A Critical Assessment of the Capital Solutions available to SMEs

A report prepared by the Fairness Project team based on a survey held in the 6 partners' jurisdiction.

Partners:

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Contents

1. INTRODUCTION

The Fairness project seeks to respond to the market demands of the micro, small and medium sized companies in respect of the challenges faced to access capital with a view to enabling their potential for growth through investment and good cash flow management. The project will give small business owners and managers the opportunity to understand the various options for finance available to them and will provide support in managing the challenges to access and facilitate the processing of their application to the capital providers.

This report covers the activities carried out by the project partners in respect of the second work package and includes a study and review of the financial and capital solutions that are available in the 5 jurisdictions represented by the project partners, namely, **Malta Stock Exchange Institute** (Malta), **Exeo Lab Srl** (Italy), **Vernian RTI** (Cyprus), **South-west University Neofit Rilski** and **European Projects and Training** (Bulgaria) and **Meta4 Innovations e.U.** (Austria).

The project team also carried out a survey amongst 57 stakeholders from across the 5 jurisdictions in order to understand how useful, accessible and complex these financial products are, and the skills, knowledge and competences required by SME owners and managers in order to access the 8 different sources or types of financing options that the project team feel are most relevant to the needs of SMEs.

The respondents to the survey are practitioners representing various sectors within the financial services community, and we believe that they are perfectly positioned to give their views on the financial products assessed, and that their views are broadly representative of the financial services sector community.

The survey results will be used by the project team to understand the issues faced by SMEs when seeking to access sources of capital, and to design and create online training modules that will include a self-assessment process using a specialised e-learning platform in order to facilitate managers and owners of SMEs to gain skills, knowledge and competences in this critical area of SME capital finance sourcing.

This work package will therefore result in an overview of the financial products available, research into the various financial products' utility to the SME, and the training needs that may be identified as being required by the SME to access any of the various financial options assessed. This is a critical and integral part of the whole project and adds significant value to the project's ability to identify the needs and challenges of SMEs when seeking to address their capital requirements, whilst differentiating between simple, more complex and the most complex type of capital funding instruments.

1. METHODOLOGY

The process methodology used to analyse the data acquired and then to elaborate the report was based on a comparative analysis of the data extracted by the questionnaires submitted and received by the target groups identified and who participated in the survey. The data was collected through questionnaires completed by respondents of the survey. This data provided comprehensive information gathered from the target audience which was subsequently analysed in some depth.

The purpose of desk research was to gain a broader perspective on the issue under study, as well as to supplement and confirm understanding and knowledge on the topic by the identified target groups.

During the implementation of the survey, there was significant consultation with the financial experts involved in the project team in order to acquire their opinions regarding the level of accessibility in their countries of the available financial tools previously identified, and the process to access these products.

The process followed was structured as a logical and transparent approach and provide the follow steps:

- Collection of the questionnaires from at least 10 respondents in each partner country;
- The first step when analysing survey data was to turn individualized responses into aggregated numbers. Cross-tabulating data were used to draw insights from survey results, instead of just statistics. It helped to add context to numbers and to really interrogate how different factors might affect a single outcome.
- As second step, using this approach, a comparative analysis was carried out and it enabled data collection and cross-project data analysis to identify the common denominators and common hurdles, in order then to define which are the needed skills and competences regarding the financial tools that the target groups should acquire.

The comparative analysis provided a tailored approach aimed to compare the data acquired using a same scale, in order then to homogenize and standardize the analysis results and to have a common vision for all the partner countries, considering the potential limitations or specific characteristics expressed by each country. The methodology applied and used during the comparative analysis implementation took into consideration that each country has a different entrepreneurial system and background and the target groups involved could have a completely different need towards a specific financial tool examined.

The methodology framework provided an analysis of the results gained by the questionnaires and the identification of which financial products SMEs consider more appropriate, complex, useful and accessible, using a scale of Top 3 & Lower 3. The analysis was implemented by sector and by country, giving a specific and clear overview for which kind and type of financial product the

SMEs expressed a higher interest and need. The methodology drove the project partners to analyse the data collected and to extract, in coherence with the WP’s final objective, which are the main and common lacks and needs expressed by the SMEs when accessing to specific different type of financial tools, in order to have a clear and tailored picture of which kin of knowledge, skills and competences they need to acquire or to improve.

2. DESK RESEARCH

The present Desk research was aimed at revealing the existing EU documents, regulatory framework that may guide and direct the educational engineering process of collection initial information for the training and qualification needs for the use of the financial products by the SMEs. Thus, based on the literature and regulatory framework review the present Desk research has been worked out and developed in line with the following EU documents and policies: (i) European Qualification Framework (https://europa.eu/europass/en/european-qualifications-framework-eqf); (ii) the National Qualification frameworks of the EU member countries (https://europa.eu/europass/en/europass-tools/european-qualifications-framework/national-qualifications-frameworks), (iii) DigComp 2.2: The Digital Competence Framework for Citizens - With new examples of knowledge, skills and attitudes (https://publications.jrc.ec.europa.eu/repository/handle/JRC128415); (iv) EntreComp: The European Entrepreneurship Competence Framework (https://ec.europa.eu/social/main.jsp?catId=1317&langId=en); (iv) LifeComp: The European Framework for Personal, Social and Learning to Learn Key Competence (https://publications.jrc.ec.europa.eu/repository/handle/JRC120911); (vi) GreenComp: the European sustainability competence framework (https://joint-research-centre.ec.europa.eu/greencomp-european-sustainability-competence-framework_en); (vii) the Digital Competence Framework for the European Schools (Ref.: 2020-09-D-51-en-2, Orig.: EN) (https://eulearningpath.com/learning-path-project/digcompedu-the-european-framework-for-the-digital-competence-of-educators/); (viii) Council Resolution on a strategic framework for European cooperation in education and training towards the European Education Area and beyond (2021-2030) (2021/C 66/01) (https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32021G0226%2801%29); (ix) Council recommendation on individual learning accounts to boost training of working-age adults (https://www.consilium.europa.eu/en/press/press-releases/2022/06/16/council-recommendation-on-individual-learning-accounts-to-boost-training-of-working-age-adults/); (x) the National Qualification Frameworks (NQFs) of the EU Member states (https://europa.eu/europass/en/national-qualifications-frameworks-nqfs); (ix) the European Skills Agenda (https://ec.europa.eu/social/main.jsp?catId=1223); (xi) Digital Education Action Plan (https://education.ec.europa.eu/focus-topics/digital-education/action-plan); (xii) The Digital Europe Programme (https://digital-strategy.ec.europa.eu/en/activities/digital-programme); (xiii) Proposal for Proposal for a DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing the 2030 Policy Programme "Path to the Digital Decade"; (xiv) Communication from the Commission of the European Union to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Digital Education Action Plan.

Chart 1. The Four EU Competence Frameworks in line with European Qualification Framework (EQF)

Source: The Policy Recommendation Document (Study). E-Quality Project (2022), EU External Actions Programme, p.7 (https://equality.inaqa.com/en/)

Further to these documents, a major guiding document used was the CEDEFOP Publication "**Defining, writing and applying learning outcomes – A European handbook**"[1] (June, 2022).

[1] CEDEFOP (2022), Defining, writing and applying learning outcomes – A European handbook, last retrieved on June 08, 2023 at https://www.cedefop.europa.eu/en/publications/4156#group-downloads

3. Guidelines

As stated previously in Point 3, Desk Research, the present Report takes into account the European **Qualification Framework (EQF)** (https://europa.eu/europass/en/european-qualifications-framework-eqf) and National Qualification Frameworks of the EU member countries (https://europa.eu/europass/en/europass-tools/european-qualifications-framework/national-qualifications-frameworks) and the inherent in them understanding of how to define and write down learning outcomes at the different levels of qualifications. Another major document taken into account was the already mention CEDEFOP Publication "Defining, writing and applying learning outcomes – A European handbook".

As per the EQF initial version of 2008, the descriptors indicating the learning outcomes were set to be **knowledge**, **skills** and **competences**. The evolution and feedbacks in usage of the EQF and its implementation through the National Qualification Frameworks led to the acceptance by the Council of the European Union of a Recommendation for a revised version of the **EQF of 22 May 2017** (https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32017H0615(01)&from=EN). The EQF revised version of 2018 recommended a modified version of the descriptors indicating the learning outcomes such of **knowledge**, **skills** and **responsibilities and autonomies**. This modification was based on the initial understanding that: (i) knowledge can be regarded as manifestation and ability to interpret information; (ii) skills can be regarded as the ability to apply and use knowledge, technologies and certain tools and instrument to perform concrete task and assignments; and (iii) competences involves the process of elaborating and taking decisions and/or making choices with a certain degree of autonomy and responsibility depending on the complexity of work and corresponding to it level of qualification.

The EQF 2018 version in its ANNEX I literary involves the following definitions of what are the learning outcomes, knowledge, skills, responsibility and autonomy and competence, as follows:
"…
(e) 'learning outcomes' means statements regarding what a learner knows, understands and is able to do on completion of a learning process, which are defined in terms of knowledge, skills and responsibility and autonomy;

(f) 'knowledge' means the outcome of the assimilation of information through learning. Knowledge is the body of facts, principles, theories and practices that is related to a field of work or study. In the context of the EQF, knowledge is described as theoretical and/or factual;

(g) 'skills' means the ability to apply knowledge and use know-how to complete tasks and solve problems. In the context of the EQF, skills are described as cognitive (involving the use of logical, intuitive and creative thinking) or practical (involving manual dexterity and the use of methods, materials, tools and instruments);

(h) ‘responsibility and autonomy’ mean the ability of the learner to apply knowledge and skills autonomously and with responsibility;

(i) competence’ means the proven ability to use knowledge, skills and personal, social and/or methodological abilities, in work or study situations and in professional and personal development;
…”

The practical application of defining and writing down of knowledge, skills, competences (responsibilities and autonomies”) can be achieved through two methodological approaches:

(i) **The skills/competence based approach**; and
(ii) **The Bloom’s taxonomy**.

The skills/competence based approach relies on the study of operations performed by certain individuals and thus on extracting the specific activities and tasks. Having once defined the specific activities and tasks, for each activity and the tasks involved in them there can be defined the needed skills, competences, and then necessary knowledge areas.

The Bloom’s taxonomy approach is a much more simplified and easy to use. It is promoted and recommended in detail and presented with lots of practical examples in the CEDEFOP Publication “Defining, writing and applying learning outcomes – A European handbook”. The essence of the Bloom’s taxonomy approach is the use of a specific set of words and phrases to describe knowledge, skills, competences (responsibilities and autonomies”) as per the EQF definitions and understanding. Thus, a specific set of words and phrases is used and is to be applied for knowledge, a second one for skills, and a third one for the competencies, i.e. for the responsibilities and autonomies:

An example of verbs and phrases for describing knowledge, skills, competences (responsibilities and autonomies”) may include:

For describing “Knowledge”:
to present; to describe; to list; to interpret, to recall and etc.

For describing “Skills”:
To be able to; to perform, to use, to make, to perform, to apply, to implement, to use [something: intrument/knowledge/technology”] for achieving / performing a certain task and etc.

For describing Competences:
To have the capacity to; to choose; to select; to make/take/elaborate a decision; to consider and properly apply/implement and etc.

In regards to the goals and aim of the FAIRNESS Project, the present report has chosen to apply the more simplified and more easy to understand Blooms taxonomy approach, which has been used for defining the needed knowledge, skills and competences for each of the regarded financial products.

The project team, guided by team participants who had significant expertise in the financial sector, created a list of products that facilitated access to capital. Each of these are broadly described in this section, with their key advantages and disadvantages, as well as indicators of the broad requirements in order to access these instruments. The team then created an online questionnaire which was designed to ask practitioners and other interested persons their opinion in respect of the products':

(1) The sector of the respondent
(2) Appropriateness to the needs of SMEs
(3) Accessible to SMEs
(4) The complexity of usage by SMEs
(5) Short, medium and long term usage by SMEs
(6) The need for financial advice in order to access these products
(7) The main challenges faced by SMEs in order to access sources of capital
(8) The skills required to access the products identified

This questionnaire was sent out to at least 10 respondents in the 5 jurisdictions covered by the project team, and 57 responses were received.

The responses were assessed by country and sector of the respondent, and in general, gave the project team a very good overview of how market practitioners perceive the products and their accessibility/appropriateness to SMEs. The assessment will also, crucially, be used to enable the project team to understand and prioritise the type of training that SMEs are most likely to require for each of the product under review.

The list of products are outlined below:

Bank overdraft

Traditional bank overdraft facilities are very common, allowing organisations to overdraw their current accounts subject to terms and conditions and pre-agreed limits. Businesses find this facility very useful to manage their working capital requirements, enabling them to manage their cashflows in a flexible manner.

Overdrafts will be allowed by banks subject to maximum credit limits (ie the maximum amount that their account may be in debit) and interest is charged at the bank's commercial interest rate on the daily debit balance. Interest is usually quoted as a margin over base rate (eg 3% over base rate, which is currently 2.5%, with the effective rate being

5.5%), and therefore the effective cost of the overdraft will usually increase (or decrease) in line with market interest base rates.

These facilities will be granted based on the business turnover, cash flow cycle, expected debtor, creditor and stock levels, and the collateral required by the bank as security against the debt. Banks will require all turnover to be channeled through this account, and this account should operate by fluctuating from being in credit to debit according to the business' trade cycle.

This access to liquidity could result in organisations having access to discounts / better payment terms with suppliers / creditors. However, bank overdraft facilities require tangible assets as security as well as other security (e.g., insurances), and the bank will often monitor the use of the overdraft account, as well as requiring regular updates on the business / account performance since businesses are often tempted to overtrade or use overdraft to finance capital requirements.

Knowledge	Skills	Competencies
1. To understand of business cash flow; 2. To understand how to calculate working capital; 3. To list, explain and recognize the differences between operational requirements and capital investments	1. To be able to predict cash flow positions; 2. To be able to assess the different working capital assets and liabilities, and their sources of finance; 3. To be able evaluate and/or calculate and the investment / return of different types of assets	1. To have the capacity to calculate cash shortfall the various components of these assets/liabilities 2. To have the capacity to distinguish between the different sources of capital 3. To have the capacity evaluate and select short-term assets to be invested in, and financing thereof

<u>Bank loan</u>

Investment in fixed assets could be financed by banks through the provision of medium to long-term loans. The term and other conditions (eg interest rate, repayment, term, security) of the loan would reflect the nature and expected life of the asset and the overall business performance.

Bank lending usually comes against a relatively small contribution (between 10% and 20% of the asset value) from the business' own funds and the loan term duration and structure of repayment terms can be negotiated to some extent. However, since the effective bank

lending rate is a function of the bank interest base rate, increases in the base rate could affect repayment obligations. The term of a bank loan is usually capped at 8 years (subject to jurisdiction) and the loan repayments required are usually regular monthly payments that include both capital and interest accrued. In this regard, the business future cashflows need to be regular in order to avoid default.
Payments / drawdowns of the loanable funds are usually paid directly to the supplier of the asset that is being purchased, against presentation of the invoice.

The gearing and overall indebtedness of the business, its turnover, cashflows, profitability and security available, as well as the sector in which the business operates and the integrity of the business managers / owners will all be factors taken into consideration when assessing applications for loans.

Knowledge	Skills	Competencies
1. To understand and explain the long-term business requirements; 2. To understand and explain in details the calculation of loan repayment obligations; 3. To understand, list and explain in details the different capital investment options	1. To be able to predict investment opportunities; 2. To make assessment of different capital assets; 3. To be able evaluate and/or calculate the investment/return of different types of capital assets	1. To be able to calculate the return/cash required in respect of capital assets; 2. To have the capacity to choose between different capital investment opportunities 3. To have the capacity evaluate and select the appropriate investment and repayment structures to finance the investment;

Public Grant

Grants are usually government funds that are made available to businesses in order to encourage investment, employment and economic growth which would otherwise not occur. Grants are usually not subject to payment, but recoverable grants exist that are loans that must be paid back only if project reaches certain milestones. If the pre-determined milestones are not achieved, the recoverable grant is converted into a grant and is not subject to repayment.

In cases where there is a particular social or economic benefit to the country, grants take the form of a forgivable loan which is converted into a grant in the case of project success, and if the venture reaches the goals agreed to beforehand, the loan does not have to be repaid.

The application process for grants can be daunting, very bureaucratic and time-consuming, since in effect, it is public money being channeled to industries in order to achieve certain definable goals. These will usually be subject to capping (ie maximum grant amounts), available to specific sectors or objectives (eg pharmaceutical sectors, investment in technology, research and innovation), and the application process will require that the applicant is fully compliant with industry and government requirements (eg waste management, governance, tax and vat obligations, health and safety regulations, etc.).

In line with the above, some jurisdictions offer 'aid to industry' grants to encourage foreign direct investment as well as investment in SMEs and family-run businesses.

Knowledge	Skills	Competencies
1. To be acquainted with the different grants available; 2. To list the different sources of grant finance opportunities 3. To understand the requirements and the conditions and obligations for accessing the different types and grants;	1. To be able to apply for the desired grant funding 2. To be able to access and evaluate the consequences of the grant conditions 3. To be able evaluate and/or calculate the investment / return of different types of capital assets to be financed by the grant	1. To be able to calculate the return / cash required in respect of capital assets to be purchased through the grant 2. To have the capacity to create the right level of application / documentation required by the grantor 3. To have the capacity evaluate and select the appropriate grant mechanism that provides best long term value

<u>Capital market – equity</u>

Businesses, specifically companies having a distinct legal identity, require capital in order to finance investment. This 'equity' also acts as a source of capital to cater for advert market conditions, and takes the form of the original capital investment made by shareholders and retained earnings.

The level of capital in the business may be increased through the issue of new equity that would be offered to new investors as a result of a rigorous regulatory process, culminating in the publication of a prospectus which is designed to give prospective investors enough information in order to take an informed decision on whether to invest. The regulator of the respective capital market would need to approve the prospectus before the equity can be offered to the market.

This is a long and often costly (in terms of funds, resources, and time) process that requires a sponsor / stockbroker / advisor who would handhold the applicant in the creation of the prospectus. The prospectus will usually contain standard information such as the nature of the business and the various risks it faces, historical and forward-looking financial reports, the objectives and planned expenses of the business, the major shareholders and who the board of directors / key executives are. It will also show the amount of equity being issued/ offered to the public, and the terms and conditions for the issue to be deemed successful (eg minimum subscription value).

The issue of new equity through the capital market results in a long-term engagement by new investors and equity could be traded once listed, which could result in significant branding and credit rating benefits. The issue of equity requires no cashflow obligations except for the possible payment of dividends and being a listed organisation brings corporate governance benefits and higher efficiency levels due to more intense market scrutiny and transparency. The listing obligations often require the appointment of an external director, which usually contributes know-how and expertise at board level.

The access to the capital markets comes at a relatively high cost through marketing, the creation of the prospectus, advisors, restructuring, as well as the potential risk of not being fully subscribed. There is also the risk of negative market pressure on equity values. There are also ‘external’ shareholder issues such as the dilution of ownership with new shareholders seeking dividend return not long-term growth. Compliance obligations and costs should not be underestimated, though it could be argued that these should be applied anyway.

One can access the lower-level capital market structures (e.g., Aim in London, Prospects MTF in Malta) that are aimed at smaller businesses, with a target capital to be raised as little as €5 million or even less. This relatively low-cost process still requires a business plan and a licensed intermediary in order to seek approval from the regulator to proceed to offer the equity to the market.

Knowledge	Skills	Competencies
1. To understand and explain the company capital structure and	1. To be able to calculate the required level of capital funding	1. To have the capacity choose and manage the optimal level of equity funding and

capital adequacy issues 2. To list of the different sources of equity capital - internal and external 3. To understand, list and explain in details of the equity shareholders' rights and obligations	2. To access and evaluate the consequences of being a listed entity and issuing new capital 3. To be able to comply with the governance and other capital market regulations and obligations of being a listed entity	managing minority shareholder issues 2. To have capacity to promote and issue new equity and manage governance issues 3. The capacity to choose and select the appropriate listing structure, sponsor, and advisors to facilitate the issue of new capital

<u>Capital market – bond</u>

The process to offer a corporate bond to investors through the capital market is similar to that for equity. It requires a sponsor, a prospectus and approval from the regulator before the issue can be offered to the market.

The key advantage of a corporate bond is that it results in a lump sum receipt of funds, and if issued in a low interest rate environment, guarantees a low coupon for the life of bond. The obligations of the issuer remain similar to the offering of new equity conditions, such as financial reporting and transparency, compliance and governance, etc. The organisation will be required to pay interest when due, and to repay the capital upon maturity of the bond.

Successful access to the market through the issue of a bond could result in easier future access as well as the possibility to roll over the corporate debt upon maturity.

Interest paid by the organisation on the bond is tax deductible, and there is no dilution of equity ownership. Furthermore, investors tend to prefer bonds as an investment vehicle – these could come in various forms and structured bond conditions (e.g., vanilla, duration, callable). A corporate bond will usually require a strong cash flow especially as the bond maturity approaches in order to finance its repayment, and changes (increase) in the prevailing market interest rates could affect refinancing / rollover options since changes in market rates will have the opposite effect on the market price of fixed interest rate bonds.

Knowledge	Skills	Competencies
1. To understand and explain the company capital structure and capital adequacy issues; 2. To understand and explain the tax consequences and benefits of different sources of capital; 3. To be acquainted with the bondholders' rights and obligations;	1. To be able to calculate the desired / appropriate level of debt capital funding and gearing; 2. To be able to assess and evaluate the consequences of issuing debt on the market; 3. To be able to comply with the governance and other capital market obligations of being a listed entity;	1. To have the capacity to choose and manage the optimal level of debt funding and managing gearing issues 2. The capacity to promote and issue new debt instruments and manage related governance issues 3. The capacity to choose and select the appropriate listing structure, sponsor, and advisors to facilitate the issue of new debt capital

Venture capital

Third party (new) investors may be enticed to invest in the business, against the sale of current or new equity, and such 'bullet' investment of equity capital would be useful since it does not have interest obligations and does not constitute debt. Depending on the jurisdiction, there are venture capitalists (personal or institutional) who specialise in the support of social enterprises and who have specific funds available to do so, and these venture capitalists / angel investors could insist on a controlling interest in the business.

A venture capitalist may source its capital from grants or institutional sources in order to invest in and encourage specific business industries, sectoral growth, research or capital projects. However, whist venture capital is a usually long term and mutually beneficial source of investment, venture capitalists may not be loyal in the long term and may withdraw / dispose of the investment through liquidation of their equity in the medium term depending on the market conditions. The role of the venture capitalist varies in different jurisdictions so care must be taken when seeking to attract such investment, even when the focus of the fund is supposed to be 'impact'.

Knowledge	Skills	Competencies
1. To understand and explain the company capital structure and capital adequacy issues; 2. To understand and explain consequences and benefits of attracting angel investors 3. To be acquainted with equity holders' rights and obligations	1. To be able to distinguish between the different options of seeking angel investors; 2. To be able to assess and evaluate the consequences of issuing equity to angel investors; 3. To be able to comply with the governance and other market obligations and risks of attracting venture capitalists;	1. To have the capacity to choose and manage the optimal level and price of equity funding from venture capitalists; 2. To have capacity to present, negotiate and convince the issue of new or existing equity to venture capitalists; 3. To have the capacity to select and choose the appropriate venture capitalists and assessment of the key strengths achieved through this new relationship.

Guarantee scheme

Businesses that are unable to provide security as collateral for bank finance may apply to specialised entities, such as development banks, to receive guarantees that would be used to support their applications for credit. These guarantee schemes provide security to support applications for bank finance in specific sectors, or to support SMEs who often have inadequate security available to secure traditional sources of capital financing.

Aids to industry options differ from country to country and the application process can be daunting and time-consuming. Tax compliance is often a condition to apply and other terms and conditions could apply, such as the use of funds, personal guarantee from owners, and compliance.

Knowledge	Skills	Competencies
1. To understand and explain the borrowing requirements and other issues; 2. To understand and explain in details the consequences and	1. To be able to distinguish between the different security requirements to obtain finance; 2. To be able to assess and evaluate the	1. To have the capacity to manage the application process to apply for participation in a guarantee scheme; 2. To have the capacity to manage the

benefits of participating in a guarantee scheme attracting angel investors; 3. To be acquainted with the guarantor rights and obligations;	consequences of participating in a guarantee scheme; 3. To be able to comply with the governance and other ongoing obligations and risks of participating in a guarantee scheme;	obligations and responsibilities of participation in a guarantee scheme; 3. To have the capacity to select and choose the appropriate loan financing options and assessment of the key strengths achieved through this new funding relationship.

Crowdfunding

There are two types of crowdfunding available – these could be investment or donation based. Essentially, crowdfunding relies on many small-value investments made by many individuals and depending on the jurisdiction, the incentive to invest could be emotional (e.g. donation) or have a financial (e.g., purchase of equity) motive. As would be expected, the applicant would need to submit a business plan in order to justify their application for funding.

This is often a fairly low-cost process that has vastly differing chances of success. It is used for relatively small value capital requirements, and most (up to 75%) of crowdfunding campaigns do not reach their target. Crowdfunding tends to attract projects that are social, cultural, personal, and community-oriented in nature, but it is a relatively unregulated market and caution is advised. Crowdfunding is often used as a market test to assess the level of support that could be achieved in respect of relatively small funding requirements.

Knowledge	Skills	Competencies
1. To understand and explain the company capital structure and capital adequacy issues; 2. To understand and explain the methodology and cost / benefits of attracting	1. To be able to distinguish between the different options of seeking new sources of funds; 2. To be able to assess and evaluate the consequences of issuing equity or other	1. To have the capacity to choose and manage the optimal level and price of equity / other funding from crowdfunding platforms 2. To have capacity to present, negotiate and convince the issue of

crowdfunding investors 3. be acquainted with equity holder or creditor rights and obligations	types of instruments to small investors 3. To be able to comply with the governance and other market obligations and risks of attracting small capitalists	new or existing equity/ other instruments to new small investors 3. To have the capacity to select and choose of an appropriate crowdfunding structure and assessment of the key strengths achieved through this new relationship.

5. Analysis of results

Section 1:

On a scale from 1 to 10 (with 10 being the most appropriate), which of the following products would you consider more appropriate for SMEs?

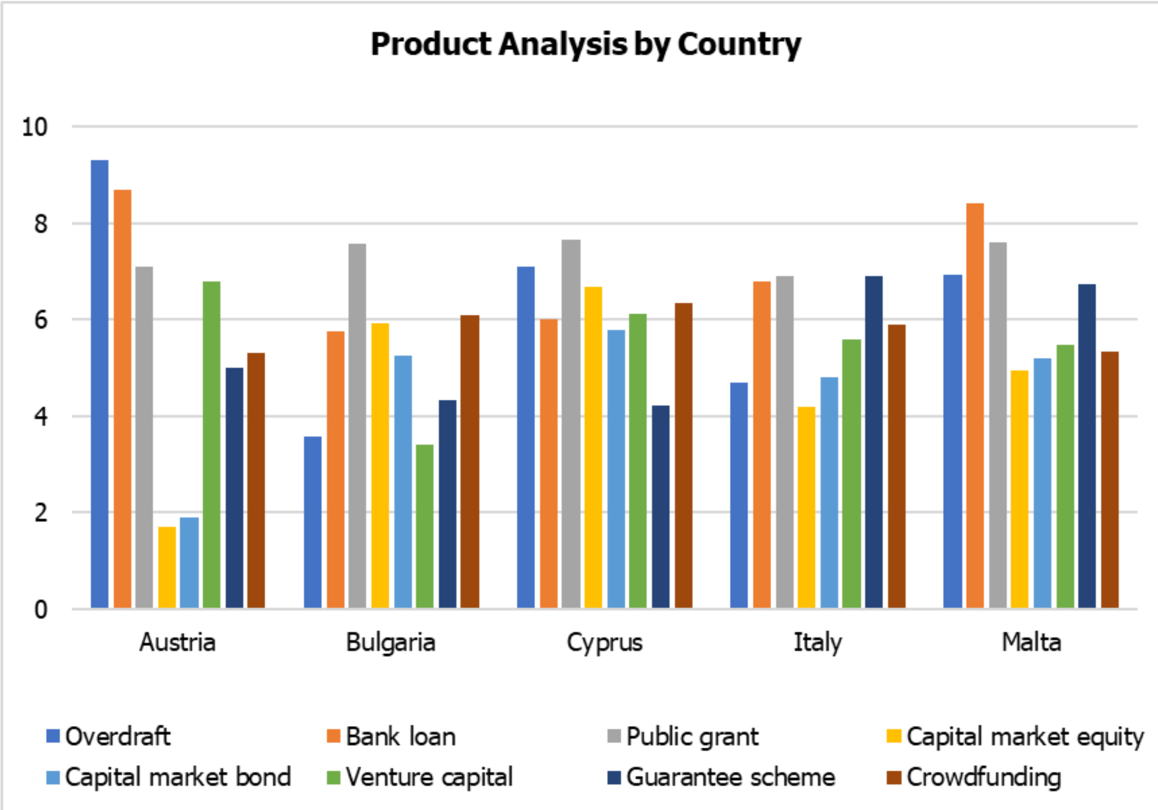
Learning objectives:

To support learners in:

a) Understanding their financial needs and challenges faced focusing on developing an in-depth understanding of the unique financial requirements and constraints they may encounter.
b) Gaining knowledge of the different sources of finance available for SMEs and microenterprises and familiarizing themselves with various sources of finance, such as bank loans, crowdfunding, venture capital, government grants, and trade credit.
c) Evaluating the suitability of the different financial products for SMEs and enterprises focusing on developing the ability to assess and compare different financial products in terms of their appropriateness.
d) Understanding the risks and benefits associated with the different financing products and options available.
e) Developing the skills that will allow SMEs and microenterprises to analyze and make informed decisions regarding financing their activities.

1.1. Product Analysis by Country

The participants of the questionnaire were asked to evaluate which of the following products they consider more appropriate for SMEs. The products included in the questionnaire are bank overdraft, bank loan, public grant, capital market equity, capital market bond, venture capital, guarantee scheme and crowdfunding. The countries participating in the questionnaire were Austria, Bulgaria, Cyprus, Italy, and Malta. The results presented in the graphs are the average score of each answer.



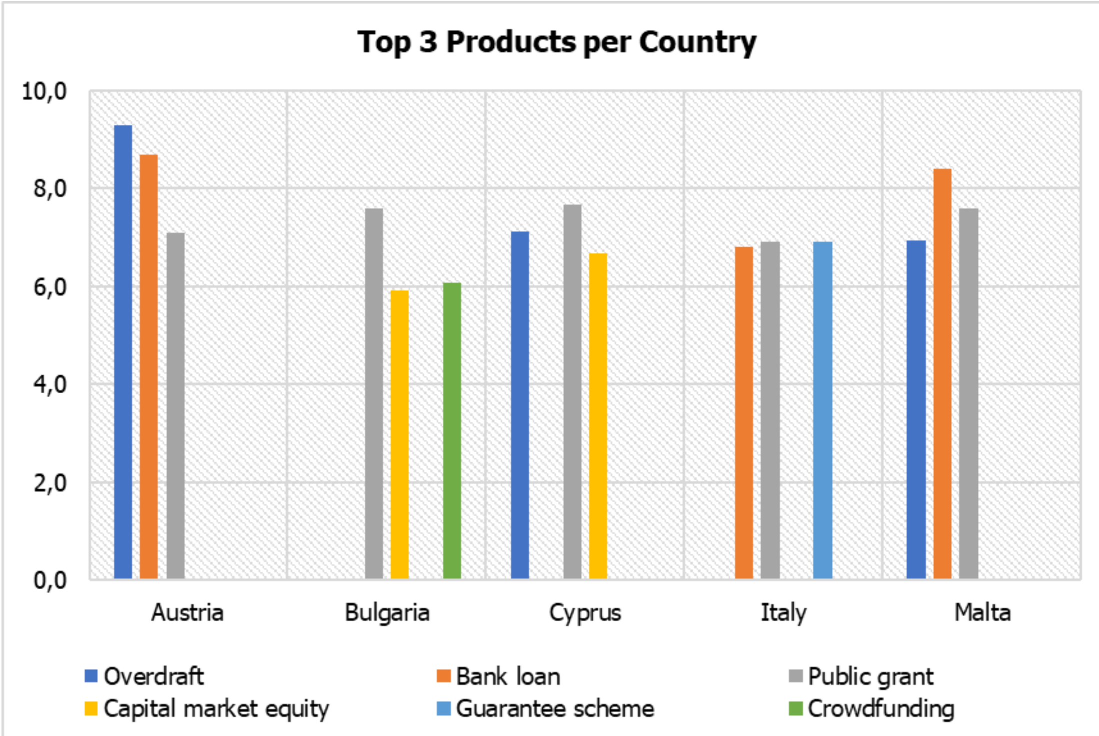
As shown above, the funding preferences per country differ. In Austria, bank overdrafts are considered the most preferred way to access capital whilst in Bulgaria and Italy it's no so preferable. Bank loans are considered more appropriate for SMEs in most of the countries, except Cyprus where bank loans are scored relatively low. This could a result of the different constrains, regulations and rates that apply across countries.

Even though bank overdrafts are considered as an indirect form of loan, there are differences between overdrafts and loans. In overdrafts, the bank allows customers to "borrow" money through their account by taking out more money than are available in the account. A loan is borrowing a fixed amount over a set term with regular repayments and different interest rates.

Overdrafts are considered the ideal solution for short-term solutions and ad-hoc expenses. If an SME, regardless of the sector that it operates in, is interested in long-term funding and high value investments and purchases, loans are the better solution.

1.2. Top 3 Products per Country

As shown in the graph below, public grant is deemed as the best way for an SME to access capital funds for Bulgaria, Cyprus, and Italy. It is also high ranked for Austria and Malta.



Grants are usually government funds that are made available to businesses to encourage investment, employment and economic growth which would otherwise not occur. Basically, public grants are free money which does need repayment, and this is their main difference with bank loans. Public grants are best suitable for those that want to start a new SME or expand their business.

Receiving a grant can help an SME to work towards addressing a local or national issue, perform academic research or provide new services. Public grants are best suited for SMEs in the service sector because usually they support innovation research, environmental programs, health services, human resources programs and educational research, tourism services and more. At times, public grants may also apply to construction works for business for example as thermal insulation or building renovations according to energy efficiency criteria. In this case, any SME can apply for public grants.

What is noticeable in the above graph is that only in Bulgaria, crowdfunding is considered as one of the most appropriate ways of accessing capital for an SME. Crowdfunding relies on many small value investments made by many individuals and depending on the jurisdiction, the incentive to invest could be emotional (e.g. donation) or have a financial (e.g., purchase of equity) motive. This method of raising money is considered comparatively low-risk for an SME and unlike bank loans an SME isn't required to put any collateral at the business. In addition, crowdfunding maintains control in the hands of the business owners allowing them to make their own financial decisions, in contrast to capital market – equity which involves issuing investors ownership in a company in exchange for capital.

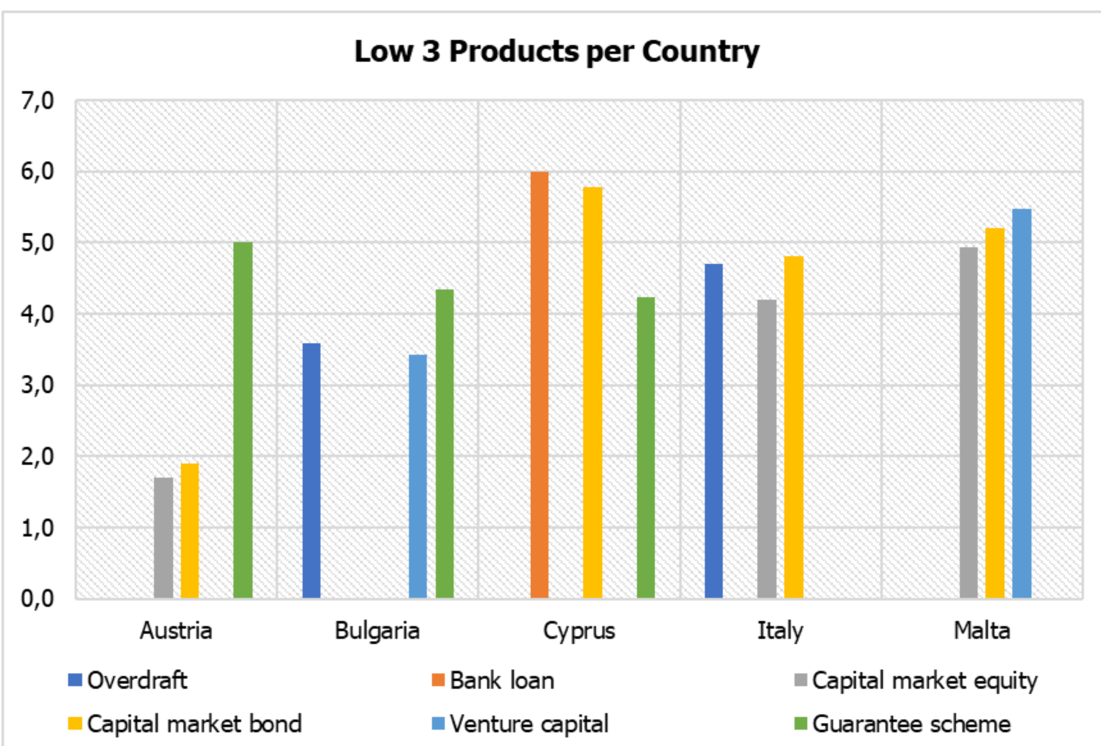
Crowdfunding can be used to test a product or a service to the people that are interested in investing in a business, generating this way publicity for the product/ service. This makes this method, best suited for SMEs that are in the production sector and their operations involve new product development and also for customer – facing SMEs.

The graph also shows that only in Italy, the guarantee scheme is considered as one of the most appropriate financial ways for an SME. SMEs are particularly vulnerable to economic climate changes and many times access to bank loans is difficult. Guarantee schemes are suitable for businesses that are unable to provide security as collateral for bank loans and may apply to specialised entities, such as development banks, to receive guarantees that would be used to support their applications for credit.

Guarantee schemes are suitable for SMEs operating in the industrial sector, the craft industry, trade, services and tourism. However, guarantee support can also be gain by any SME that has limited financial support or is having difficulty in obtaining a bank loan such as start-ups or SMEs starting major developments such as technological investments.

1.3. Lowest 3 Products per Country

The following graph shows the 3 products that have scored the lowest and are considered as most inappropriate for an SME.



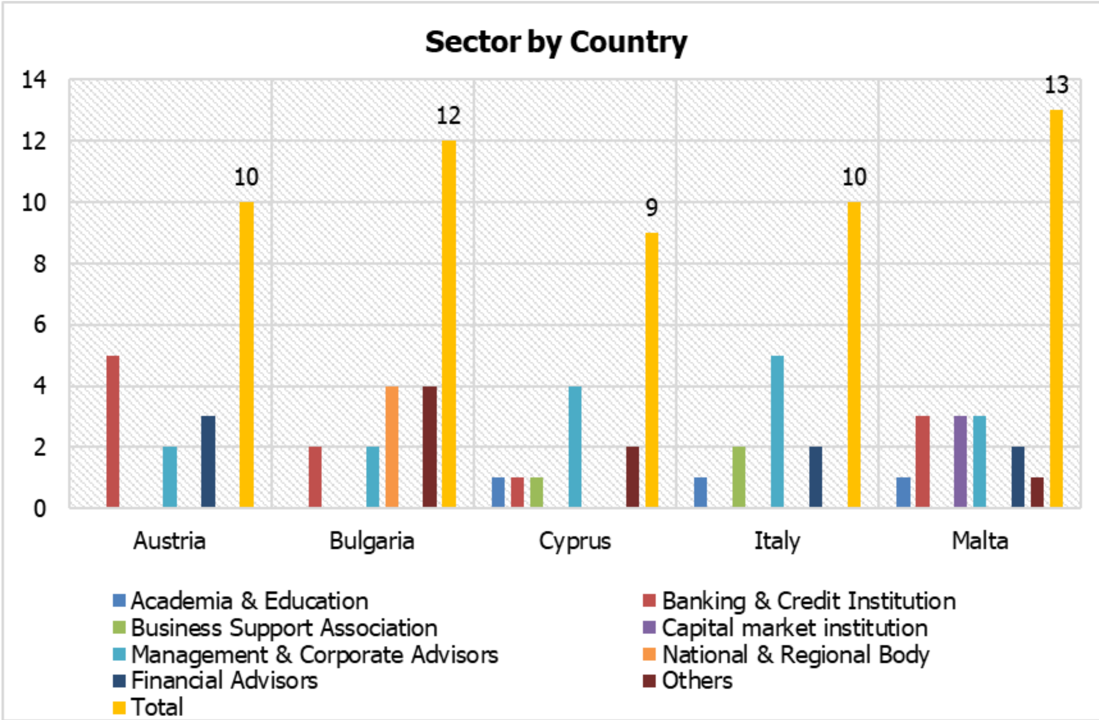
As mentioned above, only in Cyprus bank loans are considered as an inappropriate product for an SME. All countries, except Bulgaria, also considered bonds as not a suitable product for an SME to access capital whilst equities are also considered the same in most of the countries.

A company may issue bonds or equities to raise the capital that needs to expand and maintain their operations and grow their product line. The process of offering corporate bonds or equities to investors is similar. It requires a sponsor, a prospectus and approval from the regulator before the issue can be offered to the market.

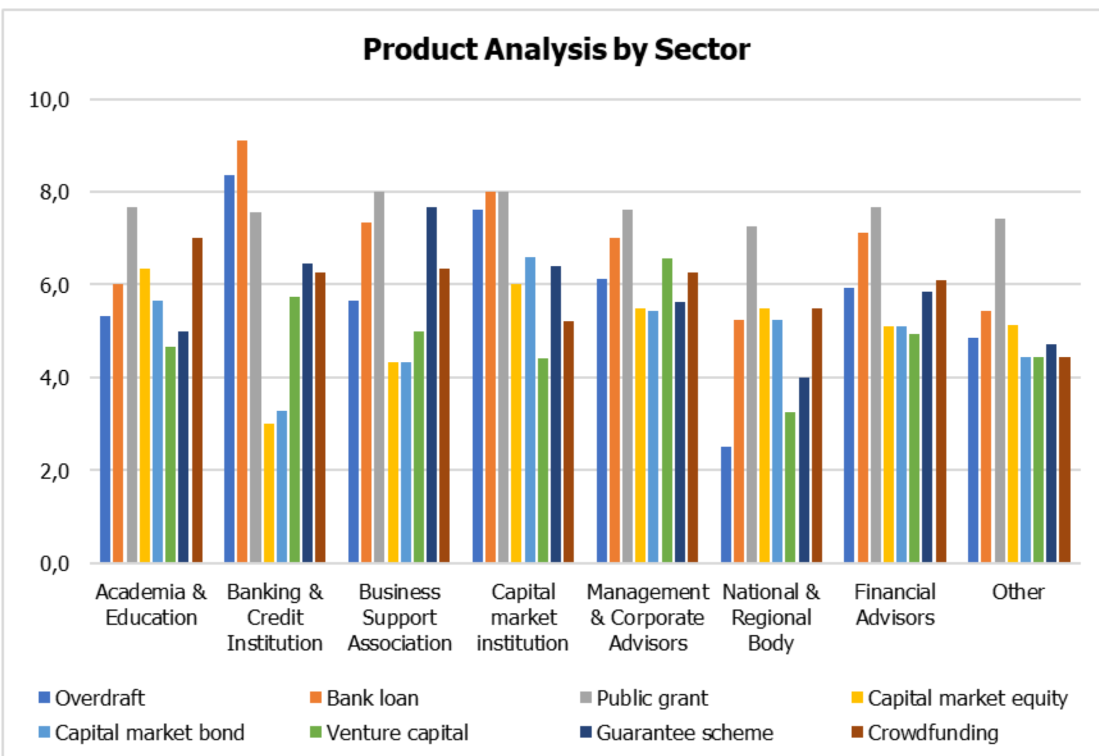
Even though bonds and equities are two of the most traded assets, they have a significant difference. When someone invests in equity in a company, the investor becomes a shareholder and can participate in the distribution of profits. On the other hand, when someone buys a bond of a company, the buyer becomes a creditor of the company and is entitled to a fixed interest along with the final repayment of the principal. Another difference is that equities are shares issued by companies and trade on an exchange whilst bonds could be issued by companies and could be traded either publicly or privately.

2. Product Analysis by Sector

The responders of the questionnaire come from the academia and education sector, banking and credit Institutions, business support associations, capital marker institutions, management and corporate advisors, national and regional bodies and other sectors. Other sectors include tourism and travel companies, medical and social institution without the right of accommodation, a private company, a petroleum company, a retail company, and a freelancer. The sector participation per country is shown in the below graph.

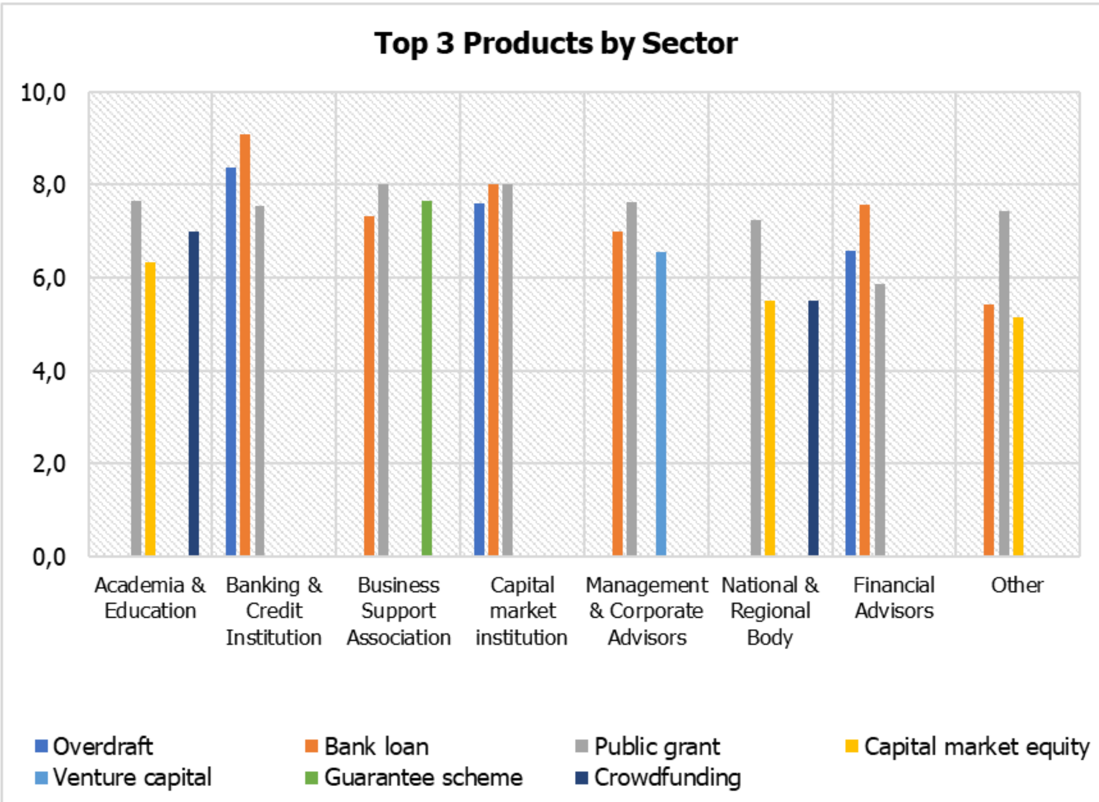


Thirteen participants come from Malta which is the highest participation rate, twelve come from Bulgaria, ten participants are from Austria and Italy and nine participants are from Cyprus. The highest rate of participation appears in the management and corporate advisors group with a total of sixteen participants in a total of 54.



As shown above, acquiring a public grant is regarded as the most appropriate product for money increase for an SME by most of the sectors that have participated in the questionnaire. Banking and credit institutions, capital market institutions and financial advisors consider bank loans are a suitable product to be used by SMEs.

2.1. Top 3 Products by Sector

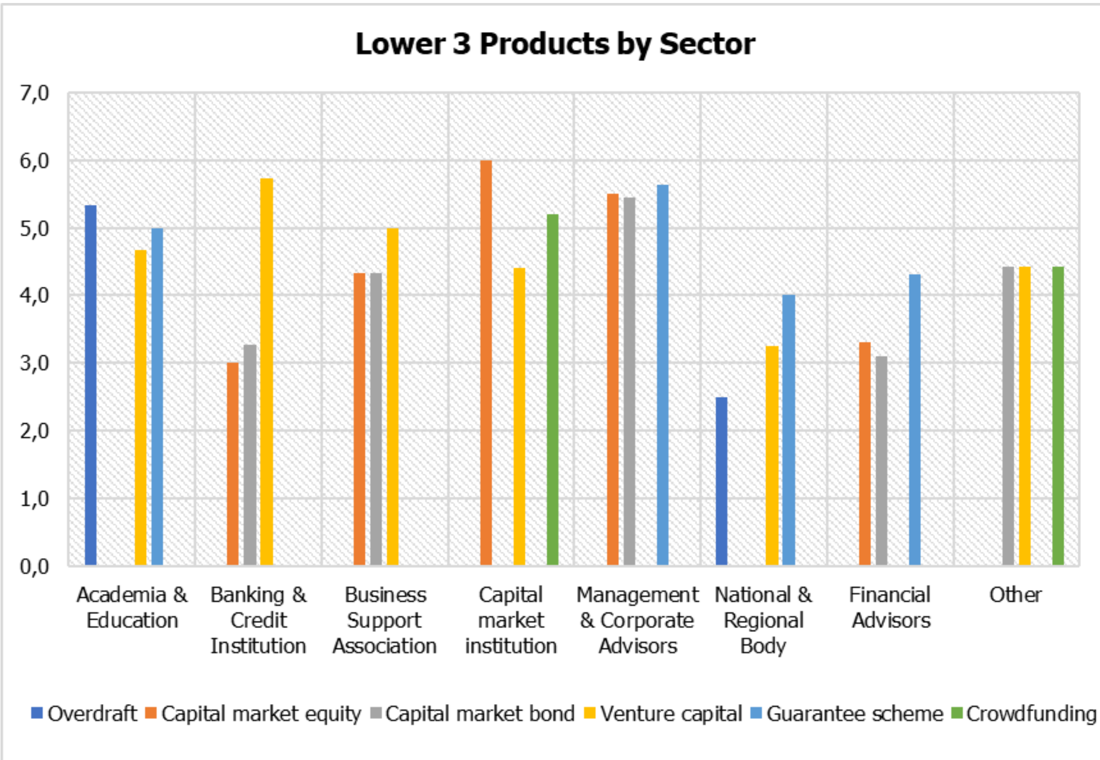


The above graph only confirms the above statement that most sectors favour public grants. The guarantee scheme is selected only by the business support association group whilst bank loans are chosen by almost all sectors. What is also noted in the graph is that only the management and corporate advisors sector include venture capital in the top three most appropriate products.

In its simplest definition, venture capital is money invested in a business, usually a start-up, that investors see it as having strong growth potential. Third party investors may be enticed to invest in the business, against the sale of current or new equity, and such 'bullet' investment of equity capital would be useful since it does not have interest obligations and does not constitute debt.

2.2. Lower 3 Products by Sector

On the other hand, and as its shown in the following graph, venture capital is ranked as one of lowest of appropriate funding ways by most of the other sectors. Capital marker equities and capital market bonds is also scored as inappropriate products for SMEs.



3. Conclusion

Budgeting and saving are considered the fundamentals of each financial decision one makes whether is an SME, an entrepreneur or an individual. Everyone needs to use financial products at some point to reach their financial goals, to invest, to save or spend money or simply to manage their budget.

There are various financial products available that can provide an SME the needed capital to start or continue its operations. The important thing is to understand and gain knowledge regarding the available products so that the most suitable are selected.

Becoming financially literate means that a person is able to make solid financial decisions. According to Investopedia "financial literacy is the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing." Improving these skills and understanding the difference between the various financial products SMEs will be able to make more effective and efficient budget decisions thus maintaining the viability of the company and improving its financial capability.

SECTION 2:

1. On a scale from 1 to 10 (<u>with 1 being the easiest to access</u>), which of the following products would you consider more accessible by SMEs?

Below is the data analysis of section 2 of the FAIRNESS questionnaire.

Please note an important piece of information when reading the material produced. At the creation stage of the questionnaire a writing typo was (most probably) made which led to the rating from 1 to 10 of the value of the answers, where 1 represents the highest rating in terms of financial product **MOST ACCESSIBLE** (although it should have been 10). It follows that the values in this section will be reversed from those in the other sections. For ease of resolution and truthfulness, the researcher will analyse the data not by changing or overturning them, but rather it is made clear that the point of view of the analysis will be on which of the following products is **LESS ACCESSIBLE** for SMEs. In this way, a reading system is offered that can compensate for the misleading questionnaire.

The questionnaire gathered 56 responses from 5 countries (Austria, Bulgaria, Cyprus, Italy, Malta) and respondents from 8 different fields of work.

Respondents are asked to rate on a scale of 1 to 10 which is the most affordable financial product for an SME where **1 stand for the most accessible** and **10 for the least accessible.**

Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	Crowdfunding
4,51	5,41	5,93	6,34	5,95	5,92	5,51	4,86

Here is the overall result of the preliminary analysis phase in which we can highlight the 3 most accessible financial products: 1. Overdraft; 2. Crowdfunding; 3. Bank loan; and the 3 financial products considered less accessible; 1. Capital Market equity; 2. Capital Market Bond; Venture Capital

This leads us more generally to believe that Capital Market Equity is the financial product considered the least accessible by respondents, as opposed to Overdraft which is considered the most accessible.

Below is an analysis of the answers split by *country* and *sector*.

1.1. Product Analysis by Country

In this section, the financial products for each participating country will be analysed referring to the product considered LESS ACCESSIBLE by respondents.

MALTA

Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	Crowdfunding
5,36	5,42	5,92	7,03	6,14	6,49	5,23	3,29

Maltese respondents seem to find less accessible financial products such as: *capital market equity, capital market bond and venture capital*; on the other hand, they seem to prefer *crowdfunding, guarantee scheme and overdraft*.

In general, therefore, the answers are in line with the overall average of the answers received.

ITALY

Italian respondents seem to find less accessible financial products such as: *capital market equity, crowdfunding and bank loan;* on the other hand, they seem to prefer, *guarantee scheme, overdraft and venture capital.*

Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	Crowdfunding
5,20	5,80	5,40	6,00	5,50	5,30	5,00	6,00

It is important to note that these figures are slightly out of line with those of Malta and more generally with the answers of all respondents, although the average points between some of the financial products differ slightly.

CYPRUS

Cypriot respondents seem to find less accessible financial products such as*: capital market equity, capital market bond and guarantee scheme*; on the other hand, they seem to prefer, *overdraft, Public / EU / National grant, bank loan and crowdfunding.*

Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	Crowdfunding
3,78	6,00	5,78	7,22	7,22	6,33	6,67	6,00

In this case, there seem to be more points of contact with the Maltese and overall results, although a new financial product, so far not found to be one of the most accessible, does come to the surface: *Public / EU / National grant*

BULGARIA

Bulgarian respondents seem to find less accessible financial products such as*: Public / EU / National grant, capital market equity, capital market bond* on the other hand, they seem to prefer *overdraft, bank loan, venture capital and guarantee scheme.*

Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	Crowdfunding
3,42	4,83	6,17	5,83	5,50	5,08	5,08	5,17

In contrast to the answers in Cyprus, a completely different value is observed on the accessibility of Public / EU / National grant.

AUSTRIA

Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	Crowdfunding
1,1	2,8	4,5	8,5	8,3	5,3	5,9	4,9

Austrian respondents seem to find less accessible financial products such as*: capital market equity, capital market bond and guarantee scheme* on the other hand, they seem to prefer *overdraft, bank loan Public / EU / National grant.*

Another comparison to Bulgaria in this case is made with respect to the accessibility of the *Public / EU / National grant.*

KEY POINTS:

As it goes without saying, each jurisdiction and all the terms and conditions applied in each jurisdiction result in differences in the responses on whether or not financial products are accessible to SMEs in each country.

However, some factors seem to be common to all:

- In general, *capital market equity* and *capital market bonds* are the financial products considered least accessible by all respondents in all countries;

- Although to different degrees, *overdrafts* and *bank loans* are rightfully among the financial products considered most accessible by all respondents in every country;

- Cyprus and Malta seem to share the same opinion on the greater accessibility of *crowdfunding* unlike all other respondents;

- Cyprus and Austria seem to be the only countries that consider *EU/Public/National funds* to be more accessible although it is noticeable that Italy and Malta also tend to have a favourable average opinion on their accessibility;

- Malta, Italy and Bulgaria show favourable accessibility scores with respect to the *guarantee scheme* in contrast to Bulgaria and Austria.

2.2 Product Analysis by sector

In this section, data will be analysed with respect to the respondents' sector in which they operate, focusing on the financial products considered LESS ACCESSIBLE by respondents. The analysis includes the identification of the 3 LEAST ACCESSIBLE financial products and consequently the 3 MOST ACCESSIBLE financial products for SMEs according to respondents.

BANKING & CREDIT INSTITUTIONS

4,04	5,05	5,68	6,89	6,50	5,86	5,57	4,91
Overdraft	**Bank loan**	**/ EU / National grant**	**Capital Market Equity**	**Capital market bond**	**Venture capital**	**Guarantee scheme**	**Crowdfunding**

According to respondents in the banking and credit institution sector, the three least accessible products for SMEs are: *Capital market equity, Capital market bond and Venture Capital.*

According to respondents in the banking and credit institution sector, the three most accessible products for SMEs are: *Overdraft, Crowdfunding and Bank loan.*

ACADEMIA & EDUCATION

4,04	5,95	5,8	6,65	6,45	5,9	5,9	6,05
Overdraft	**Bank loan**	**Public / EU / National grant**	**Capital market equity**	**Capital market bond**	**Venture capital**	**Guarantee scheme**	**Crowdfunding**

According to respondents in the Academia and Education sector, the three least accessible products for SMEs are: *Capital market equity, Capital market bond and Crowdfunding.*

According to respondents in the Academia and Education sector, the three most accessible products for SMEs are: *Overdraft, Public / EU / National grant, Venture Capital and Guarantee Scheme.*

BUSINESS SUPPORT ASSOCIATION

Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	Crowdfunding
4,54	5,54	5,54	6,54	6,46	5,92	5,77	6,54

According to respondents in the Business Support Association sector, the three least accessible products for SMEs are: *Capital market equity, Capital market bond and Crowdfunding.*

According to respondents in Business Support Association sector, the three most accessible products for SMEs are: *Overdraft, Bank Loan and Public / EU / National grant.*

CAPITAL MARKET INSTITUTIONS

Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	Crowdfunding
5,73	6,18	6,09	6,64	5,91	6,55	5,09	2,73

According to respondents in the Capital Market Institution sector, the three least accessible products for SMEs are: *Capital market equity, Bank Loan and Venture Capital.*

According to respondents in Capital Market Institution sector, the three most accessible products for SMEs are: *Crowdfunding, Overdraft and Guarantee Scheme.*

FINANCIAL ADVISORS

4,04	5,34	5,77	6,60	6,23	5,79	5,60	5,15

Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	Crowdfunding

According to respondents in the Financial advisory sector, the three least accessible products for SMEs are: *Capital market equity, Capital market bond and Venture Capital.*

According to respondents in the Financial advisory sector, the three most accessible products for SMEs are: *Overdraft, Crowdfunding and Bank Loan.*

MANAGEMENT & CORPORATE ADVISORS

4,04	5,05	5,68	6,89	6,50	5,86	5,57	4,91
Overdraft	**Bank loan**	**Public / EU / National grant**	**Capital market equity**	**Capital market bond**	**Venture capital**	**Guarantee scheme**	**Crowdfunding**

According to respondents in the management & corporate advisory sector, the three least accessible products for SMEs are: *Capital market equity, Capital market bond and Venture Capital.*

According to respondents in the management & corporate advisory sector, the three most accessible products for SMEs are: *Overdraft, Crowdfunding and Bank Loan.*

NATIONAL & REGIONAL BODY

2,67	4,44	5,56	6,00	6,11	5,44	5,44	5,11
Overdraft	**Bank loan**	**Public / EU / National grant**	**Capital market equity**	**Capital market bond**	**Venture capital**	**Guarantee scheme**	**Crowdfunding**

According to respondents in the National and Regional body sector, the three least accessible products for SMEs are: *Public / EU / National grant, Capital market equity and Capital market bond.*

According to respondents in the National and Regional body sector, the three most accessible products for SMEs are: *Overdraft, Bank Loan and Crowdfunding.*

OTHER

4,04	5,05	5,68	6,89	6,50	5,86	5,57	4,91
Overdraft	**Bank loan**	**Public / EU / National grant**	**Capital market equity**	**Capital market bond**	**Venture capital**	**Guarantee scheme**	**Crowdfunding**

Finally, according to respondents from other non-specified sectors the three least accessible products for SMEs are: *Capital market equity, Capital market bond and Venture Capital.*

According to respondents from other non-specified sectors, the three most accessible products for SMEs are: *Overdraft, Crowdfunding and Bank Loan.*

KEY POINTS:

Again, based on the sector in which the respondents operate, the responses were slightly different from case to case, although a picture not far from the overall responses and responses by country emerges. Some of the common points:

- In any sector, *overdraft* is considered as one of the most accessible financial products;
- In any sector, *Capital market Equity* is considered as one of the least accessible financial products;
- Only in the sector of academia & education and of Business Support Association *crowdfunding* is it considered one of the least accessible financial products in contrast to all other sectors
- *Public / EU / National grant* is considered to be an easily accessible financial product for academia and education and business support association contrary (peculiarly) to the respondents from the National and regional body sector.
- The *guarantee scheme* is considered an accessible financial product by SMEs only in the capital market institutions and Academia & Education sector.

SECTION 3:

On a scale from 1 to 10 (with 10 being the more complex), which of the following products would you consider more complex to be used by SMEs?

1. Analyse the results and identify which financial products SMEs consider more complex (Top 3 & Lower 3).
2. Analysis by sector and by country.

Objective:

Analyse the requirements of each product (i.e. paperwork/documentation) in order to justify and help SMEs understand which product is really complex or simply difficult and a matter of perception.

MODES OF FINANCING AND THEIR LEVEL OF COMPLEXITY

Overdraft	Bank loan	Guarantee scheme	Public / EU / National grant	Venture capital	Capital market equity	Capital market bond
2,84	3,86	5,90	5,98	6,39	7,45	7,61

OVERDRAFT

The FAIRNESS survey indicates that with an average score of 2,84 on the Complexity Scale, where 1 = least complex and 10 = most complex, Overdraft is perceived by the 56 respondents as the least complex form of financing for SMEs in Europe.

BANK LOAN

Bank Loan with an average score of 3,86 on the Complexity Scale, where 1 = least complex and 10 = most complex, is perceived as the second least complex form of financing.

GUARANTEE SCHEME

Guarantee Scheme with an average score of 5,90 * on the Complexity Scale, where 1 = least complex and 10 = most complex, is perceived as a complex form of financing.

** Only 41 out of 56 respondents indicated their preference, 15 respondents did not vote.*

PUBLIC / EU / NATIONAL GRANT

Public / EU / National Grant with an average score of 5,98 on the Complexity Scale, where 1 = least complex and 10 = most complex, is perceived as a complex form of financing.

VENTURE CAPITAL

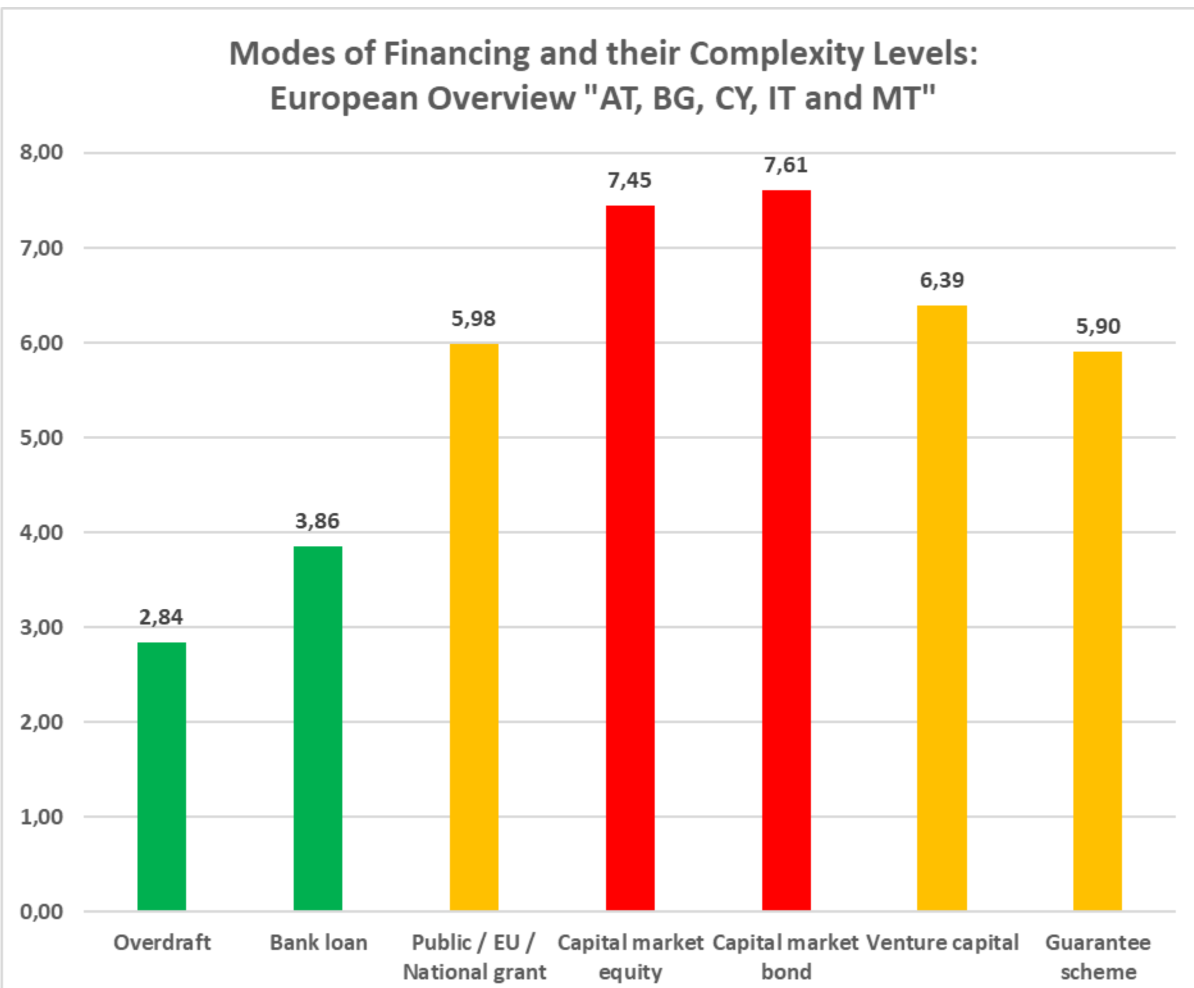
Venture Capital with an average score of 6,39 on the Complexity Scale, where 1 = least complex and 10 = most complex, is perceived as a complex form of financing.

CAPITAL MARKET EQUITY

Capital Market Equity with an average score of 7,45 on the Complexity Scale, where 1 = least complex and 10 = most complex, is perceived as the second most complex form of financing.

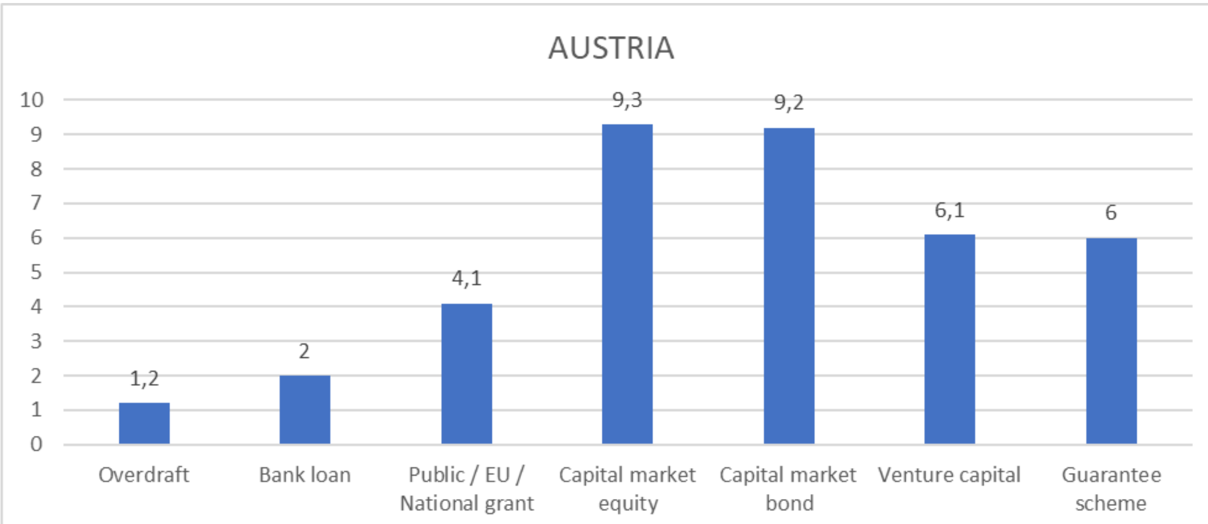
CAPITAL MARKET BOND

Capital Market Bond with an average score of 7,61 on the Complexity Scale, where 1 = least complex and 10 = most complex, is perceived as the most complex form of financing.



COUNTRY PERCEPTION – AUSTRIA

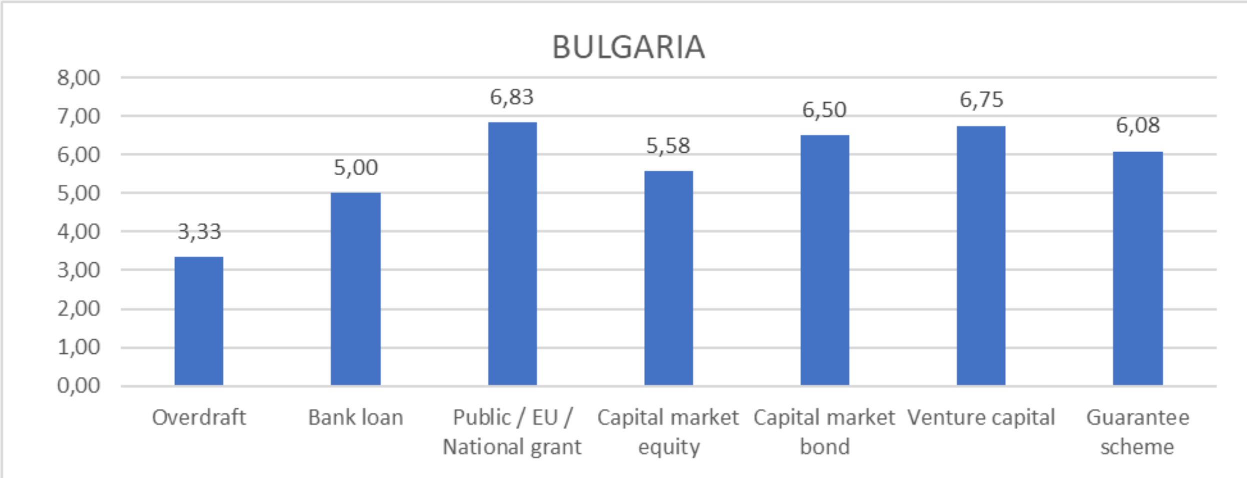
Overdraft	Bank loan	Public / EU / National grant	Guarantee scheme	Venture capital	Capital market equity	Capital market bond
1,2	**2**	**4,1**	**6**	**6,1**	**9,3**	**9,2**



In Austria, Overdraft and Bank Loan – with a respective average scores of 1,2 and 2,0 - are considered to be the least complex mode of financing. Whereas, Capital Market Bond and Capital Market Equity – with a respective average scores of 9,2 and 9,3 - are considered to be the most complex mode of financing.

COUNTRY PERCEPTION – BULGARIA

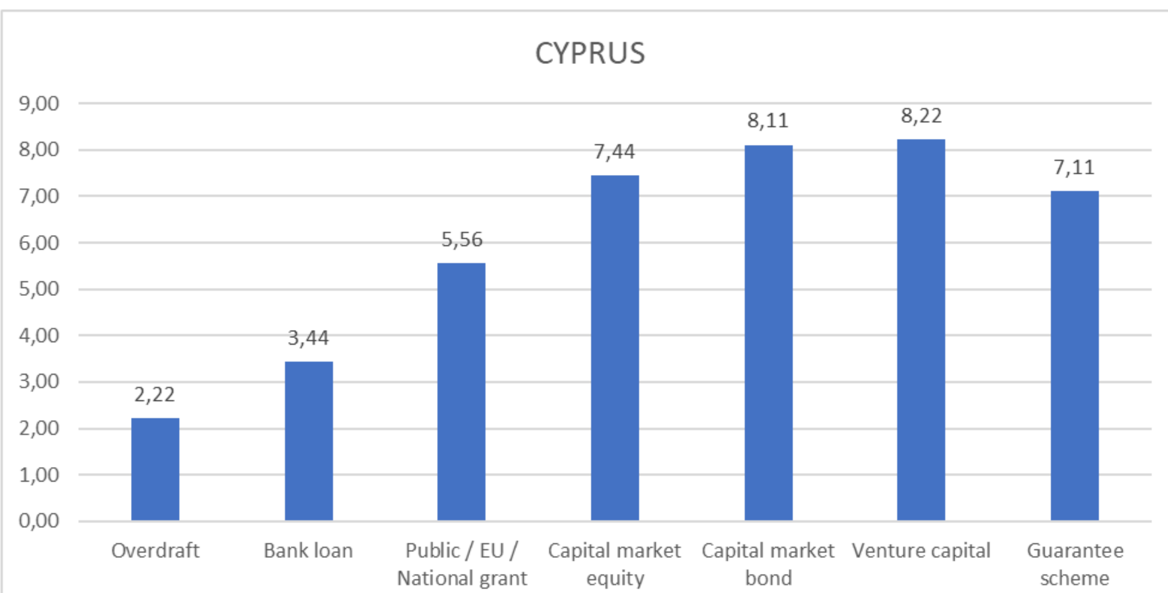
Overdraft	Bank loan	Capital market equity	Guarantee scheme	Capital market bond	Venture capital	Public / EU / National grant
3,33	**5,00**	**5,58**	**6,08**	**6,50**	**6,75**	**6,83**



In Bulgaria, Overdraft and Bank Loan – with a respective average scores of 3,33 and 5,00 - are considered to be the least complex mode of financing. Whereas, Venture Capital and Public/EU/National Grant – with a respective average scores of 6,75 and 6,83 - are considered to be the most complex mode of financing.

COUNTRY PERCEPTION – CYPRUS

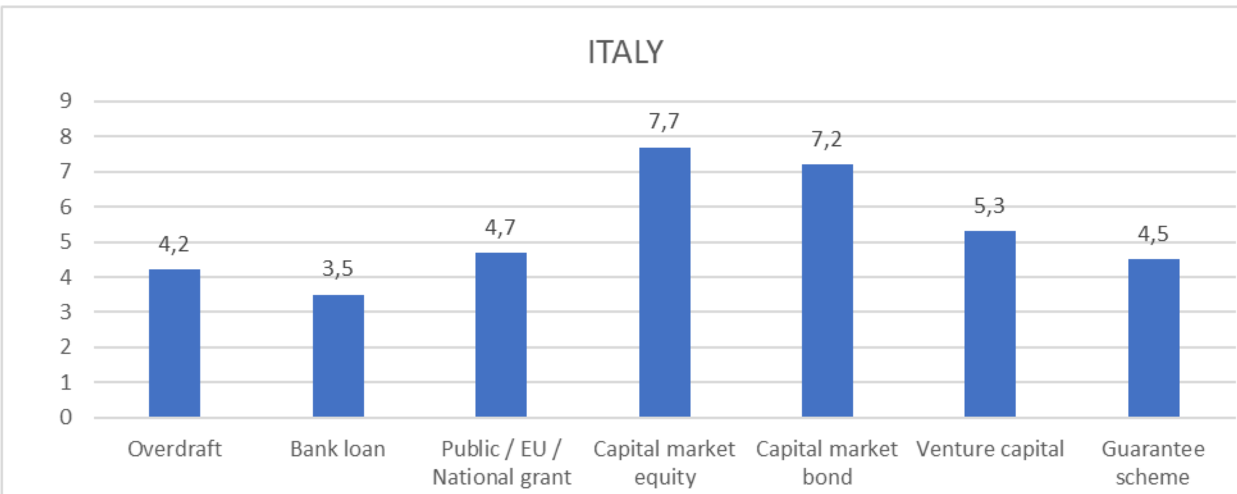
Overdraft	Bank loan	Public / EU / National grant	Guarantee scheme	Capital market equity	Capital market bond	Venture capital
2,22	**3,44**	**5,56**	**7,11**	**7,44**	**8,11**	**8,22**



In Cyprus, Overdraft and Bank Loan – with a respective average scores of 2,22 and 3,44 - are considered to be the least complex mode of financing. Whereas, Capital Market Bond and Venture Capital – with a respective average scores of 8,11 and 8,22 - are considered to be the most complex mode of financing.

COUNTRY PERCEPTION – ITALY

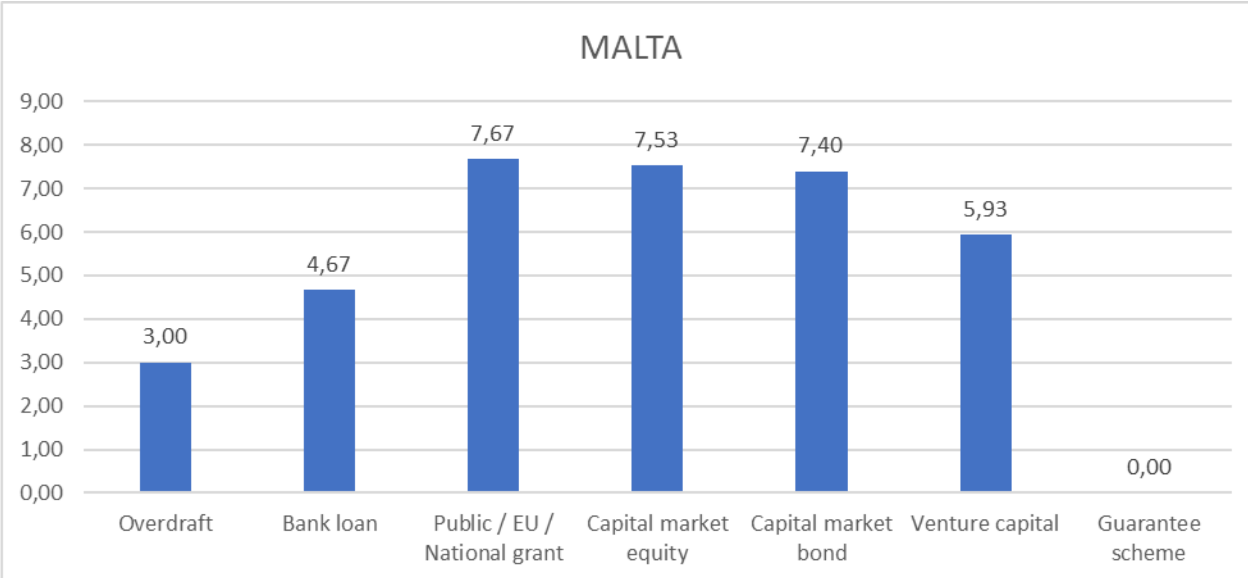
Bank loan	Overdraft	Guarantee scheme	Public / EU / National grant	Venture capital	Capital market bond	Capital market equity
3,50	**4,20**	**4,50**	**4,70**	**5,30**	**7,20**	**7,70**



In Italy, Bank Loan and Overdraft – with a respective average scores of 3,50 and 4,20 - are considered to be the least complex mode of financing. Whereas, Capital Market Bond and Capital Market Equity – with a respective average scores of 7,20 and 7,70 - are considered to be the most complex mode of financing.

COUNTRY PERCEPTION – MALTA

Overdraft	Bank loan	Guarantee scheme	Venture capital	Capital market bond	Capital market equity	Public / EU / National grant
3,00	**4,67**	**N.A.**	**5,93**	**7,40**	**7,53**	**7,67**



In Malta, Overdraft and Bank Loan – with a respective average scores of 3,00 and 4,67 - are considered to be the least complex mode of financing. Whereas, Capital Market Equity and Public / EU / National grant – with a respective average scores of 7,53 and 7,67 - are considered to be the most complex mode of financing.

SECTORAL ANALYSIS ACROSS AUSTRIA, BULGARIA, CYPRUS, ITALY AND MALTA

SECTOR – ACADEMIA

Bank loan	Overdraft	Public / EU / National grant	Guarantee scheme	Venture capital	Capital market equity	Capital market bond
3,00	**3,67**	**4,33**	**6,00**	**6,33**	**6,33**	**6,67**

SECTOR – BANKING AND CREDIT INSTITUTIONS

Overdraft	Bank loan	Public / EU / National grant	Guarantee scheme	Venture capital	Capital market equity	Capital market bond
1,36	**2,82**	**5,73**	**5,75**	**6,45**	**8,36**	**8,73**

SECTOR – BUSINESS SUPPORT INSTITUTIONS

Guarantee scheme	Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Venture capital	Capital market bond

3,67	4,00	4,33	4,33	7,67	8,00	8,00

SECTOR – CAPITAL MARKET INSTITUTIONS

Overdraft	Bank loan	Venture capital	Public / EU / National grant	Capital market equity	Capital market bond	Guarantee scheme
2,20	3,00	5,60	6,40	6,40	7,00	N.A.

SECTOR – FINANCIAL CONSULTANTS

Overdraft	Bank loan	Venture capital	Guarantee scheme	Public / EU / National grant	Capital market bond	Capital market equity
2,75	3,75	5,38	5,40	6,13	7,13	7,88

SECTOR – MANAGEMENT CONSULTANTS

Overdraft	Bank loan	Guarantee scheme	Public / EU / National grant	Venture capital	Capital market bond	Capital market equity
3,81	4,25	5,85	6,06	6,31	7,63	7,75

SECTOR – NATIONAL / REGIONAL BODY

Overdraft	Bank loan	Capital market equity	Guarantee scheme	Public / EU / National grant	Capital market bond	Venture capital
3,00	5,67	7,00	7,00	7,67	8,33	8,67

SECTOR – OTHERS

Overdraft	Bank loan	Capital market equity	Public / EU / National grant	Venture capital	Capital market bond	Guarantee scheme
2,57	4,71	6,14	6,43	6,57	6,71	7,00

Small and medium-sized enterprises (SMEs) in Europe may need to provide the following documentation when applying for overdraft facilities:

Business Plan: Details of business goals, strategies, financial projections, and how they plan to use the overdraft facility.

Financial Statements: Including balance sheet income statements, and cash flow statements for the past 2-3 years to evaluate creditworthiness.

Bank Statements: Showing business's cash flow for the past 6 months.

Tax Returns: As evidence of personal and business income and tax obligations for the past 2-3 years.

Collateral Documents: Relevant documentation for collateral assets, such as property deeds or equipment invoices.

Legal Documents: Usually required if applying for overdraft facility for the first time, such as a certificate of incorporation, business license, or partnership agreement.

Small and medium-sized enterprises (SMEs) in Europe may need to provide the following documentation when applying for a bank loan:

Business Plan: A document detailing the business goals, strategies, financial projections, and how the loan will be used.

Financial Statements: Balance sheets, income statements, and cash flow statements for the past 2-3 years to evaluate creditworthiness.

Bank Statements: Statements from the past 6 months to assess cash flow and repayment capacity.

Tax Returns: Personal and business tax returns for the past 2-3 years to provide evidence of income and tax obligations.

Collateral Documents: Relevant documentation for assets provided as collateral, such as property deeds or equipment invoices.

Legal Documents: Documents such as a certificate of incorporation, business license, or partnership agreement may be required for first-time loan applicants.

The exact documentation required may vary depending on the grant program, but some common documents SMEs in Europe may need to provide when applying for a national or European grant are:

Project Proposal: This document outlines the purpose, goals, and expected outcomes of the project, as well as the methodology and budget.

Business Plan: This document provides an overview of the company, including its market, products or services, management structure, and financial projections.

Financial Statements: These include the balance sheet, income statement, and cash flow statement for the past two to three years, and may be used to evaluate the financial viability of the project.

CVs and Qualifications: Applicants may be required to provide the CVs of key personnel involved in the project, as well as evidence of their qualifications and expertise.

Legal Documents: This may include a certificate of incorporation, business license, or partnership agreement, as well as any necessary permits or licenses required to undertake the project.

Budget and Cash Flow Projections: This outlines the expected expenses and revenues of the project and provides evidence of the project's financial feasibility.

Other Supporting Documentation: Depending on the specific grant program, additional documentation may be required, such as letters of recommendation, market research reports, or feasibility studies.

Small and medium-sized enterprises (SMEs) in Europe that plan to raise equity from capital markets may need to provide the following documentation:

Prospectus: This is a legal document that provides potential investors with information about the company, including its financials, business model, management, and risks.

Financial statements: These should include the balance sheet, income statement, and cash flow statement for the past two to three years. The financial statements should be audited and comply with accounting standards.

Business plan: This document should detail the company's goals, strategies, market analysis, financial projections, and how the capital raised will be used.

Legal documentation: This may include the company's articles of association, shareholder agreements, and any relevant regulatory approvals or licenses.

Due diligence reports: These reports are conducted by third-party experts to assess the company's financial and operational performance, as well as its legal and regulatory compliance.

Small and medium-sized enterprises (SMEs) in Europe may need to provide the following documentation for raising money by issuing bonds on capital markets:

Offering Memorandum: A legal document that provides details about the bond issuance, such as the amount, coupon rate, maturity date, and other terms and conditions.

Financial Statements: These should include the balance sheet, income statement, and cash flow statement for the past two to three years. The bondholders will use these statements to evaluate the creditworthiness of the issuer.

Credit Ratings: SMEs may need to obtain credit ratings from rating agencies, such as Moody's or Standard & Poor's, to attract investors.

Legal Opinions: Issuers may need to provide legal opinions from their legal advisors to ensure that the bond issuance complies with relevant laws and regulations.

Trust Deed: A legal document that outlines the rights and obligations of the bondholders and the issuer.

Prospectus: A document that provides detailed information about the bond issuance, including the issuer's financial statements, risk factors, and other relevant information. The prospectus is typically filed with the relevant regulatory authority.

When raising money through venture capital, Small and medium-sized enterprises (SMEs) in Europe may need to provide the following documentation:

Pitch Deck: A brief presentation that outlines the company's business model, target market, product or service, management team, and financial projections.

Business Plan: A detailed document that provides a comprehensive overview of the company, including its history, products or services, target market, competitive landscape, marketing strategy, financial projections, and management team.

Financial Statements: These should include the balance sheet, income statement, and cash flow statement for the past two to three years. The investor will use these statements to evaluate your company's financial health and potential return on investment.

Cap Table: A record of the company's ownership structure, including the percentage of shares owned by founders, investors, and other stakeholders.

Due Diligence Documents: These may include legal and financial documents, such as incorporation papers, contracts, tax returns, and patents. The investor will use these documents to evaluate the risks associated with investing in the company.

A summative list of the different types of documentation that small and medium-sized enterprises (SMEs) in Europe may need to provide for different funding purposes:

Funding Type	Required Documentation
Overdraft facilities	Business plan, financial statements, bank statements, tax returns, collateral documents, legal documents
Bank loans	Business plan, financial statements, bank statements, tax returns, collateral documents, legal documents
National/European grants	Project proposal, business plan, financial statements, CVs and qualifications, legal documents, budget and cash flow projections, other supporting documentation
Equity from capital markets	Prospectus, financial statements, business plan, legal documentation, due diligence reports
Bonds on capital markets	Offering memorandum, financial statements, credit ratings, legal opinions, trust deed, prospectus
Venture capital	Pitch deck, business plan, financial statements, cap table, due diligence documents

Note: The specific documentation required may vary depending on the specific grant program or funding source, and this list is indicative.

A comparison table for the different types of documentation that small and medium-sized enterprises (SMEs) in Europe may need to provide for different funding purposes:

DOCUMENTS REQUIRED	Overdraft Facilities	Bank Loan	National/ European Grants	Equity - Capital Markets	Bonds - Capital Markets	Venture Capital
Business Plan	✓	✓	✓	✓	✓	✓
Financial Statements	✓	✓	✓	✓	✓	✓
Bank Statements	✓	✓				
Tax Returns	✓	✓	✓			
Collateral Documents	✓	✓		✓	✓	
Legal Documents	✓	✓	✓	✓	✓	✓
Project Proposal			✓			
CVs and Qualifications			✓			✓
Budget and Cash Flow Projections			✓			
Other Supporting Documentation			✓			
Prospectus				✓	✓	✓
Legal Documentation				✓	✓	✓
Due Diligence Reports				✓		✓

Offering Memorandum					✓	
Credit Ratings					✓	
Trust Deed					✓	
Pitch Deck				✓		✓
Cap Table				✓		✓

Note: The specific documentation required may vary depending on the grant program or funding source, and this table is not exhaustive.

GLOSSARY

1. **Business Plan:** This document should detail your business goals, strategies, financial projections, and how you plan to use the loan.

2. **Financial Statements:** These should include the balance sheet, income statement, and cash flow statement for the past two to three years. The bank will use these statements to evaluate your creditworthiness and assess the risks of providing a loan.

3. **Bank Statements:** Your bank statements for the past six months will give the lender an idea of your business's cash flow and help them determine if you can handle the repayments for a loan.

4. **Tax Returns:** Your personal and business tax returns for the past two to three years will provide evidence of your income and tax obligations.

5. **Collateral Documents:** Depending on the amount of the loan you require, the lender may ask you to provide collateral, such as property or equipment, as security. You will need to provide relevant documentation for these assets, such as property deeds or equipment invoices.

6. **Legal Documents:** If you are applying for a loan for the first time, the lender may require legal documents, such as a certificate of incorporation, business license, or partnership agreement.

7. **Personal Guarantees:** Depending on the size of the loan and the lender's policies, they may ask for personal guarantees from the business owners or directors. This means that the individuals guarantee to repay the loan if the business is unable to do so.

8. **Previous Grant Applications and Awards:** If the company has applied for or received previous grants, documentation of these applications and awards should be provided.

9. **Intellectual Property Documentation:** If the project involves intellectual property, such as patents or copyrights, documentation of the ownership and protection of these assets should be provided.

10. **Environmental Impact Assessment:** If the project may have environmental impacts, an assessment of these impacts and the measures taken to mitigate them should be included in the proposal.

11. **Relevant Certificates and Licenses:** Any certificates or licenses required for the project, such as environmental permits, should be included.

12. **Tax Returns:** The company's tax returns for the past two to three years may also be required.

13. **Cap Table:** A record of the company's ownership structure, including the percentage of shares owned by founders, investors, and other stakeholders.

SECTION 4:

Which of the following products will mostly provide a) short term, b) medium term or c) long term, financial stability?

Learning objectives:

To support learners in:

a) Understanding the concept of short-term, medium term and long-term financial stability and its relevance for their organization.
b) Identifying financial products suitable for short-term stability and familiarizing learners with financial products that are designed to meet short-term financing requirements.
c) Evaluating financial products for medium-term financial stability and exploring options like equipment financing, leasing, medium-term loans, with longer repayment periods.
d) Analyzing financial products for long-term stability focusing on financial products that provide long-term stability for SMEs and microenterprises and evaluating options such as long-term loans, equity financing, venture capital and their impact on long-term financial health.
e) Comparing and selecting appropriate financial products for different financing needs.

4.1. Introduction

The participants of the questionnaire classified the financial products by the duration of financial stability they provide. The available answers were short – term, medium – term and long – term financial stability.

Financial stability, according to a definition given by the World Bank "A stable financial system is capable of efficiently allocating resources, assessing and managing financial risks, maintaining employment levels close to the economy's natural rate, and eliminating relative price movements of real or financial assets that will affect monetary stability or employment levels".

Adjusting the above definition for SMEs, financial stability is the ability to withstand any problems that may occur such as loss of customers, decrease in sales, lack of capital, loss of employees. In other words, is the ability to maintain a steady income while avoiding debt.

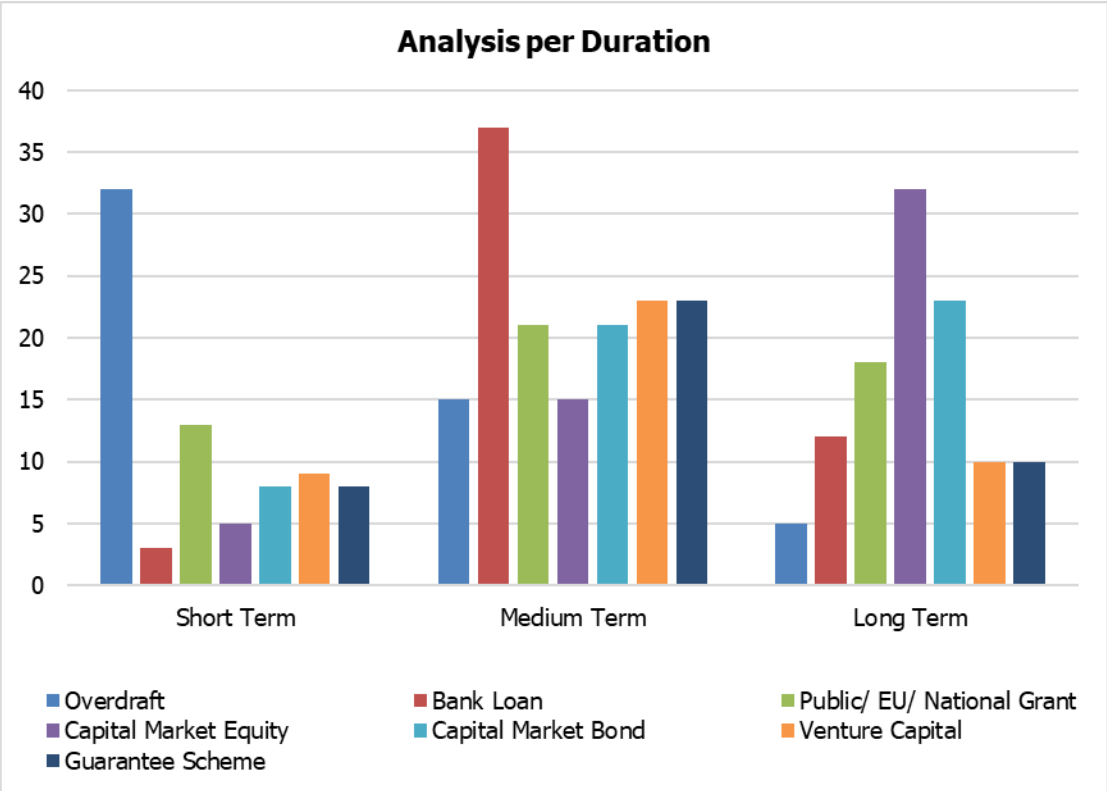
Financial products can provide short – term, medium – term and long – term financial stability to an SME. Even though there are no exact definitions, short – term financial stability usually refers to a period shorter than two years, medium – term refers to a range between two to five years and long – term covers a period longer than five or ten years.

Financial products that provide short – term stability are typically used to cover short – terms needs such as cash flow fluctuations, material and inventory purchases, payroll, payment of trade credit and taxes. Medium – term financial stability products are usually obtained for expansion or growth of the company by machinery, equipment and vehicles purchases whilst long – term financing products are used for higher expenditure expenses such as land, buildings, and assembly lines purchases.

4.2. Analysis per Product and Duration

4.2.1. Analysis per Duration

The following graph shows how the participants have answer which of the following products will mostly provide a) short term, b) medium term or c) long term, financial stability. It appears that overdrafts are mostly thought to provide short – term financial stability, bank loans, grants, venture capital and guarantee schemes provide medium – term financial stability while capital market equity and bonds provide long – term financial stability.



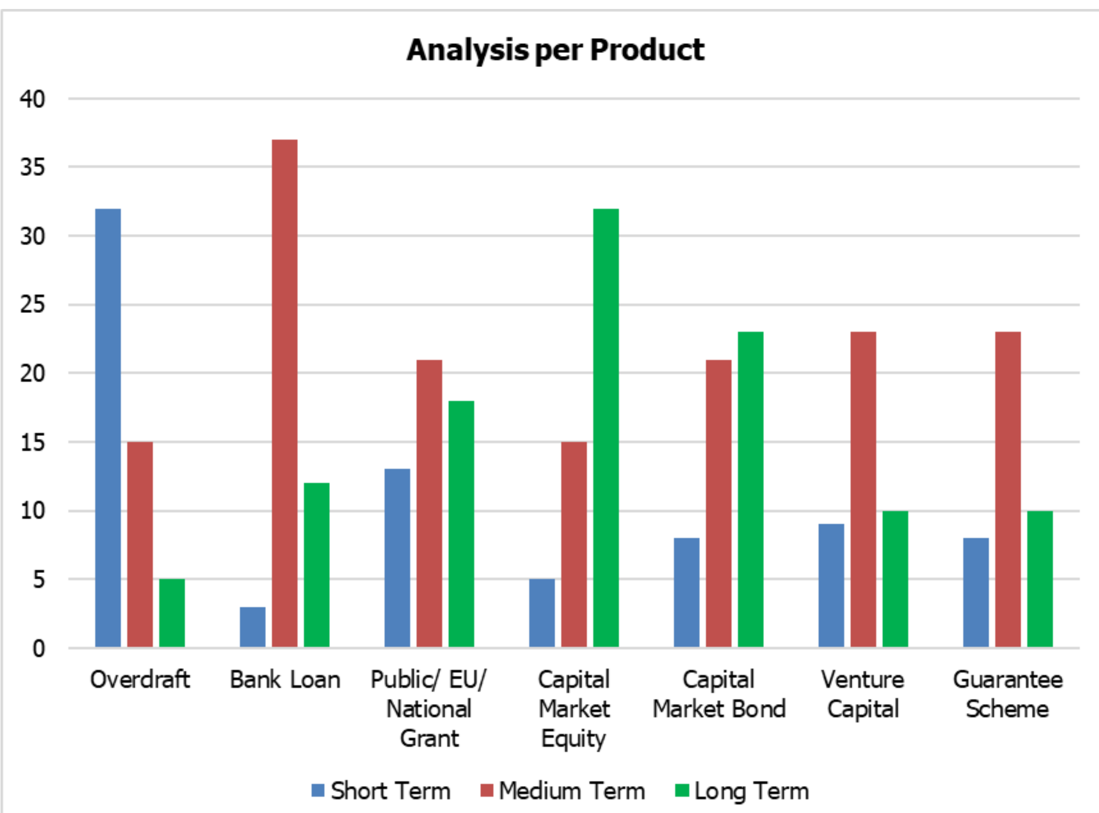
Indeed, overdrafts provide short – term financial stability and can be useful in cases of emergency. Overdrafts are especially practical for SMEs that the scope of their work is seasonal or by contracts and payment is on completion of each project. By using overdraft, an SME can pay wages, buy inventory, pay rent, or make ad hoc improvements on premises. However, despite the temporary feeling of security that overdrafts or any other short – term financial facilities may provide, most of the times, they do not solve the real underlying problem that caused the need for cash flow. In fact, overdrafts and short – term loans may have higher interest rates which worsen the problem and create debt traps.

The above graph also shows that bank loans are top ranked as a product that provides medium – term financial stability, however loans can have short, medium and long – term repayment period depending on the type of loan, the owner's needs and the financial institute providing the loan. Loans facilitate financing projects in any sector and are more suitable for long-term funding and high value investments and purchases. Some of the risks that an SME may face in taking up a loan is that interest rates, fees or penalties can be higher than alternatives financing methods, there is an additional monthly payment in the company's budget ana most importantly there could be potential credit damage in case of repayment failure.

Capital market equity has been selected by the participants as the financial facility that provides the long – term financial stability to an SME. Usually, SMEs use equity to raise capital to invest in projects, fund other business operations and purchase assets. Equity financing means that the SME does not have a loan to repay therefore no monthly payment which means more available funds to finance other business ventures. Additionally, equity does not require interest payments, however, the greatest risk of it is the ownership dilution. Ownership dilution may occur when there is a reduction in the percentage of existing shareholders' ownership in a company when it issues new shares of stock.

4.2.1. Analysis per Product

The following graph shows how the participants have marked each financial product according to the duration of financial stability it provides.



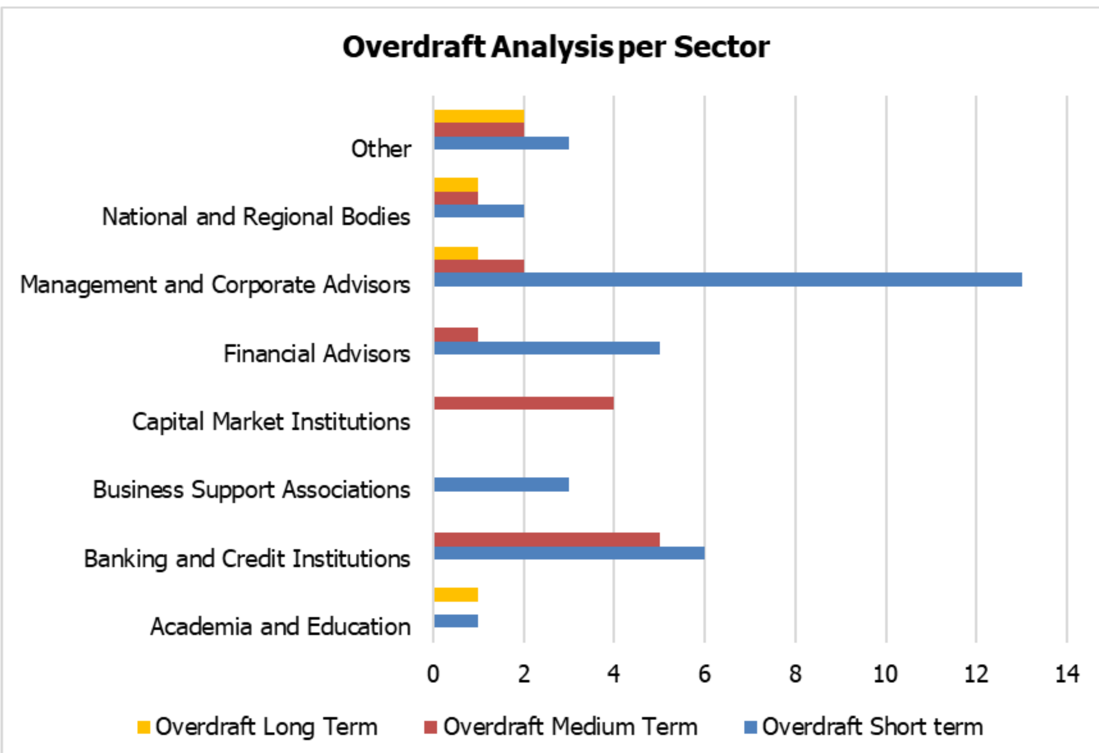
Other products that are thought to provide medium – term financial stability are grants – public, EU or national grants, venture capital and guarantee schemes. Capital market equities and bonds clearly provide long – term financial stability.

4.3. Analysis per Sector

The following graphs represent how participants from each sector have classified each product according to the financial stability it provides.

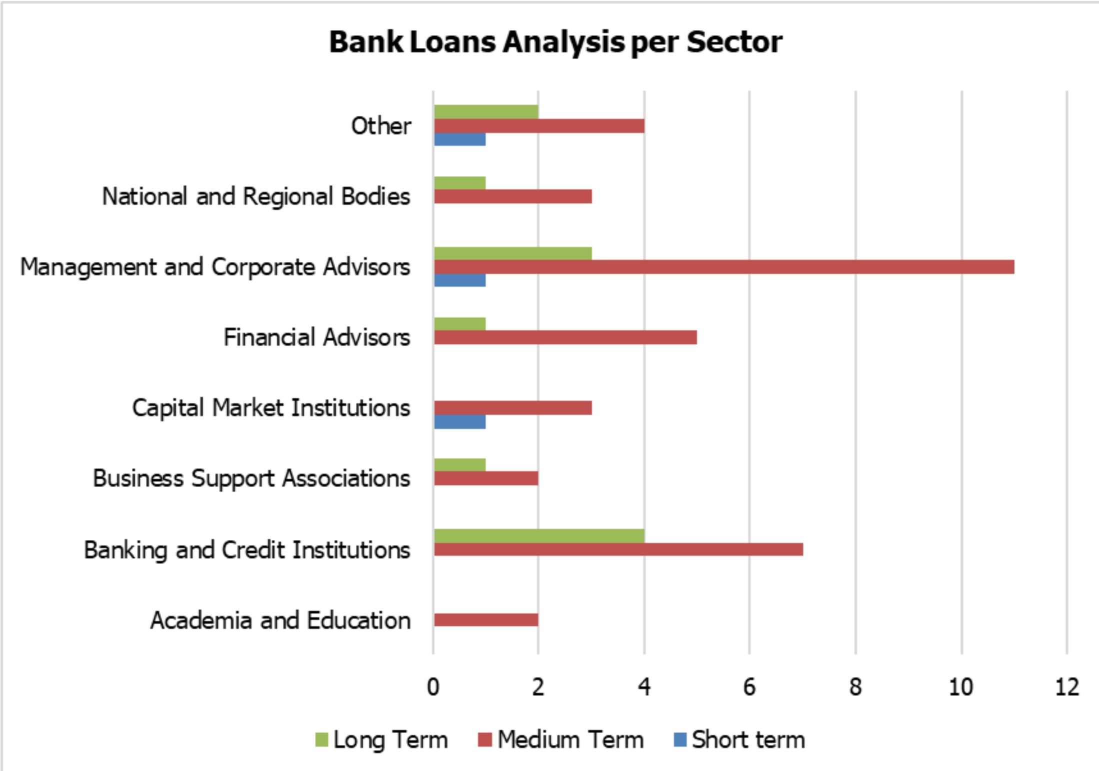
4.3.1. Overdraft

All sectors except capital market institutions consider that overdrafts will mostly provide short – term financial stability. A small amount of participants have answered that overdrafts will provide lond – term financial stability, specifically from the sectors of national and regional bodies, management and corporate advisors and academics and educators.



4.3.2. Bank Loans

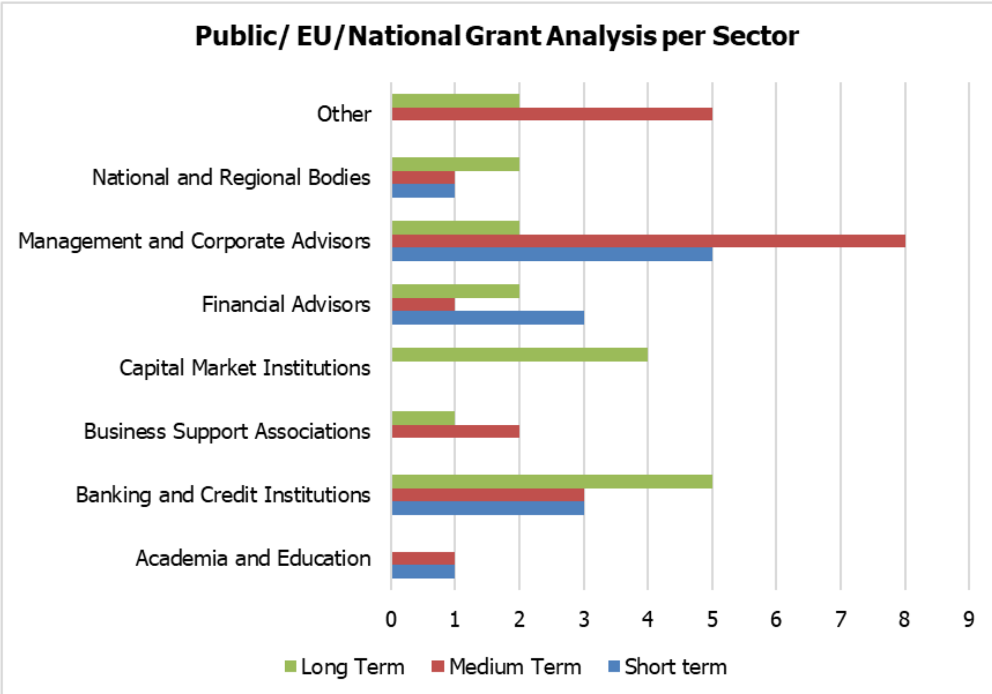
Bank loans are regarded by all sectors as a product that provides medium – term stability to an SME. Capital market institutions and management and corporate advisors have also answered that loans provide short – term financial stability. This is possible with the acquisition of a short – term loan which is a type of loan that is obtained to support a temporary personal or business capital need.



4.3.3. Public/ EU/ National Grants

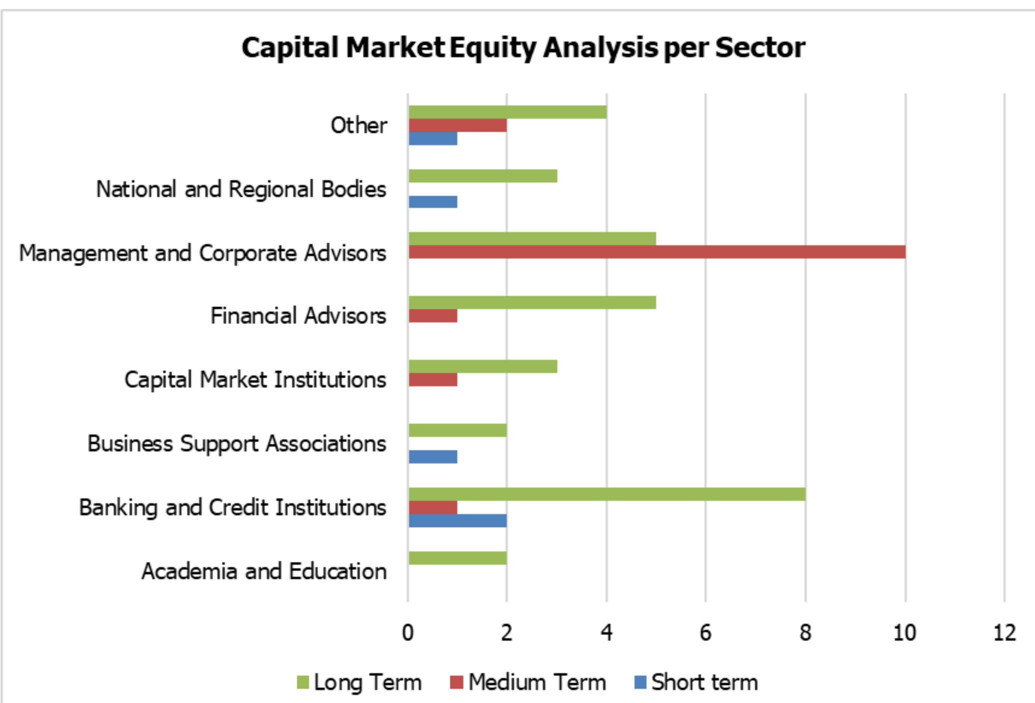
As shown below, most of the participants stated that grants are a product that mostly provides medium and long – term financial stability. Only the financial advisors group identified grants as short – term financial facility while participants in the capital market institutions only selected long – term in their responses.

Grants are considered a good way to boost financially an SME but they are generally considered as a short – term option since an SME can't rely on a grant to secure cash flow for a long time. Moreover, grants take a long to be approved and the payment is given once off.



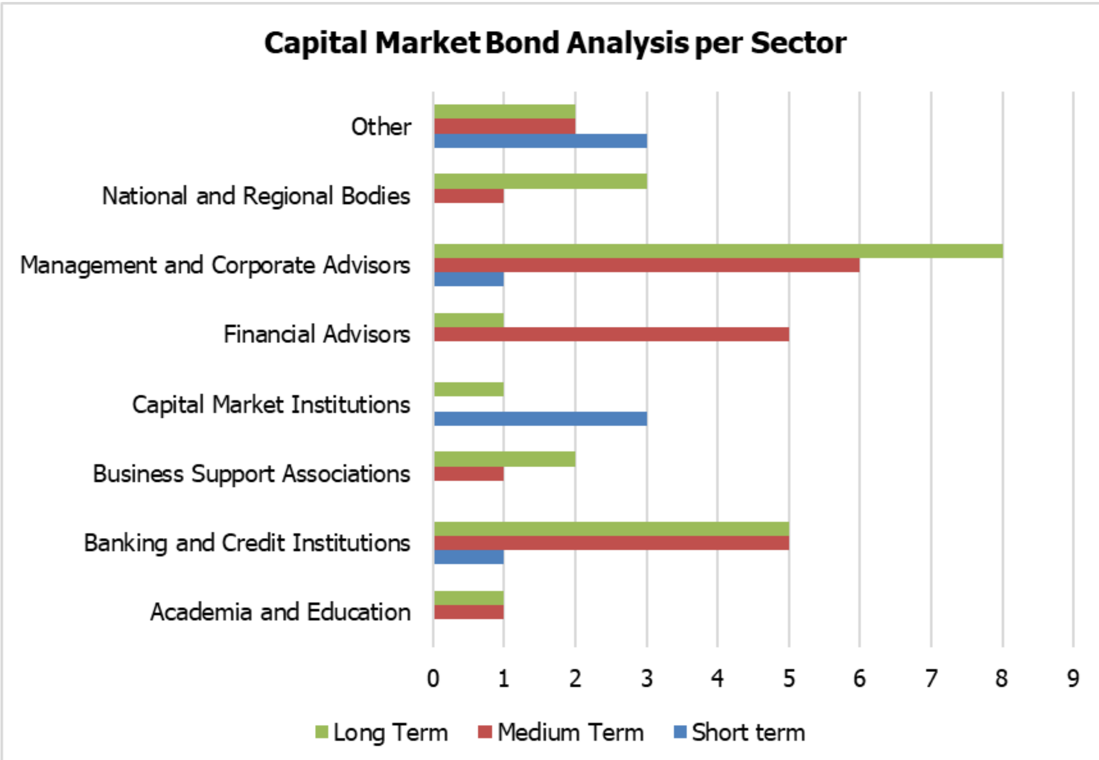
4.3.4. Capital Market Equity

As mentioned in section 4.2.1, capital market equity is selected by all sectors as the product that provides long – term financial stability. Only the participants in the management and corporate advisors consider this product as a way to secure medium – term financial stability.



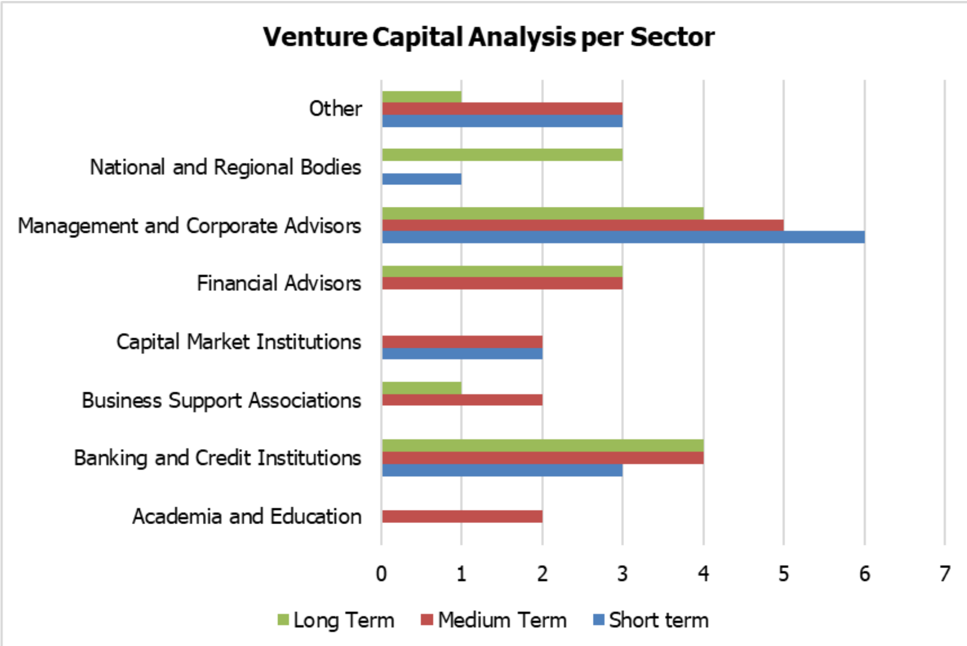
4.3.5. <u>Capital Market Bond</u>

In general, bonds are considered a product that provides long – term financial security. Bonds provide a steady predictable income to their owner since their interest rate is payable once a year, however bonds can affect the owner's financial stability since they face interest rate fluctuations, market volatility and lower returns.



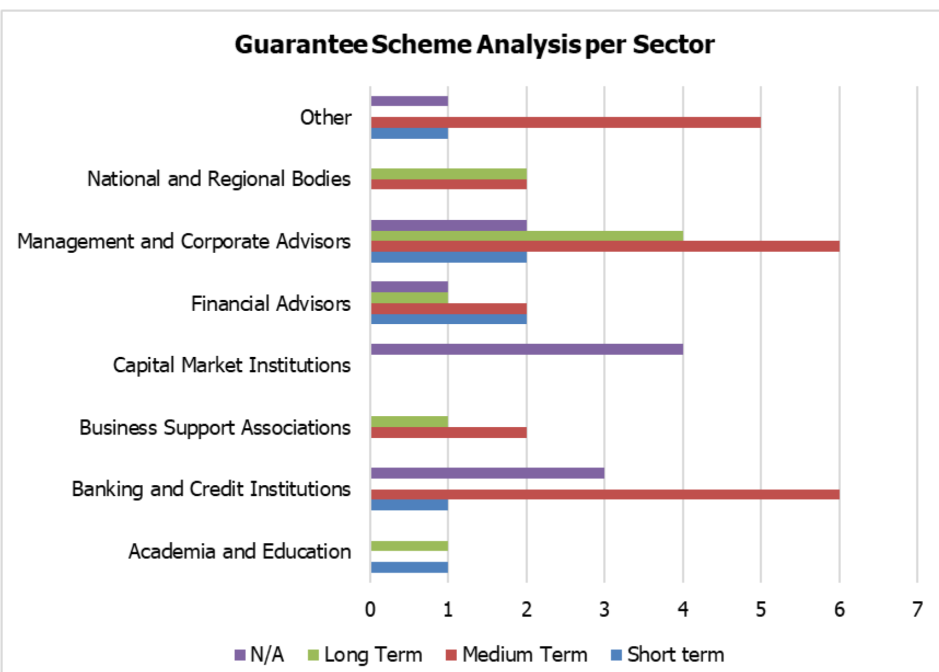
4.3.5. <u>Venture Capital</u>

As shown in the following graph, venture capital is thought to be a product that provides short, medium and long – term financial stability. As mentioned in Section 1 venture capital is money invested in a business, usually a start-up, that investors see it as having strong growth potential. If a start-up SME selects the process of venture capital to raise capital, the owner must be sure that the company's business model is viable so that revenues are generated for the SME to sustain itself.



4.3.5. Guarantee Scheme

Most of the participants have listed the guarantee scheme as a product that provides medium – term financial stability in an SME. Guarantee schemes are suitable for businesses that are unable to provide security as collateral for bank loans and may apply to specialised entities, such as development banks, to receive guarantees that would be used to support their applications for credit.



4.4. Conclusion

For an SME to reach its full potential, the needed finance to start, sustain or grow and develop their business is crucial. SMEs are by nature more vulnerable to shocks and downturns caused by economic crises and are in a disadvantaged position in relation to larger companies due to limited access to finance, high transaction costs and lack of financial knowledge and skills.

Financial skills are soft and hard skills that help entrepreneurs to better understand how to budget and save money and reach their business objectives and goals. These skills include cash flow management, risk analysis, budgeting, financial planning, decision making, problem – solving and analytical thinking. These skills and knowledge will help SMEs and entrepreneurs to evaluate all available financing options and make well – versed decisions regarding their financial situation, projects that want to start or investments to make.

SMEs entrepreneurs need to develop a long – term strategy to secure financial stability and to improve their knowledge and understanding regarding financial institutes and financial products available. They must acquire and develop financial and accounting skills to be able to select the appropriate financial facilities and products suitable for each business and investment project they commence.

SECTION 5:

Establish a connection between the two in order to verify the understanding of SMEs in terms of the degree of complexity of each category.

Questions:
Q5. In order to access the below products, do you think an SME requires expert advice (Yes/No):
Q6. What are the main challenges faced by SMEs to access sources of capital (please rank with 1 being the lowest challenge and 10 being the highest challenge)?

Objective:
Establish a connection between the two in order to verify the understanding of SMEs in terms of the degree of complexity of each category.

5.1. In order to access the below products, do you think an SME requires expert advice (Yes/No):

As the answers to this questions are dichotomous, i.e. of the type "Yes/No", they have been statistically processed by attributing the numeric value of "1" to "Yes" answers and "0" to the "No" answers respectfully. This for each single country within the scope of the questionnaire study separate distribution tables and charts were created. The process of attributing of 1 or 0 numeric values went through **three stages**, as follows:

(i) a stage of "Yes/No" raw data collected in the form of a Google drive answer tables comprising the data for each of the countries within the scope if the questionnaire survey, namely: Austria, Bulgaria, Cyprus, Italy and Malta;
(ii) a stage of attributed "1" or "0" values in the raw data tables;
(iii) a stage of distribution of the answers in tables by sectors of the respondents and by the type of the financial products for which the responders think the SMEs will require expert advice.

Based on the produced distribution tables and charts of each single country, **a ranking** was also made **of the financial products**, **for which the SMEs shall need an expert advice**. Here, a 4-degree ranking scale, a 5-degree ranking scale and a 7-degree ranking scales were used with 1 being then highest rank and 4, 5 and 7 being the lowest rank respectfully.
In compliance with the above methodological explanations, the data for each of the countries within the scope of the survey come into the following form:

<u>Austria</u>

Table 5.1. Distribution of answers by the sectors of the respondents and the type of financial products for which they the thing the SMEs will require an expert advice, the case of Austria

Sectors of the respondents:	Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	others
Banking & Credit Institution	0	0	4	4	5	5	5	
Financial Advisors	0	1	1	2	2	2	1	
Management & Corporate Advisors	0	0	3	3	3	3	2	
Total:	0	1	8	9	10	10	8	0
Rank:	4	3	2	2	1	1	2	4

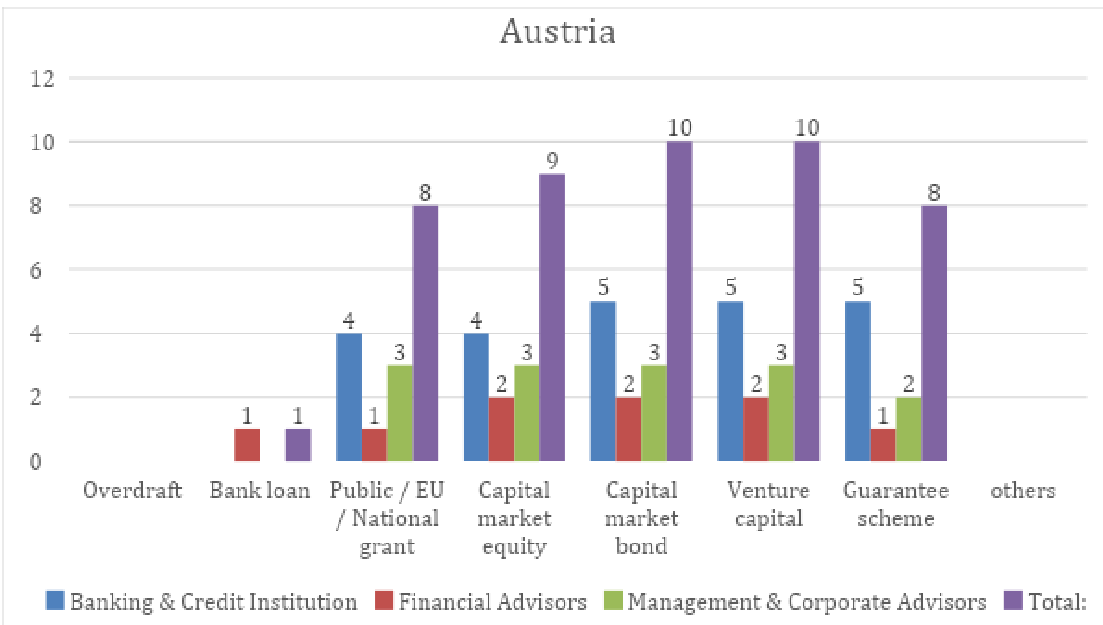


Chart 5.1. Distribution of answers by the sectors of the respondents and the type of financial products for which they think the SMEs will require an expert advice, the case of Austria

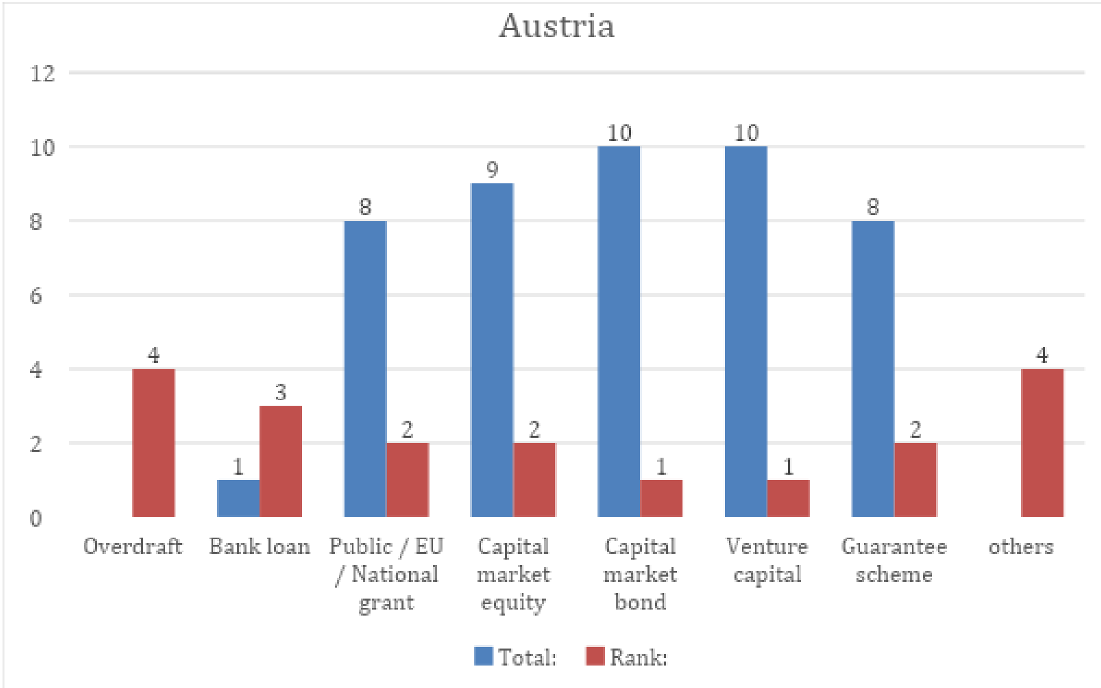


Chart 5.2. Answers and Ranking of the financial products, for which the experts think that the SMEs will require an expert advice, the case of Austria

The ranking for Austria is presented in Table 5.1, as well as in Chart 5.2, and it shows out that for Austria, there are four main groups of ranks. **The Rank 1**, the rank of financial products with the highest need of advice for the SMEs, comprises **Capital market bond** and **Venture capital**. **The Rank 2**, the second best rank in terms of need for advice for the SMEs comprises the financial products of the **Capital market equity**, the **Guarantee scheme** and the **Public / EU / National grant**. **The Rank 3** comprises only one financial type of products, i.e. the **Bank loan,** for which very few answers suggesting the need of advices were recorded. **The Rank 4**, the lowest rank for Austria covers the financial instruments of O**verdraft** and the category **Others**. The recorded answers for the need of advice for these financial products in Austria were actually zero.

Bulgaria

Table 5.2. Distribution of answers by the sectors of the respondents and the type of financial products for which they the thing the SMEs will require an expert advice, the case of Bulgaria

Sectors of the respondents:	Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	others
Other	2	3	4	3	4	4	4	
Management & Corporate Advisors	2	1	2	2	2	2	2	

National & Regional Body	1	1	2	1	2	2	2	
Banking & Credit Institution	2	2	2	2	2	1	2	
Total:	7	7	10	8	10	9	10	0
Rank:	4	4	1	3	1	2	1	5

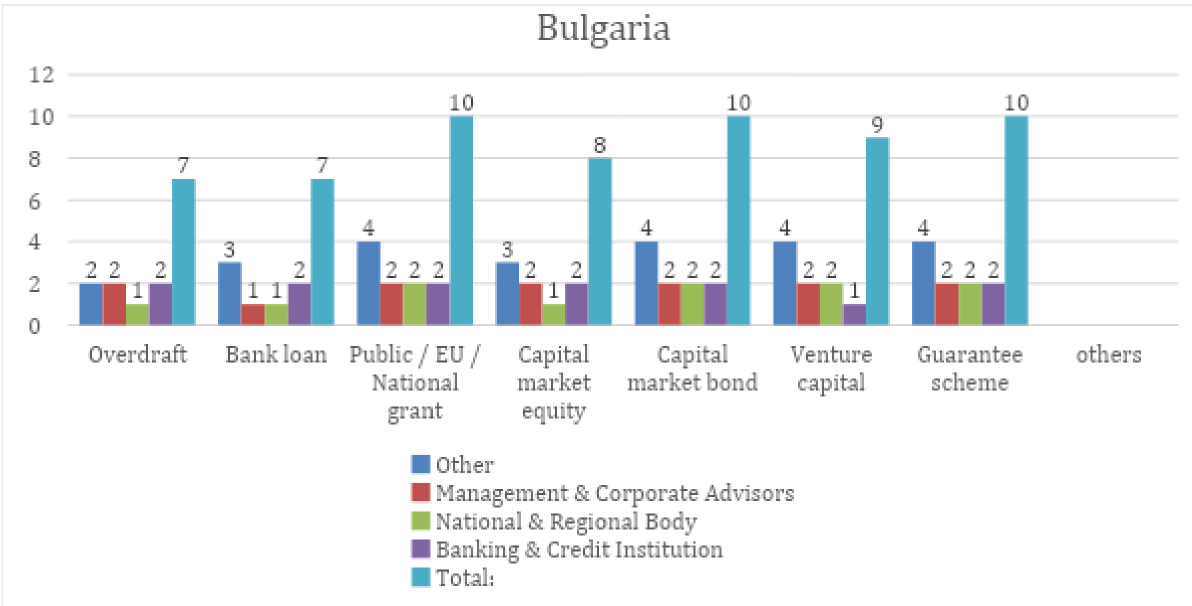


Chart 5.3. Distribution of answers by the sectors of the respondents and the type of financial products for which they think the SMEs will require an expert advice, the case of Bulgaria

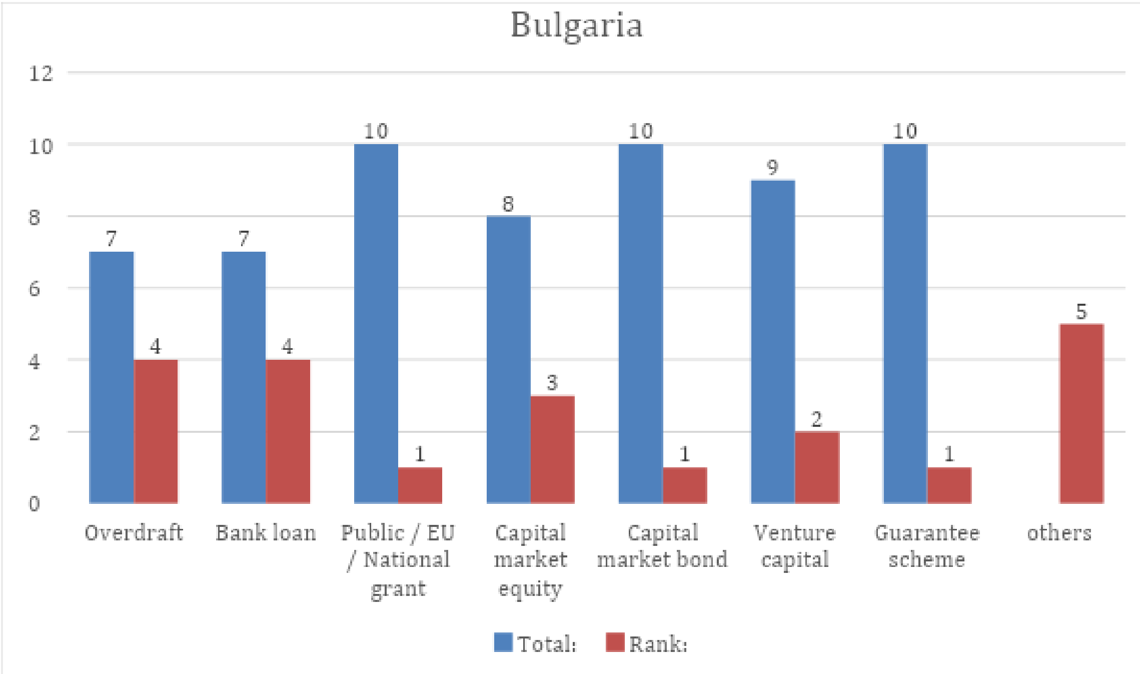


Chart 5.4. Answers and Ranking of the financial products, for which the experts think that the SMEs will require an expert advice, the case of Bulgaria

The ranking for Bulgaria is presented in Table 5.2, as well as in Chart 5.4, and it shows out that for Austria, there are five main groups of ranks. **The Rank 1**, the rank of financial products with the highest need of advice for the SMEs, comprises **Capital market bond**, **Public / EU / National grant** and **Guarantee Scheme**. **The Rank 2**, the second best rank in terms of need for advice for the SMEs comprises only one financial product of the **Venture capital**. **The Rank 3** comprises only one financial type of products as well, i.e. the **Capital Market equity**. **The Rank 4** comprises the financial product of **Overdraft** and the **Bank loan**. In addition, the **Rank 5** is the lowest rank for Bulgaria and it covers the category **Others**. The overall impression from the received answers and ranking is that advices need to be provided for virtually all financial products beside the category "Others". This can be explained with the relatively young age of the market economy in Bulgaria, its less development in comparison to the older EU member countries, the size and the structure of the SMEs in the country and the existing national legal definitions for what is to be regarded as an SME.

Cyprus

Table 5.3. Distribution of answers by the sectors of the respondents and the type of financial products for which they the thing the SMEs will require an expert advice, the case of Cyprus

Sectors of the respondents:	Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	others

Management & Corporate Advisors	1	1	4	4	4	4	4	0
Academia & Education	0	0	1	1	1	1	1	0
Other	0	1	2	1	2	2	1	0
Business support association	0	1	1	1	1	1	1	0
Banking & Credit Institution	0	1	1	1	1	1	1	0
Total:	1	4	9	8	9	9	8	0
Rank:	3	3	1	2	1	1	2	4

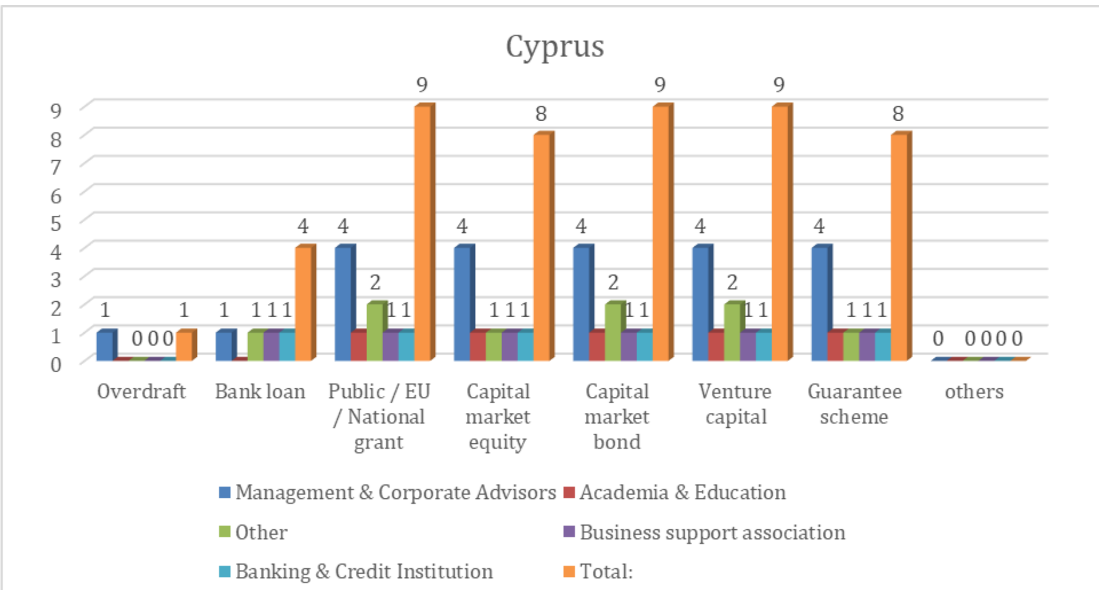


Chart 5.5. Distribution of answers by the sectors of the respondents and the type of financial products for which they think the SMEs will require an expert advice, the case of Cyprus

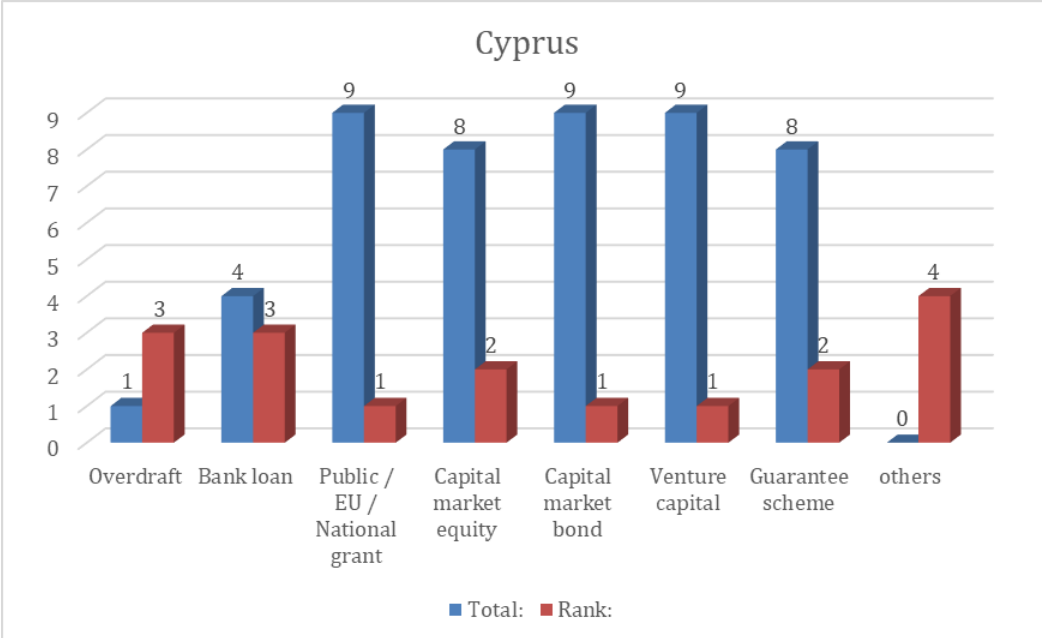


Chart 5.6. Answers and Ranking of the financial products, for which the experts think that the SMEs will require an expert advice, the case of Cyprus

The ranking for Cyprus is presented in Table 5.3, as well as in Chart 5.6, and it shows out that for Cyprus, there are four main groups of ranks. **The Rank 1**, the rank of financial products with the highest need of advice for the SMEs, comprises the **Capital market bond**, the **Venture capital** and the **Public / EU / National grant**. **The Rank 2**, the second best rank in terms of need for advice for the SMEs comprises the financial products of the **Capital market equity** and the **Guarantee scheme**. **The Rank 3** comprises the **Overdraf**t and the **Bank loan,** for which very few answers suggesting the need of advices were recorded. **The Rank 4**, the lowest rank for Cyprus covers the financial instruments of the category **Others**. The recorded answers for the need of advice for these financial products in Cyprus were actually zero.

Italy

Table 5.4. Distribution of answers by the sectors of the respondents and the type of financial products for which they the thing the SMEs will require an expert advice, the case of Italy

Sectors of the respondents:	Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	others
Financial Advisors	2	2	2	2	2	2	2	0
Academia & Education	1	1	1	1	1	1	1	0
Management & Corporate Advisors	2	2	5	5	5	3	4	0
Business Support Association	1	2	2	2	2	2	1	0
Total:	6	7	10	10	10	8	8	0
Rank:	4	3	1	1	1	2	2	5

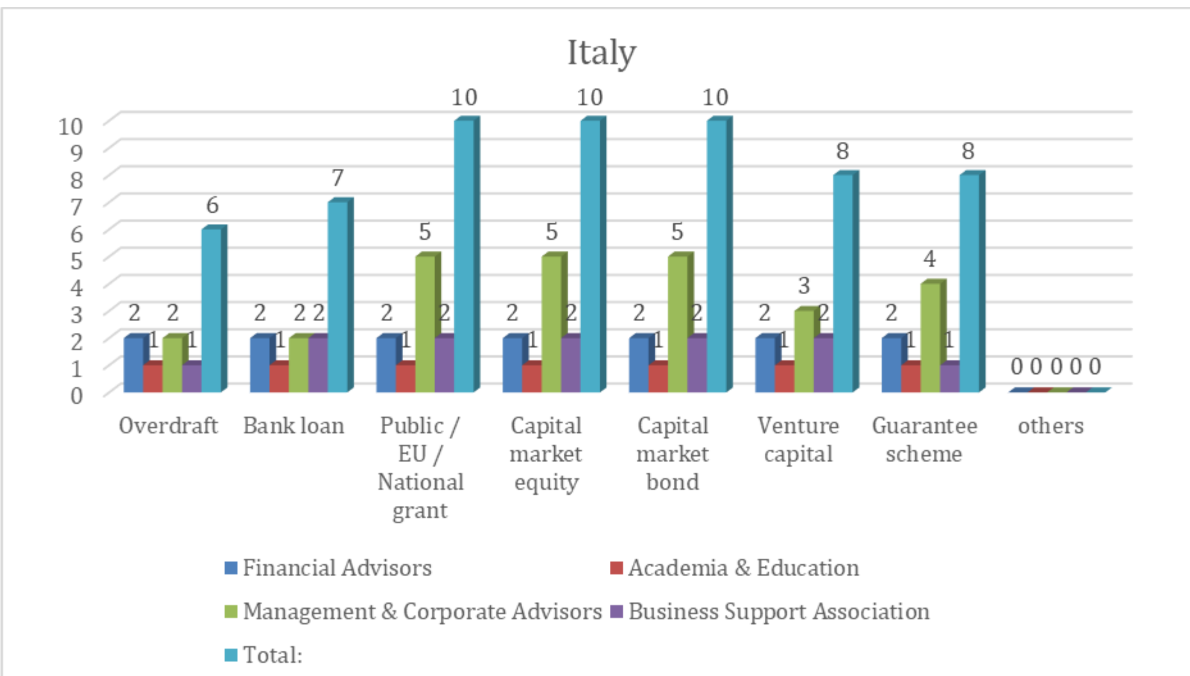


Chart 5.7. Distribution of answers by the sectors of the respondents and the type of financial products for which they think the SMEs will require an expert advice, the case of Italy

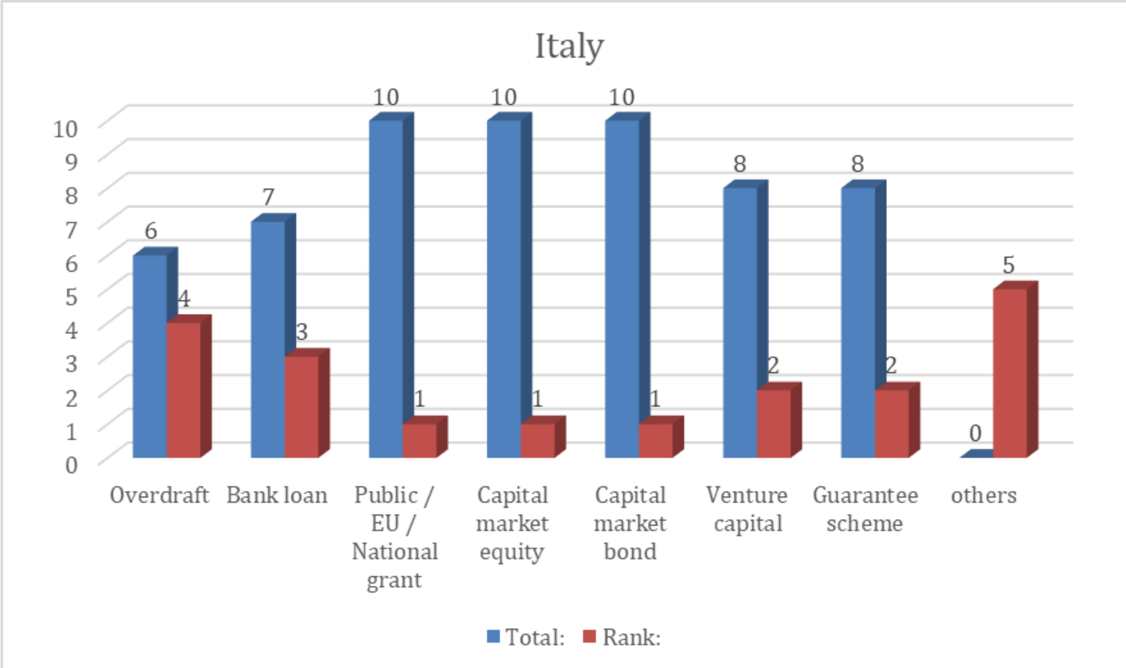


Chart 5.8. Answers and Ranking of the financial products, for which the experts think that the SMEs will require an expert advice, the case of Italy

The ranking for Italy is presented in Table 5.4, as well as in Chart 5.8, and it shows out that for Italy, there are five main groups of ranks. **The Rank 1**, the rank of financial products with the highest need of advice for the SMEs, comprises the **Capital market equity**, the **Capital market bond**, and the **Public / EU / National grant** and. **The Rank 2**, the second best rank in terms of need for advice for the SMEs comprises the **Venture capital** and the **Guarantee Scheme**. **The Rank 3** comprises only one financial type of products, i.e. the **Bank loan**. **The Rank 4** comprises the financial product of the **Overdraft**. In addition, the **Rank 5** is also the lowest rank for Italy and it covers the category **Others**. The overall impression from the received answers and ranking is that here, similarly to Bulgaria, advices need to be provided for virtually all financial products beside the category "Others".

Malta

Table 5.5. Distribution of answers by the sectors of the respondents and the type of financial products for which they the thing the SMEs will require an expert advice, the case of Malta

Sectors of the respondents:	Overdraft	Bank loan	Public / EU / National grant	Capital market equity	Capital market bond	Venture capital	Guarantee scheme	others
Management & Corporate Advisors	2	1	2	2	2	1	2	0

Academia & Education	1	1	1	1	1	1	1	0
Capital market institution,	0	0	3	5	5	4	3	0
Financial Advisors	0	0	2	2	1	2	1	0
Banking & Credit Institution	2	1	2	2	2	2	2	0
Total:	5	3	10	12	11	10	9	0
Rank	5	6	3	1	2	3	4	7

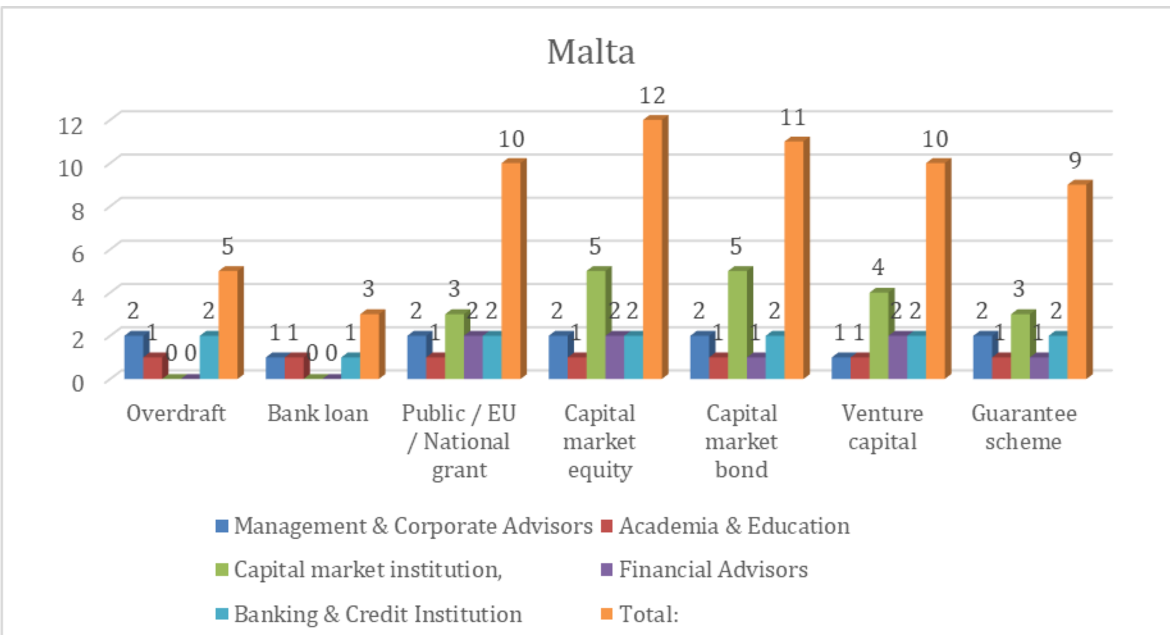


Chart 5.9. Distribution of answers by the sectors of the respondents and the type of financial products for which they think the SMEs will require an expert advice, the case of Malta

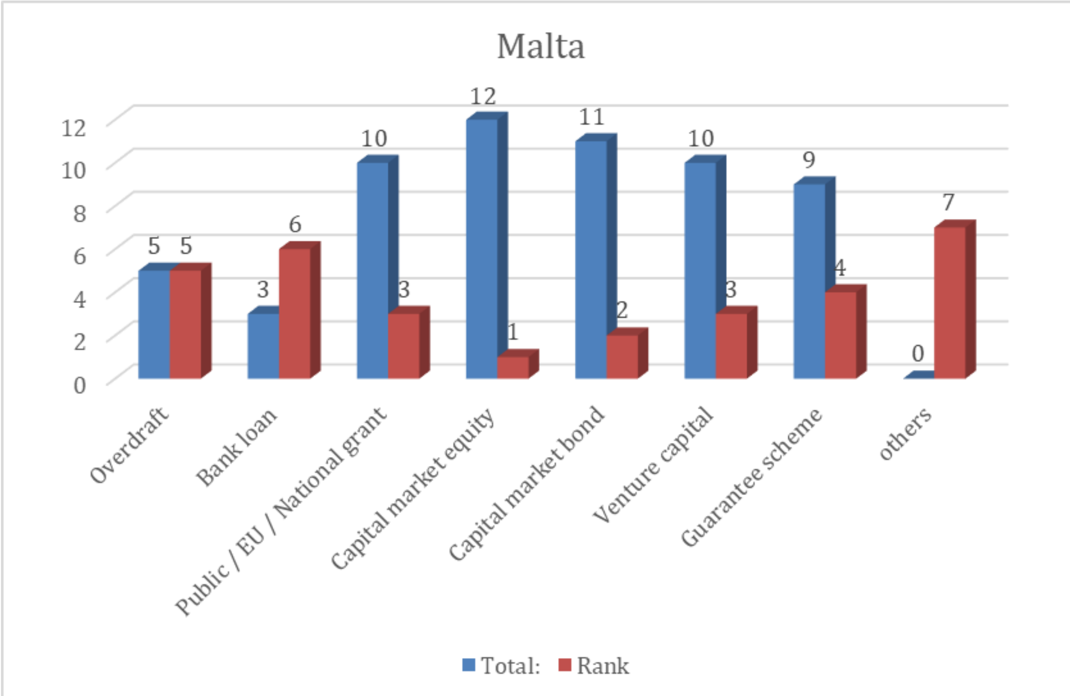


Chart 5.10. Answers and Ranking of the financial products, for which the experts think that the SMEs will require an expert advice, the case of Malta

The ranking for Malta is presented in Table 5.4, as well as in Chart 5.8, and it shows out that for Italy, there are seven main groups of ranks. **The Rank 1**, the rank of financial products with the highest need of advice for the SMEs, comprises the **Capital market equity**. **The Rank 2**, the second best rank in terms of need for advice for the SMEs comprises the **Capital market bond**. **The Rank 3** comprises the **Venture capital** and the **Public / EU / National grant**. **The Rank 4** comprises the financial product of the **Guarantee scheme**. The **Rank 5** covers the **Overdraft** as financial product. The **Rank 6** stands for **the Bank loan**. The Rank 7 is the lowest rank for Malta and it covers the category **Others**.

Conclusions: The overall results by country for this Questions (5.1) confirms confirm the results of the previous sections of the survey and the report as a whole.

5.2. What are the main challenges faced by SMEs to access sources of capital (please rank with 1 being the lowest challenge and 10 being the highest challenge)?

For question 6, a total of 57 valid responses from 5 countries (Austria, Bulgaria, Cyprus, Italy and Malta) were collected. Respondents were asked to rate 7 pre-defined items (Management, Financial, Accounting, Technology, Marketing and PR, Bureaucracy, and Processing of applications) on a 10-point scale, where 1 denoted the lowest level of challenge and 10 – the highest one.

Chart 5.11 presents the overall results for all five countries.

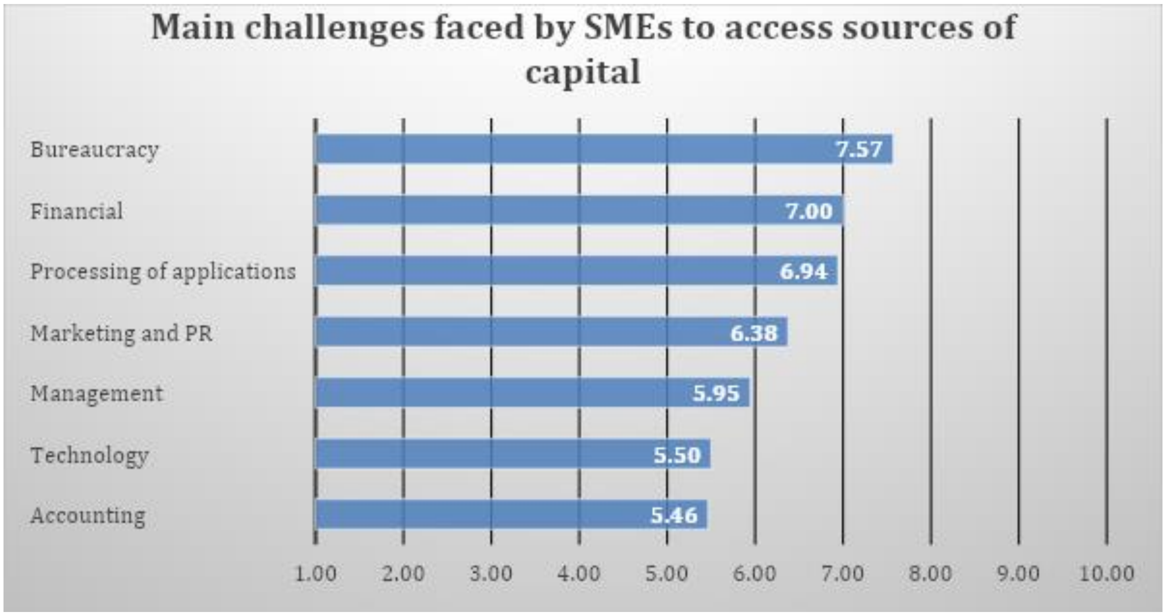


Chart 5.11. Main challenges faced by SMEs to access sources of capital (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

With a mean of 7.57, **Bureaucracy** was rated as the most challenging aspect in terms of accessing sources of capital. **Financial aspects** such as cash flow, cost control, debtor collection, and procurement processes were the second most challenging (7.00), followed by **Processing of applications** (6.94), **Marketing and PR** (6.38), and **Management** (5.95). **Technology** (IT skills, data management, use of website, e-commerce) and **Accounting** (record keeping, documentation, financial reporting) were reported as least challenging, but here again, the mean values are above 5 – i.e. indicate a medium rather than a low level of challenge.

Below is an analysis of the answers split by *country* and *sector*.

5.2.1. Analysis by country

In this section, the challenges faced by SMEs in each of the five countries are analysed, focusing on the national specifics and differences.

Austria

The initial data received for Austria may be summarized in Table 5.6, Chart 5.12, Chart 5.13 and chart 5.14. To each of the challenges a rank was attributed with a scale from 1 to 8, where the 1 is the highest rank and 8 is the lowest one.

Table 5.6 Austria, arithmetic average responses to the question: What are the main challenges faced by SMEs to access sources of capital (please rank with 1 being the lowest challenge and 10 being the highest challenge)?

Sectors of the respondents:	Management (eg leadership, control, vision, timeliness, operational efficiency)	Financial (eg cash flow, cost control, debtor collection, procurement processes)	Accounting (eg record keeping, documentation, financial reporting)	Technology (eg IT skills, data management, use of website, e-commerce)	Marketing and PR (eg brand, communication, market accessibility, competitiveness)	Bureaucracy (e.g. efficiency and access to information, services and decision takers)	Processing of applications (e.g. complexity of documentation required)	Other (Please specify)
Banking & Credit Institution	3,25	7,00	6,75	7,00	7,00	9,75	9,00	0,00
Financial Advisors	5,33	8,33	7,00	5,33	5,33	8,67	8,00	0,00
Management & Corporate Advisors	3,50	8,00	7,00	6,00	8,50	9,00	7,50	0,00
Average estimation of challenges by sectors within the country:	4,03	7,78	6,92	6,11	6,94	9,14	8,17	0,00
Rank	7	3	4	6	5	1	2	8

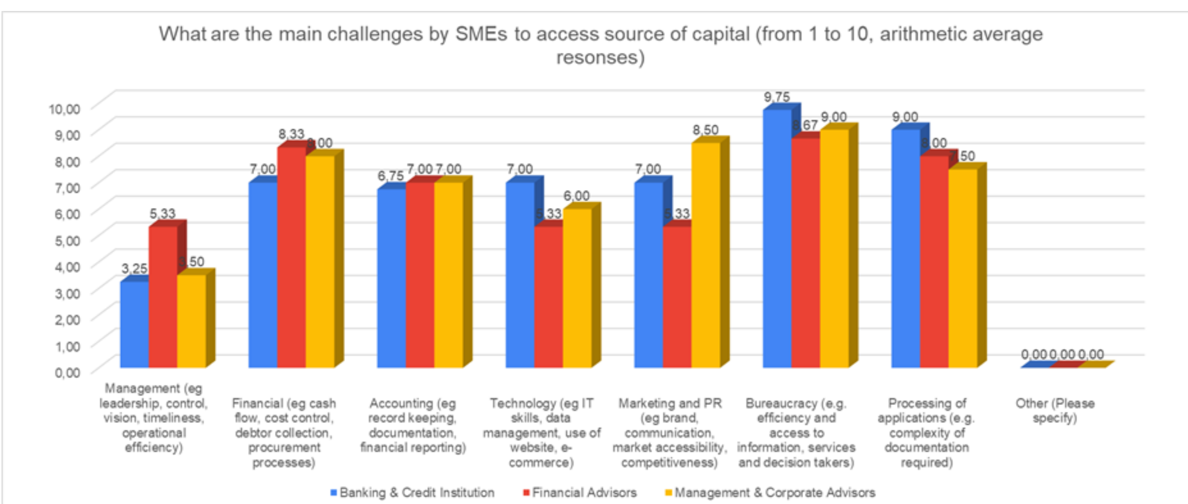


Chart 5.12. Austria, arithmetic average responses to the question: What are the main challenges faced by SMEs to access sources of capital (please rank with 1 being the lowest challenge and 10 being the highest challenge)?

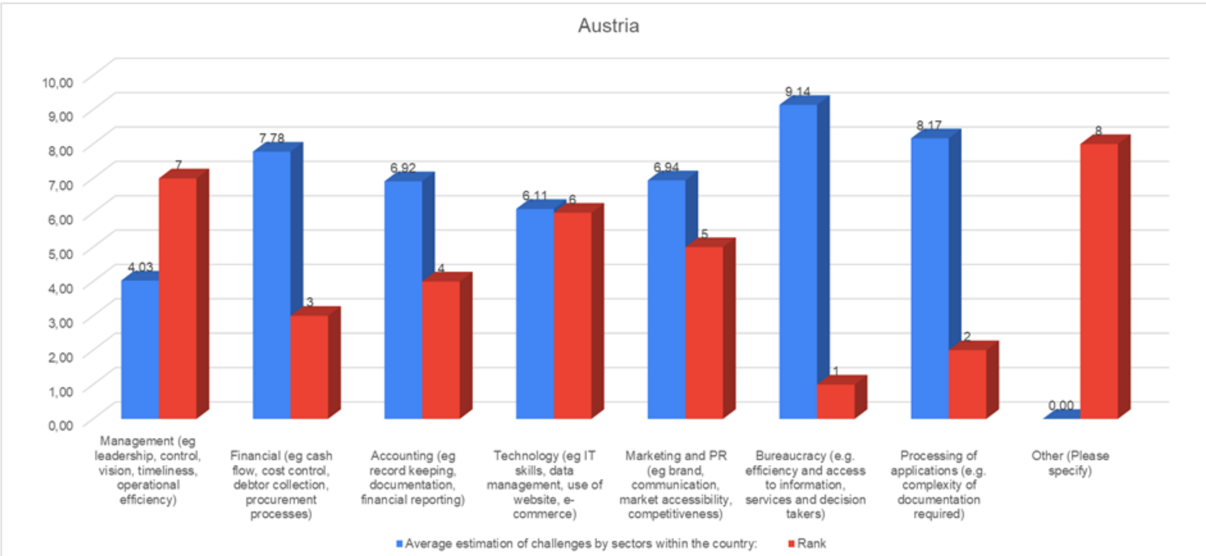


Chart 5.13 Average estimation of challenges by sectors within the country: Austria

In line with the overall score for all five countries, **Bureaucracy, Processing of applications** and **Financial operations** are the three aspects that pose the greatest challenges for Austrian SMEs when it comes to accessing sources of capital.

Marketing and PR, **Accounting** and **Technology** are rated as slightly less challenging, but their mean values are still above 6, and the only variable that has a visibly lower rating (3.9) is **Management**. The latter is also the only aspect, where the mean value is lower than the overall score for all five countries.

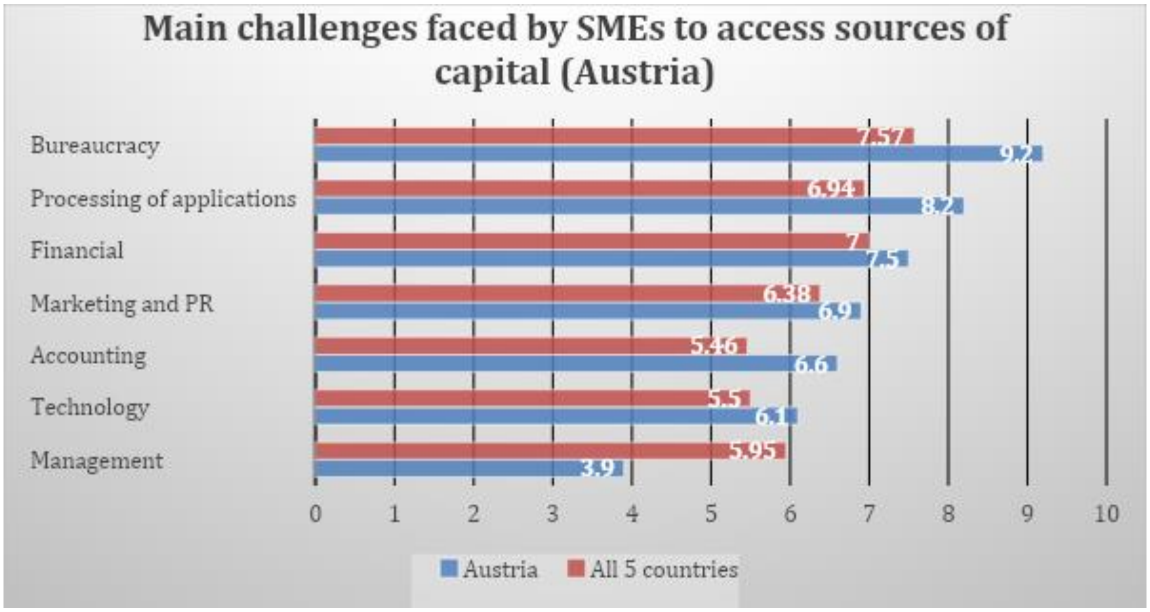


Chart 5.14. Main challenges faced by SMEs to access sources of capital – a comparison between Austria and overall score for all five countries (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge), Austria

Bulgaria

The initial data received for Bulgaria may be summarized in Table 5.7, Chart 5.15, Chart 5.16 and hart 5.17. To each of the challenges a rank was attributed with a scale from 1 to 8, where the 1 is the highest rank and 8 is the lowest one.

Table 5.7 Bulgaria, arithmetic average responses to the question: What are the main challenges faced by SMEs to access sources of capital (please rank with 1 being the lowest challenge and 10 being the highest challenge)?

Sectors of the respondent s:	Management (eg leadership, control, vision, timeliness, operational efficiency)	Financial (eg cash flow, cost control, debtor collection, procurement processes)	Accountin g (eg record keeping, document ation, financial reporting)	Technology (eg IT skills, data manageme nt, use of website, e-commerce)	Marketing and PR (eg brand, communication, market accessibility, competitivenes s)	Bureaucracy (e.g. efficiency and access to information, services and decision takers)	Processing of applications (e.g. complexity of documentatio n required)	Other (Please specify)
Other	5	6,25	3,75	5	5,25	7,75	6,25	0
Manageme nt & Corporate Advisors	8	7,5	5	5,5	5	5,5	6,5	0
National & Regional Body	5,25	6	3,75	5	4,5	8,25	5,25	0

Banking & Credit Institution	3	6	7	7	8	10	8,5	0
Average estimation of challenges by sectors within the country:	5,3125	6,4375	4,875	5,625	5,6875	7,875	6,625	0
Rank	6	3	7	5	4	1	2	8

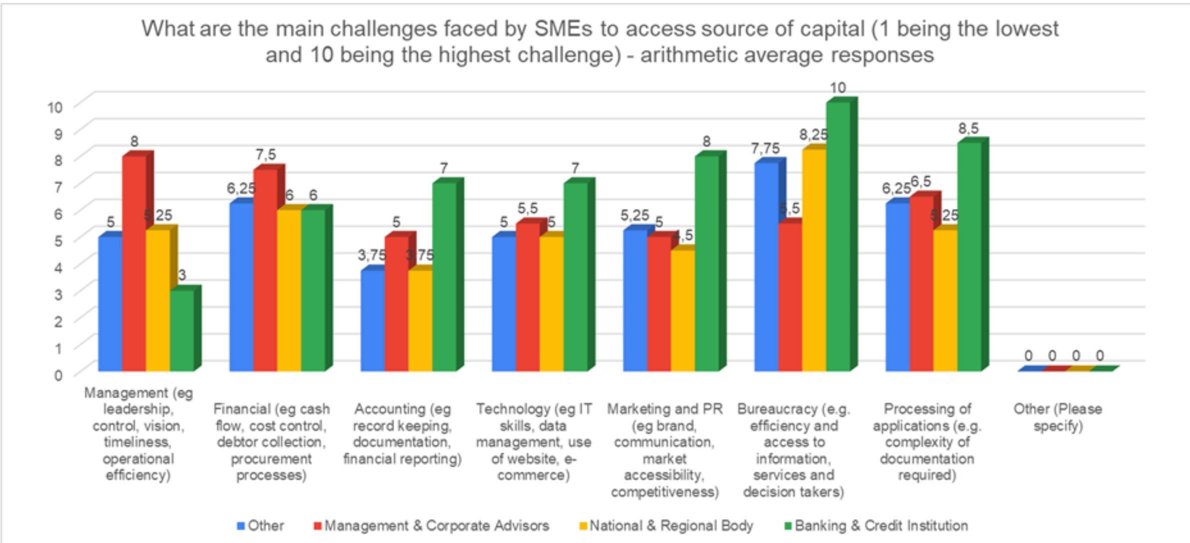


Chart 5.15 Bulgaria, arithmetic average responses to the question: What are the main challenges faced by SMEs to access sources of capital (please rank with 1 being the lowest challenge and 10 being the highest challenge)?

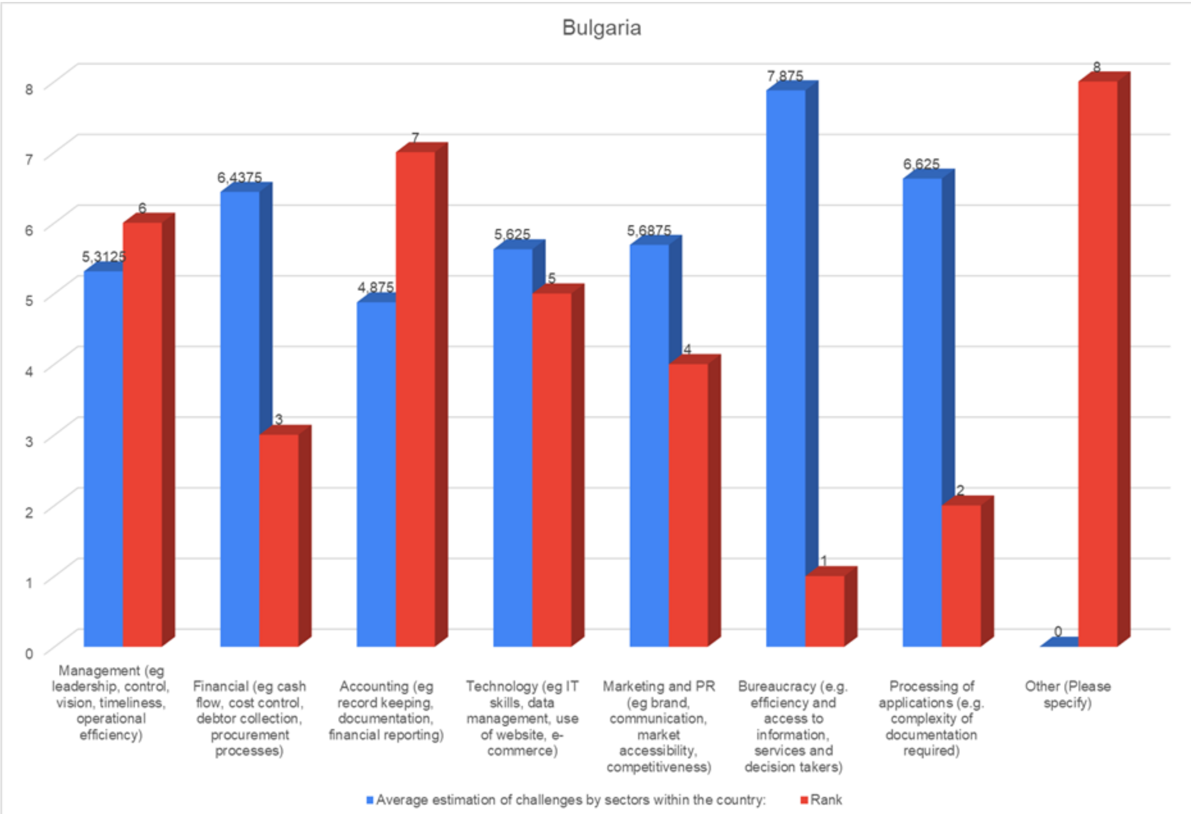


Chart 5.16 Average estimation of challenges by sectors within the country: Bulgaria

Similar to Cyprus (see further in the text), in Bulgaria **Bureaucracy**, **Processing of applications** and **Financial operations** are perceived as the three most important challenges when it comes to access to sources of capital. **Marketing and PR**, **Technology** and **Management** have similar scores just above the medium level, while **Accounting** is rated as less challenging with a mean of 4.50.

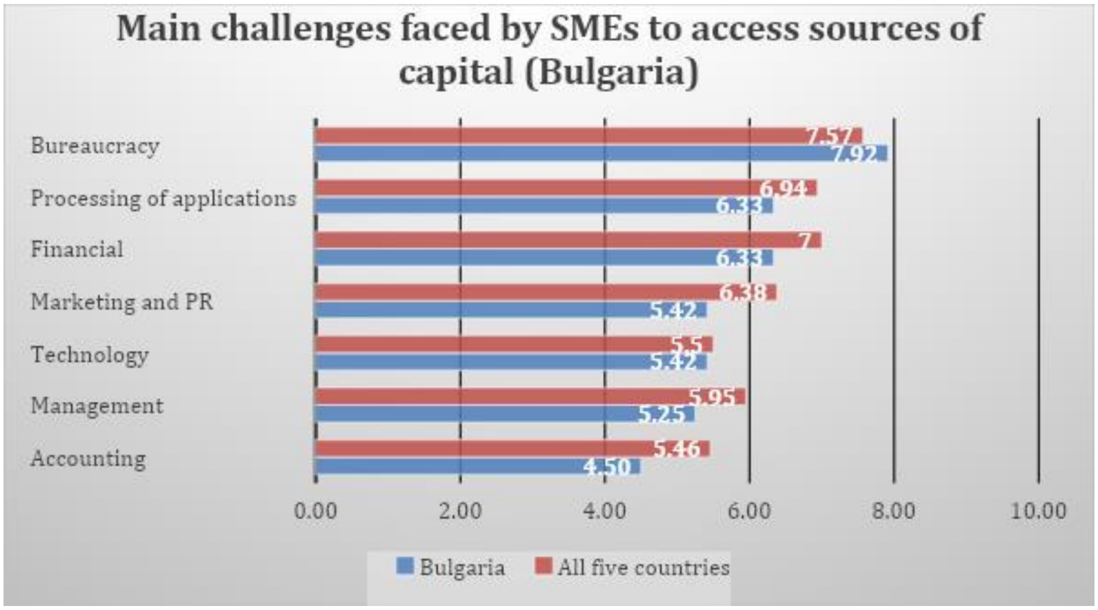


Figure 5.17. Main challenges faced by SMEs to access sources of capital – a comparison between Bulgaria and overall score for all five countries (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

Cyprus

The initial data received for Cyprus may be summarized in Table 5.8, Chart 5.18, Chart 5.19 and Chart 5.20. To each of the challenges a rank was attributed with a scale from 1 to 8, where the 1 is the highest rank and 8 is the lowest one.

Table 5.8 Cyprus, arithmetic average responses to the question: What are the main challenges faced by SMEs to access sources of capital (please rank with 1 being the lowest challenge and 10 being the highest challenge)?

Sectors of the respondents:	Management (eg leadership, control, vision, timeliness, operational efficiency)	Financial (eg cash flow, cost control, debtor collection, procurement processes)	Accounting (eg record keeping, documentation, financial reporting)	Technology (eg IT skills, data management, use of website, e-commerce)	Marketing and PR (eg brand, communication, market accessibility, competitiveness)	Bureaucracy (e.g. efficiency and access to information, services and decision takers)	Processing of applications (e.g. complexity of documentation required)	Other (Please specify)
Management & Corporate Advisors	4,25	6,5	4,25	4,5	6,5	7,25	5,75	0
Academia & Education	3	4	1	2	3	10	8	0

Other	7	9,5	5,5	7	5,5	6	6	0
Business support association	6	5	6	5	6	6	6	0
Banking & Credit Institution	7	9	5	5	5	9	10	0
Average estimation of challenges by sectors within the country:	5,45	6,8	4,35	4,7	5,2	7,65	7,15	0
Rank	4	3	7	6	5	1	2	8

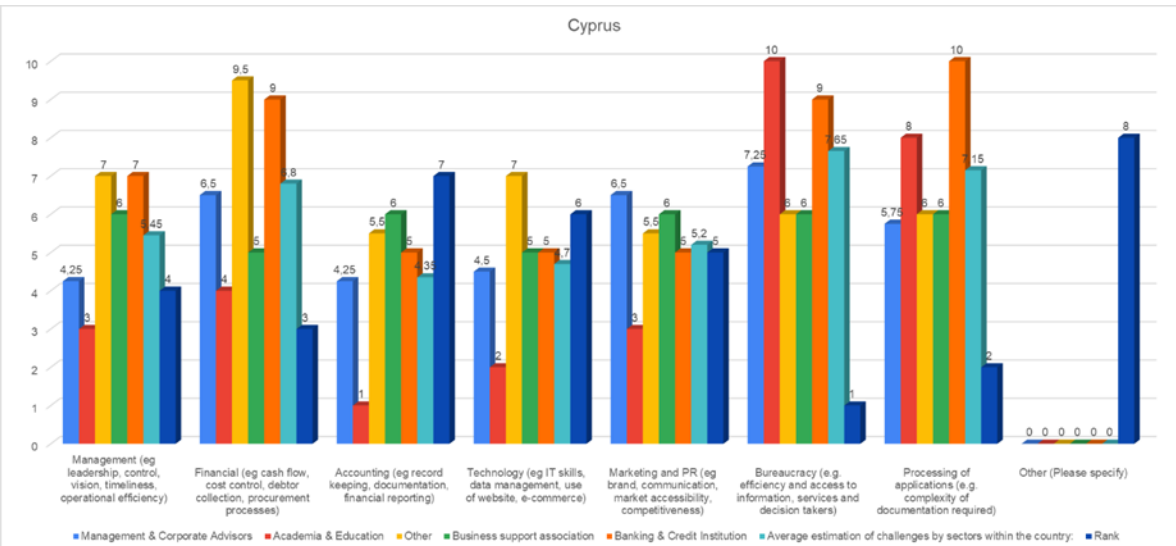


Chart 5.18 Cyprus, arithmetic average responses to the question: What are the main challenges faced by SMEs to access sources of capital (please rank with 1 being the lowest challenge and 10 being the highest challenge)?

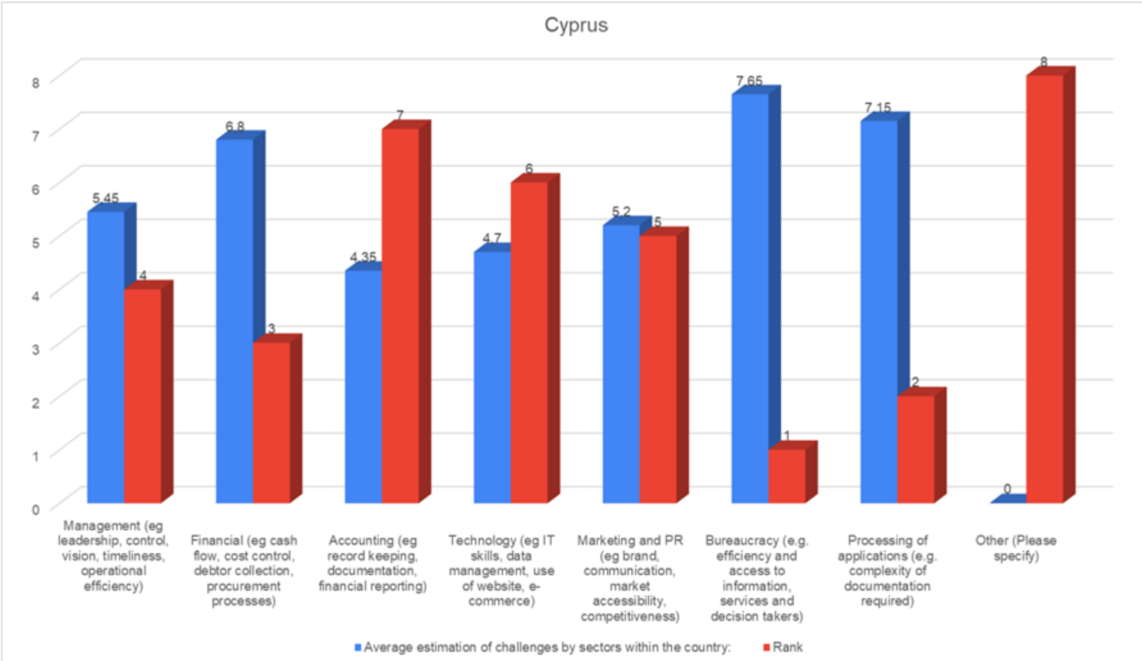


Chart 5.19 Average estimation of challenges by sectors within the country: Cyprus

Bureaucracy, Financial operations and Processing of applications are the greatest challenges for Cypriot SMEs, as reported by respondents. In line with the overall ranking, Marketing and PR, Management, Technology and Accounting are seen as less challenging, with only small differences in the mean values.

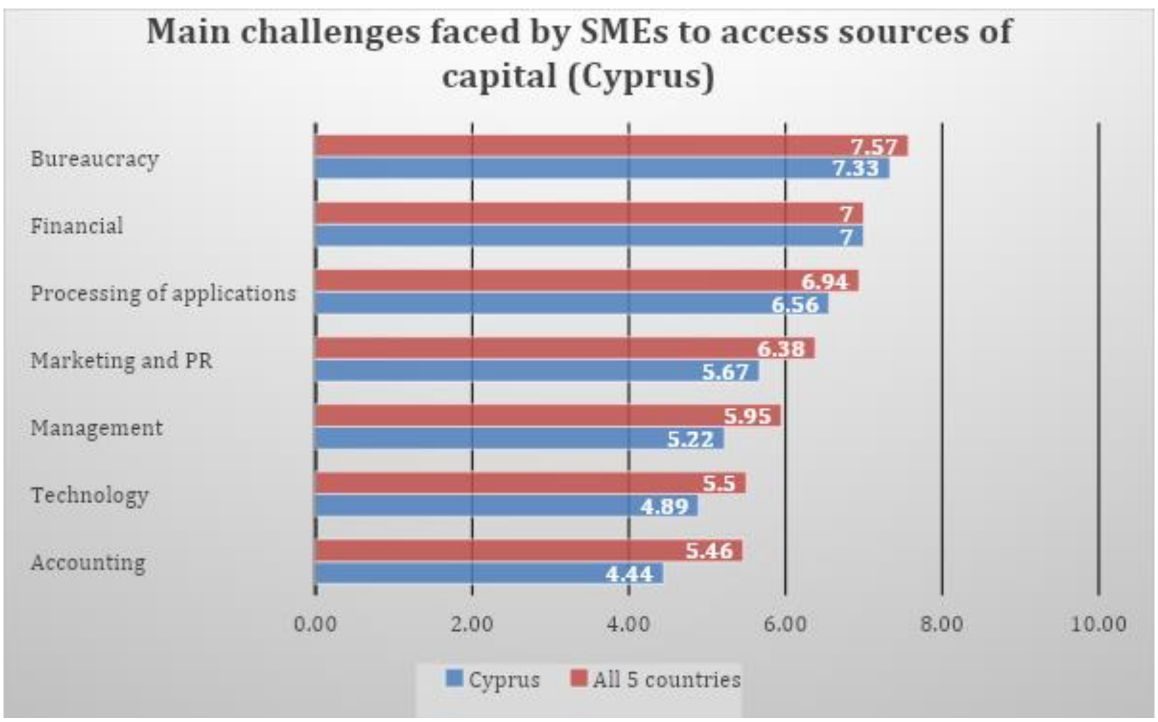


Chart 5.20. Main challenges faced by SMEs to access sources of capital – a comparison between Cyprus and overall score for all five countries (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

Cyprus, together with Bulgaria and Austria, are the only countries where we see mean values below 5. In addition, for Cyprus this is coupled with lower values for all variables compared to the overall scores of all 5 countries.

Italy

The initial data received for Italy may be summarized in Table 5.9, Chart 5.21, Chart 5.22 and Chart 5.23. To each of the challenges a rank was attributed with a scale from 1 to 8, where the 1 is the highest rank and 8 is the lowest one.

Table 5.09. Distribution of answers by the sectors of the respondents and the type of main challenges, the case of Italy

Sectors of the respondents:	Management (eg leadership, control, vision, timeliness, operational efficiency)	Financial (eg cash flow, cost control, debtor collection, procurement processes)	Accounting (eg record keeping, documentation, financial reporting)	Technology (eg IT skills, data management, use of website, e-commerce)	Marketing and PR (eg brand, communication, market accessibility, competitiveness)	Bureaucracy (e.g. efficiency and access to information, services and decision takers)	Processing of applications (e.g. complexity of documentation required)	Other (Please specify)
Financial Advisors	9	9	9	7	8,5	8,5	7	0
Management & Corporate Advisors	7,2	7,6	5,2	5	5,4	7,6	7,4	0
Academia & Education	8	6	6	5	4	7	7	0
Business Support Association	7,5	7	4	6,5	7,5	6,5	6,5	0
Average estimation of challenges by sectors within the country:	7,925	7,4	6,05	5,875	6,35	7,4	6,975	0
Rank	1	2	5	6	4	2	3	7

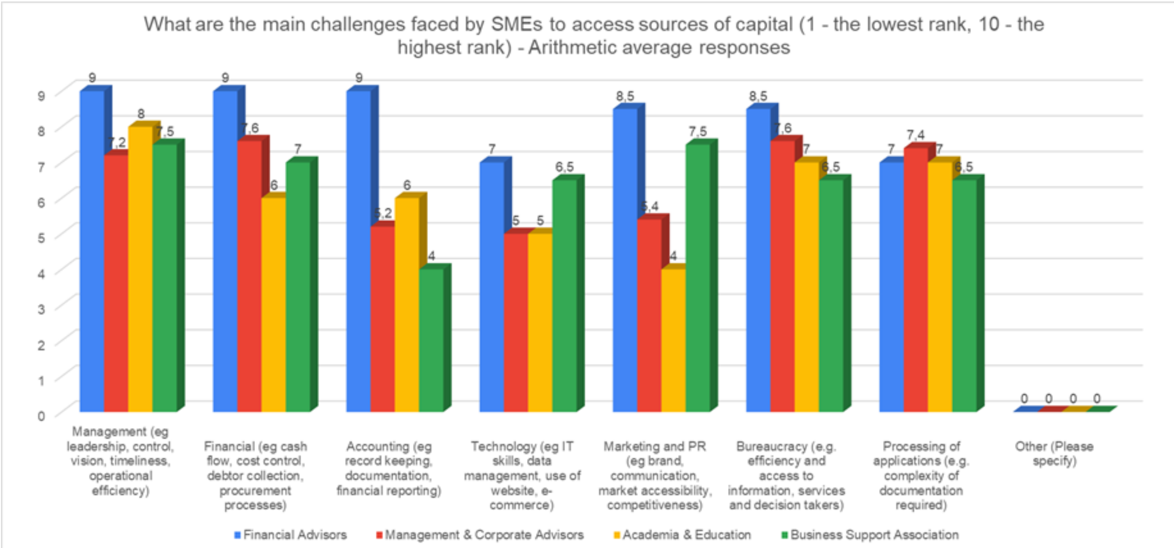


Chart 5.21 Italy, arithmetic average responses to the question: What are the main challenges faced by SMEs to access sources of capital (please rank with 1 being the lowest challenge and 10 being the highest challenge)?

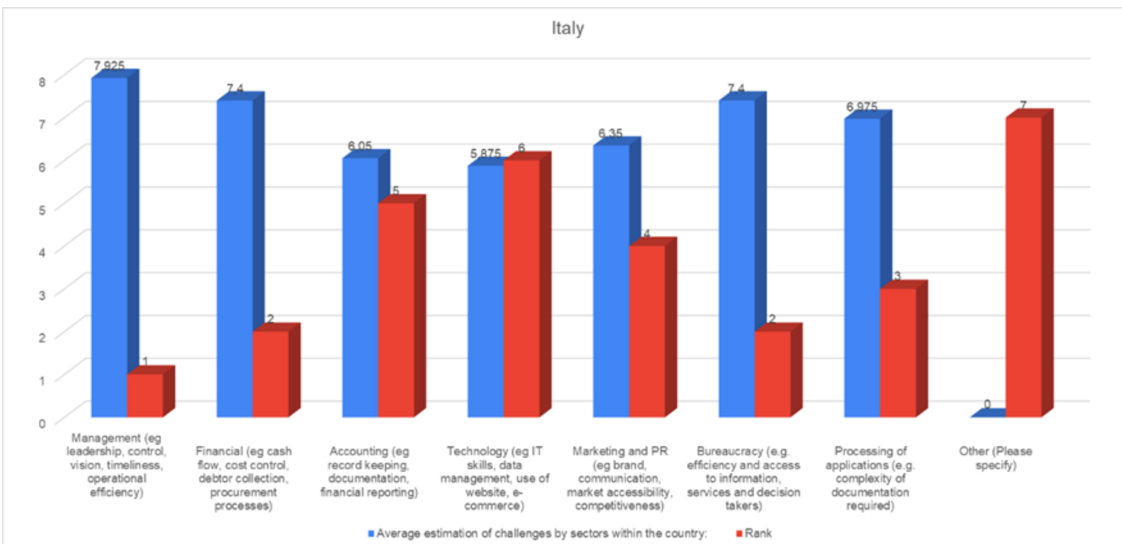


Chart 5.22. Main challenges faced by SMEs to access sources of capital – a comparison between Italy and overall score for all five countries (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge), Italy

Management, **Financial aspects**, **Bureaucracy**, and **Processing of applications** were indicated as most challenging by Italian respondents, which (apart from Management) is quite in line with the overall score, with only slight differences in individual values. Marketing and PR, Accounting and Technology are perceived as less challenging, with mean values between 5.7 and 6.3 on a 10-point scale.

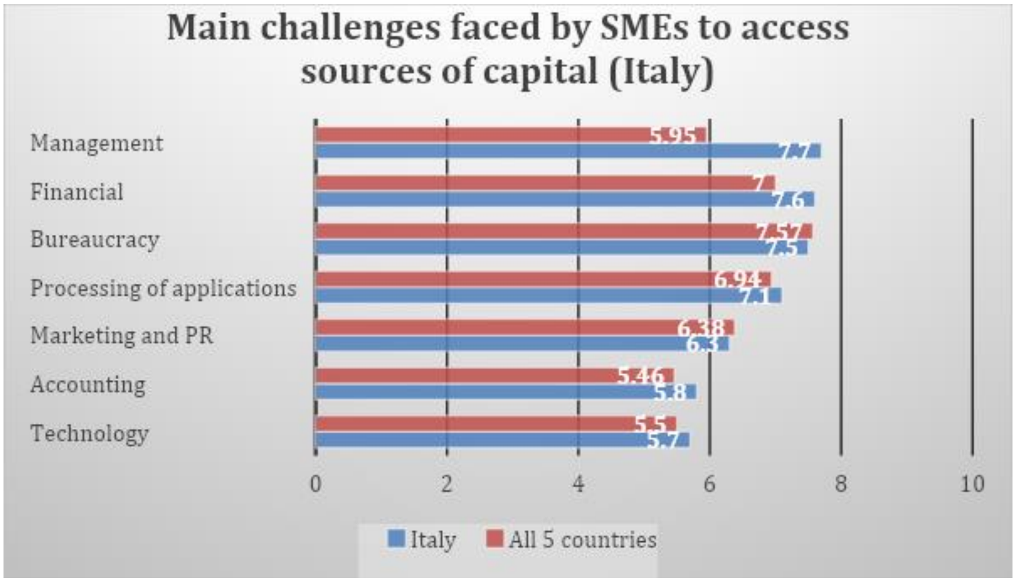


Chart 5.23. Main challenges faced by SMEs to access sources of capital – a comparison between Italy and overall score for all five countries (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

The most visible deviation from the overall scores is for the aspect that Italian SMEs ranked first – **Management**, where the means differ by almost 2 points.

Malta

The initial data received for Malta may be summarized in Table 5.10, Chart 5.24, Chart 5.25 and Chart 5.6 To each of the challenges a rank was attributed with a scale from 1 to 8, where the 1 is the highest rank and 8 is the lowest one.

Table 5.10. Distribution of answers by the sectors of the respondents and the type of main challenges, the case of Malta

Sectors of the respondents:	Management (eg leadership, control, vision, timeliness, operational efficiency)	Financial (eg cash flow, cost control, debtor collection, procurement processes)	Accounting (eg record keeping, documentation, financial reporting)	Technology (eg IT skills, data management, use of website, e-commerce)	Marketing and PR (eg brand, communication, market accessibility, competitiveness)	Bureaucracy (e.g. efficiency and access to information, services and decision takers)	Processing of applications (e.g. complexity of documentation required)	Other (Please specify)
Management & Corporate Advisors	6,67	6,67	7,00	4,67	6,67	7,00	0,00	5,00
Academia & Education	7,00	7,00	7,00	7,00	7,00	7,00	0,00	0,00
Capital market institution,	8,60	6,60	5,20	5,00	7,60	6,80	0,00	5,20
Other	3,00	4,00	4,00	5,00	5,00	5,00	0,00	3,00

Banking & Credit Institution	8,00	7,00	8,50	4,50	8,00	7,50	0,00	7,00
Financial Advisors	5,00	9,00	3,50	7,50	7,50	3,50	0,00	4,00
Average estimation of challenges by sectors within the country:	6,38	6,71	5,87	5,61	6,96	6,13	0,00	4,03
Rank	3	2	4	6	1	4	8	7

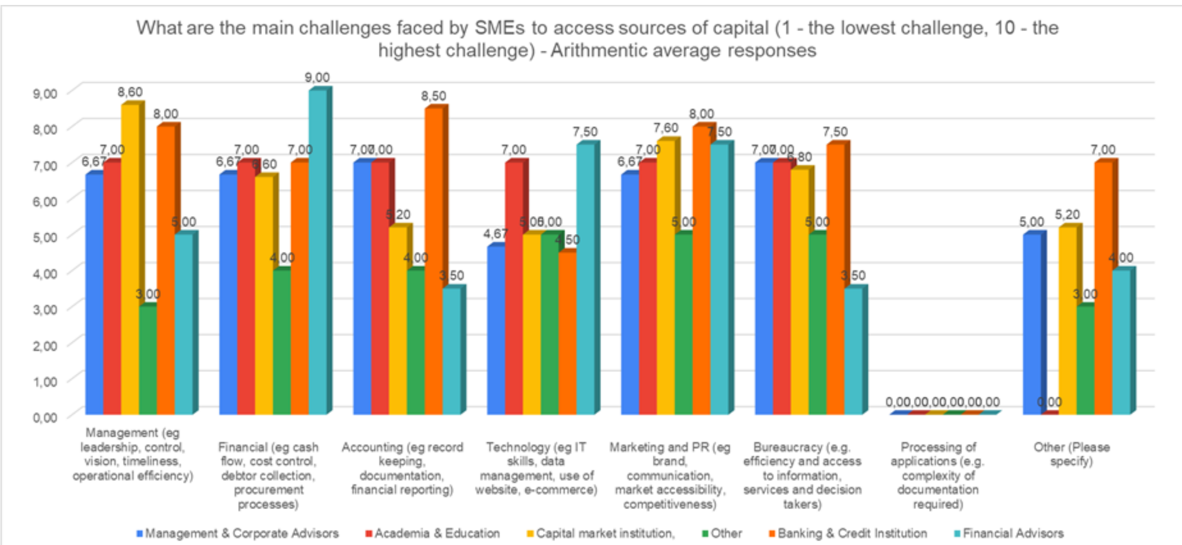


Chart 5.24 Malta, arithmetic average responses to the question: What are the main challenges faced by SMEs to access sources of capital (please rank with 1 being the lowest challenge and 10 being the highest challenge)?

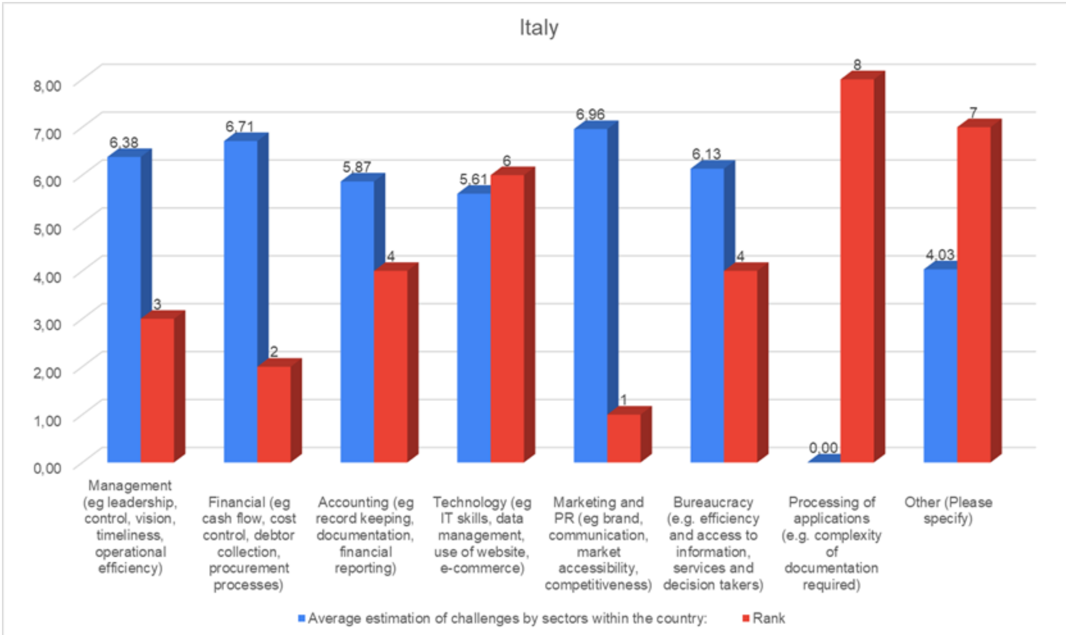


Chart 5.25. Main challenges faced by SMEs to access sources of capital – a comparison between Italy and overall score for all five countries (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge), Italy

Marketing and PR, **Management**, and **Financial** aspects were identified as the most challenging areas for Maltese SMEs as far as access to sources of capital are concerned (Chart 5.26). Unlike the overall score for all 5 countries, **Bureaucracy** and **Processing of applications** were rated slightly lower – with a mean of 6.64 and 6.4 respectively. **Accounting** and **Technology** are perceived as the least challenging of all seven aspects, but again their means are above 5, indicating a medium level.

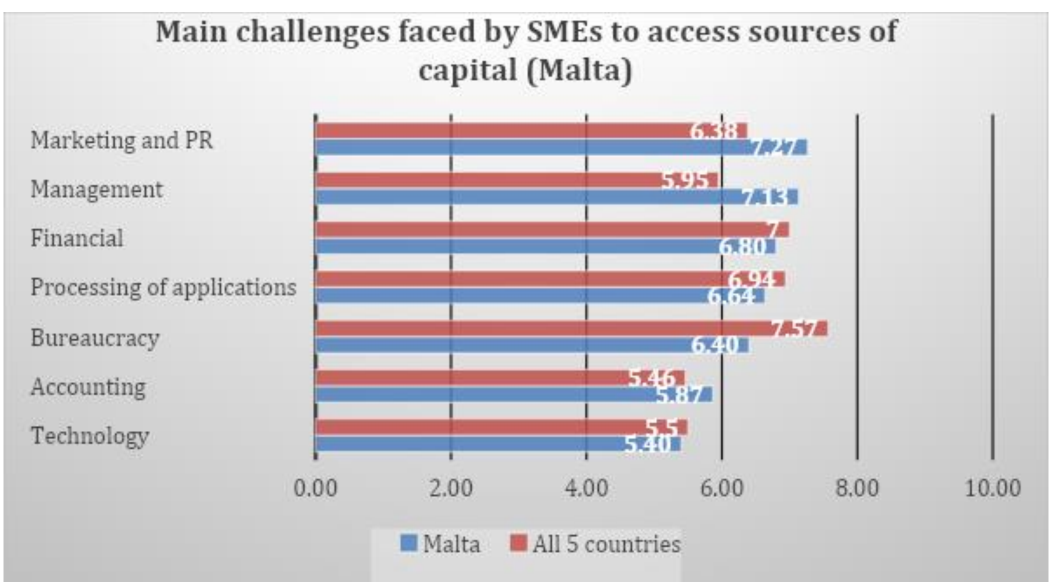


Chart 5.26. Main challenges faced by SMEs to access sources of capital – a comparison between Malta and overall score for all five countries (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

Malta is the only country where Marketing and PR (brand, communication, market accessibility, competitiveness) is ranked first in terms of challenge, while Bureaucracy is in the lower part of the spectrum, in contrast with the overall score of all five countries.

KEY POINTS:

While there are certain differences in the challenges faced by SMEs in the five countries under study, some common features are also observed.

- Bureaucracy appears to be the most serious obstacle to access to sources of capital. In both the overall ranking and the individual country results, it is consistently in the top three challenges, with the only exception being Malta.

- The country, where Bureaucracy was rated significantly higher in terms of the challenge it poses than all other countries is Austria.

- Although to different degrees, Processing of applications and Financial aspects are also perceived as a serious challenge in all five countries;

- Accounting and Technology are seen as least challenging in all five countries.

- The greatest inconsistency between individual countries is observed in Management. While this is the most challenging aspect in Italy (with a mean of 7.7) and second most challenging for Italian SMEs (a mean of 7.13), for all other countries it is either slightly above the medium level, or even much below it (in the case of Austria).

- Marketing and PR seem to be the most important issue in Malta, while for the other four countries, it is ranked as not so challenging compared to Bureaucracy, Processing of applications and Financial operations.

ANALYSIS BY SECTOR

In this section, data will be analysed with respect to the sector in which respondents operate, focusing on the factors considered most challenging by respondents. The analysis includes the identification of the 3 most challenging aspects for SMEs in terms of access to sources of capital.

BANKING & CREDIT INSTITUTIONS

According to respondents in the banking and credit institution sector, the three most challenging areas for SMEs are: *Bureaucracy, Processing of Applications* and *Marketing and PR* (Chart 5.27).

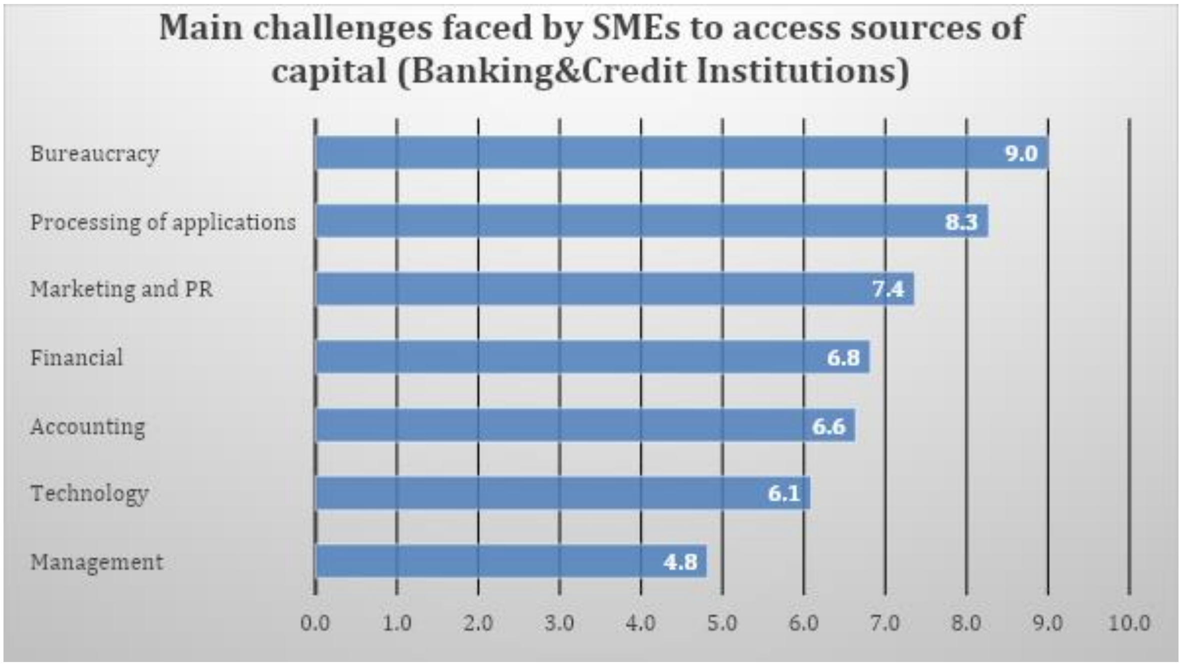
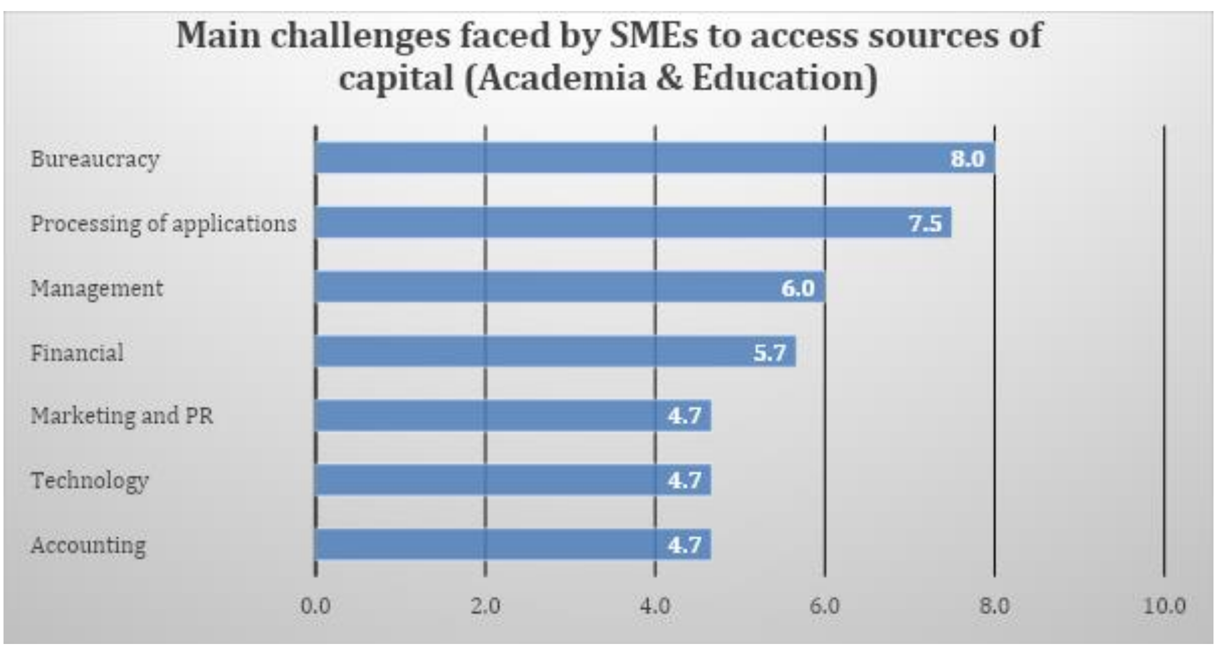


Chart 5.27 Main challenges faced by SMEs to access sources of capital – Banking & Credit Institutions (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

ACADEMIA & EDUCATION

Respondents from the Academia and Education sector ranked *Bureaucracy, Processing of applications* and *Management* as the most challenging aspects for SMEs in terms of access to sources of capital (Chart 5.28).



Char 5.28. Main challenges faced by SMEs to access sources of capital – Academia & Education (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

BUSINESS SUPPORT ASSOCIATIONS

In the case of Business Support Associations, it is not possible to identify the top three challenges, because there are three aspects that have the same mean value (6.3): Processing of applications, Bureaucracy, and Financial. The two highest rated items are Marketing and PR, and Management (Chart 5.29).

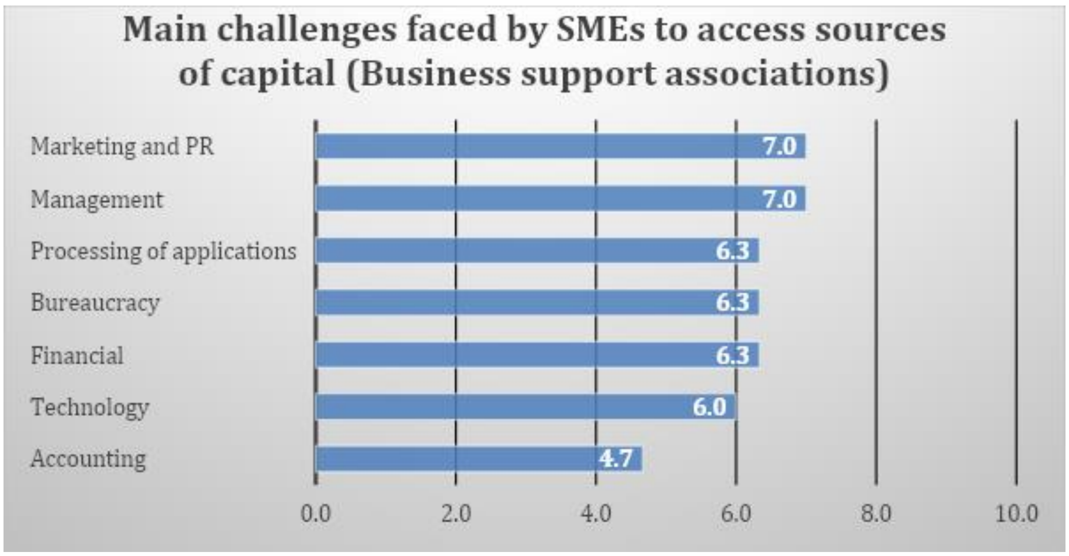


Chart 5.19. Main challenges faced by SMEs to access sources of capital – Business support associations (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

CAPITAL MARKET INSTITUTIONS

Management, Marketing and PR, and *Bureaucracy* were identified as most challenging for SMEs by respondents from capital market institutions (Chart 5.30). This ranking is different from the overall one, where Marketing and PR and Management do not fall into the top three challenges.

Chart 5.30. Main challenges faced by SMEs to access sources of capital – Capital market institutions (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

FINANCIAL ADVISORS

The results from the financial advisors' group of respondents does not differ significantly from the overall ranking: the top-rated challenges for SMEs in this case are *Financial*, *Processing of applications and Bureaucracy* (Chart 5.31). There are only differences in the ranking order (e.g. Bureaucracy takes the third place for financial advisors, while in the overall ranking it is the top challenge) and in the mean values.

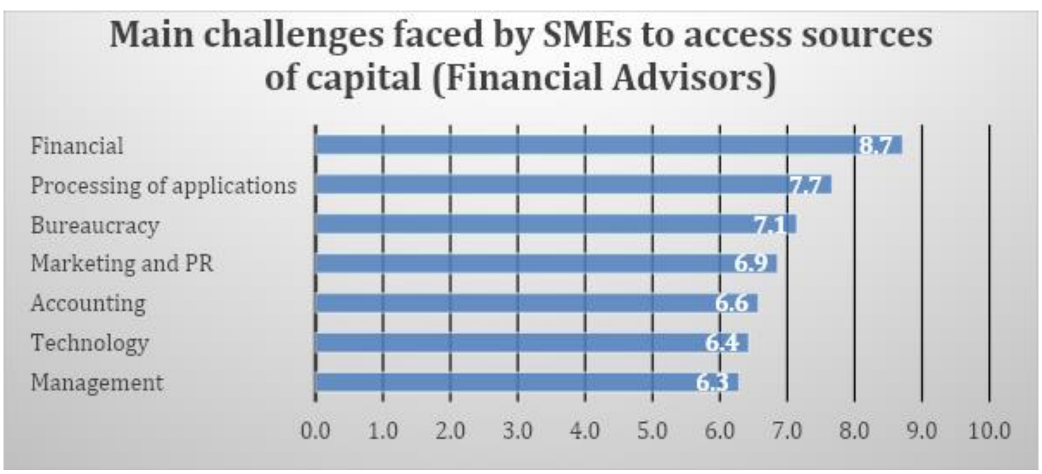


Chart 5.31. Main challenges faced by SMEs to access sources of capital – Financial advisors (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

MANAGEMENT & CORPORATE ADVISORS

The ranking of the top three most important challenges provided by the Management & Corporate Advisors' group mirror the overall ranking presented in the previous section. *Bureaucracy* is identified as the major challenge with a mean of 7.3 on a 10-point scale, followed by *Financial* and *Processing of applications* (Chart 5.32).

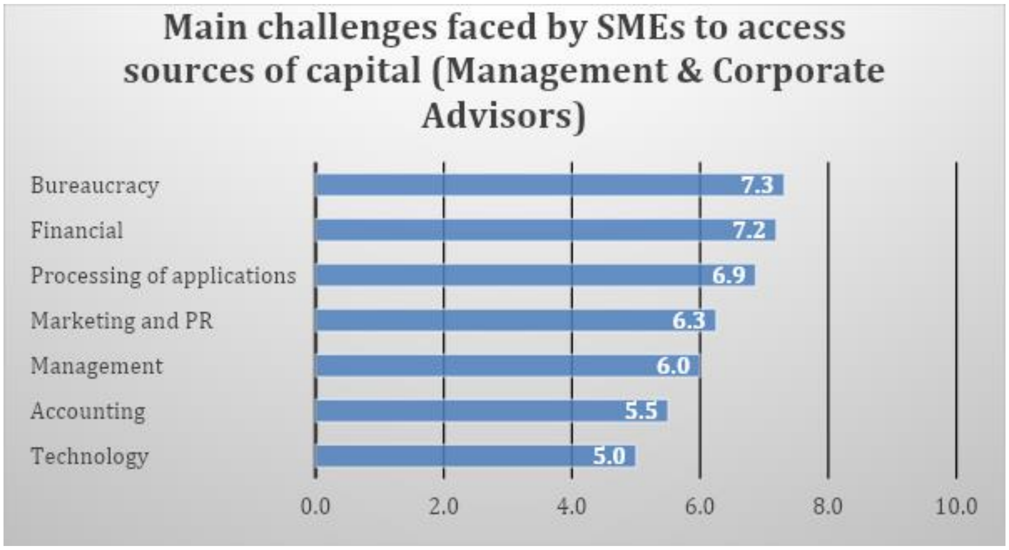


Chart 5.32. Main challenges faced by SMEs to access sources of capital – Management and Corporate Advisors (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

NATIONAL & REGIONAL BODY

Just like the Management & Corporate Advisors' group, respondents from National and regional bodies reported *Bureaucracy*, *Financial* and *Processing of applications* as the three main challenges faced by SMEs to access sources of capital (Chart 5.34). The only difference is in the mean values – *Bureaucracy* was rated much higher (8.3), while Processing of applications – significantly lower (5.3).

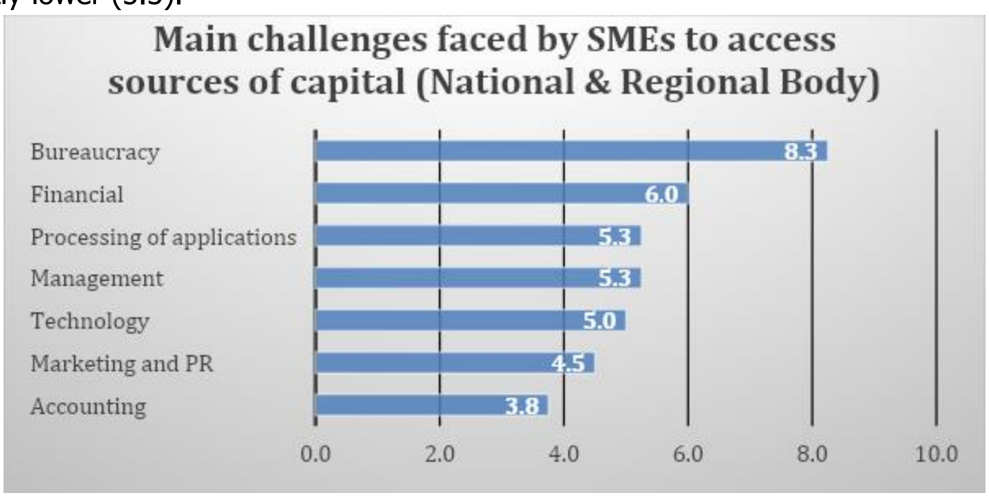


Chart 5.34. Main challenges faced by SMEs to access sources of capital – National and regional bodies (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

OTHER

No significant deviations from the overall ranking are observed in the results from the respondents from the Other group (Chart 5.35), apart from lower mean values for all top three challenges.

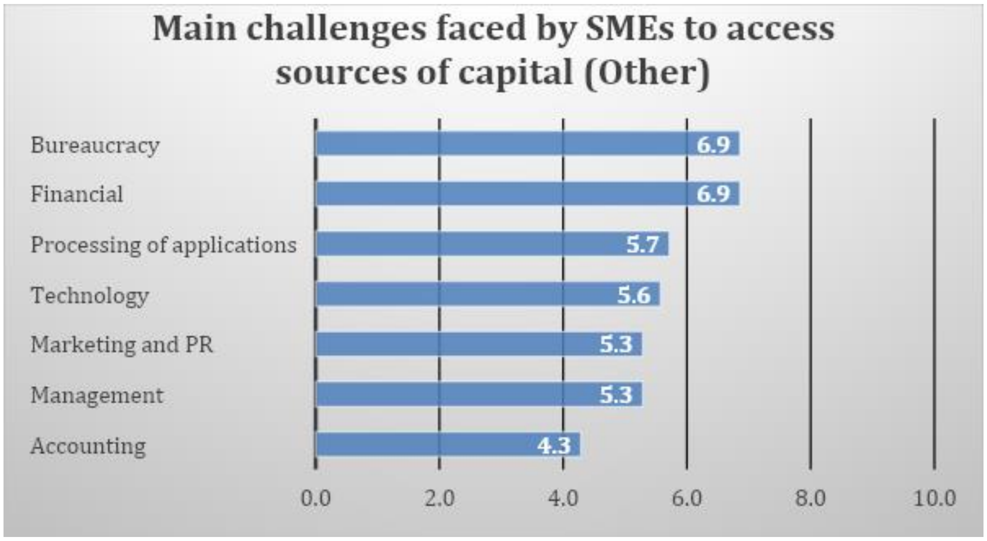


Chart 5.35. Main challenges faced by SMEs to access sources of capital – Other (means on a 10-point scale with 1 - lowest challenge and 10 - highest challenge)

KEY POINTS:

Based on the findings, the following conclusions about the differences and common points can be made, depending on the sector in which the respondents operate:

- In any sector, *Processing of applications* is considered as one of the most challenging obstacles for SMEs to access sources of capital;
- Half of the sectors: Financial advisors, National & Regional Bodies, Management & Corporate advisors ranked Bureaucracy, Processing of applications and Financial as the three most important challenges, which is in line with the overall ranking.
- The other half: Banking & Credit Institutions, Academia & Education, Business support associations and Capital market institutions, perceive Management and/or Marketing and PR as some of the most important challenges. All of them however also have Processing of application and/or Bureaucracy in their top-three list.

SECTION 6

Questions:
Q7: What are the likely challenges faced by an SME in order to access each of the following financial products: (i) Overdraft; (ii) bank loan; (iii) Public / EU / National grant; (iv) Capital market equity; (v) Capital market bond; (vi) Venture capital; Guarantee scheme; (vii) Crowdfunding.

Objective:
To analyse the results and elaborate each of the challenges i.e. link overdraft/short-term loan to the increase in interest rates and the implication on borrowers, the lack of collateral, no credit history of a new business entity.

The respondents were asked to point three major challenges for each of the financial products, In some countries like Bulgaria and Malta, they pointed more than 3 challenges. The major issue in representing and analysing the questionnaire survey results was the turning of the qualitative results into quantative ones. This was achieved by the use of the "COUNTIF" function of the MS Excel tables and counting the responses for the challenges faced by an SME for each financial product in each of the five countries of the study (Austria, Bulgaria, Cyprus, Italy and Malta) and for the five countries as a whole.

6.1. Analysis of the challenges per each of the country in the study

Austria

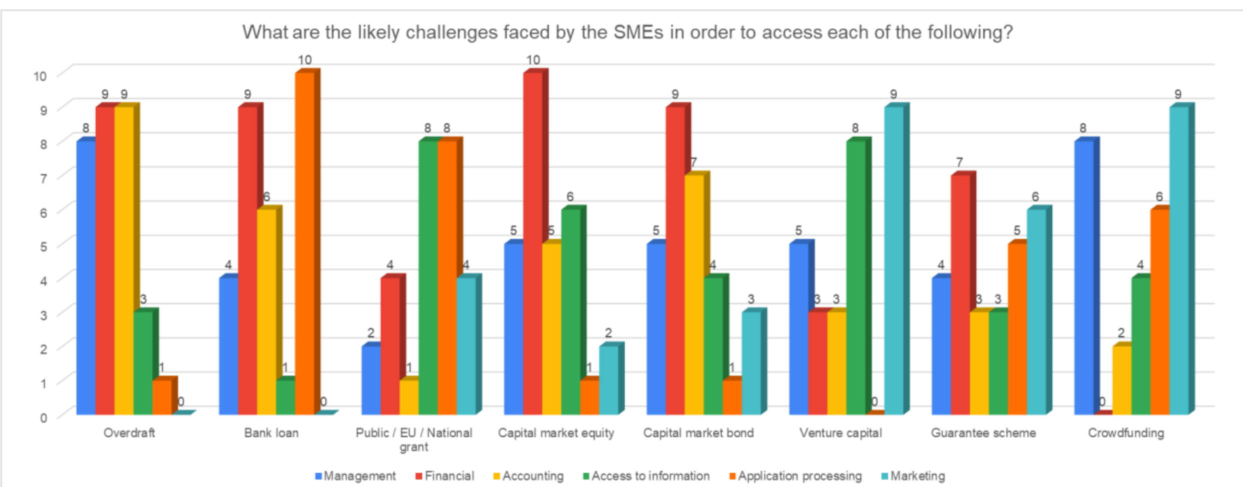


Chart 6.1. The main challenges per financial products faced by an SME in Austria

In Austria, almost for all the financial products, the SMEs face as an issue the financial challenge. The second most **frequent challenge** met is the **management challenge**. The management challenge is with highest values in the overdraft and in the crowdfunding. This may be explained with the immediate effect of the managerial decisions within the SMEs on their liquidity and the company's capacity to stay solvent. The management challenge is also highly rated and visible from the data of challenges faced by the SMEs for all the financial products in Austria (Chart 6.2), where **the top three challenges** include: (i) Management; (ii) Financial and (iii) Access to information.

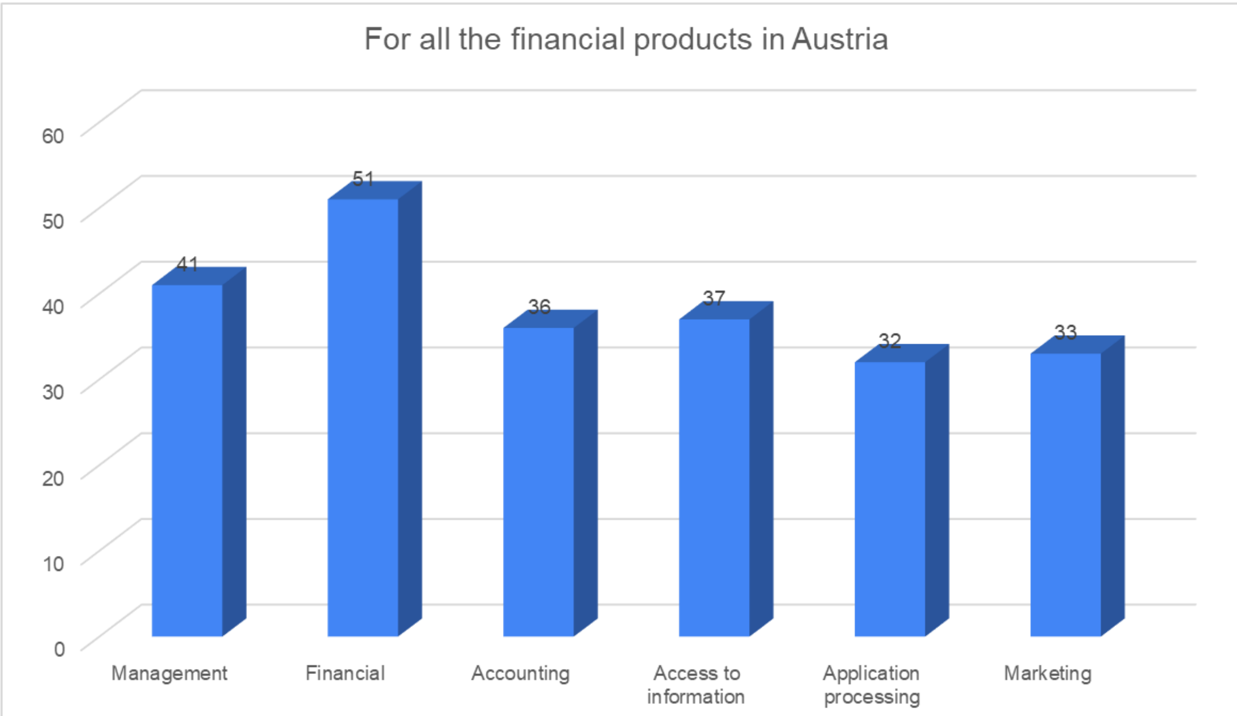


Chart 6.2. Challenges faced by an SMEs for all the financial products in Austria

<u>Bulgaria</u>

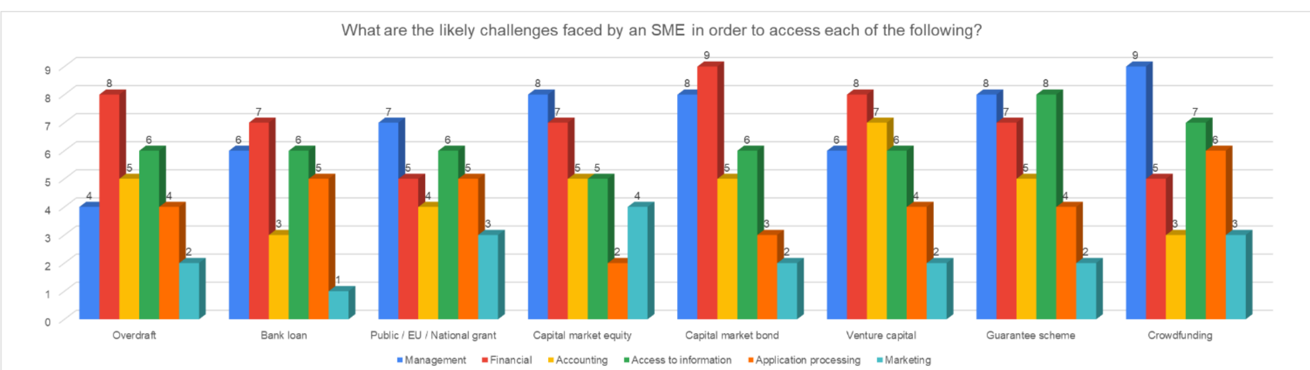


Chart 6.3. The main challenges per financial products faced by an SME in Bulgaria

In Bulgaria, the SMEs are facing challenges in the use of financial products in almost all areas. This may be explained with the underdevelopment of the Bulgarian economy in comparison to the other 4 countries coming within the scope of the questionnaire study. **The two most frequent challenges** are **the management** and **the financial challenge**. The is also evident and visible from the data of challenges faced by the SMEs for all the financial products in Bulgaria (Chart 6.4), where **the top three challenges** include: (i) Management; (ii) Financial and (iii) Access to information.

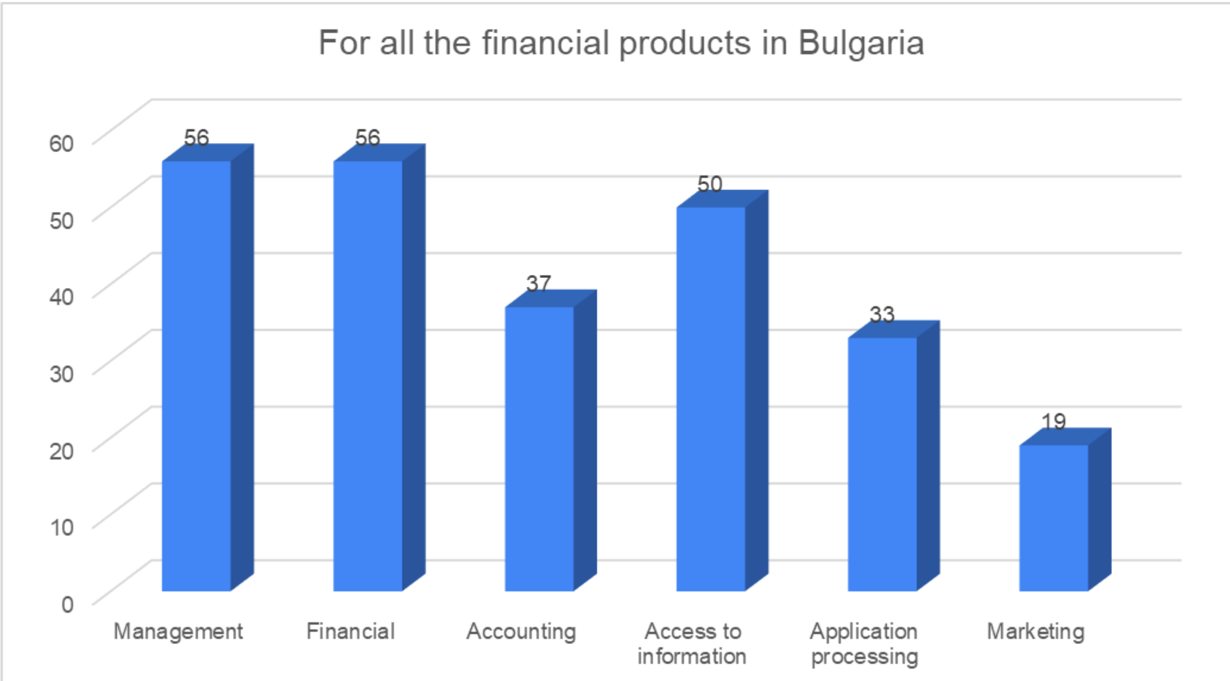
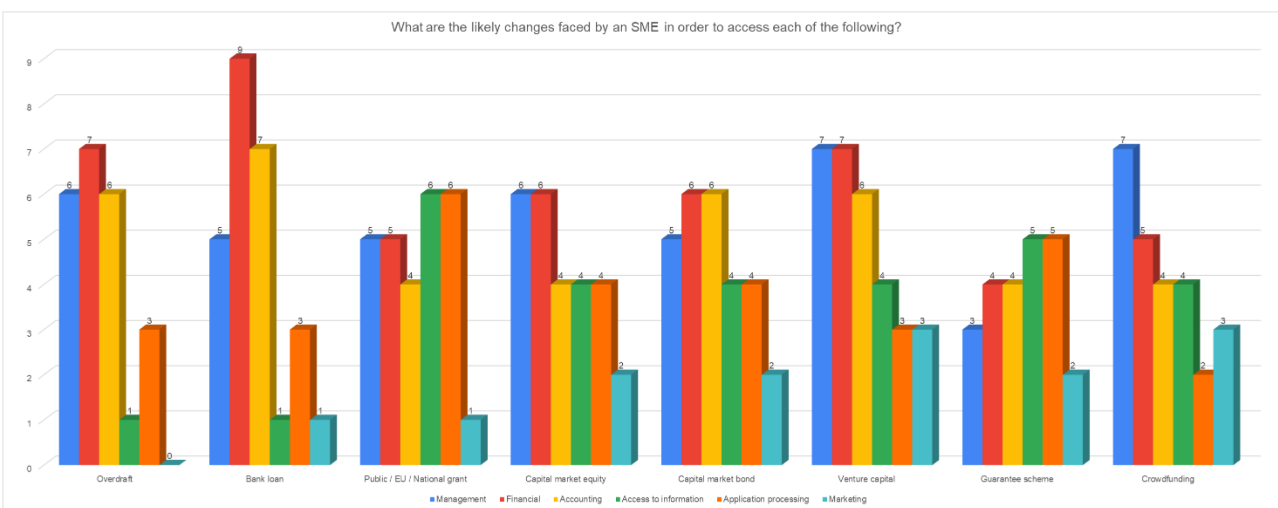


Chart 6.4. Challenges faced by an SMEs for all the financial products in Bulgaria

<u>Cyprus</u>



In Cyprus the **management** and **financial** challenges are higher for overdraft and the bank loans and they remain high for all other financial products too followed usually by the accounting and the access to information challenges. Similarly to Austria, this may be explained with the immediate effect of the managerial decisions within the SMEs on their liquidity and the company's capacity to stay solvent. Other factors that add to the high rating of these challenges are the slight but gradual increase of the interest rates both globally and across Europe and with the post COVID-19 instability in the supply chains that has been further engraved by the war in Ukraine. The is also evident and visible from the data of challenges faced by the SMEs for all the financial products in Cyprus (Chart 6.6), where the top three challenges include: (i) **Management**; (ii) **Financial** and (iii) **Accounting**.

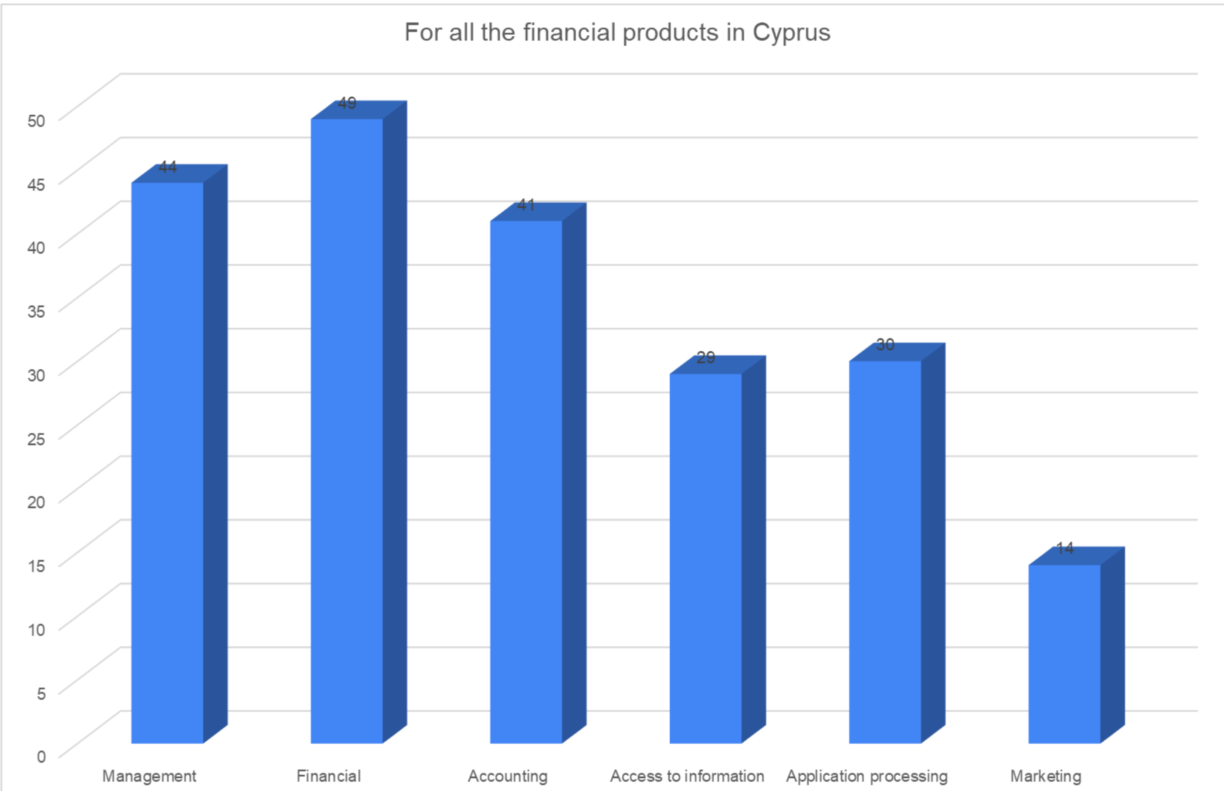


Chart 6.6. Challenges faced by an SMEs for all the financial products in Cyprus

<u>Italy</u>

In Italy (Chart 6.7), the **financial** challenge is highly rated as response for the challenges facing the SMEs for the **Overdraft** and the **Bank loans**, whereas the management issues are regarded as highest in rate challenges for the **Public / National / EU grants** and the **Crowdfunding**. The rating presented in Chart 6.7 can be explained with the process of the slight but gradual increase of the interest rates both globally and across Europe and with the post COVID-19 instability in the supply chains that has been further engraved by the war in Ukraine. As it becomes evident from data collected for challenges facing the SMEs for all the financial products in Italy (Chart 6.8), the top three challenges include: (i) **Management**; (ii) **Financial** and (iii) **Accounting**.

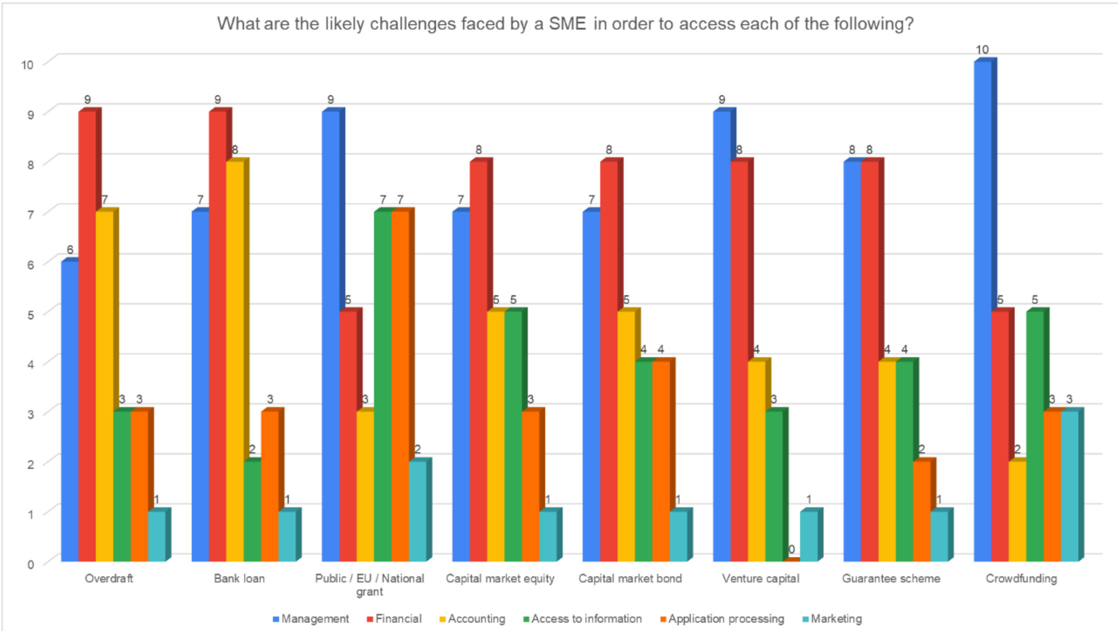


Chart 6.7. The main challenges per financial products faced by an SME in Italy

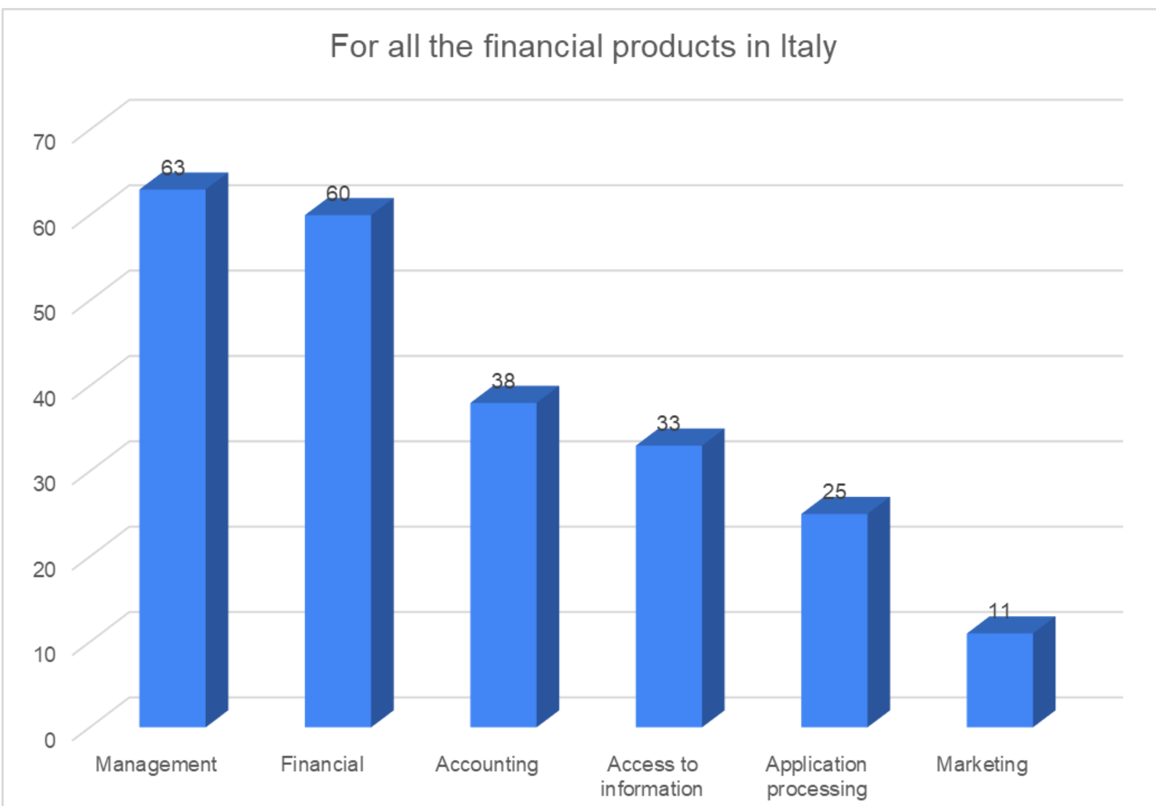


Chart 6.8. Challenges faced by an SMEs for all the financial products in Italy

<u>Malta</u>

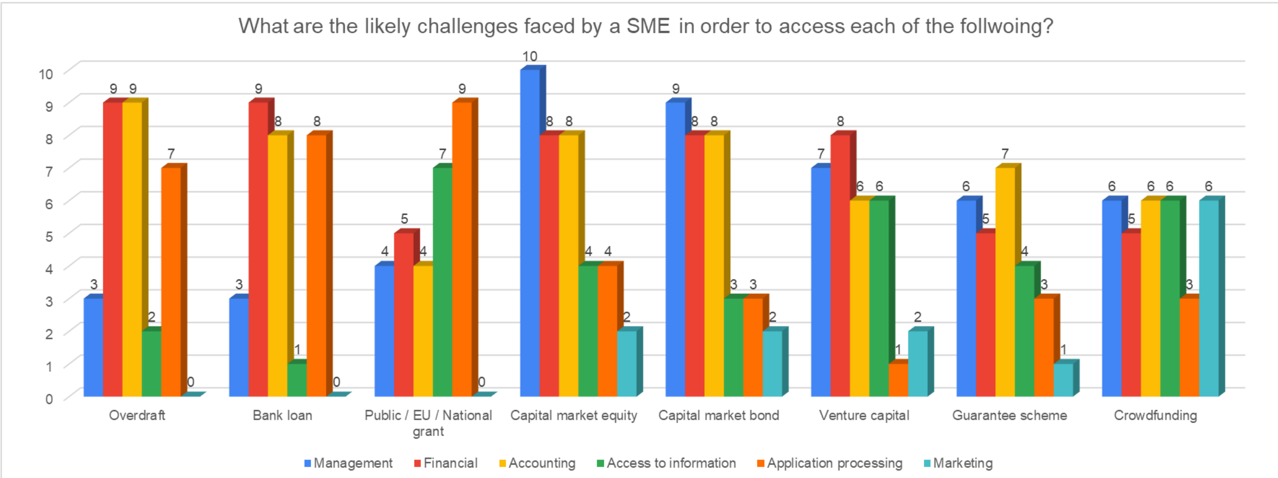


Chart 6.9. The main challenges per financial products faced by an SME in Malta

In Malta, **Financial** issues were the main challenged facing the SMEs for the **Overdraft** the **Bank loan** and the **Venture capital**, while the management issues were regarded as main challenge for the **Capital market equity** and the **Capital bond**. Accounting was rated as a highest challenge for the **Public / EU / National grants** and the **Guarantee schemes**. Here again as explanations for the preferences on the challenges for the Overdraft and the Bank loans, can be used the slightly but steady increase in the interest rates. The challenges in the use of the Public / national / EU grants can explained by the necessity of a more specialized knowledge, skills and competences on filling in and reporting project with public / national or EU funding. As Malta is a renounced centre of stock exchange trading, and taking into account the size of its population, the scale of its economy and the high percentage of investment attracted from the stock market, it is no wonder why management, financial and accounting issues are rated high for the capital market equity and the capital market bond.

As it becomes evident from data collected for challenges facing the SMEs for all the financial products in Malta (Chart 6.10), the top three challenges include: (i) **Management**; (ii) **Financial** and (iii) **Accounting**.

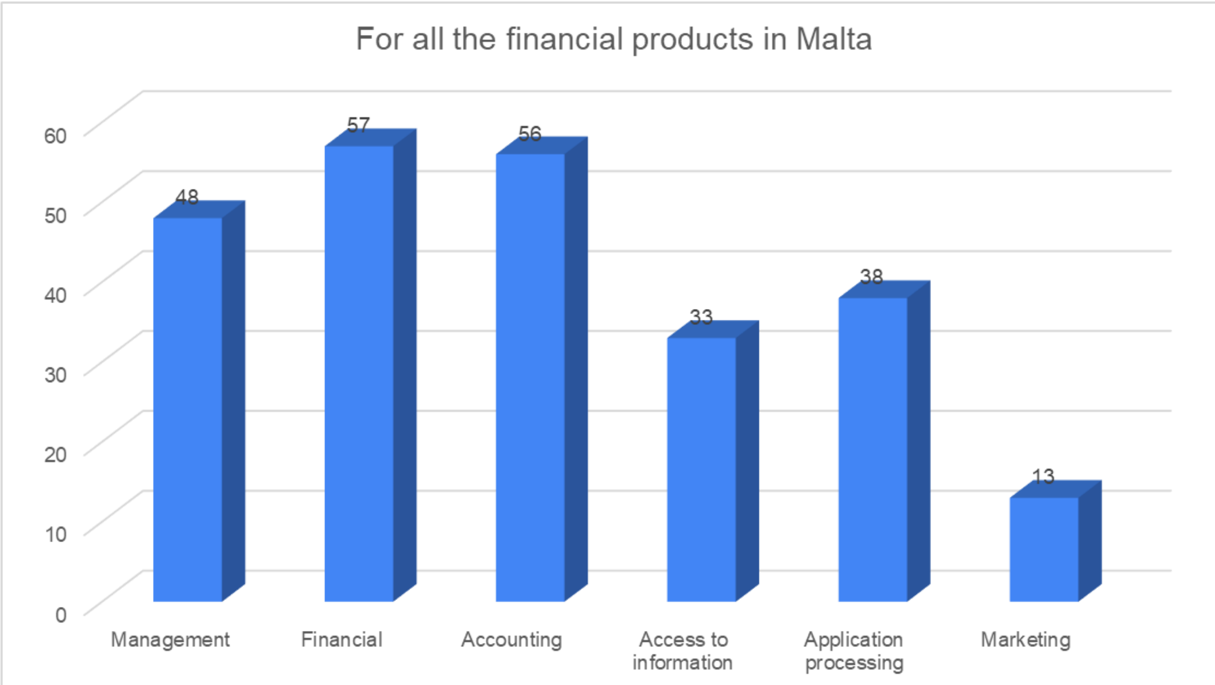


Chart 6.10. Challenges faced by an SMEs for all the financial products in Malta

6.2. Analysis of the challenges for all the five EU countries in the study

Based on the results of the questionnaire study achieved in each of the five countries, namely Austria, Bulgaria, Cyprus, Italy and Malta, a recapitulation can be made regarding the challenges facing the SMEs for each of the financial products and as a whole for all these five countries. As seen from Cart 6.11, the financial issues are the highly rated in Bank loan, the Capital market equity and the Capital market bond. The financial and management issues are even rated for the Venture capital, and management issues are the highest rated for the Crowdfunding. The Management issues are also pint as a second best challenge for the Capital market equity, the Capital market bond and the Guarantee scheme. The second best challenge for the Overdraft and the Bank loan is the Accounting. And the second best challenge for the Public / National / EU grant, for the Venture capital and for the Crowdfunding is seen in the Access to Information.

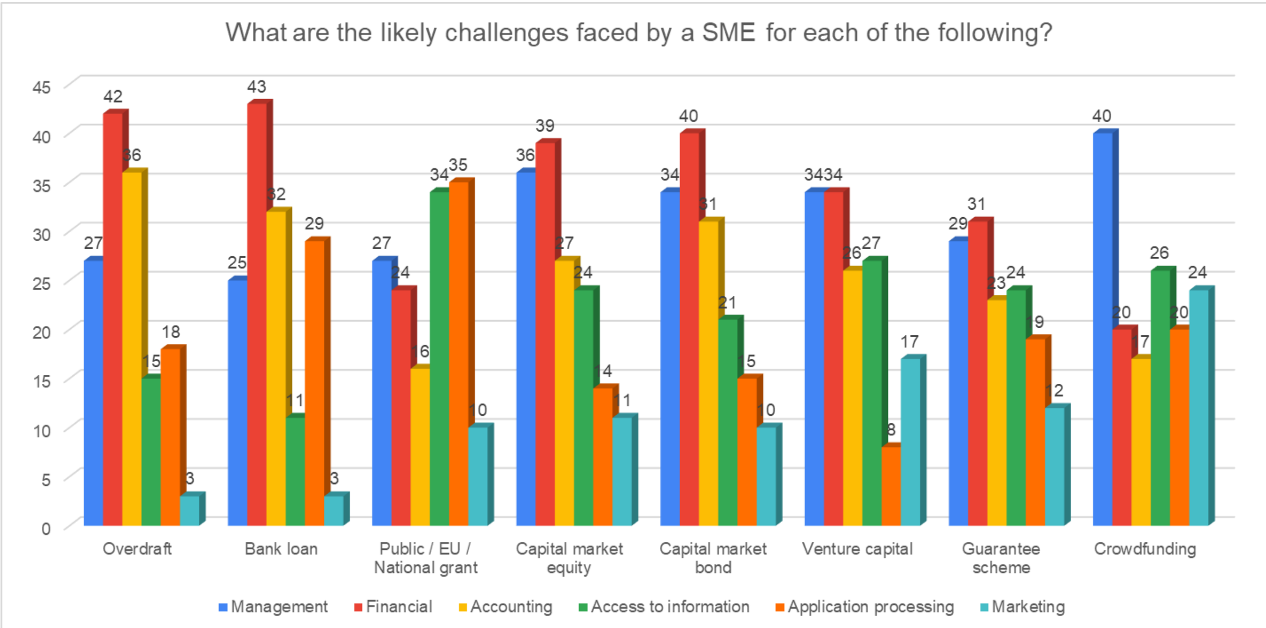


Chart 6.11. The main challenges per financial products faced by an SME in all the five countries of the questionnaire study

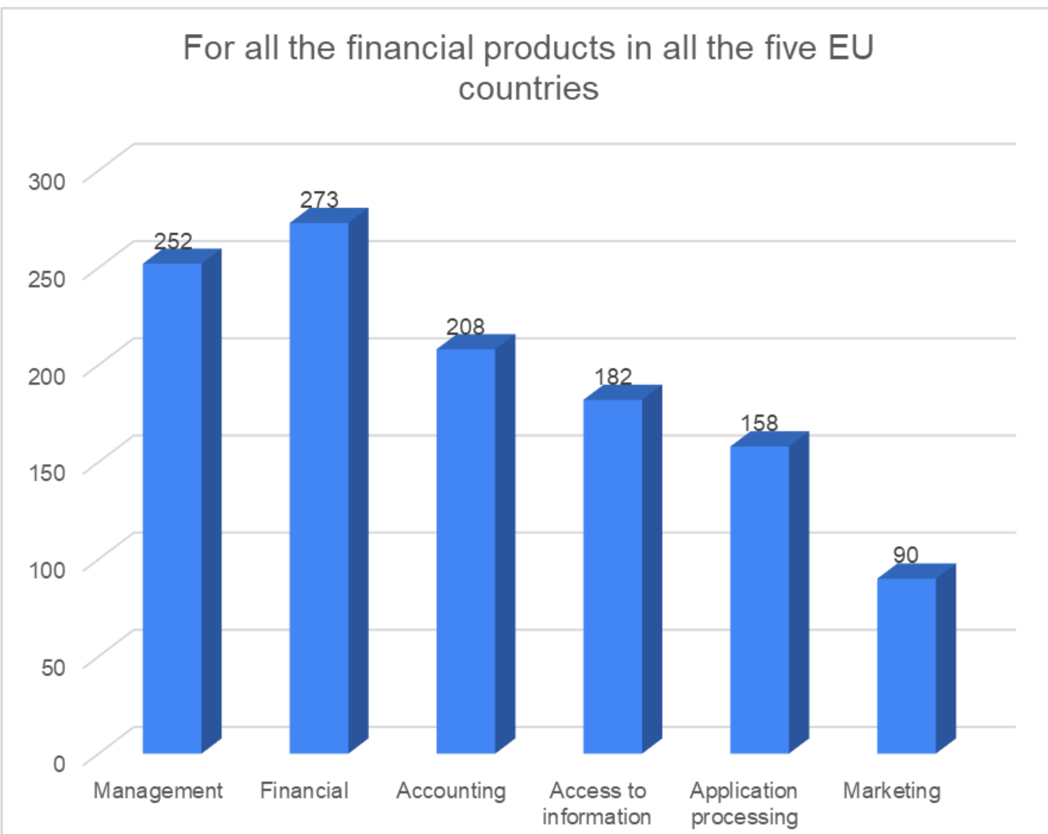


Chart 6.12. Challenges faced by an SMEs for all the financial products in all the five EU countries

6.3. Conclusions / Key Points:

As it becomes evident from the analysis of the data for each of the five countries and for the data in general for all these countries, can be grouped in three groups: (i) the group of the highest rated challenges; (ii) the group of the second best-rated challenges; and (ii) the group of the third best-rated challenges.

The group of the highest rated challenges include the following:

- ✓ **The Management** issues;
- ✓ **The Financial** issues;
- ✓ **The Accounting** issues.

The group of the second best-rated challenges include:

- ✓ **The Access to information** and
- ✓ **The Application processing**.

The group of the third best-rated challenges include:

- ✓ **Marketing** issues.

The **Management, Financial and accounting issues**, as well as the **Access to information** are generally seen as challenges **for all the financial products**. In **the Public / National / EU Grants** and in **the Guarantee schemes** the SMEs are also facing as a challenge the **Application processing**.

4. Conclusion

This report was designed to assess and analyse the various sources of capital available to Small and Medium Sized Enterprises, their level of complexity and how easy it is to access these sources of finance. The research was conducted across the 5 jurisdictions represented by the Fairness project team, namely Cyprus, Bulgaria, Austria, Italy and Malta.

It was interesting to note that not all respondents tended to assess the sources of capital using the same perception of appropriateness for SMEs – Bank loans and overdrafts are generally the most appropriate except for in Bulgaria and Italy (overdraft) and Cyprus (loans). The capital markets (equity and bond), venture capital, and guarantee schemes are generally perceived to be the least appropriate.

Ease of access clearly lies in the bank overdraft and loan, and crowdfunding, whilst the capital markets and venture capital are the least accessible. This is generally applicable across all jurisdictions assessed, with some relatively small variances between countries. This is somewhat reflected by the level of complexity that is perceived to be associated with the various products, with Bank finance being seen as the least complex, and capital markets being the most complex, closely followed by venture capital. The level of complexity also reflects the documentation that is required in order to apply for the respective source of capital. The products were also assessed in terms of providing short, medium, and long-term financial stability. Bank finance is generally seen to be a short (overdraft) to medium (loan) term source of finance, whilst capital markets and venture capital are more medium to long-term.

The assessment of the challenges faced by SMEs to access the different sources of capital, and the need to access expert advice, shows that bureaucracy, financial aspects and the processing of applications appear to present the biggest challenges to SMEs. This aspect was also assessed in terms of internal challenges faced by SMEs and these are mostly centered around management issues, financial issues and accounting issues, followed by access to information and application processing.

The knowledge, skills and competencies framework for each of the products was created to enable the project team to develop the appropriate learning tools for each product, with a special focus on the findings of the research for each of the products. This will ensure that the next phase of the Fairness project will lead to the creation of learning material that is tailored to address the different issues raised for each product type, with a view to supporting SMEs in their efforts to access capital in an effective and efficient manner.

ANNEX

Add as annex

1. *The questionnaire we send out with google docs (PDF…. https://docs.google.com/forms/d/1IHBGeSdyVyX8MwazKeIo0n_LlFzqLn-VNwwN4d_Ejcs/edit?usp=drive_web)*
2. *Cumulative data from the survey (Excel found here https://docs.google.com/spreadsheets/d/1v7fXAkjlqM_V6-FjCLqayYfd_sEYnZvm/edit#gid=377391137*
3. *List of products identified in the desk research with experts (https://docs.google.com/spreadsheets/d/13khOXRbUFpLZqdW4L2YhHobgqIqccybw/edit#gid=1241548818)*