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SMEs' FINANCING: CAPITAL MARKETS UNION AND THE ITALIAN MINI-BOND CASE

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ABSTRACT

The creation of a European Capital Markets Union (CMU) would widen the set of financing possibilities for Small and Medium- Sized Enterprises (SMEs) generating a large amount of economic benefits. The European Commission's hope is to stimulate economic growth and increase the employment rate through the capital markets' consolidation and the reinforcement of cross border integration. This thesis is aimed at illustrating how much CMU will be effective, at assessing whether it will have a positive impact on European SMEs and at listing different types of SMEs in Europe considering their financing structures. This work claim that CMU will have different effects in different Member States, with certain countries obtaining more benefit than others. In addition, this work defines the concept of "innovative start-up" introduced by the Italian Development Decree and illustrates some features of Italian mini-bonds and the Italian mini-bond's market.

To my parents, who allowed me to undertake this course of study and who were able to guide me back to the right path when I made wrong decisions.

To my grandmother Carla, who despite not being able to see this work, has always been proud of my results.

To my grandfather Giuseppe, who taught me the value of some principles that now seem to have disappeared.

To my grandparents Argentina and Remo, who, even though long gone, passed on to me all the love they could.

To all my relatives and friends, who have been a fundamental part of my life during this university career.

To all those who have contributed, in one way or another, at my education and to shape the person I am now.

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1 SMEs IN EUROPE

Looking at data over the period 2008 to 2017, it is easy to understand that the revival of European SMEs has continued over the years. Over the period 2008 to 2017, the EU-28 economy created a cumulative increase of 16.5% in value added and 1.8% in employment. The role of SMEs was significant. In fact, according to the most recent SME Annual Report, during this time frame gross value added generated by European SMEs increased by 14.3% and SME employment by 2.5%

Nevertheless, EU-28 states are not heterogeneously experiencing such rates of growth. In Croatia, Cyprus, Greece, Italy, Portugal and Spain the level of value added in 2017 was below the level of 2008. In Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, France, Greece, Ireland, Italy, Latvia, Lithuania, Portugal, Romania, Slovenia and Spain the 2017 SME employment level was below the one of 2008. European SMEs contributed significantly to the recovery and to the expansion of the European economy. They produced 47% of the total increase from 2008 to 2017 in the value added and 52% of the cumulative increase in employment. In addition, the number of European SMEs increased by 13.8% in this period.

SMEs include three distinct categories of enterprises: micro-enterprises, small-enterprises and medium-enterprises. Table 1 illustrates the differences among these three types of enterprises.

Company Category	Employees	Turnover	Balance sheet total
Micro	< 10	< €2 million	< €2 million
Small	< 50	< €10 million	< €10 million
Medium-sized	<250	< €50 million	< €43 million

Table 1: Definition of SMEs. Source: Commission Recommendation of 6 May 2003 concerning the definition of micro, small, and medium-sized enterprises. (2003/361/EC), Official Journal of the European Union, L 124/36, 20 May 2003

Table 2 shows that SMEs in 2017 accounted for 66.4% of employment and 56.8% of value added in the non-financial business sector. In addition, it shows the number of enterprises in Europe in 2017 and the number of SMEs in the same period. Out of 24,530,050 enterprises, 24,483,496 were SMEs. Thus, SMEs make up 99.8% of all European enterprises.

	Micro SMEs	Small SMEs	Medium-sized SMEs	All SMEs	Large enterprises	All enterprises
Enterprises						
Number	22,830,944	1,420,693	231,857	24,483,496	46,547	24,530,050
%	93.1%	5.8%	0.9%	99.8%	0.2%	100.0%
Value added						
Value in € (trillion)	1,525.6	1,292.1	1,343.0	4,160.7	3,167.9	7,328.1
%	20.8%	17.6%	18.3%	56.8%	43.2%	100.0%
Employment						
Number (in 000)	41,980,528	28,582,254	24,201,840	94,764,624	47,933,208	142,697,824
%	29.4%	20.0%	17.0%	66.4%	33.6%	100.0%

TABLE 2: NUMBER OF SMEs AND LARGE ENTERPRISES IN THE EU-28 NON-FINANCIAL BUSINESS SECTOR IN 2017 AND THEIR VALUE ADDED AND EMPLOYMENT. SOURCE: EUROSTAT, NATIONAL STATISTICAL OFFICES, DIW ECON.

After a general description of European SMEs, in this chapter I divide SMEs into groups according to their financial instruments and I analyse the SMEs' capital structure in Europe.

1.1 Different types of SMEs according to their financial instruments

The concept of small-and medium-sized companies is very generic. The term SMEs does not refer to a homogenous group of companies, in fact SMEs present several differences with respect to the sector, country, growth potential, size, innovativeness and existing sources of financing. Considering their different sources of financing, Moritz et al., in 2015, carried out a cluster analysis on 12,312 SMEs in order to identify six different types of SMEs according to their use of financing instruments. A significant limitation of the approach is that it allows the authors only to focus on SMEs' uptake of financing instruments over the previous six months.

1.1.1 Internally-financed SMEs

This is the largest cluster and it makes up 31.4% of the SMEs included in the cluster analysis. As the name suggests, internally financed SMEs did not use external sources of financing and only few of them used retained earnings and sale of assets. Typically, an internally financed SME is young, with few expectations of growth, not very innovative, small and with a single owner. In addition, this type of SMEs is more common in Eastern Europe, even if it is very popular throughout Europe.

1.1.2 Mixed-financed SMEs

This is the second largest cluster and, as the name suggests, firms in this cluster used multiple sources of financing. This cluster makes up 16,7% of the SMEs included in the cluster analysis. Mixed-financed SMEs were characterised by their youth, their innovativeness and their great expectations of growth in the future. In this cluster, alternative types of loans, such as loans from related companies or from friends and family were very used even if bank loans remained of great importance. Another SMEs' characteristic in this group was the high percentage of retained earnings, that was the highest among these six clusters. An important role in this group was also played by equity, bank overdrafts, credit lines, credit card overdrafts, debt securities, subordinated loans, participating loans and preferred stocks. The less important financing instruments were grants and subsidised bank loans.

1.1.3 Debt-financed SMEs

This cluster makes up 16.1% of the SMEs included in the cluster analysis. Debt-financed SMEs used all forms of debt financing, but bank loans were the most used. Leasing, hire-purchase or factoring were used by debt-financed SMEs as well, while retained earnings were not considered a valid financing instrument. Debt-financed SMEs' main features were their low level of growth and innovation and their maturity.

1.1.4 Trade-financed SMEs

15.3% of the SMEs included in the cluster analysis belong to this group. Trade-financed SMEs are characterised by their reliance on trade credit. The results obtained by Moritz et al. evidence the fact that less than 50% of SMEs in this cluster used leasing, hire-purchase and factoring. In addition, it has been highlighted that also retained earnings were an important source of financing for trade-financed SMEs. A typical trade-financed SME is young, small and with a low historical growth rate. This type of SMEs is usual in Northern Europe and in market-based systems.

1.1.5 Flexible-debt-financed SMEs

This is the second smallest cluster as it makes up 13.2% of the SMEs included in the cluster analysis. Flexible-debt-financed SMEs were mainly focus on short-term debt financing, such as institutional short-term debt and used trade credit, leasing, hire-purchase and factoring less than other types of SMEs. Bank overdrafts, credit lines and credit card overdrafts could be identified as the main financing instruments. Typically, flexible-debt-financed SMEs were characterised by their dimension, in fact a typical SME of this type could be a micro firm with a single owner. They were mostly located in Western Europe and in bank-based systems.

1.1.6 State-subsidised SMEs

This is the smallest cluster as it makes up 7.2% of the SMEs included in the cluster analysis and is made of firms that relied on government-supported sources of financing combined with short and long-term bank financing. They were mostly located in Southern Europe and in bank-based financial system. In this group, an important role was played also by other sources of financing such as trade credit and leasing, hire-purchase and factoring. Most firms in this cluster was medium-sized, innovative and family-owned. In addition, most of them were characterised by high past growth rates and by expectations of a medium future growth.

1.2 SMEs’ capital structure in Europe

In this section, I discuss SMEs’ equity-debt ratio and then I analyse debt’s composition of SMEs.

In many European countries, companies, including SMEs, have increased their equity capital ratios and reduced their debt levels between 2006 and 2013. This process was not triggered by the crisis, in fact the process started before. Measuring equity capital as a fraction of total asset, in 2006, Italian firms had the lowest equity capital ratios. Small-sized companies increased their equity ratio from 22.4% to 28,2%, medium-sized companies from 28% to 35.7% and large-sized companies from 31.6% to 36.3%. The greater increase has been registered in Germany, where small companies’ equity capital experienced a growth of almost 10%, from 27.9% to 37.8%. The reason behind the higher equity capital ratios might be the companies’ desire to augment their credit scoring. After the Basel II regulation, banks had a greater consideration of credit scoring when providing a loan. This process provided benefit especially to SMEs, since large-sized companies already had an appropriate credit scoring to have access to bank lending. From a CMU’s perspective, the trend of increasing equity capital ratios is desirable since numerous policy efforts aim to strengthen the capital base of SMEs.

Even if equity capital is a very important source of funding, this is not the only way in which SMEs can finance investments. In fact, SMEs can also rely on debt capital to finance investments by either issuing debt contracts, such as bonds, or by applying for bank loans. In many European countries, SMEs rely only on a small amount of debt contracts. This can be due to the lack of depth in the countries' capital market, to high fixed cost related to the bond issuance and to low demand for external finance by European SMEs. For these reasons, banks continue to play a central role in SMEs financing.

European banks prefer to issue long-term bonds rather than short-term bonds because of the high costs of bond issuance that are covered only in the case of long-term financing. The result is that most SMEs have long-term relationships with local banks. The so called "relationship banking" is a strategy used by banks to strengthen loyalty of customers and provide a single point of service for a range of products and services. These long-term relationships can be beneficial for both sides, in fact a relationship bank has a higher incentive to become familiar with the business models of its debtors. From an investor's point of view, certain types of SMEs, such as low-innovation and low-growth ones, might be not interesting. On the contrary, these types of SMEs might be interesting from a bank's point of view. In fact, they are characterized by a lower credit risk than an innovative company or than a growing one. Considering this, it might be that SMEs' reliance on banks is the result of the structure of their business models that makes them more attractive for banks than for capital markets.

In addition, while through relationship bank it is possible to obtain the long track record of the SMEs' financial health, this is not possible through capital markets. The long track record of the SMEs' financial health can be obtained through frequent transaction, form which the bank can determine the SME's credit risk more precisely. From the company's point of view, this process is beneficial. In fact, companies can better point out their creditworthiness to the bank. In this manner, enterprises can reduce their credit costs and increase their profits. On the contrary, capital market investors usually demand higher risk premia, because they are unable to obtain long track record of the companies' financial health. Since they can freeride on the information contained in financial market prices of stocks of similar companies, they have lower incentives to assess the creditworthiness of companies. This practice reduces the precision with which small companies' creditworthiness evaluations are made. As mentioned before, long-term relationships rely on the fact that a specialized single-product SME can be a stable and successful company with no interests in innovation. Therefore, SMEs often rely on bank finance.

In Italy, short-term bank loans account for the 12.9% of small-sized companies' balance sheets, for the 14.8% of medium companies' balance sheets and only for the 8.3% of large companies' balance sheets. These percentage are similar to other countries' percentage. For example, in Austria small companies' balance sheets are made of short-term loans for the 13%. For medium companies this percentage is equal to 11.7% and for large companies it is equal to 6.4%. A similar trend can be seen for long-term loans. In Spain the percentage of long-term loans in small companies' balance sheets is equal to 11.5%, in medium companies' ones it is equal to 7.6% and in large companies' ones it is equal to 4.9%.

Whether relationship banking is beneficial for SMEs depends on the financial system's health. In the case of a recession or a crisis, such as the global financial crisis, banks realize huge losses with the result that their capital base shrink to a critical threshold. Since banks' regulatory capital requirements are defined as equity capital in percent of risk-weighted assets, the easiest way for banks to react to their shrinking equity capital base is to decrease their risk-weighted assets which means they cut lending or sell assets. For this reason, the European Commission's intention is to facilitate the access for SMEs to different sources of financing. During the global financial crisis, debt-financed SMEs were the most affected by the financial crisis. SMEs with more diversified sources of financing were the more resilient to the crisis and performed better during that period. In fact, SMEs that depend only on banks are highly exposed to unsystematic risk, in other words, the risk that is endemic to a particular asset such as a stock and not a whole investment portfolio. Therefore, highly exposed banks are very vulnerable to banking crises. In Germany, during the crisis, locally oriented savings banks and credit union had positive returns on equity while large banks had negative returns. The higher profitability was the result of risky investments' avoidance and this exonerated them from cutting lending during the crisis. It appears that companies cannot easily switch to capital markets when their banks go into crisis. In fact, when banks go into crisis the insolvency risk of their sovereigns increase because capital markets expect sovereigns to rescue its banks by means of public spending. This cause a consequent downgrade in credit ratings of all companies located in the country, which can worsen their position in capital markets.

2 CAPITAL MARKETS UNION

The expression "Capital Markets Union" (CMU) was first used by the then-Commission president-elect Jean-Claude Juncker in his policy agenda's initial exposition in 2014. Since then, Mr Juncker has described it as one of three "unions" the European Union is currently pursuing. CMU has included in the title and job description of the Commissioner for financial services, or to give him/her his/her full title, the Commissioner for Financial Stability, Financial Services, and CMU.

In February 2015, the European Commission started to work on a new policy to create new funding channels in alternative to bank lending. The Capital Markets Union's green paper was presented in February 2015 and a more specific action plan, to be implemented in 2019, was presented in September 2015. At its basis, the initiative of the European Commission to build a CMU in the EU is a package of policy actions designed to remove barriers to integrated capital markets as well as to bank lending. Many of the proposed policy actions aim at improving the financing conditions for SMEs which should boost investment and growth in the EU. The decision to create a new policy for the integration of different markets and for the creation of new funding channels was taken immediately after the global financial crisis of 2008, also known as subprime crisis.

At the beginning of the financial crisis of 2008, European policymakers considered the bank-based European system very stable. The European system was completely different from the American one, that included features such as securitization conduits and other forms of the so called "shadow banking". However, their consideration was not correct. In fact, after the crisis, Europe's dependence on banks and the few alternative sources of financing have been considered the main causes of the financial crash and, at the same time, obstacles to its resolution. Mario Draghi, the president of the European Central Bank (ECB), has expressed his consensus to the CMU observing that *"the crisis has shown the drawbacks of over-reliance on a bank-centred lending model. So, we also need to develop reliable sources of non-bank lending, such as equity and bond markets, securitization, lending from insurance companies and asset managers, venture capital and crowdfunding"*. From an economic policy standpoint, this shift is welcome. In fact, capital markets have several features that could help European economy. They play an important role in sharing economic risk, smoothing consumption and investment and they increase the possibility to access to funding.

The prior preference for bank-based finance did not considered the possible advantages that a diverse financial system could provide, and all the risks related to a system in which there are no alternative financing channels. It was also the cause of an insufficient development of forms of financing that are specifically suited for high-growth firms that are major potential creators of European jobs. During the crisis, over-reliance on banks was an obstacle to swift repair of the European banking system, and it exacerbated sudden stops and cross-border divergences in bank funding costs.

After a general introduction, I discuss two of the goals set out by the Commission to create a true Capital Markets Union:

- broadening the sources of financing for SMEs;
- reducing cross-country disparities in financial services

2.1 Proposed policy actions in the context of the CMU and its impact on SMEs

The Commission's benchmark for SMEs is the mixed-financed SME. In other words, the intention of CMU is to expand SMEs' sources of financing, that nowadays are mostly restricted to internal financing and debt, in order to transform previously internally-financed and debt-financed SMEs into mixed-financed ones. To accomplish this result, the Commission has projected several policy actions in the context of the CMU that will be discussed in this paragraph.

2.1.1 Support of venture capital and equity financing

In 2015, as part of the Open Science, Open Innovation and Open to the World strategy, the Commissioner Moedas first proposed the creation of a Pan-European VC Funds-of-Funds Programme (VentureEU). In November 2016, a call for expression of interest has been launched by the Commission and by the European Investment Fund (EIF). The call has received a lot of interest, precisely it has received 17 applications by the deadline of the 31 January 2017. The Commission evaluated all the investment proposals and pre-selected these proposals considering their policy fit with the programme. The EIF selected 6 candidates: Isomer Capital, Axon Partners Group, Aberdeen Standard Investments, LGT, Lombard Odier Asset Management and Schroder Adveg. The selected candidates were invited to negotiate with the

EIF in 2017. On 1 March 2018, EuVECA and EuSEF have been implemented. The first one includes rules on venture capital investment, while the second one includes rules on social entrepreneurship funds. The aim of these new rules is to facilitate the management of these funds and to enable a wider set of companies to benefit from their investments. On 10 April 2018, the European Commission released its press release with the title "Venture EU: € 2.1 billion to boost venture capital investment in Europe's innovative star-ups". The European Commission and the EIF launched the European Venture Capital Funds-of-Funds programme. The purpose of the programme is to raise up to € 2.1billion of public and private investment, starting from the EU funding of € 410 million. This growth is expected to generate € 6.5 billion of new investment in innovative start-up across Europe. Commission Vice-President Jyrki Katainen said: *"In venture capital, size matters! With VentureEU, Europe's many innovative entrepreneurs will soon get the investment they need to innovate and grow into global success stories. This means more jobs and growth in Europe."* Carlos Moedas, Commissioner for Research, Science and Innovation, added: *"VentureEU is a key element of the Open Innovation strategy that we launched three years ago. It is vital for Europe to remain an industrial leader and an economic powerhouse."* Elżbieta Bieńkowska, Commissioner for Internal Market, Industry, Entrepreneurship and SMEs, stated: *"VentureEU will increase the amount and average size of venture capital funds. It will help our high-potential start-ups stay and grow in Europe, taking full advantage of the Single Market."* Pier Luigi Gilibert, Chief Executive of the EIF, added*: "VentureEU is an important addition to the European equity scene. Whilst we have supported more than 500 funds to date, this is the first time that the EU has created such a unique programme. EIF is proud to be part of this initiative."*

2.1.2 Overcome information barriers to SME investment

This part of the CMU Action Plan is aimed at reinforcing banks' feedback in case of refusal of SME's credit application. More accurate feedbacks would help companies in adjusting their business model in order to obtain bank loans. Since the majority of SMEs are debt-financed, the implementation of this policy action would be very helpful.

In the "high European principles-banks feedbacks on SME declined credit applications" are outlined guidelines to be followed by both SMEs and banks when entering into a process regarding credit application. Firstly, financial institutions shall inform SMEs on what it is required to present a proper credit application. SMEs and banks have the right to request additional information in order to provide more precise feedbacks and to enhance the application process. Secondly, financial institutions shall provide upon request adequate feedbacks to SMEs regarding declined applications. Feedbacks shall be provided through the channel that is considered the most appropriate one. Thirdly, financial institutions shall explain the reasons behind the denial, upon request. Feedbacks shall be provided in an understandable language. In addition, SME shall have the possibility to discuss the rejected application with the bank's relationship manager. Lastly, financial institutions shall provide feedback in a timely manner.

The Commission staff working document on "addressing Information Barriers in the SME Funding Market in the Context of the Capital Markets Union" lists a number of one-stops shop portals on access to finance that have been developed across Member States at regional or national level. These portals provide information on the different sources of finance available, explaining their main features, their advantages and disadvantages and most importantly, they facilitate the access to providers of finance by explaining how to enter into contact

with them. Some portals are managed by public bodies with the aims of supporting enterprises' development, others by entities that represent the private sector and others are supported by the state.

Portals managed by public bodies, mainly cover publicly supported sources of financing that are administrated by promotional and development banks, sometimes in co-operation with private entities, and provide information on financial assistance offered by the European Union. State-supported portals illustrates all the sources of financing advocated by national public funding programmes. Portals administered by private entities, such as national chambers of commerce, are concerned with sources of financing provided by the private sector. A clear example is provided by the Dutch Finance Desk.

- *The Finance Desk developed by the Netherlands Chamber of Commerce has an omni-channel approach to supporting SME access to finance consisting in online proposition complemented by personal advice. It is a platform for first-line support on finance, providing a comprehensive set of information on the alternative funding options, their characteristics, advantages and disadvantages, and suitability and eligibility criteria. It also provides support to increase companies' investment readiness. It is built around different tools such as scans of alternative types of* *finance, webinars, videos, animations and publications. This online proposition is complemented by personal advice provided free of charge by certified experts through telephone, email, chat and social media. The availability of tailored advice through in-depth telephone consulting is seen as a key added value (more than 16,500 consultations over the last 18 months with 45% of warm referrals to relevant public or private organisations)*[1].

Some portals also give information about advisory services. These portals help SMEs to find the most appropriate source of alternative financing among publicly supported funding schemes and private funding options. Access2finance tool projected by the European Commission to facilitate the research of EU-supported funding schemes, the Supporting SMEs Online Tool created to search for Irish Government supports for accessing credit and the Nationale Financieringsswijze developed and managed by public and private parties in order to examine all the available types of alternative finance to Dutch entrepreneurs, are examples of this type of portals.

- *The European Union supports entrepreneurs and businesses with a wide range of EU programmes providing financing through local financial institutions. The Access2finance portal provides complete and up-to-date information on how businesses can access EU financial instruments from various EU programmes in each country and language. In the past, access to EU financial instruments was difficult since information on the different EU financial instruments was spread over various websites and Commission reports. The search for eligible programmes and funding schemes is facilitated by a funding navigating tool built around a limited number of criteria. Every year the EU supports more than 200,000 businesses. This website allows getting access to over EUR 100 billion of finance from various EU programmes, such as the COSME Programme, the InnovFin Programme (Horizon 2020), the Programme for Employment and Social Innovation, the European Structural and Investment Funds (ESIF), and the European Investment Bank and European Investment Fund*[2].

[1] http://www.kvk.nl/financiering
[2] http://europa.eu/youreurope/business/funding-grants/access-tofinance/index_en.htm

- *The Irish Government's Supporting SMEs Online Tool puts a range of State supports for SMEs in one interactive easy-to-use online guide. Before its launch, the information on State supports was spread over more than 34 Government websites. Currently, the Online Tool contains information on over 170 Government supports for SMEs from 30 different Government Departments and Agencies. It helps direct companies to the right source of funding advice, finance or soft supports (at national or regional level) based on answers to eight simple questions. It is promoted through online marketing campaigns and outreach events, as well as by SME representative groups. Since the Online Tool was launched in May 2014, it registered over 104,000 sessions. Almost 3,000 unique users used it per month on average in 2016, with 77% of them being new users*[3].

New, innovative and emerging sources of finance could represent additional risk for companies and business. For this reason, public authorities should introduce systems to create trust and confidence in the alternative options of financing among SMEs and start-ups. A valuable example can be found in the accreditation system for alternative finance providers based on certain eligibility criteria introduced by the Government of Catalonia

- *To promote alternative forms of finance, the Department of Enterprise and Employment of the Government of Catalonia has recently introduced an accreditation system for alternative finance providers administered by the Catalan Agency for Business Competitiveness (ACCIÓ). The accreditation is based on eligibility criteria specified in a regulation. They include, for example, the type of alternative finance provider, the ability to manage, requirements to have a minimum a) number of companies / projects financed, b) amount of financing provided and c) number of registered investors over a certain past period of time, as well as the compliance with tax obligations. To be accredited, companies must provide documentation verifying their compliance with the requirements. This accreditation and its seal give visibility to the accredited finance providers and the right to participate to alternative finance events. To keep the accreditation, certain obligations have to be met: a) submission of indicators on a quarterly basis; (ii) participation in events on request; and (iii) maintenance of ethical*

[3] http://www.supportingsmes.ie

behaviour, notably in terms of transparency and information. The accreditation is valid for a certain period of time and can be revoked under certain conditions. Currently, 20 finance providers are accredited - 3 equity crowdfunding platforms, 3 crowdlending platforms and 2 invoice trading platforms, as well as 12 business angels' networks. ACCIÓ has also organised workshops and showrooms on alternative finance throughout Catalonia starting in 2015[4].

Some information systems connect SMEs looking for financing with investors, acting as matchmaking platforms. Although many of these systems operate at regional and national level, there is the willingness to extend their operational field to other countries. In fact, this would increase their performance, since a greater network would result into a more efficient funding system. Thanks to these systems, investors can obtain SMEs preliminary information. Information systems present differ sources of financing: some of them are centred mainly on equity funding, such as EuroQuity, while other are centred on alternative credit and asset finance. Another difference that can be found among different information systems is the range of information and analysis on finance-seeking SMEs, such as applicant's creditworthiness.

An important step to be taken in order to support SMEs' access to a wider set of sources of financing is to increase the available SMEs' credit and financial information at the disposal of investors and lenders. This could be achieved through disclosure regulations. However, any provision related to this must be applied proportionally. In fact, many SMEs are not disposed to disclose their information publicly because of costs related to disclosures and because of confidentiality reasons and most of them are very susceptible to regulatory burden.

Credit registries are a valuable source of credit information. In fact, they contain data and credit information about banks and lenders. Some credit registries are managed by public authorities while others are managed by privately owned credit bureaus. Although in most of the cases access to these registers is limited to banks and to regulated financial authorities, some countries are taking actions to extend the access also to alternative funding providers. The credit register managed by the Banque de France rates all the company registered in it on the basis of their ability to meet financial commitments. This rating has the function of guarantee both for borrowers and lenders. In fact, from borrowers' point of view, it ensures them of the lenders' ability to meet their commitment, while from lenders' point of view, it is an evidence of

[4] http://www.accio.gencat.cat/ca/inici/

reliability. In other words, it provides companies with an indication of their position on the credit risk scale.

- *The FIBEN Companies Database was set up by the Banque de France to facilitate the implementation of monetary policy. This database, originally intended to verify the credit quality of issuers of bills presented for rediscounting, evolved in line with changes in refinancing procedures. Only claims on the most highly-rated companies are eligible for bank refinancing. Updated on a daily basis, it is based on information obtained from various stakeholders. These include banks, businesses, registries of commercial courts, the National Institute of Statistics and Economic Studies, newspapers with legal announcements and many others. Credit institutions have had access to the FIBEN database since 1982. For such players, the information collected and processed, which makes up the database, is an important tool for analysing risk, making decisions and monitoring companies. Its access has recently been extended to crowdfunding platforms and, under the Macron Act, to insurers and asset managers*[5].

Long-term relationships enable banks to obtain information about SMEs' financial situation and creditworthiness. Recently, in Spain has been implemented a law that gives the right to SMEs to obtain banks' financial information. This network of information could promote alternative sources of finance and could help them to compete with traditional ones. Also at European level some efforts have been made. The revised EU Payment Services Directive (PSD2, Directive 2015/2366/EU) gives access to financial information to alternative providers of funds and, more in general, to third-party payment service providers. The aim is to provide equal opportunities for all, both for innovative and traditional players. Everything considered, this would constitute a valuable instrument to evaluate companies' creditworthiness.

2.1.3 Promote innovative forms of corporate financing

This policy action presents the so called "crowdfunding. Crowdfunding comes in form of equity and represents financial innovation on equity side. It used mostly by start-up companies, in fact it allows founders of for-profit, artistic, and cultural ventures to fund their efforts by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries. In other words, it is an open call to the public

[5] http://www.fiben.fr/

aimed raising funds for a specific project. Platforms used in crowdfunding are mainly websites that connect companies with crowds and collect funds. These platforms use different types of business model, and according to them they can be grouped under different categories:

- Investment-based crowdfunding: companies reach out to crowd-investors through a platform and issue debt or equity.
- Lending-based crowdfunding (also known as crowdlending, peer-to-peer or marketplace lending): companies or individuals reach out to the crowd and obtain financing in form of loan agreements.
- Invoice trading crowdfunding: companies reach out to a pool of investors by selling them unpaid invoices or receivables
- Reward-based crowdfunding: crowds donate money to projects or businesses in order to receive a future non-financial return.
- Donation-based crowdfunding: crowds donate money to a charitable project with no intention of receiving a material or financial return.
- Hybrid models of crowdfunding: combine different aspects and characteristics from the previous models.

According to data on Crowdsurfer Dashboard[6], crowdfunding platforms have contributed to obtain EUR 4.2 billion in 2015 across the EU. Most of them (EUR 4.1 billion) have been obtained through crowdfunding models that offered a financial return.

Table 3 illustrates the results of the study commissioned by the Commission giving a detailed overview of total and average amounts pledged, number of campaigns and number of platforms for each type of crowdfunding

[6] www.crowdsurfer.com

	Total raised (EUR)	Average raised (EUR)	Number of campaigns	Number of platforms
Equity	422,039,462	504,832	836	60
Bonds and debentures	103,368,785	1,590,289	65	8
Loans, of which:	3,209,368,439	15,688	204,575	77
Secured business loans	453,423,956	79,132	5,730	6
Unsecured business loans	728,839,337	58,154	12,533	16
Secured individual loans	63,497,821	35,834	1,772	3
Unsecured individual loans	1,266,723,276	7,082	178,854	14
Revenue-sharing	69	69	1	1
Invoice trading	348,547,943	59,898	5,819	1
Community shares	7,183,406	478,894	15	2
Microloans	5,186,566	739	7,014	5
Rewards	96,899,235	4,573	21,538	127
Donations and microdonations	25,264,527	2,938	8,634	63

TABLE 3:TOTAL AND AVERAGE AMOUNTS PLEDGED, NUMBER OF CAMPAIGNS AND NUMBER OF PLATFORMS FOR EACH TYPE OF CROWDFUNDING. SOURCE: CROWDSURFER DASHBOARD.

The study commissioned by the Commission analysed data from crowdfunding platforms across the EU. Data collected amounted to 68% by EUR volume of the market size between 2013 and 2014. Data took into account loans, equity, rewards, donations and other crowdfunding models. Because of the differences in the number of active platforms, accessibility and suitability of data among Member States, study's coverage varies in each country. According to this study, in 2014, 510 platforms were active. Only 8 of these were located in non-EU countries, while the remaining 502 were located in 22 Member States. The greatest number of platforms were registered in the United Kingdom, which registered 143 platforms. France and Germany followed the United Kingdom, with 77 and 65 platforms respectively. Of these platforms, 30% was involved in reward-based crowdfunding, 23% was involved in equity crowdfunding and 21% was involved in loan-based crowdfunding. Furthermore, the study showed that between 2013 and 2014 EUR 2.3 billion have been successfully raised through crowdfunding. In EU, in terms of capital, equity crowdfunding platforms experienced a growth equal to 167%, while loan crowdfunding platforms experienced a growth equal to 112%. The 2014 average amount was equal to EUR 260,000 for equity crowdfunding and equal to EUR 110,000 for lending-based crowdfunding. Considering global trends, it has been evaluated that crowdfunding experienced a growth equal to 167% in 2014, which increased the capital raised from USD 6.1 billion in 2013 to USD 16.2 billion in 2014. North America is the leading force considering crowdfunding volumes, with a raised capital equal to USD 9,46 billion. Asia raised USD 3.4 billion and Europe USD 3.26 billion.

If on one hand crowdfunding promotes economic growth and employment, on the other hand it presents risk that must be analysed in order to be aware of them and in order to operate following appropriate safeguards. Investment-based crowdfunding, for example, presents risks related to investments on particular types of securities, such as unlisted shares or bonds, or related to problems that can be faced when working with certain types of financial intermediation channels. Investors may incur in these risks also in the context of the crowdfunding business model, such as non-professional securities offered to investors through online intermediaries. As a result of these risk, investors could lose part or all of their capital or they could not receive the promised return. In addition, in the context of equity crowdfunding, investors may have to deal with the so-called “dilution”, if the company undertake additional capital raising rounds; with the absence of a way out of investments; with the incapacity to correctly price securities and with many other risks related to misalignment of expectations and interests between investors and issuers, to platforms operators and to operators’ insolvency. Lending-based crowdfunding has some risks in common with investment-based crowdfunding. For example, there may be a misalignment in terms of expectations and interests between investors and issuers or platforms operators and the platform operator may be insolvent. In addition to these, there are also risks that are peculiar to lending-based crowdfunding and may be faced when dealing with the crowdfunding business model, such as credit intermediation through an online platform. For example, lending-based crowdfunding may present credit risk for the lender, may not provide lenders with a way out of the investment when the secondary market for loans does not exist, may not provide borrowers with exhaustive information about their creditworthiness and about their ability to repay the loan or even it may provide borrowers with incorrect information.

Considering the risks listed above, seven EU Member States have introduced regulatory scheme in order to regulate crowdfunding activities, especially focusing on conditions for issuers and borrowers, platforms and investors and lenders. Furthermore, several Member States are preparing the introduction of specific domestic policy aimed at the crowdfunding's development while dealing with the risk. When dealing with crowdfunding, there is a high probability of an involvement of personal data. For this reason, the rules of Data Protection Directive (Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data) will regulate the processing of personal data. According to this Directive, obligations related to data protection must be met by data controllers, such as the right of access of data subjects to their personal data. Moreover, the Data Protection Directive includes and foresees compensation provisions for illegal processing of or incompatible acts concerning the processing data. Such regimes are independent from other liabilities ones. Furthermore, platforms related to crowdfunding must safeguard the awareness of and the compliance with the obligations envisaged for data controllers and data processors, as well as the rights of data subjects (individuals). Along with regulatory frameworks implemented by governments, systems of self-regulation have been introduced by industry associations. These include ethical codes and codes of behaviour which impose minimum standards and best practices related to good conduct and transparency. These codes include several principles all related to the good conduct and to ethical behaviour. According to what the European Crowdfunding Network (ECN) has published, some of them are act with integrity, foster data transparency, do not harm the industry, the society or the environment.

2.2 An analysis of the cross-country differences in SME financing

The CMU action plan includes several actions regarding the facilitation of cross-border investing under the heading "facilitating cross-border investing". Since European capital markets are fragmented, an initiative intended to put them together seems to be necessary. The extent to which this proposal may be effective can be assessed considering differences in SMEs types across countries and financing structures present in Member States.

2.2.1 European SMEs' clusters: Eastern, Northern, Southern and Western Europe

Going back to the Moritz et al. study of 2015, country-specific characteristics have been identified regarding SMEs' use of financial instruments. This study segments Europe in 4 parts, considering countries' geographical position. The 4 analysed clusters are: Eastern, Northern, Southern and Western Europe.

The Eastern European one includes Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia. On one hand, in this cluster there is a high percentage of internally financed SMEs. This percentage is greater than 45%, which is a much larger share than in all the other clusters. In fact, internally financed SMEs amount to 27% of all SMEs in Northern European group, to 26.8% in

Southern European one and almost 30% in Western European one. One the other hand, Eastern Europe cluster present the lowest percentage of flexible-debt financed SMEs, that amounts to 9.8%, and the smallest one of mixed-financed SMEs, that for this type amounts to 14.4%. In addition, this cluster presents a high share of state-subsidized SMEs, that amounts to 6.3%. The high share of internally financed SMEs suggests that Eastern Europe SMEs would benefit from the possibility to access to capital markets.

The largest share of debt-financed SMEs can be found in the Western European cluster. In Austria, Belgium, Germany, France, Luxemburg and Netherlands, this percentage is equal to 20.2%. This group also have the second largest share of internally-financed SMEs, that amount to 29.8%.

The Northern European cluster is composed by Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, Norway, Sweden and the UK. This cluster presents the highest percentage of mixed-financed SMEs. Here this percentage amounts to 23.7%. In addition, the percentage of state-subsidized SME amounts to 3.5%, that is very low respect to the other clusters while the percentage of trade-financed SMEs is high and is equal to 22.6%.

Cyprus, Greece, Hungary, Italy, Portugal, Slovenia and Spain form the Southern European cluster. Here we can find the highest percentage of state-subsidized SMEs that amounts to 9.8% and the second highest one of debt-financed equal to 17.3%. In addition, this cluster present the lowest share of internally-financed SMEs that is equal to 26.8%. This geographical area would benefit the CMU's implementation in two ways. Firstly, it could better employ the high amount of public resources. Secondly, it could make Southern economies more competitive due to mark-to-market valuation of SMEs.

2.2.2 European SMEs funding scheme

Financial system varies across Member States. SMEs are mostly affected by country-specific differences in financing method. In fact, in bank-based countries we can find a different structure in SMEs types respect to market-based ones. While in bank-based financial systems banks play a leading role in mobilizing savings, allocating capital, overseeing the investment decisions of corporate managers, and in providing risk management vehicles, in market-based financial system securities markets share central stage with banks in terms of getting society's savings to firms, exerting corporate control, and easing risk management. Consequently, in the former most SMEs are either internally-financed or debt-financed while in the latter we have a majority of mixed-financed and trade-financed SMEs. Given that smaller loans are provided with higher interest rate, most SMEs in bank-based financial system are disadvantaged respect to large firms, since most of them are debt-financed. According to the access to debt finance index, the greatest difficulties in accessing to bank loans are found by SMEs in some of the former social countries such as Bulgaria, Hungary and Romania and in Denmark and in Spain. To understand the importance of banks and capital markets for the financing of companies in different Member States, it is sufficient to divide the aggregate liabilities of non-financial corporations by the countries' GDP. In order to illustrate the diversity, I use three Member States as examples.

As shown in Figure 1, Germany is a clear example in which both bank and capital markets are developed. On the contrary, the UK has a very developed capital market while Latvia a very small one. This analysis is carried out on the basis of the SMEs' access to debt finance index from 2013. In Germany, even if banks are the main source of finance, the stock market is well-developed. In 2004, listed stock amounted to 31% of GDP, while in 2007 this percentage was equal to 47%. During the crisis, in 2008, it sharply declined to 27% of GDP and then recovered. German debt securities markets are smaller, in fact short-term debt securities amount to less than 1% of GDP and long-term ones to 5%. Considering bank lending, it can be found a stable situation. While short-term bank loans are staying at 17% of GDP, long-term ones have slightly declined from 35% to 32%. Considering the Moritz et al. study of 2015, Germany is part of the Western European cluster. In this cluster the majority of SMEs are either internally financed or debt financed. In addition, Germany is classified as a bank-based country, where mixed-financed SMEs amount to 15.6%. All thing considered, it is probable that SMEs in Germany do not make a massive use of the stock market, but instead they rely on bank funding.

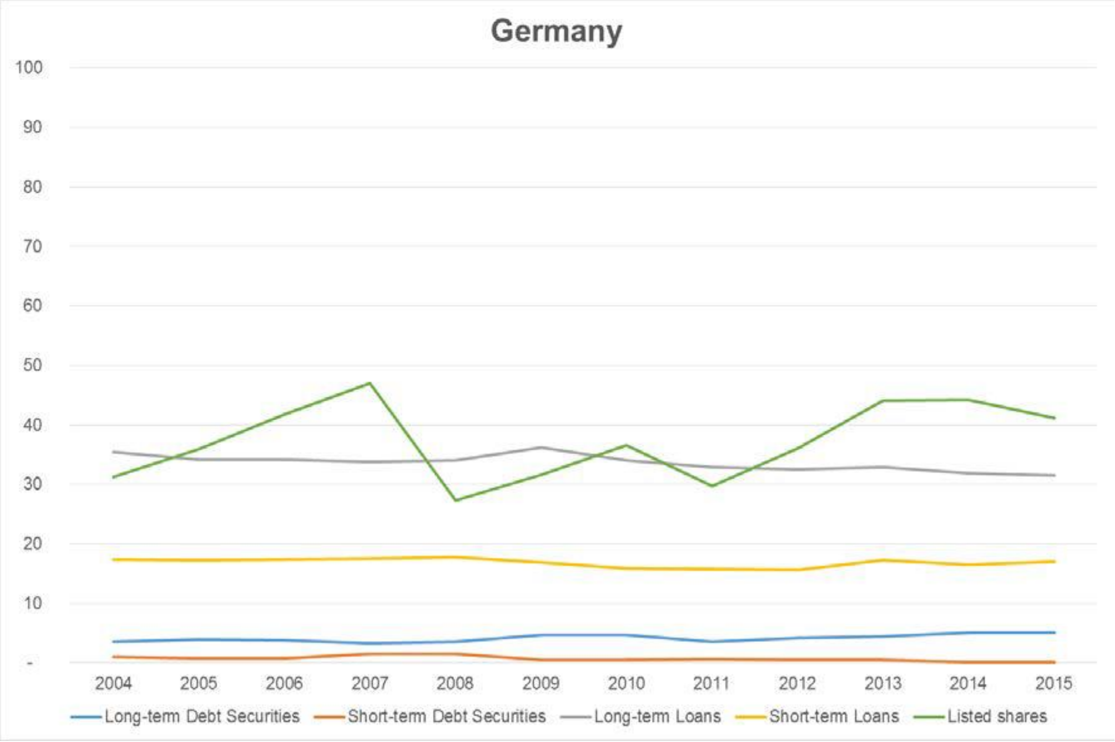

FIGURE 1: GERMANY'S FINANCIAL LIABILITIES IN % OF GDP. SOURCE: EUROPEAN CENTRAL BANK, COLOGNE INSTITUTE FOR ECONOMIC RESEARCH[7]

According to Figure 2, in the UK the number of listed shares was equal to 73% of GDP in 2004, equal to 85% in 2007 and in 2008, during the crisis, equal to 57% and then recovered. This suggest that the UK capital market is the most developed in the EU. In addition, the UK can enjoy a well-structured and well-developed market for corporate bonds. The percentage of short-term securities amounts to 2% of GDP, while the percentage of long-term ones amounts to 19% pf GDP. In addition, the UK banking sector is very strong. Started from 23% of GDP in 2004, short-term loans rose to 43% of GDP in 2008 and fell to 26% of GDP in 2015. Differently, long-term ones started from 35% of GDP in 2004, fell to 33% of GDP in 2008 and remain almost unvaried in 2015 when they fell to 30%. Considering the Moritz et al. study of 2015, the UK is part of the Northern European cluster that is the one with the highest percentage of mixed-financed SMEs. The fact that among the SMEs of the Northern European cluster, only

[7] https://www.iwkoeln.de/en/studies.html

11.2% is debt-financed could highlights a correlation between banking sector and capital markets. Since in the UK the percentage of financial liabilities with respect to GDP is high, SMEs would tend to diversify their sources of financing and opt for less instruments that entail debt. Diffusing the British model to other Member States, the European Commission could achieve the CMU's goal of deepening the single market in capital financing.

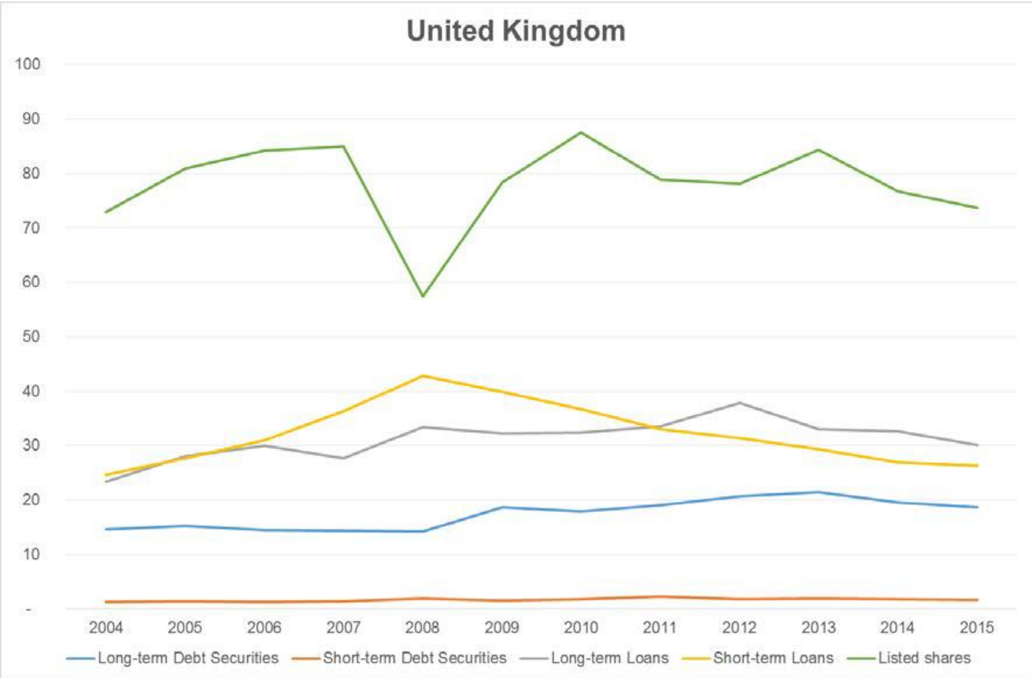

FIGURE 2: FINANCIAL LIABILITIES IN THE UK IN % OF GDP. SOURCE: EUROPEAN CENTRAL BANK, COLOGNE INSTITUTE FOR ECONOMIC RESEARCH.

As it can be seen in Figure 3, in Latvia long-term securities amount to 1% of GDP and listed shares to 4% of GDP. Latvia belongs to the group of countries with the less developed capital markets. Similarly to Germany, short-term loans make up 17% of GDP. This percentage was equal to 35% in 2004, to 80% in 2010 and 58% in 2015. In addition, Latvia has the highest percentage of trade-financed SMEs, which is equal to more than 22%. Surprisingly, Moritz et al. study of 2015 classifies Latvia as a member of the Northern European cluster, the one with the lowest share of debt-financed SMEs of all groups. This suggest that, even if clusters are well defined, there may be disparities among countries of the same group. It is also possible that countries with small capital market such as Latvia, SMEs use financing channels outside conventional bank loans.

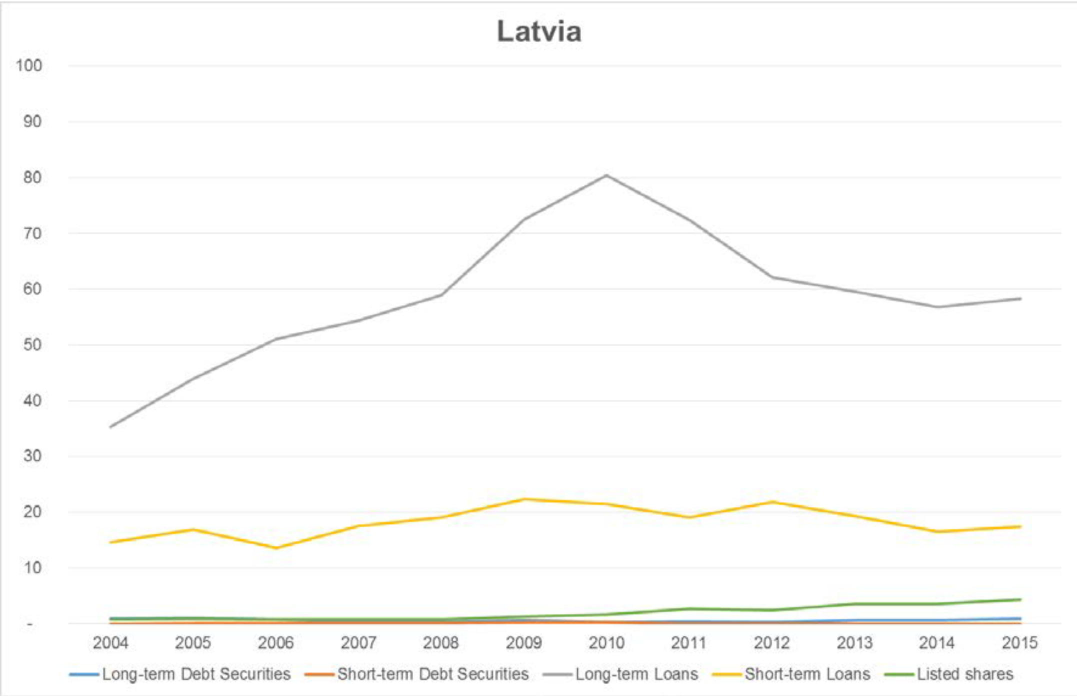

FIGURE 3: FINANCIAL LIABILITIES IN LATVIA IN % OF GDP. SOURCE: EUROPEAN CENTRAL BANK, COLOGNE INSTITUTE FOR ECONOMIC RESEARCH

In conclusion, banks and capital markets are not mutually exclusive. Both of them are important for the financing of SMEs and, more generally, for the financing of the economy.

2.3 CMU's impact across Member States

After the analysis of the cross-country differences in types and financing channels of SMEs, I focus on the effects that the CMU Action Plan will have on SMEs in the EU. The main goal of the Action Plan is to achieve a free movement of capital. In fact, the European Commission considers the division of the EU financial sector as an obstacle to growth.

An integrated European financial market would facilitate cross-border investments and, therefore, would entail a better risk's distribution in it. With all the probabilities, all Member States will benefit from such integration. The great presence of state-subsidized SMEs in bank-based countries has led the commission to propose the creation of a pan-European Fund-of Funds in order to attract considerable amounts of private investment from individuals who are not currently investing in Europe because of the absence of the appropriate vehicle. Certainly, a unique international capital would facilitate SMEs to receive the adequate financing not only from banks.

CMU has to deal also with the institutions' quality and countries specific legal provisions. These two play a key role in determining financing conditions in each country, therefore they must be taken into consideration in the elimination of cross-country differences. According to Daude and Fratzscher, the rules for disclosure of information, standards for accounting as well as costs related to legal proceedings affect attractiveness of a country in terms of cross-border financing. Even with the intervention of the EU, these characteristics cannot be easily modified as they are specific to each Member State and they are their competences. The risk is that capital will concentrate in Member States in which conditions are more favourable. For this reason, a harmonization of these practices among Member States should be the starting point. The goal is not to create a unique model, bank-based or market-based, for all Member States, but instead to increase the interoperability between them within the European environment. For example, in countries with strong capital markets the goal could be to attract big investors by generating growth, while in countries with weak capital markets the goal could be to stimulate investment. Create a more unique environment while maintaining national differences would create a thriving future for SMEs.

3 THE DEVELOPMENT DECREE AND MINI-BONDS IN ITALY

After having illustrated the European perspective, in this paragraph I describe all the actions taken by the Italian government in favour of SMEs. Since 2012, with the Development Decree (Decree-Law 179/2012), the Italian government is promoting sustainable growth, technological advancement and the development of a culture oriented to innovation. In addition, the Decree has introduced into the Italian legal system the definition of "innovative start-up". The regulatory framework is "for everyone", in fact it does not present any type of restriction related to entrepreneur's age. Part of the development decree are mini-bonds that are aimed at helping SMEs and start-ups to reduce their dependence on the banking system and at creating alternative sources of financing.

3.1 The Development Decree

In order to analyse the Development Decree, we have to define when a start-up can be denominated as innovative. The Article 25 of the Decree-Law states "to the favourable measures can access companies with shared capital, including cooperatives, whose capital shares – or equivalent – are neither listed on a regulated market nor on a multilateral negotiation system. These enterprises must also comply with the following requirements»:

- be newly incorporated or have been operational for less than 5 years (in any case, not before 18 December 2012);
- have their headquarters in Italy or in another EU country, but with at least a production site branch in Italy;
- have a yearly turnover lower than € 5 million;
- do not distribute profits;
- have as exclusive or prevalent company object – as stated in the deeds of incorporation – the production, development and commercialization of innovative goods or services of high technological value;
- are not the result of a merger, split-up or selling-off of a company or branch;
- the innovative character of the enterprises is identified by at least one of the following criteria:
- at least 15% of the company's expenses can be attributed to R&D activities;

- at least 1/3 of the total workforce are PhD students, the holders of a PhD or researchers; or, alternatively, 2/3 of the total workforce must hold a Master’s degree;
- the enterprise is the holder, depositary or licensee of a registered patent (industrial property), or the owner and author of a registered software.

Innovative start-ups benefit of several advantages, such as the incorporation and following statutory modifications by means of a standard model with digital signature fee free of charges. The constitution act is filled in XML and, even though it is a standard model it permits accurate controls and a certain amount of personalization which leads to a "custom- made" solution. Moreover, in the future it will enable integrations without further costs and therefore, allow deductions from the payment of stamp duty. In addition, further advantages include cuts in the payment of fees incurred when entering the Business Register along with the payment of the annual fee usually due to the Chamber of Commerce. Innovative start-ups registered as LLC have the possibility to create categories of shares with particular rights, execute operations on their own shares and issue financial issue participative instruments and offer capital shares to the public. Innovative start-ups often fail, in fact the global failure rate is equal to 90%. For this reason, the Development Decree includes the crowdfunding regulation that make it possible to obtain capital from investors exposing the project on specific website. In addition, the Law on Budget includes many other advantages that confirm the willingness to attract and grow talents, but I will explain it more in deep later in this chapter.

3.2 Mini-bond

Introduced by the Development Decree in 2012, “mini-bond” are an instrument created to help SMEs to raise funds. They are a self-financing tool for small and medium-sized unlisted enterprises and allow SMEs to diversify the sources of their financing and to reduce their dependence on the banking system. Mini-bond’s main features are: their duration cannot exceed 36 months; they must strictly be subscribed among professional investors and they must have the chance to dematerialize titles and quotations on regulated markets and multilateral negotiation systems. The “mini” definition is not referred to the dimension of the emissions, but to the characteristics of the issuing companies: they are reserved for unlisted SMEs, which intend to finance their projects. Companies must meet certain requirements:

- have a growing gross turnover, or in any case stable, and one
- propensity to invest in the medium-long term;
- a solid company management;
- competitive advantages for the products offered;
- publication of the last two financial statements, of which the last one was submitted to audit;
- a leverage <4;
- a MOL214> 0 in the last three years and equal to at least 10% of the tour of the business in the last year;
- Banks and micro-enterprises are excluded from this regulation.

According to the fifth Italian report carried out by the Observatory of the Politecnico di Milano, the number of mini-bond issued in 2018 is equal to 198 while during the previous year this number was equal to 188. This confirms a continuous growth of the mini-bond market in Italy. In general, from 2012, 746 mini-bonds have been issued. Figure 4 and Figure 5 show the number of mini-bonds issued between January 2012 and December 2018

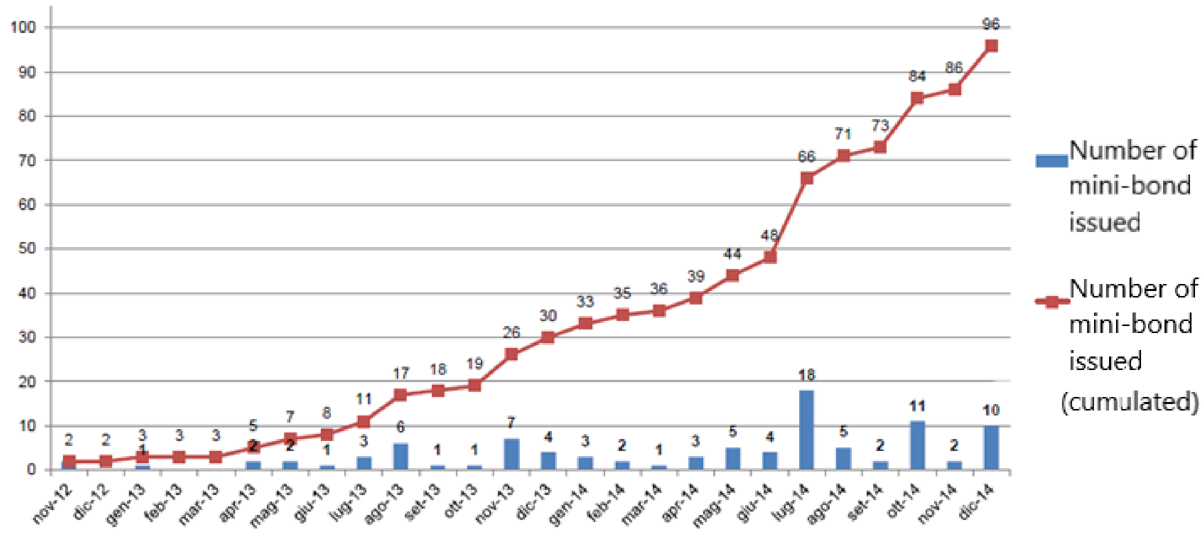

FIGURE 4: NUMBER OF MINI-BOND ISSUED BETWEEN NOVEMBER 2012 AND DECEMBER 2014. SOURCE: 1° REPORT ITALIANO SUI MINI-BOND

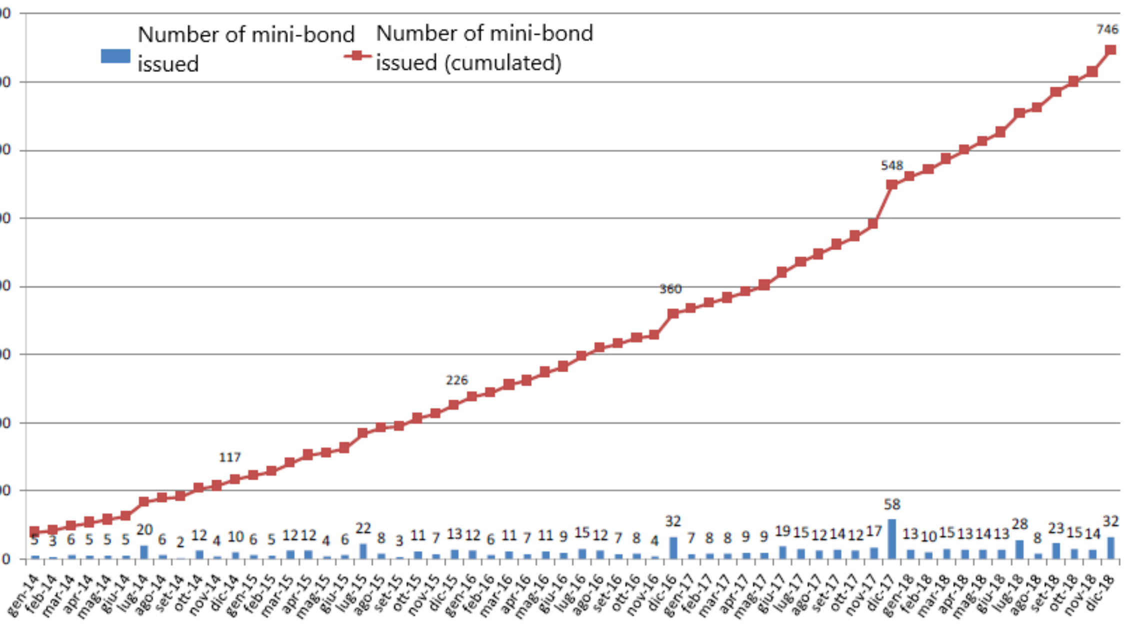

FIGURE 5: NUMBER OF MINI-BOND ISSUED BETWEEN JANUARY 2014 AND DECEMBER 2018. SOURCE: 5° REPORT ITALIANO SUI MINI-BOND

3.2.1 Mini-bond's market structure

In this section I describe how the mini-bond's market is structured.

The main figures are the issuing company, the advisor, the arranger, an agency of rating, a legal advisor, investors and the stock exchange.

The advisor is an individual who advise the company on business support activities, thanks to specialized skills that the company does not have. He drafts technical documentation, defines the features of the issue, by taking part in the placement and in listing phases, alongside other market players. In order to comprehend the advisor's role, it is very important to distinguish all the issuing process's stages, that are:

- feasibility analysis;
- structuring of the loan;
- search for qualified investors;
- listing on the market.

The advisor mainly focuses on the feasibility analysis. He or she has to evaluate if the issuing business meet the requirements. He or she has to assess whether the business meets the definition of SME, whether it can issue mini-bonds and he has to evaluate the business plan. The business plan is the document through which the company determines its development and future. If and only if the advisor assesses the validity of the business plan, he or she can draft the information memorandum. The information memorandum is a document that contains confidential information intended for investors. Finally, the advisor intermediates between the company and rating agencies in order to obtain a creditworthiness rating.

The second figure that I describe is the one of the arranger. Basically, the arranger carries out the management of the relations between the company, investors and Borsa Italiana for the structuring and placement of the bond. Generally, the role of the arranger is carried out by a bank that plays the role of consultant and guarantees to the company the access to the capital market. Firstly, the arranger examines company’s characteristics taking into consideration the market in which the company operates and the targeted segments. In order to do this, the arranger has to assess the issuer’s rating that is provided by a rating agency. Secondly, the arranger has to determine the basic features of the obligation such as the maximum amount, the coupon rate, the duration, the amortization, any options and covenants. In conclusion, it has to draft the instrument’s regulation and all the necessary documentation for the quotation with the assistance of the advisor. This gives start to the investors research phase, in which the project is presented to investors.

The rating agency assigns to the company a rating considering its creditworthiness. On one hand, the rating, expressed in alphanumeric symbols, helps investors to compare different projects in terms of performance and level of risk. On the other hand, the rating gives to the issuer the possibility to make its information available and thus it provides reputational advantages to the issuer.

The legal advisor works alongside the company issuer in the fulfilment of the obligations and in the preparation of the documents required for the issuance process.

The stock exchange takes part in the issuing process only if necessary, only if the company lists its securities in the professional segment ExtraMOT Pro.

CONCLUSION

This thesis has analysed the impact of Capital Markets Union on SMEs at European level and some of the policies implemented by the Italian government to facilitate SMEs to raise funds.

With respect to the CMU it can be said that mixed-financed SMEs are considered as the benchmark financing structure, but the Action Plan takes into account also different financing structures. Even if the Action Plan's aim is to reduce SMEs' dependence on banks, they still play a key role in SMEs' financing. In addition, the Action Plan does not guarantee the creation of fully integrated capital markets, since it does not ensure a complete elimination of structural barriers. CMU will succeed only if SMEs will not be largely dependent on the domestic market structure. On the one hand, the German example (Figure 1) suggests that SMEs might maintain dependency on banks even when there is a strong stock market. On the other hand, the British example (Figure 2) suggests that the combination of a strong market sector and a deep capital markets gives SMEs the possibility to diversify their financing sources.

With respect to the Italian government, this work has analysed the Development Decree and the Mini-bonds market. Firstly, in 2012, thanks to the Development decree, the Italian legislation has introduced the concept of "innovative start-up". In my opinion, this certainly has represented a big step forward from a cultural point of view, because it has created the awareness of this type of enterprises in Italy. Secondly, the creation of a mini-bond market has given unlisted SMEs the possibility to finance their project without being dependent on bank loans. Figure 4 and Figure 5 clearly show that mini-bond have been largely used by unlisted SMEs and that the number of issued mini-bonds has increased year by year. Thus, it can be said that mini-bonds are providing great benefits to this type of enterprises.

In my opinion, Europe and national government should commit themselves to create a favourable environment for SMEs and innovative start-ups because they are the backbone of the European economy and a valuable source of innovation and economic growth.

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