



## EUROPEAN COMMISSION

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INVESTMENT AND COMPANY REPORTING  
Economic analysis and evaluation

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### **Survey with Enterprise Europe Network on SME credit information**

#### **Background**

The European Commission is currently working to facilitate access to finance for small and medium-sized enterprises (SMEs), under the framework of DG FISMA's Capital Markets Union (CMU) Action Plan. One identified impediment is the lack of information, particularly credit information, necessary for assessing the creditworthiness of SMEs. We already consulted various stakeholders: business and investor associations, business information companies and credit reference agencies. Through the Enterprise Europe Network we wanted to reach out to SMEs and have their input. Thanks to our network partners we reached out to almost 1,000 SMEs. The questions and the corresponding answers helped us to know whether and how SMEs are financed other than by banks, and the role credit information data play in this respect.

#### **Short summary of the survey**

##### **Company information (size and country of origin)**

We received 933 replies during the 10 weeks period of time the EU survey on SME credit information was open for responses. More than two thirds of the respondents were coming from micro (1-9 employees) and small enterprises (10-49 employees), 42% and 28% respectively. With regards to the country of origin of the responding companies, Italy, Romania, Hungary, Portugal and Poland were above 10% of the total respondents (17%, 14%, 14%, 13%, 11%, respectively).

#### **1. INITIAL CAPITAL STRUCTURE: FUNDING MIX FROM 2011 TO 2014**

The most represented funding mix is the internal one (equity and retained earnings), with more than two thirds of respondents. Out of which one third is 100% financed by equity and retained earnings. Company's having external funding mix mentioned mostly trade credit (36%), other type of external financing (26%) and leasing (23%).

#### **2. EXTERNAL FINANCING: BANK LOANS**

One third of respondents had a loan application rejected during the period 2011 to 2014. Almost two thirds of them had one or two refusals. Bank's risk management policy and the company's situation were the most mentioned reasons for bank's loan rejection. Three quarters of respondents did get feedback from their bank, but mostly verbal and the feedback was not extensive.

The majority of respondents had a relationship with more than one bank. In case the first bank rejected their loan application, two thirds of the respondents had their loan application accepted by the other bank. If not, the type of feedback received from the other bank was mixed, half of the companies did not get any feedback and the other half did. In terms of feedback, bank's risk management policy and the company's situation were, again, the most mentioned reasons for a bank's loan rejection.

### **3. EXTERNAL FINANCING: BANK OVERDRAFT**

The majority of the respondents (70%) did not have their bank overdraft reduced in recent years; neither had it become more expensive. In case it became more expensive, the main reasons mentioned by the bank were: financial crisis and the bank's situation and changes in their policy / strategy. The company's situation was mentioned only in the third place.

### **4. ALTERNATIVE TO BANK FINANCING**

Most of the respondents (73%) did not use alternative (non-bank) financing when the loan was rejected. The short-term consequences for them were the following ones (ranked from most mentioned to least mentioned): other cost-cutting measures; withdrawal / reduction of investment; other consequences; lay-off of employees and closing of certain business lines. With regards to medium to long-term consequences, the order varied (ranked from most mentioned to least mentioned): other consequences; closure of business / business lines; insolvency and sale of the company (100 % or some business lines).

In case the company did use alternative financing, it was mostly internal financing (either equity or retained earnings). When they used external financing, the most mentioned source of funding were: trade credit, followed by leasing and debt securities.

### **5. CREDIT INFORMATION**

A little bit more than half of the responding companies (54%) thought that interested investors and / or lenders (other than banks) did not lack appropriate knowledge of and information about their company. Due to this fact, the company's financing was not hampered (62% of responses). In case they lacked appropriate knowledge, some companies submitted the following comments:

- Investors have bad knowledge of start-ups and/or companies with "innovative" products/services;
- Investors have problems understanding business plans;
- The company is not known sufficiently or does not communicate properly (about business and financials);
- Data quality/assurance is missing or is only given by credit counterparts;
- Databases do not contain sufficient information about the company;
- Crowdfunding is the only option for small companies, as only big companies profit from bank loans;
- None existent alternative funding culture.

With regards to giving permission to banks to share data related to their company with interested third parties during a bank loan application process, 77% of the respondents

did not have to give permission. In case of positive answers, the companies mentioned the following third parties and type of data submitted:

- Insurers, suppliers – account statement (balance sheet and P&L)
- Marketing companies – contact details
- National public agency supporting innovative SMEs – balance sheet
- Private financing entities – balance sheet
- Guarantee issuers – budget data
- Credit information bureaus/registers – did not specify which data

Regarding receiving a credit score from the bank, the majority (78%) of the responding companies did not get one; 85% did not receive a credit report. Some companies commented the following:

- The company did not ask for it (sometimes because there was no need for it) and if they had asked, they probably would have gotten either report;
- When suppliers needed information they asked directly the bank or credit reference agencies;
- Brief information is given by phone or email; banks are very cautious in giving any information in writing;
- General sector information, but not about the company itself.

With regards to the company's credit history, the replies were by 80% negative, i.e. companies did not receive their credit history from their bank. Most of the respondents ignored the fact they could ask for it or did not see any use in receiving it. The companies receiving a credit history got it after requesting it from the bank, and some got it in an informal way (over the phone). Two thirds of companies receiving the credit history could use it for non-bank financing.

The last question referred to whether the company gave information or data directly to credit references agencies (e.g. Informa D&B) on an ad hoc or regular basis. In both cases, most of the companies responded negatively.

### **Next steps**

DG FISMA will add the responses of this survey to all the information gathered under the CMU framework. In its Action Plan the Commission will take forward a comprehensive strategy to overcome information barriers that prevent SMEs and prospective investors from identifying funding or investment opportunities, being one of the first implementation strategies: working with European banking federations and business organisations to structure the feedback given by banks declining SME credit applications.

Annex 1: Questionnaire: SMEs and their credit information data

Martin Špolc

**ANNEX 1: Questionnaire: SMEs and their credit information data**

**1. INITIAL CAPITAL STRUCTURE: FUNDING MIX FROM 2011 TO 2014**

**1.1. What is your company's approximate internal (equity and retained earnings) versus external (debt) funding mix expressed as a percentage?**

Internal financing	[•%]
External financing	[•%]

**1.2. What is your company's funding mix, expressed as a proportion of different options)?**

Equity from external investors (new shareholders)	[•%]
Equity from retained earnings	[•%]
Other type of internal financing (e.g. equity crowdfunding)	[•%]
Leasing	[•%]
Trade credit (trading partners or suppliers in the supply chain)	[•%]
Factoring	[•%]
Debt securities (bonds, private placement, etc.)	[•%]
Other type of external financing (e.g. Peer to Peer SME lending)	[•%]
<b>Total funding</b>	<b>100 %</b>

Please verify that percentages in the above table add up to 100.

**2. EXTERNAL FINANCING: BANK LOAN**

**2.1. Was any loan application rejected by your bank during the period 2011 to 2014?**

Yes [•] / No [•]

**2.2. How many times (please state an approximate number if necessary)? [•]**

**2.3. Why did your bank reject the loan?**

Please select one or more of the following options:

Reason for rejection of loan		Comment
Financial crisis	[•]	
Bank's risk management policy	[•]	
Your company's situation	[•]	
Other	[•]	

**2.4. Did you get any feedback from the bank about the rejected loan?**

Yes [•] / No [•]

**2.4.1. If yes, was it an extensive feedback** (rank between 1 and 5, where 1 is 'very extensive', and 5 'not at all'? [1 to 5]

**2.4.2. Was it in writing or verbal?**

In writing: Yes [•] / No [•]

Verbal: Yes [•] / No [•]

**2.5. Does your business have a relationship with more than one bank?**

Yes [] / No []

**2.5.1. If yes, could you get the loan from the other bank(s), if the first bank rejected it?**

Yes [] / No []

**2.5.1.1. If no, did the other bank give you feedback on the loan rejection?**

Yes [] / No []

Please select one or more of the following options:

Reason for rejection of loan		Comment
Financial crisis	<input type="checkbox"/>	
Bank's risk management policy	<input type="checkbox"/>	
Your company's situation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	

**3. EXTERNAL FINANCING: BANK OVERDRAFT**

**3.1. Was your overdraft reduced in recent years?**

Yes [] / No []

**3.2. Did your overdraft become more expensive?**

Yes [] / No []

**3.2.1. If Yes in 3.1 and/or 3.2, what was the reason?**

Please select one or more of the following options:

Reason for changes in overdraft		Comment
Financial crisis and the bank's situation	<input type="checkbox"/>	
Changes in bank policy / strategy	<input type="checkbox"/>	
Your company's situation	<input type="checkbox"/>	
Others	<input type="checkbox"/>	

**4. ALTERNATIVE TO BANK FINANCING**

**4.1. Did your company use alternative non-bank financing when the loan was rejected?**

Yes [] / No []

**4.1.1. If yes, which form of financing? (Please select one or more of the following options)**

Equity from external investors (new shareholders)	<input type="checkbox"/>
Equity from retained earnings	<input type="checkbox"/>
Other type of internal financing (e.g. equity crowdfunding)	<input type="checkbox"/>
Leasing	<input type="checkbox"/>
Trade credit (trading partners or suppliers in the supply chain)	<input type="checkbox"/>
Factoring	<input type="checkbox"/>
Debt securities (bonds, private placement, etc.)	<input type="checkbox"/>
Other type of external financing (e.g. Peer to Peer SME lending)	<input type="checkbox"/>
Others	<input type="checkbox"/>
<b>Total funding</b>	<b>100 %</b>

**4.1.2. If not, what were the short-term consequences for your company?**

	Yes	No	Comment
Withdrawal / reduction of investment			
Closing of certain business lines			
Lay-off of employees			
Other cost-cutting measures			
Other consequences			

**4.1.3. If not, what were the medium to long-term consequences for your company?**

	Yes	No	Comment
Closure of business / business lines			
Insolvency			
Sale of the company (100% or some business lines)			
Other consequences			

**5. CREDIT INFORMATION**

**5.1. In general, do you think that interested investors and / or lenders (other than banks) lack appropriate knowledge of and information about your company?**

Yes [] / No []

Please, comment: \_\_\_\_\_

**5.2. Does this hamper your company's financing?**

Yes [] / No []

Please, comment: \_\_\_\_\_

**5.3. During a bank loan application process, do you have to give permission to your bank to share data related to your company with interested third parties?**

Yes [] / No []

If yes, to which third parties? \_\_\_\_\_

If yes, which data? \_\_\_\_\_

**5.4. Did you ever receive a credit score or credit report from your bank?**

	Yes	No
Credit score		
Credit report		

Please comment: \_\_\_\_\_

**5.5. Have you ever been able to get the credit history of your company from your bank?**

Yes [] / No []

Please, comment: \_\_\_\_\_

**5.5.1. If yes, could you use it for financing purposes elsewhere, i.e. give it to other lenders and/or investors?**

Yes [•] / No [•]

Please, comment: \_\_\_\_\_

**5.6. Do you give your company's information or data directly to credit references agencies (e.g. Informa D&B)?**

	<b>Yes</b>	<b>No</b>
Ad hoc		
Regular update		