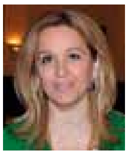
European Economic and Social Committee

Employers' Group

Access to EU finance for SMEs
what can we learn from Greece?

Small and Medium-sized Enterprises (SMEs) are the backbone of the EU economy. According to EC estimates, the overall contribution of SMEs to EU-27 value added was more than 57% (€3.4 trillion) in 2012. SMEs are responsible for wealth and economic growth, in addition to their key role in innovation and R&D.

Although the role of SMEs in the EU economy is crucial and their well-being should be a priority for European policy-makers, they struggle with access to finance especially in the countries severely hit by the crisis. The Greek experience might and should be taken as a case study and lead to conclusions on how to improve the system for the future. Only a stable economy and fiscal system allows business to operate in security and confidence. These are the elements necessary for growth.



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Throughout and at the height of the extended financial crisis, national SMEs demonstrated great reserves of resilience with respect to the total value added and employment indices of the Greek economy. However, while these businesses were making a remarkable effort to recover, credit institutions – due mainly to their recapitalisation requirements – not only remained markedly reluctant but they also set insurmountable obstacles. Despite minor improvements and commitments made by Greek banks, the situation regarding lending to the real economy in Greece remains extremely difficult. Since markets are characterised by an ongoing credit crunch, interest rates are higher compared to other EU Member States, the loan portfolios of Greek banks are constantly shrinking and SMEs cannot meet the excessive collateral requirements asked for.

Investments from indigenous and non-Greek sources are limited, while public contributions from the national budget are virtually out of the question. Due to these impediments to efforts towards economic recovery, the only feasible solution seems to be finance from structural and other European funds for the 2014–2020 programming period. Special priority should be given to new guarantee loan schemes, the use of which ensures certain benefits.

Under this framework and because of the unsatisfactory utilisation of the existing guarantee products, a new mechanism for channelling liquidity should be established. A new fund that would be able to supply each credit institution with guarantees in cash from the existing global loan contracts between banks and the EIB/EIF presents an immediate need to re-launch the internal market. Of course, it must be ensured that the benefits of the schemes are transferred to businesses and are not simply withheld by the banks to cover their own needs.

A Greek or a global problem?

- The cost of finance is essential for small companies. The collapse of the financing system for such enterprises has implications for the whole economy. Greece was an excellent example of an economy depending heavily on SMEs with approximately 900,000 small companies registered (including 330,000 in the trade sector alone) before the crisis. In the past SMEs had to rely mainly on their own means to get capital, often using family assets and resources.
- In the 1980s a new system of ensuring company finance was created, namely the use of post-dated cheques offered for financing company expansion. This was an innovative way of paying for loans, because no financing was being made available by the banks.
- When the euro was introduced, a period of normal bank lending emerged, which stopped when the recession and economic crisis began. Greece has lost about 250,000 companies (many closed down, stricken with so-called non-performing loans that account for more than 30% of all loans for the moment). There is an urgent need for financial instruments to lend to SMEs. The problems faced by micro-enterprises (i.e. those with a turnover of less than €2m and fewer than 10 employees) are even greater.
- As long as the economy is in crisis, the opportunities for growth coming from small businesses are non-existent; under such circumstances, businesses don't even look for finance. In addition, it takes time for financing to filter through to companies and begin having a positive impact on growth and jobs with them. Because of this time lag many companies will still close down before getting the money to save them! There is a need to speed up the system to get money to the companies. The current outlook is gloomy, with a lot of SMEs on the verge of closing down.
- This limited access to funding is not only a Greek problem; it applies also to EU countries that were not so severely hit by the crisis. In the Netherlands, the number of banks operating on the market is very limited, banks are managed in a heavily centralised manner, so there is not enough competition between the financial institutions. That discourages them from soliciting for clients such as SMEs. During the crisis many SMEs have closed down because of banks not having enough capital to lend out. A considerable number of Dutch SMEs are still in the danger zone, especially those with an annual turnover of less than €100,000
- The situation appears to be much better in Germany, where the banking system is characterised by having numerous local banks, leading to more competition and consequently easier access to credit.

Do banks still want to earn money on SMEs?

- Big banks are well adapted to dealing with big companies; but the needs of the very small companies are difficult for them to deal with. You need special personnel trained to deal with the particularities of SMEs. Portugal has a network of small local banks: they are small credit institutions, originally set up in agriculture, and that have now evolved into supporting business activities in towns. These banks know SMEs well; and local authorities can give a bank a guarantee if they are interested in keeping the business in their community. This system has worked well to help Portuguese businesses get through the crisis.
- The approach and needs are very different when analysing SMEs by size (e.g. a business of 9 members of staff vs a company with 250 employees); level of maturity (e.g. a start-up vs an SME planning for expansion); or regional aspects. Banks have to comply with ever-stricter Basle rules and still be profit-making institutions. Regulations need to change in order to give investors an incentive to invest in SMEs, and give a more preponderant role to business angels.

- From the economic point of view, banks prefer earning money with a limited number of sophisticated instruments, rather than many small loans to SMEs. Risk assessment in the case of SMEs requires a better knowledge of the local market and is often unreliable when using standardised mechanisms prepared by bank analysts. SMEs are victims of the globalisation and centralisation of banking systems. On the other hand, banks defend their positive track record vis-à-vis SMEs. In one of the cases presented, SMEs accounted for up to 75% of the bank's portfolio.
- As a result of the general economic and financial crisis, the value of the collateral that SMEs have to offer as a guarantee has fallen in value; therefore SMEs have less to offer as a guarantee, which reduces the bank's ability to agree to loans. Establishing a business plan is a difficult and time-consuming task for a SME to undertake when requesting a loan; low absorption rates and excessive bureaucracy must be combatted.

Optimising existing instruments, creating solutions

- A clear distinction must be made between credits and investments. The problem is getting people to INVEST in small local companies. But if you have strong local roots, then you will be able to obtain investment capital more easily, though this is not always guaranteed.
- A lot of financing is now going through public funds; EU structural funds are now more open for SME finance too, with several new financing models being explored at the moment.
- An interesting solution that might improve the situation comes from the United Kingdom, where the Funding for Lending Scheme (FLS) is operating. The FLS is designed to incentivise banks and building societies to boost their lending to the UK's real economy. It does this by providing funding to banks and building societies for an extended period, with both the price and quantity of funding provided linked to their lending performance. The FLS allows participants to borrow UK Treasury Bills in exchange for eligible collateral, which consists of all collateral eligible in the Bank's Discount Window Facility.
- There has been a trend of significant internal disinvestment in Greece in recent years: -35% in 2012 and even -43% in 2013. SMEs are currently deeply in debt and no longer have the possibility to invest. This is affecting their productivity and their potential contribution to providing growth and jobs. In Greece, there is a need for a national policy to support SMEs for both now and for the post-crisis period.
- A mechanism to monitor the financing of SMEs should be considered. New financing instruments should be created for the next Multiannual Financial Framework to help SMEs in the post-crisis period. Finally, a dedicated bank for SMEs, which could be based on the structures of the current cooperative banks, is a solution worth considering. Banks should also provide consultancy services to help SMEs with their loan requests.
- SMEs themselves also have an important role to play. Businesses in Greece need to be reorganised in order to become more professional and improve their chances of access to EU finance. Banks will react positively to realistic, well-prepared and profitable business proposals.

As a result of the economic crisis, the number of small businesses has decreased from 830,000 to 680,000. The number of SMEs per head of the population in Greece was still on a par with the EU average, i.e. 17 persons for each SME, but 600 SMEs still close down each day. This trend needs to be turned around, because a company gone is definitely a SME gone for the future. Although the buzzword is still "Start-up", it is essential to keep current companies operational. There are 23 million SMEs in the EU; if each were to employ one additional person, all unemployment would be solved in the EU. We cannot afford to let any more SMEs close down.

The discussion on Access to the finance for SMEs took place during the Extraordinary Meeting of the Employers' Group in Kyllini, Greece on 25th April 2014. The meeting was organised together with the National Hellenic Confederation of Commerce

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Employers' Group

About the Employers' Group

The Employers' Group brings together entrepreneurs and representatives of entrepreneur associations working in industry, commerce, services and agriculture in the 28 Member States of the European Union. Our members are genuinely committed to putting their own experiences to good use to further the European venture.

The European Economic and Social Committee is the only European institution that brings together entrepreneurs and people fully involved in the economic and social life of their home country. We make the voice of business heard at European level.

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