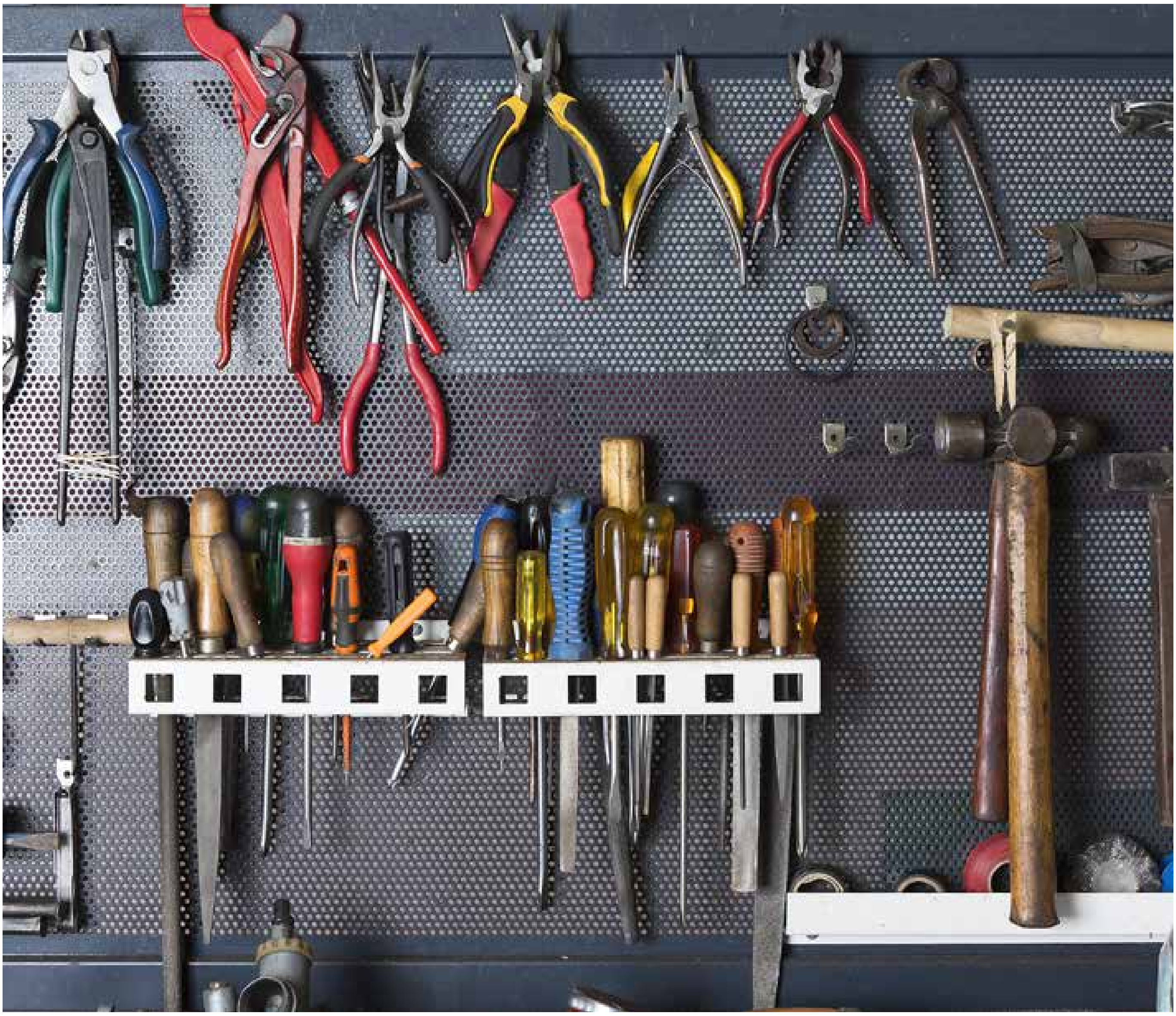
Raising finance for Europe's small & medium-sized businesses

A practical guide to obtaining loan, bond and equity funding



Association for Financial Markets in Europe
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Foreword

On behalf of AFME, I am delighted to introduce this guide, which provides practical information to SMEs across Europe on how to raise finance from a variety of sources. Available in several European languages, the guide will help many European entrepreneurs make educated choices about what type of funding their business needs. Loans provided by both banks and non-banks, including alternative forms such as invoice discounting, trade finance and leasing, and bond issuance for larger SMEs, as well as equity issuance, including IPOs, venture capital, private equity, P2P platforms and crowd funding, can all provide cash to existing and growing businesses. We believe that this is the first pan-European guide to SME finance. It includes an extensive directory of national and pan-European organisations and schemes which provide SME support.

AFME and our members are eager to play our part in improving Europe's growth. Our wholesale capital markets members are the link between businesses of all sizes and a range of different types of investors. We believe that their expertise in preparing this guide can provide new ideas to European companies looking for the best way to access various types of finance.

This guide is one of a number of AFME initiatives in support of the European growth agenda. AFME, together with the Boston Consulting Group, recently published a report entitled 'Bridging the growth gap: investor views on European and US capital markets and how they drive investment and economic growth', which highlighted that alternative sources of financing for SMEs, particularly in the form of equity, such as venture capital and business angel financing, are underdeveloped in Europe. We have prepared this guide in order to help SMEs across Europe achieve success with fundraising via loans, as well as through bond and equity issuance.

I would like to thank our many members across Europe who have spent considerable time and effort in helping to produce the guide, as well as those other organisations and associations who have provided valuable comments during the development process. Our work on growth has given us the opportunity to cooperate with a wide range of organisations across a variety of sectors throughout Europe who share our commitment to supporting growth. We look forward to maintaining that cooperation on further initiatives. In particular we remain committed to supporting the European Commission's drive to foster growth and employment, including through the proposed Capital Markets Union and the €315bn European Fund for Strategic Investments.

Simon Lewis
Chief Executive
Association for Financial Markets in Europe

Raising finance for Europe's small & medium-sized businesses

1. Introduction

Every business needs to raise finance at some point. In fact, how well a small or medium-sized enterprise (SME[1]) is capitalised influences whether it succeeds or fails. So, you need to make educated choices about how much and what type of capital you need, where you should get it from and how you should apply.

There is a growing range of options – from banks, through to different types of equity providers and even peer-to-peer online platforms. The more you know about these options, the better your chances of raising the right type of funding for your business on the right terms.

We are publishing this guide to give practical guidance to small and medium sized companies. The kind of finance your business needs depends on factors such as its size and what you need the money for. Is the money for working capital? Is it to finance a start-up? Or is it to expand an existing business? The answer to these questions will determine whether your business should seek loan finance or equity finance or even raise a bond. Loan finance itself comes in various forms, as explained in the section 3 of the guide, including secured and unsecured loans from bank and non-bank sources, leasing, invoice financing and trade finance.

Your accountant is an invaluable source of advice about suitable sources of finance. In most cases, your bank will be able to help. Banks are the chief source of finance for SMEs in Europe.[2] Even if they cannot lend themselves, they will often give information about alternative sources and will sometimes guide you during the funding process.

The Association for Financial Markets in Europe (AFME), which represents banks active in wholesale financial markets, has keen insights into the practical issues surrounding SME fund raising. In this guide, we report the type of criteria typically used to make credit and investment decisions, which vary depending on business profile, sector of activity and type of finance provider, and the credit and investment information usually required. By understanding how providers of loans, bonds and equity evaluate your business, you will have a better chance of finding the finance you need on the best possible terms.

The main types of finance this guide looks at are:

- Loans by banks and non-banks[3] (section 3)
- Bond funding (section 4)
- Equity funding (section 5)

Our guide also includes information about SME finance support programmes provided by pan-European bodies and the major national programmes in France, Germany, Italy, Spain and the UK. The new €315bn European Fund for Strategic Investments (EFSI), a European Commission initiative, will include support for investment in SMEs.

1 Definitions of SMEs vary, with the European Commission having a specific definition, while other public and private market participants use somewhat different definitions between banks and the European Commission. The Commission's definition includes companies with 10-250 employees and with sales ranging from less than €2m and up to €50m or with a total balance sheet of between €2m and €43m. For the purpose of this guide, SMEs also include medium-sized companies which can be considerably larger.

2 Data shows that €712bn of loans of less than €1m was lent to firms in Europe in 2012 (EU-18+UK), which was greater than the total of €464bn of loans outstanding in the US at the same time. Source: BCG, AFME.

3 Banks are financial institutions licensed to receive deposits. Non-banks are financial institutions which do not offer deposit services.

Key points you should be aware of

Finally, before you read on, we outline some key points that we believe will help you to reach a successful financial conclusion:

1. Most banks and non-banks would rather lend to an established business with a stable and positive cash flow history, particularly if it can provide collateral or a personal guarantee.

2. Equity may be the most suitable form of finance for start-up businesses or existing businesses with significant expansion plans. Although there are banks which provide loans to start-ups and to businesses with uncertain or negative cash flows, equity investors, including family and friends, business angels, peer-to-peer (P2P) marketplaces, crowdfunding, venture capital and private equity funds, are often more appropriate for businesses at this stage.

3. Many pan-European and national government-sponsored programmes help start-up businesses and established businesses in need of finance. A summary of major pan-European and selected national programmes can be found in section 6 of this guide.

4. Obtaining good independent advice at an early stage from your accountant or other professional advisor is strongly recommended. Advisors have experience of many businesses, whereas an entrepreneur will often only have experience of their own business.

5. Whether you are raising loan or equity capital, preparing a good business plan is an essential first step before approaching funders. Your accountant or advisor can assist you with this.

6. Raising equity capital dilutes your ownership of a company. But equity investors have widely differing approaches to share ownership. Friends, family or crowdfunders may be interested solely in the return on their investments rather than management control. Venture capital and private equity investors often insist upon some level of management control, but they can also introduce valuable business experience and contacts to help your business grow. For sufficiently large companies, Initial Public Offerings (IPOs) or private placements of equity can provide a public means of raising equity and a currency for acquisitions.

7. There can be important differences in loan funding pricing and terms between different banks, depending upon their business model and source of funds. Pricing also depends on the type of assets to be financed, the industry of the borrower, the nature of any collateral, the type of financial instrument, the legal structure of the company and its equity capitalisation.

8. Bank and non-bank lenders often make use of credit scores provided by credit data collection companies when evaluating loan applications. SMEs that have been turned down for loans should be careful about how they seek finance from other sources, particularly with online loan applications, since further rejections could damage their credit scores.

9. While many lenders use similar credit criteria across industries, others have specific credit criteria for particular sectors. In this guide, you will find case studies which illustrate loans provided by banks to SMEs in various industries. Section 3 provides some examples of sector-specific risk factors which are used by lenders in assessing businesses.

10. Besides equity finance, bond finance is becoming increasingly accessible for larger SMEs interested in raising more than £4-8m.

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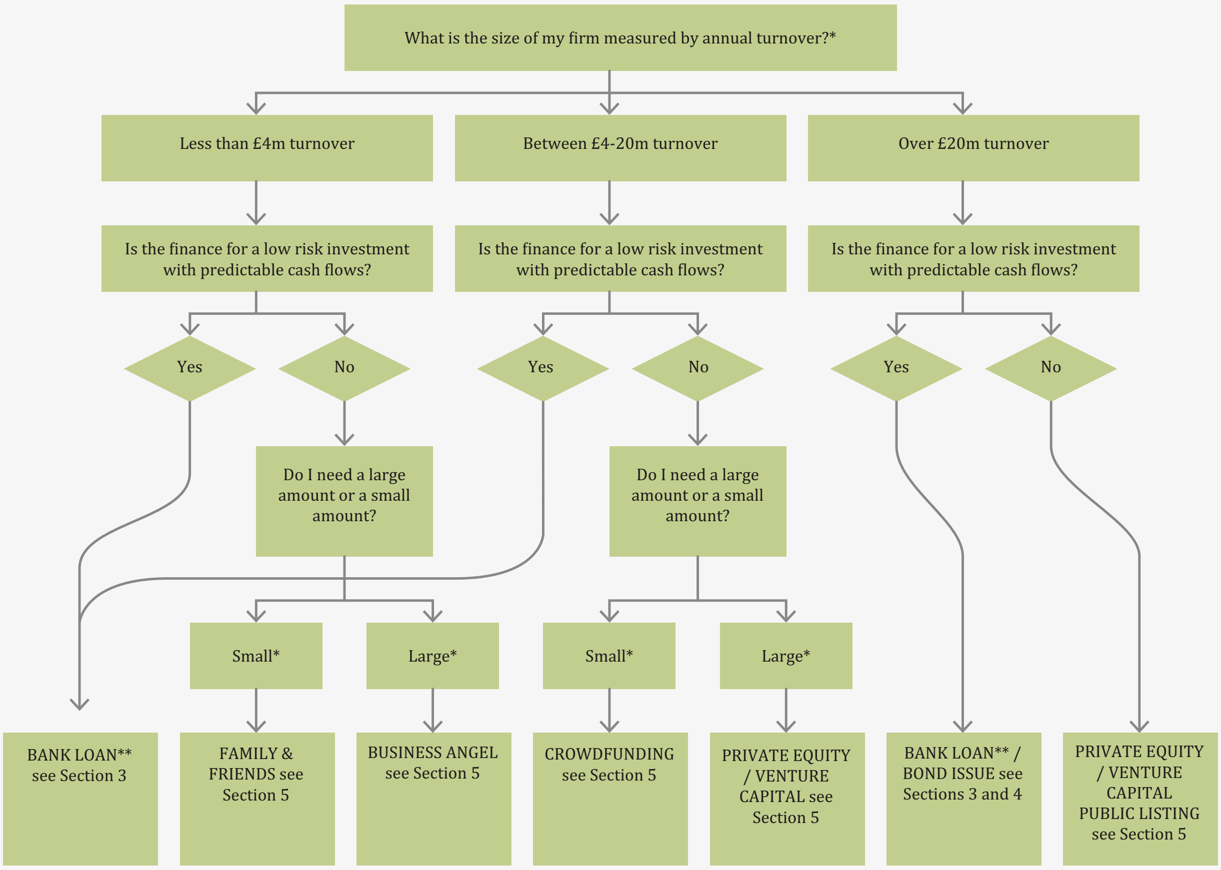
2. What type of finance?

Financing your business in the right way can influence your long-term success. While a medium-sized business with stable cash flows would normally be able to borrow from a bank, because the bank will have a high degree of confidence in its ability to service the loan, an early stage, high-growth business, with greater risks attached to its cash flows, might need to seek equity investment initially. The illustrative decisions below (Figure 1) are designed to help you to understand the factors that should determine your choice of finance. Please note that bank loans and related lending products are potentially a solution in all the situations illustrated below. Equally, venture capital firms may be prepared to invest in companies with little or no turnover, if they have sufficiently attractive business models or products.

Figure 1: **SME Finance Decision Tree**



Bank loans (including related products such as asset finance leasing, factoring and other trade finance products, see Section 3) could be an appropriate route in all these situations

National and Pan-European support schemes are available for all type of SMEs – see Section 6 and Appendix 2

*Each type of investor will have minimum and maximum investable amounts. These typically range from a few thousand to millions (see Figure 3 in Section 5)

**Please note that bank loans can be available in short and medium term maturities

3. Choices for loan finance

This section of the guide discusses loan finance, both bank and non-bank, as well as describing peer-to-peer lending marketplaces, leasing, invoice finance and trade finance. Please note that this section is not intended to be a comprehensive description of all funder types. For example, we do not describe institutional investment funds that have been established specifically to lend to businesses, including larger SMEs.[4]

Bank loans remain by far the most common form of SME finance in Europe. Yet there are other types of lenders that might be more appropriate in particular circumstances. Banks, being primarily deposit-funded, will generally (though not always) offer the lowest cost loans and the widest variety of products. At the same time, banking regulations require banks hold capital against loans and have confidence in the borrower's ability to repay a loan.

So-called 'non-banks' (including loan funds, crowdfunding platforms, leasing companies, insurers, invoice finance providers, community finance organisations and large corporates) also lend to businesses. Loans from non-banks may have a higher cost to the borrower than loans from banks, depending on the non-bank's source and cost of funding and the relationship between the borrower and lender. Non-banks may or may not be required to hold capital against a loan.

Loans take time to arrange. Prospective borrowers should anticipate their financing needs well in advance and apply for a loan as early as possible. It is important that you take the time to prepare a detailed and convincing business plan describing your business, before you apply for funding. This will generally include financial information for the last three years and forecasts for the next three, as well as an explanation of the purpose for which the new funds are required. Your accountant or other advisor will be able to assist you.

3.1 Bank and non-bank loans

The first thing a bank or non-bank lender will do is discuss a business' needs. If a loan seems appropriate and feasible, the lender usually runs a preliminary credit assessment, taking into account all information available from the company, the lender's historic database and/or external sources.

Additionally, lenders regard their analysis of the management's capabilities as a critical factor when deciding whether to extend credit. The borrower's management needs to demonstrate a clear vision of its business, market and competition, based on a credible business plan. In summary, lenders are primarily interested in whether your company will be able to repay the loan.

Lenders evaluate the following information:

- **Company-provided information:** Banks ask for documents such as financial accounts, financial forecasts, a business plan, shareholder agreements, company certificate and other legal documents. They may also want information relating to the value of any collateral available, equity, guarantees or other means of repaying a loan.
- **External sources:** Lenders refer to data from public credit registries and private credit bureaux. (Two examples of public credit registries are Banque de France and Centrale dei Rischi in Italy).
- **Internal sources:** Lenders use their own information derived from their relationships with companies in the same sector, of the same size etc.
- **Economic data:** Lenders analyse information about the borrower's sector and locality to determine economic trends.

While banks and non-banks lend to SMEs in most business sectors, they assess sector-specific risk factors such as:

4 For additional information on non-bank lending, please refer to the EIF Working Paper 2014/25, Institutional non-bank lending and the role of debt funds.

- **Effective barriers to entry** (i.e. existence of patents, capital intensity, power of a brand).
- **Level and trend of industry profit margins** (i.e. customer and supplier concentration, pricing power).
- **Product substitution risks** as a result of new products/technologies.
- **Growth trends.**
- **Industry regulatory environment.**

Some of the credit rating agencies (CRAs) have developed tools that evaluate SMEs' creditworthiness, which both banks and non-banks can use for credit assessment purposes. These tools usually target specific size segments of SMEs, e.g. Moody's RiskCalc for small companies and Standard & Poor's Mid-Market Evaluation[5] for mid-sized companies.

DBRS has recently introduced traditional corporate ratings for SMEs. In the US, Fitch Ratings has developed a rating tool for companies with less than $50m in revenues, which is not available in Europe.

Some rating agencies have developed, or are developing, specific methodologies to rate mid-sized companies with turnover of less than £1.2bn and less than £400m of debt. These methodologies assess the creditworthiness of a mid-sized company relative to other comparable mid-market companies.

The credit rating approach of CRAs for SMEs tends to be mainly statistics and numbers-focused, whereas a bank also can take into account subjective judgements based on its overall relationship with an SME. The rating methodology applied by a CRA will typically involve three main steps. In the first stage the agency looks at the risks associated with the company's country, industry and competitive position and assesses the strength of its cash flows and balance sheet. In the second stage, the agency develops a business credit profile and a financial credit profile of the company. In the third stage it rates the company's capital structure, management/governance, financial policy and liquidity. These ratings are combined to provide an overall credit rating.

Why lenders refuse loan applications

In many European countries, the lending environment is highly competitive and lenders work hard to find new customers. But sometimes a lender will decline a customer, perhaps because of their credit history, concerns about country risk or because of the lender's own appetite for lending.

It also pays to shop around. A business which has been declined by one lender may find that another lender is able to offer a loan. Indeed, a business with a loan offer may find better terms elsewhere. However, a business should be aware that multiple failed loan applications may have a negative impact on its credit score from credit rating agencies, particularly if applications are made online.

Each lender has its own risk management policy, and different systems to calculate the risk of a loan. These policies reflect the lender's own views and the requirements of regulators. They will consider a range of factors including sector, growth stage and availability of equity or collateral. For instance, some lenders avoid start-up businesses altogether, while others may provide start-up loans if collateral or sufficient equity is available to support the loan.

Generally, the lender is looking for evidence that a business has a track record of successful trading, sound financial management, and has a good chance of continued success.

Although some lenders will lend to start-ups with no operating history, several major lenders do not lend under normal circumstances to businesses less than two years old due to the risk young businesses pose. However, lenders instead often have relationships with start-up loan providers and business angel networks. They serve as a main point of contact to advise on funding options and can refer young companies to these alternatives.

For more established companies, lenders most commonly decline an application due to concern about whether the business can afford the repayments. This may be because the company is in a development phase and is pre-revenue, in which case a

5 The S&P Mid-Market Evaluation tool is a credit risk assessment tool and does not provide a rating.

business angel may be able to help. Another explanation is that the company does not have sufficient or stable revenues. In this case, the business might want to talk to an advisor like an accountant about how to develop their business.

It is important that businesses do not see a refusal as permanent. A lender interested in a long-term relationship with its customers will help them to think about their next steps, including any changes which can be made to make an application more likely to be accepted.

It is also worth considering whether the applicant can appeal the rejection of an application. Most lenders have appeal processes, and many companies are able to get a loan approved on appeal. Please note that European Union regulation[6] requires that credit institutions explain their rating decisions to SMEs applying for loans.

One of the most common reasons for an appeal's success is the customer providing new information addressing the bank's concerns. Building a high-quality application is very important. Lenders will help a business to get it right, but it is also a good idea for a business to work with its own accountant or other advisor to give it the best possible chance of success.

So SMEs should, on a targeted basis, continue to look for a loan even if their first application is unsuccessful. One word of warning: a loan applicant needs to be vigilant as each rejected application may further deteriorate the applicant's credit profile established by external credit rating agencies.

Examples of typical loan terms

Loan terms are subject to negotiation, and, like the applicants themselves, vary. Different lenders may require different contractual conditions, such as financial covenants, where the loan will go into default if certain financial targets and parameters are not complied with. There are nonetheless common themes.

- **Secured:** Loans secured against assets are likely to attract lower interest rates. Notably, many lenders try to match the terms of the loan to the nature of the asset. For example, a loan made against a house may have a duration of up to 25 years, while a loan made against machinery collateral may have a duration better suited to that asset's lifespan (often 8-10 years).

- **Unsecured:** Common in some sectors, unsecured lending generally attracts a higher interest rate than asset-based lending. SMEs seeking unsecured funds will be expected to provide a robust business plan that clearly details a path to repayment.

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6 EU Regulation No. 575/2013, article 431, paragraph 4.

Case study 1: Expanding an agricultural family business into dairy

A third-generation arable farming business, which had been with its current bank for over six decades, wanted to diversify. It approached its bank manager with a proposition for a new dairy. The customer was looking at renting a plot of land over a 25-year lease period at a cost of €275,000 per annum. The bank relationship manager debated with the borrower the level of rent to be paid and discussed the possibility of buying the land outright.

After careful due diligence on several potential locations, a site was located and a formal request for finance made to the bank. The customer wanted to purchase 900 acres of land, to fund a new dairy and carry out extensive renovation work, as well as buying a large number of cattle. Costs were projected to be just over €7m, with the customer contributing 10% and the remainder needed from the bank.

The customer wanted to operate the dairy as a new business which would own the assets and also carry the debt – effectively a start-up. Initial projections indicated the business would be loss-making in the early years and not able to service its borrowing. To offset this, the customer argued that its existing business had a strong asset base and was financially resilient.

The bank needed to be satisfied that the existing business could support the interest cover for the new business. Through modelling and stress testing various debt profiles, the bank evaluated how profitable the existing business would need to be in order to comfortably meet capital/principal and interest payments.

At the same time, the bank required that the projected cash flows should comply with its standard ratios used in the agriculture sector (i.e. loan to assets, interest to gross output and interest plus drawings to gross output). The new business projections for the proposed dairy, and the rationale behind them, were also stress tested with emphasis on milk price, yield and costs.

The customer secured the finance needed, with part of the loan secured against the new land purchased and part against existing land. Additionally, the existing business provided a guarantee to cover the new debt. Both loans were structured as interest-only for the first five years — and the customer achieved its business ambition.

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Loan terms are subject to negotiation, and, like the applicants themselves, vary.
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Case study 2: Acquiring real estate with a guaranteed loan

This case study illustrates how a real estate company is able to borrow against the value of its own assets and its parent company's assets, by means of a guarantee provided the parent company, supported by the parent company's long-term relationship with the bank.

A real estate company (the borrower) wants to buy five commercial offices and 18 car parks (the assets). For this purpose, the borrower has requested a term loan of €2.1m for a period of 10 years from a bank. The loan will be guaranteed by the borrower's parent company (the guarantor).

The purchase value of the assets is €4.3m and the financing amount requested is less than 50% of this price. The commercial offices are currently rented, so the company will receive additional rental income from the assets.

The borrower has existing real estate assets of €3.3m, equity of €2.6m and a bank loan of €1.4m. Its income is derived from the leaseholds of its properties.

The guarantor has an extensive relationship with the bank, making use of both the SME and wealth management teams. The guarantor has equity of €9.3m and fixed assets of €4.3m. These include properties which are financed by the bank with two mortgages totaling €590,000. Its income in 2013 was €6.3m, leading to an operating profit of €1.5m and profit after tax of €815,000.

In summary, both the borrower and the guarantor are self-financing and have substantial real estate assets. The borrower does not generate sufficient income to service the debt entirely, but the guarantor does, which is why the bank requires a parent guarantee to support the loan application.

The bank's risk committee authorised a mortgage to finance the purchase of the assets for an amount of around 50% of their updated appraisal value. The balance of the funds required to acquire the assets was provided from the borrower's equity.

Case study 3: Software company gets a loan to purchase its premises

This case study illustrates how a typical IT company was able to borrow from a lender, despite having a business model based on the value its intellectual property and few tangible assets to offer as collateral.

A UK software company had been renting its office for several years when the premises came up for sale. In order to fund the purchase of the building, the company approached several lenders.

One of the banks analysed the company's financial and business characteristics, leveraging its experience of lending to technology companies. In addition to reviewing financial ratios such as the company's debt-to-equity ratio, the bank focused on factors of particular importance to technology companies such as patents, intellectual property, employee value-added and customer concentration. It also assessed the management's experience.

After a thorough review, the bank lent €550,000 as well as a revolving credit facility to support future growth plans.

Preparing a business loan application: the CAMPARI principle

When applying for a business loan, it helps to know how lenders assess applications. Some lenders use the CAMPARI principle as a means of assessing loan applications. The CAMPARI principle (an acronym of the points below) focuses on a few key points. For a borrower, knowing what these points are – and preparing accordingly – can make the difference between acceptance and rejection.

- **Character:** The lender determines the borrower's willingness to repay. The lender checks the borrower's past records, including credit history, reputation and the business' stability. The borrower should show that he/she is a capable and confident business leader, with an ability to communicate clearly and promptly with stakeholders. His/her financial involvement in the company in the form of an equity stake or a shareholder loan would also play an important role.

- **Ability:** Applicants must show clearly how the company will repay the loan. Lenders only lend if they see a direct link between the use of loan proceeds and its repayment.

- **Margin of finance:** Lenders often ask SMEs to contribute some of their own funds to the loan, in a way similar to a mortgage loan requires a deposit—this is a way of demonstrating commitment to repayment of the loan.

- **Purpose:** Lenders want to know why the loan is needed and how it will be used. For example, the loan could be used to acquire an asset.

- **Amount:** SMEs need to explain why they need a particular amount of money.

- **Repayment:** SMEs must explain how they will repay the loan with detailed financial projections, such as cash flow coverage and margins. It is important not to exaggerate the financial forecasts and to be credible.

- **Insurance:** Lenders will want to know what collateral is available if the company cannot repay the loan. The riskier the proposed loan, the more importance lenders will place on collateral quality and value. Types of collateral could include property, machinery or financial assets.

3.2 Leasing / equipment finance

Many SMEs use leasing as a means of financing asset purchases. With lease financing, the finance company (the 'lessor') purchases an asset (for example vehicles, IT equipment, printers, property, medical equipment) and the SME (the 'lessee') has use of the asset during the term of lease. The lessee pays regular rental payments for the use of the asset, and has the option to acquire it at the end of the lease term. The asset is effectively used as loan collateral, enabling more favourable financing terms than for an unsecured loan. In addition, the asset and the associated borrowing might not appear on the lessee's balance sheet, depending on local accounting rules. Some useful contacts where you can find out more about leasing finance are provided in Appendix 1.

3.3 Invoice financing

Invoice financing techniques, such as invoice discounting and debt factoring, enable an SME to borrow against the value of its trade debtors. With invoice discounting, the finance provider lends an SME an agreed percentage of the value of outstanding invoices to its customers and takes security over all the outstanding invoices. With factoring, on the other hand, the finance provider agrees to purchase outright (at a discount) the company's outstanding invoices. Invoice financiers may be independent organisations or part of a bank or financial institution. Invoice financing is generally more expensive than conventional borrowing.

An important difference between invoice discounting and factoring is that, with discounting, you will continue to manage your own receivables, so that your customers will not be aware that you are using invoice financing. With factoring, the factoring company usually takes over responsibility for managing your sales receivables and collecting payment from your customers. Factoring may be on a non-recourse basis, where the factorer carries the cost of bad debts, or a recourse basis, where you remain liable for such costs.

3.4 Trade finance

For many companies, beginning to trade with customers and suppliers overseas is an important part of their business plan. In many sectors the most likely place to find a major new market is overseas. But beginning a journey as an exporter can be expensive, and uncertain. Many businesses that have successfully established export or import markets say that they regret not having done so sooner.

There are a number of ways that lenders can help businesses to begin to trade, including helping to fund the costs of finding overseas customers, or bringing goods into the bank's local country to help complete contracts for domestic customers. Equally, lenders can help by providing letters of credit or guarantees to help businesses attract trade partners in countries where they do not have existing histories or banking relationships.

Letters of credit

Overseas partners might see a business from outside their country as being a more risky partner. It could be hard for them to take legal action in the event that a buyer does not pay an invoice, or a supplier may not provide the goods paid for. Businesses may find that overseas companies are less willing to do business with them as a result.

One solution can be to use a 'letter of credit', otherwise known as 'documentary credit', which is a guarantee to the seller that they will be paid, and to the buyer that they will not be expected to make a payment until they have received the goods. In effect, it insures the risk for both businesses that the contract will be honoured, and provides a third-party document setting out the terms of the deal.

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A business may want the letter of credit provided by a customer's bank to be checked and 'confirmed' by a bank in their own country.
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In some instances, a letter of credit may be a legal requirement. The International Chamber of Commerce has developed a set of international rules for letters of credit to give users confidence that they will be protected. The current version of these rules is called **UCP600** and came into effect in 2007.

There are different types of letters of credit, to meet different needs, including:

- **Revocable or irrevocable –** An irrevocable letter of credit can only be cancelled or changed if everyone involved in the deal agrees, while the issuing bank can choose to change or cancel a revocable letter of credit.

- **Confirmed or unconfirmed –** A business may want the letter of credit provided by a customer's bank to be checked and 'confirmed' by a bank in their own country. This 'confirmation' by their own bank means that they have a guarantee that they will be paid even if their buyer's bank fails to do so. A confirmed letter of credit offers more security, and is therefore more expensive.

- **Transferrable –** A transferrable letter of credit can be passed from one business to another, and is very useful when there is a supply chain or intermediaries involved in a trade deal.

- **Revolving –** A revolving letter of credit can be used to support a number of different transactions between a buyer and seller, and is a useful way of proving on-going support to a long-term business relationship.

Documentary collections

Documentary collections are a useful way for both importers and exporters to send and receive payments overseas via the banking system. They work by allowing the exporter to submit documents, such as an invoice or shipping documents, to their bank. The bank will then pass them on to the importer once they have received payment. The benefit is that the exporter keeps control of the documents until they are paid.

- **Documentary collections for the importer:** The importer is protected against the risk that their trade partner will fail to fulfil an order. Once the goods have been shipped, the exporter gives their own bank a copy of the shipping documents, which are passed to the importer's bank who will then arrange payment. The importer benefits from enhanced cash flow, as it does not have to pay for the goods until they are shipped.

- **Documentary collections for the exporter:** Gives the exporter more confidence that it will be paid by its trade partner. The exporter hands the shipping documents to its bank when it has shipped the goods. The shipping documents will only be passed to the importer when a payment has been made or agreed.

It is important to note that documentary collections do not usually guarantee the payment itself, and businesses should check their trade partners' credit history.

The International Chamber of Commerce has developed a set of international rules for documentary collections. The current version of these rules is called URC 522 and came into effect in 1996.

International guarantees

Worries about not being paid or not receiving goods ordered are one of the major problems for companies looking to import or export.

There are a number of products available to help:

- **Advance payment guarantee:** In some cases, an importing business may pay an exporter a portion of the value of a contract upfront, with the remainder due when the contract is completed. In these cases there is a risk that the exporter may fail to complete the order. One option to manage this risk is for a bank to issue an advance payment guarantee or 'bond' which guarantees the advance payment so the importing business will be reimbursed if the contract is not completed.

- **Performance guarantee:** If an exporter does not fulfil an order, the impact on the importer can be serious. It may be unable to fulfil an order itself, or have no stock to sell. A performance guarantee or bond can help by offering a penalty payment to the buyer if the terms of the contract are not fulfilled.

Trade finance – Pre-shipment loan

An exporter's cash flow can be under most pressure at the beginning of a contract when goods are being manufactured or purchased to be sold. 'Pre-shipment finance' is often used to improve cash flow to cover the period until the contract is completed and payment is received, which for some businesses may be as simple as a loan to help them purchase supplies.

A bank will want to see evidence that the exporter has a confirmed contract, and will often require the customer to enter into a letter of credit (see above).

Trade finance – Trade loans

A trade loan is a common way for an importer to fund a trade deal. It is normally a short term loan of between 30 and 365 days and is often designed to allow the borrower to increase or decrease the loan as needed. These loans are often used by a business to cover the period between paying for goods or services and receiving the revenue once the goods have been received and sold on, which can be an important support to a businesses' cash flow.

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A performance guarantee or bond can help by offering a penalty payment to the buyer if the terms of the contract are not fulfilled.
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3.5 Peer-to-peer lending and crowdfunding

Peer-to-peer (P2P) lenders (also known as 'market place lenders') and crowdfunding platforms are a small but growing source of finance. P2P platforms connect individual lenders/investors with borrowers without going through a bank. Crowdfunding platforms generally gather together larger numbers of investors, who each provide smaller amounts of capital, and are more usually associated with equity finance than loan finance. P2P platforms carry out similar credit assessments to banks. The various P2P and crowdfunding platforms provide a wide range of risk profiles, ranging from very conservative to relatively aggressive. Some may charge similar rates as banks, while some may also charge higher interest rates. Additionally, a business might find that these methods attract loans from businesses and individuals with a particular interest in its sector.

These platforms generally charge borrowers a fixed fee, ranging from 1-7.5% of the loan's value, or an annual fee of the order of 1%. Lending rates can vary considerably, depending on the nature of the business seeking investment. (Figure 2 shows indicative rates). Loans may be secured or unsecured and typically have a three to five year maturity.

P2P lending can be used by all types of companies. Crowdfunding techniques may be particularly suited to social network-based business models, with non-traditional legal and governance structures. Credit criteria and interest rates vary by platform, depending on individual business models. Some platforms have credit criteria similar to traditional lenders, with similar interest rates, whilst others target a higher risk profile, with higher interest rates. Some platforms have specific requirements and ask for particular documentation. For example, one P2P platform requires businesses to be profitable and to have traded for at least two years, with minimum annual revenues of at least £50,000.

The legal and regulatory framework for P2P and crowdfunding lending varies widely from country to country within the EU and is likely to evolve quickly at Member State and European levels.[7] Several Members States have published guidelines (Germany, Netherlands, Belgium) while others (Italy, France, UK) are considering or have already taken regulation action to facilitate crowdfunding and protect investors. Fair and proportionate regulation of this activity is strongly in the interests of investors, borrowers and the industry itself. Without regulation, there is a high risk of lowering quality standards, leading to investor losses, expensive litigation and eventually legislation. Where platforms are regulated, this will generally be by the national regulator of the country where the funds are raised. This has an impact on the credit criteria of lending platforms and on lending volumes in each country. Platforms are generally unable to raise funds or lend funds across borders because of the wide disparity between regulations in different countries.[8]

When SMEs apply to P2P lenders or crowdfunding platforms for loans, they do so online. The platform usually requires a description of the business, explanation of the use of proceeds and the latest financial accounts. In the case of secured loans, businesses have to submit descriptions of the collateral and personal guarantee documents. Some platforms assess the borrower's creditworthiness, and the interest rate to be charged, via their own internal credit assessment team.

Platforms are usually very selective: Unilend, for example, report that it only approves 5% of the applications it receives.

7 ESMA published an Opinion on Investment-based Crowdfunding in December 2014 and the EBA published an Opinion on lending-based Ccrowdfunding in February 2015. Also, please see the European Crowdfunding Network website for a review of crowdfunding regulations: http://www.eurocrowd.org/

8 The European Commission's public consultation on crowdfunding showed that only 38% of P2P and equity crowdfunding platforms operate cross-borders, COM(2014), 172 final.

Figure 2: **Indicative P2P and crowdfunding loan sites and current lending rates[9]**

Name	Country	Amounts raised so far	Average amount raised per loan	Average Lending rate
Lendopolis	France	n/a	€10,000 - €1m	5-12%
Lendico	Germany, Spain, and others	€1m (H1-2014)	n/a	n/a
Unilend	France	€9.1m	€83,000	9.3%
Auxmoney	Germany	€190m	€1,000 - €20,000	6.7%
Seedmatch	Germany	€22.7m	n/a	n/a
Zencap	Germany, Spain	€2m	€10,000 - €250,000	4% - 15.6%
Smartika	Italy	€16.9m	€5,400	6.6%
Arboribus	Spain	€1.8m	€33,000	7.8%
Comunitae	Spain	€16.2m	€1,000 - €6,000	12.3%
LoanBook	Spain	€2.8m	n/a	n/a
Zopa	UK	£815m	<£15,000	3Y: 4% 5Y: 5.1%
Funding Circle	UK	£600m	£5,000 - £1m	6-15%
ThinCats	UK	£130m	£250,000	10.8%

Source: compiled from various sources as of February 2015

Case Study 4: Crowdfunding 'Burrito Bonds'

In 2014, the founders of Mexican restaurant chain Chilango raised money via a crowdfunding bond issue to invest in their London restaurants. The 8% four-year mini-bond proved to be very popular and beat the original target of £1m well before the deadline. All investors received two free burrito vouchers and those who put in more than £10,000 received free food for the entire duration of the bond. Chilango founders planned to use the money to accelerate the planned opening of three more restaurants in London. (http://www.thisismoney.co.uk/money/smallbusiness/article-2676420/Should-invest-foodie-business-Brands-turn-crowdfunding-investment.html)

9 AFME does not endorse any particular vendor or usage of products described in this guide.

4. Bond issues for larger SMEs

Larger SMEs may raise debt capital through public bond issues or private bond placements, which can give access to broader and deeper pools of capital than loans. There are several sources of debt finance in Europe for mid-sized companies with annual turnover of between £19m and £400m and even higher. The typical minimum size for a bond issue or private placement is usually £17m, although it can be as little as £4m.

When issuing bonds, the issuer promises to repay principal to investors by a specified date and to pay periodic interest in the meantime. The debt capital markets generally differentiate between three types of borrowings depending on the term to repayment as follows: bonds (maturity over three years), medium-term notes (maturity up to three years) and commercial paper (maturity of less than one year).

Bonds can be:

- Listed or unlisted
- Secured or unsecured
- Rated or unrated

Large SMEs looking for debt finance may want to consider a Pan-European Private Placement (PEPP). A PEPP is a medium or long-term debt financing transaction between a listed or unlisted company and a small number of institutional investors, based on deal-specific, but standardised, documentation negotiated between the borrower and the investor(s). Generally these work with the participation of one or more bank intermediaries as arranger(s), acting in an agency capacity (i.e. as a facilitator between the borrower and the investor(s), but not necessarily as an underwriter).[10] Although PEPPs can be listed or unlisted, PEPP is targeted towards unlisted companies.

Many bonds are listed on an EU stock exchange, although they are not required to be. In many countries there are special programmes for smaller growth companies issuing bonds, such as those described in the paragraphs below. For additional information on debt funds as bond investors, please refer to the European Investment Fund paper 'Institutional non-bank lending and the role of debt funds', no.25 of EIF's Working Paper series.[11]

France

The Initial Bond Offering is a debt market where unlisted and listed small and mid-sized companies have access to both institutional and retail investors (in the case of a public offering). Issuers have to raise a minimum amount of €5m on Alternext and €10m on Euronext. Companies must comply with the same admission and ongoing obligations as for a traditional equity listing. The typical coupon is 5-8%. A rating of the bond is mandatory for listed companies with a market capitalisation of less than €100m and for unlisted companies which fall within the European Commission's definition of an SME.

Germany

In Germany, the SME bond market was originally launched by the Stuttgart Stock Exchange in 2010 for the German Mittelstand. These bonds are now being traded on different German exchange platforms and are also issued by small, young and growing companies:

- Entry Standard at Deutsche Börse in Frankfurt,
- m:access in Munich,
- Primärmarkt in Düsseldorf.

10 For more information on PEPPs please see http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Primary-Markets/private-placements/the-pan-european-corporate-private-placement-market-guide/

11 http://www.eif.org/news_centre/publications/EIF_Working_Paper_2014_25.htm

For a variety of reasons, many investors in German SME bonds have experienced relatively high default rates and, in some cases, transactions have been transferred to different market segments. The industry and officials are reviewing ways to make changes in future programmes to avoid problems experienced in the past.[12] As a result, some markets are closing, such as the Mittelstandsmarkt which has recently been replaced by the Primärmarkt. A new bond issue in the Primärmarkt will be classified in one of three different segments according to its spread compared to a government bond (or 'risk-free rate'). Bonds with spreads of up to 200bps above this rate are classified in Segment A, a spread of between 200-400bps in Segment B and +400bps in Segment C. The goal of this new classification is to improve risk perception, especially from retail investors. Deutsche Börse published a Best Practice Guide in April 2014 that gives companies and accompanying intermediaries such as banks and advisors recommendations for the bond issue in order to improve the quality of the issues. The recommendations are not binding but advisable.

Italy

Italian companies can issue bonds and commercial papers on MOT market, Borsa Italiana's main regulated market, which is accessible to both institutional and retail investors. Bonds can also be issued on ExtraMOT PRO, which is only accessible to professional investors. ExtraMOT PRO allows companies to issue debt instruments and take the opportunity and the fiscal benefit of the new Italian regulatory framework. This special type of listing on ExtraMOT PRO allows Italian companies, and in particular SMEs, to have access to institutional investors such as insurers or pension funds with a flexible approach, which is simpler and easier than on the regulated market.

The main features of ExtraMOT PRO minibonds are the following:

- No minimum issue size
- Average size of €25-30m
- Maturity of 5-7 years
- Fixed coupon or floating
- Average yield of 6% p.a.[13]
- Rating non-mandatory (Bonds are generally unrated but a third are rated).
- A full prospectus is not required but the admission document is generally well documented as investors have demonstrated a need for detailed disclosure on covenants, cash flow coverage, use of proceeds, and other important criteria.

Spain

The Alternative Fixed-Income Market (MARF) is a Spanish initiative aimed at channelling financial resources to a large number of solvent companies that can use this market for the issuance of fixed-income securities. MARF has the legal structure of a Multilateral Trading Facility (MTF).

The access requirements for MARF are more flexible than those for the official regulated markets and provide greater speed in processing issues of securities. In this way, companies that use MARF are able to benefit from simplified processes and lower costs.

12 As per early October 2014, 23 SME bonds were in trouble (cf. Brächer et al., 2014). According to the EIF, the series of defaults, in particular among renewable energy companies, raised concerns over the implemented transparency, disclosure, accounting and rating standards. As a consequence, there is has been negative press coverage for this market segment in Germany and a negative impact on the deal pipeline for M-Bonds (cf. EIF Working Paper 2014/25).

13 Indicative average yields as of 23 February September 2015 of the Italian constituents of the Iboxx High Grade and the Iboxx High Yield Index with a maturity between 5 and 7 years.

An important market participant is the registered advisor, which provides advice to companies that use MARF, covering regulatory requirements for listing securities and other aspects. They provide advice when bonds are issued and throughout the issue's life.

MARF is intended to be simpler and cheaper than the regular listed market, with no minimum or maximum size for transactions. Though most of the transactions have been around €50m, there have been both large and small issues, with tenors of 5, 6, 7 and 10 years. Transactions may use different structures, be secured or unsecured, bullet or amortising, and have fixed and floating coupons.

The market also has a Commercial Paper (CP) segment where currently five issuers have opened CP programmes, with maturity ranges between one week and two years.

UK

The Order Book for Retail Bonds ('ORB') is a platform created by the London Stock Exchange, where most investors are individuals. A full prospectus is required. Unlike the traditional bond markets, which are designed for professional investors, this market allows investors to purchase bonds in lots of as little as £1,000. The minimum issue size is £200,000; there is no rating requirement. Issue sizes may range from £15m to £300m, with most bonds issued between £50-75m. Maturities range from five to 12 years. Bonds can have fixed rate coupons in the range of 4.75%-6.25% and can also be floating rate.

Case study 5: AgroGeneration raises €9.4 million through a bond issuance

AgroGeneration is an agricultural commodities producer of cereals and oilseeds based in Ukraine. The company puts back into cultivation fallow lands which have suffered from under utilisation and under-investment for a long period of time.

In 2012, the company had profits of €2.3 million and was well capitalised with €39.2m in equity and a net debt-to-equity ratio of just 22%.

The company wanted to replace its short-term bank loans with a long-term maturity debt. A Long-term debt was more appropriate for the company's long-term financial needs related to the long cycle of the agriculture industry.

In 2012, AgroGeneration raised €9.4 million by issuing a bond on the Alternext market of NYSE Euronext Paris. Every half-year, the company pays an annual fixed interest rate of 8%. The bond has not been rated by a credit rating agency.

5. Raising equity

For a business which is starting up, the most common form of finance is funds provided from the entrepreneur's own resources and/or funding from his/her family and friends, often in the form of equity. Growing companies with unpredictable cash flows may find equity finance more suitable than loans. These companies might include start-up and early-stage companies or established companies raising long-term finance for expansion, such as entering new markets, investment in research and development or the acquisition of external companies.

Equity finance involves selling part of the business to an investor that shares in the risks and rewards of ownership. Often, the investor may help to improve business strategy. For investors, equity provides the potential for growth in the value of their investment, which compensates them for the risk they are accepting. Additional equity can also help improve an SME's credit profile and rating. Equity investors seek a return from long-term growth in the value of their shares, as well as dividends. They will usually plan to exit their investment at some point in time, when they will sell their shares and take their profit. A company which raises equity finance will need to have effective corporate governance processes in place. This can be burdensome, but it can also provide a useful discipline for management.

A wide range of equity finance sources are available, depending on investment size and the company's growth stage (see figure 3).

Figure 3: **Equity providers**

Source	Typical value range for capital raised
Family and friends	<£75,000
Business angels	£18,000 - £180,000
Equity crowdfunding	£18,000 - £750,000
Venture capital and private equity	£150,000 - £4m
Public listing (median)	£3-10m+

Source: AFME compilation

Companies should ask their advisors to estimate the costs associated with raising capital from business angels, venture capital funds, private equity funds and IPOs, as these can vary widely.

5.1 Family and friends

For many very young companies, friends and family are the most readily available source of equity finance. Many successful businesses have been launched with this form of finance. It is particularly important because having a strong working capital base from the outset, provided by individuals with a relationship with the founder, greatly improves a new company's chances of survival.

While the funding available from family and friends is likely to be smaller than that available from professional alternatives, it may be offered with fewer conditions and on a more informal basis. This informality should not be taken too far. Even (or arguably especially) with friends and family, good corporate governance processes are important. It is critical to ensure that the terms of the investment are clear, and that both parties understand the implications of the business' success or failure. Factors that should be clearly identified include what the funds will be used for, how the investment affects the company's governance, and how/whether the investor can modify or sell their stake.

As with any investment, both parties would be well advised to seek professional advice.

5.2 Equity crowdfunding

Much like debt crowdfunding discussed in section 3, equity crowdfunding platforms have proliferated in recent years. Here, private entities (individuals, clubs and companies) can take equity stakes in companies.

Because this is a new form of finance, the regulatory environment is still developing.[14] In the UK, for example, crowdfunding debt and equity investors must be 'sophisticated', meaning they must demonstrate investment experience and prove that they have sufficient funds to withstand potential losses.

In general, the same upsides (a broader range of potential investors, investors who may be more interested in your particular business, access to funding despite considerable riskiness) and downsides (a still volatile industry, anonymous investors and the need to offer an attractive deal to potential investors) apply as in debt crowdfunding.

The case studies below offer two examples of firms that successfully used equity crowdfunding platforms to meet their particular needs.

Case study 6: Funding a mobile shopping app

An example of a successful equity crowdfunding is Shareight, the mobile shopping app. This company raised some €920,000 on an equity crowdfunding platform in April 2014, reaching its initial €490,000 fund-raising target within 17 hours from its pitch going live. London-based Shareight operates an e-commerce interface which allows users to find and share retail products on their smartphone or tablet device. Shareight planned to utilise the funding to launch the app on Android and enhance its check-out system to achieve its aim of becoming the 'go-to' place for mobile shopping.

Case study 7: Money for Dorset wind turbines

Energy project developer, DistGen Rogershill, raised €1.2m for a 500kW wind turbine project on Rogershill Farm in Dorset through a crowdfunding issue of a Variable Return Debenture. With a Variable Return Debenture, the investor receives a percentage of the profit generated from the sale of the electricity produced by the project, rather than a fixed dividend. DistGen Rogershill used its own money to develop and construct the project and, once it was complete and operational, looked to refinance it in order to recycle the funds into new wind projects. The fund raising also offered local people the chance to share in the financial benefits of the project.

5.3 Business angels

Business angels are a valuable source of equity finance for SMEs. These are wealthy private individuals, or groups of individuals, who are often successful entrepreneurs and businessmen in their own right. They invest their own capital in smaller companies, often companies operating in sectors where they have business experience and can add value by mentoring the management or introducing them to opportunities.

Compared to venture capital and private equity (see section 5.4), business angels typically invest smaller amounts (for example £18,000 to £180,000[15]) at an earlier stage than many venture capital funds will invest. Increasingly, they invest alongside other business angels, seed venture capital funds or work with other investors (eg. crowdfunding platforms, business accelerators, public co-investment funds and family offices).

Angels usually contribute much more than money – they often have industry knowledge and contacts that they pass on to SMEs, and may become non-executive directors. In a similar way to venture capital investors, they select companies

14 See Footnote 7.

15 The average size of deals is in the range of €100,000 - 200,000 for most European countries. Evaluation of EU Member Sates' Business Angel Markets and Policies, Final Report, October 2012. (Centre for Strategy & Evaluation Services).

for investment, carry out due diligence analysis and actively support the companies they invest in. A number of specialist agencies and portals match business angels with companies looking for equity funding.

Figure 4: **Typical angel investment process**

Deal sourcing	Most deal sourcing comes through business angel networks and interactions with other players in the ecosystem e.g. service providers, VCs, incubators (funds which specialize in supporting early stage and start up business).
Deal screening	Applications are normally managed centrally with a software package. Initial deal screening can be conducted by the business angels themselves or through a more formal procedure by the business angels group/network.
Initial feedback / coaching	Companies may be contacted and may receive some coaching regarding the expectations of investors and how to better present the company.
Company presentation to investors	Selected companies may be invited to present to business angels at an event. Investors will discuss the aspects of the company and potential deal in a closed session.
Due diligence	Due diligence is normally done on a formal basis and includes: a competitive analysis, validation of product and intellectual property, an assessment of the company's structure, financials and contracts, a check of compliance issues and reference checks on the team.
Investment terms and negotiations	If business angels are interested, term sheets will be prepared and the company valuation negotiated.
Investment	Interested business angels can invest individually or form a syndicate to invest in the company. There is a formal signing of documents and the agreed funding is collected.
Post-investment support	After the investment, investors often monitor, mentor and assist the companies with the expertise and connections. In addition, investors often work closely with the company to facilitate an exit, such as an IPO or a trade sale to another company.

Source: OECD

5.4 Venture capital and private equity

Venture capital (VC) and private equity (PE) funds specialise in investing in the equity of companies that are not listed on stock exchanges, raising substantial funds from institutional investors and sometimes individuals, to back their funds. VC funds invest in early-stage companies with high growth potential. They usually have active roles in the companies they invest in, typically helping to set strategy. 'Growth' PE funds invest in relatively mature companies and, to a lesser extent SMEs, which require additional funding to expand, enter new markets or finance an acquisition.

VC/PE investors look for companies projecting high investment returns, usually at least a 30% compound average growth rate. They may look to triple the value of their investment over four to five years, before exiting the company. They require such high returns on their successful investments in return for the risks they take, as a significant proportion of their portfolio companies do not deliver the targeted returns. VC/PE investors either take substantial minority stakes in investee companies or, in certain cases, controlling interests. Their investments may be carefully structured — including, for example, more than one class of equity and a form of debt finance — in order to boost the equity's potential return. The structure may include an element of mezzanine finance. This is a form of debt finance that ranks behind other or 'senior' debt in its claim on the company's assets, carries a higher interest rate and usually benefits from some form of equity return, provided through share warrants or conversion rights. The investor will require board representation and a certain standard of corporate governance, including regular board meetings and detailed financial reporting.

Some VC and PE funds specialise in specific sectors. For example, there are specialist biotechnology and financial technology funds clustered around different European cities. An entrepreneur seeking investment from a specialist fund should be prepared to look beyond his/her national borders.

VC funding often comes in six distinct stages, corresponding to the periods of a company's development:[16]

- **Seed money:** Low-level financing for proving a new idea.

16 Source: Corporate Finance, Ross, Westerfield, Jaffe, 2010.

- **Start-up:** New firms needing funds for expenses related to marketing and product development.
- **First-round:** Manufacturing and early sales funds.
- **Second-round:** Operational capital for early-stage companies which are selling product, but not returning a profit.
- **Third-round:** Also known as mezzanine financing, the money for expanding a company.
- **Fourth-round:** Also known as bridge financing, fourth-round funding finances the process of listing on a stock exchange.

Some VC/PE investors specialise in providing turnaround or rescue capital for businesses which are unprofitable or failing to grow. In that case, they will usually take a greater degree of executive management control, often introducing their own senior executive(s) and making major changes to the business concerned, its business strategy and its cost base.

Links to the major European and national venture capital and private equity associations are provided in Appendix 1.

The VC and PE investment process

Applying to VC and PE firms for equity capital can be a long process, with no guarantee of success, typically taking three to six months. The VC/PE investment process begins with the preparation of a detailed business plan, which serves as the initial document to show investors. The business plan will include detailed financial information for the company, including both its historic performance and forecasts for future periods. Your accountant or other advisor will be able to help with the preparation of the business plan.

After speaking to a number of potential investors, the company will usually enter into detailed discussions with one firm. The VC/PE firm will estimate the company's value and propose an investment structure, including the key terms and conditions of the proposed investment. If terms are agreed, the investor will conduct a due diligence investigation, examining in detail all available information on the company. If the investor is satisfied with the outcome of due diligence, the company and the investor negotiate the final terms and conditions of the investment agreements, including, if appropriate, management contracts and incentives.

> //
> Venture capital funding often comes in six distinct stages, corresponding to the periods of a company's development.
> //

Box 1: EU clusters

A cluster is an ecosystem composed of SMEs, large companies, universities, banks, business angels, venture capitalists, regional and national development banks, gathered in a particular location. A cluster stimulates cross-sector cooperation and innovation and facilitates the development of collaborative solutions, jobs creation, internationalization and access to finance.

SMEs in clusters have substantial support, external networks and good access to potential investors such as venture capital funds and business angels that are interested in a specific emerging industry with high growth potential.

Links

The European Commission's Cluster Portal provides tools and information on key European initiatives, actions and events for clusters and their SMEs, with the aim of creating more world-class clusters across the EU. http://ec.europa.eu/enterprise/initiatives/cluster/index_en.htm

The Cluster Observatory is an online, free and user-friendly platform that provides a single access point to data and analysis of clusters, cluster organisations and regional microeconomic framework conditions in Europe. www.clusterobservatory.eu

5.5 Going public: equity listing requirements, process and timeline

Having equity listed on a stock exchange/bourse isn't a privilege reserved for large corporations. Europe has stock markets where SMEs can sell equity shares. In general, SMEs list on 'junior markets' (for example, AIM in the UK) because these exchanges may have less onerous requirements and fees.[17]

Not all equity listings are actually Initial Public Offerings (IPOs):[18]

- An **Initial Public Offering** (IPO) is the offering of new shares to the general public where a prospectus certified by a competent regulatory authority is mandatory (requirement under EU Directive 2001/34/EC).
- A **private placement** (or placing) is an offering of new shares to a limited number of qualified investors. Companies are not obliged to publish a prospectus, though a private placement memorandum is often provided to potential investors.
- An **introduction** is an admission of existing shares to a stock exchange without an offering of new shares. This is not a way of raising money, but a method to make shares more tradable.

Across France, Germany, Spain, Italy, and the UK, over 1,500 companies are listed on junior exchanges, representing nearly £98bn in market capitalisation.[19] On Euronext Alternext, for example, 48% of the companies have less than €25m in annual turnover.[20]

Although equity listing requirements are lighter on junior stock exchanges than on the main markets, joining these exchanges is still a substantial commitment in terms of time and expense. Lighter listing requirements often mean that these exchanges do not have a minimum threshold for equity capital raising – 19 issuers have raised less than £780,000 since 2007 across France, Germany, Italy, Spain and the UK's junior exchanges. However, most exchanges do require a minimum amount of share issuance in order to provide a 'free float'. Companies looking to offer shares on a junior exchange usually raise several million euros of equity (since 2007, 50% of issuers raised a minimum of £5.8m on Alternext, £4.7m on Deutsche Börse's Entry Market, £4.2m on Borsa Italiana's AIM, £3.4m on Spain's Mercado Alternativo Bursatil (MAB) and £11m on London Stock Exchange's AIM).[21]

17 Appendix 3 details the different European equity markets accessible to SMEs.

18 Please note that all data includes capital raised through both IPOs and private placements.

19 Author own compilation: AIM, Entry Standard, Alternext, AIM Italia, MAB, as of February 2014.

20 Source: Euronext as of June 2014.

21 Source: Dealogic, capital raised on Junior Exchanges (primary markets offerings only) from 2007 to February 2015. See Appendix 4.

Box 2: ELITE programme

Elite is a two-year programme designed by the London Stock Exchange Group to help SMEs realize their goals for growth, preparing them for external access to fund raising opportunities. The programme is dedicated to SMEs with a sound business and a clear growth strategy that need to fill a funding gap. Elite offers an innovative approach, including a training programme, a working zone supported by a tutorship model, direct access to the financial community through dedicated digital community facilities and it is 'capital neutral' to any financing opportunity (IPO, PE, debt products, other). The programme is available accross Europe.

Links

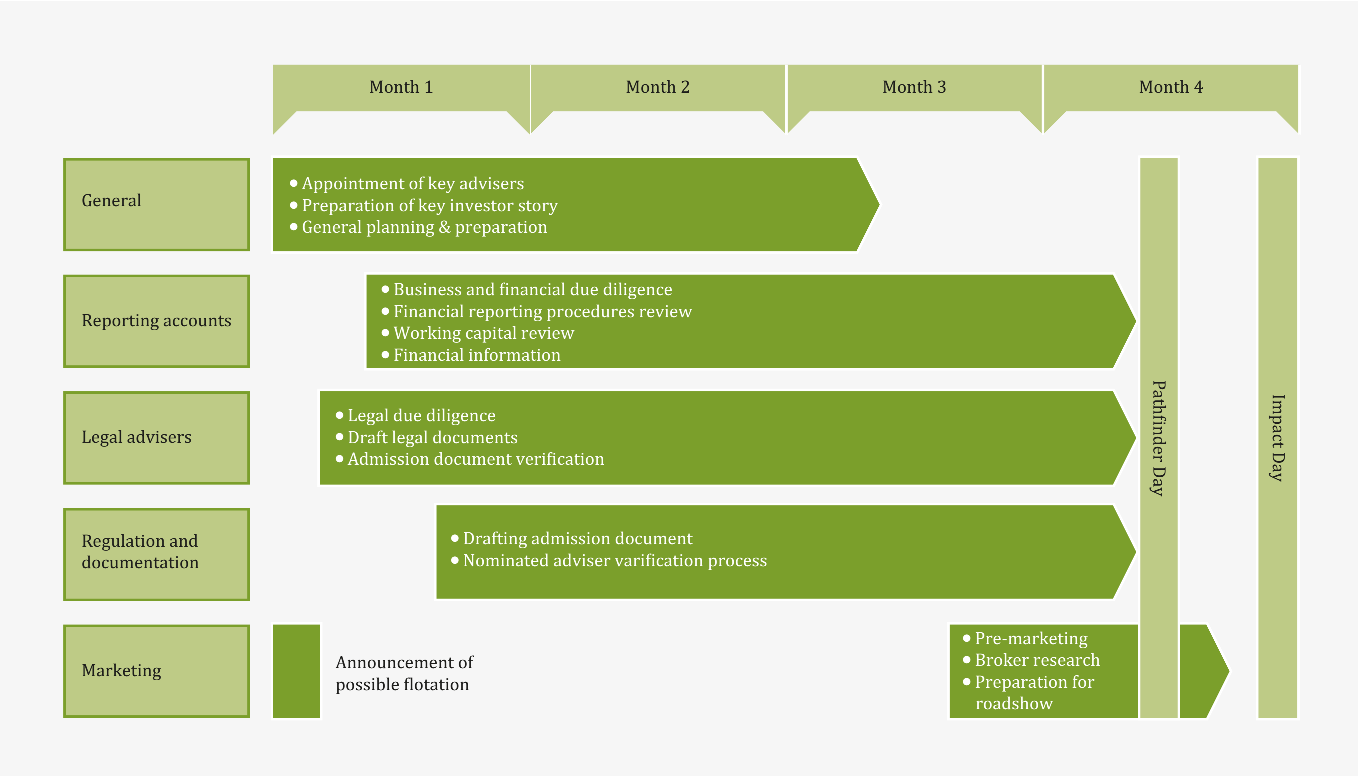
International website: http://elite-growth.com
Italy: http://elite.borsaitaliana.it
UK: http://elite.londonstockexchange.com

Equity listing: process, timeline and requirements

In order to raise capital on a stock exchange or bourse, companies sell part of their equity to investors (mainly institutional but also retail in the case of an IPO). The listing process involves several participants (banks, investors, lawyers, advisors, accountants, exchanges) and may take between three and six months. The company appoints key advisors that help it to build a business case to present to potential investors, which will be set out in the prospectus/private placement memorandum and the documentation accompanying the roadshow (which takes place during the last weeks before the IPO). To reassure investors that the business is run properly and that the accounts are accurate, accountants conduct business and financial due diligence.

The main contact during the process is the underwriter or sponsor, i.e. the bank or investment bank which markets a company's shares to investors, while other participants such as accountants, lawyers and exchanges are also involved.

Figure 5: **Indicative IPO timeline**

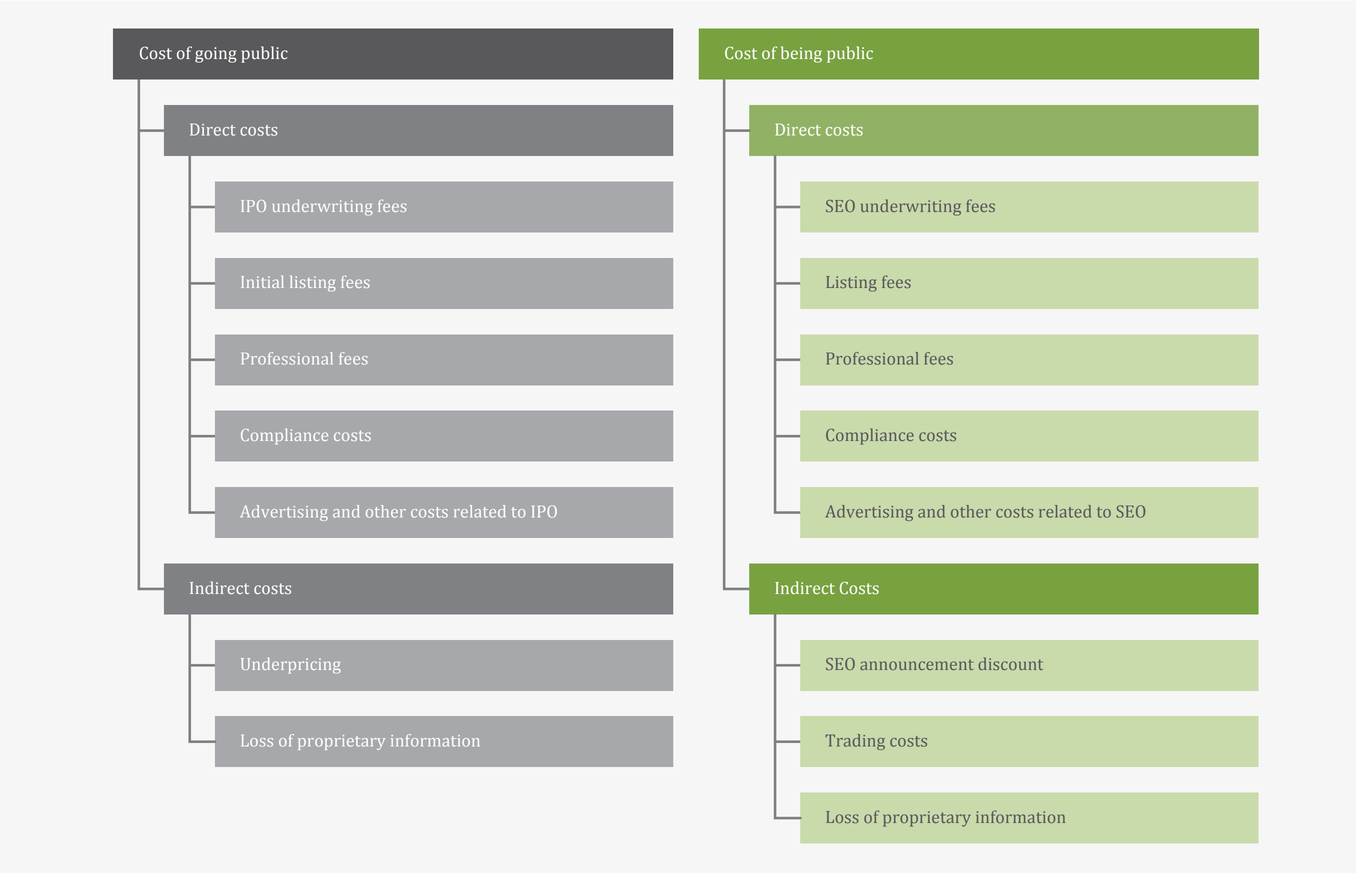


Source: PWC

Costs associated with a listing in Europe vary depending on the amount of capital raised. In most but not all European countries, the total cost of a listing usually ranges between 7% and 10% of the total amount raised. Costs include the fees paid to the investment banks (underwriting fees), lawyers and accountants, and other costs such as marketing costs and listing fees.

The company also needs to consider the significant follow-on costs for a listed company, such as regulatory compliance and publishing regular financial reports, as well as retaining financial public relations support.

Figure 6: **Illustrative IPO costs** [22]



Source: Deutsche Börse

For further information on stock exchange listing requirements, see Appendix 3.

Case study 8: IPO Equity for artificial hearts company

Carmat, a French designer and developer of an advanced artificial heart, needed to raise funds to develop its new, highly innovative product. A bank loan was out of the question because the company was not yet profitable. Instead, it chose to raise funds through an IPO.

The IPO was structured as a public offering in France and an international private placement in certain countries.

During its roadshow, Carmat displayed many features likely to ensure stock market success: cutting-edge technology, a highly innovative product, a quality management team, strong medical demand and a high-potential market. In the IPO on Alternext in June 2010, more than 900,000 shares were issued at €18.75 per share, raising €16.5m and valuing the company at €71m.

In 2015, although the company was not yet profitable, it was already valued at €300m, having successfully tested its artificial hearts in human patients, and was progressing towards launching a commercially viable product.

22 In Figure 6, SEO refers to a seasoned or secondary equity offering - a new equity issue by an already publicly traded company.

6. Pan-European and government SME support schemes

Many European governments and pan-European public institutions provide extensive loan and/or equity support to SMEs. This is usually accessed through a bank or alternative financial provider and cannot be applied for directly by an individual or company. Nevertheless, it is helpful, as a borrower, to be aware of the indirect support which is available. (Extensive detail on pan-European and national support schemes is provided in Appendix 2.)

6.1 Pan-European programmes

The European Investment Bank (EIB) is the bank of the European Union, which primarily focuses on EU economic development and integration through its financial operations. The EIB is owned by the 28 Member States of the European Union and has a lending budget of approximately £47bn per year, including approximately £9bn allocated specifically to SMEs. SMEs may only receive EIB loans through partner commercial banks and financial intermediaries. The terms of the loans are set by the intermediary who matches at least the same amount as the EIB. Contacts of EIB partners in each Member State can be found via the following the link: www.eib.org/projects/priorities/sme/eu/index.htm.

The European Investment Fund (EIF) is a public-private partnership, owned by the EIB, the European Commission and 25 financial institutions from 14 Member States and Turkey. The EIF's total net commitments to venture capital and private equity funds amounted to over £6.1bn at the end of 2013. With investments in over 480 funds, the EIF is the leading player in European venture capital, especially in the high-tech and early-stage segments. In addition, the EIF loan guarantee commitments totalled over £5.6bn, in over 300 operations, at the end of 2013, positioning it as a major guarantor of European SME loans and a leading microfinance guarantor.[23]

Figure 7: **Investments of the EIB and EIF**

Institution	Product	Amount invested
EIB	Loans	€18.5bn (2013)
EIF	Equity	€1.5bn (end 2013)
EIF	Guarantees	€1.9bn (end 2013)

The EIF's mission is to support Europe's micro businesses and SMEs by helping them to access finance. The EIF doesn't provide funds or guarantees directly to SMEs. It instead relies upon partner intermediaries such as banks, private equity funds and microfinance institutions in each Member State. The EIF provides equity, loans and guarantees to financial intermediaries to improve their lending and investing capacity. By removing some of the risk for intermediaries, it hopes to encourage SME financing. The EIF provides equity and debt finance throughout the entire value chain of enterprise creation, from the earliest stages of intellectual property development through to businesses' mid- and later stages of growth.

Finally, the EIF provides advisory services and equity financing for business angels and private equity funds.

Other pan-European initiatives

- **Structural Funds:** Member States provide funding to SMEs through National and Regional Programmes and European Territorial Cooperation Programmes. Information on these programmes for each country in the EU can be found here: www.ec.europa.eu/regional_policy/manage/authority/authority_en.cfm.

- **Competitiveness of Enterprises and SMEs (COSME):** COSME operates by way of funding guarantees for banks in order to help them provide more loans and finance leases to SMEs.

- **Joint European Resources for Micro to Medium Enterprises (JEREMIE):** JEREMIE provides financial instruments including guarantees, loans and equity to financial intermediaries.

- **InnovFin:** for innovative SMEs, InnovFin generally provides guarantees on debt financing of between £19,000 to £5.8m.

- **Venture capital and business angels:** the EIF provides advisory services and equity to business angels and private equity funds.

23 Source: European Small Business Finance Outlook, June 2014, EIF.

- **Enterprise Europe Network:** EEN (http://een.ec.europa.eu/services) is an EU-financed organisation which combines the services and knowledge of some 600 business support organisations throughout Europe, such as chambers of commerce, technology centres, research institutes and development agencies, to help SMEs grow their businesses.

The European Fund for Strategic Investments (EFSI)

The European Commission has launched an Investment Plan for Europe to unlock, over the next three years, additional investments of at least €315bn, of which around a quarter, or €75bn, will be invested in SMEs and mid-cap companies. The EFSI, which is at the heart of the Investment Plan, should be up and running later in 2015.

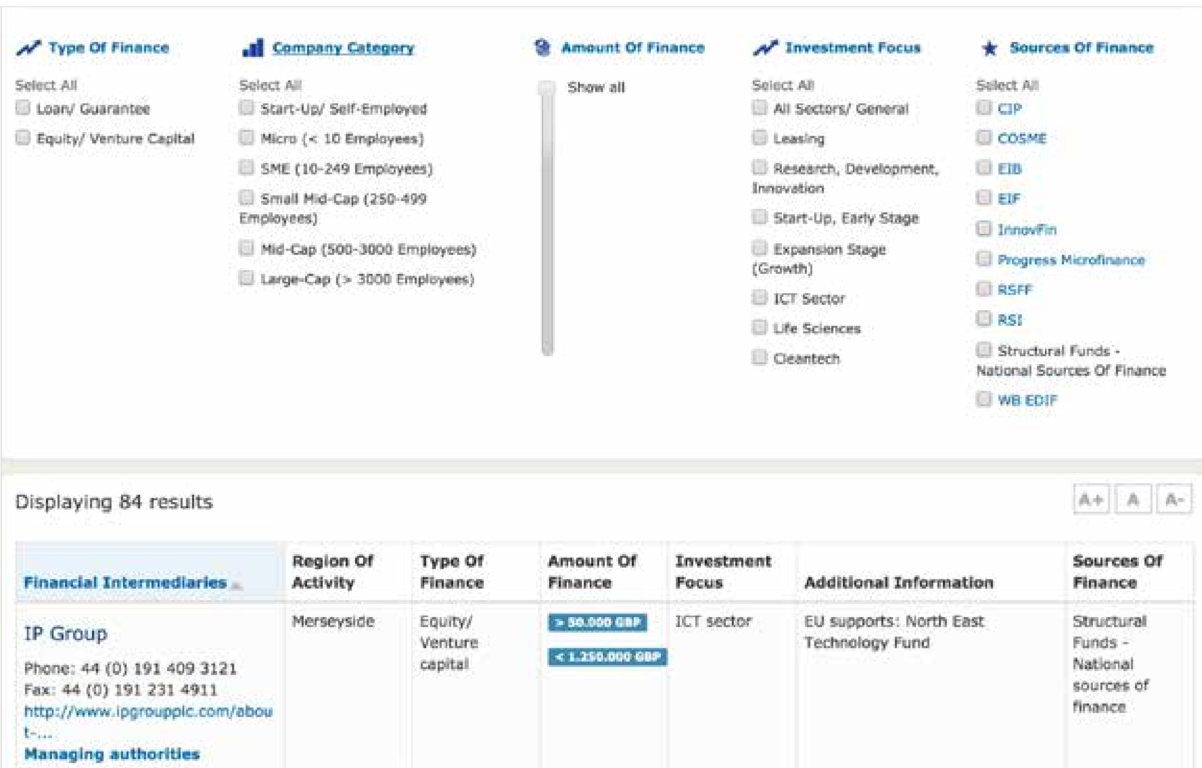
The EFSI money allocated to SMEs will be invested by the European Investment Fund (EIF), part of the EIB Group. The EIF will leverage an initial commitment of €2.5bn of equity provided by the EIB and an additional €2.5bn provided by the EC, which will be committed by the EIF to various types of products, such as venture capital investment and loan guarantees, securitisations of SME loans. The commitment from the public sector is expected to trigger private sector investment, leading to a total value to be invested of €75bn.[24]

Further information

A current EIF report 'European Small Business Finance Outlook' includes information about the state of European SME markets and about EIF's activities. The report can be found at: www.eif.org/news_centre/research/index.htm.

The following EU website details a comprehensive list of financial intermediaries (i.e. banks, private funds and member states funds) to help SMEs access finance: www.europa.eu/youreurope/business/funding-grants/access-to-finance.

Figure 8: **'Access to Finance' European Union Portal**



24 For additional information on the EFSI, please refer to http://ec.europa.eu/priorities/jobs-growth-investment/plan/index_en.htm

6.2 Information on national development banks

France, Germany, Italy, Spain and the UK have public institutions that provide funding and advice to small business. Some national programmes focus upon specific industries, others on firms at a particular stage of development (e.g. start-up), and still others on particular business needs (e.g. support for research and development). In addition to the programmes discussed below, an overview of further opportunities in France, Germany, Italy, Spain and the UK is provided in Appendix 2.

France: Bpifrance

Bpifrance is France's public investment bank, owned jointly by the Caisse des Dépôts and by the state. In 2013, Bpifrance allocated more than €18bn to 78,400 companies, most of them being SMEs including €10bn in loans, €8bn in bank loan guarantees, and €1bn in equity investments.[25] (See Appendix 2 for additional information on Bpifrance loans and equity support programmes.)

Bpifrance is organised into complementary divisions to provide businesses with financing for every stage in their growth:

- Financing innovation
- Guaranteeing bank loans and equity investments
- Co-financing investments alongside banks, and providing operating cycle (short-term) financing
- Equity and quasi-equity investment, both directly and via partner funds.

Germany: KfW

KfW Group provides various financing services to SMEs, business start-ups and self-employed people via the KfW SME Bank. Services include long-term loans, mezzanine financing, equity capital and consulting services. In 2013, KfW provided more than €11bn in loans and €100m in equity through its various programmes. (See Appendix 2 for additional information on KfW loans and equity support programmes[26]).

Italy: Cassa Depositi e Prestiti

In Italy, different programmes exist to facilitate bank lending to SMEs through the Cassa Depositi e Prestiti (CDP). CDP is a joint company, part private and part public owned by the Ministry of Finance and Italian banking foundations. Its source of funds is post office saving deposits. Since 2009, it has provided €18bn to SMEs in investment and working capital. Loans with an interest rate of below the market are channelled through commercial banks. Other programmes are available such as the Nuovo Plafond PMI which provides investments and working capital. The government also provides guarantee to SMEs through its Fondo Centrale di Garanzia.

Spain: Instituto de Crédito Oficial, ENISA

Instituto de Crédito Oficial (ICO) is a Spanish-owned bank that funds SMEs, the self-employed and mid-sized companies. ICO provided €12.2bn in loans to SMEs in 2013 and also invests in SME equity through private equity funds.[27]

ICO provides different financing alternatives to SMEs including:

- Loans to enable SMEs to undertake their investment projects and meet their liquidity needs both domestically and abroad
- Direct equity investments to SMEs which have passed the start-up stage and wish to invest in future growth.

ENISA is a public company under the Spanish Ministry of Industry that focuses on financing entrepreneurs and SMEs. In 2013, ENISA contributed to 809 loans worth €102m.

25 Source: http://www.bpifrance.fr/content/download/2202/34216/version/2/file/20140214%20Bilan%20Bpifrance%20CP%20et%20DP.pdf

26 Source: KfW 2013 Annual Report, page 82.

27 Source: ICO 2013 Annual Report.

UK: British Business Bank

The British Business Bank started to lend to businesses in early 2014. It focuses on helping companies with turnover up to £25m but also considers those with revenues of up to £100m. It has £1.25bn of core funding from the government, on top of £2.9bn of capital from an existing state scheme. This capital is distributed via three programmes:

- Venture Capital Solutions (almost £971m allocated) supports start-ups and high-growth firms by co-investing equity and quasi-equity alongside venture capital funds and business angels.
- Lending Solutions (£875m allocated) facilitates lending for smaller businesses by providing loans, mezzanine finance and guarantees.
- Investment Programme (£1.25m allocated) gives the opportunity for non-bank lenders and services to be supported by the British Business Bank and reduce financing gaps for SMEs. The programme includes peer-to-peer platforms and working capital financing solutions.[28]

Case study 9: Using Government support to start your company

Leetchi.com is a web service which collects money between friends for various purposes such as birthday gifts and charities. Money collected on the platform by 2 million users in 40 countries grows by 30% every month.

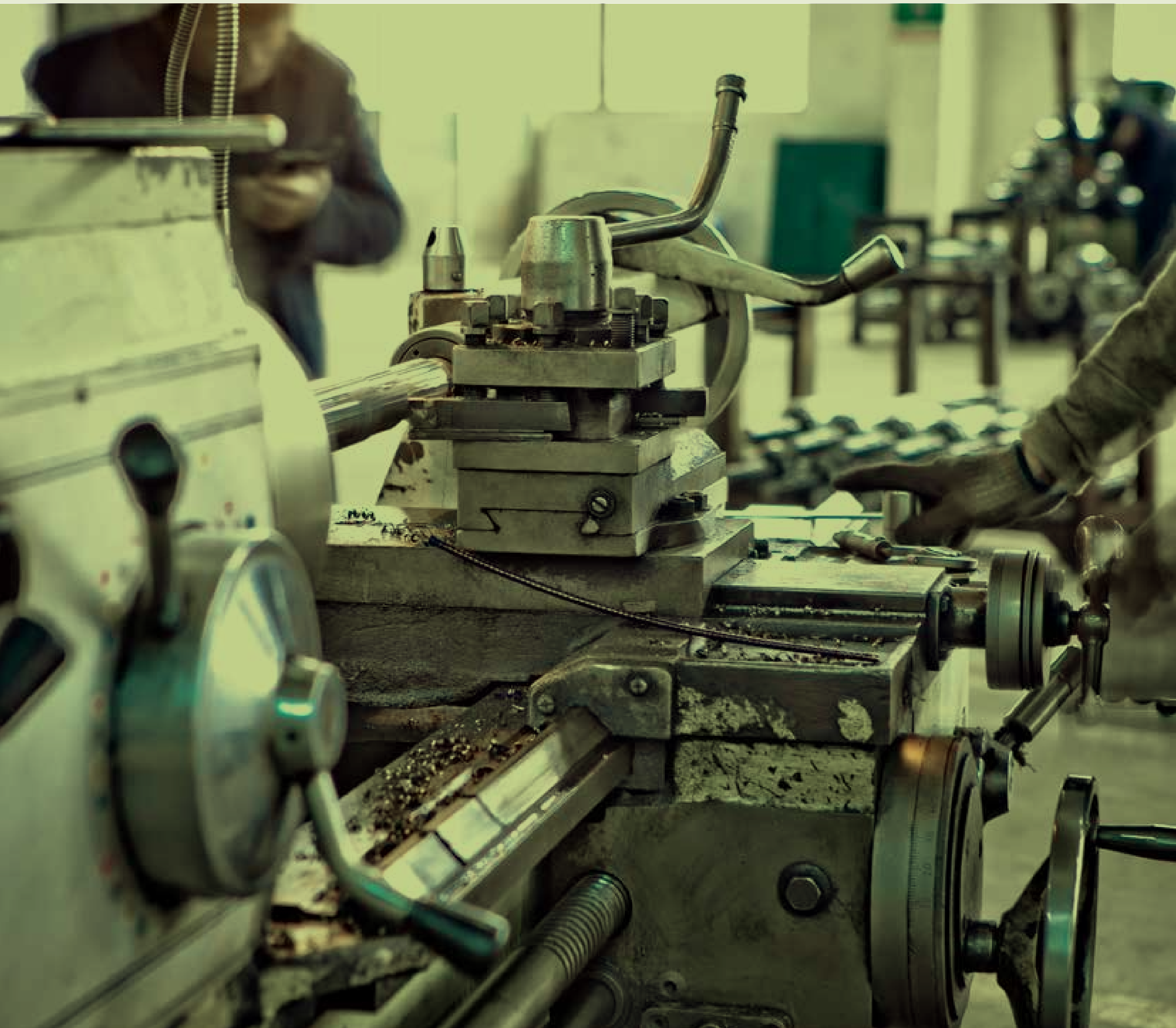
The company approached BPIfrance for a 0% interest rate loan, which a government support scheme makes available to 'Young Innovative Companies'[29], and also used a tax incentive scheme for research (Crédit d'impôt recherche). The loan was used to hire engineers, develop the business model and launch the website.

Today, after several rounds of financing, the company has raised almost €7m in equity from several venture capital firms.

28 Source: BBB website.

29 Status of Young Innovative Company in France, http://www.apce.com/pid918/jeune-entreprise-innovante.html

Appendices



Appendix 1: Useful links for SMEs

PAN-EUROPEAN	
EIB - European Investment Bank	www.eib.org
EIF - European Investment Fund	www.eif.org
EIF financial intermediaries	www.eif.org/what_we_do/where/index.htm
Access to European Commission finance	http://access2eufinance.ec.europa.eu
COSME	http://ec.europa.eu/enterprise/initiatives/cosme/index_en.htm
Guide to EU funding, opportunities for research and innovation	http://ec.europa.eu/research/participants/data/ref/fp7/204008/practical-guide-rev3_en.pdf
Programme for research-performing SMEs	www.eurostars-eureka.eu
EEN - Enterprise Europe Network	http://een.ec.europa.eu
AFME - Association for Financial Markets in Europe	www.afme.eu
ICMA - International Capital Markets Association	www.icmagroup.org
EBF - European Banking Federation	www.ebf-fbe.eu
FESE - Federation of European Securities Exchanges	www.fese.eu
FEE – European Accountancy Association	www.fee.be
EVCA - European Venture Capital Association	www.evca.eu
BAE - Business Angels Europe	www.businessangelseurope.com
European Business Angels Network	www.eban.org
European Crowdfunding Network	www.crowdfundingnetwork.eu
Leaseurope - European Leasing Association	www.leaseurope.org
European Issuers	www.europeanissuers.eu
Online Guide To Going Public Developed by EuropeanIssuers and FESE	www.europeanissuers.eu/_lib/presentation/Online_Guide_To_Going_Public_2015.pdf
Business Europe	www.businesseurope.eu
Eurochambres – Chambers of Commerce	www.eurochambres.eu
UEAPME - European Association of Craft, Small and Medium-sized Enterprises	www.ueapme.com
EFB - European Family Business Association	www.europeanfamilybusinesses.eu
CECIMO - European Association of Machine Tool Industries	www.cecimo.eu
EBC - European Builders Confederation	www.ebc-construction.eu
FRANCE	
Bpifrance	www.bpifrance.fr
APCE - practical aspect of starting a business	www.apce.com
Networks for start-up founders	www.france-initiative.fr www.reseau-entreprendre.org
FBF - Banking Association	www.fbf.fr
IFEC – Accountancy Association	www.ifec.fr
CNCC - Accountancy Association	www.cncc.fr

OEC - Accountancy Association	www.experts-comptables.fr
Business Angels Association	www.franceangels.org
Venture Capital and Private Equity Association	www.afic.asso.fr
Crowdfunding platforms	www.tousnosprojets.fr
Euronext–Enternext – stock exchange	www.enternext.biz
AFEP – Issuers Association	www.afep.com
MEDEF – Business Association	www.medef.com
CCI – Chambers of Commerce	www.cci.fr
GERMANY	
Financial intermediaries	www.foerderdatenbank.de
KfW Bankengruppe	www.kfw.de
BDB – Banking Association	https://bankenverband.de
BVK - Venture Capital Association	www.bvkap.de
IDW - Accountancy Association	www.idw.de
Business Angels Netzwerk Deutschland	www.business-angels.de
German Crowdfunding Association	www.germancrowdfunding.net
Start-ups portal	www.existenzgruender.de
Deutsche Börse - Stock Exchange	www.deutsche-boerse.com
Boerse Stuttgart - Stock Exchange	www.boerse-stuttgart.de
m:access - Stock Exchange	www.maccess.de
Primärmarkt - Stock Exchange	www.primärmarkt.de
DAI – Issuers Association	www.dai.de
BDI – Business Association	www.bdi.eu
BVMW - Federal Association of SMEs	www.bvmw.de
DIHK – Chambers of Commerce	www.dihk.de
ITALY	
Fondo Centrale di Garanzia	www.fondidigaranzia.mcc.it/guida_alle_imprese.html
CDP - Cassa Depositi e Prestiti	www.cdp.it/imprese/piattaforma-imprese.html
Capitale di Rischio	www.incentivi.mcc.it/capitale_di_rischio/capitale_di_rischio.html
Fondo Italiano d'Investimento	www.fondoitaliano.it
ABI - Banking Association	www.abieurope.eu
CNDCEC - Accountancy Association	www.commercialisti.it
AIFI - Venture Capital Association	www.aifi.it
Borsa Italiana - Stock Exchange	www.borsaitaliana.it/azioni/mercati/aim-italia/aim-italia.en.ht
ASSONIME – Issuers Association	www.assonime.it
Confindustria – Business Association	www.confindustria.it

SPAIN	
ENISA	www.enisa.es
Instituto de Crédito Oficial (ICO)	www.ico.es
AEBANCA - Banking Association,	www.aebanca.es
ICJCE - Accountancy Association	www.icjce.es
Crowdfunding Association	www.web.spaincrowdfunding.org/
BME – Stock Exchange	www.bolsasymercados.es/mab/esp/marcos.htm
BME MARF – Stock Exchange	http://www.bmerf.es/esp/aspx/Portadas/HomeMARF.aspx
Emisores Españoles - Issuers Association	www.emisoresespanoles.es
CEOE – Business Association	www.ceoe.es
CEPYME – SME Association	www.cepyme.es
UNITED KINGDOM	
Government support for SMEs	www.gov.uk/business-finance-support-finder
British Business Bank	www.british-business-bank.co.uk
Great Business – Advice for growing businesses	www.greatbusiness.gov.uk/
Enterprise Investment Scheme (EIS and SEIS)	www.hmrc.gov.uk/eis www.hmrc.gov.uk/seedeis/index.htm
Venture Capital Trust	www.hmrc.gov.uk/guidance/vct.htm
Better Business Finance: Find finance in your region	www.betterbusinessfinance.co.uk
British Bankers' Association	www.bba.org.uk
ICAEW – Chartered Accountants Association	www.icaew.com
ICAEW Business Advice Service	www.businessadviceservice.com
ACCA – Certified Chartered Accountants Association	www.accaglobal.com
BVCA - Private Equity & Venture Capital Association	www.bvca.co.uk
Business Angels Association	www.ukbusinessangelsassociation.org.uk
UK Crowd Funding Association	www.ukcfa.org.uk
Peer2Peer Finance Association	www.p2pfinanceassociation.org.uk
BCC - Chambers of Commerce	www.britishchambers.org.uk
London Stock Exchange	www.londonstockexchange.com/companies-and-advisors/aim/aim/aim.htm www.londonstockexchange.com/hgs
School for Start-ups	www.schoolforstartups.co.uk
Quoted Companies Alliance – Association for Quoted SMEs	www.theqca.com
CBI – Confederation of British Industry	www.cbi.org.uk
IoD – Institute of Directors	www.iod.com
EEF – Manufacturers' Association	www.eef.org.uk
FSB - Federation of Small Businesses	www.fsb.org.uk

Appendix 2: Overview of pan-European and national SME assistance programmes

Funding	SME Profile	France	Germany
Loans	**Seed / Start-up**	**Start-up** guarantees Bpifrance (Garantie création): Up to 70% of the loan for SMEs as per the EU definition. Max. €200,000.	**ERP Start-up** Loan StartGeld: For business founders, self-employed professionals and small enterprises which have been active for less than three years and require little start-up capital. Up to €100k loans. **ERP Start-up** Loan Universal: For business founders, self-employed professionals and small and medium-sized enterprises (SMEs) which have been active for less than three years. Up to €10m. **ERP Capital for Start-ups:** (subordinated loans): For business founders, self-employed professionals and small enterprises which have been active in the market for less than three years and do not have enough equity.
	Growth	**Growth loans (prêts de développements bpifrance):** loans from €30,000 to €5m for SMEs with no security or guarantee. Some sectors or purposes benefit from rate discounts, e.g. Prêt Numérique (digital loan), Prêt Robotique (robotics loan). **Guarantees for the development of SMEs (Garantie du développement des PME et TPE Bpifrance):** from 40% to 70% of the loan.	**KfW-**Unternehmerkredit (entrepreneur loan): Help companies that have been in the market for more than three years. Help companies which want to invest outside Germany. Up to €25m.
	Innovation / New project	**Innovation support (Aide à l'innovation Bpifrance):** up to €3m, grants at the innovation feasibility stage and repayable advances at the innovation development stage, for individual or collaborative innovation projects. **Prêt Innovation-**FEI Bpifrance (innovation loan, with EIF): loans of between €50,000 and €3m for SMEs of more than 3 years old launching a new product/ service/ activity. **Seed loans (Prêts d'amorçage Bpifrance):** €50-75,000 for SMEs less than 5 years old involved in innovative activities which are looking to raise equity capital. Up to €0.5m if associated to equity fundraising. **Innovative project guarantees (Garantie des projets innovants Bpifrance):** Up to 60% of the loan, max. €300,000.	**ERP Innovation Programme:** For research and development measures and the introduction of new products, processes or services to the market. Max. €5m and max. €25m for energy related projects,

Italy	Spain	UK	Pan-European
Fondo Centrale di Garanzia: Guarantee of up to 80% of the investment with a max. of €2.5m. **Nuovo Plafond PMI Investimenti:** Italian SMEs financing investments or working capital. **Cassa depositi e prestiti:** uses debt instruments to provide support to SMEs.	**ICO SMEs and Entrepreneurs Facility:** up to €10m ENISA. **Emprendedores:** participative loans of up to €300k to startups.	**Business Finance Partnerships:** BBB developed partnership with private companies such as Funding Circle, Startup Loans, BOOST&Co, Zopa, to provide loans to SMEs. **School for Startups:** give the SME access to a community, a dedicated mentor and a loan up to £25,000 at 6.19%.	**COSME Loan Guarantee Facility:** Fund guarantees for financial intermediaries to help them provide loan and lease finance to SMEs. **Structural Funds:** European Regional Development Fund, European Social Fund, Cohesion Fund, Rural Development Fund, European Fisheries Fund. **Eurostars-Eureka:** Support for SMEs, with a focus on R&D. **European Investment Fund:** EIF indirectly supports SMEs through financial intermediaries. Microfinance: EIF provides bank the capacity to lend up to €25,000. EIF also provides loans, guarantees and equity through financial intermediaries.
	ENISA Mercados Alternativos: participative loan of between €300k and €1.5m to finance projects, growth and geography diversification before seeking funds through a regulated market.	**Investment Programme:** £10-100m loans (with a focus on £30-50m) for companies with turnover up to £100m, with a preference for turnover up to £25m. **Regional Growth Fund:** for SMEs based in England looking to grow and protect/create jobs. **Funding for Lending:** reduced interest rates by 1% for loans from £50k to £500k.	
	ENISA Competitividad: participative loan from €25k to €1.5m to profitable businesses willing to expand their product, service, geography…		

Appendix 2 - continued from page 38 / 39

Funding	SME Profile	France	Germany
Equity	**Seed / startup**	**Capital Innovation Bpifrance:** between €1m to €50m per investment for startups and innovative SMEs in the biotech, technology and environmental sectors.	**ERP Start-up Fund:** Co-investment in innovative and technology-based companies which are not more than ten years old and which meet the SME criteria of the EU Commission. Up to €5m.
	Growth	**France Investment Regions:** For SMEs with turnover larger than €2-3m with 2-3 years of operating history. Investment up to €4m in shares, convertibles and mezzanine capital together with private investment funds. **France Investment Growth:** for profitable SMEs with turnover larger than €5m. **BPIfrance's fund of funds activity:** investment in 250 VC/PE funds.	**Equity capital for growth, innovation and succession:** For small and medium-sized enterprises in Germany who have been active on the market for at least 10 years, usually generate an annual sales revenue of up to €50m, are organized as a corporation and achieve a sustainably balanced operating result.
Tax Incentives		**R&D tax incentives:** Crédit d'impôt recherche (R&D tax credit) Crédit d'impôt Innovation (innovation tax credit). **Equity tax incentives:** Fonds commun de placement dans l'innovation (FCPI), Fonds d'Inverstissement de Proximité (FIP) Fonds Professionnel de Capital Investissement (FPCI), Société de Capital Risque (SCR), PEA-PME, ISF tax reduction for individuals. **Other tax incentives:** CICE (competitiveness tax credit).	**Equity tax incentives:** Investitionszula gengesetz 2010 (Investment Subsidy Law 2010).

Italy	Spain	UK	Pan-European
	FOND-ICOpyme: equity investment and equity loan of between €750k and €1.5m for innovative companies.		**COSME Equity Facility for Growth:** invests in funds that provide venture capital and mezzanine finance to expansion and growth-stage companies. European Investment Fund: EIF indirectly supports SMEs through financial intermediaries.
Capitale Di Rischio: facilitates access to risk capital by providing public advances to banks and financial intermediaries for acquisition. **Fondo Italiano d'Investimento:** programme for financially solid SMEs (no start-up).	**FOND-ICOpyme:** equity investment and equity loan of between €1.5m and €15m for consolidated companies that are willing to expand.	**The BBB committed to funds providing equity/quasi-equity for SMEs:** **AngelCoFund:** co-investment between £100k and £1M investments for SMEs with the EU definition. **Enterprise Capital Funds:** up to £5m equity co-investments to SMEs planning to enter a new product or new geographical area.	
Allowance for Corporate Equity (Aiuto alla Crescita Economica ACE): tax deduction for a notional return on equity injected into companies easing the tax bias toward debt finance to make equity injections more attractive. **Tax incentives for SMEs following the Competitivness decree (August 2014):** 10% cut of energy bills for SMEs. **R&D tax incentives:** reduction of up to 40% of R&D expenses when carried out together with universities or public research organizations. Up to €50m.	**R&D tax incentives, Equity tax incentives:** Fondos de Capital Riesgo.	**Equity tax incentives:** Venture Capital Trust Schemes, Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS).	

Appendix 3: Stock exchange requirements for equities and bonds

The tables below show the requirements during admission and life of a listing for both equities and bonds in the junior markets (i.e. markets directed towards small and mid caps).

a. Equities

	UK		Italy	France	Belgium	Netherlands	Portugal	Germany	Spain
Operator	LSE	LSE	LSE (Borsa Italiana)	Euronext				Deutsche Boerse	BME
Market	High Growth Segment	AIM	AIM Italia-MAC	Alternext				Entry Standard	Mercado Alternativo Bursatil (MAB)
Admission criterea									
Listing advisor	Key Adviser required	Required		Required for Public Offerings Not required for Private Placements				Required	Required
Min. operating history	3 years or such shorter period	n/a		2 years				1 year (exemptions possible)	3 years or such shorter period
Min free-float	10%	-		€2.5M				-	€2M
Financials	20% CAGR in revenues over 3 year historic period	Sufficient of working capital for the next 12 months		The company has to be profitable (except for Biotechs). Declaration in the prospectus of sufficient (or not) working capital for the next 12 months.				At the discretion of the Exchange	-
Min equity capital	£30m	-		-				€250,000	-
Prospectus	Prospectus or information memorandum approved by the exchange								
European directives	Market Abuse Directive applicable Transparency Directive non applicable								
Reporting accounting standard	National GAAP or IAS/IFRS	EU IFRS or other approved GAAPs for non-EEA and Channel Island issuers or national GAAP with reconciliation to one of the approved standards		EEA company: IFRS or national GAAP Non EEA company: IFRS or equivalent GAAP				National GAAP or IAS/IFRS	IFRS, national GAAP or US GAAP
Listing fee	Depends on the initial market cap(1)	Depends on the initial market cap(2)		Depends on the initial market cap(3)				€1,500	€6,000 +0.005% of the market value
Ongoing obligations									
Ongoing publications	Annual financial reports are published within 6 months of the year end and half-year reports within 3 months of the reporting period end. Price sensitive information	Annual financial reports are published within 6 months of the year end and half-year reports within 3 months of the reporting period end Price sensitive information		Financial reporting: Audited annual and unaudited semi-annual financial statements Price sensitive information				Annual financial reports: not later than 6 months after end of reporting period. Half-year reports not later than three months after end of reporting period Price sensitive information	Audited annual and unaudited semi-annual financial statements. Price sensitive information
Annual fee	From £5,000 to £50,000 depending on market capitalisation	£6,050		From €2,800 to €50,000 obtained according to the number of equities securities listed and the market capitalization of the issuer				€5,000	€6,000

(1) LSE High Growth Segment maximum admission fee: for market capitalisation up to £5m: £7,600, from 5 to £50m: £52,600, from 50 to £250m: £127,600, from 250 to £500m: £158,850, above: £440,000.

(2) Effective from April 2014, LSE AIM Maximum admission fee: for market capitalisation up to 5M€: £7,600; from 5 to 10M€: £11,400; from 10 to 50M£: £26,600; from 50 to €250M: £64,600; above: £85,750.

(3) Effective from January 2014, Euronext maximum admission fee: for market capitalization up under 10M€: €10,000; from 10 to 100M€: 0.05%; from 100 to 500M€: 0.04%; from 500M€ to 1B€: 0.03%; from €1B to €2.5B: 0.02%, above €2.5B: 0.01%.

b. Bonds

Market	Germany SME Bonds	France IBO	Italy Extra-MOT PRO	Spain MARF	UK ORB
Investor base	Institutional & Retail	Institutional & Retail	Qualified and professional investors only	Institutional investors only	Institutional & Retail
Prospectus	Prospectus or information memorandum approved by the exchange				
Rating	Issuer ratings are required (except for Hamburg exchange)	A credit rating is mandatory when the market capitalization of a company is below €100m	Disclosure of the rating if one is assigned	A credit score or rating is mandatory	No mandatory credit rating
Financial information	1 year	3 years	2 years	2 years	1 year

Appendix 4: Database: Sizing of SME loan and equity markets

Debt funding through banks and capital markets

The table below shows the historic totals of outstanding bank and capital markets debt to European companies. It highlights that in Europe most debt funding to corporates (large as well as SME) is provided by banks. According to an AFME-BCG 'Building the growth gap' report, approximately €900bn of funding of all types was provided to Europe's SMEs in 2013. (Source: 'Bridging the growth gap', AFME, BCG, 2015)

Figure 9: **The share of bank lending and debt market in Europe**

	Stock of debt funding of EU non-financial corporations (€bn)		Share of capital markets financing
	Bank loans	**Debt securities**	**Share of total (%)**
2011	5,883	1,403	19.3%
2012	5,691	1,606	22.0%
2013	5,448	1,701	23.8%

Source: ECB, BIS. Data provided by New Financial.

Business angels equity

More than 250,000 business angels have invested an estimated €5.5bn in 33,430 deals throughout Europe.[30]

The main sector of investment is technology (32%), followed by biotech & life sciences (10%), mobile communications (10%) and manufacturing (10%). The majority of the targeted companies (87%) are in early stages, notably startup, seed and pre-seed stages. Despite the existence of many international investment networks, cross-border investment remains marginal with 96% of the deals taking place in the investor's home nation.[31]

P2P and crowdfunding loans and equity

In 2014, the European online alternative finance market funded almost €3bn (up 144% from €1.2bn in 2013). The UK is the biggest market with a size of €2.3bn followed by France (€154m) and Germany (€140m).

Equity crowdfunding investments are still marginal with almost €83m in 2014 (€47m in 2013), but are expected to grow considerably in the coming years.[32]

VC/PE

In 2013, venture capital funds invested €3.41bn in more than 3,000 companies. Growth private equity funds invested €3.6bn in more than 1,100 companies.[33] The life sciences, computer & consumer electronics, communications and energy & environment sectors accounted for over 70% of venture capital investments. SMEs of less than 250 employees are funded by both venture capital funds (99% of VC portfolio companies are SMEs) and growth private equity funds (84% of growth PE portfolio companies are SMEs).[34]

30 Source: European Business Angel Networks, as end of 2013. It includes the reported transactions (€554m) and the estimated 'non-visible' market (€5bn).

31 Source: European Business Angels Network (EBAN), 2013.

32 Source: Moving Mainstream: The European Alternative Finance Benchmarking Report, 2015.

33 Source: EVCA 2013 European Private Equity Activity report – Market statistics.

34 Source: EVCA, 2013.

Listings of SMEs through Initial Public Offerings (IPOs) and private placements

SMEs looking for an IPO or private placement of equity usually go through the junior exchanges, which have lighter listing requirements. The biggest market for SMEs remains the London Stock Exchange AIM, which raised almost €3.4bn in 2014 through 75 IPOs or private placements.[35] Other junior exchanges have raised more than €1.6bn in 2014 through 30 transactions.

SMEs usually raise between £3.4m and £11m on European junior exchanges,[36] even though companies may raise much more or less depending on their needs, the current state of the market and appetite of investors.

Figure 10: **Capital raised on junior exchanges, 2007 – February 2015**

Country	France	Germany	Italy	Spain	UK
Exchange	Euronext Alternext	Deutsche Börse Entry Market	AIM Italia	BME MAB	AIM
Number of IPOs	62	45	39	21	492
Total (£m)	447	1,615	301	71	13,582
Median (£m)	5.8	4.7	4.2	3.4	11
Minimum (£m)	2	0.4	0.68	1.6	0.07
Maximum (£m)	29	1,090	39	9.3	297

Source: Dealogic, IPOs on Alternext, AIM Italia, BME MAB and AIM London

Bonds

France: Since 2012 and as of March 2014, the Initial Bond Offering (IBO) market has hosted four issues, with volumes between €7.3m and €15m.[37]

Germany: Since 2010 and as of September 2014, there have been 148 bond issues, with an overall market value of €5.9bn. There were 8 new bond issues in H1-2014, raising €385m (compared to €1,078m in H1-2013).[38]

Italy: Since inception in March 2013, there have been 82 bond issues, raising more than €4bn.[39]

Spain: Since 2013 and as of June 2014, there have been four issues on the MARF.

UK: Since February 2010, companies, including two that were unlisted, have raised £4bn on the LSE ORB market.

35 Source: Dealogic, as of February 2015.

36 Source: Dealogic, as of February 2015.

37 Source: Paris Europlace, as of March 2014.

38 'Institutional non-bank lending and the role of debt funds', n.25 of EIF's Working Paper Series.

39 See footnote 38.

Notes

Notes

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/ About AFME

The Association for Financial Markets in Europe (AFME) is the voice of Europe's wholesale financial markets.

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