POLICIES OF FINANCING OF SMES TO ECONOMIC RECOVERY

Silvia Elena Isachi

PhD Student, ”Victor Slăvescu” Centre for Financial and Monetary Research

Abstract: In this paper we propose to analyze issues accessing finance by SMEs. Due to the economic crisis, many SMEs are still facing difficulties in accessing finance. Given that there are various types of SMEs that have different financial needs, the finding of differences in credit costs for SMEs and access to funding for them. Thus, the development of tailored programs covering both equity, quasi equity (mezzanine finance) and debt instruments and partnerships between banks and other operators involved in financing SMEs to support their start-up stages, increasing transfer. Access to financing, but also managerial skills and knowledge in finance and accounting is crucial for SMEs to access funds, to innovate, to compete and develop. The lack of knowledge of entrepreneurs on basic financing limited quality the business plans and success of an application for credit. In these circumstances, it is that SMEs receive consulting services specifically tailored lending opportunities in the area.

Key words: microeconomics, SMEs, financial resources, access to capital,entrepreneur

Introduction

Financial markets offer various types of financing from which the best fitting one must be selected in relation to the objective of the business, the potential of the firm and its development directions. The financing principles of SMEs mainly follow the fulfilment of the following objectives: the creation of a favourable business environment with a minimum of bureaucracy, and a tax structure that would offer impetus to SMEs sector, access to capital, information, and technology, as well as the improvement of managerial, marketing and financial abilities.

The improvement of financing access for SMEs plays a crucial role in promoting the entrepreneurial spirit and intensification of competition. The access to sufficient and proper capital in order to grow and develop is one of the main obstacles for the SMEs. This situation is worsened by the difficulties SMEs’ face in the relationship with the financial agents who consider their financing as being a high risk activity with low profitability.

The development of a various range of programs, instruments and adapted initiatives is needed, one that will include both equity capital, own quasi-founds, debentures, bank partnerships and other

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operators involved in SMEs' financing, in order to support all stages of undertakings considering the dimension, the turnover, and their financial necessities. SMEs are very homogenous and, therefore, the approaches for their support must be diverse as well.

The fundamental principles in SMEs' financing and their impact on the management- marketing decision making process are the following: the unfolding of a direct marketing activity that would bring into the financial availability, and the eligibility criteria that must be accomplished; the cooperation and report between all economic, administrative, and political links directly or indirectly involved in the development of financing programs; the generation of information by every link involved appropriate with its position in the financing process and assuring their transmission to all potentially interested parties; the analysis of received information, the elaboration and feedback transmission by each link to the other ones; acknowledging the participation costs to the financing relation according to the existing regulatory and negotiated obligations; the beneficial participation obtained from the financing relation of participants with the involved risk, and according to the existing regulatory; good faith insurance of institutional guarantees in the financing relation and their refund or procurement to those entitled; sanctioning infringements of the failure to comply to the time limit for communication and payment, with the proper cost bearing, the compensation of those negatively affected, and loss of unduly goods the culprit obtained.

The financing institutions regard the activity environment of SMEs as being competitive and unsure (compared to large enterprises), situation that involves a great variability of results for the similar SMEs operating in the same sector, and finally, high failure rate. The limited power on the market, the high proportion of intangible assets, the lack of clear accounts and relevant background of financial and commercial results, insufficient fixed or mobile assets etc. tend to create a higher risk profile of SMEs for potential investors. Insufficient guarantees on creditors' demanding for risk refund associated to moral hazard are probably the most claimed cause in explaining the difficulty of loan access. The insufficient guarantees may as well be the expression of an incipient stage of the business, yet unconsolidated, or even of an exaggerated dimension of credit demand – far from the real capacity of the firm to sustain the financing proposed project.

Due to financial and economic crisis effect, various SMEs face difficulties in accessing financing, and they have to respect new and stricter regulation criteria. The new regulation, relevant for the SMEs, must be subject of a global and inclusive evaluation of the impact, as well as a complete testing, taking into consideration the specific necessities and challenges. SMEs play a key role in

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the development of national economy, but their financing is often poorly provided out of informational asymmetry, high risks, insufficient guarantees, and unfavourable regulation.

Some banks are reserved in giving loans to SMEs, due to a series of motifs, among which: informational asymmetry - resulting from the lack of standardized financial situations and information provided by SMEs, to which we add a limited knowledge the bank has on the company requesting the loan; high risks associated with the lending activities of SMEs, as a result of limited actives that can be used as guarantee, high failure rates, reduced capitalization, and the vulnerability to market's risks; alongside the fact that SMEs cannot offer proper guarantees, the backs are not able to establish if the debtor has the abilities, the technical, managerial, and marketing competence as to generate proper cash flow and a proper debt servicing obligations.

Conceptual aspects of SME financing

In choosing the financing source, the SMEs take into account various aspects: what type of financing source is best fitting for the business objectives, what financing dimension could satisfy the necessities of the business and the own evaluation of the enterprise – that must be achieved with the purpose of appreciating the business capacity of the enterprise as to access the financings and reimburse it. The main source of financing for the SMEs is the banking sector. Due to a fragmentation of the banking sector, of different values of credit interests, and of credit offers between countries, a differentiated approach is needed in order to improve SMEs' access to financing, bearing in mind the specific circumstances of each country. The credit interests for SMEs widely vary between states and there are imbalances regarding the liquidities access, with high rejection levels of loans granter for business projects in some countries.

There are differences between states in terms of loan costs granted to SMEs and of the access to financing, this is due to the negative macroeconomic context that can have negative influences on competitively in frontier areas. Even though the problems of SMEs in accessing loans continues to vary between states, a worsening of SME credit norms at a general level can be observed.

Many governments and financial institutions tried to tackle the problems concerning the barriers of SMEs financing by developing sustaining programs for small enterprises. So, they supported the creation of financial instruments packaging in order to facilitate the SMEs' access to loans, in line with the best practices. Initiatives in this filed tried to strengthen the capacity of financial agents (micro-crediting institutions, banks, venture capital funds etc.) to support, at a national and regional level, the private investments. At the same time, the states should also approach the problem of possible discrimination for loans grating in the case of SMEs led by disadvantaged persons or social groups.

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It can be observed that no only the access to financing, but also the access to skills – including managerial skills for financial and accounting fields- is a key factor in SMEs' loans grating. The delivering of financial instruments should be accompanied by proper counselling/ assistance schema insurances, as well as delivering services for knowledge based SMEs.

It is noticed that the lack of knowledge of entrepreneurs concerning basic financing limits the quality of the business plans and the success of loan demand. The authorities should ensure the support for professional training of potential entrepreneurs, and to sustain bank partnerships, Chambers of Commerce, enterprise associates and qualified accountants. A well made business plan is the first step to a better financing access and viability.

Generally, the creditors have better knowledge of loan instruments than the entrepreneurs, and the latter should better communicate to creditors about their business plan and longer term strategy. This lack of information creates difficulties when a loan demand is being discussed. SMEs need advisory service specially adapted to loan opportunities domain. The support for best existing practices dissemination is needed as specific solutions for dialogues, cooperation and information exchange between creditors and entrepreneurs and in this way a dialog consolidation will take place.

A special strategy for newly established enterprises and financial instruments is necessary in order to implement innovative projects and develop young entrepreneur's creativity. At the same time, a simplification and shortening of bankrupt procedures is required in order to give a second chance to involved entrepreneurs, given that financed enterprises set up by entrepreneurs that faced bankrupt could be more efficient in the future.

A problem in SMEs financing is the lack of information entrepreneurs' face when it comes to available financing sources for their enterprises. This informational deficiency named information asymmetry act as a compulsion factor to SMEs. Those enterprise owners that do not know all possible financing solutions have at their disposal a more limited set of financing alternatives than those better informed, and so it is very likely that they choose higher cost sources of financing, increasing this way the risk of bankruptcy by reducing the value of the enterprise. Moreover, the investors may consider the enterprise as being poorly managed, and to be reluctant to finance it.

Managerial preferences, risk tolerance and enterprise's characteristics (that may include technologic problems) are important factors that affect financing strategies of enterprises. The decision on financing activity of SMEs is a development strategy component of the enterprise, with future impact on its development. The decisions regarding the financing sources are determined by a combination of factors, closely linked to the enterprise's characteristics, and also on its institutional

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environment. The smaller the enterprise, the bigger the capital needed used for satisfying a growth of demand, but it decreases its capacity of obtaining internal or loan financing.

It is important for the local banking system to be consolidated, following the growth of responsibility and banks' functions, from those of regional importance to local ones, of prudent investments in economy, and, especially, in SMEs.

With the current situation, when insufficient access to adequate sources of venture capital - mostly in the beginning phases- continue to be one of the most significant constraints for the birth and rise of economic growth oriented firms, a special attention must be paid to venture capital as a possible way of financing the economic growth. Though, this type of financing is suitable only for a small number of SMEs, and bank loans remain the main financing source. Qualitative ratings can be used as a tool for completing the standard quantitative evaluation of SMEs creditworthiness. It is well known the fact that these ones face stricter demands, including personal guarantees, in the interest of obtaining financing form loan institutions. High interest rates determine a bigger degree of severity of terms and conditions which do not concern the price, including personal guarantees.

The financing cost is directly linked to the level of risk, as it is perceived by intermediaries in implementing SMEs' financing. The loans requiring guarantees will appear linked to SMEs with the higher financial risk, as long as the interest must be paid right in the investment deployment period, when the enterprise is not active, nor profitable. Sometimes the enterprises with a higher financial indebtedness risk must go into payment default. If the enterprise has its own guarantees as to cover the required guarantee necessary, the financing services costs are smaller, compared to the case in which it has to ask for the aid of a specialized guarantee institution. The entrepreneur must analyze the financing offer by the firm's capacity for repaying the loan, according to the payment schedule, the aptness of financing with the evolution of the business and its capacity of reimburse the loan, the management of financial predicament – representing the managerial policy referring to collecting the money from the clients and paying the suppliers – are factors that determine the firm's capacity of reimbursing the financing or accessing new ones, after paying the first.

Dimensions of the relationship of SMEs with financial institutions and credit

Obtaining a loan by SMEs represents a selling operation for the financer, a thing that most of the borrowers (and lenders) tend to ignore. The entrepreneurs that would like to initiate a business, or are at the beginning of one, must sell the viability and the potential of their businesses to the banks. The better the marketing plans, the informational materials that the entrepreneurs could deliver in order to demonstrate de credibility of the business, the easier and quicker they would obtain a positive loan decision. In addition, a well prepared business plan alongside a solid equity capitalbase can draw the attention of a financer, even for a newly started business. The potential loaner would like to know the way in which the money will be used, and if the usage fits the needs mentioned when the loan was contracted. He would also like to have knowledge of the capacity to generate sufficient money as to pay the loan, even though the market's conditions are not as favourable as those shown by the management-market predictions. Moreover, an immediate necessary loan can induce scepticism. All these aspects will determine the type of credit, and the terms would be suitable for specific SMEs needs and their ability to use it correctly.

The high administrative costs associated with small loan granting make the SMEs financing a non-profitable deal. SMEs are considered by creditors and investors as being high risk debtors due to insufficient actives, to vulnerability to market fluctuation, and to high rates of activity ceasing. The lack of experience of SMEs to deliver to loaners the financial situations or adequate business plans, burden the evaluation activity of investment proposition.

The SMEs' access to financing is indissolubly linked to financial modality costs and to the financial structure of the applicant. Various times, though, the intermediaries question the SMEs' capacity to preset valid investment projects. The financing sources of enterprises vary between countries due to enterprises' specific characteristics, the development level of the financial system, and the governing institutional environment. From a country level the differences concerning the financing manner of SMEs are more striking due to specific enterprise factors such as: profitability, actives tangibility, sales volume, development operations, bankruptcy costs etc. The understanding of SMEs financing models, and of the way in which they change once with the institutional development, has important political involvement. In various countries the deciding factors consider that SMEs have inadequate access to financing sources as a result of market's imperfection. As a result, significant resources are being changed towards promotion programs and their financing.

Generally, SMEs' financing depends on the demand and supply of financial resources existing on the market at a certain moment. If the supply is enterprise exogenous, the demand is completely linked to its growth objectives, the level of anticipated profitability and the risks one is willing to take at some point. In this context, the analysis of the factors influencing the financial structure of enterprises offers clues regarding the followed financing matrix allowing the identification of elements that facilitate SMEs access to the loan capital. We mention the importance of bank lending products for the companies (debts financing, overdrafts, working capital line or other bank loans) compared to other external financing sources (shares issuance, capital investors, bonds etc.). SMEs majority use internal founds, and, as the number of employees grows, the firm reaches out to external financing sources (attracted) and less to the internal ones.

There are two types of lending, one based on transaction analysis (transactional), and one concerning the relationship analysis (relational). Also, one can observe the compared advantages of various types of financial institutions in using - be it the transactional or the relational loans. Transactional bank loan operations are those mainly based on “hard” data, quantitative data that can be observed and verified the moment the credit is demanded. Relational loan is mainly based on “soft” data: qualitative information delivered by certain persons, usually specialized, as a result of a continuous, long term contract, often in variable circumstances, intuitive with the company owner, the manager, or the employees.

A high concentration of banking market can lead to a loan access diminishing for SMEs, no matter the chosen loan technology. This situation is not influenced by the size of the loan institution, nor the nature or origin of the owner (the county of origin of parent bank), but simply by the fact that the main actors on the concentrated financial markets can exercises their power on the market. These institutions will choose to maintain or even to enlarge their profit not by streamlining their activity or a flexible approach of SMEs’ demands, but rather by increasing the interest rates or the SMEs’ loan fees. These institutions could be less interested in innovation or quality services offered to clients because they perceive their position on the market in terms of power and safety. The respective banks can reduce the risk and even improve their portfolio not only by a better monitoring, but simply, by hardening the loans standards for SMEs.

Foreign capital institutions that function in developing economies could benefit of additional advantages in loan operations or certain SMEs categories, because these banks have better access to cheap sources, have a larger and longer expertise, and often organize training and upgrading courses for loan officers and risk managers, helping a better information spreading, and improving the experience within the organization.

Also, large banks have comparative advantages in loaning based on transaction analysis, and small banking institutions in relational loans utilization, based on “soft” information. This aspect can offer advantages compared to those between SMEs and small loan intuitions that have lower administrative costs, a less obvious separation between property and management, and reduced management intermediary levels. Large banking institutions are relatively disadvantaged in relational loaning for SMEs, in such a way that a large bank chooses loaning operations with large clients.

The presence on the market of various types of banking institutions and the competition between them have important effects on SMEs loan availability, because different types of institutions can have comparative advantages in the loaning technology domain. A good loaning infrastructure

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(informational environment, legal, fiscal, bankruptcy regulation) determine the growth of direct loan availability for SMEs, by facilitating the usage of different loaning technologies.

Improving the loaning activity for SMEs by the banks can be accomplished by: assuring the transparency and competition in the banking system, eliminating all additional declaratory bonds, the bank limiting up to the essential of all required documents and information – that directly represent the object of evaluation in granting or denying the loan; assuring an increased transparency of enterprises' business evaluation and of their consequences; developing within the banks of a superior capacity of understanding the businesses underlying the loans; carrying out informational campaign for SMEs concerning the advantages and the way to access guarantees by the means of various guarantee founds of SMEs credits.

Conclusions

The support granted to SMEs, by facilitating financing access, represents an important instrument in insuring economic growth, innovation and aggregate productivity of a country. SMEs' financing also fights poverty and ensures the necessary premises for economic growth.

The lack of suitable financing as well as the reticence of financial institutions or private capital investors towards SMEs demands contributes, in a significant measure, to the slowdown of their development with a negative impact on remodelling the efficient sector, employment, and innovation. The required legislation for regulating the financial industry must protect and stimulate the actual supply of loans to real economy, especially to SMEs.

We believe that a well balanced structure of the banking sector, with the state banks involved in strategic national projects, with the small private banks – dynamic and flexible, attentive to relational loans, and with an important presence of the foreign banks, can make full use of the economic opportunities, and can create an appropriate environment for the financing demands of SMEs.

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