansieringskällor skiftar och ser olika ut beroende på var i utvecklingen ett företag befinner sig. Alla finansieringskällor är inte tillgängliga över företags hela utvecklingsfas. Särskilt i uppstartsfasen brukar företaget behöva lita till egna resurser och i många fall även till medel från familj och vänner. I företagets tidiga skeden är den ”klassiska” bankfinansieringen ofta inte tillgänglig, eftersom ett förhållande till en bank ännu inte har etablerats. Den transaktionsbaserade utlåningen är då problematisk, eftersom företaget saknar såväl kredithistoria som någon form av säkerhet. På senare år har i och för sig s.k. affärsänglar och person-till-person-lån blivit vanligare som finansieringskälla för yngre företag. I rapporten granskas hur viktiga dessa finansieringsalternativ är samt hur väl de fungerar för finansiering av små och medelstora företag på den europeiska marknaden.

För att få ett mått på hur finansieringen av små och medelstora företag fungerar i EU, jämför vi det marknadsbaserade amerikanska systemet och det huvudsakligen bankbaserade europeiska systemet. Det är inte a priori klart vilket av de båda systemen som är det bästa, då bägge har såväl styrkor som svagheter. Förespråkare av det bankbaserade systemet brukar nämna att bankers långsiktiga relationer motverkar problem som bland annat kan uppstå för att det råder asymmetrisk information. Bankerna kan erbjuda standardiserade produkter till typiska standardprojekt, men är å andra sidan sämre på att finansiera innovativa högriskprojekt. Här är kapitalmarknadsfinansieringen bättre, eftersom den ger möjlighet till matchning mellan högriskprojekt och risksökande finansiärer.

Kapitalmarknadsunionen fokuserar framför allt på små och medelstora företag men det kan också vara bra att fråga sig hur företagen ska kunna ta nästa steg – det vill säga hur man går från medelstort till stort företag – och undersöka vilka faktorer som hindrar företagen från att ta det steget. Till att börja med bör EU:s beslutsfattare försäkra sig om att kapitalmarknadsunionen inte utformas enbart

för att tillfredsställa behoven i små företag. I synnerhet bör man fokusera på företag som är på väg att bli internationella företag, så att dessa kan realisera sin potential.

Det största hindret för att skapa en kapitalmarknadsunion i EU är nationella skillnader i regel- och skattesystem och skillnader i ländernas kapitalmarknadsstrukturer. Problemet förvärras ytterligare av att det saknas detaljerade och jämförbara företagsdata. I rapporten granskas dessa hinder i detalj. Det påpekas samtidigt att problemet knappast kan lösas på kort eller ens medellång sikt, med tanke på att skillnaderna ofta beror på djupt inrotade sociala och kulturella faktorer.

Även om kapitalmarknadsunionen leder till ett robustare och mer decentraliserat investeringssystem, där sparare och investerare länkas samman över nationsgränser, måste man inse att systemrisker även kan bakas in i ett sådant system. Det finns till exempel en risk att preferenser mot hemmamarknaden blossar upp i kristider, vilket kan leda till en panikartad repatriering av medel. Det är också möjligt att en överdriven harmonisering förstör såväl mångfald som motståndskraft i ett system som ska kännetecknas av många olika finansieringskällor. Denna fälla bör undvikas om kapitalmarknadsunionen ska bli ett framgångsrikt projekt.

Beslutsfattarna bör avslutningsvis vara medvetna om risken att marknadens aktörer flyttar sina aktiviteter från reglerade till oreglerade marknader. Detta måste hållas i minnet när man stödjer skapandet av nya marknader och finansinstrument. Det kommer att uppstå problem med informationsasymmetrier och spridningseffekter på dessa nya marknader. Huruvida detta också kräver en ny regleringsmyndighet återstår att se.

Sieps publications in English

2016

2016:6
SME Financing in a Capital Markets Union
Authors: Morgane Fouché, Katja Neugebauer and Andreas Uthemann

2016:5
See You in Luxembourg? EU Governments´ Observations Under the Preliminary Reference Procedure
Authors: Per Cramer, Olof Larsson, Andreas Moberg and Daniel Naurin

2016:4
The EU and US criminal law as two-tier models A comparison of their central axes with a view to addressing challenges for EU criminal law and for the protection of fundamental rights
Author: Maria Kaiafa-Gbandi

2016:3
Humanitarian aid policy in the EU´s external relations: The post-Lisbon framework
Authors: Peter Van Elsuwege, Jan Orbie and Fabienne Bossuyt

2016:1
Is there flexibility in the European Semester process? Exploring interactions between the EU and member states within post-crisis socio-economic governance
Author: Sonja Bekker

2016:6epa
The EU and Russia: managing the new security environment in the wider Europe
Author: Derek Averre

2016:4epa
The infringement proceedings over intra-EU investment treaties – an analysis of the case against Sweden
Authors: Joel Dahlquist, Hannes Lenk and Love Rönnelid

2016:3epa
A Critical Insight into Europe's Criminalisation of Human Smuggling
Author: Ilse van Liempt

2016:2epa
Irregular Immigration in the European Union
Authors: Pia M. Orrenius and Madeline Zavodny

2016:1epa
Overseeing the rule of law in the European Union Legal mandate and means
Author: Christophe Hillion

2015

2015:6
The EU-China Strategic Partnership: Challenges and Prospects in a Changing World
Authors: Anna Michalski and Zhongqi Pan

2015:5
Energy Union and EU global strategy: The undefined link
Authors: Shahrazad El Far and Richard Youngs

2015:4
Union regulatory criminal law competence
Author: Jacob Öberg

2015:3
The accession of the EU to the European Convention on Human Rights
Author: Joakim Nergelius

2015:2
Investor-state arbitration under TTIP
Author: Hannes Lenk

2015:1
Homophobia and genderphobia in the European Union: Policy contexts and empirivcal evidence
Author: Judit Takács

2015:1op
Same, same but different: The Nordic EU members during the crisis
Authors: Pernilla Bäckman (ed.), Julie Hassing Nielsen, Juha Jokela, Jakob Lewander (ed.) and Göran von Sydow (ed.)

2015:27epa
The challenge om completing the EU internal market for natural gas
Author: Tim Boersma

2015:26epa
Big Brussels is Watching You? Enhancing Transparency in EU External Energy Deals
Author: Sijbren de Jong

2015:25epa
Completing the Union: Is the European Energy Union Really Real?
Author: Harold James

2015:23epa
The constitutional and historical relevance of the AFSJ and the CFSP/ESDP
Author: Massimo Fichera

2015:22epa
Intelligence and decision-making within the Common Foreign and Security Policy
Author: Björn Fägersten

2015:20epa
The Regulatory Cooperation Chapter of the TTIP Challenges and Opportunities
Author: Alberto Alemanno

2015:19epa
Low Inflation and Deflation in EU Countries Outside the Euro Area Should Policymakers be Concerned?
Authors: Plamen Iossifov and Jiří Podpiera

2015:18epa
Could it be Brexpulsion rather than Brexit?
Author: Iain Begg

2015:17epa
Social Housing in Europe
Authors: Kathleen Scanlon, Melissa Fernández Arrigoitia and Christine Whitehead

2015:15epa
The Balance of Power over the EU Budget: European Expenditure since the Lisbon Treaty
Author: Giacomo Benedetto

2015:14epa
The Usefulness of the Scoreboard of the Macroeconomic Imbalances Procedure in the European Union: Potentials for Reform
Author: Tobias Knedlik

2015:13epa
The impact of mega regional agreements on international investment rules and norms
Author: Steve Woolcock

2015:12epa
The Impact of the Transatlantic Trade and Investment Partnership (TTIP) on the Spanish Regions – A Preliminary Analysis
Authors: José Villaverde and Adolfo Maza

2015:11epa
Transatlantic Market Integration, Business and Regulation: Building on the WTO
Authors: Bernard Hoekman and Petros C. Mavroidis

2015:10epa
Juncker's investment plan: what results can we expect?
Author: Martin Myant

2015:9epa
Russia's economic troubles – a perfect storm of falling oil prices, sanctions and lack of reforms
Author: Torbjörn Becker

2015:8epa
Entering a World of Footloose Tax Bases: Can the EU Generate Its Own Income?
Author: Daniel Tarschys

2015:7epa
Britain and the EU: a negotiator´s handbook
Author: Roderick Parkes

2015:6epa
Europe´s pivotal peace projects: Ethnic separation and European integration
Author: Lynn M. Tesser

2015:5epa
Groundhog Day in Greece
Author: Thorsten Beck

2015:4epa
The Greek elections of 2015 and Greece´s future in the eurozone
Author: Dionyssis G. Dimitrakopoulos

2015:3epa
The diplomatic role of the European Parliament´s parliamentary groups
Author: Daniel Fiott

2015:2epa
Social Policy and Labour Law during Austerity in the European Union
Author: Niklas Bruun

2015:1epa
International Trade Union Solidarity and the Impact of the Crisis
Authors: Rebecca Gumbrell-McCormick and Richard Hyman

2014

2014:7
Socializing the European Semester? Economic Governance and Social Policy Coordination in Europe 2020
Authors: Jonathan Zeitlin and Bart Vanhercke

2014:6
EU External Action in the Field of Development Cooperation. The impact of the Lisbon Treaty
Authors: Morten Broberg and Rass Holdgaard

2014:2
The impact of the financial crisis on European housing systems: a review
Authors: Christine Whitehead, Kathleen Scanlon and Jens Lunde

2014:7epa
A Comparative Framing of Fundamental Rights Challenges to Social Crisis Measures in the Eurozone
Authors: Claire Kilpatrick and Bruno De Witte

2014:4epa
Why vote at an election with no apparent purpose? Voter turnout at elections to the European Parliament
Author: Mark N. Franklin

2014:3epa
The EU Budget and balance of Powers between the European Parliament and the EU Governments
Author: Sara Hagemann

2014:2epa
Between a rock and a hard place: the future of EU treaty revisions
Author: Carlos Closa

2014:1epa
Scrutiny in Challenging Times – National Parliaments in the Eurozone Crisis
Authors: Katrin Auel and Oliver Höing

“Among the most important impediments for the creation of a common European capital market are national differences in legal and regulatory frameworks and considerable disparities in tax systems and financial market infrastructures across countries.”

Morgane Fouché, Katja Neugebauer and Andreas Uthemann

SIEPS carries out multidisciplinary research in current European affairs. As an independent governmental agency, we connect academic analysis and policy-making at Swedish and European levels.

www.sieps.se • info@sieps.se • +46-8-586 447 00