

WSBI/WB conference “Access to finance”, Brussels, October 28-29, 2004
Working Group III: How can access to finance for SMEs be improved?
Outline of intervention: Dr. Bertram Reddig

As is often mentioned, the most striking obstacles for small SMEs to gain access to finance are

- higher risks which they frequently present and
- relatively higher handling costs for small amounts of loans which they usually need.

To overcome these obstacles we need appropriate financing instruments and processes which reduce risk and/or handling cost. Such measures can be designed even without public support, financial or non-financial. If and when financial support for SMEs or specific groups among them is available - by local, regional, national or EU institutions - there is ample scope to use it intelligently for improving both instruments and processes.

Following are a few key statements on this topic. They are based on experience about SME finance and support by the German savings banks, as well as on the exchange of good practice examples within the ECO-FIN-NET project of 14 local and regional partners from 10 EU countries.

1. There are widespread (financial) support measures - such as guarantees - to improve access to finance for SMEs by diminishing the risk, but public support tends to increase the bureaucracy involved (especially on the EU level) and the handling costs. Therefore the handling processes of public support institutions have to be streamlined as much as possible.
2. The risks in SME finance need to be reduced, shared with others and/or paid for by the clients. When public support institutions put administrative limits to the risk margins which are allowed with their products, this excludes many SMEs from the respective support measures.
3. Financial instruments should target the specific restrictions for many SMEs: lack of own capital and lack of collateral. Providing guarantees to them is a good starting point, but more intelligent and integrated instruments are easier to apply and reduce handling effort and costs. As an example, well-designed subordinate loans address both the lack of own capital and the lack of collateral at the same time - and they may even be supported with EU regional funds (like in objective-2-areas in the German land of North Rhine-Westfalia).
4. The risks of financing SMEs may also be reduced by extra training and qualification of entrepreneurs in matters such as financial planning, management or the structured and timely presentation of relevant information to banks.
5. In order to keep handling costs - as well as information and access costs for SMEs - low, adequate financial instruments and non-financial measures can be integrated into

“support packages” by the various providers of services. As an example, the combination of giving guarantees and coaching to young entrepreneurs, including the services of Caisse d’Epargne des Alpes, is shown to be an efficient way of support in the Grenoble area - where it includes monies from the European Social Fund.

6. The integration of measures into “support packages” is a task for networks of key stakeholders such as savings banks, local administrations, chambers of commerce or craft and others. In order to work efficiently with SMEs the partners in such networks need to be close to their clients; that means they need local roots, local knowledge and local decision making power. Such networks may go as far as a joint institution - like the Vienna Business Agency, in which the City of Vienna, the Wirtschaftskammer and two banks (including the Erste savings bank) joined forces to serve the local economy.
7. EU programmes for the support of access to finance for SMEs are especially effective when their management is decentralized and done by competent national or regional actors in line with established and efficient processes. For example, the SME Guarantee Facility in the Multi-Annual Programme for Enterprises and Entrepreneurship (MAP) pays the European Investment Fund (EIF) to counter-guarantee part of the exemptions from liability which are offered to credit institutions, when these provide finance to start-ups or in micro-loans. In Germany, more than 50 percent of these products are brought to their users by the savings banks.