FINANCING NOVELTY IN EUROPE? EMPIRICAL EVIDENCE FROM SUCCESSFULLY FUNDED COMPANIES

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ABSTRACT

Bank lending is the most widely recognized source of external finance for many SMEs, which are often heavily dependent on conventional debt to fulfill their start-up costs, cash flow, and investment needs. In the aftermath of the 2008-09 global financial crises, banks have become increasingly demanding and stringent in their lending practices towards SMEs; this resulted in severe credit constraints and further highlighting our financial system's vulnerability. An efficient financial system meets the financing needs of a broad range of companies in varied circumstances. It directs the flow of funds from different sources to serve their economic objectives. However, as the banking sector remains futile and banks adjust to the new regulatory environment, it is imperative to broaden the range of financing instruments available to SMEs and entrepreneurs to enable them to continue to contribute towards growth, innovation, and employment. While bank financing will continue to play a significant role for SMEs, more alternative funding sources could bolster their long-term investments and reduce susceptibility to the changing conditions in credit policies. In this paper, we study how innovation has been financed in Europe. We collected data from nearly 100 innovative companies from 2012 to 2018. We identify their primary sources of financing. Besides, we review European Commission surveys on SMEs and financing, OECD surveys and reports, and explore the characteristics of 100 SMEs that have availed grants from the European Commission. Lastly, this paper aims to help broaden the finance options available to SMEs by improving their understanding of alternative sources of financing and contributing to useful financing solutions information for SMEs, entrepreneurs, and policymakers.

Keywords: *Financial Crisis, SMEs, alternative financing solutions, crowdfunding, Government schemes, Europe*

1. INTRODUCTION

Small and Medium-sized Enterprises (SMEs) play a pivotal role in the country's economy. According to the European commission report (2014), across Europe (EU28), there were 21.2 million SMEs in the non-financial business sector.

According to European Commission (2014) : The non-financial business sector includes the following industrial sectors: "mining and quarrying", "manufacturing", "electricity, gas, steam and air condition supply", "water supply, sewerage, waste management and remediation activities", "construction", "wholesale and retail trade, repair of motor vehicles and motorcycles", "transportation and storage", "accommodation and food services", "information and communication", "real estate activities", "professional, scientific and technical activities" and "administrative and support services". The industries not covered by the analysis include the following: "agriculture, forestry and fishing", "public administration and defense; compulsory social security", "education", "human health and social work activities", "arts, entertainment and recreation", "other service activities", "activities of households as employers; undifferentiated goods- and services-producing activities of households for own use" and "activities of extraterritorial organisations and bodies". They account for 99.8% of all companies, 66.8% of total