

Belke, Ansgar

Working Paper

Finance access of SMEs: What role for the ECB?

ROME Discussion Paper Series, No. 13-10

Provided in Cooperation with:

Research Network "Research on Money in the Economy" (ROME)

Suggested Citation: Belke, Ansgar (2013) : Finance access of SMEs: What role for the ECB?, ROME Discussion Paper Series, No. 13-10, Research On Money in the Economy (ROME), s.l.

This Version is available at:

<https://hdl.handle.net/10419/98658>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

R O M E

Research On Money in the Economy

No. 13-10 – August 2013

Finance Access of SMEs:
What Role for the ECB?

Ansgar Belke

ROME Discussion Paper Series

"Research on Money in the Economy" (ROME) is a private non-profit-oriented research network of and for economists, who generally are interested in monetary economics and especially are interested in the interdependences between the financial sector and the real economy. Further information is available on www.rome-net.org.

ISSN 1865-7052

Research On Money in the Economy

Discussion Paper Series
ISSN 1865-7052

No 2013-10, August 2013

Finance Access of SMEs: What Role for the ECB?*

Ansgar Belke

Prof. Dr. Ansgar Belke
University of Duisburg-Essen
Department of Economics
Universitaetsstr. 12
D-45117 Essen
e-mail: ansgar.belke@uni-due.de
and
Institute for the Study of Labor (IZA) Bonn
Schaumburg-Lippe-Str. 5 – 9
D-53113 Bonn

Member of the Monetary Expert Panel in the European Parliament

The discussion paper represents the author's personal opinions and do not necessarily reflect the views of IZA Bonn.

NOTE: Working papers in the "Research On Money in the Economy" Discussion Paper Series are preliminary materials circulated to stimulate discussion and critical comment. The analysis and conclusions set forth are those of the author(s) and do not indicate concurrence by other members of the research network ROME. Any reproduction, publication and reprint in the form of a different publication, whether printed or produced electronically, in whole or in part, is permitted only with the explicit written authorisation of the author(s). References in publications to ROME Discussion Papers (other than an acknowledgment that the writer has had access to unpublished material) should be cleared with the author(s) to protect the tentative character of these papers. As a general rule, ROME Discussion Papers are not translated and are usually only available in the original language used by the contributor(s).

ROME Discussion Papers are published in PDF format at www.rome-net.org/publications/.

Please direct any enquiries to the current ROME coordinator
Prof. Dr. Albrecht F. Michler,
Heinrich-Heine-University of Duesseldorf, Department of Economics, Universitaetsstr. 1,
Build. 24.31.01.01 (Oeconomicum), D-40225 Duesseldorf, Germany
Tel.: ++49(0)-211-81-15372
Fax: ++49(0)-211-81-15261
E-mail: helpdesk@rome-net.org
michler@uni-duesseldorf.de

Abstract

Small and medium size enterprises (SMEs) of southern euro-area economies (e.g. Italy, Spain) pay significantly higher borrowing rates than their peers of the core (e.g. Germany, France) and this divergence is widening. It is argued that severe market failures prevent SMEs in southern euro area countries from access to key inputs, in particular access to finance. This paper makes an assessment of feasible options to improve finance access of SMEs, available to EU institutions as well as to the ECB in the context of its price stability mandate. Because of non-negligible moral hazard issues, the paper is sceptical about a stronger involvement of the ECB in the (indirect) financing of SMEs through the securitisation of banks' loans or their use as collateral for monetary policy operations. The paper concludes with some proposals for extending finance access of SMEs, including through mutual guarantee institutions along the lines recently pursued by the European Investment Bank.

JEL-Classification: E23, E51, G21, O16

Keywords: ECB, financial crisis, bank-firm relationships, credit guarantee schemes, monetary policy transmission, small business finance

Corresponding author

Jean Monnet Professor Dr. Ansgar Belke, Department of Economics, DIW Berlin and University of Duisburg-Essen, Universitätsstraße 12, 45117 Essen, Tel.: +49 201 183-2277, Fax: +49 201 183-4181, E-mail: ansgar.belke@uni-due.de

* This paper heavily draws upon a Briefing paper prepared for presentation at the Committee on Economic and Monetary Affairs of the European Parliament for the quarterly dialogue with the President of the European Central Bank, June 2013, Brussels.

1. INTRODUCTION

Small and medium-sized enterprises (SMEs) are an essential component of the euro area economy. In all Member States, and particularly in the southern countries of the euro area, SMEs represent a significant proportion of the overall number of firms in the private sector and employ a large share of the workforce. Therefore, SMEs provide a substantial contribution to economic growth and job creation and SMEs dynamics has important macroeconomic effects (De Nederlandsche Bank, 2013).

Typically, SMEs rely mainly on bank funding to finance their activities as compared to large firms which have easier access to alternative sources of credit. As a consequence, SMEs decision-making process may be heavily affected by changing credit conditions. The smooth working of the monetary transmission mechanism is therefore of central importance for the supply of credit to SMEs, particularly in the distressed economies of the euro area. This point has been emphasised on many occasions by M. Draghi, the ECB President, with reference to both conventional and unconventional monetary policies.

The current fragmentation of financial markets is affecting some euro area Member States more than others and smaller firms such as SMEs more than larger ones. Financial fragmentation has a strong geographical connotation and can lead to a dry up of financial resources (the so-called "credit crunch") for otherwise identical cross-border neighbouring SMEs, albeit located in different countries. While fears of a Eurozone break-up have receded more recently (Steen, 2013), financial fragmentation remains a critical feature of the area and calls for prompt policy action. The impact of financial fragmentation on SMEs financing and the need of prompt actions on this matter is the main topic of this paper.

Recent ECB data show that Italian and Spanish SMEs still pay significantly higher borrowing rates than their German and French counterparts, even though this divergence is shrinking (ECB, 2013). But difficult financial conditions are widespread. Following the release of the ECB 'Report on the results of the survey on the access to finance of SMEs in the euro area (SAFE)' on 26 April 2013, Mario Draghi (2013) commented that "(w)hile some signs of stabilisation are emerging, the Survey on the access to finance of small and medium-sized enterprises (SMEs) in the euro area indicates continued tight credit conditions, particularly for SMEs in several euro area countries. Moreover, the available information indicates high risk perception on the part of banks."

Only recently have EU institutions stepped up their efforts to address this problem. On 2 May 2013, the European Commission and the European Investment Bank (EIB) released a joint report ¹ on the finance access of SMEs. The report summarises various EU initiatives in the area of SME financing, including the Competitive and Innovation Framework Programme (CIP), the new Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (Programme for the Competitiveness of the SMEs, COSME), the implementation of EIB capital increase to ensure increased lending volumes to SMEs and help restoring normal lending to the real economy, better integration of venture capital markets and improving long-term financing for SMEs. Finally, the ECB, the EIB and the Commission are currently co-operating on exploring options how to foster finance access of SMEs in the periphery of the euro area.² The ECB is also assessing how and whether to broaden collateral requirements for SME financing, e.g. through the securitisation of SME loans (Governing Council meeting of 2 May 2013).³

¹ See European Commission (2013).

² See EIB (2013).

³ See Draghi (2013): "On the other part, it is actually broader than a standard measure category and it relates to funding measures, broadly defined. One is collateral, and the second set has to do with purchases

Against this background, the objective of this paper is to evaluate options available to the ECB to improve SMEs financing using either existing instruments or developing new ones, without jeopardising ECB mandate of price stability. Moreover, this paper puts this into context and examines which other institutions have to be potentially involved.

The remainder of the paper is structured as follows. Section 2 starts with some general theoretical and empirical considerations on the key factors underlying high credit risk in southern euro area SMEs and argues that severe market failures are preventing SMEs from sound access to key inputs, in particular access to finance. Section 3 deals with the securitisation of SME loans and its potential use as collateral for monetary policy operations to reduce the risks of a credit crunch. Section 4 discusses the role of and scope for broadening venture capital funds and stock markets as well as extending mutual guarantee institutions to foster SME financing. In this context, this paper also focuses on other market compatible solutions delivered by the European Investment Bank as potential sources for SMEs financing. Section 5 concludes with a brief research agenda on unresolved issues.

2. GENERAL CONSIDERATIONS

Finance access: define and prove the existence of a market failure

Problems of finance access of SMEs are well-known in the academic literature. For instance, Schneider and Veugelers (2008) using German data show that firms featuring a combination of newness, smallness and high R&D spending generate a significantly high number of sales of innovative goods through innovative channels. It is especially these young innovative firms which rate internal and external financial constraints as a very important factor hampering their innovation activities. The so-called *access to finance problem* is often referred to as a rationale for government intervention (ECORYS, 2012, p. 48).

There is a broad consensus in the academic literature that SMEs frequently face *greater financing obstacles than larger firms* and thus deserve support from public institutions. Two main arguments are used: First, *severe market failures* inhibit SMEs from fair access to important inputs, in particular access to finance (ECORYS, 2012, p. 51). Second, the key contribution of SMEs for growth in advanced economies calls for some form of public support. In particular, *positive externalities* stemming from the SMEs' innovative activities justify government support including better access to finance (Colombo and Delmastro, 2002).

Fundamental determinants of SME credit risk in the euro area - north versus south

SMEs operating in southern euro area economies are less productive than northern SMEs. The default of a certain number of SMEs in these countries is therefore likely.

This is especially the case for Greece and Portugal, two economies undertaking severe restructuring partially cushioned by EU structural funds. But it is also the case for Spain given the high number of involvement of SMEs following the burst of the real estate bubble (Belke, 2013). In the same vein, European Commission data consistently indicate that, above all, Spanish and Italian SMEs display *lower productivity* than the average of

of assets. Now, you have got to be careful here, because let me say once again what the ECB cannot do. The ECB certainly cannot supplement governments for their lack of structural reforms. Secondly, the ECB cannot clean banks' balance sheets. And third, the ECB is not in the business of monetary financing, i.e. buying government bonds. When you consider all this, you look at what assets could be purchased and then you look at what States 80 per cent of credit intermediation goes via the capital markets. Capital markets rate and price assets in a right or wrong way, but it's fairly transparent".

all domestic firms and that their productivity is still falling. This quite naturally gives banks “good reasons to impose an additional risk premium” on their lending (Steen, 2013a).

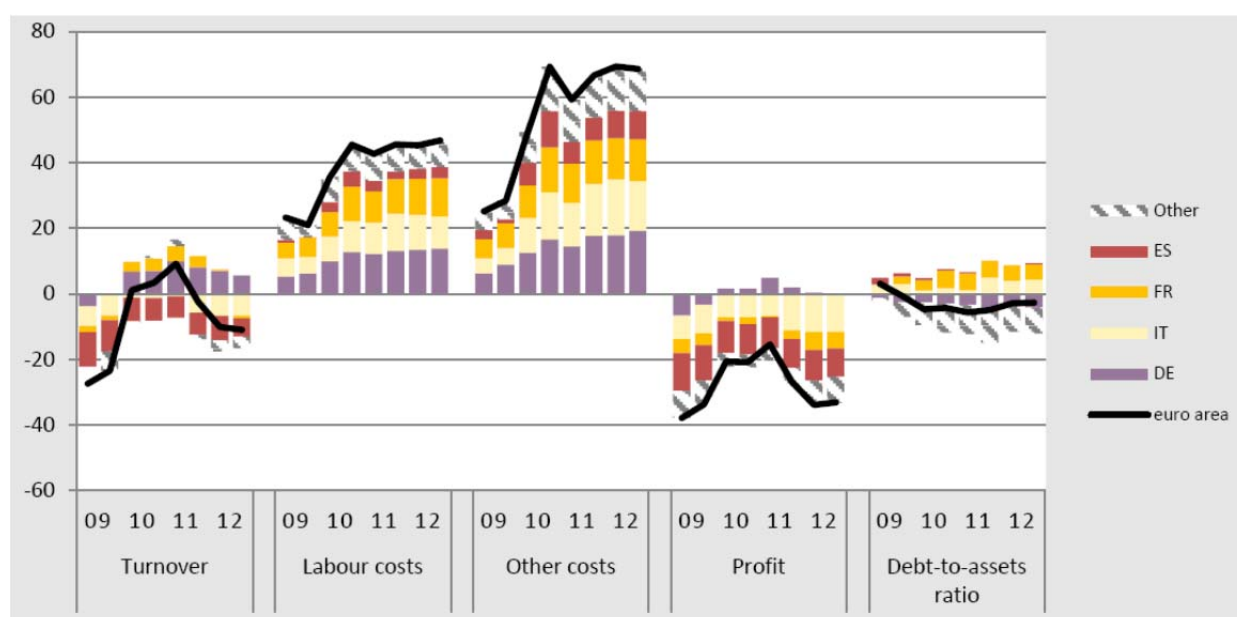
Moreover, any comparison of cross-border financing conditions (e.g. large interest rate differences between South-Austrian and North-Italian SMEs) has to take into account that SMEs belong to *different and autonomous political entities* and correspondingly *different qualities of institutional infrastructure* but also *structurally different levels of unemployment* (Belke, 2013). According to D. Gros (2011), “(t)here are profound differences among Member States in the degree to which their political systems and administrations work in reality. The World Bank provides a useful databank of “governance indicators” which allows us to compare countries on the quality of their administrations and the extent to which the rule of law is actually adhered to. These are key elements if a euro area political union is to work. However, even a cursory glance at these indicators reveals that the differences are so large that a political union is unlikely to work.”

Further determinants of significant higher credit risk premia in southern euro area SMEs can be drawn from the most recent *survey on the access to finance of small and medium-sized enterprises in the Eurozone* (ECB, 2013). According to this survey, SMEs in Italy, Spain, Portugal and Greece were among the largest *negative contributors to turnover developments* (Figure 1). This does not come as a surprise: among others, Italian SMEs continue to report *increases in labour and other production costs*, despite a persistently weak business climate. As a direct consequence, SMEs in Italy, Spain and some other Southern euro area member countries like Greece and Portugal continue to suffer from low profitability.

Instead of reducing their leverage against the background of high corporate indebtedness and the heightened risk aversion of banks, Italian and Greek SMEs have *increased their debt-to-assets ratio* in the period from October 2012 to March 2013 (Figure 1). This can only be partly explained by the concomitant decrease in asset values.

Figure 1 – Country contributions to the change in the income and debt situation of euro area SMEs

(over the preceding six months; country contributions to net percentage of respondents)



Notes: Base is all SMEs. Net percentages are defined as the difference between the percentage of firms reporting an increase for a given factor and the percentage reporting a decrease.

Source: ECB (2013), p. 2.

Over the last decade, Italian and Greek SMEs have performed poorly in terms of labour costs (Figure 1) and debt-to-asset-ratios and at the same time witnessed the largest losses in terms of World Bank Governance indicators. In this respect Gros (2011) reports that: "However, the data show that there is a large difference between the core countries and the "Club Med" (Greece, Italy, Portugal, and Spain). Especially Greece and Italy perform particularly poorly even if compared to Portugal and Spain, whose standards are still clearly below the core euro average. On almost any measure the observations for both Greece and Italy are more than two standard deviations below the euro area average."

Against this background, a higher *interest rate risk premium is absolutely justified* even among cross-border neighbouring SMEs. *Interest rates within the euro area should therefore differ* to reflect different qualities of political governance, incorporate the risk premium stemming from a potential haircut on and/or a restructuring of country-specific debt or even for the probability of a euro area exit of a specific member country.

Implications: further evidence

According to the ECB survey (ECB 2013, p. 3), a large number of SMEs in Spain, Italy and Portugal (but also in Ireland, Greece and France) reported an increase in their net interest expenses, reflecting less favourable financing conditions (Figure 2). But for Italian and Finnish SMEs, high labour and production costs are the main problem.

Across all euro area countries, the net percentage of SMEs reporting an *increase in bank lending rates* was highest in Spain (66 per cent), Italy (62 per cent) and Portugal (56 per cent), which potentially indicates *strong risk aversion of banks* "in an environment of weak economic activity and difficulties in the banking systems" (ECB, 2013, p. 16). This risk aversion reflects, among others, bad business cycle conditions (see section 3) and, in the case of Italy, worsening governance quality of the banks' home countries. With respect to collateral requirements, SMEs in Spain, Greece, Italy and Ireland (43 per cent) suffer from the largest tightening (Figure 2).

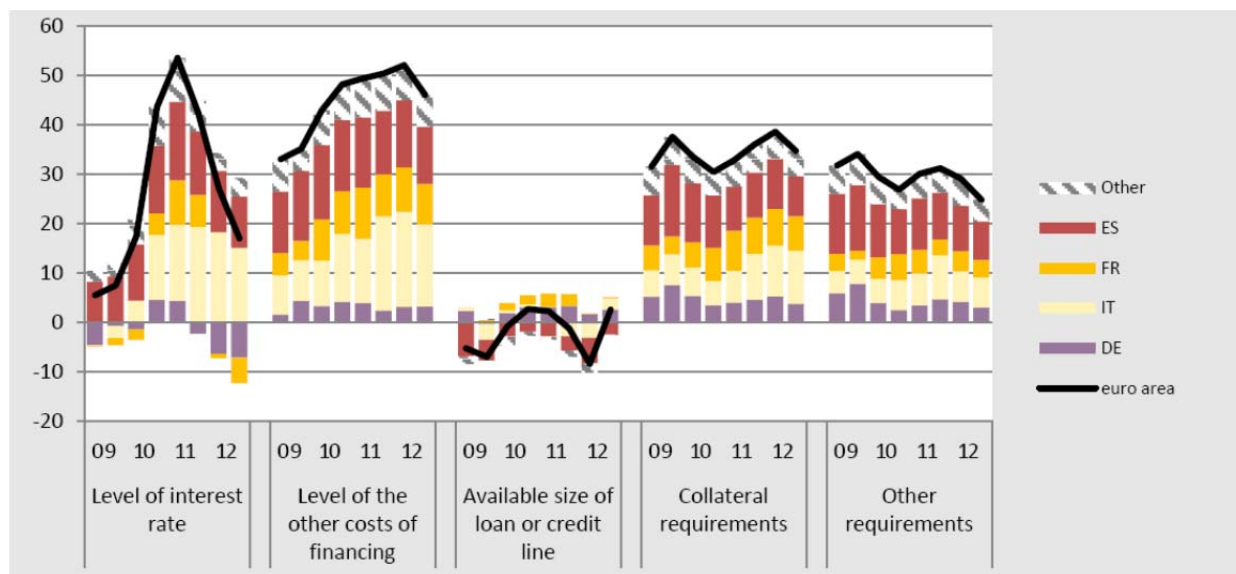
Difficult *access to finance* was the concern mentioned by the second largest percentage of euro area SMEs (16 per cent), albeit with a wide divergence across countries.⁴ On the negative side, 38 per cent of the SMEs in Greece, 25 per cent in Spain, 24 per cent in Ireland and 21 per cent in Portugal mentioned "Access to finance" as the most pressing problem, compared to only 8 per cent of the SMEs in Germany and Austria.

With respect to *banks' willingness to provide a loan*, SMEs in all euro area member countries, except Germany, reported, on average, a deterioration. It was especially strong not only in Greece, Spain, Italy, Portugal, but also in the Netherlands, reflecting worsening economic conditions and strong deleveraging needs in the private sector (Figure 2).

Figure 2 – Country contributions to the change in terms and conditions of banks loans granted to euro area SMEs

(over the preceding six months; country contributions to net percentages of firms that had applied for bank loans)

⁴ This figure is down from 18 per cent in the previous survey period. Also from this perspective, the problem of finance access for SMEs appears to become less relevant over time.

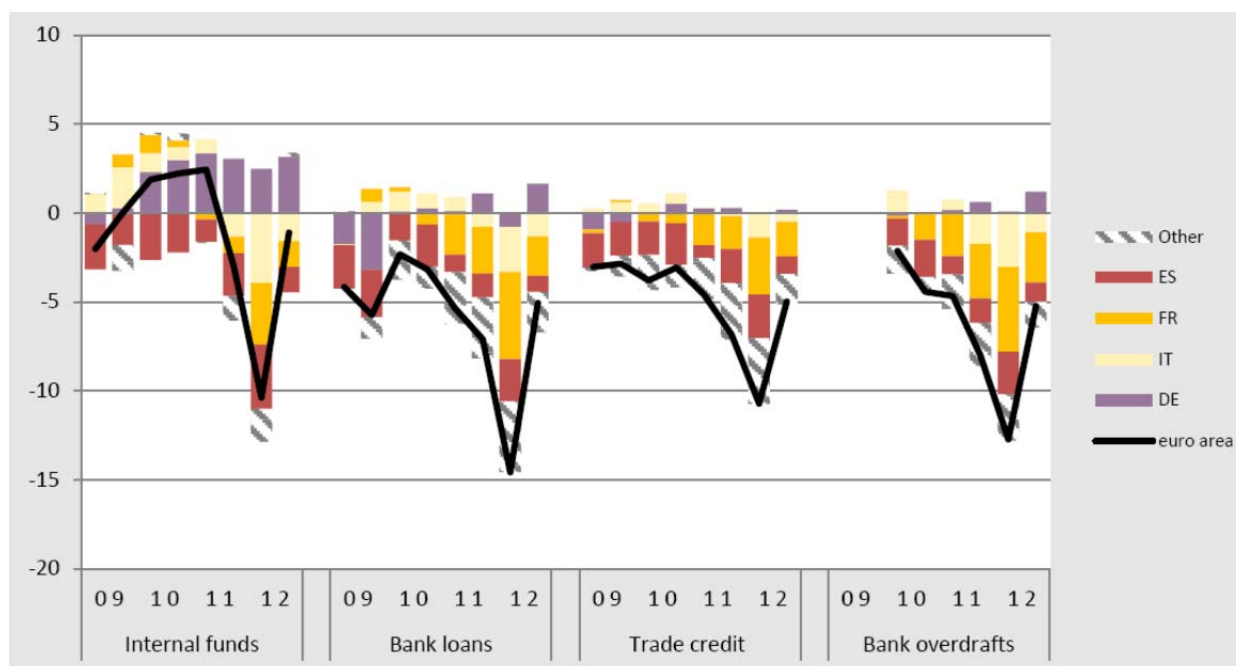


Notes: Base is SMEs that had applied for bank loans. See notes to Figure 1.

Source: ECB (2013), p. 17.

On a more positive note, in most countries the percentage of SMEs reporting a deterioration in financing conditions was smaller compared with the previous survey period. Expectations for the next survey period until September 2013 also revealed a less negative assessment, in particular for SMEs in France, Italy and Spain (Figure 3).⁵

Figure 3 – *Country contributions to the change in euro area SMEs' expectations regarding the availability of financing*
(over the preceding six months; country contributions to net percentage of respondents)



Notes: Base is all SMEs. Note: See the note to Chart 1.

Source: ECB (2013), p. 19.

⁵ SMEs' expectations regarding the availability of bank loans during the period from April to September 2013 were most negative in Greece.

In terms of success rate of SMEs bank loan applications, the *situation clearly improved* in all euro area countries, but Greece⁶. As a mirror image, the percentage of SMEs reporting rejection of loan applications was highest in Greece, followed by SMEs in Ireland, Spain and, as a newcomer, the Netherlands, whereas it was the lowest in Germany.

A relevant issue is to what extent difficulties in the SMEs access to finance are caused by supra-national factors rather than by standard country-specific determinants of the SMEs' credit risk? This identification problem is quite absent in both official ECB statements and public discussions. But its policy relevance can be appreciated in the context of ECB main task: guaranteeing a euro-area level playing field for finance access of firms.

3. SECURITISATION OF LOANS TO SMALL- AND MEDIUM SIZED ENTERPRISES

The still high degree of the fragmentation depicted in section 2 has stifled an intense debate about whether and how the ECB should get more actively involved in facilitating finance access of SMEs. For instance, the bank could extend its collateral requirements to allow commercial banks to increase their access to ECB funding through the use SME loans. If this was insufficient to increase lending volumes, the ECB could directly buy bundles of SME loans. Understandably, the ECB is unwilling to move down along this road (Steen, 2013a) as giving financial support to SMEs deteriorated balance sheets in distressed economies is clearly outside ECB mandate. According to the ECB, the reduce availability of credit in some southern euro area SMEs is the result of weak bank balance sheets. As such, this does not warrant any direct non-intermediated intervention by the central bank.

However, this leaves still unexplained why the ECB is apparently exploring the possibility - in cooperation with the the European Investment Bank (EIB) - to conceive and develop methods of broadening the access to finance for SMEs, e.g. by reviving the market for asset-backed securities (EIB 2013, Irish Observer 2013). Mario Draghi himself admitted that the ECB had consulted the EIB and the European Commission on similar initiatives and that "We looked at a variety of things, one of which was this ABS".⁷ Although there is no official commitment yet⁸, fears emerged in Germany

Securitisation has both pros and cons. Banks balance sheets would improve, allowing more lending, thereby reducing the risks of a credit crunch. Admittedly, a thorough assessment of the balance sheets of largest banks is needed as a precondition for these banks to extend credit to SMEs. On the other hand, borrowing activities of firms in the euro area periphery are by far concentrated on the smallest banks, on which the ECB will have little say in terms of capital requirements. Hence, some analysts argue that the upcoming capitalisation review conducted by the ECB will most probably not solve the problem (Financial Times, 2013).

Moreover, SMEs need help now, while the ECB review is unlikely to be completed before early 2014. The UK's Funding for Lending Scheme (FLS), according to which commercial banks receive cheap lending in exchange for expanding their SME loan book, is another option (Financial Times, 2013). However, figures published in June 2013 by the Bank of

⁶ It makes economic sense that a complete rejection of an SME loan application was reported mostly by SMEs in Greece (31 per cent). See ECB (2013), p. 14.

⁷ The Irish Observer (2013) mentions complementarily on May 13 that "ECB executive board member Joerg Asmussen said last week that the central bank has discussed ABS purchases, while his fellow board member Yves Mersch said the same day that it was "looking at ways to restart the ABS market".

⁸ According to the Irish Observer (2013) Mario Draghi remains rather cautious and reluctant on ABS as an option to support lending to SMEs: "We're still looking at that, it's one of the many options. We don't have a position, certainly, on that."

England showed that FLS was not particularly successful (Jones, 2013). Some have deplored the ECB's backsliding from securitisation. In particular the in the editorial of the Financial Times (2013) it was argued that "This is regrettable. It has been clear for some time that in parts of the currency union the monetary transmission mechanism is broken. Ultra-cheap interest rates engineered by the ECB do not reach businesses in countries like Italy and Spain. The credit crunch is forcing thousands of SMEs to shut down, with disastrous consequences for local jobs. Smaller businesses provide about 75 per cent of jobs in the euro area"). [] "It has been argued that a more effective course of action might have been for the ECB to purchase bundles of SME loans directly. While radical, this would be legal under the central bank's mandate (own emphasis), which prohibits monetary financing of sovereigns but does not rule out buying corporate debt".

Under this proposal, governments would have to share parts of the credit risk. Some even propose that this could be realised through a less rigid use of the ESM (Financial Times, 2013). However, this would raise serious issues of moral hazard and likely delay of necessary structural reforms. In this context, an additional remarkable argument is that credit policy will not, on its own, save the crisis-hit SMEs. It is argued that improving demand by relaxing euro area-wide austerity policies is more important, even though this is not an argument for the absence of action on the monetary side. Overall, the euro area economy is confronted at the same time with a cyclical problem, i.e. weak banks unable to perform core functions, and a long-run structural problem, i.e. the excessive reliance of firms financing needs on bank credit.⁹

It follows that any solution to the crisis must involve fixing the banks. Even ambitious solutions to the SMEs' finance access problem, such as developing a market for asset-backed securities for SME loans, still needs a well-capitalised banking system as a precondition of success. However, "Acquisitions in the ABS market are not easy for the ECB to do because we're in a completely different setup from the US, where you have a capital market. ... So the ABS, in this case, would have to contain assets from the banking system of the euro system and you can understand what sort of moral hazard there is there." (Draghi, reported by Irish Observer, 2013). To put it simply, the debate is more or less about who should do the stuff (Barwell, 2013). It is exactly this moral hazard argument which makes the ECB concerned about ABS purchase.

It should be remarked that banks are already allowed to exchange bundles of loans for central bank cash in the context of the standard ECB refinancing operations. In this case, the ECB applies a significant discount to the face value of loans. Under any securitisation proposal, the collateral is priced. The higher this price, the larger the benefits for banks in terms of reinforcing the capital-asset ratio and, therefore, lending capabilities. However, the higher the price of collateral, the bigger the risk of market losses is if the borrower defaults. In any case, purchasing ABSs would be a radical step and difficult to justify for the ECB, within the remits of its price stability mandate as the ECB is "not in the business of cleaning up banks' balance sheets" (Steen, 2013a).

Fixing the fragmentation of SME finance access in the euro area should not be considered a ECB task. "A country in a deep recession certainly has different financing costs compared to to a country that has nearly full employment," said Mario Draghi. Bundesbank President Jens Weidmann reinforced the argument: "Not every difference in the financing costs indicates the need for political action . . . I am rather sceptical that we could or should use monetary policy instruments to absorb the different financing conditions for SMEs in certain countries".¹⁰ Regenerating undercapitalised banks is

⁹ See, for instance, http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=3127.

¹⁰ Already section 2 of this paper stresses that "bad business cycle conditions" represent an important country-specific factor of SME credit risk in the euro area.

governments` not central banks` responsibility. This is even more so when elements of fiscal cross-border transfer are likely to be involved (Belke, 2013, Barwell, 2013).

On the basis of the arguments above, asking central banks to support SMEs` access to finance could jeopardise financial market efficiency and therefore produce a mis-allocation of bank lending. Even worse, putting the ECB under pressure to over-extend its mandate to include direct financing of specific groups SMES would “put(s) its reputation at stake, and lets politicians off the hook” (Barwell, 2013). The ECB has done its part to restore more normal lending conditions through the longer-term refinancing operations (LTROs) and the outright monetary transactions programme (OMTs). It is now time for politicians to act (Belke, 2013, Barwell, 2013).

Any securitisation of SMEs` loans raises questions about which loans to consider and the selection criteria to be used for the assessment. EIB-President Hoyer, while recognising that securitisation could be a useful tool to revive SME lending, stressed that prudence was needed “bearing in mind the experience of the subprime crisis”.¹¹ While SME financing could benefit from a deeper ABS market, the ECB risks creating an entirely new problem.

Hence, Mario Draghi reservations should not come as a surprise: “But if you go this way, you want to find a way of packaging these loans in a way that they can be priced. And that is where the reference to other institutions more suited for this job of packaging and guaranteeing the loans comes in: the reference to the European Investment Bank and the reference to the European Commission itself” (Draghi, 2013).

Improving SMEs` access to finance may be key to economic recovery, but appropriate solutions need to involve close partnership between the European Commission and the European Investment Bank (EIB). Co-operation with the ECB should be seen only in terms of delivering the micro-data necessary for an in-depth assessment of the financial situation of SMEs (European Commission, 2013).

The European Commission and the European Investment Bank have already made important steps in that direction, as mentioned in this paper. The rest of this paper focuses on further options which could, potentially, improve finance access of SMEs.

4. OTHER RECOMMENDATIONS

The government may help to alleviate SME`s financial problems. A recent study by the Centre for Strategy & Evaluation Service (2013), presents a synopsis of guarantees, equity schemes and loans backed by national resources. Thus, the study provides SMEs with an overview of available funding resources and financial support. The report also provides a more in-depth analysis of public support programmes for five EU Member States (France, Germany, Poland, Sweden and the UK).

4.1. Fostering seed and venture capital funds

Seed capital (the initial capital to start a business), early stage funds, venture capital funds are also feasible ways for financing SMEs with private funds and, even more important context of this paper, to reduce public risks (Belke and Fehn, 2004). Recent research generally confirms the existence of a corresponding and relevant “equity gap” for mature SMEs.¹² For younger and micro SMEs the issue is that investors might refrain from financing small transactions because of the high transaction costs involved (Centre for Strategy & Evaluation Service, 2013).

¹¹ See EIB (2013).

¹² See, for instance, BIS (2009).

4.2. Developing stock markets

A positive development of over the past two decades has been the increased reliance of SMEs on stock markets as a source of financing. However, bank credit remains, by far, the most important source of external funding and financial guarantees for SMEs (Centre for Strategy & Evaluation Service, 2013).

4.3. Extending mutual guarantee institutions

Asymmetric information is one of main reasons making access to finance difficult for SMEs. This is well-documented in the literature (Berger and Udell, 2006, Petersen and Rajan, 2006). Collateral or more intensive customer relationships between banks and firms can help to alleviate the information mismatch. However, new companies are short of collateral and credit reputation. This also hampers access to bank funding. By joining Mutual Guarantee Institutions (MGI), small/new companies can enhance their borrowing capacity (Columba, Gambacorta and Mistrulli, 2010). Their empirical analysis provides evidence that firms belonging to MGIs enjoy lower credit costs than comparable firms. A possible explanation is that banks are not able to monitor non-transparent enterprises as well as MGIs do. According to data published by the European Mutual Guarantee Association, more than 1.4 mio. SMEs joined so far an MGI in the EU. MGIs are rather common in Germany, France, Spain and Italy. For example, 37 per cent of the total outstanding volume of SMEs' guarantees is represented by Italian MGIs, the biggest mutual guarantee sector in the EU.

There is scope to support an increase of the size of MGIs as they help small companies to access credit lines. Nevertheless, a problem might be that larger MGIs could suffer from poor monitoring incentives (Columba, Gambacorta and Mistrulli, 2010).

A study by Bartoli, Ferri, Murro and Rotondia (2013) based on a large database on Italian SMEs, finds that SMEs belonging to the MGI network show a lower probability of financial tensions, even if their external environment features a high degree of financial stress. Moreover, it appears that MGIs work as a signalling device which goes beyond the simple collateral provision. Obviously, the information provided by MGIs is important for bank-firm relations as pro-cyclical scoring and rating systems have turned out to be less informative during the crisis. The message for policymakers is therefore to further *strengthen the presence and functioning of Mutual Guarantee Institutions (MGIs)*.

4.4. Other sources of finance

Other sources of finance, like private placements, listings on the regulated stock exchanges or the issuing of bonds, are not easy to access by SMEs (Centre for Strategy & Evaluation Service, 2013). The literature, however, tends to recognise a lack of awareness among SMEs about financing *opportunities in debt capital markets* which could allow them *to diversify funding sources*.¹³

Other promising avenues are market compatible solutions proposed jointly by the European Commission / EIB. Following the EIB's paid-in capital increase of EUR 10 billion last year, the bank will lend an additional EUR 15 billion to SMEs during 2013 to 2015 (EIB 2013) and is planning to increase the number of EIB-supported companies by expanding the range of its banking partners (EIB 2013).

Member States may also be a source of good practices for SME financing. For instance, the German government will increase lending to Spanish SMEs by EUR 1 bn at the currently very low German interest rates. Moreover, Germany's state-owned bank Kreditanstalt für Wiederaufbau (KfW) will provide financial support to Portuguese SMEs.

¹³ See BIS, HM Treasury (2010), p. 15.

"In the area [of small-to-medium sized enterprises focused on exports], we can benefit from cooperation with Germany, especially of the KfW, which is available to explore the possibility of extending credit lines to Portugal and participating in the capitalisation of SMEs indirectly through Portuguese institutions," said former Portuguese finance minister Vito Gaspar (WSJ, 2013).

5. LIMITATIONS OF THE STUDY AND FURTHER AGENDA FOR RESEARCH

How to best finance access of SMEs ranks high on the policy agenda and progress is being made on various fronts. What is perhaps still lacking is a) the analysis of the role of the different financing sources in shaping the dynamics of SMEs and b) an assessment of best practices for SME financing already available in several euro area Member States.

A preliminary list of elements of analysis worth investigating include: the interaction between SMEs' business activities, loan conditions and the dynamics of the euro area economy as a whole (De Nederlandsche Bank, 2013), the assessment of the credit cycles and conditions and their impact on SMEs financing and dynamics (e.g. in terms firm entry and exit, growth, job creation and destruction, investment decisions, innovation), the role of trade finance and trade credit in SME funding, the impact of fiscal and monetary policy on business decisions of SMEs, the impact of structural reforms in labour and goods markets on SMEs and the impact of new banking regulation on SMEs' access to credit.

6. CONCLUSIONS

Recent survey data from ECB Bank Lending Survey shows that small and medium size enterprises (SMEs) in Italy and Spain pay significantly higher borrowing rates than their German and French peers and the divergence is widening. This contribution has made an assessment of feasible options to improve finance access of SMEs, available to EU institutions as well as to the ECB in the context of its price stability mandate.

The paper started with some general theoretical and empirical considerations concerning fundamental factors underlying heightened credit risks for SMEs in southern euro-area economies. Moreover, it assessed the generally shared view that severe market failures prevent SMEs from sound access to key inputs, in particular access to finance. As these market failures call for public intervention, they must be properly identified and addressed to preserve the smooth functioning of final markets and the optimal allocation of financial resources. In the following we looked at those factors which are empirically relevant when modelling of credit risk and "optimal" interest rate for SMEs in the euro area.

The paper also discussed the highly relevant issue *to what extent are the difficulties in the SMEs access to finance reflecting supra-national rather country-specific factors of SMEs' credit risk*. This identification problem is almost absent in official ECB statements and related public discussions. But its policy relevance can be appreciated in the context of the ECB's main task: guaranteeing a euro-area level playing field for finance access of firms.

The results of the latest (April 2013) ECB Bank Lending Survey suggest that the standard nation-specific (but not any euro-area wide) fundamental factors of credit risk largely explain the difficult access to finance for southern euro area SMEs. The paper then dealt with the securitisation issue and, in particular, the securitisation of SMEs loans and their potential use as collateral for monetary policy operations and improve bank lending. Our view clearly was that the ECB should not be involved in the purchase of asset-backed securities (ABS) for SME loans (any further).

We shared the view that any solution to the financial crisis requires the fixing of banks. Even a well-developed market of asset-backed securities for SME loans needs a sound and well-capitalised banking system as a precondition of success. Acquisitions in the ABS market are not that easy for the ECB to pursue because the bank finds itself in a completely different setup from the US, where there is a capital market. So the ABS, in this case, would have to contain assets from the banking system of the euro system and it is thus easy to grasp what sort of moral hazard is out there.

The paper argued that it is exactly this moral hazard argument which makes the ECB concerned about ABS purchase. How to best finance access of SMEs ranks high on the policy agenda. While recent co-operation between EU Commission and the European Investment Bank is likely to provide some relief to the financing of SMEs, what is perhaps still lacking is an assessment of the different instruments of finance on the dynamics of SMEs and of best the practices already implemented in several euro area Member States.

REFERENCES

- Altman E., Sabato, G. (2007): Modelling credit risk for SMEs: Evidence from the U.S. Market, *Abacus* 43, pp. 332-357.
- Bank for International Settlements (2009): The supply of equity finance to SMEs: Revisiting the “equity gap”, SQW Consulting, Basle.
- Bank for International Settlements, HM Treasury (2010): Financing a private sector recovery, CM7923, Basle.
- Bartoli, F., Ferri, G., Murro, P., Rotondia, Z. (2013): Bank–firm relations and the role of Mutual Guarantee Institutions at the peak of the crisis, *Journal of Financial Stability* 9, pp. 90-104.
- Barwell, R. (2013): Solving the SME crisis is a job for politicians not the ECB, in: *Financial Times*, June 5.
- Belke, A. (2013): The Eurozone crisis – a tale of north and south, *The Statesman's Yearbook*, Palgrave Macmillan, Houndmills, Basingstoke.
- Belke, A., Fehn, R., Foster, N. (2004): Venture capital investment and labor market performance - a panel data analysis, in: Keuschnigg, C., Kanninen, V. (Eds.), *Venture capital, entrepreneurship and public policy*, CESifo Seminar Series, MIT Press, Cambridge/MA, pp. 97-126.
- Berger, A.N., Udell, G.F. (2006): A more complete conceptual framework for SME finance, *Journal of Banking & Finance* 30, pp. 2945–2966.
- Cardone-Riportella, C., Trujillo-Ponce, A., Briozzo, A. (2011): What do Basel Capital Accords mean for SMEs?, Working Paper 10 Departamento de Economía de la Empresa, Business Economic Series 04 Universidad Carlos III de Madrid, Madrid, April.
- Centre for Strategy & Evaluation Service (2013): Final report - Evaluation of member state policies to facilitate access to finance for SMEs, Sevenoaks, Kent/United Kingdom, June.
- Colombo, M., Delmastro, M. (2002): How effective are technology incubators? Evidence from Italy, *Research Policy* 31, pp. 1103–1122.

-
- Columba, F., Gambacorta, L. Paolo Emilio Mistrulli, P.E. (2010): Mutual guarantee institutions and small business finance, *Journal of Financial Stability* 6, pp. 45–54.
 - Commerzbank (2013): Euro-Peripherie: Wie stark belasten die Kreditzinsen die Konjunktur?, Economic Insight, Economic Research, Frankfurt/Main, June 27.
 - Commerzbank (2013a): Euroraum: Die Probleme wandern nach Norden, Economic Insight, Economic Research, Frankfurt/Main, June 17.
 - De Nederlandsche Bank (2013): 16th Annual Research Conference De Nederlandsche Bank Amsterdam, 17Th 18Th October, Call for Papers, Amsterdam, Web: http://www.ijcb.org/events/2013_cfp_dnb.pdf.
 - Draghi, M. (2013): Introductory statement to the press conference (with Q&A), Bratislava, 2 May. Web: <http://www.ecb.int/press/pressconf/2013/html/is130502.en.html>.
 - ECORYS (2012): EU SMEs in 2012: at the crossroads, Annual report on small and medium-sized enterprises in the EU, 2011/12, Rotterdam, September.
 - European Central Bank (2013): Survey on the access to finance of small and medium-sized enterprises in the euro area – October 2012 to March 2013, Frankfurt/Main, April.
 - European Commission (2011): Communication from the Commission to the Council, to the European Parliament, to the Committee of the Regions, and to the European and Social Committee, An action plan to improve access to finance for SMEs, SEC(2011) 1527 final, Brussels, December 12, COM(2011) 870 final.
 - European Commission (2013): Improving access to finance for SMEs: key to economic recovery, Memo, May 2, Web: http://europa.eu/rapid/press-release_MEMO-13-393_en.htm?locale=en.
 - European Investment Bank (2013): EIB Press Statement of 14 May 2013: <http://www.eib.org/about/press/2013/2013-063-eib-attaches-highimportance-to-small-and-medium-sized-enterprises.htm>.
 - Financial Times (2013): The ECB's untimely change of mind, Editorial, June 4.
 - Gros, D. (2011): Eurobonds: Wrong solution for legal, political, and economic reasons, VoxEU, August 24, Web: <http://www.voxeu.org/article/eurobonds-are-wrong-solution>.
 - Irish Observer (2013): ECB examining ways to boost lending to SMEs, May 13.
 - Jones, C. (2013): UK funding for lending scheme fails to spur credit creation, in: Financial Times, June 3.
 - OECD (2012): Working Party on SMEs and Entrepreneurship, 2012 Edition of Financing SMEs and Entrepreneurs: An OECD Scoreboard, CFE/SME(2011)7/FINAL, Centre for Entrepreneurship, SMEs and Local Development, Organisation of Economic Co-Operation and Economic Development, Paris, April 27.
 - Petersen, M.A., Rajan, R.G. (1994): The benefit of firm-creditor relationships: evidence from small business data, *Journal of Finance* 1, pp. 3–37.
 - Schneider, C. Veugelers, R. (2008): On young innovative companies: Why they matter and how (not) to policy support them, Working paper KU Leuven.
 - Scellato, G., Ughetto, E. (2010): The Basel II reform and the provision of the finance for R&D activities in SMEs: An analysis of the sample of Italian companies, *International Small Business Journal* 28, pp. 65-89.

-
- Steen, M. (2013), ECB backs away from use of 'big bazooka' to boost credit, in: Financial Times, June 3.
 - Steen, M. (2013a): Eurozone SMEs struggle to access finance, in: Financial Times, April 1.
 - Wall Street Journal (2013): Germany's KfW to offer support for Portugal's SMEs-ministers, May 22.

The following ROME Discussion Papers have been published since 2007:

1	2007	Quo vadis, Geldmenge? Zur Rolle der Geldmenge für eine moderne Geldpolitik	Egon Görgens Karlheinz Ruckriegel Franz Seitz
2	2007	Money and Inflation. Lessons from the US for ECB Monetary Policy	Ansgar Belke Thorsten Polleit
3	2007	Two-Pillar Monetary Policy and Bootstrap Expectations	Peter Spahn
4	2007	Money and Housing – Evidence for the Euro Area and the US	Claus Greiber Ralph Setzer
5	2007	Interest on Reserves and the Flexibility of Monetary Policy in the Euro Area	Ulrike Neyer
1	2008	Money: A Market Microstructure Approach	Malte Krueger
2	2008	Global Liquidity and House Prices: A VAR Analysis for OECD Countries	Ansgar Belke Walter Orth Ralph Setzer
3	2008	Measuring the Quality of Eligible Collateral	Philipp Lehmbecker Martin Missong
4	2008	The Quality of Eligible Collateral and Monetary Stability: An Empirical Analysis	Philipp Lehmbecker
5	2008	Interest Rate Pass-Through in Germany and the Euro Area	Julia von Borstel
1	2009	Interest Rate Rules and Monetary Targeting: What are the Links?	Christina Gerberding Franz Seitz Andreas Worms
2	2009	Current Account Imbalances and Structural Adjustment in the Euro Area: How to Rebalance Competitiveness	Ansgar Belke Gunther Schnabl Holger Zemanek
3	2009	A Simple Model of an Oil Based Global Savings Glut – The “China Factor” and the OPEC Cartel	Ansgar Belke Daniel Gros
4	2009	Die Auswirkungen der Geldmenge und des Kreditvolumens auf die Immobilienpreise – Ein ARDL-Ansatz für Deutschland	Ansgar Belke

5	2009	Does the ECB rely on a Taylor Rule? Comparing Ex-Post with Real Time Data	Ansgar Belke Jens Klose
6	2009	How Stable Are Monetary Models of the Dollar-Euro Exchange Rate? A Time-varying Coefficient Approach	Joscha Beckmann Ansgar Belke Michael Kühl
7	2009	The Importance of Global Shocks for National Policymakers – Rising Challenges for Central Banks	Ansgar Belke Andreas Rees
8	2009	Pricing of Payments	Malte Krüger
1	2010	(How) Do the ECB and the Fed React to Financial Market Uncertainty? The Taylor Rule in Times of Crisis	Ansgar Belke Jens Klose
2	2010	Monetary Policy, Global Liquidity and Commodity Price Dynamics	Ansgar Belke Ingo G. Bordon Torben W. Hendricks
3	2010	Is Euro Area Money Demand (Still) Stable? Cointegrated VAR versus Single Equation Techniques	Ansgar Belke Robert Czudaj
4	2010	European Monetary Policy and the ECB Rotation Model Voting Power of the Core versus the Periphery	Ansgar Belke Barbara von Schnurbein
5	2010	Short-term Oil Models before and during the Financial Market Crisis	Jörg Clostermann Nikolaus Keis Franz Seitz
6	2010	Financial Crisis, Global Liquidity and Monetary Exit Strategies	Ansgar Belke
7	2010	How much Fiscal Backing must the ECB have? The Euro Area is not the Philippines	Ansgar Belke
8	2010	Staatliche Schuldenkrisen – Das Beispiel Griechenland	Heinz-Dieter Smeets
9	2010	Heterogeneity in Money Holdings across Euro Area Countries: The Role of Housing	Ralph Setzer Paul van den Noord Guntram B. Wolff
10	2010	Driven by the Markets? ECB Sovereign Bond Purchases and the Securities Markets Programme	Ansgar Belke

11	2010	Asset Prices, Inflation and Monetary Control – Re-inventing Money as a Policy Tool	Peter Spahn
12	2010	The Euro Area Crisis Management Framework: Consequences and Institutional Follow-ups	Ansgar Belke
13	2010	Liquiditätspräferenz, endogenes Geld und Finanzmärkte	Peter Spahn
14	2010	Reinforcing EU Governance in Times of Crisis: The Commission Proposals and beyond	Ansgar Belke
01	2011	Current Account Imbalances in the Euro Area: Catching up or Competitiveness?	Ansgar Belke Christian Dreger
02	2011	Volatility Patterns of CDS, Bond and Stock Markets before and during the Financial Crisis: Evidence from Major Financial Institutions	Ansgar Belke Christian Gokus
03	2011	Cross-section Dependence and the Monetary Exchange Rate Model – A Panel Analysis	Joscha Beckmann Ansgar Belke Frauke Dobnik
04	2011	Ramifications of Debt Restructuring on the Euro Area – The Example of Large European Economies' Exposure to Greece	Ansgar Belke Christian Dreger
05	2011	Currency Movements Within and Outside a Currency Union: The Case of Germany and the Euro Area	Nikolaus Bartsch Gerhard Rösl Franz Seitz
01	2012	Effects of Global Liquidity on Commodity and Food Prices	Ansgar Belke Ingo Bordon Ulrich Volz
02	2012	Exchange Rate Bands of Inaction and Play-Hysteresis in German Exports – Sectoral Evidence for Some OECD Destinations	Ansgar Belke Matthias Göcke Martin Günther
03	2012	Do Wealthier Households Save More? The Impact of the Demographic Factor	Ansgar Belke Christian Dreger Richard Ochmann
04	2012	Modifying Taylor Reaction Functions in Presence of the Zero-Lower-Bound – Evidence for the ECB and the Fed	Ansgar Belke Jens Klose

05	2012	Interest Rate Pass-Through in the EMU – New Evidence from Nonlinear Cointegration Techniques for Fully Harmonized Data	Joscha Beckmann Ansgar Belke Florian Verheyen
06	2012	Monetary Commitment and Structural Reforms: A Dynamic Panel Analysis for Transition Economies	Ansgar Belke Lukas Vogel
07	2012	The Credibility of Monetary Policy Announcements: Empirical Evidence for OECD Countries since the 1960s	Ansgar Belke Andreas Freytag Jonas Keil Friedrich Schneider
01	2013	The Role of Money in Modern Macro Models	Franz Seitz Markus A. Schmidt
02	2013	Sezession: Ein gefährliches Spiel	Malte Krüger
03	2013	A More Effective Euro Area Monetary Policy than OMTs – Gold Back Sovereign Debt	Ansgar Belke
04	2013	Towards a Genuine Economic and Monetary Union – Comments on a Roadmap	Ansgar Belke
05	2013	Impact of a Low Interest Rate Environment – Global Liquidity Spillovers and the Search-for-yield	Ansgar Belke
06	2013	Exchange Rate Pass-Through into German Import Prices – A Disaggregated Perspective	Joscha Beckmann Ansgar Belke Florian Verheyen
07	2013	Foreign Exchange Market Interventions and the \$-¥ Exchange Rate in the Long Run	Joscha Beckmann Ansgar Belke Michael Kühl
08	2013	Money, Stock Prices and Central Banks – Cross-Country Comparisons of Cointegrated VAR Models	Ansgar Belke Marcel Wiedmann
09	2013	3-Year LTROs – A First Assessment of a Non-Standard Policy Measure	Ansgar Belke
10	2013	Finance Access of SMEs: What Role for the ECB?	Ansgar Belke