Review Article
UDC 336:37:65.017.2/.3(4-67EU)
DOI: https://doi.org/10.22598/iele.2021.8.1.6

FOCUSING ON FINANCIAL LITERACY – A STEP TOWARDS SUSTAINABLE FINANCING (INFRASTRUCTURE) FOR SMEs

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ABSTRACT

This paper discusses whether the EU's current financial services regulatory and supervisory policymaking efforts, absent a holistic strategy on access to financial education and improvements to financial literacy are adequate in their current design and deployment for the average micro- or small-to-medium-sized enterprise (collectively SMEs).

This article assesses the European Commission's efforts on improving access to financial education and various offerings across the EU-27 as well as the resulting policy options to improve the financial literacy of SMEs, whether as a part of CMU 2.0 or otherwise. This paper equally examines if there is a link between the greater access to financial education by (micro) SMEs could ultimately strengthen the EU's Capital Markets Union project (CMU) as well as other efforts building upon CMU. This is based on the idea that a well-rounded education that provides basic financial education together with understanding risks of speculative investing and benefits of long-term investing might incentivize an additional flux of investments into European capital markets, including across borders and thus reduce fragmentation – another of CMU's core aims.

This paper aims to provide an introduction to some of the challenges faced in the fragmented approach across the EU to financial education and financial literacy generally and, absent definitive data available concerning SMEs, the respective challenges this poses for CMU and the EU Single Market more generally. Furthermore, this paper provides an overview of the efforts to increase the level of financial

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literacy across the EU-27, while looking at lessons from the United States. This paper concludes with an overview of policy options that might be available to the European Commission, including through the increased use of digitized delivery.

KEYWORDS: *financial literacy, SMEs, Capital Markets Union, Banking Union*

1. INTRODUCTION TO ISSUES SMES ARE FACING

The adage "scientia potentia est" or "knowledge is power" is not new. The greater degree of knowledge and education a person may have access to concerning a particular subject matter, irrespective of how complex, the greater the likelihood that, even with innate information asymmetries in a given market, they are likely to make more informed decisions that are befitting of their needs.

Ask the average consumer across the EU-27 on their preferences as well as their understanding of attributes and/or the value proposition of certain products or services, such as those that are say offered in a supermarket and the perceived impact on their wellbeing, then these are likely to have a strong and detailed opinion. The same is likely to be true for the average SME and their preferences and understanding of the value of what it is being offered by a given supplier.

Such opinions are formed not only by disclosure of a products or service key attributes but also driven by the subjective views of those consuming such product or service. These views may be based on own any multitude of factors such as bias, experience, research, advertising, and recipients having educated themselves as to the breadth of what is available generally and what is being supplied in "their" local market and possibly further afield. The advent of increased digitization and sharing of reviews by others (whether confirmed/validated or not) may further influence and shape such consumers' and SMEs' behaviors and attitudes.

When it comes to financial services and financial products notably those offered to retail clients[1] and/or SMEs in the EU-27, the same may not hold true. This poses a problem. If retail clients are not sufficiently educated in what choices they may have available to them and what attributes the relevant offering may have, they may invariably end up making poorer decisions than if they had the benefit of access to financial education and were sufficiently financially literate. This is further compounded when those tasked with providing

[1] According to the article 4 paragraph 1 of the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU | (Text with EEA relevance) | (OJ L 173, 12.6.2014, p. 349–496) (MIFID II) 'retail client' is a client who is not a professional client.

the education are financial services providers, including independent financial advisors (IFAs) that may have differing priorities and interests than those they are advising on financial instruments and/or manufacturing and/or distributing financial products.

Even if conflicts of interest are identified, mitigated, and managed both by regulatory and supervisory policymaking by the authorities as well as by the financial services firms themselves, information asymmetries still exist vis-à-vis and thus disfavor retail clients as well as SMEs. This is compounded by the fact, that irrespective of reforms since the 2008 global financial crisis (GFC) redefining how and what type of financial products and services may be offered to retail clients and SMEs across the EU-27, the (unreformed and unregulated) fact remains that those offering financial services, those advising on financial instruments and/or manufacturing and/or distributing financial products may have very differing commercial incentives than those receiving the breadth of services and products from one or (preferably) multiple providers. Information asymmetry is thus coupled with and compounded by problems stemming from often differing commercial interests.

While post-GFC reforms have aimed at ensuring that financial services firms, specifically IFAs, when dealing with retail clients and SMEs have to comply with prescriptive governance and disclosure rules,[2] very little (if at all) has been done at the EU level nor in the individual EU-27 Member States, bar some exceptions, to improve financial education and literacy. This is a major barrier to empowering retail clients and SMEs to make smarter decisions. This in turn is also potentially a major obstacle to realizing the aims of the EU's Capital Markets Union (CMU) nor its Sustainable Finance Strategy[3] as well as the Digital Finance Strategy[4] all of which are core projects that complement each other and equally the Banking Union, which, when taken together, serve the ultimate purpose of completing the EU's Single Market, notably for financial services and benefitting related stakeholders ranging from market participants to end-users of financial services and products – notably SMEs.

[2] Including but not limited to: product governance rules on the manufacture and distribution of financial products and sales channels as well as the provision of investment advice as well as more generally rules that apply to assessing the suitability and appropriateness of financial instruments and products offered to retail clients and SMEs.

[3] Sustainable Finance Strategy is a part of the European Green Deal. See Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the European Green Deal COM/2019/640 final.

[4] See Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Digital Finance Strategy for the EU COM/2020/591 final

The discussion on the existence of potential and actual conflicts of interest and/or maintenance of information barriers between providers of financial services, and their resulting greater bargaining power and efficiency in financial markets and the lesser degree of powers of non-financial corporates and consumers are certainly deserving of in-depth analysis in its own right. This would go beyond the constraints of this paper and consequently for purposes of the analysis and proposed policy options herein, this paper bases its conclusions on the proposition (even if this is known to be subject to facts specific to individual relationships, counterparty, transaction type and jurisdiction-specific facts that disprove this assumption) that consumer protection laws perform in the manner as intended and that they afford the full requisite and unfettered degree of protection to those it aims to cover and that CMU reinforces this assumption if implemented fully.

CMU aims to deliver more choices for wholesale but equally for retail clients, including for the breadth of financial instruments, including simplified financial products. CMU aims to not only empower greater market participation, notably from those that are categorized as MiFID retail clients, whether as consumers or SMEs, but to help them gain access to a greater choice of services and products, understand the services and products they are offered or using, control their risk exposure and make better decisions. That being said the limited focus that the EU-27 wide legislative and non-legislative efforts of CMU has given to improving financial education and literacy has been aimed mostly at natural persons that are retail investors.

Efforts to achieve the same for SMEs have not exactly been sidelined but they have not been fully in the spotlight either, whether in CMU 1.0 or 2.0. This, along with an absence of action to improve access to financial education and improve financial literacy, is potentially a missed opportunity for EU as well as national-level policymakers. As discussed in further detail below, SMEs form the bedrock of the EU-27's Single Market but more importantly are a crucial contributor to domestic and regional economies in terms of local expertise, employment, and often heritage. SMEs make up more than 99.8% of all commercial entities in the EU-27[5], and approximately 93% thereof are micro-enterprises[6]. Collectively micro- and SMEs employ more than 95 million people[7]. COVID-19 has demonstrated the risks that severe economic shocks, lack of access to financing, which is amplified by often less than ideal access to financial education and/or lower levels of financial literacy.

[5] See Kraemer-Eis, et. al; European Small Business Finance Outlook 2020.

[6] See Eurostat, How many people work in small enterprises?.

[7] See Kraemer-Eis, et. al; European Small Business Finance Outlook 2020.

2. CMU'S EFFORTS AND THE MISSING LINK ON MEASURES TO IMPROVE FINANCIAL EDUCATION AND FINANCIAL LITERACY

The work of the European Commission and the EU-27 wide CMU project has significantly aimed at advancing workstreams and reforms that strengthen the Single Market and deliver the benefits of the CMU for financial services firms and the wider CMU stakeholders. The goals and actions on how to enhance CMU, including for retail financial services and SMEs were first foreseen in the CMU 1.0 Action Plan, both in its original format as launched in 2015, revised in 2017, and relaunched in its CMU 2.0 format on September 2020. Now as then, CMU is an overarching term that is comprised of many "actions" and workstreams, which all aim to deliver on the overarching goals of:

– reducing barriers and integrating capital markets across the EU and facilitating greater cross-border investment as well as the participation of retail clients;

– creating a more single "Single Market" for financial services as well broadening sources and avenues of financing for European businesses; and

– ensuring a more sustainable and appropriate regulatory environment.

The European Commission envisions that CMU should act as a catalyst to remove fragmentation across markets, legislative/regulatory regimes, and the institutional architecture underpinning a collection of national markets, some of which remain too small to compete and attract global investors. CMU also provides a fundamental opportunity to move away from an over-concentration on credit institution-led funding (i.e. lending) channels to market-based financing.

The European Commission has been clear that CMU should transform and unite European markets to emulate or resemble the depth and liquidity that exists in the US, thus providing for a more diversified and a more shock-absorbent range of capital market originated funding sources. Consequently, investors (but equally issuers) should benefit from deeper, more liquid, and integrated financial markets.

In summary, CMU is not only a vital component in delivering a "more single" Single Market for financial services but also complements a range of other EU reform efforts to the EU's Single Rulebook for financial services more generally and thus presents opportunities across a range of market sectors and asset classes for both financial services market participants and nonfinancial corporates alike. Nevertheless, the goals set and the actions foreseen cannot be achieved if the level of financial literacy is not to the sufficient degree – but how did we get to where we are, and why the missing link?

While the European Commission's efforts, whether before or since the start of the CMU set of legislative and non-legislative efforts, have been welcome, financial education and financial literacy have not been a focal point but rather only a secondary or possibly even a peripheral priority. This is regrettable, even if these issues have been periodically mentioned in the margins (i.e. recitals and/or accompanying commentary) or as aims (absent any real solutions) that are to be advanced by undescribed measures in policy papers and legislative and other rulemaking instruments. This missing link is certainly fundamentally in need of closing and certainly not "too big to tackle".

In many ways, this disconnect has existed since the first launch in September 2015[8] of "CMU 1.0". It has also continued even during the 2017 Consumer Financial Services Action Plan[9], as well as the range of supplementary steering measures introduced by the 2017 CMU mid-term review, which acted as a "comprehensive stocktake"[10] to CMU 1.0's progress. The absence of focusing on improving financial education and financial literacy also continued in the European Commission's targeted changes that proposed to support balancing an increase in SME's listing options while concurrently safeguarding investor protection and market integrity that were put forward as part of the March 2019 "SME Listing Package" measures[11].

[8] See Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Action Plan on Building a Capital Markets Union COM/2015/0468 final.

[9] See European Commission, Consumer financial services action plan.

[10] See European Commission, Mid-term review of the capital markets union action plan.

[11] For further details see European Commission; Capital Markets Union: Commission welcomes agreement on new rules to further improve access to capital markets for smaller businesses*. In summary, the SME Listing Package, which was first proposed in May 2018 and in building upon the 2017 mid-term review and comprehensive stocktake, reforms the operation of "SME Growth Markets", a new category of multilateral trading facilities created under the EU's MiFID II/MiFIR regulatory regime that began to apply from January 2018. The SME Listing Package aimed however to facilitate greater and easier access to capital for those SMEs (with less than EUR 200 million of market capitalisation) on such SME Growth Markets that have a "high-growth" potential. The SME Listing Package was comprised (i) of a proposal for a regulation amending the EU's Market Abuse Regulation (**MAR**) and the Prospectus Regulation framework; and (ii) a delegated regulation introducing technical adjustments to the MiFID II Directive. Following that proposal, the European Securities and Markets Authority (ESMA) consulted on the operation of SME Growth Markets during 2020 (for details of which see ESMA, ESMA consults on SME growth markets and in its Consultation Paper: On the functioning of the regime for SME Growth Markets under the Markets in Financial Instruments Directive and on the amendments to the Market Abuse Regulation for the promotion of the use of SME Growth Markets. While a number of trading venue operators, including the Zagreb Stock Exchange, have introduced functioning SME Growth Markets, financial education and financial literacy efforts in respect of these have not been at

In 2020, the European Commission stepped up its pace on CMU's completion given that much remained unfinished and in need of being advanced during what had become, courtesy of the COVID-19 pandemic gripping Europe, a difficult outlook. While the European Commission's High-Level Forum on CMU in June 2020, took definitive steps to set out what a "reboot and relaunch" of CMU 1.0 should look like, financial education and financial literacy still very much played second fiddle.

The work of the High-Level Forum culminated in a "roadmap" that was published on July 7, 2020, for consultation and which closed on August 4, 2020. Such a roadmap paved the path for EU policymakers to consider and implement and which resulted in the CMU 2.0 Action Plan, published September 24, 2020[12]. Again, real solutions on financial education and financial literacy for SMEs specifically and for market participants more generally were hinted at but were yet to be addressed in a comprehensive strategy or proposed legislative or another rulemaking instrument. If left unresolved, the continued status quo of not addressing financial education and financial literacy could be problematic for CMU's efforts and beyond.

This is particularly the case as CMU 2.0, as a continuing flagship project of the EU-27 is also supposed to act as a cornerstone but also a catalyst upon which other wider-reaching projects, such as the EU's new Digital Finance Strategy and Sustainable Finance Strategy and European Green Deal aim to leverage upon. Furthermore, the interoperation of the CMU with other existing financial services reform efforts ranging from completing the Banking Union to also more "real economy" focused measures including improving consumer protection standards.

Looking at the 2020 CMU 2.0 Action Plan in further detail, three key objectives were highlighted: the support of green, digital, inclusive, and resilient economic recovery by making financing more accessible to European companies, creating an even safer place for individuals to save and invest long-term in the EU, and integrating national capital markets into a genuine single market.[13]

To achieve these goals, the EU proposed 16 "actions", one of which is assessing the possibility of introducing a requirement for the Member States "…to promote learning measures supporting financial education…", in particular concerning responsible and long-term investing, as well as setting up an EU-wide platform (*European single access point*) that would provide investors with

the forefront of these most recent efforts. This is an area that the European Commission could well do to reform.

[12] See European Commission; Capital markets union new action plan.

[13] See European Commission; Capital markets union new action plan.

seamless access to financial and sustainability-related company information to make additional funding channels available, simplifying the listing rules for public markets for small and innovative companies. While this may only represent a first step in the right direction, it is perhaps (finally) an important one to build upon to close the present gaps.

Moreover, in addition to efforts on the CMU and the lead up to the CMU 2.0 action plan, other support measures were rapidly put in place and aimed at harmonizing fragmented national measures as to, as a whole, shore up the EU's economy that continues to be battered by COVID-19. Following the preliminary agreement by EU policymakers on July 21, 2020, on the EU's Recovery Fund and the 2021-2027 multi-annual financial framework (MFF), which despite further agreement during November 2020, the MFF remains subject to pending ratification. The EU Commission has however finalized a flurry of further amendments to key parts of the CMU 1.0 initiatives, push CMU 2.0, and also amend other financial regulatory rules and supervisory expectations to drive the EU's economic recovery, notably for SMEs as published on July 24, 2020, in an EU Capital Markets Recovery Package.[14] Some of these provide further options and support to SMEs but do not tackle financial education nor financial literacy generally or specifically in relation to what support measures may be available – rather the responsibility to educate SMEs on what extraordinary support is available is largely left to those lending or providing financial products.

If the European Commission's CMU efforts, as well as those more generally in completing the EU's Single Market as well as COVID-19 support measures to safeguard the business, employment and to drive economic growth, are to truly bear fruit, then the European Commission needs to lay the seeds for a financial education strategy and agree with key performance indicators measuring financial literacy more generally and for SMEs specifically. However, to get to that point and close the missing link, policymakers, stakeholders, and notably,

[14] These measures included:
1. Simplifications to the MiFIR/MiFID II's information requirements, product governance and position limits;
2. Introducing an "EU Recovery Prospectus" regime and other reliefs for certain issuers;
3. Creating a framework for simple, transparent and standardized (STS) balance sheet synthetic securitizations, as well as amendments to the EU Securitization Regulation and the corresponding CRR Amendment Regulation framework more generally to help the post COVID-19 recovery; and
4. Introducing new powers under the EU Benchmarks Regulation (BMR) to set a statutory replacement rate.

See European Commission; Coronavirus response.

SMEs need to be presented with a common understanding of what financial education and financial literacy actually encompass and entail.

3. SO, WHAT ARE FINANCIAL EDUCATION AND FINANCIAL LITERACY ANYWAY?

While in the EU-27 there is no single statutory definition of what constitutes financial education or financial literacy, there is consensus that there are general common attributes for both of these terms. There is also an understanding amongst policymakers that every financial decision affects not only one's own welfare but also the whole of the economy and society. This understanding extends to the notion that in the globalized, fast changing, and complex world of financial markets, financial literacy is essential for making responsible financial choices. The definition of what exactly constitutes "financial education" and "financial literacy" however still differs across policymakers and the European Commission may wish, as a first step wish to propose a uniform definition for both terms as they apply to EU market participants, in particular, retail clients but SMEs specifically. This would include building off existing efforts of the EU but equally global policymakers and leading academics that have explored this area.

Improving understanding of financial products, financial risks, and the opportunities presented by the market, to ensure informed participation in the financial market and financial decision-making is a global goal. It can be achieved through financial education. Access to financial education is aiming to facilitate financial literacy. Several global policymakers, in particular, the Organization of Economic Cooperation and Development (OECD) have in various policymaking initiatives proactively argued the need for financial education. The OECD has long argued for greater focus on the need for financial education both in more economically and less economically developed jurisdictions.[15] This also included work of the OECD in its 2005 "Recommendation on Principles and Good Practices for Financial Education and Awareness" (the 2005 OECD Financial Education Principles)[16] as well as breadth of policy recommendations building thereupon that followed in the immediate aftermath of the GFC.[17]

[15] See *inter alia* OECD, Policy Brief: The Importance of Financial Education.

[16] See *inter alia* OECD, Policy Brief: The Importance of Financial Education.

[17] See breadth of publications available here: https://www.oecd.org/finance/publicationsdocuments/bestpracticesguidelines/4/

According to the OECD: "Financial education, financial consumer protection, and financial inclusion are recognized at the highest policy level as three essential ingredients for the financial empowerment of individuals and the overall stability of the financial system, as highlighted through three sets of high-level principles endorsed by G20 leaders: Innovative Financial Inclusion (2010); Financial Consumer Protection (2011); and National Strategies for Financial Education (2012)."[18]

Financial education is defined by the OECD as "…the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being".[19] Besides improving financial knowledge, financial education includes improving financial attitudes and behavior as well as the understanding role of central banks and monetary tools.

The 2005 OECD Financial Education Principles set out the following points, some of which the EU Commission may want to consider in its own efforts on defining an EU terminology on what is financial education, notably, as adapted for SMEs:

Outcomes suggested in the 2005 Financial Education Principles	**Covered by principles that exist in the EU's financial services regulatory and legislative framework?**
– Governments and all concerned stakeholders should promote unbiased, fair, and coordinated financial education.	No. There are presently no EU-wide comparable objectives of this nature addressing each of the OECD's suggested outcomes.
– Financial education should start at school, for people to be educated as early as possible.	
– Financial education should be part of the good governance of financial institutions, whose accountability and responsibility should be encouraged.	

[18] See OECD, Adult Financial literacy competencies.

[19] See OECD; Recommendation on Principles and Good Practices for Financial Education and Awareness.

Outcomes suggested in the 2005 Financial Education Principles	Covered by principles that exist in the EU's financial services regulatory and legislative framework?
– Financial education programs should focus particularly on important life planning aspects, such as basic savings, debt, insurance, or pensions.	No. There are presently no EU-wide comparable objectives of this nature addressing each of the OECD's suggested outcomes.
– Programs should be oriented towards financial capacity building, where appropriate targeted on specific groups, and made as personalized as possible.	
– Future retirees should be made aware of the need to assess the financial adequacy of their current public and private pension schemes.	
– National campaigns, specific Web sites, free information services, and warning systems on high-risk issues for financial consumers (such as fraud) should be promoted.	
– Financial education should be clearly distinguished from commercial advice; codes of conduct for the staff of financial institutions should be developed.	In part, this exists in that the EU legislative and regulatory framework applicable to financial services firms requires them to distinguish between client communications, financial promotions, and inducements as well as investment advice and other non-regulated communications. That being said, there is, in the absence of an EU-wide definition of "financial education" no common concept of a "financial education linked communication".

Outcomes suggested in the 2005 Financial Education Principles	Covered by principles that exist in the EU's financial services regulatory and legislative framework?
– Financial institutions should be encouraged to check that clients read and understand information, especially when related to long-term commitments or financial services with potentially significant financial consequences: small print and abstruse documentation should be discouraged.	The EU's financial services regulatory framework, which is divided along sectoral lines i.e., the Prospectus Regulation framework and the PRIIPs Regulation for offerings of financial instruments and packaged retail investment products, MiFID II/MiFIR for securities firms, AIFMD/R, and the UCITS Directives for asset management and the IDD for insurance product distribution, as supplemented by secondary legislation all contain common concepts on transparency and disclosure obligations as well as suitability and appropriateness checks, albeit with differing degree of standards applicable to retail clients as well as to SMEs in EU law (as supplemented by individual national consumer protection regimes in each of the EU-27 Member States).

Various research on the impact of financial education exist, although these are (currently) not necessarily focused on SMEs. Consequently, most studies on financial literacy assess the literacy standards and impact of decision-making by retail investors (of various socio-economic backgrounds and ages). Some of these findings present valuable guidance for the behavior of persons and may thus be of relevance to SMEs and leadership by persons taking financial decisions on its behalf.

Kaiser and Menkhoff analyzed 126 impact evaluation studies to find if financial education impacts financial behavior and, to an even larger extent, financial literacy.[20] Their findings show that financial education has a strong positive impact on financial literacy and financial behavior; the success of financial education depends on the type of financial behavior targeted and target

[20] See Kaiser, Menkhoff; Does Financial Education Impact Financial Literacy and Financial Behavior, and If So, When?.

group[21], characteristics, timing, and intensity of financial education can make a difference.[22]

The OECD defines financial literacy as "…a combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing…"[23]. Financial literacy is, therefore "…essential for efficient distribution of resources because a grasp of understanding of economic environment improves people's ability to obtain relevant information make the best choice in the complex financial environment". [24]

In the CMU 2.0 Action Plan, financial literacy is defined as "an essential skill for making good decisions about personal finances" which not many people have yet mastered. It further elaborates by stating that: "Sound financial literacy is the foundation of people's ability to make good financial decisions and their financial well-being. People who are financially literate are also more likely to take advantage of possibilities provided by capital markets, including on sustainable investments". Financial literacy and financial education are of value for both EU retail clients as well as SMEs as they may increase the investment activity and provide suitable financing channels.

The concept of "financial literacy" exceeds the basic understanding of financial numeracy, even though sufficient numeracy is an important fundamental prerequisite. Huston argues that "financial literacy is not only financial education."[25] According to Huston financial literacy includes knowledge that can be acquired institutionally, such as basic concepts of economics, finance, and

[21] Borrowing behavior may be more difficult to impact than saving behavior by conventional financial education. Low-income participants (relative to the country mean) and target groups in low- and lower-middle-income economies have profited less from financial education. Second, it appears to be challenging to impact financial behavior as country incomes and mean years of schooling increase, probably because high baseline levels of general education and financial literacy cause diminishing marginal returns to additional financial education;

[22] Making financial education mandatory is associated with deflated effect sizes. By contrast, a positive effect is associated with providing financial education at a "teachable moment" (i.e., when teaching is directly linked to decisions of immediate relevance to the target group (cf. Miller et al. 2015:13).

[23] See OECD definition in Atkinson, Messy; Measuring Financial Literacy.

[24] At the international conference of central bankers and economic educators held in 2006, Jürgen Stark, then a Member of the Executive Board of the ECB stressed that financial literacy is crucial for economic efficiency, the conduct of economic policy, and thus overall welfare. The international conference of central bankers and economic educators Warsaw, 29 September 2006. For full speech see ECB; The role of central banks in economic and personal finance education.

[25] Huston; Measuring Financial Literacy.

numeracy skills, and the ability to employ this knowledge in making financial decisions. The findings expressed by Huston are confirmed by Jürgen Stark, the Member of the Executive Board of the ECB in his speech at the international conference of central bankers and economic educators who argue that financial literacy includes an understanding of public policies and economic issues. Increasing financial literacy may increase understanding and provide "public support for measures that reduce deficiencies in our social security and retirement systems, ensure the sustainability of public finances and enhance the efficiency and flexibility of goods and services and labor markets".[26] This reiterates support for the argument that financial literacy includes numeracy, which understands financial products and risks they carry, as well as understanding decisions' implication within the economic and monetary environment. An adequate degree of financial literacy is therefore crucial for responsible participation in modern financial markets.

The report Financial Literacy Around the World: Insights from the S&P global FINLIT survey[27] that a third of adults worldwide are financially literate.[28] This result is defeating, as they show that 66% of the adult population does not understand basic financial concepts. The data shows that level of financial literacy is higher in countries with advanced economies: Australia, Canada, Denmark, Finland, Germany, Israel, the Netherlands, Norway, Sweden, and the United Kingdom. In contrast, in the major emerging economies—the so-called BRICS (Brazil, the Russian Federation, India, China, and South Africa)—on average, 28 percent of adults are financially literate. India is one of the countries with the lowest levels of financial literacy with only 24% being financially literate. The research also shows that level of financial literacy depends on age, social-economic status, and gender. Both in advances and emerging economies, women show a lower level of financial literacy. The older (50+) and young adults (younger than 35) show lower levels of financial literacy compared to the adults aged 36 to 50.

The presented research has shown that financial ignorance carries significant costs.

[26] See ECB; The role of central banks in economic and personal finance education.

[27] The survey measures four fundamental concepts for financial decision-making—basic numeracy, interest compounding, inflation, and risk diversification. See Klapperet et al., S&P global FINLIT survey.

[28] In the research, the respondents were asked questions that show understanding of concept of basic numeracy, interest compounding, inflation, and risk diversification. If a respondent correctly answers at least three out of the four financial concepts described above.

According to Lusardi and Tufano,[29] the level of financial literacy in respect to credit products (debt literacy) is exceedingly low. Their analysis shows that only about one-third of the population understands interest compounding or the workings of credit cards. This is crucial in light of S&P's Global Financial Literacy Survey that finds that consumers "who fail to understand the concept of interest compounding spend more on transaction fees, run up bigger debts and incur higher interest rates on loans."[30] This shows that one-third of consumers risk running up excessive debts and incurring higher interest rates on loans. Lusardi and de Bassa Scheresberg find that most high-cost borrowers display very low levels of financial literacy, i.e., they lack numeracy and do not possess knowledge of basic financial concepts.[31] Most importantly, they find individuals who are more financially literate are much less likely to have engaged in high-cost borrowing.[32] Therefore, implementing adequate financial education initiatives and tools may increase the degree of financial literacy, which would lead to sounder personal finance and financial decision-making.

In the paper Financial Literacy Externalities, Haliassos et al examined the indirect benefits of financial literacy.[33] The research shows that exposure to financially literate neighbors influences financial behavior. That leads to the conclusion that effective financial education would have a spillover effect.

4. IMPROVING FINANCIAL LITERACY THROUGH GREATER ACCESS TO FINANCIAL EDUCATION CAN SERVE AS A STRONG FOUNDATION FOR CMU AND COVID-19 ECONOMIC RECOVERY EFFORTS

CMU can reach its full potential if it is backed by a healthy economy. It is of limited use if European capital markets, remain fragmented and have a limited number of participants active in them let alone across borders and ultimately situations when those searching funding cannot access channels. The CMU stresses that the EU's individual national capital markets should converge and ultimately borders should become redundant, forming an EU-wide market-

[29] See Lusardi, Tufano; Debt Literacy, Financial Experiences, and Overindebtedness. Their research analyzed a national sample of Americans with respect to their debt literacy, financial experiences, and their judgments about the extent of their indebtedness

[30] See Klapperet et al., S&P global FINLIT survey.

[31] See Lusardi; de Bassa Scheresberg; Financial Literacy and High-Cost Borrowing in the United States.

[32] See Lusardi; de Bassa Scheresberg; Financial Literacy and High-Cost Borrowing in the United States.

[33] See Haliassos, et al.; Financial Literacy Externalities.

place where the interests of investors and those seeking investment can find each other with a depth of ample liquidity, efficient pricing, and execution.

As highlighted above, the EU's efforts on improving financial education and financial literacy have been piecemeal if at best, ultimately driving rather than reducing fragmentation, often with overlapping requirements imposed on financial services firms when dealing with retail clients and/or consumers. Some of what the EU has done beyond CMU is discussed in the following paragraphs and the frame within which the EU Member States ought to advance broad aims to improve financial education.

The EU's Payment Accounts Directive[34], which has been in force since 2014 and which became fully operational in September 2016 expressly states that: "The Member States should promote measures that support the education of the most vulnerable consumers, providing them with guidance and assistance in the responsible management of their finances. … Furthermore, Member States should encourage initiatives by credit institutions seeking to combine the provision of a payment account with basic features and independent financial education services."

In Article 6 of the EU's Mortgage Credit Directive[35], which has been in force since 2014 and which became fully operational in March 2016, EU-27 Member States are obliged to "…promote measures that support the education of consumers in relation to responsible borrowing and debt management, in particular in relation to mortgage credit agreements." The Mortgage Credit Directive acknowledges that the "Clear and general information on the credit granting process is necessary in order to guide consumers, especially those who take out a mortgage credit for the first time."

The Pan-European Personal Pension Product (PEPP) regulation[36], which was a CMU 1.0 project that had made it through to the legislative stage but is yet to become fully operational, also highlights financial education as it must "support the understanding and awareness of households' saving choices in

[34] Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (Text with EEA relevance) | (OJ L 257, 28.8.2014, p. 214–246)

[35] Directive 2014/17/EU of the European Parliament and of the Council | of 4 February 2014 | on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 | (Text with EEA relevance) | (OJ L 060 28.2.2014, p. 34)

[36] Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP) | (Text with EEA relevance) | (OJ L 198, 25.7.2019, p. 1–63)

the area of voluntary personal pension products. Savers should also have a fair chance to fully grasp the risks and the features related to a PEPP".

EU financial markets and consumer protection policies are designed to create "level playing fields", transparent markets, protect consumers and help address shared challenges that EU Member States are facing. As part of the delivery of CMU 1.0, the European Commission's Green Paper on Retail Financial Services "Better products, more choice, and greater opportunities for consumers and businesses"[37] acknowledged that introducing financial education would aid retail consumers to compare and understand financial products if they are accompanied by increased disclosure of information on the products. The Green Paper was a basis for drafting the Consumer Financial Services Action Plan: Better Products, More Choice.[38]

Even though the EU sets a frame for financial education, each Member State still currently (and regardless of common aims embedded in EU-wide financial services legislation) has exclusive competence for legislating on education, training, and their implementation. Therefore, financial education and financial literacy remain under the competence of individual Member States. Standards, where such programs exist, differ between the Member States and/or even between regions in such Member States.

This is largely due to the extent of (if any) legislative and/or institutional solutions that promote financial education and/or literacy within a given EU Member States. Some Member States involve central banks, while others involve an array of respective ministries, the national financial supervisory authorities, consumer protection authorities, or a combination of two or more. The involvement of those bodies confirms that financial education and financial literacy are specific topics and an area that some EU authorities have begun to explore with an EU-27 perspective within their current given mandate.

5. THE EBA'S EFFORTS TO DATE

The European Banking Authority (EBA), in fulfillment of its institutional mandate: "…to take a leading role in promoting transparency, simplicity, and fairness in the market for consumer financial products or services across the

[37] See European Commission; Green Paper on retail financial services.

[38] Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the regions Consumer Financial Services Action Plan: Better Products, More Choice, COM/2017/0139 final

internal market"[39], provides a basic platform to harmonize and review financial literacy and education initiatives, as implemented by the Member States, for areas falling within the EBA's current mandate.

Moreover, to harmonize efforts of Member States and provide them along with respective consumers with an overview of best practices and available tools, the EBA manages a repository that displays national education initiatives aimed at helping financial consumers to "…improve their understanding of financial products, concepts and risks through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being."[40]

The EBA argues that, when designing financial education, the specific needs of consumers and financial education needs must be taken into account. Financial education needs can be identified by using surveys. Surveys help identify gaps as to which initiative should be focused on and help track the progress of certain initiatives. After identifying financial education needs, a target goal should be set. Channels through which financial education will be provided depend on initiatives and target groups. Focus groups and targeted interviews, as well as other forms of field research, ideally complement, validate or disprove the results found through desk-based research and surveys of quantitative and qualitative data. Combining such two approaches could improve data validation and quality assurance.

According to the EBA, EU-27 Member States most commonly address the topics of personal finance management, followed by financial products and services/consumer protection related information. They provide financial education in a range of formats, from innovative online tools to traditional face-to-face seminars. The EBA categorizes formats through which financial education is provided into physical (seminars, conferences, etc.); website and online tools, which includes social media; email; competitions; media (TV, radio); and written publications (e.g., leaflets) and other formats. The majority of financial education is provided by online resources. When providing financial education, Member States typically identify a target group and tailor research aims and activities accordingly. The EBA identifies target groups such as

[39] Article 9 1.b), Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC | (Text with EEA relevance) | (OJ L 331, 15.12.2010, p. 12–47)

[40] See EBA, EBA Report.

consumers, school students (covering pupils of all ages up until high school); university students; women; migrants; first-time parents; (rather surprisingly) young soccer players; and elderly people.[41]

Considering the constant influence of advances in traditional financial technology as well as innovative FinTech solutions on banking, the EBA has identified four key trends in financial education initiatives based on financial innovation digital financial literacy, behavioral economics, big data, and advanced analytics and sustainable finance. Innovation in the financial sector is reflected in the digitalization of banking services.[42]

The concept of what constitutes financial literacy therefore also must include understanding of digital financial products and services; and awareness of digital-related risks and controls. Consumers must be introduced to new services that are offered in the market, such as online or mobile banking. They must also be made aware of shifts that occurred in the market with the introduction of FinTech firms as well as those providing services or otherwise engaged in activity relating to digital assets and cryptocurrencies (including the possibility of central bank digital currencies (CBDCs). Equally, consumers also must be made aware of the broad range of risks that might be arising and uncertainties in respective market segments. Furthermore, with increased amounts of transactions moving online (which has accelerated courtesy of COVID-19), consumers must be careful in sharing their personal data and sensitive information.

Behavioral sciences analyze human cognitive processes and behavioral interactions between individuals by analyzing the findings of other disciplines, such as anthropology, psychology, sociology, pedagogy, social marketing, and economics.[43] Behavioral scholars work under the presumption that human behavior is influenced by biases, which in turn, explains consumer behaviors that seem incoherent or irrational. According to EBA, in financial transactions, over-confidence seems to be one of the most widespread biases.[44] Furthermore, consumers are likely to be influenced by their peers and show a tendency to procrastinate.

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41 EBA classifies financial education initiatives into the following categories: consumer rights regarding certain banking products /services, Personal finance management, FinTech/digital services, banknotes counterfeiting/information about the monetary system. See EBA, EBA Report.

42 EBA classifies financial education initiatives into the following categories: consumer rights regarding certain banking products /services, Personal finance management, FinTech/digital services, banknotes counterfeiting/information about the monetary system. See EBA, EBA Report.

43 See EBA, EBA Report.

44 See EBA, EBA Report.

Given that, behavioral biases deeply influence how individuals make decisions in the financial market. EBA argues that applying behavioral sciences to financial education policies will help with designing initiatives that take into consideration the biases that are likely to influence individuals' financial decisions. Similar considerations are likely to exist for SMEs although research efforts in this area and the products and services across market segments and transaction types SMEs are active in, presently lag behind when compared to work undertaken in respect of retail clients and consumers by the EBA as well as other EU-level and national authorities.

The financial literacy subgroup of the Expert Group on barriers to free movement of capital which was set up after the adoption of the Joint Commission/ Member States Roadmap in 2017 has (welcomingly and quite correctly) identified mortgage credits, life insurances, personal pension products, and packaged retail and insurance-based investment products (PRIIPs) as retail financial products for which a lack of financial literacy might pose challenges to both cross-border movements of capital and consumer protection.[45]

The OECD data on financial literacy show that the degree of financial literacy tends to be higher in more advanced countries i.e. the countries with stronger economies. This disparity in the degree of financial literacy is also perceptible in and across the EU-27. Some of the EU Member States have the world's highest level of financial literacy such as Germany, the Netherlands, Denmark, and Sweden, where more than 65% of the adults are considered to be financially literate. While the other Member States, such as Romania, Portugal, Bulgaria, Cyprus, where less than 35 % of adults are financially literate find themselves on the lower end of the scale. The surprising data is that one in ten EU citizens (10%) do not have a bank account[46], and even though the EU is working on creating a single financial market, 94% of respondents (who use financial products of their home Member State) say they have never bought a financial product outside their home country, while only 1% of respondents have obtained credit cards, shares or bonds, or 'other' insurance products outside their own Member State.[47] Absent similar definitive data or findings on SMEs (large and small) the existing data may serve as a proxy in mapping some of the problems that might exist for SMEs.

The development of financial literacy in the Member States is observable in the OECD data on financial literacy. According to data from the OECD, some Member States are implementing a first national strategy for financial literacy.

[45] See Non-paper.

[46] See Eurobarometer; Retail Financial Services.

[47] See Eurobarometer; Retail Financial Services.

Meanwhile, other Member States are revising a current national strategy or implementing a second national strategy. Some other Member States reported that a national strategy is being planned or actively designed. Finally, it appears that there are a few Member States which have no national strategies for financial literacy to date. This data is defeating and shows that there is still a lot of progress to be made in creating a unifying single market and giving all the citizens the same financial opportunities.

Batsaikhan and Demertzis argue financial literacy is of particular importance for the EU as its population is ageing rapidly.[48] This in turn could lead to pressures on the pension system, an area that is only beginning its journey on cross-border products and solutions, notably through PEPP. Increasing financial literacy and the understanding of occupational mechanics of pension systems as well as personal insurance systems and available products could reduce the coming burden.

Equally, the available data on financial literacy confirms the hypothesis that consumers have a low understanding of debt products. Mortgage debt makes up an overwhelming share of total debt in EU households. For many consumers, mortgage debt is the single most important financial product they will ever be exposed to. Without an understanding by borrowers on the implications and consequences of indebtedness can contribute to greater over-indebtedness and financial hardship, thereby also raising the levels of unlikely to pay exposures as well non-performing loans and exposures (collectively herein, NPLs) and pressures on lenders and in turn financial stability.

In order to combat the risks posed by rising, what were then pre-and post-GFC NPL issue the EBA and in the Banking Union, the European Central Bank, acting in its supervisory role, have introduced, as discussed in further detail below, detailed supervisory expectations on lenders when dealing with NPLs as well as EU-27 wide guidelines on loan origination and monitoring. These frameworks are likely to be expanded as COVID-19 is likely to add a whole new range of NPLs to the existing, albeit at the start of 2020 a diminishing level of, stock of legacy NPLs. It is widely expected that COVID-19's economic fallout across the EU-27, based on figures and projections available at writing, the most severe since 1945, will perform and evolve very differently than those that predated and equally those that have come into existence since the GFC.

While the EU-wide and Banking Union specific measures on NPLs do have some transparency and disclosure obligations that financial services firms must adapt towards borrowers (in addition to consumer protection measures and an obligation to treat consumers fairly), they, like that national EU-27 Member

[48] See Batsaikhan, Demertzis; Financial literacy and inclusive growth in the European Union.

States' existing efforts they build upon, do not have specific requirements to improve financial education and financial literacy levels of borrowers. This too is a missed opportunity. Equally, the EU's efforts in this field, as well as many national level Member States' efforts, despite those existing consumer protection rules that exist as a matter of EU and national law, do not prescribe details on dealing with consumers, including those that are deemed to be "vulnerable" (i.e., typically this includes the elderly, single parents, low-(single) income households and those with disabilities) or otherwise in financial hardship, who notably when it comes to debt products, may require additional care when it comes to their financial education, literacy and ultimately the suitability and appropriateness of the financial product, including any restructuring or work-out solution being offered. While some of these concerns may be specific to consumers, the availability of sufficient high-quality data could demonstrate how such issues apply over to SMEs as well.

Ultimately, increasing financial literacy supports inclusive growth in the EU and reducing poverty, inequality, social exclusion, and social immobility.[49] The latter confirms that financial literacy is one of the tools that can help in strengthening the European Single Market and can benefit the European economy and create economic growth.

6. A SPOTLIGHT ON SMES

The European small and medium enterprises (SMEs) are frequently referred to as the backbone of the European economy. According to the Eurostat's Annual SMEs Report, in 2016 there were slightly more than 25 million SMEs in the European Union.[50] They account for 99.8% of all enterprises in the EU-28 non-financial business sector (NFBS) and employed around 95 million people (66.6% of total employment).[51]

It is noteworthy, that 93% of the SMEs are micro-SMEs.[52] Micro SMEs are companies whose turnover and balance sheet do not exceed EUR 2 million and that have 10 or fewer employees. According to the Eurostat's Annual SMEs Report micro-SMEs have been most important factor in the much stronger contribution to the growth in value added in recent years (i.e. from 2016 to 2018) of the SME sector.[53]

[49] See Batsaikhan, Demertzis; Financial literacy and inclusive growth in the European Union.

[50] See, Eurostat, Small and medium-sized enterprises: an overview.

[51] See Kraemer-Eis, et. al; European Small Business Finance Outlook 2020.

[52] See Eurostat, How many people work in small enterprises?.

[53] According to the Eurostat report SMEs account for the majority of the increase in value added (60%). Micro SMEs generated 28.5% of this increase, while small and medium-sized

Even though SMEs are of such value for the EU, they are extremely dependent on intermediated credit channels, and do not have suitable substitute to bank financing. European SMEs receive 75% of their funding from banks. On average 60% of SME's survive first three years of activity. They are more vulnerable to changes in the business environment than larger firms and more reliant on supportive policies.[54] According to EU data, access to finance is perceived to be the single most important obstacle faced by SMEs.[55]

Rather importantly, if not worryingly, prior to and since then irrespective of COVID-19, the EBA currently does not recognize SMEs as a target group for financial education and there is no study of degree of financial literacy of the European SMEs. There is also no data on the level of financial literacy of European SMEs. The research of financial literacy that singles out small business owners of the micro and small business in the north of Portugal shows a rather low level of financial literacy[56], which is consistent to the level of financial literacy of individuals in Portugal[57]. Nevertheless, an individual's financial literacy is not the same as financial literacy required by SMEs.

The OECD defines financial literacy of owners and managers of SMEs as "… the combination of awareness, knowledge, skills, attitudes and behavior that a potential entrepreneur or an owner or manager of a micro, small or medium sized enterprise should have in order to make effective financial decisions to start a business, run a business, and ultimately ensure its sustainability and growth."[58]

Unlike financial literacy of an individual/consumer, the financial literacy of SMEs, even though they are considered legal persons, relies on financial literacy of an individual, be it an entrepreneur-to-be or owner/manager of an SME. It is wider than the "personal" financial literacy that an individual would require to make ever-day financial decisions as it includes corporate skills such as starting and running of an enterprise. According to the OECD, financial education for SMEs and potential entrepreneurs, should include understanding the difference between personal and business finance; knowing where to go

SMEs accounted for 16.9% and 14.1%, respectively. The contribution of medium-sized SMEs has declined during this period.

54 See ECB; Financing the economy – SMEs, banks and capital markets. (ECB, 2018)

55 See Bańkowska et al.; Access to finance for small and medium-sized enterprises since the financial crisis: evidence from survey data. and OECD; SME Policy Indeks.

56 See Fernandes; Financial Literacy Levels of Small Businesses Owners and it Correlation with Firms' Operating Performance.

57 See Klapperet et al., S&P global FINLIT survey.

58 OECD; OECD/INFE.

for help; understanding of the financial landscape, products and concepts of relevance; and developing skills to become more aware of financing opportunities and financial risks and opportunities; make informed business plans and related choices; manage their financial records, planning and risks effectively over the short and long term; and take other effective actions to maximize the potential of their business for the benefit of their enterprise and that of the wider economy.

Research also shows that SMEs with higher level of financial literacy, tend to be more successful, as well as an important fact, that the results evidence that small business owners tend to overestimate their capacities and level of financial literacy.[59] The latter indicates that an entrepreneur-to-be or owner/manager of an SME who is unaware of the importance of financial decision-making and their lack of adequate skills, is unlikely to seek advice and support. For that reason, when designing financial education incentive, one must keep in mind that financial education channels that rely on involvement of individuals, and them seeking for advice, may not be suitable channels for SMEs.

Considering the fact that the degree of financial literacy of an SME depends on the financial literacy of an individual, the result for the EU is defeating, more so in light of the fact that vast majority of European enterprises are micro enterprises, that have up to 10 employees. It is unlikely that 1 of the 10 employees would have such levels of formal financial education that entrepreneurs-to-be or owners/managers of European micro enterprises would (ideally) require. In the view of this conclusions, it would be opportune to analyze the level of financial literacy of the entrepreneurs-to-be or owners/managers of European SMEs focusing on micro enterprises. In the light of the results, more suitable channels and methods of financial education could be implemented.

While data on financial education and financial literacy of SME (and micro-enterprise) management is lacking, a number of researches have analyzed the level of SMEs' access to bank finance and if it was affected by financial crisis.[60] Moscalu et al. concluded that financing constraints hamper SMEs' growth significantly while increased banking markets integration fosters SMEs' growth in the euro area.[61] Consequently, there is a direct causal relationship and self-reinforcing link between CMU and the potential benefits yielding a strengthened

[59] See Fernandes; Financial Literacy Levels of Small Businesses Owners and it Correlation with Firms' Operating Performance.

[60] As discussed in Moscalu et al.; SMEs' growth under financing constraints and banking markets integration in the euro area.

[61] See Moscalu et al.; SMEs' growth under financing constraints and banking markets integration in the euro area.

and more integrated European financial market ecosystem and SMEs access to greater financing channels beyond "just" (an over-reliance upon) bank-intermediated credit channels. The same is true in that a greater financial education and financial literacy focus driven by CMU could spill over into SMEs having a better understanding, and thus taking better decisions, in terms of bank-intermediated financing channels.

The lack of financial knowledge by SMEs and the lack of a recognized source of business finance advice available to SMEs, and the absence, in most EU-27 jurisdictions of a suitably independent resource (including IFAs), where these do exist, to guide SMEs through the complexities of bank and non- bank finance and help them secure access to the most appropriate form(s) of finance, hamper the use of financing options by SMEs.

Lack of financing options for SMEs coupled with a lack of information coverage by financial market analysts on SMEs also hamper the ability for lenders to SMEs to monetize their credit exposures to them. This poses a problem for lenders and the efficiency of optimizing their own financing needs in relation to the portfolio of exposures to SMEs, thus in turn potentially discouraging the extension of financing to such SMEs to begin with. This self-reinforcing and somewhat vicious circle can however be broken, however first the problem needs to be identified and barriers earmarked for removal, namely:

A. Given that SMEs have only limited direct access to capital markets, a well-functioning securitization market can provide an indirect access by transforming illiquid loans to SMEs into an asset class with adequate market liquidity.

B. Securitization can strengthen the capacity of banks to supply new loans. It can mitigate credit supply frictions and has the potential of having positive real effects on investment, sales, and employment.[62] If properly done, securitization can be a promising tool to enhance funding options for SMEs (Lagarde, 2019).[63] For example, Kaya and Masetti (2018) analyzed the impact of securitization on access to finance for SMEs in the euro area, based on firm-level survey data on SME financing conditions. They found that an increase in securitization issuance reduces the probability of SMEs facing credit constraints and decreases the cost of bank financing for non-constrained firms.[64]

[62] See Berg et al.; Real Effects of Securitization.

[63] See Lagarde, The Euro Area: creating a stronger economic ecosystem.

[64] See Kraemer-Eis, et. al; European Small Business Finance Outlook 2020.

7. A LOOK ACROSS THE ATLANTIC AND BACK TO THE EU AND THE EESC

The United States and its own capital markets union in the form of its integrated continental-wide level of integration has been achieved over a comparably longer period of time when compared to current EU efforts. Equally, the U.S. in building its current state of financial markets has closed considerably smaller gaps between the individual legislative, regulatory, financial market infrastructure systems and consumer protection measures that existed in individual frameworks of each of the States of the United States and as a matter of U.S. Federal Law, when compared to the EU. The EU's policymakers nevertheless often benchmark progress on CMU (1.0 and 2.0) against the desired end-state of EU financial markets being as integrated on a continental-wide basis and with the same depth of liquidity and potential for a capital generation as that of U.S. markets. It has yet to do the same in terms of financial education.

While there are of course marked differences between the U.S. and EU standards of education, the U.S., has, taken concerted efforts to advance financial education and literacy. The benefit of one language, a more enshrined power of Federal versus State-level authorities when it comes to financial services when compared to the ongoing EU efforts of increased Europeanisation, means that the U.S. has been able to act possibly more decisively than the individual EU Member States or the EU Commission. Lessons however could be learned by the EU Commission in how to emulate, adapt and apply some of the successes implemented in the U.S., while avoiding some of the pitfalls.

The U.S. Financial Literacy and Education Commission (FLEC) was established in 2003 under the U.S. Fair and Accurate Credit Transactions Act 2003. FLEC is chaired by the U.S. Treasury Secretary and the vice-chair is the Director of the Consumer Financial Protection Bureau (introduced by the Dodd-Frank Act). FLEC is comprised of the heads of 19 U.S. federal agencies[65] and coordinated by the U.S. Treasury Department's Office of Consumer Policy.

FLEC's mission statement is (according to its website): "The Commission's vision is of sustained financial well-being for all individuals and families in the U.S. In furtherance of this vision, the Commission sets the strategic direction

[65] Office of the Comptroller of the Currency; Federal Reserve; the Federal Deposit Insurance Corporation; Federal Emergency Management Agency: National Credit Union Administration; Securities and Exchange Commission; Departments of Education; Agriculture; Defense; Health and Human Services; Housing and Urban Development; Interior, Labor, and Veterans Affairs; Federal Trade Commission; General Services Administration; Small Business Administration; Social Security Administration; Commodity Futures Trading Commission; Office of Personnel Management; White House Domestic Policy Council.

for policy, education, practice, research, and coordination so that all Americans make informed financial decisions."

One of the key tasks that FLEC delivered was the establishment of a national financial education website "MyMoney.gov" along with a national strategy on financial education. The 2020 National Strategy for Financial Literacy[66], sets out the U.S. government's financial literacy priorities (aimed mostly at natural persons rather than legal persons) and the coordination between the federal government, State and tribal governments, and the private sector to "strengthen the financial capability for all American". FLEC equally publishes periodic policy papers and guidance, including its "Best Practice for Financial Literacy and Education at Institutions of Higher Education"[67], which provides recommendations and education plans and resources to avoid "pitfalls associated with financing education" as well as detailed "Resource Guides" for enhancing your financial capabilities by partnering with your employment programs.[68] Other measures exist specifically to promote youth savings and higher education funding savings programs. Nothing (as of yet) that comes close to FLEC nor its existing deliverables and/or future strategy exists in a comparably at the EU-level in the EU-27.

The closest current body in the EU that has taken charge is the European Economic Social Committee (EESC), a consultative body of the EU established in 1958. EESC effectively acts as an advisory assembly composed of employer organizations, trade unions, and representatives of various other interests. Amongst its many areas of interest, The EESC sees increasing financial literacy and financial education as a tool to fight growing complexities and lack of transparency in the financial system. Therefore, EESC has aimed at promoting financial education policies aspiring to improve consumer protection. The EESC views retail consumers as not sufficiently informed participants of financial markets inundated with complex financial instruments. Further, it remarks that the financial sector has, to a degree, been behaving irresponsibly and has not been informing the consumers about the risks products may entail.

Since the European Economic and Social Committee (EESC) 2016 Report, the financial industry has applied new legislation that increases the transparency of the financial market.[69] The EESC feels the responsibility is not only on industry actors, but individuals are also responsible for improving their

[66] See U.S. Commission; U.S. National Strategy for Financial Literacy 2020.

[67] See U.S. Commission; Best Practices for Financial Literacy and Education at Institutions of Higher Education.

[68] See U.S. Commission, Resource Guide for Financial Institutions.

[69] See EESC; Financial Education for all.

financial awareness throughout their lives. The EESC sees financial education as a lifelong learning process that should be accessible to everyone. it calls for financial education to become a compulsory subject on the school curriculum, which should be followed up in training and retraining programs for workers. This in many ways echoes the broad aims of the 2005 OECD Financial Education Principles and frames it further but does little to update nor expand upon them or adapt them to the EU-27 framework.

The EESC considers that existing financial education programs have limited reach and stresses that is important to evaluate their suitability. It perceives financial education and improving financial literacy as an "obligation of financial industry" to be actively involved in programs focusing on both microfinance and as well as financial education, and in the provision of access to basic financial services. Therefore, the EESC moves the financial industry to apply legislation properly and additionally self-regulate to foster appropriate and honest practices and simplify the access to transparent financial products for retail consumers.

The EESC has set an outline of a financial education program.[70] The products that should be addressed in financial education are savings and liabilities, Investments and assets such as consumer loans and mortgages, different payment methods such as debit and credit cards, financial services (transfers, advice, charges), as well as other financial products such as insurance, or pensions. The education program sets specific topics for certain target groups. For example, it argues that children and youth should be thought how to save, and those young adults should be thought how to organize a budget for an independent life or when entering the workforce. As potential means of imparting financial education, the EESC foresees; schools and workplaces, consumers or employers' associations and trade unions, retirement homes as well as media and the internet.

8. POSSIBLE CONSIDERATIONS FOR THE EUROPEAN COMMISSION IN IMPROVING EU-27 WIDE FINANCIAL LITERACY – INTRODUCING FELS, FEAP

If the European Commission is to deliver on its continuing aims of CMU 2.0 creating more integrated capital markets, notably for retail financial services, as set out in inter alia its Retail Financial Services Action Plan[71] then improv-

[70] See EESC; Financial Education for all.

[71] Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, and the Committee of the Regions Consumer Financial Services Action Plan: Better Products, More Choice, COM/2017/0139 final

ing financial education and thus literacy for all needs to be a leading priority. Financial market participants, of all types, generally make better decisions the better their financial literacy and the lower the information asymmetry. Given consensus is evidential, in that these aims are embedded in several existing and forthcoming EU financial services regulatory reforms as well as expressed in commentary by global and EU policymakers' findings, albeit not fully with SMEs in their sights (as of yet) and equally in the findings by studies of various academics.

The EU now has a window to act. As a first step, it may wish to undertake, as it has done or does in a range of other EU financial regulatory reform efforts and as the EBA had done in part on financial education, an EU-wide stocktake, in the form of an EU-27 "Financial Education and Literacy Survey" (FELS)[72]. FELS should ideally combine both desk-based and field-based research to ensure robust data validation and quality assurance.

In addition to FELS assessing how the terms of "financial education" and what constitutes "financial literacy" in each EU Member State, FELS could, similar to the work of the European Commission's High-Level Task Force on CMU's 2020 Report that ultimately led to September 24, 2020, CMU 2.0 Action Plan being advanced, also compile a list of existing national resources and best practices in place. Such a list should cover the efforts of both financial services policymakers and supervisors but equally those of the national bodies responsible for education, skills, and jobs as well as public and private sector bodies supporting and/or supervising SMEs.

Another future output from FELS, separate from recommending an EU-wide definition of "financial education" and "financial literacy" would ideally be to provide the European Commission with grounds and data to set forth an EU-wide Financial Education and Literacy Target for say 2030 (2030 FELT), which, collectively for purposes herein, could itself be presented as an EU Financial Education Action Plan (FEAP). FEAP could be presented and delivered not only under the existing legislative and rulemaking mandate that the European Commission has to advance CMU 2.0 but as part of the wide-ranging measures to complete and enhance the EU's Single Market more generally, along with COVID-19 support and relief measures aimed at the real economy and breadth of SMEs as well as more wider-reaching reforms under the EU's Digital Finance Strategy and the European Green Deal.

[72] It should be noted that the word "Fels" means rock in German, and while the European Commission, if were to decide to follow such a path may find a more suitable acronym, is a nice interplay on words for the SMEs in the German *Mittelstand* that form the bedrock of the German economy.

So what might FEAP look like in practice? Any action to design, define, deliver and deploy FEAP, towards the 2030 FELT goal, should adopt a comprehensive and holistic strategy that harmonizes what has to date been a fragmented patchwork of national efforts. Each of these national efforts across the EU-27 has historically been advanced with a differing degree of effectiveness and in some instances remain subject to local market constraints.

At a high level, any such strategic plan for FEAP and delivery towards the 2030 FELT goal would also, in addition, need to use a combination of agreed comprehensive principles, strategic outcomes to be affected, defined rules, as accompanied by supervisory guidance from each of the European Supervisory Authorities (ESAs). The ESAs are comprised of the European Banking Authority (EBA), European Securities and Markets Authority (ESMA), and the European Insurance and Occupational Pensions Authority (EIOPA).

The ESAs in addition to being the gatekeepers of various components in respective thematic chapters of the EU's Single Rulebook that underpins the EU's Single Market for financial services have general powers to coordinate the work of, and also issue binding directions and guidance to, the individual national competent authorities (NCAs) of the individual EU-27 Member States as well as to market participants more generally. Additionally, each of the ESAs individually, but also when acting jointly, have specific but growing direct supervisory oversight powers over various types of financial services firms within their respective institutional mandates. As discussed above, the EBA has some components within its growing institutional mandate to review and harmonize financial education and literacy efforts undertaken by the individual EU Member States, where these exist. These are however not comparable with the powers that for example exist in the United States' FLEC.

Moreover, the European Central Bank (ECB), in its role at the head of the Single Supervisory Mechanism (SSM) pillar of the Banking Union, has its own rulemaking powers for a range of rulemaking instruments that are either legislatively binding upon NCAs and/or Banking Union Supervised Institutions or form part of its supervisory expectations. Addresses of non-legislative binding instruments and other "soft-law" instruments are nevertheless be expected to comply (or explain their non-compliance) with respective measures.

In delivering FEAP against the 2030 FELT goals, the European Commission ideally would need to take targeted action. This would likely need to occur at multiple levels across thematic areas. It would ideally need to couple the centralized steering and coordinated use of both legislative and regulatory rulemaking instruments as well as expand institutional mandates of existing EU authorities while equally working with national policymakers responsible for education and skills – i.e. to deliver other areas as set out in the 2005 OECD

Financial Education Principles and other best practices where financial education is embedded in primary and secondary schools as well as higher education.

So what might FEAP look like in terms of legislative and regulatory rulemaking instruments? As part of the legislative and regulatory rulemaking process, with an overarching aim to harmonizing national efforts through an EU-wide framework, the precedent for such an approach of taking stock of national efforts, designing and deploying the best of individual national efforts into an EU-wide maximum harmonization framework through the use of legislatively binding instruments (preferably an EU Regulation) as coupled with non-binding rulemaking instruments or setting of supervisory expectations has already gathered pace. FEAP could borrow from some of the successes that have been delivered by EU financial services policymakers in several CMU 1.0/2.0 and other post-GFC reforms advanced whether as a part of the Banking Union or otherwise.

There are also two distinct types of such approaches that FEAP could take. These approaches can be distinguished by:

1. use of regulatory and supervisory guidance by EU-level authorities (ECB and EBA) about tackling the identification, mitigation, and management of non-performing exposures and loans (collectively NPLs). At a first instance the EU policymakers assessed the best practices of individual EU Member States, the barriers posed by national insolvency laws and restructuring frameworks (an area that is often referred to as posing a problem "too big to reform" and published a range of supervisory guidelines and principles under the auspices of existing legislative and regulatory rulemaking mandates to create an EU-wide 27 maximum harmonization approach. While these supervisory guidelines and principles are framed as non-legally binding upon market participants, they are directly applicable to the individual NCAs.
2. introducing a maximum harmonization legislative framework, in the form of an EU Regulation, which builds off the best practices of national frameworks. A precedent for such an approach was put forward on September 24, 2020, as a concurrent deliverable to that of the CMU 2.0 Action Plan. The EU's proposed "digital operational resilience act" (DORA) is an EU Regulation that has now begun the legislative process. At its heart, DORA introduces maximum harmonization standards that cut across and unifies the individual requirements that apply both in EU and national level legislation across different thematic areas (banks, securities dealers, IFAs, asset managers, (re-)insurers, pension providers, financial market infrastructure providers, and a host other financial and non-financial services firm types). DORA introduces one set of rules for all and permits firms subject to DORA to apply a risk-based approach to proportionate levels of compliance.

It is conceivable that FEAP may need to be advanced to meet the 2030 FELT goals using both such approaches, rather than these being mutually exclusive. DORA's approach, which has been welcomed as bold and powerful, could form on a pillar of what any future legislative and regulatory framework transforming FEAP into a workable framework that is implemented across the EU-27 would require. A second pillar would probably need to adopt the approach taken similar to how the EU-27 and Banking Union specific rules on NPLs have been introduced and these two rulemaking pillars would ideally need to be flanked and supported by delegated legislative acts and supervisory guidance on a number of issues, but most importantly detailed key performance indicators (KPIs) that are measurable.

Another area that will require dedicated reform is that in tackling the minimum competency levels of IFAs but also financial services firms more generally when providing investment advice but equally setting uniform standards that must be met when providing financial education services. A similar need for creating uniform standards that must be followed both in content, accessible language, and disclosure, will also need to be applied to creating a uniform definition of what constitutes a regulated and compliant "financial education communication" by a financial services firm (including IFAs) and other non-financial services, including approved training and education providers firms to (i) retail clients generally, but (ii) SMEs specifically.

While the high-level objectives on these matters, along with KPIs could be enshrined in a "European Financial Literacy and Education Regulation" (E-FLER)[73], many items could also be advanced in further detail both in regulatory technical standards and implementing technical standards through the use of Commission Delegated Regulations and Commission Delegated Directives. Such subsidiary legislation could also tie into efforts on the European Single Access Point for SMEs and more generally on common standards for the digitized distribution of financial education efforts using webinars, massive open online courses (MOOCs), and other e-learning as designed and delivered either by financial services firms (including IFAs) or other non-financial services, including approved training and education providers that meet certain standards set out by E-FLER.

The U.S. is a preferred benchmark by which the European Commission measures its progress on CMU in terms of financial market integration. Several lessons learned from the U.S.' path to building its continent-wide integrated

[73] Similar to FELS and the German language connotation, the European Commission may surely find a better acronym befitting of such future legislation, even if E-FLER evokes similarity to "Fleur", which is French for flower.

capital markets union flowed into deliverables under CMU 1.0 and now CMU 2.0. Consequently, in addition to the legislative and rulemaking efforts proposed herein that the European Commission may wish to consider, the EBA but perhaps preferably the Joint Committee of the ESAs, together with the ECB-SSM, and observers from national institutions tasked with financial education as well as the EESC, should look across the Atlantic to the United States' experience and build an EU Financial Education and Literacy Board (FELB). Such an approach could take the best of the U.S. regime in FELC and adapt it to the EU's needs and findings flowing out of FELS' findings into FEAP and the 2030 FELT goals and ultimately the E-FLER legislative framework.

9. OUTLOOK

In summary, FELS, FEAP, and 2030 FELT goals, and the E-FLER legislative framework, as supported by improvements to existing and creating new institutional mandates such as FELB, are likely to be very achievable aims if commenced first with SMEs very much in mind as well as focus on new thematic areas such as the European Green Deal, COVID-19 recovery programs and CMU developments. In a secondary step, such delivery could before branch out, including through concurrent efforts advanced by educational authorities more generally, on more fundamental basics.

While the rolling out of financial education into the school and education system may be easier to prompt compliance by students, compelling SMEs and retail clients more generally may be more difficult. FELS may need to investigate and then based on findings FEAP would need to postulate the feasibility of some form of a scheme that rewards continuous professional development through some form of non-monetary incentive as well as, probably more palatable if addressed at larger and/or more complex SMEs, the introduction of some minimum target regimen for periodic mandatory compliance training which is often the case set by a vast range of occupational health and safety standards and/or anti-financial crime training.

The question for current EU policymakers and those in future political appointments and legislative cycles through to 2030 will be whether they can afford inaction? This is important as in the next decade ahead the EU-27 and its policymakers have set ambitious goals to build CMU 2.0, complete the Single Market for financial services as well as an economy that works for the people (a priority of the 2020 Von der Leyen Commission in its own right). All of this is set to be delivered against a backdrop where traditional business operating and economic models face pressures that are amplified by a paradigm shift due to COVID-19 and prolonged pandemic preparedness, climate change and the de-

livery of the European Green Deal and a move to more sustainable finance and a carbon-neutral and ultimately circular economy. In addition, digitalization is increasing in pace and compounding the need for a rethink as well as disruption of the business operating environment and the existing legal and regulatory framework, which has existed to date, including beyond financial services and the EU's Digital Finance Strategy will likely evolve beyond its current aims.

With this in mind, EU policymakers, both those tasked with financial services and in other fields affected by this new "new normal" will ideally need to forego inaction that fuels inertia and fragmentation and instead seize the opportunity to cast the die, cross the Rubicon and finally ensure that "*scientia potentia est*" is accessible to SMEs across the European Union?

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