

Diversifying funding sources for SMEs

-

Lessons from EIBIS and the MENA Enterprise Survey

Andreas Kappeler, EIB

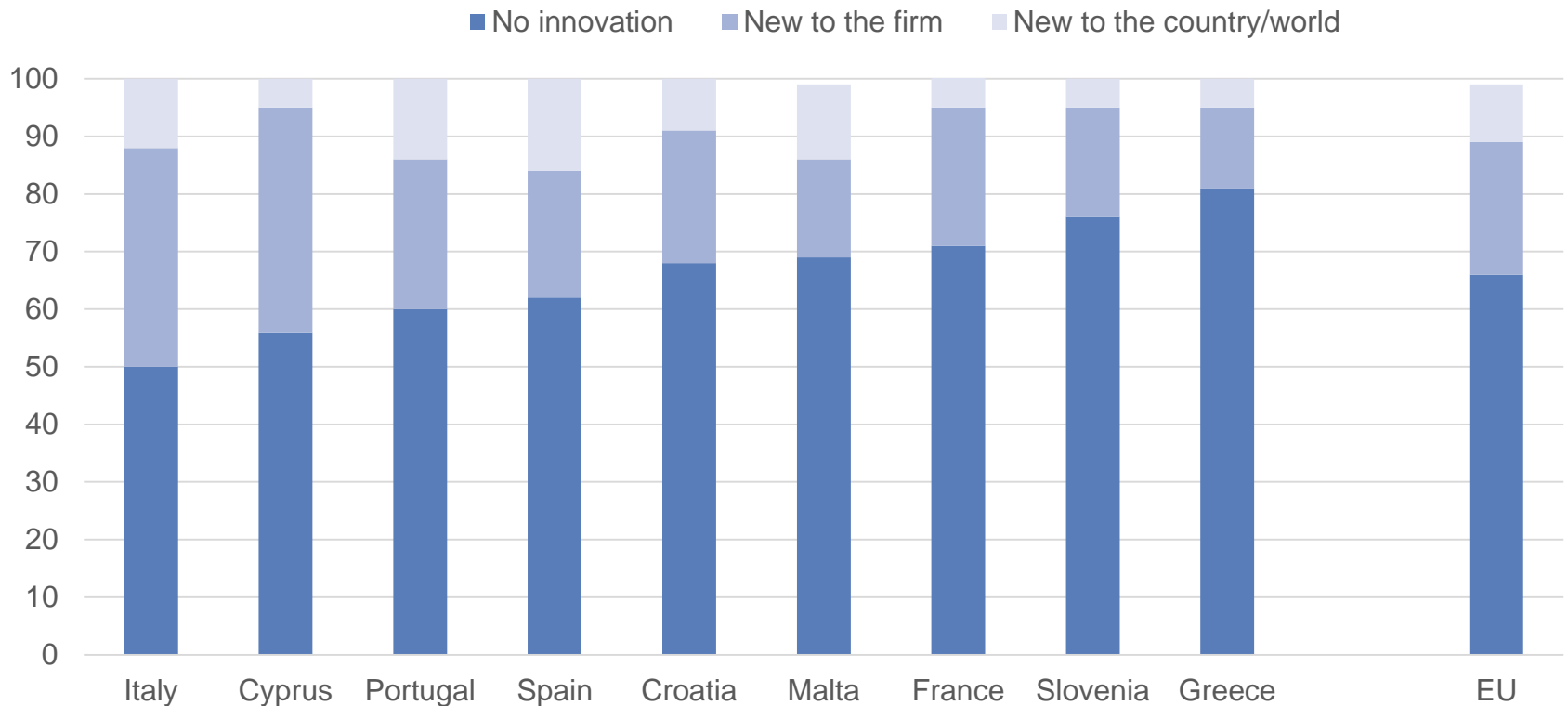
18/06/2019

EIBIS: What is it?

- Survey of non-financial corporate sector
- Covering manufacturing, services, construction and infrastructure sector
- Representativeness at high scientific standards for:
 - the EU 28 (as a whole)
 - each Member country (separately)
 - 4 industry groupings (within each Member country – for most countries), and
 - 4 size classes (within each Member country – for most countries)
- Some 12,500 completed interviews in total (208 for Estonia)
- Implemented once a year (panel).
- Implemented by means of telephone interviews

... and the share of innovators is low in some countries

Innovation Activity
% of firms



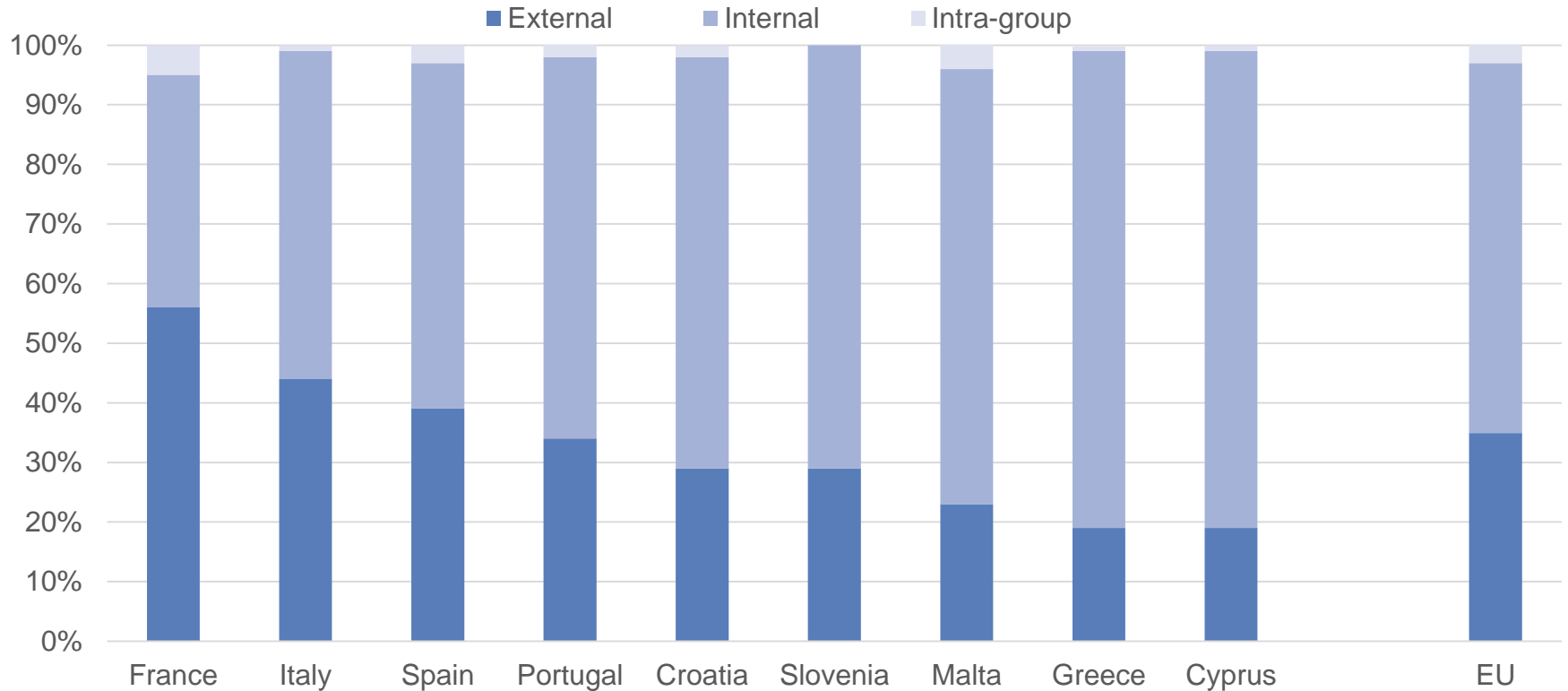
Base: All firms (excluding don't know/refused responses)

Q. What proportion of total investment was for developing or introducing new products, processes, services?

Q. Were the products, processes or services new to the company, new to the country, new to the global market?

Internal funding remains the dominant source

Sources of Investment Finance
% of firms

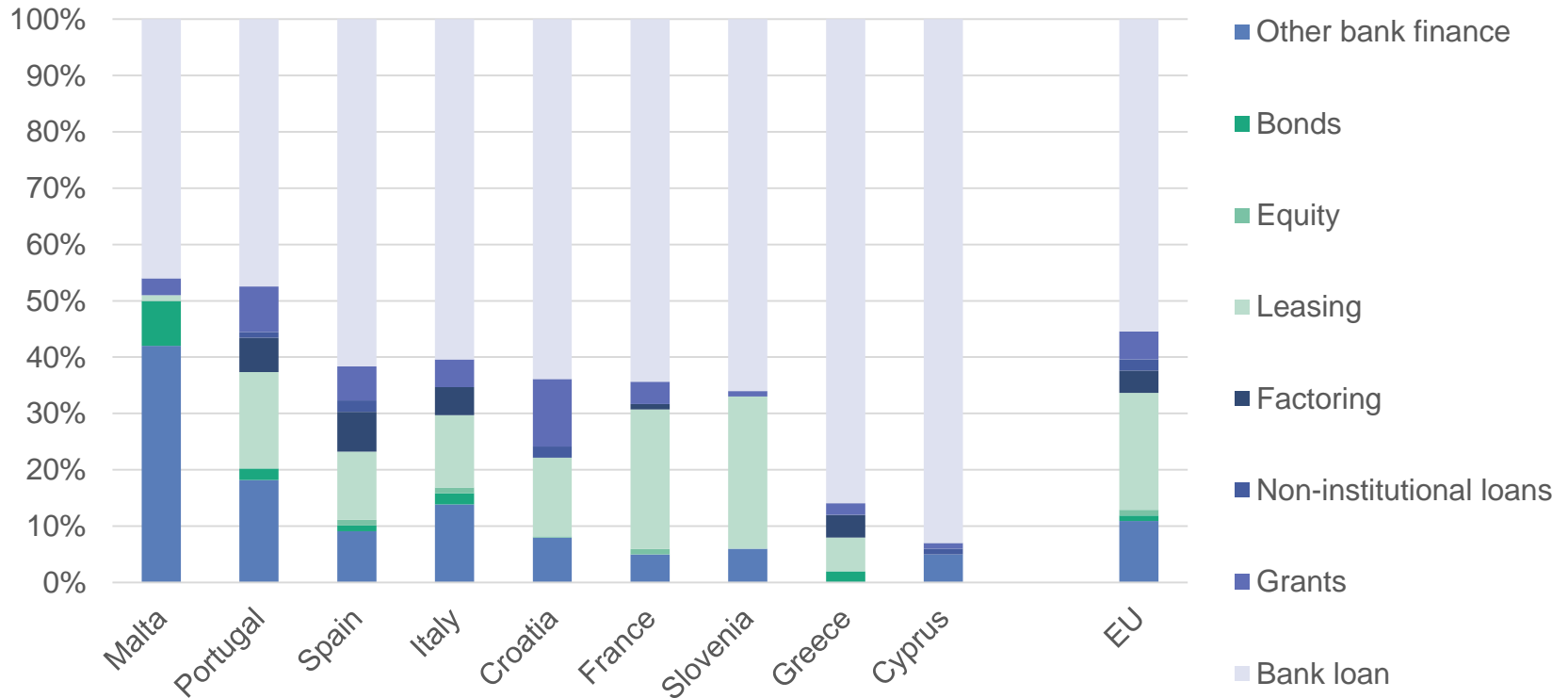


Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

Q. What proportion of your investment was financed by each of the following?

Non-bank financing is an important funding source in some countries

Type of External Finance Used for Investment Activities
% of firms



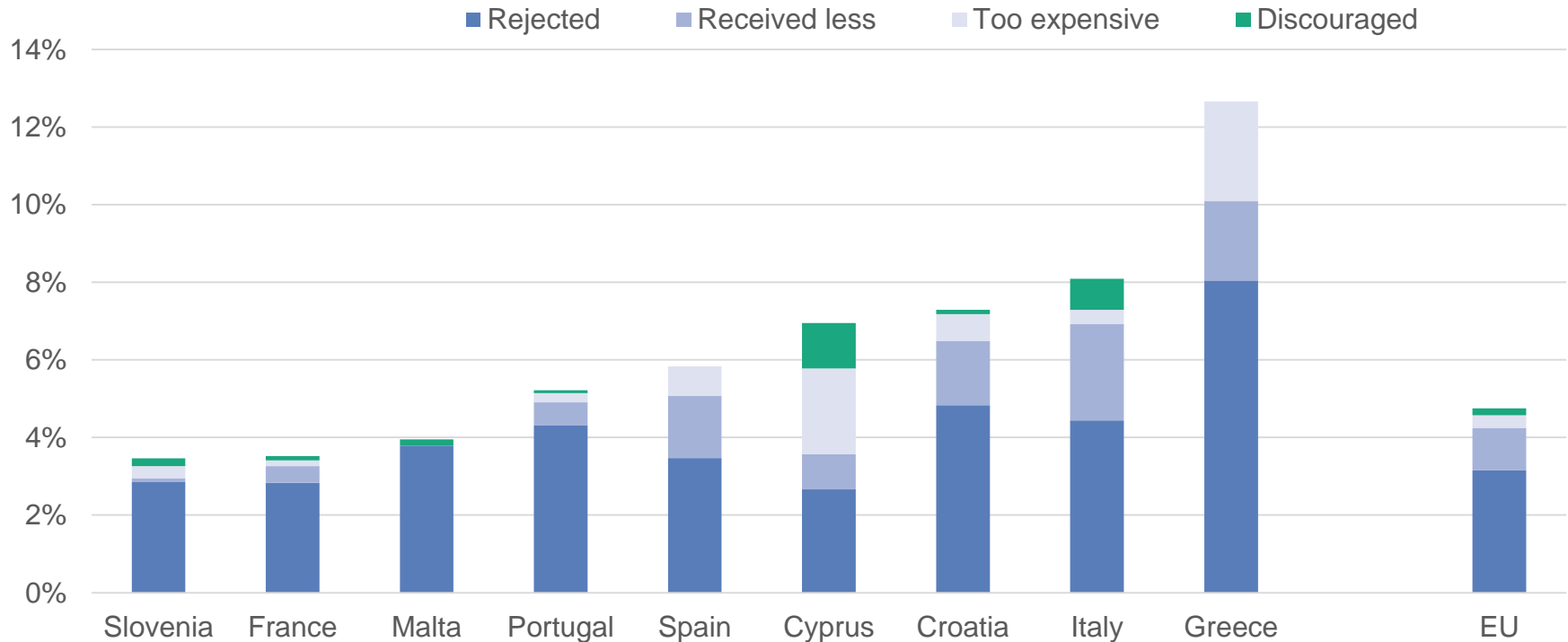
Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

Q. What proportion of your investment was financed by each of the following?

*Loans from family, friends or business partners.

Is access to finance an issue?

Finance constrained firms % of firms



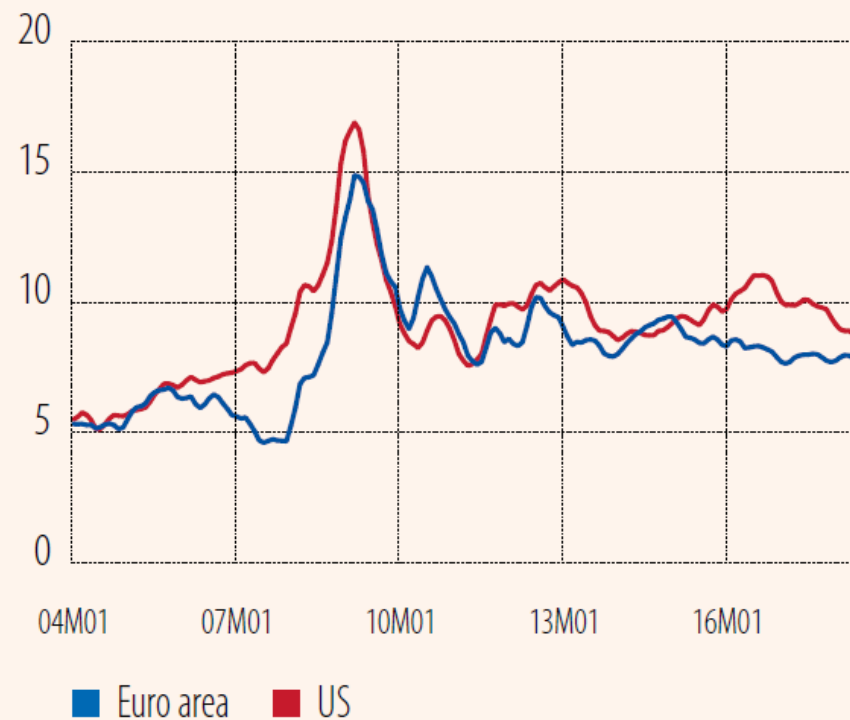
Base: All firms

Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged)

Promoting equity funding in the EU

- Equity financing in Europe is comparatively underdeveloped.
- The cost of equity remains high and issuance activity low.
- This undermines resilience to shocks and innovation.
- Reasons for the underdevelopment of equity: corporate culture, tax bias in favour of debt, financial sector regulation and financial illiteracy.
- However, there is a promising compositional shift away from cross-border bank lending towards equity

Equity risk premium in the euro area and the US (% p.a.)



Source: Geis et al. (2018).

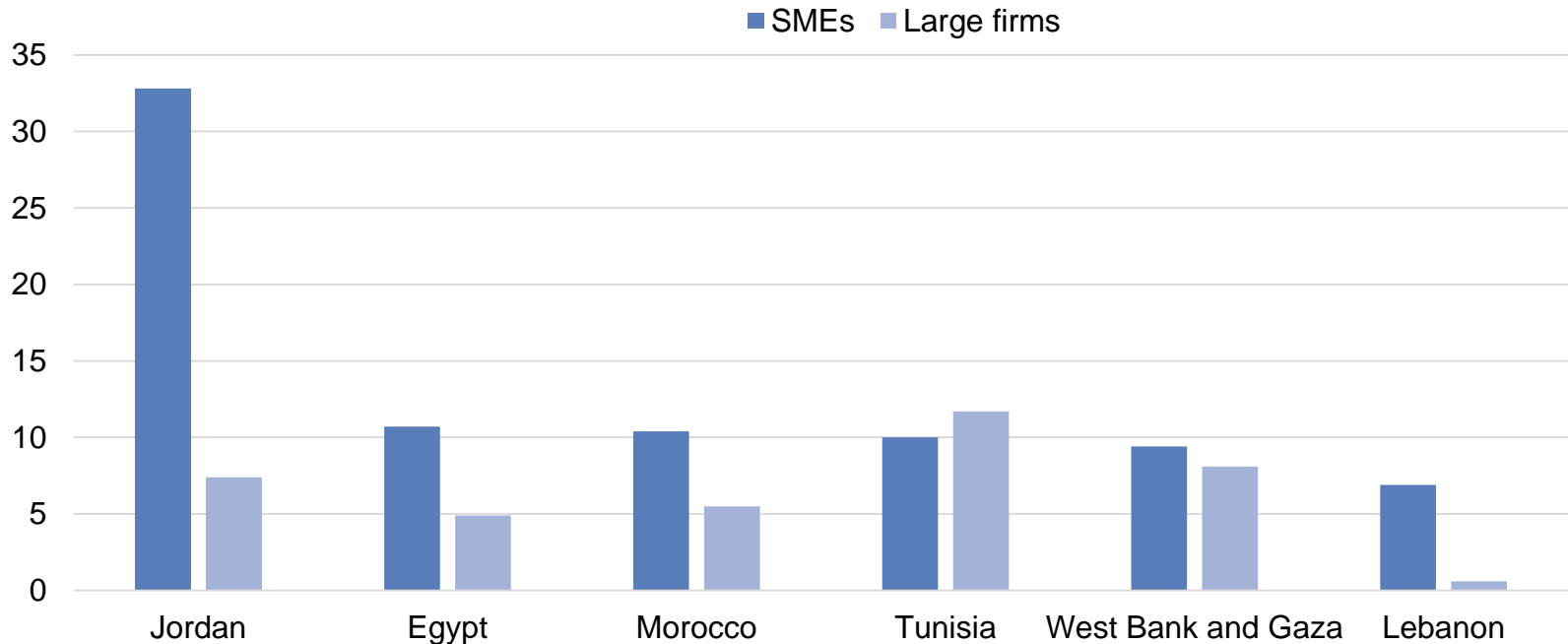
Note: Three-month moving average.

Non-bank Financial Sectors in the EU's Southern Neighbourhood

Many firms perceive access to finance as main obstacle

- Young SMEs are likely to face strong access to finance constraints due to market failures. These market failures can be aggravated by capacity constraints of financial institutions and SMEs.

Access to Finance as main obstacle *% of firms*

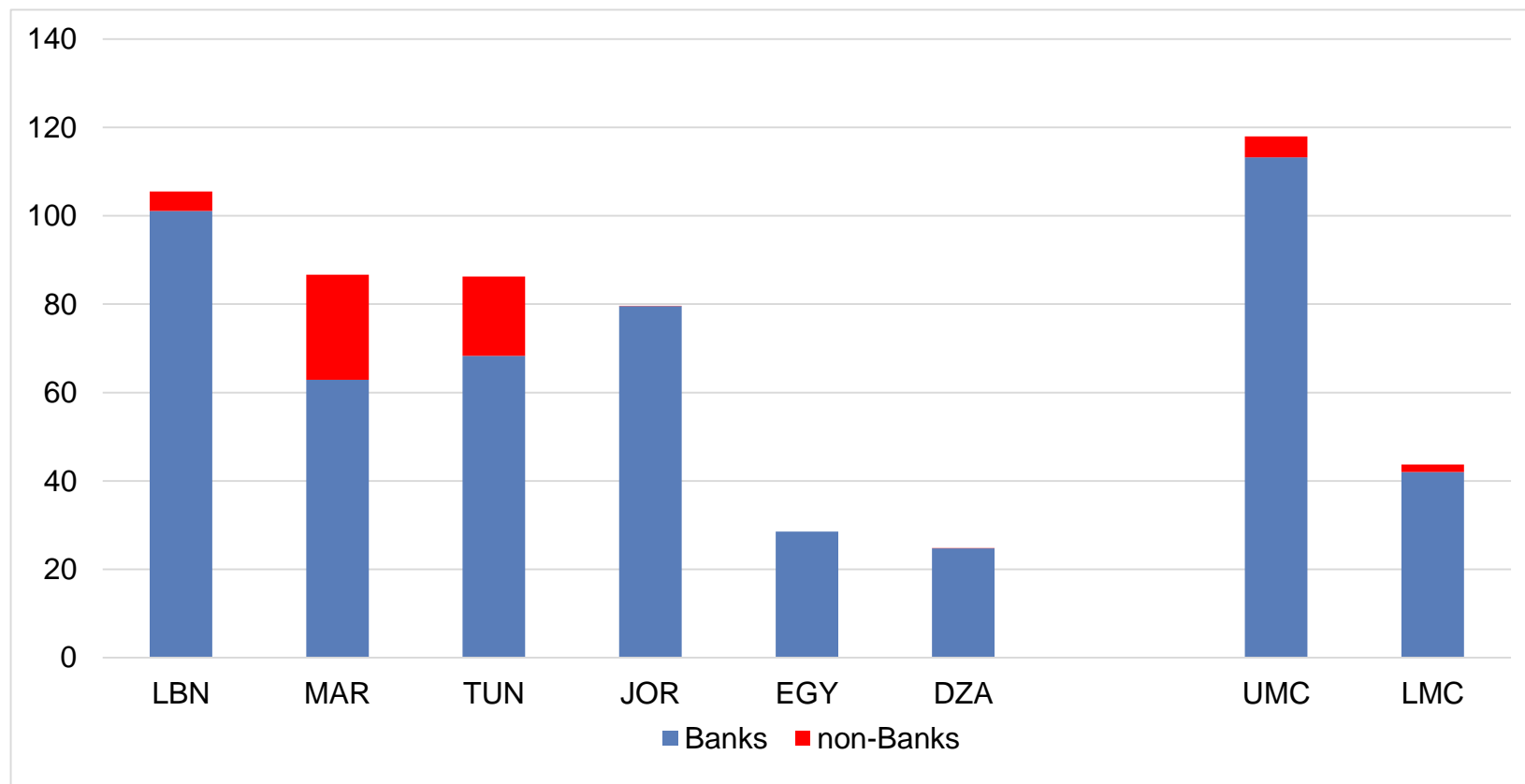


Source: EBRD and WBG (2016), "What's holding back the private sector in MENA?".

Non-bank financial sectors are small

Domestic credit to private sector

% of GDP

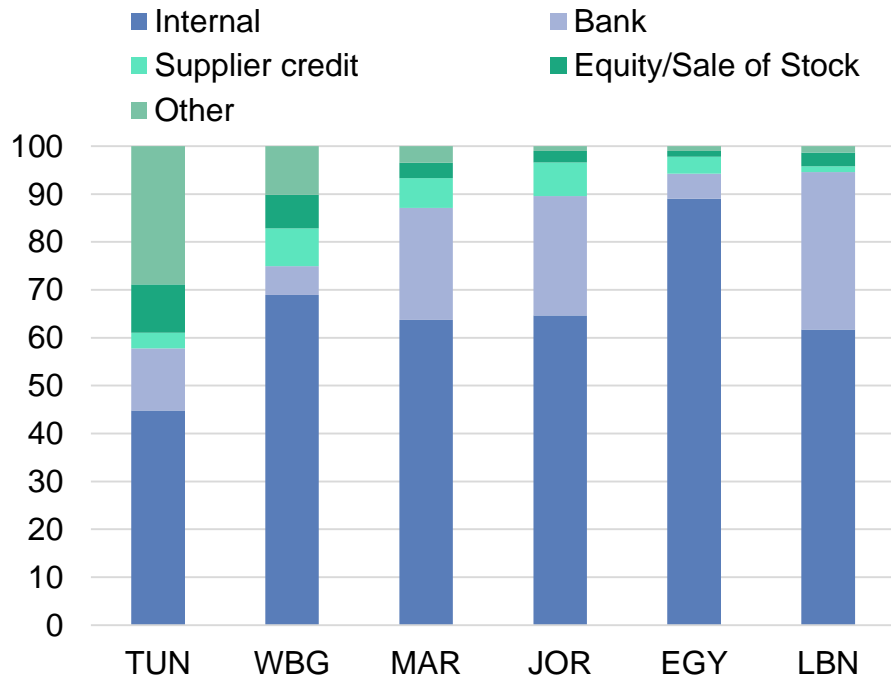


Source: WBG.

Non-bank financial sectors are small

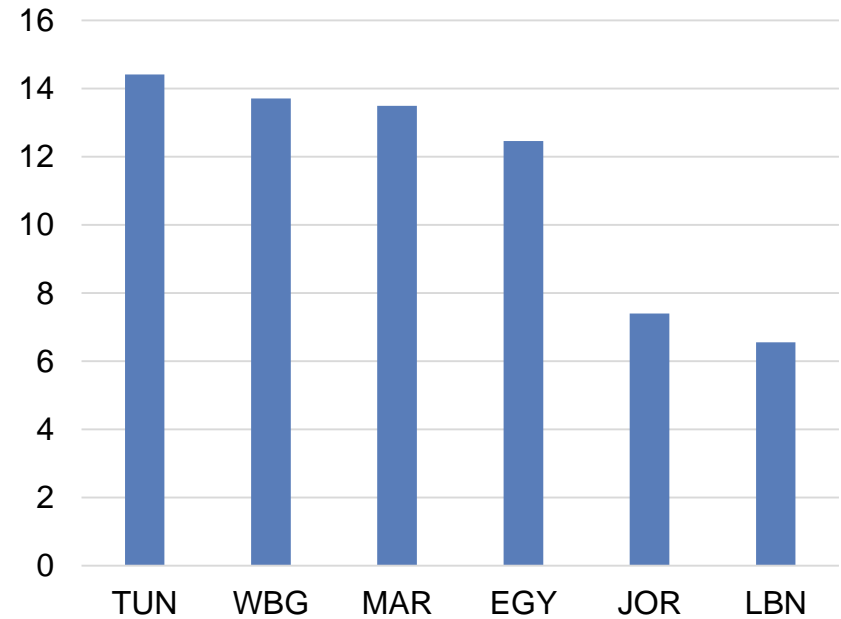
Financing structure of investment

in %



Use of leasing in past year

% of firms

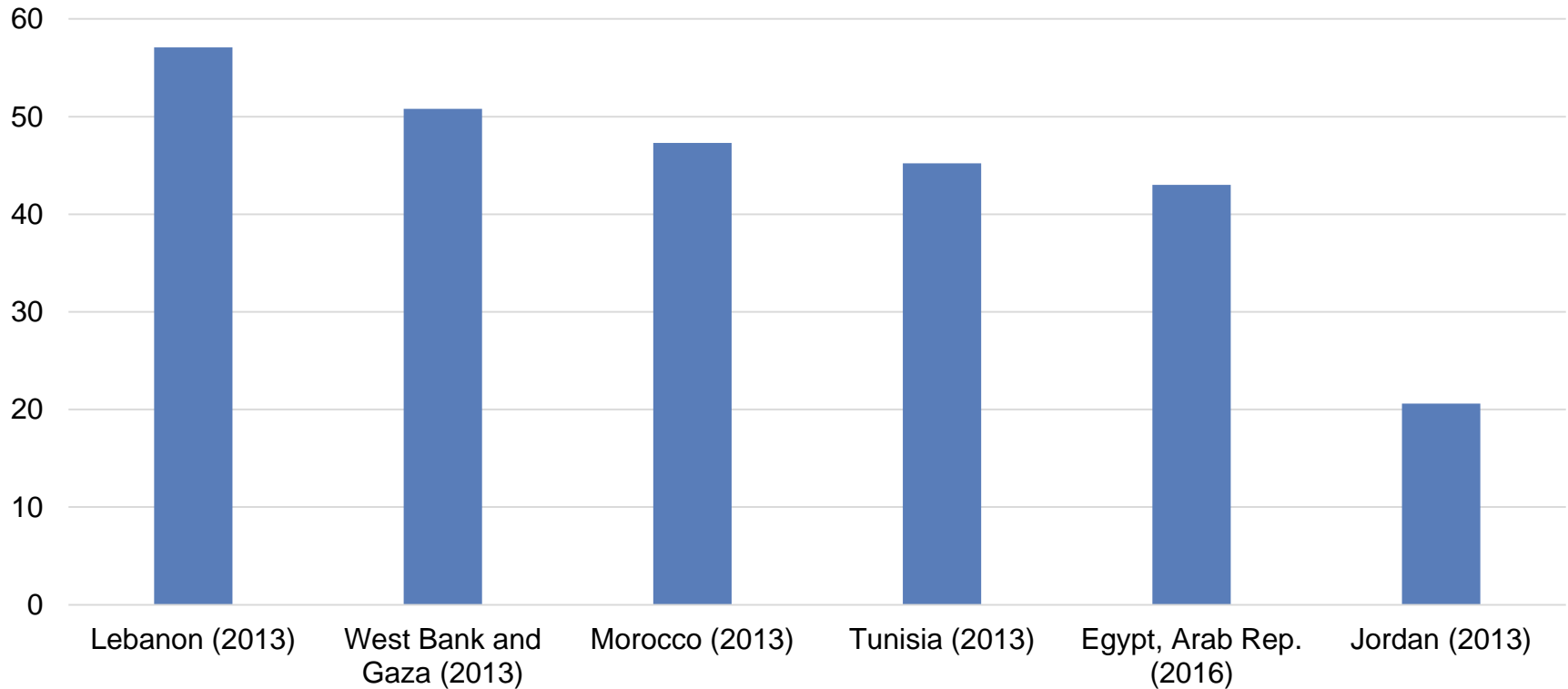


Source: EBRD and WBG (2016), "What's holding back the private sector in MENA?".

Informality matters

Firms competing against unregistered or informal firms

% of firms



Source: EBRD and WBG (2016), "What's holding back the private sector in MENA?"

- The **small size of non-bank financial institutions** and capital markets limits the variety of financial instruments available to enterprises.
- **Subsidized programs** to promote non-bank financial institutions should be used cautiously to avoid crowding out competitors.
- **Capacity building measures** for financial institutions and SMEs can help to overcome market failures and facilitate access to finance.
- A large share of firms' assets consists of machinery and equipment, but acceptance of movable assets as **collateral** is limited.
- **Fintech** provides opportunities to develop alternatives to traditional SME lending (IMF, 2019).
- **Facilitate the introduction of new financial products:** Regulatory sandboxes to allow fintech companies and traditional financial institutions to test innovations in a live environment (IMF, 2019).

- **Intermediated loans:** To reach out to SMEs and provide longer-term funding.
- **Guarantee instruments:** To mobilise additional resources supplementing scarce public capital resources and to stimulate local capital markets.
- **Equity instruments:** provide a stable source of funding.
- **Microfinance:** Powerful tool to reach out to individual and firms usually excluded from traditional financial services.
- **Local Currency Lending:** Difficult but would likely have important benefits.
- **Advisory services:** For banks and SMEs to overcome market failures, both inside and outside the EU.

- The EIB, EBRD and WBG are launching a new round of Enterprise Surveys. Fieldwork already started.
- The Surveys will be carried out in more than 40 economies in Europe, Central Asia, the Middle East and North Africa.
- Topics included are: productivity, innovation, competition, skills, informality, access to finance, infrastructure and regulation. The survey will also include a module on the green economy.
- The findings will constitute the basis for analytical work which might shed light on how to promote investment, productivity and economic growth.

Thank you

More on: www.eib.org

Q&A's