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mall and medium-sized enterprises (SMEs) are well known for playing a major role in all economies, being the key generators of employment and income. As a result, SMEs are crucial for the economic recovery. According to the information provided by the Spanish General Directorate of Industry and SMEs ("Dirección General de Industria y de la Pequeña y Mediana Empresa") in its annual report "SMEs 2012 Portrait", as of 1 January 2011, out of the 3,245,996 companies in Spain, 3,243,185 (99.89%) were considered as SMEs. Regardless of the different reasons that may lie behind such a circumstance, these numbers clearly show that SMEs dominate the business structure in Spain.

However, SMEs have been especially hard hit by the global crisis and hence are suffering a significant shortage of financing due to their problems of access to finance (AEF), which impedes their creation, growth and survival. In fact, the current financial and economic crisis has impacted in a particularly severe manner on the banking financing channel, which constitutes the major external source of finance for SMEs in Spain.

In Spain, the pre-crisis period was characterized by a favourable economic environment distinguished by, inter alia, the following factors: (i) the risk premiums applied to credit operations was very low, not being in accordance with the risk assumed (due mainly to the high liquidity in the market); (ii) low inflation and interest rates (also historically low), which encouraged investors to invest in assets of an apparently endless growth; and (iii) the rapid technological progress and innovation carried out by financial institutions that enabled the entry of new products allowing the allocation of assets and that, at the same time, provided liquidity to credit operations barely liquid.

As of 2007, the development of the Spanish banking sector had been highly conditioned by the extent of the international crisis and the bursting of the housing bubble in Spain. Likewise, the lack of confidence in the financial markets restricted Spanish banks' access to financing in the international markets.

In September 2008, with the collapse of Lehman Brothers, the problem of liquidity became the most important differentiating factor of the crisis and as a result, wholesale markets were closed. Since it was not possible to place any securitisation or debt issuance of financial institutions, unforeseen risks of default of payment of financial institutions arose. In a nutshell, market liquidity disappeared and financial entities turned off the credit tap. The crisis in Spain has had (and has) singular features which particularly affect SMEs' financing. On the one hand, the default in payment (from individuals and entrepreneurs) has not only affected financial institutions' profitability (by means of the need to allocate more funds) but also financial institutions' solvency since such default has significantly reduced financial entities' potential for self-financing through their funds. On the other hand, the crisis has primarily had an effect on saving banks ("cajas de ahorro"), which over the past had been granting more financing to SMEs (due to saving banks' closer links with the traditional territory of action).

In light of the above, the main features of the actual crisis seem to affect SMEs in Spain, which are severely affecting SMEs' cash flows, may be summarized as follows: (i) fewer funds available, irrespective of their origin (whether from banking or equity markets); and, (ii) toughening of conditions (in terms of costs and instalments), which has made difficult not only their profitability, but most important and crucial, their survival. Consequently, the number of SMEs has been reduced dramatically due to closures and the rapidly decreasing SMEs' birthrate.

The problems of SMEs having external AEF are, however, neither a new nor a unique phenomenon for the Spanish SMEs. In general terms (and according to the extensive economic literature that has been developed), the cause of these difficulties is linked to (among others) the existence of fixed costs regarding the provision of credit, which translates into a higher unit cost in smaller operations. Likewise, the existence of major information asymmetries between suppliers and demanders of funds compared with those in operations performed by larger companies, results in a greater difficulty to assess the risk of transactions for smaller companies which have a reduced availability of assets that can be used as collateral in credit operations. In addition, the economic and financial situation of SMEs is generally more vulnerable to cycle
changes, being less diversified and less able to tackle adverse shocks. The sharp drop in their results has reduced their ability to pay present and future liabilities, which, together with the increased difficulty of lenders to assess the risk of individual projects (in a context of high uncertainty), has resulted in an increase of the difficulties in accessing external finance. Also, SMEs chances of getting internal funds have been limited due to their profit reduction.

The concern for these problems has led governments to deploy over the past years different cyclical measures of various kinds in order to mitigate the actual liquidity problem. The most widely used policy measure has been the extension of public loans and loan guarantees. In many cases, governments have also taken actions to ease liquidity problems, to reduce maximum payment periods in the public sector or to improve cash flow generation, reducing tax rates for smaller companies.

Among these measures and regarding mediation ICO lines granted by the Spanish Official Credit Institute, the Spanish government has: (i) expanded the number of mediation lines; (ii) increased the amounts of current funding; (iii) introduced a mediation ICO line aimed at SMEs and the self-employed in which ICO assumes 100% of the risk operation; and, (iv) has created a counseling service available for SMEs and the self-employed who have been denied loans in order to improve access to finance to these groups. Furthermore, the corporate tax rate for companies with a turnover of less than five million has been reduced.

Notwithstanding this, the findings of the Council of Chambers (CCC) survey on SMEs' access to finance in the second quarter of 2012 are devastating: 30% of the operations requested by SMEs have been denied representing a decrease of 10% compared only to the first quarter of this year. Moreover, the number of SMEs that applied for funding to banks has been about half the average for SMEs which applied in 2010 and 2011. In sum, far fewer SMEs have applied for funding and a lower percentage of SMEs that did apply achieved their goal.

Beyond these palliative sectoral policies, access to credit for SMEs will tend to improve as far as progress is made in the financial restructuring process and the uncertainties surrounding the national and international economic outlook and, most notably those associated with the problems arising from the sovereign debt crisis in Europe clear up.

But even in a scenario of improved macroeconomic prospects, access to credit will be conditioned by the need to move forward in the process of deleveraging of the private sector and other factors as the potential impact of the new Basel III regulation.

The measures now being adopted should include mechanisms that improve the prospects of Spanish SMEs expanding. This necessarily involves reinforcing those channels and instruments that provide long-term financing and looking for solutions for the pressing problem of the lack of liquidity on which Spanish SMEs' future will depend on.

Footnotes
2 The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises that employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million as defined in the EU recommendation 2003/365/EC.
3 See OECD's report "The Impact of the Global Crisis on SMEs and Entrepreneurship Financing and Policy Response" which brings to the attention of governments recommendations to tackle the long-standing difficulties in the SME financial environment, as well as to prepare SMEs and enterprises for a phase of international-led growth. Available under http://www.oecd.org/industry/transnationalempowerment/41329050.pdf
4 The Spanish Official Credit Institute ("Fomento de Credito Oficial" or "FCO") is developing a set of actions aimed at facilitating the economic and business activity. Among its objectives it is to facilitate access to finance for the start-up consolidation of SMEs. Likewise, in Spain the "Consejo Empresarial de Refinanciación" (CEREA) provides the second tier of syndicated second level guarantee fund to be granted by mutual guarantee companies to SMEs that require an additional guarantee to get access to finance.
5 See http://www.mercado.org/publicaciones/050m/inversiones_inmobiliarias/infocredito.pdf