

The Role of cooperative banks in financing small and medium-sized enterprises in the EU-27, with a special focus on the German market

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Abstract

Small and medium-sized enterprises (SMEs) constitute the foundation of the European economy, representing over 99% of all enterprises and generating a significant share of employment and gross value added. Despite their crucial role, SMEs face numerous challenges, including limited access to external financing, rising operational costs, regulatory burdens, and the need to adapt to digital and sustainable transformation. Bank credit remains an important source of investment financing, though its relative importance has declined in recent years, as SMEs increasingly rely on internal funds and alternative financing instruments. Cooperative banks play a key role in supporting SME financing, particularly in countries with well-developed cooperative banking sectors, due to their close relationships with local businesses, regional presence, and ability to reduce information asymmetry. However, structural changes such as digitalization, branch closures, demographic shifts, and increasing competition from commercial banks and non-bank financial institutions may affect their future role. The study highlights the importance of cooperative banks in ensuring SMEs' access to finance and emphasizes the need to strengthen the institutional and financial frameworks supporting SME development in the European Union.

Keywords: SMEs, European economy, SME financing, cooperative banks, bank credit, access to finance, investment financing, European Union, financial support, cooperative banking sector

1. The position of SMEs in the European economy

Small and medium-sized enterprises (SMEs) form the backbone of the economy in all EU countries. By the end of 2023, there were 24.3 million SMEs in the EU-27, accounting for 99.2% of all enterprises. The highest numbers were recorded in Italy (3.7 million), France (3.2 million), Spain (2.8 million), Germany (2.4 million) and Poland (2.2 million). Compared to 2013, their number increased by 17.8%, with growth observed in all countries except Italy, where the number of SMEs decreased by 0.5%.

SMEs are classified as follows:

- micro enterprises employing 0 to 9 people;
- small enterprises with 10 to 49 employees;
- medium enterprises, which employ 50 to 249 people.

Micro firms dominate among SMEs, representing 93.7% of the total. Around 90 million people are employed in small and medium-sized enterprises across the EU. The largest number of employees in micro and small firms

work in wholesale and retail trade, while the largest number of employees in medium-sized enterprises work in manufacturing.

According to IfM Bonn data, SMEs accounted for 51.8% of gross value added in the EU-27 in 2023. In Italy, the Netherlands, Denmark and Portugal, this figure exceeded 60%, surpassing 70% in several smaller EU countries, while in Poland it stood at 50.2%. SMEs primarily operate within the single European market, benefiting from barrier-free cross-border economic activity. They less frequently expand their goods and services to markets outside the EU. Like large companies, today's small and medium-sized enterprises face the challenge of transitioning to a green, sustainable economy and making broader use of digital technologies. A major challenge for EU countries with an ageing and shrinking working-age population is attracting qualified employees for increasingly automated, energy-efficient production, as well as securing the financial resources needed.

Table 1. Number of SMEs in European union countries in 2013 and 2023 (in thousands)

Country	2013	2023
Belgium	562	717
Bulgaria	310	359
Denmark	209	245
Germany	2 172	2 438
Estonia	62	88
Finland	230	254
France	2 971	3 236
Greece	691	740
Ireland	236	309
Italy	3 743	3 726
Croatia	144	194
Latvia	96	106
Lithuania	151	252
Luxembourg	31	40
Malta	25	35
Netherlands	1 019	1 450
Austria	316	358
Poland	1 472	2 196
Portugal	772	993
Romania	431	566
Sweden	658	682
Slovakia	390	525
Slovenia	125	163
Spain	2 329	2 808
Czech	980	1 095
Hungary	493	722
Cyprus	47	61
EU 27	20 662	24 349

Source: Bestand an Unternehmen im EU-Vergleich-KMU, IfM Bonn, https://www.ifm-bonn.org/fileadmin/data/redaktion/statistik/mittelstand_im_einzelnen/dokumente/Unternehmen_EU-27_ZR_2013-2023Sch.pdf

For several years, the European Commission has been proposing measures to address the main operational challenges faced by SMEs. In September 2023, with the aim of simplifying taxation, it proposed introducing a tax system for SMEs based on the location of their head office. This would enable companies operating in multiple countries to settle taxes with a single tax authority.

In December 2024, in an effort to reduce bureaucracy, the EU adopted regulations enabling companies to handle administrative procedures across the single market without resubmitting relevant documents (the single registration principle).

In 2025, the European Commission presented several comprehensive legislative packages aimed at reducing costs and reporting requirements for SMEs by at least 35% by 2030. It also proposed an amendment to the Late Payments Directive to address the burden on entrepreneurs who are forced to take out costly short-term loans. To help SMEs recruit qualified employees from abroad, the EU announced plans to create a platform for third-country nationals seeking work in Europe¹.

¹ Support for small and medium-sized enterprises (SMEs), <https://www.consilium.europa.eu/de/policies/support-to-small-and-medium-sized-enterprises/> (12.2025).

2. Credit needs of SMEs: The case of German enterprises

Small and medium-sized enterprises (SMEs) are crucial for job creation and economic growth in Europe. However, these firms face significant challenges stemming from current economic and regulatory conditions, which they must address to maintain their strong position in society and the national economy. Alongside the previously mentioned issues of excessive bureaucracy and a shortage of specialists, SMEs face the serious challenge of high and volatile energy, raw material and supply costs, which negatively impact companies' liquidity and product competitiveness. Another challenge is the digital transformation and implementation of new technologies, which is often hindered in many firms due to inadequate knowledge and financial resources. Investment projects require the greatest financial investment. It should be emphasised that many SMEs find it impossible to obtain external financing due to their unstable financial position and the lack of assets banks would accept as collateral for loans.

Depending on factors such as enterprise size, the purpose of the funds (e.g. starting a business, purchasing working capital or making investments) and creditworthiness, SMEs can access various types of credit. Commercial banks, savings banks and cooperative banks offer traditional loans such as overdraft facilities and investment loans. Additionally, the market offers state-supported loans, for example from KfW and the Investitionsbank. These financial instruments include loans with favourable interest rates for new businesses, succession projects and the financing of domestic and international projects of up to €25 million. Applications are submitted through the home bank. Entrepreneurs can also use loans provided via digital platforms, or alternative financing forms such as leasing, factoring or crowdfunding.

Research by KfW suggests that SMEs in Germany are becoming less willing to use bank loans for investment. While 40% of all small and medium-sized firms applied for bank investment loans in 2004, this figure dropped to just 23% in 2023. This means that 77% of SMEs do not use bank credit for investment purposes. The proportion of bank loans in these firms' liabilities has also decreased, from 35% in 1999 to 18%.

Of those that do use bank loans, the average proportion of investment expenditure financed through credit is 69%, while 8% of these companies cover the entire investment expenditure through bank loans. A clear pattern emerges in SME investment financing: the smaller the firm, the less likely it is to use bank financing. For instance, only 20% of firms with up to five employees use investment loans, whereas 36% of firms with 50 or more employees rely on bank loans. Credit is more important for smaller companies than larger ones — the former finance 73% of investment value with credit, while the latter finance 58%.

The average investment financing mix for SMEs in Germany in 2023 was as follows:

- Equity: 51%;
- Bank loans: 32%;
- Public support funds: 13%;
- Other financial instruments.

The most important source of SME financing is equity capital, including cash flow and reserve capital. Although SMEs in Germany traditionally have very strong relationships with the banking sector, with banks acting as important financial advisors, the average share of bank loans in investment financing is only 32%. Other forms of external financing, such as capital market instruments, play a marginal role.

The amount of an investment loan is positively correlated with the size of the investment, which is significantly smaller in small firms than in larger ones. Between 2007 and 2023, the average investment loan was €37,000 for small firms and €825,000 for larger ones. In 2023, banks and savings banks granted a total of €79 billion (KfW Research, *Kleine Unternehmen greifen seltener zum Bankkredit*, 2025) in investment loans to SMEs.

According to the latest Deutsche Bundesbank report on financial system stability, banks are tightening lending conditions for SMEs and increasing interest rates. At the same time, company profits have been declining since 2020, particularly among those heavily reliant on debt financing. While larger firms can raise capital from the capital markets, small enterprises largely depend on banks for external financing. Around 40% of all business loans in Germany are fixed-rate loans granted during a period of low interest rates. These loans are currently maturing (in 2025), and interest rates on new corporate loans are higher, averaging 3.9%. This results in increased debt servicing costs for firms without a corresponding rise in revenue. Additionally, for prudential reasons, banks are increasingly rejecting credit applications from small businesses. In this situation, these firms must replace bank loans with alternative financing solutions (Deutsche Bundesbank, *Finanzstabilitätsbericht* 2025).

3. Share of cooperative banks in the Bank credit market for SMEs in selected EU countries

The European Association of Co-operative Banks (EACB) publishes synthetic numerical data on cooperative banks in Europe annually. In its latest publication, the EACB included statistical data from 14 EU countries, covering 18 banking groups. Two Polish cooperative groups, led by BPS and SGB, were combined to form KZBS. These countries had 2,132 cooperative banks with 62.4 million members at the end of 2024. These banks operated 33,100 branches and employed 695,000 people.

However, the report provided data on the share of cooperative banks in the SME credit market for 10 banking groups across 9 EU member states (see Table 2). Data for the remaining groups is unavailable from other sources. Cooperative banks play a particularly significant role in financing small and medium-sized enterprises in France, where three large cooperative banking groups operate. The two largest groups, Crédit Agricole and Crédit Mutuel, together account for 54% of all loans to small businesses. The largest shares in the SME loan market among European cooperative banking groups are held by the Dutch Rabobank (41.2%), the Finnish OP Financial Group (37.8%) and the German FinanzGruppe (36.6%). These figures have remained largely stable in recent years. Cooperative banks also play an important role in financing small businesses in other EU countries, including Italy, Portugal, Poland, Spain and Austria.

Table 2. Cooperative Banks in Europe (2024)

	Banks	Branches	Employees (thousands)	Members (thousands)	Share of cooperative banks in SME lending (%)
Austria					
Raiffeisenbanken	283	1 300	26,9	1 500	b.d.
Volksbanken	9	231	3,2	500	4,9
Bulgaria	b.d.	285	1,5	5,9	b.d.
Denmark/Nykredit	41	41	3,9	1 008	b.d.
Finland/OP Financial Group	93	278	14,8	2 115	37,8
France					
Credit Agricole	39	6 600	157,7	12 100	33,8
Credit Mutuel	18	4 510	87,1	9 172	20,2
BPCE	29	b.d.	103	9 000	b.d.
Germany/FinanzGruppe	672	6983	173,5	17 643	36,8
Hungary	3	14	0,4	4,1	0,2
Italy/Federkasse	218	4 093	29,2	1 474	15,0
Luxembourg	1	29	0,7	54,2	b.d.
Niderland/Rabobank	78	126	41,9	2 300	41,2
Poland/ cooperative banks	489	3 126	27,0	848	7,5
Portugal/Credit Agricole	67	617	4,3	4 10	13,7
Romania/Credit Agricole	32	686	1,5	657	b.d.
Spain					
UNCC	42	3 397	13,4	1 804	b.d.
BCC	18	799	5,1	1762	b.d.
Total	2 132	33 115	695	62 359	b.d.

Source: Own elaboration based on EACB Key Statistics 2024 data.

In countries with a well-developed cooperative banking sector, these banks have maintained strong relationships with farmers and small service and manufacturing companies in their operational areas for many years. Cooperative banks primarily operate in retail banking in rural areas and smaller towns, where commercial banks are often absent. Thanks to their history, ownership structure and extensive branch network, they are able to maintain close ties with their clients, encouraging small and medium-sized enterprises (SMEs) to apply for loans and increasing the likelihood of them being granted.

Which factors specifically drive the development of the SME loan market through cooperative banks? This market could not grow if SME financing via cooperative banks were not attractive to lenders and borrowers alike. Cooperative banks typically have a long history, are strongly rooted in the regions in which they operate and have an in-depth knowledge of local economic conditions and industry structures. This enables them to advise and support local companies more effectively than 'distant banks'.

As cooperative bank employees often know local entrepreneurs from school, the neighbourhood, or shared membership in a choir or sports club, they can offer loans optimally tailored to the borrower's financial needs and repayment capacity. This close familiarity with potential borrowers reduces information asymmetry in the credit assessment process by allowing the consideration of 'soft factors', such as reputation and reliability, when evaluating creditworthiness.

Proper assessment of future borrowers' creditworthiness positively affects the quality of the loan portfolio, which is generally higher in cooperative banks than in other types of banks.

Legally speaking, a cooperative bank is a cooperative. Therefore, its operations are regulated by both banking and cooperative law. This affects various aspects of a cooperative bank's activities. According to Article 1 of the Cooperative Law: A cooperative is a voluntary association of an unlimited number of persons, with variable membership and share capital, which conducts joint economic activity in the interest of its members (Act of 16 September 1982 – Cooperative Law, Journal of Laws 2024, No. 593).

The primary goal of a cooperative is not to make a profit, but to meet its members' needs through collective economic activity. In line with the cooperative principle, the key objectives of cooperative banks should be to meet

the needs of their members, support the local community and promote sustainable regional development. Financing small and medium-sized enterprises (SMEs) in the areas in which they operate aligns well with these objectives.

A significant proportion of cooperative banks' clients are their own members, who are also part of the local community. This, together with the absence of pressure to focus solely on profit maximisation, gives cooperative banks an advantage over commercial banks when it comes to building a reputation as a trustworthy institution. Customers are more willing to deposit their savings and take out loans from a cooperative bank than from a commercial bank. Consequently, cooperative banks encounter fewer challenges in acquiring non-financial deposits from clients, which are characterised by relatively low acquisition costs.

By the end of 2024, cooperative banks in Austria, Spain, Germany, Poland, Portugal and Italy had deposits that exceeded their outstanding loans. This enables them to offer loans on favourable terms, including to small and medium-sized enterprises for operating and investment purposes. Their extensive branch networks in countries with a robust cooperative banking sector facilitate deposit collection and loan provision.

4. Development prospects for cooperative bank loans to SMEs in EU countries

Small and medium-sized enterprises (SMEs) will continue to drive the economies of EU countries. Demand for their products and services is expected to remain high. However, due to substantial expenditure on the energy transition and the shift of EU economies towards sustainable development strategies, SMEs will need to rely on bank loans to a greater extent than before. Cooperative banks will continue to play an important role as lenders. However, it is difficult to predict whether their share of the loan market will increase or decrease. While this share has grown in France, Germany, the Netherlands, and Portugal over the past five years, it has declined in Finland, Italy, and Poland. It is uncertain whether these trends will continue in the coming years.

The process of granting a loan to a small or medium-sized enterprise involves the submission of a loan application and the required documentation. The bank then reviews the application and makes a decision. SMEs and banks often have different perceptions of this process. Entrepreneurs primarily expect simple, pragmatic solutions. For many companies applying for loans, the credit process can be confusing and time-consuming. A lack of transparency and lengthy decision-making processes at banks can discourage many entrepreneurs, even those with a strong credit rating, from applying. Often, they assume they will be rejected and do not submit an application at all. Another issue for some companies is that they lack the adequate resources to prepare a loan application professionally. Due to the diversity of firms in the SME sector, it is not possible to assess the feasibility and profitability of planned investment projects using standard models alone; each project requires an individual approach to evaluation.

When it comes to credit procedures, banks primarily adhere to regulatory and technical requirements, focusing primarily on credit risk. They also criticise small and medium-sized enterprises (SMEs) for submitting inadequate documentation. The different perceptions of credit processes held by banks and entrepreneurs often lead to friction in their business relationships. While banks consider compliance with credit regulations to be essential, firms often perceive it as excessive bureaucracy (Fischer, Blattman, 2025).

Changes in European society and within cooperative banks themselves are weakening the traditional strengths of these banks, which once gave them an advantage over commercial banks, including in the financing of small and medium-sized enterprises. The members of cooperative banks, who are their most loyal customers, are ageing and many are passing away. It is difficult for banks to attract younger members, who find the prospect of joining a cooperative bank unappealing. In Germany, Austria, Portugal and Poland, the number of cooperative bank members has been declining since 2019. There has been a particular decrease among farmers, rural residents and small entrepreneurs, who have traditionally dominated the membership and clientele of cooperative banks. In other countries, membership has increased slightly, but forecasts for growth in these banks are not optimistic due to ageing populations and declining resident numbers.

The competitiveness of cooperative banks in the SME loan market is negatively affected by the decreasing number of their branches, including both headquarters and local offices, which are also used by small entrepreneurs. According to reports by the European Association of Cooperative Banks (EACB), the largest number of branch closures occurred in the German FinanzGruppe (6,267), the Italian Federcasse (5,425) and the French Crédit Agricole group (4,750) between 2010 and 2023. The highest percentage of branch closures in the cooperative banking sector occurred in the Rabobank group (83.6%), the Austrian Volksbanken group (77.7%), Federcasse (57%), the Finnish OP Financial Group (47.8%), and the German FinanzGruppe (46.5%). In Poland, relatively few cooperative bank branches were closed – 768 (17.8%) (EACB). The closure of cooperative bank branches is driven by multiple factors, including the development of electronic banking, mergers and acquisitions within the cooperative banking sector, and increased competition from non-bank institutions such as loan companies, leasing enterprises, automotive finance corporations, department stores offering instalment loans, credit unions and fintechs. Banks are also seeking to reduce operational costs. For clients, this means not only having to travel further to reach a branch, but also a weakening of the traditionally close relationship they had with their bank.

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