SMES' SECTOR ACCESS TO FINANCE: AN OVERVIEW

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Through their contribution to the creation of added value and new jobs, the small and medium enterprises (SMEs) have a significant role in the economic and social development of a country. However, these enterprises are facing numerous obstacles that limit their performance, growth and development. Among the difficulties faced by SMEs, the access to finance is often reported as a major obstacle to the deployment and expansion of their activity.
The paper aims to highlight the difficulties faced by SMEs in securing financing resources, emphasizing the differences between countries and also between SMEs and large enterprises. Knowing the difficulties in SMEs financing is essential for policy makers in order to design and implement appropriate measures, which will help to improve the access to financing for these enterprises. Thus, another issue addressed, synthetically, in this paper aims the measures taken by public authorities in order to support the access to financing for SMEs.

Key words: Small and Medium Enterprises, access to finance, financing constraints, bank financing, support measures

JEL code classification: G30, G32, O16

1. Introduction

In all countries, small and medium enterprises are a significant source of economic growth and jobs creation. Furthermore, these enterprises, through their dynamism and flexibility, are an engine of innovation and growth. Based on these considerations, it is easy to understand the crucial importance that the easy access to funding has, taking into account that it can support the creation of new businesses, the innovation process as well as the growth and the development of the existing businesses, which in turn boost the economic growth of a country.
The paper is structured as follows: *the first part* contains the introduction remarks regarding the importance and relevance of the approached theme; *the second part* is dedicated to a literature review which summarises the main researches undertaken so far on this theme; *the third part* highlights the major difficulties in SMEs financing, and *the fourth part* of the paper reflects, mainly, the difficulties reported by the entrepreneurs in dealing with banks and the measures that need to be taken in order to improve the access to financing for these enterprises. The study ends with conclusions.
The research methodology used in this paper starts with a literature review in order to highlight the importance of the subject addressed in our research. The analysis conducted in this paper is based on data and statistics provided mainly by the World Bank surveys, by certain empirical studies and by the National Council of Small and Medium Sized Private Enterprises in Romania.
Based on the methodology used, the paper indicates the difficulties in SMEs financing and the crucial importance of enhancing the public authorities concerns regarding their alleviation, especially by adopting measures focused on increasing financial development.
The limited availability and even lack of statistical data regarding the SMEs financing situation from various countries, including Romania, impose certain limits to the researches in the field, which can be overcome as policy makers realize the vital importance of developing and monitoring specific indicators regarding the financing of this type of enterprises.

2. Literature review regarding the access to finance for SMEs

The access to finance for SMEs represents a topic of great interest for the academic literature, as witnessed by the large number of studies addressing such a problem.

Numerous studies based on various surveys highlight that access to finance is one of the most important obstacles in the way of enterprises' growth and development, especially in the case of small and medium enterprises.

The study realised by *Beck, Demirguc-Kunt, Laeven and Maksimovic* (2004) reflects, based on a survey that has included 10.000 firms from 80 countries, the fundamental factors to which depends the enterprises' access to finance. Thus, the study highlights the relationship between the access to finance for enterprises and their characteristics, such as age, size and propriety structure. From this perspective, the authors find that young firms of small size as well as national ones face greater obstacles when they seek to obtain financial resources. The study also highlights the relationship between the degree of economic and financial development of a country (expressed through the degree of financial intermediation, the level of capital market development, the efficiency of the legal framework, the GDP per capita) and the access to finance for enterprises. From this point of view, the authors demonstrate that in the financial developed countries it can be accounted a decrease of the difficulties that the firms face when they try to obtain financing resources. Furthermore, the study concludes that the institutional development is the most important feature that explains the differences between countries in terms of financing obstacles faced by enterprises.

Beck, Demirgüç-Kunt and Maksimovic (2005) point based on a survey realised on firms from 54 countries that small and medium-sized enterprises are faced with financial and legal constraints and corruption issues in a much greater degree when compared with the large firms, thus the impact of these constraints on the firm growth is inversely proportional to the size of the firm. Moreover, the authors also noted that the financial and legal system development and the process of reducing corruption help to relax the constraints faced by small and medium-sized firms.

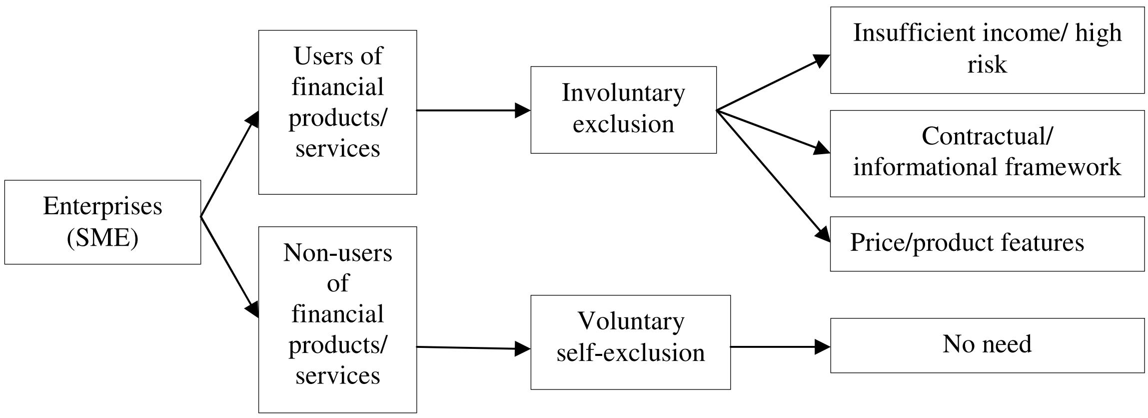
Beck and Demirguc-Kunt (2006) highlight that access to finance is an important growth constraint for SMEs that financial and legal institutions play an important role in relaxing this constraint. The authors also noted that innovative financing instruments can help facilitate SMEs' access to finance even in the absence of well developed institutions.

Ardic, Mylenko and Saltane (2011) analyze, using statistical data, the macroeconomic and institutional factors that are influencing the SMEs' financing through loans. Similar to other studies, the authors have found a positive correlation between the overall economic development (measured by income per capita) and financial development (measured by the ratio of private credit to GDP), on the one hand, and the SMEs' financing level, on the other side. Moreover, the authors demonstrate that the financing level of SMEs depends also on the legal framework and the overall business environment.

3. The general framework regarding the obstacles in the financing process of the SMEs

In general, the access to financial products/financial services or the financial inclusion assumes the absence of barriers in the way of using financial products/services, regardless of whether these obstacles are or are not related with pricing (Demirguc-Kunt, Beck and Honohan 2008: 2). Thus, improving this access means increasing the degree in which the financial products/financial services are available for everyone and at a fair price.

Unlike the use of financial products/services which is determined by supply and demand, the access aims at providing financial products or supplying financial services. The difference between access to financial products/services and their use is reflected in Fig. no 1.



Source: based on Demirguc-Kunt, Beck and Honohan 2008: 29

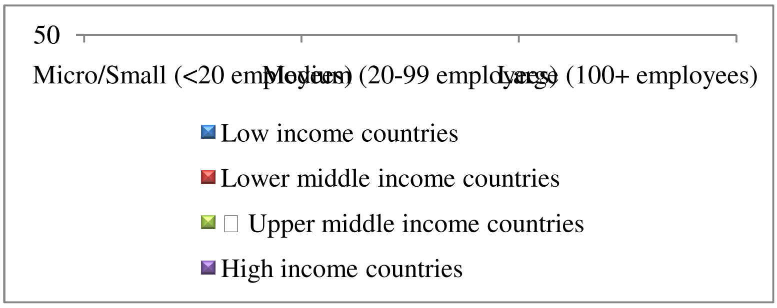
Fig. no 1: The difference between the access to finance and the use of financial products/services

Within the firms that do not use financial products/services it can be distinguished several categories, whose identification is essential for the authorities in order to adopt the necessary measures to improve their access to finance. Thus, on the one hand, there are *the firms that have access to finance*, generally to financial products and services, but do not use them because they do not have viable investment projects. On the other hand, it can be distinguished *the involuntarily excluded firms*, those firms that do not have access to finance or financial services, although they demand them. The involuntary exclusion of firms from finance/financial services appears in the situation in which some companies do not earn enough income or do not have the guarantees requested by the suppliers of capital and therefore have a high credit risk. At the same time, there are situations when some companies request funding, but the financial and banking institutions are not answering to these demands because the cost involved would be too high for them. Finally, within the category of involuntarily excluded firms appear also those for which the price of financial products/services is too high or the financial products'/services' features don't meet their needs.

The access to finance is indispensable for the efficient allocation of capital and the enterprise development. However, when compared with large enterprises, small and medium enterprises face many difficulties when pursuing to procure financial resources, which are due to several causes, including: the unstable and inadequate juridical and legislative framework, which does not support the relationship between capital providers and the enterprises that require financing; incomplete information and even lack of information from the part of both capital providers and enterprises, which prevents the development of normal and efficient relations between them; lack of a credit history and insufficient guarantees for creditors, especially in the case of the small and young firms; limited and, sometimes, inadequate range of financing products.

Numerous surveys carried out, particularly, by the World Bank highlight that the access to finance is often mentioned by the SMEs as one of the most important barriers to their well functioning and growth. For example, the surveys conducted by the World Bank, in 2006-2009, found that, worldwide, 31% of the studied firms report that the access to finance is a major obstacle in the way of carrying out current operations, the percentage being even much higher, at 40% in the case of young firms with up to three years experience (Chavis, Klapper and Love

2010: 1). Also, a series of global surveys, including the information provided by the World Business Environment Survey, show that small and medium size enterprises report the cost of financing as the most important obstacle to their growth. The difficulties in SMEs financing are more severe in the case of developing countries, this assessment resulting from the fact that approximately 50% of the micro and small sized enterprises report the difficulties in financing as a major obstacle (see Fig. no 2).



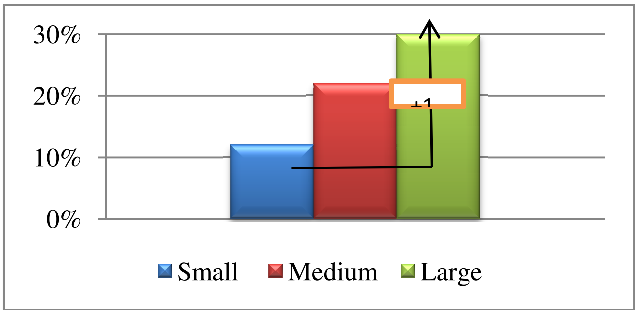
Source: International Finance Corporation 2010: 12

Fig. no 2: The average percentage of firms that have reported that the access to finance and the cost of financing represent a major constraint

As results also from Fig. no 2, regardless of the group of countries where SMEs are located, about one-third of these firms report that the access to finance is a major constraint to their current operations (International Finance Corporation 2010: 12).

4. Difficulties in SME's banking finance access and support measures

In most countries, especially in the ones with bank-oriented financial systems, the SMEs main source of external financing is represented by the bank loan. Thus, the access to this type of loans is vital for the development of these enterprises. However, surveys show that small firms when compared with large firms are using in a much smaller degree bank financing for new investments (see Fig. no 3).



Source: Own simulation based on the data provided by International Finance Corporation 2010: 15

Fig. no 3: The percentage of firms that use bank financing for new investments

As we have mentioned within the paper, the usage of financial products is determined by supply and demand. Therefore, it is important to identify why small size firms use in a lesser extent bank financing. In this regard, some studies (Banerjee, Duflo 2004) have demonstrated that the main reason would be related to the supply, because every time when the SMEs had access to subsidized credit, they used it to increase the production. Such a conduct of firms strengthens the assertion that the lake of access to finance is a major obstacle to their growth. Furthermore, in the context of the current global economic crisis, the limited access of SMEs to financing has been

increased as a result of reduced availability of bank loans. Thus, this type of enterprises faces major difficulties.
The survey conducted by the National Council of Small and Medium Sized Private Enterprises in Romania (CNIPMMR), in the period 7 - 29 October 2010, highlights the main difficulties faced by the SMEs in their relation with the banks. Thus, 82% of the interviewed entrepreneurs considered that *the access to bank financing is very difficult*, especially because of the excessive bureaucracy, the unjustified high requirements, the high interest rates, the rigidity of the creditworthiness indicators used by banks, the numerous types of commissions and fees required. Also, over 61% of the SMEs' entrepreneurs and managers reported *banks' lack of transparency* (by charging hidden fees, ineffective communication etc.), *no real negotiation* (by using standard contracts, banks' refusal to modify or complete the credit contract, etc.) and *unjustified and abusive contractual terms practiced by banks* (such as performing unauthorized transactions in accounts and in general bank frauds). The knowledge of these difficulties has a vital importance regarding the need to adopt measures in order to support and improve the SMEs' access to finance.
Overall, the obstacles in the way of SMEs access to financing are related both to the entrepreneurs and the economic environment as well as to the institutional and regulatory framework (Nicolescu and Nicolescu 2008: 171). Among the obstacles related to entrepreneurs, a series of surveys conducted in various countries, identify: the lack of knowledge regarding the possibilities of obtaining financial resources, the lack of awareness regarding the consulting institutions, the development of business plans that do not meet the requirements of the lenders or investors, the reduced negotiating skills in relation with capital suppliers and the insufficient guarantees available. In regard to the second category of obstacles, they refer in particular to the reduced availability of funding in some cases, excessive guarantees imposed by some banks for SMEs' loans, the high cost of SMEs' financial consultancy services, corruption, bureaucracy.
Starting from the fact that the SME sector has a key role in the economic and social development of a country, in most countries supporting this sector has become a primary objective of the governments.
In order to improve the access to finance for SMEs, the public authorities from different countries have adopted a series of measures, depending on the particularities of each country, which aimed (International Finance Corporation 2010: 26) at improving the juridical and regulatory framework, developing the financing instruments for SMEs and direct interventions on the market in order to stimulate SMEs' financing (for example, by granting loans through certain state institutions, providing guarantees for loans to entrepreneurs, providing grant financial allocations etc.).
The significant importance of easy access to finance for enterprises, particularly for SMEs, and especially in the context of the current crisis, is highlighted by the fact that approximately two thirds of the EU business support measures, adopted by the European Commission and set out through the European Economic Recovery Plan aims to facilitate the access to finance (European Commission 2009: 79).
Improving the access to finance for SMEs still remains a concern and also a challenge for the authorities from the national, European and international level. For example, at EU level, through the Review of the *Small Business Act* (SBA) for Europe are set out new measures *to improve the access to finance for SMEs*, including *facilitating the access for SMEs to structural funds* through reducing reporting requirements, establishing the "*credit ombudsman*" in order to facilitate the dialogue between SMEs and credit institutions, *avoiding double taxation through tax legislation,* that would hamper the cross-border venture capital investments, which play a significant role.
A number of studies, especially the empirical ones, highlight the crucial importance of the degree of financial development of a country for SMEs' access to finance. Therefore, the measures taken by authorities in order to support the SMEs' access to finance should focus on ensuring a high

degree of financial development, which would ensure a greater availability of financing for businesses. Concretely, the authorities should adopt measures aimed at the seven pillars commonly used to measure the degree of financial development, namely institutional environment, business environment, financial stability, banking financial services, non-banking financial services, financial markets and financial access (World Economic Forum 2010: 5).

Conclusions

The easy access to finance for SMEs has a significant importance for the creation of new businesses, the growth and development of already existing ones, which, in their turn, foster the economic and social development of a country. Moreover, under crisis conditions, supporting the access to finance for SMEs is vital because these firms can contribute to the recovery of the national economies. However, most surveys emphasize that SMEs report, consistently, the access to finance as one of the most important obstacles to their functioning and development.

The difficulties that SMEs face when they are seeking to obtaine the necessary funding resources are related both to the entrepreneurs and the economic environment from each country, as well as to the existing regulatory and institutional framework. In order to mitigate these difficulties, the measures taken by public authorities should focus on increasing financial development, which would ensure greater availability of financing for businesses and thus economic growth.

Given the reduced availability and even lack of statistical data regarding SMEs' financing in various countries, including Romania, we consider that policy makers need to focus their efforts in order to the shape and monitor a series of significant indicators, such as the share of loans granted to SMEs, based on their size, experience and sectors of activity, that would be useful for public authorities, creditors and investors.

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