

# THIRD ROUND TABLE OF BANKERS AND SMEs

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FINAL REPORT

**19 JUNE 2000**

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## INTRODUCTION

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The Third Round Table is a further and perhaps the most important step in the debate which commenced almost 7 years ago with the inception of the First Round Table, the Round Table of Leading Representatives from the Banking Sector. This process has the ultimate objective of improving relationships between SMEs and financial institutions, mainly banks and Public Funding Institutions that provide money, commercial services and other support to SMEs throughout the European Union.

The First Round Table was established in 1993 to develop better co-operation between Financial Institutions and SMEs and make practical proposals to improve SME's access to finance. It reported in May 1994, making recommendations *inter alia* to improve communication between the parties, improve training of bankers, that tailor-made products and long term loans should be more readily available, and that there should be greater use of Guarantee Schemes and European Funds in support of SMEs.

The Second Round Table of Bankers and SMEs was set up in September 1995 to examine specific problems in relationships between banks and SMEs and to identify best SME funding practices in various EU states for promulgation throughout the European Union. It reported in February 1997, addressing recommendations to banks, SME Representative Bodies, National/Regional Authorities and the European Union. These recommendations dealt with improving the relationship aspect, how SMEs should develop structures to facilitate constructive dialogue with banks, how National/Regional Authorities should encourage financing schemes through fiscal measures and how the European Union might use the EIB, EIF and structural funds to facilitate SMEs' access to finance.

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## BUSINESS CLIMATE

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Since the First Round Table was initiated in 1993, much has changed in the European economic climate. It is evident that business conditions have improved significantly in the 1993-99 period: the EU average GDP has grown by more than 2% per annum. 3 month money rates have declined from around 11% in 1993 to around 3% and the average inflation rate has dropped from 3.5% to under 1.5%.

It is estimated there are 19 million SMEs in Europe. Both independent and banks' customer satisfaction surveys indicate that as many as 90% of SMEs have either good, satisfactory or partially satisfactory relationships with their bankers. The Round Table recognises this as a practical reality: without such relationships most SMEs could not survive and prosper. However, it is equally clear that a significant minority of SMEs have problems in accessing finance, have a difficult or unsatisfactory relationship with their bankers and, furthermore, a substantial minority of SMEs cannot access finance at all.

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## FOCUS

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The Third Round Table has focused its efforts on vulnerable SMEs, including those SMEs who have unsatisfactory relationships, such as micro-borrowers, women entrepreneurs, young entrepreneurs, start-ups, principled entrepreneurs (particularly environmentally-friendly or worker-controlled businesses), ethnic minority businesses, etc. It has also addressed several other problematic issues, such as high-tech borrowers, financing business succession, the rapid growth in non-traditional banking channels, transnational Financing and the possibility of extending of good examples of guarantee schemes throughout Europe. The Round Table considered both loan and equity finance issues.

The potential contribution of third parties such as Governments, State Enterprise Agencies, Public Funding Institutions, Independent Qualified Accountants, SME Representative Organisations and Chambers of Commerce in helping to develop a close and lasting relationship between banks and SMEs has been explored.

While the intensive debates generated in the eleven Expert meetings covered a wide spectrum of the business sectors and funding methodologies in each EU Member State, it should be noted that the Round Table targeted its work on SMEs as defined in the European Commission Recommendation of 30th April 1996 (Official Journal of the European Communities L 107), with particular emphasis on small enterprises, i.e. those with fewer than 50 employees, annual turnover below €7 million and an annual balance sheet total under €5 million.

The Round Table noted that medium-sized enterprises appear better serviced than small and micro-enterprises and wishes its work and recommendations to address the areas where real difficulties have been identified.

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## THE FUTURE

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The Round Table experience has established an extensive network of banks, public funding institutions and SME representative organisations. A comprehensive and detailed tapestry of European financing methodologies and individual state practices has been created. Both DG Enterprise of the European Commission and the Bank/SME representatives believe that these valuable relationships and understandings can be of considerable future benefit to banks and SMEs by continuing the Round Table approach at national level in Member States and accession countries in future. It is a key recommendation of this Report that the EU encourage Member States to initiate Round Tables at national level where they do not already exist.

The Third Round Table recognises the major diversities in economies and banking practices throughout the EU and believes that a general body of recommendations (many of which are in the First and Second Reports) will be of little benefit to those SMEs who need most assistance. The Round Table wishes to make a real difference where it matters most.

Implementation of the recommendations of this Round Table in each Member State will make a lasting and highly beneficial impact on financing SMEs at the margin in the EU. It will considerably enhance funding prospects for SMEs that feel disenfranchised under existing practices, thereby creating structures to enhance the future success and employment potential of SMEs that otherwise might not survive or even be created. Moreover, the gradual acceptance and implementation of the recommendations and suggestions for action by the new accession countries to the EU would help prepare business and financial institutions in those countries for easier access to the benefits of the Single Market.

Third Round Table of Bankers and SMEs

Brussels, 19 June 2000

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## GUIDE TO THE ROUND TABLE REPORT

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This report should be read in the context of the work carried out by the First and Second Round Tables, summaries of which are set out in Annexes 1 and 2. It is recommended that those interested in the general background to SME financing throughout the EU and in progress achieved in recent years should obtain copies of the previous Round Table reports from DG Enterprise.

The Third Round Table was established to examine a number of issues which are considered particularly problematic for SMEs, namely: *Access to start-up and early stage finance, access to SME capital markets, financing transfers of business and transnational financing*. During the Round Table, the specific issue of micro-finance was also added to the agenda.

Membership of the Round Table consisted of a range of organisations directly involved in or with a special interest in SME access to finance issues:

**SME Organisations** - UEAPME, UNICE, Eurochambres, EuroCommerce, Junior Chamber in Europe, Women's World Banking (WWB) and CECOP.

**Commercial, Cooperative and Savings Banks** - represented by the European Banking Federation (EBF), the European Association of Co-operative Banks (EACB) and the European Savings Banks Group (ESBG) respectively.

**Public Funding Institutions and banks** - the Deutsche Ausgleichsbank (DtA), the Banque du Développement des PME (BDPME), FINNVERA, the Agricultural Bank of Greece and Banca Nazionale del Lavoro (privatised during the course of the Round Table's work).

**Other organisations** - the European Venture Capital Association (EVCA), the European Mutual Guarantee Association (AECM), the European Association of Development Agencies (EURADA). The European Federation of Accountants (FEE), while not one of the original members, also participated actively. A full list of participants in the Expert meetings is shown in Annex 3.

This report sets out the major issues of difference or concern between banks and SMEs. It gives specific examples of the main observations and complaints that members of the Round Table have made on a non-judgemental basis. This approach enabled best practices in SME financing highlighted by the Round Table to be matched with the problems identified, with the aim that these solutions might be taken up in EU Member States where they do not already exist. Each chapter is concluded by suggestions to banks, SME organisations, public funding institutions, governments and others on how to strengthen the relationship between banks and SMEs.

The Third Round Table Report starts with a brief description of the three major areas of concern, i.e. access to finance, mutual trust and support in critical situations. In each area, ambitious objectives have been set: striving for universal finance availability, building loyalty-based relationships and providing supplementary services at little or no cost to SMEs. These are followed by collective objectives, possible actions for achieving the goals and good examples of these strategies in action.

Furthermore, a limited number (5) of specific recommendations have been made to the EU. This approach has been adopted as being the most meaningful and relevant in the belief that the EU should, in turn, encourage national governments to seek implementation by banks, other financial

institutions and SME representative organisations (insofar as this is practical) of the recommended measures in each Member State.

The Round Table recognises that a single solution to SME financing is not practical in the European context, since there are significant differences in culture, legislation, regulations and financing traditions within the Member States. In addition, there are differences in the approaches of the various banking groups, both on a pan-European basis and between individual banks within Member States.

Nonetheless, European institutions can make a valuable contribution by developing flexible products, provided through the European Investment Bank (EIB) or European Investment Fund (EIF), such as:

- the EIB's Global Loans ([www.eib.org/loans/info.htm](http://www.eib.org/loans/info.htm));
- the EIB's European Technology Facility ([www.eif.org/vca/etf/eif.etf.htm](http://www.eif.org/vca/etf/eif.etf.htm)), managed by the EIF;
- the EIF-managed SME Guarantee Facility ([www.eif.org/sme/SME-GF/gremp.htm](http://www.eif.org/sme/SME-GF/gremp.htm));
- and the EIF-managed ETF Start-up Facility ([www.eif.org/vca/etf.start-up/etfsuf.htm](http://www.eif.org/vca/etf.start-up/etfsuf.htm)).

Previous pan-European Round Tables of Bankers and SMEs, by highlighting persistent access to finance problems and facilitating an exchange of ideas and good practices, have also proved their value.

The examples of good practice in this report were chosen on the basis of perceived merit, rather than a desire to arrive at an equal representation for each Member State. They thus reflect the differences referred to above and the scale of activities in favour of SMEs in different Member States. Although the selection is far from being comprehensive, each item was considered to be of potential interest to the many organisations, financial institutions and individuals working to improve SMEs' access to finance in Europe.

# Recommendations to the European Institutions

## **RECOMMENDATION 1**

**The EU should address the fact that SMEs throughout Europe do not have equal opportunities to acquire funding from banks or other financial institutions.**

This could be achieved by:

- renewing the current SME Guarantee Facility of the Growth and Employment Initiative;
- significantly increasing the present budget for EU guarantee facilities for SMEs with fewer than 50 employees, as well as the budget and resources of the European Investment Fund;
- offering public and private guarantee schemes equal access to current and future EU guarantee facilities;
- inviting SME support institutions to supply guarantees based on EU facilities in other Member States (where such guarantees are inadequate or unavailable);
- expanding EU guarantee facilities to:
  - small term loans (most start-ups and micro-borrowers need flexibility),
  - financing of transnational investments,
  - financing of business transfers and business succession,
  - venture capital and seed capital.
- replacing the EU's ECIP and JOP joint venture programmes, for which there is still a clear need.

### **Rationale**

The debate in the Third Round Table continued to highlight that access to finance is a persistent area of difficulty that requires special attention. Although much improved in recent years, the situation remains difficult for certain SME sectors and for particular business issues, such as micro-entrepreneurship, start-ups, innovation, succession and globalisation. Moreover, the Round Table noted that support from national public and private non-profit institutions does not go far enough. In particular, loan guarantee schemes could be improved and extended, as they do not cover all the EU Member States, conditions and focus vary widely from country to country and they do not always meet the current needs of SMEs. The present guarantee facilities offered by the EU are a tremendous improvement, but still leave much to be desired.

## **RECOMMENDATION 2**

**The EU should address the acute shortage of seed and early stage capital throughout the EU.**

This could be achieved by:

- promoting the availability of Seed Capital funds;
- support public-private partnerships run on a professional and commercial basis with job creation potential;
- establishing specific unbureaucratic criteria which enable investments to be made on a Seed Capital as opposed to a Venture Capital basis;
- making investments, preferably in the range of € 50,000 to € 200,000, available to businesses operating in all SME commercial sectors (not just high-tech, high growth).

### **Rationale**

Seed Capital should not be confused with Venture Capital. Seed Capital is invested as direct equity capital in start-ups and developing companies in the 1<sup>st</sup> and 2<sup>nd</sup> rounds of finance and can be defined as covering extreme risk. Venture Capital, on the other hand, can be sourced mainly in the 3<sup>rd</sup> and 4<sup>th</sup> rounds of finance and is more appropriate for companies (primarily in the high-tech sectors) which have achieved stability and have strong growth potential with the prospect of high returns for investors. The EU pilot Seed Capital programme, established in 1989, was partly successful in several EU Member States but suffered from a lack of scale in the funds created. The Round Table clearly established that lack of start-up equity is a major barrier to start-up and developing companies in all EU Member States, with a consequent negative impact on job creation.

## **RECOMMENDATION 3**

**The EU should address the possibility that banks may charge higher interest rates as a result of changes in their internal risk assessment procedures.**

This could be achieved by:

- supporting initiatives from the SME representative organisations to improve existing Risk Assessment Forms for self-analysis by the entrepreneur and/or financial advisor with a view to their Europe-wide introduction;
- participating vigorously in the consultations organised by the Basle Committee of the Bank for International Settlements on the proposed 'New Capital Adequacy Framework' for banks working with reliable internal risk assessment models that have already proven their worth, in order to prevent any negative impact on SMEs' access to finance (the BIS paper can be found at <http://www.bis.org/publ/index.htm>; the European Commission's consultation document can be found at [http://europa.eu.int/comm/internal\\_market/en/finances/banks/capad.htm](http://europa.eu.int/comm/internal_market/en/finances/banks/capad.htm));
- close monitoring of and ensuring transparency within initiatives to develop appropriate minimum standards for internal risk weighting processes which take into account the banks' need for flexibility;
- close monitoring of initiatives to introduce a widely accepted and more flexible rating system for the upper SME market segment throughout Europe, which could lead to a simplified and cheaper rating instrument covering many more SMEs in future;
- stimulating the rating of SMEs by starting a pan-European pilot project.

### **Rationale**

External rating is sometimes perceived as an ideal instrument for creating more transparency for both SMEs and financial institutions. While various initiatives have been taken, the Round Table concluded that none of the new external rating systems are of any benefit to the vast majority of SMEs. They are either too expensive, too general, superficial or unidirectional (techno-rating). Although the 'New Capital Adequacy Framework' proposed by the Basle Committee will introduce a sliding scale of risk weighting according to ratings and seems to be encouraging the development of a general external SME rating instrument for the corporate and large SME sectors, this approach might be negative for small firms and could be the forerunner of a general external rating instrument. Most SMEs cannot be risk weighted with standard labour intensive methods or by neural network systems which ignore qualitative features. The best approach is considered to be continuous improvement of the current internal risk assessment procedures by banks, monitored by the EU, Banking Federations, SME representative bodies and representative organisations for the accountancy profession.

## **RECOMMENDATION 4**

**The EU should make the present SME support programmes more accessible, attractive and less costly for potential beneficiaries.**

This could be achieved by:

- involving public funding institutions and regional development agencies in the management of EU financial support schemes for SMEs. In Member States where these institutions do not exist, transnational organisations, such as the Group of European Financial Institutions for SMEs, should be invited to undertake this role;
- using the experience, know-how and implementation capabilities of banks and other intermediaries to formulate the criteria for new and revised support schemes to be launched;
- replacing subsidies to SMEs provided by the European structural funds with alternative sources of finance such as loans from revolving funds, risk and venture capital, loan capital and guarantee schemes, etc. managed by the financial sector on a fee basis;
- delegating responsibilities for the management of revolving funds and other support schemes to domestic intermediaries with adequate, unbureaucratic control procedures.
- exempting guarantee schemes targeted at SMEs in the EU Member States from the bureaucratic rules on competition concerning state subsidies (since they only support healthy SMEs, charge a fee for their service and do not distort competition either at national or EU level);
- rationalising the number of EU support instruments for SMEs.

### **Rationale**

The Round Table noted that, while issues such as inadequate services, products and perceived high risk by financial institutions are major barriers to some SMEs when trying to access finance, significant market imperfections also remain in terms of regulatory and bureaucratic red tape. It was observed that most banks are endeavouring to become more flexible and adapt their services to the needs of SMEs due to competitive pressures. The impact of information technology, the switching of lending and relationship aspects to the front office, with transaction processing carried out by back office, in the major co-operative, commercial, savings and public financial institutions have been noted. However, the Round Table also observed that the European institutions appear to lag behind the banking sector in terms of efficiency. Many SME support programmes are not sufficiently attractive to the target groups and appear cumbersome. Accordingly, the Round Table places a high priority on eliminating bureaucracy in the European institutions and urges the creation of new structures and alternative distribution channels for all SME support programmes.

## **RECOMMENDATION 5: FOLLOW-UP**

**The Round Tables between representatives of SMEs and the banking sectors should continue and be modified to focus more closely on individual EU Member States and the accession countries.**

Therefore the EU should:

- conduct a pan-European survey among SMEs on the performance of their banks as regards access to finance, products, pricing, quality of services, etc.;
- organise a series of consultations in all EU Member States based on the Round Table Report to which representatives of financial institutions, SME and professional organisations and others dealing with SMEs should be invited. The results of each national debate should be distributed by the EU throughout Europe;
- start a new and continuous virtual Round Table on internet, asking participants online for information on good practices on specific topics and distributing the information in a similar way;
- introduce an annual SME award for the most progressive banks in specific products, services etc.;
- organise an annual conference for bankers, SME representatives and others to discuss and make recommendations on specific SME topics (such as business transfer, businesses in crisis, innovation), based on information collected through the proposed pan-European survey and Round Table.

### **Rationale**

The three Round Tables initiated by the European Commission have proved very successful in terms of achieving better understanding between banks and SMEs and in finding new solutions for the daily problems faced by both parties. However, the format and approach revealed deficiencies, since the number of expert meetings was necessarily limited due to the wide geographic dispersion of both the participants and the meeting venues themselves. Similarly, the number of participants was limited, reducing the impact of the results on non-participating banks and other SME support organisations. Moreover, a full and clear understanding of the specific situation in each EU Member State is still elusive, due to the complexity of the relationship between the various financial institutions and SME support organisations with different cultures in various EU Member States. Therefore new methods are needed in order to build on the foundations of success achieved in the three Round Tables held so far and to enable the debate and information exchange to continue.

# Background

**Observation 1:** Despite the distinct improvements achieved in the recent past by most interested parties in SME financing (whose overall objective is to optimise the mutual relationship between banks and SMEs), the situation remains difficult for many companies seeking finance due to a number of unresolved issues. In general, this applies only to a number of identifiable SME sub-segments where banks make higher than average losses. In some Member States, however, the situation holds for a large part of the SME sector.

***Relationships between banks and SMEs have improved but some problems remain...***

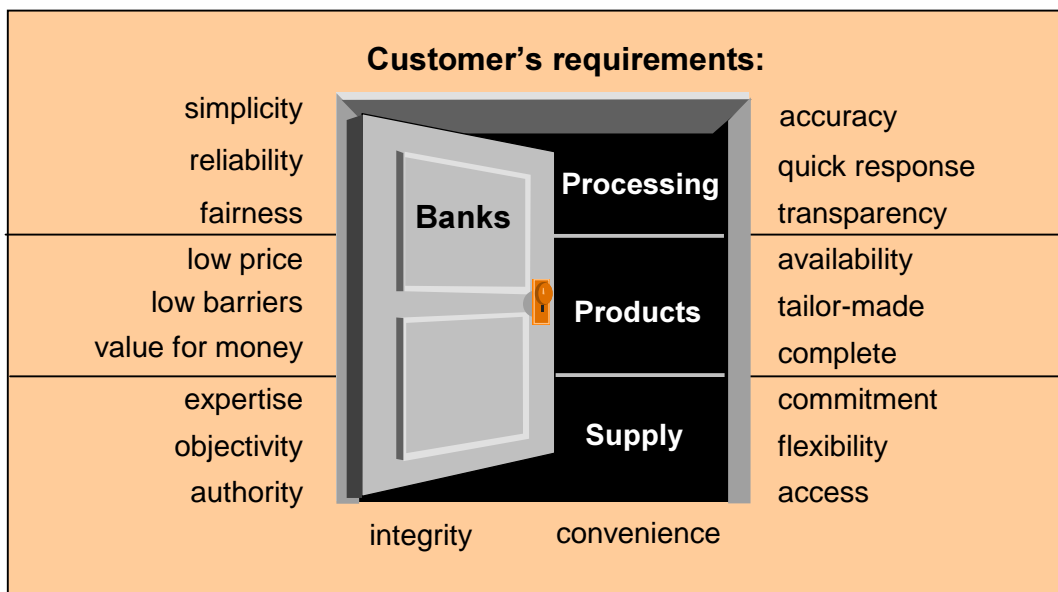
<b>Objectives of banks</b>	<b>Objectives of SMEs</b>
Managing risk on loans provided in order to avoid losses	Getting funding without constraints to allow flexibility in all business activities
Giving high priority to shareholder/member value by focusing the bank's strategic objectives on raising productivity, efficiency and profitability	Acquiring the necessary funding and support to start a business, develop, prosper and provide a satisfactory return to the owners and employees
Segregating the organisation into autonomous business units and channels in order to maximise productivity, efficiency and individual profit contribution	Requiring single sources for customised and comprehensive packages of products and services to improve business performance
Reorganising the branch network and reducing low margin services to cut costs and improve (short term) profitability	Having maximum access to loans and services
Job rotation of the banks' staff, due to career planning and the necessity for flexibility	Intensifying personalised interaction with Account Managers to mitigate the information gap and create mutual trust
Key positioning of IT systems in many aspects of banking, e.g. establishing clients' profit contribution, risk assessment and product distribution (virtual banking)	Creating and maintaining a personal relationship with the bank's staff to ensure that loan decisions take the entrepreneur's skills and attributes into account

**Observation 2:** Globalisation, international mergers, the proposed new (stricter) Basle capital adequacy regulation, cost issues, together with competitive pressures, are forcing banks to concentrate on core business profit generators. As a consequence this diminishes their role as integrated general universal banks willing to accept lower returns on vulnerable groups of SMEs. This inevitably affects relationships with these SMEs, who need a wide variety of products and services, which may be reduced or become unavailable from profit-driven service providers in future.

*...or may increase with the current rapid pace of change...*

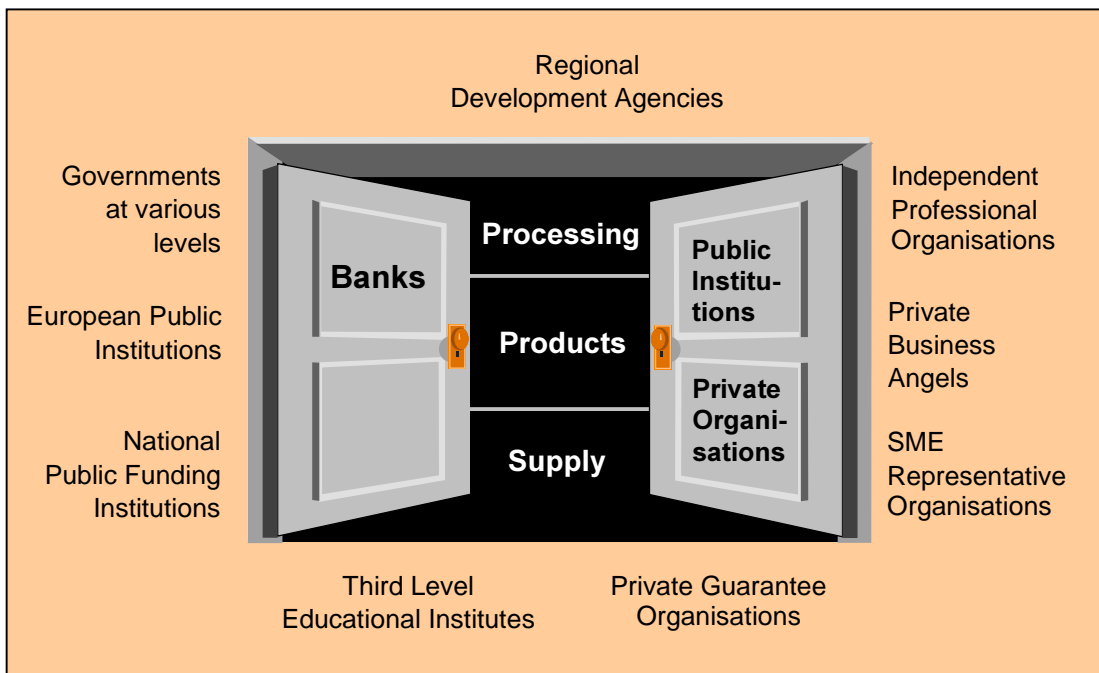
Driving forces	General trends	Challenges
<p><b>Society</b></p> <ul style="list-style-type: none"> <li>Pragmatism</li> <li>More knowledge</li> </ul>	<ul style="list-style-type: none"> <li>More pressure to perform</li> <li>More and complex competition</li> <li>Rapid globalisation</li> <li>Greater economies of scale</li> <li>New distribution channels</li> <li>Increasing client selectivity</li> <li>More segmentation</li> </ul>	<ul style="list-style-type: none"> <li>Business focus</li> <li>Critical mass</li> <li>Required skills</li> <li>Business complexity</li> <li>Customer access</li> <li>System control</li> <li>Flexibility</li> <li>Branding</li> <li>Mastering IT</li> <li>Client information</li> <li>Aversion to change</li> </ul>
<p><b>Technology</b></p> <ul style="list-style-type: none"> <li>Data processing</li> <li>Communication</li> </ul>		
<p><b>Politics</b></p> <ul style="list-style-type: none"> <li>Social inclusion</li> <li>Deregulation</li> <li>Liberalisation</li> <li>Monetary Union</li> </ul>		

*...which could affect the quality of bank services to SMEs.*



**Observation 3:** Due to historical ties or commercial imperatives, banks will retain most of their current business and SME support configurations. However, given the rapid pace of change, both banks and SMEs will certainly require considerably more help in future from public and private (financial) support institutions. If banks are to continue to offer the essential range of products and services to vulnerable SMEs, they will also have to co-operate more closely with SME representative bodies and professional organisations (independent qualified accountancy, consulting).

*Initiatives from other parties to counteract the negative impact of change are necessary...*



## 1. Striving for universal finance availability



**Observation 5:** In providing finance to certain segments of the SME market, such as start-ups, micro-businesses and high-tech companies, banks are often confronted with high credit risks and low margins on the business.

***Banks are obliged to optimise their performance but...***

<b>Banks feel there are deficiencies due to...</b>	<b>Because of...</b>
Lack of basic personal business skills, know-how and experience	Many non-traditional start-ups, often without proper business plans
Lack of essential information	<ul style="list-style-type: none"> <li>• SMEs not using professional advisors</li> <li>• Banks' unfamiliarity with new group(s) of applicants</li> <li>• Rapid rotation in banks of Account Managers (AMs) who possess essential information</li> <li>• Absence of a track record with young and growing SMEs</li> </ul>
Lack of collateral	<ul style="list-style-type: none"> <li>• Growth of intangible assets at the expense of tangible assets</li> <li>• Rapid depreciation of material assets</li> <li>• Lack of private financial resources</li> </ul>
Vulnerability of companies	<ul style="list-style-type: none"> <li>• Rapid changes in the business environment</li> <li>• Absence of dynamic operational management</li> <li>• Shorter intervals between strategic decisions in SMEs (export, succession, relocation etc)</li> </ul>
Uneconomic small loan requests	<ul style="list-style-type: none"> <li>• Rapid growth of the service industry</li> <li>• Growth of self-employment with different funding requirements</li> <li>• Micro-enterprises demanding micro-loans for small growth steps</li> </ul>
Shorter, less stable relationships	<ul style="list-style-type: none"> <li>• Introduction of substitutes for loans</li> <li>• Entry of non-banks into the financial market</li> <li>• More proactive behaviour by competitors</li> </ul>
Exacting demands	<ul style="list-style-type: none"> <li>• More transparency in the supply of financial products and services</li> <li>• Higher expectations as regards quality and price</li> <li>• More confidence among SME clients</li> </ul>
Regulations	In some EU Member States banks still face much government-imposed financial bureaucracy, leading to inefficiencies and higher costs for both banks and SMEs

**Observation 6:** SMEs frequently complain that banks too often don't (want to) meet their specific needs and apply excessively stringent conditions. SMEs tend to believe that banks pursue more benign and customer-friendly policies towards larger companies.

*... SMEs require customised products and services.*


<b>SMEs feel there are deficiencies as regards...</b>	<b>Because of...</b>
Nature of loans	Products and services that are not properly adapted to the specific needs of individual clients, i.e. they are either too sophisticated or too inflexible.
Supply of credit	<ul style="list-style-type: none"> <li>• Rationing during recessionary periods</li> <li>• Changing sectoral lending policy</li> </ul>
Response time	Slow decision processes
Pricing structure	<ul style="list-style-type: none"> <li>• Higher rates based on perceived risk</li> <li>• Preferential rates offered to bigger companies</li> <li>• Cross-subsidising by banks</li> </ul>
Terms and conditions	<ul style="list-style-type: none"> <li>• High demands for personal collateral</li> <li>• Rigid repayment schedules</li> </ul>
Flexibility in supply	Performance-led cross-selling strategies lead to conditional sales and the obligation to buy unwanted and expensive products and services
Personal communication	Technocratic and clinical approach by staff to emotionally charged business issues
General availability	Refusal to offer all clients the total range of available financing products, such as mezzanine financing and long-term loans
Information provision	Insufficient efforts by banks to bring all available products to the client's attention
Additional support	Absence or poor quality of pre- and after-sales service

**Observation 7:** To create win-win relationships with their clients, banks are very active in restructuring their organisation, developing new products and establishing relationships with other service providers.

*Banks continuously try to improve the situation by...*

	How	Example
<b>Streamlining and simplifying the lending process</b>	<ul style="list-style-type: none"> <li>Lending based on personal qualities, such as private account performance, education, life style, skills etc.</li> <li>Increasing staff responsibility, leaving decisions within certain limits to AMs.</li> <li>Using automated assessment systems.</li> <li>Abolishing bureaucracy, reducing hierarchy and the number of layers in the loan transaction process.</li> </ul>	<p><b>Simplifying the lending process:</b></p> <p><i>Stadtsparkasse Hannover (D)</i></p> <p>To reduce the handling time of micro-loans, the bank reduced the original number of 19 sequential administrative measures to a few simultaneous actions by a front office employee with more responsibility. As a result, the handling time of loan requests decreased from 11 days to less than 4.</p>
<b>Developing Centres of Competence within the bank</b>	<ul style="list-style-type: none"> <li>Standard product supply from centralised specialised units to SMEs, including virtual banking.</li> <li>Product supply from regional units (for SMEs with complex requirements. needing financial cocktails i.e. high-tech, exporters, business transfers etc.</li> <li>Product supply from local branch offices limited to service-orientated SMEs receptive to cross-selling.</li> </ul>	<p><b>Developing Centres of Competence:</b></p> <p><i>Internet Banking (S)</i></p> <p>Although its internet banking was only launched in 1997, FöreningsSparbanken/Swedbank already features in the global top 10 online banks. The introduction of this service has altered the bank's structure: 146 branch offices are being shed and staff cut by 2,000 for cost efficiency reasons. <a href="http://www.foreningssparbanken.se">www.foreningssparbanken.se</a></p> <p><i>Specialised SME bank branches (E)</i></p> <p>Some Spanish savings banks established branch offices exclusively dedicated to SMEs. They are located on bigger industrial estates to create optimal access for clients. <a href="http://www.ceca.es">www.ceca.es</a></p>
<b>Co-operation with third parties</b>	<ul style="list-style-type: none"> <li><b>Insourcing:</b> becoming a “supermarket” by selling products from different banks or by transacting (part of) another bank's loan process.</li> <li><b>Outsourcing:</b> becoming a specialist in product development, leaving sales to others under private labels.</li> <li><b>Combination:</b> using combined resources and know-how to realise economies of scale or increase effectiveness e.g. launching informal capital funds.</li> <li><b>Intermediation:</b> bringing companies and potential Business Angels together.</li> </ul>	<p><b>Co-operation with third parties:</b></p> <p><i>Business conversion in Lombardia (I)</i></p> <p>To help entrepreneurs to transfer from the grey to the official market, Artigiancassa (part of BNL Group), in co-operation with the local Chamber of Commerce of Lombardia, launched a programme of cheap loans without collateral. The government, through the Chamber, guarantees repayment. The Chamber offers advice and mentoring. <a href="http://www.bnl.it/artigiancassa">www.bnl.it/artigiancassa</a></p> <p><i>Egg, Prudential's direct banking arm</i></p> <p>Imitating American's Bank One, Egg, the UK's fastest growing online bank, recently started to sell financial products from a variety of banks. <a href="http://www.egg.co.uk">www.egg.co.uk</a></p>
<b>Product innovation</b>	<ul style="list-style-type: none"> <li>Selling alternative and lower risk products such as corporate credit cards, leasing and factoring.</li> <li>Direct securitisation of loans through issuing asset-backed bonds similar to the American model.</li> <li>Raising risk taking funds for start-ups by offering equity or subordinated loans.</li> </ul>	

eye-catcher



**Innovation in financing products:**  
*Enterprise 2000 Seed Capital Fund (IRL)*


This Seed Fund (as distinct from Venture Capital) was developed by Bank of Ireland Business Banking and Enterprise Ireland and offers a mix of equity (75%) and loan finance (25%) to start-up SMEs. Funding available is € 32,000 to € 125,000 with the loan element priced at Euribor +2%. The Fund is a unique partnership between the State and private funds and is professionally staffed by experts drawn from both sectors. Personal guarantees are not required for the loan element and post-investment follow up completes the programme. It has been very successful since inception in the neglected Seed Capital area. [www.enterprise2000.fund.ie](http://www.enterprise2000.fund.ie)

**Observation 8:** Public funding institutions in Europe have become more active. The range of products has increased and their relationship with clients is now more direct. Some institutions are both first and second level players, engaging in direct investment in addition to providing grant support.

*...and public funding institutions offer additional finance and support...*

	How	Example
<b>Reducing private banks' financial risks</b>	<ul style="list-style-type: none"> <li>Offering Loan Guarantees for SMEs on behalf of governments.</li> <li>Offering counter-guarantees and co-guarantees, e.g. from European institutions.</li> <li>Participating in new equity funds..</li> <li>Providing banks with complementary products, such as equity, subordinated loans and long-term loans to enable SMEs to obtain suitably tailored finance.</li> <li>Direct supply of finance on favourable and flexible conditions to SMEs with no access to regular bank loans, such as micro-borrowers.</li> <li>Managing government support schemes for prospective start-ups or business succession.</li> </ul>	<p><b>Reducing private banks' financial risks:</b></p> <p><i>DtA's favourable loans (D)</i></p> <p>This 20 year term loan programme for start-ups includes a grace period of 10 years and an interest-free period of 2-3 years. After the grace period, the annual interest rate is fixed at 2%, 3% and 5% for the next three years. Then the normal market rate is charged. There is no requirement for collateral.  <a href="http://www.gruenderzentrum.de/businessline/">www.gruenderzentrum.de/businessline/</a></p> <p><i>FINNVERA's top slice risk financing (FIN)</i></p> <p>To enable banks to finance small firms with high handling costs and high risk, FINNVERA developed a special scheme, carrying out the required business analysis and taking on the top slice of the risk, leaving the bank with little or no risk. <a href="http://www.finnvera.fi">www.finnvera.fi</a></p> <p><i>BÜRGES savings premium</i></p> <p>To help young people to start or to take over a business in the future, BÜRGES offers a premium of 14% on the savings balance to a maximum of about € 54,500 incl. of interest. <a href="http://www.buerges.com">www.buerges.com</a></p>
<b>Supplementing banks' lending role</b>	<ul style="list-style-type: none"> <li>Giving banks access to alternative sources of finance, such as venture capital and Business Angels funds.</li> <li>Assisting the banks in (labour intensive and costly) business risk assessment monitoring and mentoring.</li> <li>Offering SMEs financial support for calling in professional advice.</li> <li>Managing expensive to administer equity and micro-loan funds on behalf of banks.</li> <li>Paying a fixed fee to banks for managing expensive to administer seed capital and micro-loan funds.</li> <li>Using their independent role and expertise to develop SME debt ratings.</li> </ul>	<p><b>Supplementing banks' lending role</b></p> <p><i>Round Tables for problem companies (D)</i></p> <p>To help prevent companies with problems from going into liquidation, DtA organises Round Tables to get advice and support from experts and influential business people on capital restructuring. Results to date: 6,000 firms (60% of the total) have been saved.  <a href="http://www.gruenderzentrum.de/services/Beratung/rundertisch.html">www.gruenderzentrum.de/services/Beratung/rundertisch.html</a></p> <p><i>ICO Promotion Campaign (E)</i></p> <p>To achieve the widest diffusion of its SME credit facilities ICO organises yearly meetings throughout Spain at local and regional level to inform banks and other institutions about the various (new) products.</p>

eye-catcher



**Reducing private banks' financial risks**  
*The BDPME Guarantee Schemes (F)*

To encourage banks and venture capital funds to provide more loans and equity to SMEs, the BDPME/SOFARIS runs 6 guarantee schemes covering the different stages of an SME's development. The BDPME takes on about 50% of the risk (up to 70% for start-ups) for a fee of 0.6% per annum of the outstanding amount. These guarantees only require limited personal collateral from the entrepreneur, thus avoiding the need for them to mortgage their main residence.  
[www.bdpme.fr](http://www.bdpme.fr)

...while private initiatives also contribute.

	How	Example
<b>Developing alternatives to bank loans</b>	<ul style="list-style-type: none"> <li>Support agencies setting up (regional) funds for easily accessible loans or equity earmarked for specific SME target groups such as start-ups, micro-borrowers, female entrepreneurs etc.).</li> <li>Support agencies setting up junior stock markets for high-tech SMEs. Some of the new initiatives are based on internet trading.</li> <li>Support organisations bringing business angels and start-ups with high capital needs together.</li> <li>Large corporations offering seed capital to start-ups ranging from high-tech to micro-borrowers.</li> <li>Companies with redundancy problems, municipalities with high unemployment rates and universities offering start-up capital to well-defined and restricted target groups.</li> </ul>	<p><b>Developing alternatives to bank loans:</b></p> <p><i>German Equity Forum (D)</i></p> <p>The Equity Forum, launched in 1997 by Deutsche Börse AG in collaboration with the KfW, is a virtual market place offering simple, anonymous, low cost matching of companies seeking equity and investors. The database contains 48 VC providers and 150 firms seeking VC. By specifying business characteristics and capital requirements, potential investors get straight answers about eligible candidates. On average, each firm seeking equity receives 5 investor enquiries. <a href="http://www.exchange.de/vms">www.exchange.de/vms</a></p> <p><i>Fundusz Mikro's Stepped Loans (POL)</i></p> <p>Stepped loans create a credit ladder: each time a loan is repayed on time, a slightly larger loan is accessible. Loans require no collateral and are offered on short loan terms with fixed monthly rates / annuity repayment. <a href="http://www.soc.titech.ac.jp/icm/country/fundusz-mikro.html">http://www.soc.titech.ac.jp/icm/country/fundusz-mikro.html</a></p>
<b>Stimulating banks to lend</b>	<ul style="list-style-type: none"> <li>Support agencies, such as mutual guarantee funds, offering banks (complementary) loan guarantees.</li> <li>Support agencies managing discount programmes on financial products based on exclusive contracts with banks.</li> <li>Support agencies helping companies to make an innovative product idea acceptable to banks.</li> <li>Support agencies offering support to banks in the appraisal of SMEs' new technologies and markets by giving access to experts and databases.</li> <li>SME representative organisations developing risk-sharing schemes with banks.</li> <li>SME representative organisations putting pressure on the EU to maintain and develop credit facilities.</li> </ul>	<p><b>Stimulating banks to lend:</b></p> <p><i>Mutual Guarantee Holding (P)</i></p> <p>SPGM, founded by IAPMEI and major private Portuguese banks, offers guarantees and technical support to SMEs throughout their lives. In addition to the regular guarantee activity, the portfolio consists of guarantees for bonds issues by SME, for medium and long term credit facilities to micro-enterprises and for government development programmes. <a href="http://www.spgm.pt">www.spgm.pt</a></p> <p><i>Startgeld (D)</i></p> <p>With <i>Startgeld</i>, DtA finances start-ups up to 100% with a maximum of € 50,000 and no collateral requirements. To persuade banks to provide and manage this type of loan, DtA offers them a handling fee of € 500 in addition to the normal bank margin. <a href="http://www.dta.de">www.dta.de</a></p> <p><i>Triodos Doen Fund (NL)</i></p> <p>The fund offers loans and guarantees to environmental business projects. Refugees starting a business can also make an application. The fund was founded by the Dutch Doen Foundation in collaboration with Triodos Bank. It is funded by the National Postcode Lottery in the Netherlands. <a href="http://www.triodos.nl">www.triodos.nl</a></p>

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**Stimulating banks to lend**

*The Bürgschaftsbanken (D)*

The principal route for German SMEs to a loan guarantee is through one of the 22 Bürgschaftsbanken, established in each of the 16 federal states. The institutions operate as limited liability companies under German banking law. Shareholders are the Skilled Crafts Chambers, the Chambers of Industry and Commerce, Business Associations, banks and several insurance companies. The guarantees are available to SMEs in all sectors and cover up to 80% of the loan granted, to a maximum of about € 750,000 for a period of 15 years. At present the total volume of guarantees extended is approximately € 5 bn, covering nearly 45,000 companies.



## Striving for universal finance availability Suggestions for action

### BANKS

- 1. Banks should support start-ups temporarily faced with high costs and high risks. This could be achieved by:**
  - favourable conditions, such as lower rates, grace periods, etc.;
  - seed capital in the form of equity or subordinated loans;
  - more flexible collateral requirements.
- 2. Banks should create tailor-made financial solutions. This could be achieved by:**
  - offering a total range of options, such as equity, leasing, mortgages, credit cards, factoring, stepped loans, etc.;
  - supporting SMEs in acquiring external sources of finance, such as grants, guarantees and subsidies;
  - developing advanced products based on asset securitisation, junior stock markets and informal capital funds;
  - collaboration with local, national and transnational public funding institutions willing to offer customised financial products for predefined SME market segments.
- 3. Banks should endeavour to assist SME representative bodies who seek to improve the quality of the credit requests made by SMEs. This could be achieved by:**
  - supporting actions taken by professional organisations and training institutions to improve the quality of entrepreneurs;
  - providing links from the bank's SME home page to websites of other SME supporting organisations;
  - giving priority treatment to well prepared SMEs advised by professionals, such as qualified accountants, lawyers, business consultants, sectoral and SME organisations.
- 4. Banks should recognise they have a special role to play vis-à-vis specific SME groups who cannot obtain finance under conventional banking criteria. These include micro-borrowers, youngsters, ethnic minorities and environmental projects. This could be achieved by:**
  - allocating a small fixed percentage of annual profits to create a credit line or seed capital fund with less stringent funding criteria than are applied in normal commercial banking practices;
  - financial participation in initiatives taken by public and not-for-profit organisations aimed at financing these SME target groups;
  - giving advice and training to these initiatives.

## SME ORGANISATIONS

### **1. SME organisations should use their influence to achieve better access to finance, terms and conditions for their (potential) members. This could be achieved by:**

- special arrangements with providers of financial products and services from the banking and the non-banking, SME support sectors;
- collaborating with banks and other financial institutions to develop exclusive and profitable members-only savings and investment funds for predefined objectives, such as business successors;
- putting more pressure on the EU to maintain its existing EU loan guarantee facilities in order both to support existing guarantee schemes and to set up guarantee schemes in those Member States where they do not exist;
- demonstrating a clear commitment to start-ups by agreeing to provide a small percentage of the capital of seed capital funds where possible.

### **2. SME organisations should help provide financial support to SMEs to reduce banks' risks. This could be achieved by:**

- promoting loan guarantees to banks through mutual guarantee schemes;
- participating in reinsurance schemes agreed between banks, national governments and the EU where possible.

## PUBLIC FUNDING INSTITUTIONS

### **1. Public funding institutions should take advantage of unutilised or under-utilised financial sources to extend the financing options of SMEs. This could be achieved by:**

- launching new funds matching equity, informal capital or guarantees made available by the government;
- intermediating between capital providers and SMEs through (inter)national interactive websites;
- becoming an active player in securitisation of SME loans;
- sharing potential credit risks with banks.

### **2. National public funding institutions should create a European dimension to their activities. This could be achieved by:**

- using transnational bodies, such as the newly formed Group of European Financial Institutions for SMEs (BDPME, DtA, Finnvera, ICO, KfW, Mediocredito Centrale and SNCI) as the instrument for developing products to finance SMEs' cross-border operations;
- co-operating with the EU to 'export' successful national products and services.

### **3. Given the clear objective and economic pressure on banks to increase efficiency and reduce handling costs, public funding institutions should support banks by offering to:**

- administer high cost equity and micro-loan lines;
- support banks in processing the high cost, high risk and low return SME groups.

### **4. Public funding institutions should offer support to SMEs to help them professionalise and thus win the banks' confidence. This could be achieved by offering:**

- pre-screening of loan applications;
- the availability of a Non-Executive Director or mentor for SMEs through a programme of selection, training and registration.

## **GOVERNMENTS**

**Governments should improve the general environment for SME financing. This could be achieved by:**

- Allowing and encouraging pension funds and informal capitalists to invest in SMEs by offering tax relief for investments in SME support funds or (partially) exempting such investments from capital gains tax.
- Urging banks to earmark a fixed amount of money for non-conventional bank lending to specific SME groups when there is a demonstrable lack of access to finance.
- Creating a facility to make short term rescue loans available to small firms in temporary difficulty in order to save jobs.
- Developing financial programmes to help self-employed people to transfer their activity from the grey to the official market.
- Playing a proactive role in supporting existing guarantee schemes and in developing guarantee schemes where they do not exist.
- Motivating banks to be more active in public/private micro- and small firm lending by reducing the amount of paperwork required as the amount of lending increases (volume-related incentive scheme) and asking them to publish statistics on the number of small and micro-loans granted.

## **LARGER COMPANY ORGANISATIONS**

Larger company organisations should encourage members to support SMEs by direct investment in smaller firms through funds managed by banks or public funding institutions.

## **THIRD LEVEL EDUCATIONAL INSTITUTES**

Third level educational institutes should develop in-house Seed Capital Funds to create spin-offs and to stimulate staff and graduates to start a business.

## 2. Building loyalty-based relationships

**Observation 9:** SMEs generally have at least a reasonable relationship with their banks. Difficulties, however, do exist and usually arise from conflicts of interest and lack of appreciation of the other parties' concerns, as outlined earlier in the report. These conflicts are readily identifiable and so can be addressed, provided both sides are willing to co-operate.

*While both parties seek good relationships, banks and SMEs share responsibility for difficulties where they persist...*


SMEs say... (of banks)	Banks say... (of SMEs)
Banks are loath to supply information to SMEs, fearing malpractice litigation.	SMEs do not understand that banks are bound by strict rules, partly imposed by statutory regulations.
Banks' policies are generally budget- and/or shareholder-driven instead of being market-driven (clients' needs determine what should be done).	Although SMEs are entitled to good service, at times they seem to believe that banks are charitable institutions and can offer services cheaply or free of charge.
Banks have no clear market focus, which leads to mismatching of products, services and delivery channels.	SMEs increasingly refuse to accept standard bank products and services. They demand tailored products and individual attention.
Restructuring of banks to achieve cost reductions and increased profits leads to (temporary) neglect of clients' needs.	As competition forces SMEs to become more efficient, negotiating lower charges is seen as an important area for saving money, often at the suggestion of their professional advisors.
The radical changes in EU banks and the introduction of newly adopted (technological) systems weaken the relationship.	SMEs are neither able nor willing to accept the inevitable changes within banks i.e. the closing down of local offices or increased automation.
Banks are often unfamiliar with the real needs of SMEs and make no effort to improve the situation.	SMEs are unable or unwilling to understand new and complex bank products and services.
Banks are short of adequately trained and experienced SME Account Managers.	SMEs incorrectly accuse banks of sales pitches and an excessively risk-averse attitude.
Proper relationships with the Account Manager (AM) are difficult because they change position too often.	SMEs don't communicate with banks in general or their AM in particular in the event of specific demands, needs or difficulties.
Banks use the wrong criteria. Instead of focusing on functional qualities, the emphasis is on outward appearance (building, status etc.).	In conflict with agreements (either by accident or design), SMEs do not always provide the relevant information.
Economic downturns lead to less flexibility towards SMEs and (unjustified) calling in of loans.	Instead of a multi-product relationship with just one bank, SMEs prefer a multi-bank relationship. They increasingly defect and shop around.

**Observation 10:** Banks are increasingly convinced of the importance of strong, frequent personal interaction with clients as the key to lasting relationships, which create mutual trust and result in more cross-sales, lower risk and less misunderstanding.

*Lasting relationships are based on personal interaction,...*

	How	Example
<b>Professionalisation of the front office</b>	<ul style="list-style-type: none"> <li>Better selection of candidates based on affinity with SMEs, personal background (business experience), flexibility and sensitivity to problems.</li> <li>Improved training programmes including secondment to SMEs.</li> <li>Giving more support to AMs through coaching.</li> <li>Opportunity to have a rewarding career within the SME area.</li> <li>Accreditation of highly skilled AMs, as introduced by some British banks in co-operation with universities.</li> </ul>	<p><b>Professionalisation of the front office:</b></p> <p><i>Serving ethnic entrepreneurs (UK)</i></p> <p>Entrepreneurs from ethnic minorities feel that it is important to deal with bank staff who know their language, culture and business attitudes. All major British banks have taken steps to meet this need. Barclays have hired staff reflecting the make-up of the local community. NatWest created a cultural business desk at 40 branch offices. HSBC operates a South Asian Banking Initiative, appointing specialist AMs to serve the British Asian business community. Lloyds TSB launched a programme to train managers in 'cross-cultural awareness'.</p>
<b>Intensifying contact with clients</b>	<ul style="list-style-type: none"> <li>Giving more personal attention to the client by allocating fewer clients per AM and reducing back office work.</li> <li>Allowing AMs to establish close relationships with clients and sharing the work with others.</li> <li>Giving early personal notice of any policy changes of vital importance.</li> <li>Acknowledging SMEs' opinions by formation of peer group panels.</li> <li>Offering SMEs a say in the bank's policy by representation in policy-making or advice groups.</li> <li>Organising social meetings and seminars for clients on specific issues.</li> </ul>	<p><b>Intensifying contact with clients:</b></p> <p><i>Joint action in client contact (I)</i></p> <p>In 1996, Banca Nazionale del Lavoro (BNL) developed a new corporate governance system to share relationship management of SME clients with their representative organisations. Mutual guarantee companies play a major role in preliminary enquiries, management and monitoring. The intensive contacts with clients and shared responsibility for risk management made it possible to offer loans at preferential rates and streamline transactions. <a href="http://www.bnl.it">www.bnl.it</a></p>
<b>Creating more commitment</b>	<ul style="list-style-type: none"> <li>Offering special conditions to high potential clients.</li> <li>Rewarding clients for good behaviour e.g. lower rates for long-lasting clients.</li> <li>Concluding longer term contracts without a one-sided cancellation clause from the bank.</li> <li>Offering support to businesses in critical situations such as start-ups mentored by retired bank managers.</li> <li>Giving top priority to client service and dealing with complaints at senior level.</li> </ul>	<p><b>Creating more commitment:</b></p> <p><i>SME Excellence Award (P)</i></p> <p>In 1998 IAPMEI, in partnership with 5 major banks, launched an initiative to select and support the best performing companies in each sector. The annual selection is based on a set of economic and financial criteria. In 1999, 720 companies from all over Portugal were given the SME Excellence Award. This status offers the firms advantages in terms of their relationships with banks and favourable financing conditions. <a href="http://www.netfin.iapmei.pt">www.netfin.iapmei.pt</a></p>

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**Creating more commitment**  
*Frequence Pro/Banques Populaires (F)*

Frequence Pro is Banques Populaires' answer to the various complaints of SMEs towards banks. More than just a product, it is a general contract between bank and client establishing long term personal relationships, information supply, transparency, customisable package of services and above all the bank's credit commitment. It offers pre-authorised loans without the right to withdraw during its duration. Each year client and AM sit together to determine the credit limit. 200,000 contracts have been concluded so far i.e. 50% of BP's active clients. [www.banquepopulaire.fr](http://www.banquepopulaire.fr)

**Observation 11:** What is good for clients is usually good for banks. Properly served SMEs can concentrate on maximising their profitability, thereby ensuring a mutually satisfactory relationship which benefits both parties.

*...assume customised product supply by banks...*

	How	Example
<b>Ensuring added value for clients</b>	<ul style="list-style-type: none"> <li>Creating a strategic position with clients by earning the reputation of <b>category killer</b> (highest in product quality), <b>discounter</b> (cheapest in products), <b>product aggregator</b> (variety in products and channels), <b>local full service distributor</b> (typical of savings and co-operative banks) or <b>SME segment killer</b> (focused on specific SME segments)</li> </ul>	<p><b>Ensuring added value for clients:</b></p> <p><i>Triodosbank (EU)</i></p> <p>Triodos Bank was founded in 1980 as an ethical bank to meet the credit demands of enterprises with clear environmental or social objectives. It has offices in The Netherlands, Belgium and the UK. Triodos has set up 'green' investment funds and a matching service (Triodos Match Ltd) for business angels looking for investments in environmental and social businesses. Triodos' shareholders include Rabobank, ING Group and ABN AMRO Bank.</p> <p><a href="http://www.triodos.co.uk">www.triodos.co.uk</a> <a href="http://www.triodos.nl">www.triodos.nl</a></p>
<b>Consistency in structures and processes</b>	<ul style="list-style-type: none"> <li>Gearing the <b>functional qualities</b> to the products i.e. standard products must be reasonably priced and easy to access; tailor-made products must be high value-added.</li> <li>Gearing the <b>mode of distribution</b> to the type of products i.e. standard products are suitable for virtual banking but tailor-made products require the involvement of AMs and specialists.</li> <li>Gearing the <b>organisational structure</b> to the products i.e. standard products only require automated processing assessment; tailor-made products require personal AM input.</li> </ul>	<p><b>Consistency in structures and processes:</b></p> <p><i>Sardinia project (I)</i></p> <p>The project developed by Banca Nazionale del Lavoro and Banco di Sardegna is intended to achieve better access to finance for SMEs by streamlining the co-operation between public funding institutions, SME organisations and the banks at regional level. Targets are: reducing time and handling costs for credit applications, assisting SMEs in preparing their business plan and financial forecast, with the support of qualified professionals as appropriate. <a href="http://www.bnl.it">www.bnl.it</a></p>
<b>Flexibility in products and services</b>	<ul style="list-style-type: none"> <li>Standardising <b>products</b> to such an extent that packaging tailor-made supply is feasible.</li> <li>Standardising the <b>back office work</b> to such an extent that time savings are also possible for tailor-made products.</li> <li>Presenting various <b>points of access</b> based on multiple distribution channels, leaving the client free to select the preferred channel.</li> <li>Offering various <b>supplementary finance products</b>, such as equity, different types of loans, leasing and factoring.</li> <li>Offering <b>flexible financing contracts</b>.</li> </ul>	<p><b>Flexibility in products and services:</b></p> <p><i>Prestamos Participativos (E)</i></p> <p>The product is a mixture of equity and long term loans. It is of a subordinated nature. The annual interest rate is linked to the profit of the company. The product, supplied by Empresa Nacional de Innovación in co-operation with the Spanish banks, is based on a government regulation. <a href="http://www.ico.es/frpyme.htm">www.ico.es/frpyme.htm</a></p>

eye-catcher	 <p><b>Flexibility in products and services:</b></p> <p><i>Venture Capital Fund Model by Kreditanstalt für Wiederaufbau (D)</i></p>
	<p>KfW has developed a specific fund financing model designed to attract more private VC: companies that establish a private investors fund may obtain financing from a "parallel fund" run by KfW. Both the private and the parallel fund are managed by the professional VC company. Since both funds always invest jointly, the VC company can enter into a greater number of investments and thus spread the risk for private capital investors more broadly. Moreover, as KfW requires less than the customary 80% of fund returns, the VC company can offer an additional prospective return to the private investors. <a href="http://www.kfw.de">www.kfw.de</a> <a href="mailto:kfw.brussels@skynet.be">kfw.brussels@skynet.be</a></p>

**Observation 12:** Banks increasingly realise that, to maximise their efficiency, the Account Managers (AMs) working in the SME sector should be supported by SME-focused organisational structures, strategies and procedures.

*...which must be firmly embedded in the bank's organisation...*


	How	Example
<b>Convenience</b>	<ul style="list-style-type: none"> <li>• Rapid and committed response to loan applications.</li> <li>• Simple and limited paper work to complete the loan application form.</li> <li>• Compensation in case of failing to meet obligations in the handling time of the loan application.</li> <li>• Access without restraint for all SMEs to the various distribution channels.</li> <li>• Toll-free phone for information by SMEs and interactive internet communication</li> <li>• Simplification of the tariff systems.</li> <li>• Special fee package for start-ups.</li> </ul>	<p style="text-align: center;"><b>Convenience</b></p> <p style="text-align: center;"><i>GENO-star (D)</i></p> <p>GENO-star is an up to date expert system with information on more than 770 support programmes. The automated dialogue programme helps German co-operative banks to create the optimal financial mix. Using the client's data, GENO-star drafts a financial plan presenting the applicable financial support schemes, calculates the minimum amount of bank finance with a detailed repayment plan and outlines the application requirements for the support programmes at local, national and EU level. <a href="http://www.vrnet.de">www.vrnet.de</a></p> <p style="text-align: center;"><b>Reliability</b></p> <p style="text-align: center;"><i>Mystery shopping (D)</i></p> <p>In 1998 the independent organisation IFF researched the quality of loan approvals by German Banks through mystery shopping, presenting identical loan applications to various banks and branch offices. It showed that the quality of service and reaction of the AMs to the plans varied widely. As a result of the study, some of the banks changed their policy. <a href="http://www.iff-hamburg.de/index_e.html">www.iff-hamburg.de/index_e.html</a></p>
<b>Reliability</b>	<ul style="list-style-type: none"> <li>• Accuracy in processing i.e. aiming for zero error rates.</li> <li>• Calling in user groups to examine SMEs' opinions and needs as regards the bank.</li> <li>• Implementing a permanent process of accreditation (AMs) and ISO/TQM certification (processing) to guarantee quality.</li> <li>• Improving the quality of service in the front office through mystery shopping.</li> </ul>	<p style="text-align: center;"><b>Integrity</b></p> <p style="text-align: center;"><i>Barclays Bank Lending Advisor (UK)</i></p> <p>Lending Advisor is a software decision support tool for assessing the risk of loan applications. It is based on objective criteria and can be regarded as a first step towards SME rating. It enables the bank to discuss the results of the assessment with the entrepreneur and offer advice on possible areas of improvement.</p>
<b>Integrity</b>	<ul style="list-style-type: none"> <li>• Create a Business Charter or Contract of Agreement describing the client's rights.</li> <li>• Acknowledge and respond to formal complaints by an impartial ombudsman.</li> <li>• Adopt independent mediation to reach a viable alternative in the event of insuperable differences of opinion.</li> <li>• Basing the reward system for AMs on the strength and quality of the relationship with their clients.</li> </ul>	<p style="text-align: center;"><b>Fairness</b></p> <p style="text-align: center;"><i>Fortis Bank's Synergo Coach (B)</i></p> <p>Within this programme, independent business consultants evaluate the bank's start-ups quarterly or bi-annually by means of a business scoring card. Based on these results, the interest rate can be improved during the first 3 years. After that, the rate is fixed for the remainder of the term.</p>
<b>Fairness</b>	<ul style="list-style-type: none"> <li>• <b>Transparency:</b> Discussing the outcome of the risk assessment with the client</li> <li>• <b>Rewarding good behaviour:</b> Price reduction in recognition of a client's long term loyalty, cross-selling and recruitment of new clients.</li> <li>• <b>Flexibility:</b> The client chooses the preferred distribution channel.</li> <li>• <b>Compensation</b> e.g. more favourable terms for clients who do a start-up course.</li> </ul>	

**Observation 13:** Due to their affinity-based relationships with members, SME organisations are in a unique position to play a pivotal role. By co-operating with banks on the one hand and improving the quality of SMEs on the other, they can strengthen the relationship between banks and clients.

*...but also need active support from organisations trusted by SMEs.*

	How	Example
<b>Co-operation</b>	<ul style="list-style-type: none"> <li>Offering banks adequate guarantees on SME loans through mutual guarantee funds and societies.</li> <li>Placing their communication channels with members at the banks' disposal for marketing purposes.</li> <li>Entering into coalition with banks for joint actions to supply loans, i.e. by taking care of marketing, processing or after sales service.</li> <li>Supplying training to newly appointed AMs of banks on the specific needs and characteristics of SMEs.</li> <li>Organising seminars for SMEs in collaboration with banks and accountancy firms on how to handle business crossroad situations, such as start-up, succession and innovation.</li> </ul>	<p><i>ALMI's financial packages (S)</i></p> <p>ALMI, the Swedish public funding institution, has developed a package of flexible products and services in co-operation with the private banks. The package offers loans with favourable conditions and interest rates, based on the differing and tailored needs of the SME client. Subordinated loans cover the top slice of risk when private banks are willing to finance the remaining part. The loan range is about € 5,600 to € 564,000. However, the main and most interesting aspect is the provision of non-financial services, such as supplying a trained non-executive director (selected from a list of 2,000) to strengthen management.</p> <p><a href="http://www.almi.se">www.almi.se</a></p>
<b>Business Development</b>	<ul style="list-style-type: none"> <li>Offering active support to SME members in the preparation of loan applications, such as the introduction of a credit risk self-assessment form.</li> <li>Conducting comparative studies on the price and quality of bank products and services to give objective advice on the best offer in specific business situations.</li> <li>Introducing a checklist to offer members a helping hand when negotiating with the bank on various issues, such as price, quality, after-sales service and the procedure for loan withdrawal.</li> <li>Offering business training and mentoring services to SMEs on the various financial and managerial issues in collaboration with accountancy firms.</li> </ul>	<p><i>Checklist Bank Contract (UK)</i></p> <p>To help and stimulate SMEs to think about all the issues which make up the quality of the working relationship with banks, The Forum of Private Business developed a checklist. After completion, the entrepreneur knows precisely what he can expect from his bank and what the bank will expect from him. The checklist has 9 sections, such as the fine print in the contract, self risk assessment, banks' <u>real</u> charges etc.</p>
		<p><i>Free professional advice (UK)</i></p> <p>Members of the Association of Chartered Certified Accountants (ACCA) in Leicester (UK) provide an initial free consultation and meeting as part of a helpline project run in collaboration with the local enterprise support agency Business Link Leicester. Similar projects run at several other locations.</p>

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**The French Sociétés de Cautionnement Mutuel - SOCAMA (F)**

The law of 1917 that created the Banques Populaires also created the Mutual Guarantee Societies. They successfully operate in numerous areas in France, including the larger cities where a number of SMEs agree to provide a contribution to the mutual guarantee societies, thereby enabling SMEs to borrow from the Banques Populaires under guarantee. This culture of pooling resources allows a multiplier effect – a much larger volume of loans is granted than would be possible if SMEs operated on their own. Due to its success, the system of mutual guarantees has also been introduced in many European countries.

[www.bpo.banquepopulaire.fr/heberges/socama/socama1.html](http://www.bpo.banquepopulaire.fr/heberges/socama/socama1.html)



## Building loyalty-based relationships Suggestions for action

### BANKS

- 1. In order to build confidence in their integrity and reliability, banks should demonstrate their commitment to SME clients. This could be achieved by:**
  - a *Business Charter* (explain), outlining the bank's commitment;
  - working with a *complaint benchmark system*, i.e. a series of checks and balances to resolve a client's complaint;
  - offering *independent mediation* in disputes;
  - employing an *ombudsman* dealing with clients' complaints at a senior level, e.g. reporting directly to the bank's CEO;
  - offering *long term contracts* without the possibility of unilateral termination by the bank.
- 2. Banks should reward clients for good behaviour where mutually beneficial situations exist, for example:**
  - a frequent flow of information from the SMEs;
  - long term commercial ties with the bank;
  - opportunities to cross-sell;
  - SMEs acting as ambassadors for the bank by using their network to provide information on developments in the local business community or on prospective clients for the bank.
- 3. To create effective personal relationships, banks should optimise the working conditions for Account Managers (AMs). This could be achieved by:**
  - using a bonus system based on clients' satisfaction and loyalty;
  - equipping the AM with an automated risk assessment system to reduce workload;
  - being selective in the appointment of AMs dealing with SMEs, i.e. AMs should ideally have an affinity with their target groups, especially in specific sub-segments;
  - transferring more responsibilities to AMs;
  - creating promising career paths within the SME units.
- 4. Banks should intensify contact with SMEs. This could be achieved by:**
  - organising local business clubs to enable clients to meet bankers in an informal environment and to make (new) contacts with other entrepreneurs;
  - involving SME representatives in the development of new products;
  - developing an SME front desk or branch offices fully dedicated to SMEs;
  - providing personal assistance to clients interested in virtual banking to help them install and use the necessary hardware/software;
  - occasional (telephone) contact with SME clients using virtual banking channels;
  - using secondees, trainees and retired bank managers to help clients to overcome problems in particular business situations, such as start-up and succession;
  - improving relationships with intermediaries and professional advisers.

**5. Banks should be transparent. This could be achieved by:**

- disclosing the bank's risk assessment procedure to the general public;
- explaining to the client - in the case of a refusal - what to do to obtain the loan;
- advising the client on all suitable financing options;
- simplifying the system of charges, especially that for start-ups;
- supplementing the annual report with a state of the art report on SME policies and activities undertaken in previous year.

## **SME ORGANISATIONS**

**1. SME organisations, in cooperation with professional advisers, should stimulate and help their members to professionalise their dealings with banks. This could be achieved by:**

- suggesting qualified Non-Executive Directors and mentors to SMEs;
- providing advisory services on financial issues in collaboration with banks and professional advisors;
- running courses on general management and specific business issues;
- negotiating - where possible - with professional advisors on concessionary fees for member SMEs;
- providing mentoring services to start-ups.
- creating examples of transparent and equitable loan contracts where codes of conduct for crisis situations are integrated.

**2. SME organisations, in cooperation with professional advisers, should encourage members to develop more trust and affinity towards banks. This could be achieved by:**

- co-operating - when legally possible - with banks in the development and selling of customised products and services;
- supporting SMEs in pre-screening the banking risks of their own credit applications.

**3. SME organisations, in cooperation with professional advisers, should stimulate banks to be more transparent and SME-friendly. This could be achieved by frequent:**

- research on the different banks' fees and charges and presentation of the results in an easily comparable format;
- grading the quality of the product and service information provided by banks on a website;
- mystery shopping to research the quality of staff dealing with SMEs in the various banks;
- co-operation with banks, e.g. on developing an explanatory leaflet for the most crucial and recurring terms used in loan application forms, together with essential do's and don'ts.

## **GOVERNMENTS**

**1. Governments should stimulate and help SMEs to professionalise and become better negotiators with banks. This could be achieved by:**

- offering grants to SMEs using professional advisers in specific situations such as start-up, growth, succession and crisis management;
- subsidising selection, training and registration of Non-Executive Directors and mentors to SMEs.

**2. Governments should stimulate the banks to be more proactive in developing closer relationships with SMEs. This could be achieved by:**

- requesting the Central Bank to prepare a special annual report on the SME sector and its relationship with banks, similar to the reports distributed by the Bank of England.

### **QUALIFIED ACCOUNTANTS**

**Qualified accountants should help improve banks' confidence in mutual clients. This could be achieved by:**

- Encouraging the development of products that provide additional assurance on systems, management and financial information other than that in the financial statements;
- Improving the relationship with banks by being an intermediary between banks and SMEs and by providing independent direct advice to SMEs (where not already practised);
- Encouraging the development of an agreed set of standards to be used in the preparation of business plans, in co-operation with banks, that would allow the accountancy profession to provide more assurance on the quality of these plans;
- Encouraging their members to consider providing special services on special conditions to start-ups for a limited period of time.

3. Providing supplementary services at little or no cost to SMEs in crossroad situations

**Observation 14:** The range of business support offered by banks to SMEs is growing. Many European banks already offer a wide variety of products and support to entrepreneurs on all business aspects, seeking to become a full partner.

### ***Banks offer assistance to SMEs because of...***

- ...the fact that SME clients in general are profitable for banks.
- ...their historical connections with the SME sector, their focus (on SMEs) or their ownership (banks' shareholders/members include SMEs or organisations that support SMEs, such as local governments). This situation applies especially to co-operative and savings banks.
- ...external pressure from governments, the media and SME representative bodies on commercial banks to offer optimum support.
- ...growing vulnerability of SMEs due to increasing market complexity and hence increased financial risk to banks.
- ...enhanced competition between banks, as well as between banks and other service providers, resulting in a growing need to compete for clients' business.
- ...the availability of a broader range of services due to mergers and acquisitions between banks and non-banks.
- ...derived products arising from new markets or new technologies.
- ...growing awareness that increased cross-sales are only possible when banks are supportive, attentive and caring in difficult situations...

### ***...while SMEs make more use of supplementary bank services due to...***

- ...increasing market complexity that dictates the use of all available support to make the company stronger and more flexible.
- ...increasingly frequent major decisions to be taken by the entrepreneur in crossroad situations that are of vital importance for the survival or growth of the company. These can arise from inside or outside the company and can be of an economic-technical or human-social nature. For example, it is estimated that 25% of EU entrepreneurs will retire within the next 5 to 10 years and thus have to consider the issue of succession.
- ...lower charges - and, in some cases, no charges - compared to the fees for the same type of services offered by other professionals.
- ...increasing demand for one-stop-shopping with respect to managerial services.

**Observation 15:** Banks' support to SMEs in the start-up and early development stages cannot be measured by traditional short-term performance indicators. As an issue of strategic importance, support to SMEs in these stages will only provide a return to banks in the medium to long term.

*Although the pros of support have just as many cons...*

Advantages	Disadvantages
Additional source of income	Some types of SME are high risk and frequently unable to afford the services offered by banks
Key to cross-selling	Bringing banks into competition with other SME service providers, e.g. qualified accountants
Pricing becomes less important	Accusation of cross-subsidising by clients who don't use the services
Enhanced retention through a closer working relationship	Holding the bank liable for incorrect advice or services delivered
Reduced risk through better insight into the company	Mistrust of the bank's motivations; SMEs feel patronised
Gain a competitive edge	Cherry-picking by competitors of good clients with promotional tariffs
Develop a better understanding of the SME's world	High costs for adapting resources to the client's needs
Better use of available resources	In general, SMEs don't consider their bank as prime supplier of best-in-class products
Better deployment of highly skilled AMs	Criticism of the quality of AMs regarding their knowledge of SMEs' needs
Good public relations instruments	Danger of attracting bad publicity in the event of errors or differences of opinion

*...many European banks accept the challenge, because:*

- they realise that supporting entrepreneurs in the start-up and development stages may not always be profitable or cost-effective in the short term, but will pay in the long run with more (and substantial) businesses providing revenues to the bank
- they recognise the need to improve the quality and number of entrepreneurs for both economic and social reasons
- they appreciate that most SMEs are still less price-driven than large companies and look for a good and lasting relationship
- they can reduce costs by using IT in communicating with the entrepreneurs and sharing support with other service providers
- they value the opportunity to forge and strengthen bonds with accountants, enterprise agencies, business consultants, public authorities etc.

### Crossroad situation: Start-up

**Main problem:** High failure rate attributable to a lack of clear strategies, knowledge, experience, skills and resources available to the start-up

**Solutions:** Segmentation of target groups based on entrepreneurial qualities, type of business and stage of development to establish programmes that provide appropriate funding mechanisms

	How	Example
<b>Start-up groups distinguished by banks</b>	<ul style="list-style-type: none"> <li>• <b>Ambitious start-ups</b>, often in the high-tech sector with high growth and high risk characteristics. Generally banks see this market segment as rather attractive, so a range of adapted services has emerged.</li> <li>• <b>Franchise start-ups</b> that are favoured by banks and often benefit from group arrangements and support geared to the specific needs, e.g. training courses.</li> <li>• <b>Average start-ups</b> with the moderate growth and risk expectations. Banks in northern Europe seem more willing to support this market segment than banks in southern Europe.</li> <li>• <b>Micro start-ups</b> with low growth and high risk. Many of these are in the new service sectors. Support is mainly provided in co-operation with private or public (financial) support organisations.</li> </ul>	<p><b>Support to micro start-ups:</b></p> <p style="text-align: center;"><i>FINNVERA's micro-loan scheme (FIN)</i></p> <p>To facilitate access to finance for new or existing businesses employing up to 5 people, FINNVERA offers micro-loans of between €3,400 and €16,800. The loans have a maturity of 5 years, a 1 year grace period, a below market interest rate and require no collateral. Loans for women entrepreneurs are even cheaper. <a href="http://www.finnvera.fi">www.finnvera.fi</a></p> <p style="text-align: center;"><i>Association pour le Droit à l'Initiative Économique (ADIE) and the Fonds France Active (FFA) (F)</i></p> <p>Both organisations support disadvantaged people refused by conventional banks by offering advice, mentoring and help in obtaining a micro-loan. ADIE and FFA are supported by BDPME, which offers loan guarantees. <a href="http://www.inaise.org/INAISE/Links/links.htm">www.inaise.org/INAISE/Links/links.htm</a></p>
<b>Phases of development in which banks are active</b>	<ul style="list-style-type: none"> <li>• <b>Fostering phase:</b> Promoting entrepreneurship amongst students by start-up competitions and sponsoring special university chairs or by giving lectures.</li> <li>• <b>Preparation phase:</b> Encouraging potential entrepreneurs by organising special events such as business plan contests.</li> <li>• <b>Start-ups:</b> Helping entrepreneurs who have just started e.g. by mentoring or offering premises. The German savings banks have set up more than 100 incubator centres.</li> <li>• <b>Expansion phase:</b> Offering support through training courses and individual counselling.</li> <li>• <b>Crisis situation:</b> Intervening by offering internal or external support at an early stage.</li> </ul>	<p><b>Support in the development phases:</b></p> <p style="text-align: center;"><i>MittelstandDirekt (D)</i></p> <p>The German co-operative banks developed a CD ROM offering practical solutions to various problems which the entrepreneur may encounter in the start-up, expansion and consolidation phases. The information is also available online. <a href="http://www.mittelstanddirekt.de">www.mittelstanddirekt.de</a></p> <p style="text-align: center;"><i>Birmingham Business DebtLine (UK)</i></p> <p>This UK organisation offers advice over the telephone for businesses in financial crises. Its success is due both to its independence and to the anonymity of the service. 60-70% of the clients it advises survive and a UK bank is funding its expansion nationwide.</p>



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#### “A helping hand for Irish Start-ups” Bank of Ireland Business Banking Enterprise Support Unit (ESU) (IRL)

For over ten years the ESU has provided funds and hands-on support to early stage SMEs. To date the ESU has lent € 50 million to over 550 companies. The ESU operates outside conventional criteria: personal guarantees or asset-backed security are not taken. The ESU lends to high-risk businesses at normal rates and also participates in several seed capital funds providing tailored equity to start-up companies. It gives access to Business Skills Workshops, Enterprise Forums and specialist SME advisers throughout Ireland. It also supports young entrepreneurs through its association with the Shell Livewire Programme. Micro-loans are provided through First Step. [www.boi.ie](http://www.boi.ie)

## Crossroad situation: Start-up (continued)

	How	Example
<b>Ways to support start-ups</b>	<ul style="list-style-type: none"> <li>Acting as intermediary for services provided by others, such as information services on EU support programmes for start-ups.</li> <li>Enabling others to support start-ups, such as banks coaching immigrants on how to manage their own credit union.</li> <li>Taking advantage of public support schemes to develop specific support instruments for start-ups, such as global loans from the EIB or venture capital schemes from the EC.</li> <li>Co-operating with other (commercial) providers, such as insurance companies, to sell an integrated package.</li> <li>Offering advice and counselling services at a distance through a telephone help line or via internet.</li> <li>Offering specific advice through specially selected, trained and equipped start-up AMs.</li> </ul>	<p><b>One way to supply support:</b></p> <p style="text-align: center;"><i>Der virtuelle Existenzgründungstrainer</i> <i>The virtual start-up trainer (D)</i></p> <p>To offer beginners all the information required for a successful business start-up, DtA runs a free and interactive online website. It offers software to draw up a business plan and a personal entrepreneurial profile. It includes checklists, templates and information on legal issues, business funding, subsidy programmes, index numbers on sectors of industry and other sources of information and advice. A video clip shows how to negotiate with the banker. Links with the websites of the savings banks and the GWZ banks complete the virtual start-up trainer. The programme is also available on CD-ROM.</p> <p><a href="http://www.gruenderzentrum.de">www.gruenderzentrum.de</a></p>
<b>Special products and services from banks for start-ups</b>	<ul style="list-style-type: none"> <li>Offering advantageous funding suitable for start-ups, such as seed capital and loans with low charges or no collateral requirements.</li> <li>Enhancing start-ups managerial skills through a network of voluntary counsellors e.g. retired bank managers.</li> <li>Organising in-house start-up seminars and training courses.</li> <li>Creation of bank business clubs for young entrepreneurs.</li> <li>Offering information on how to start a business through internet, brochures and computer software programmes.</li> </ul>	<p><b>Special products and services:</b></p> <p style="text-align: center;"><i>Temporary Entrepreneur Positions (NL)</i></p> <p>To help graduates and staff to transform their innovative idea into their own business, the University of Technology in Eindhoven, in co-operation with the Rabobank and the Brabant Development Corporation, launched a project to offer a full package of support to each start-up for a one year period. It consists of:</p> <ul style="list-style-type: none"> <li>a €15,000 interest free, subordinated loan of with a one year grace period</li> <li>free accommodation at the university</li> <li>free technical advice and use of laboratories and equipment</li> <li>an experienced mentor with an extensive network</li> <li>a start-up course for innovative companies</li> </ul> <p><a href="http://www.eutechpark.tue.nl">www.eutechpark.tue.nl</a></p>



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### Greater London Enterprise:

*Social Inclusion Fund (UK)*

For the smallest business with the greatest barriers to entry, it is crucial to leave lending to specialised organisations with the skills and experience to offer intensive guidance and cut costs. This is the fundamental focus of the Social Inclusion Fund, a 5-year programme managed by Greater London Enterprise.

The aim is to bring socially excluded people into economic activity through self-employment. Most of the users are living in deprived areas in Inner London and are usually from an ethnic minority group. Funding is provided by public organisations and HSBC Bank. The loan size is € 3,000 to € 4,500 for start-ups and up to € 30,000 for existing companies. The current default rates are low due to prompt action and intensive after care by retired and seconded bank staff. [www.gle.co.uk](http://www.gle.co.uk)

## Crossroad situation: Succession and transfer

**Main problem:** Business successions are characterised by a high failure rate due to their complexity (a combination of emotional, financial, economic, social and legal aspects) and bad planning (too late, insufficient action and incorrect approach).

**Solutions:** Provide support during the entire succession orientation and planning process to ensure a successful transfer from the current to the future owner.

	How	Example
<b>Support in the orientation and preparation phase</b>	<ul style="list-style-type: none"> <li>• Creating awareness. Putting it on the entrepreneur's agenda. Many banks, especially in N. Europe, distribute brochures and organise meetings on succession for (potential) clients.</li> <li>• Training AMs in issues related to business succession as a gateway for cross-selling products such as asset management, private banking etc.</li> <li>• Co-operating with the entrepreneur's experts and confidants, such as tax specialists and qualified accountants.</li> <li>• Creating a business succession unit within the bank, staffed with experts, to support the local AMs or to sell special products, such as estate planning and investments.</li> <li>• Offering managerial support to future successors, such as having an aptitude test.</li> </ul>	<p><b>Support in the orientation and preparation phase:</b></p> <p style="text-align: center;"><i>Qualification Programme for AMs (D)</i></p> <p>The German savings banks have implemented a comprehensive qualification programme for AMs on business succession. The various banks' training centres, such as that in Württemberg, offer courses on this subject. In addition, all AMs have an instruction manual (for internal use only) on succession support.</p> <p style="text-align: center;"><i>Rabobank succession programme (NL)</i></p> <p>To reduce the failure rate after succession, Rabobank launched a programme for intensive support and counselling of the old and new entrepreneur. Part of the programme is a assessment of the successor's managerial and entrepreneurial skills. This assessment is executed by GITP, an independent professional institute on HRM.</p>
<b>Support in the implementation phase</b>	<ul style="list-style-type: none"> <li>• Cooperating with the entrepreneur's experts and confidants</li> <li>• Developing tailor-made funding, such as take-over loans for the successor.</li> <li>• Helping the present owner to find a buyer for the business. Many banks offer this type of support, generally in co-operation with SME organisations, sometimes running their own databank.</li> <li>• Acting as a mediator in recruiting interim management or additional equity from VC funds or business angels.</li> <li>• Temporary participation in the capital base of the company to be taken over to maintain adequate solvency through specific Reinforcement Funds.</li> <li>• Offering additional products, such as personal financial planning for the former owner to manage the capital released.</li> </ul>	<p><b>Support in the implementation phase:</b></p> <p style="text-align: center;"><i>Contrat de développement transmission (F)</i></p> <p>In co-operation with the client's house bank, the French public funding institution BDPME offers medium-term loans (max. 8 years) to business successors without any collateral and a grace period of 3 years. BDPME can participate up to a maximum of 40% of the loan. <a href="http://www.bdpme.fr">www.bdpme.fr</a></p> <p style="text-align: center;"><i>Alliance Entreprendre (F)</i></p> <p>Alliance Entreprendre, an investment company set up by the French savings banks and Caisse des Depots Group, takes a minority share in bigger SMEs, especially in companies at the transfer stage. Investments range from € 0.3m to € 2.3m for a period of 4 to 6 years. <b>Email:</b> <a href="mailto:alliance-entreprendre@wanadoo.fr">alliance-entreprendre@wanadoo.fr</a></p>



### Support in the implementation phase:

*Change/Chance (D)*

The Deutsche Ausgleichsbank, the Federation of Chambers of Commerce (DIHH), the German Confederation of Skilled Crafts and Small Businesses (ZDH), in collaboration with the national government, the German savings banks and the co-operative banks, have launched an integrated programme on business transfer. The first part consists of three databanks accessible on internet: one with companies offered for sale (currently 8,000 registered), one with a nation-wide calendar of events on business succession and one with addresses of consultants active in this field. The second part is the personal counselling and advice service: through one of the participating organisations, the entrepreneurs in need can turn to a specialist nearby. The third element is a free brochure on business succession and a CD-ROM on estate planning. [www.change-online.de](http://www.change-online.de)

## Crossroad situation: Growth and Innovation

**Main problem:** The failure rate amongst innovative and rapidly growing SMEs is high due to a lack of the skills and experience necessary to manage the development of the company. These skills deficiencies mean that, apart from financing problems, good ideas and market opportunities are not properly exploited.

**Solution:** Reduce the risk by increasing entrepreneurial skills.

	How	Example
<b>Reducing the risks for both bank and company</b>	<ul style="list-style-type: none"> <li>• By technology appraisal: many banks involved in the financing of high-tech-firms co-operate with research institutes.</li> <li>• By banks acquiring knowledge of high-tech, to understand the risks and to select potential winners. Some banks have created specialised technology teams in biotechnology, automation and robotics, multimedia, micro- and environmental technology etc.</li> <li>• By taking advantage of public initiatives such as guarantee schemes for technology-based firms and innovators.</li> <li>• By partnership with public banks and funds to create a financial cocktail, in which the partner guarantees a significant portion of the financial risk.</li> <li>• By training entrepreneurs seminars to make them aware of the risks of innovation and growth.</li> <li>• By monitoring and mentoring technology-based SME clients. Some banks have created a network of experts in technology and financing.</li> </ul>	<p><b>Reducing the risk:</b></p> <p style="text-align: center;"><i>Technology Appraisal Services</i></p> <p style="text-align: center;"><i>Technet (A)</i></p> <p>Several appraisal services have been launched in recent years. In Austria, banks, investment companies and Business Angels can refer to <b>Technet</b>, a network of experts in market and technology appraisal. <a href="http://www.innovation.co.at">www.innovation.co.at</a></p> <p style="text-align: center;"><i>Entas (EU)</i></p> <p>NatWest Bank, Deutsche Bank and ING Bank have formed a consortium, <b>ENTAS</b>, with Stichting Technologie Rating (NL), Fraunhofer Management (D) and Innovation Partnership (UK), to develop an EU network for appraisal. <a href="http://public.deutsche-bank.de/global/ui/fkd/nav">http://public.deutsche-bank.de/global/ui/fkd/nav</a></p> <p style="text-align: center;"><i>Network for Technology Expertise (D)</i></p> <p>For the same reason, the German Savings Banks Organisation, DSGV, and the Fraunhofer Institut have created NTG, the Network for Technology Expertise. After the successful completion of the initial stage, the management of the project was taken over by the Steinbeis-Transfer-Centre <a href="http://www.isi.fhg.de/abtlg/ir/pb_html/ntg-iii.html">www.isi.fhg.de/abtlg/ir/pb_html/ntg-iii.html</a></p>
<b>Promoting growth and innovation in the SME sector</b>	<ul style="list-style-type: none"> <li>• By stimulating people with innovative ideas to start businesses and encouraging businesses with good prospects to grow. Banks throughout Europe participate in support centres for inventors, business contests and awards for the product, business or entrepreneur of the year.</li> <li>• By creating a supportive environment for innovative and fast growing companies. Many banks participate in business and technology centres.</li> <li>• By offering innovative and growing companies the opportunity to extend their network including online discussion platforms with experts, partner search and access to databases.</li> </ul>	<p><b>Promoting growth and innovation:</b></p> <p style="text-align: center;"><i>ICT-Twinning Centres (NL)</i></p> <p>The Dutch government's Twinning Centre initiative, supported by Rabobank, ING Bank and other private organisations, is focused on ICT-based start-ups and offers:</p> <ul style="list-style-type: none"> <li>• Premises in one of 3 three incubator centres.</li> <li>• Funding from two dedicated equity funds: a seed/start-up and a second stage fund.</li> <li>• Links to large companies and institutions, including ICT firms in Israel and the USA .</li> </ul> <p>ING Bank has opened a pre-approved credit line for companies qualified for participation. <a href="http://www.twinning.com">www.twinning.com</a></p>

eye-catcher



### Supplementing banks' lending role

*EuroRatings (EU)*

To produce independent, professional and objective assessments of the creditworthiness of larger SMEs, DTA, in cooperation with several private companies, set up an agency to develop a rating instrument based on quantitative and qualitative criteria. EuroRatings will start operations in Germany and Austria. In the coming years it will expand its activities to other EU countries. However, due to the relatively high costs, EuroRatings is as yet only accessible to a minority of larger SMEs.

[www.dta.de/noframes/presseclub/pressemitteilungen/990531.html](http://www.dta.de/noframes/presseclub/pressemitteilungen/990531.html)

## Crossroad situation: Globalisation

**Main problems:** SMEs expanding abroad are often faced with a combination of internal obstacles (lack of information, experience) and external barriers (economic and political risks, high costs) which result in limited access to bank loans.

**Solutions:** Giving advice and guidance during the preparatory phase and offering customised services and products in the implementation phase.

	How	Example
<b>Support in the preparatory phase</b>	<ul style="list-style-type: none"> <li>• Supplying general information on globalisation, through SME export guides, country reports and websites providing statistical market information.</li> <li>• Organising seminars on specific countries or issues.</li> <li>• Organising fact-finding missions for groups of clients to specific countries.</li> <li>• Offering training and counselling programmes to link clients to foreign markets.</li> <li>• Using international contacts and branch offices abroad for advice on markets and networking opportunities.</li> <li>• Providing tailor-made (mini-)surveys on (niche) markets abroad.</li> <li>• Offering detailed information on potential new clients, agents and distributors.</li> <li>• Assisting clients in preparing an export or foreign investment plan and identifying risk factors.</li> <li>• Developing a special European Business Desk for SME clients in the main branch offices.</li> </ul>	<p><b>Support in the preparatory phase:</b> <i>Millennium Entrepreneur Fund (IRL)</i></p> <p>To support returning highly skilled expatriates who wish to start a technology company, Bank of Ireland, in collaboration with the EU and two private investors, set up a fund to provide seed capital up to € 125,000. A grant of € 2,500 is available to help prepare the application. A mentor and patron company for advice and counselling are provided. <a href="http://www.millennium-fund.com">www.millennium-fund.com</a></p> <hr/> <p><b>Support in the implementation phase:</b> <i>FASEP-Guarantee (F)</i></p> <p>By using FASEP, French SMEs investing in an emerging country can obtain guarantees from BDPME and COFACE. BDPME covers 50% of the economic risk and COFACE 90-95% of the political risk. <a href="http://www.bdpme.fr">www.bdpme.fr</a></p> <p><i>Euro-Sofac (EU)</i></p> <p>Euro-Sofac is a consultancy and technical assistance company owned by savings banks in 5 European countries. It offers tailor-made commercial information, partner search, fiscal representation, plus assistance in setting up and administrative management of branches. <a href="http://www.euro-sofac.com">www.euro-sofac.com</a></p> <p><i>UNICASH (EU)</i></p> <p>Unicash is an international cash management service conceived by several European Co-operative Banks and other partner banks. It offers a single point of access and covers: a fast, simplified account opening procedure with the partner banks; electronic access to account information; collection and payments; and cash concentration, either customer-initiated or automatically. <a href="http://www.osuuspankki.fi/yritys/op-17.asp">www.osuuspankki.fi/yritys/op-17.asp</a></p> <p><i>Emerging Markets Investment Facility (NL)</i></p> <p>To reduce foreign risks for Dutch firms, Nationale Investeringsbank (NIB), a commercial bank, grants subordinated loans (on behalf of the government) to companies investing in emerging countries. Part of the risk is shared by the bank itself. <a href="http://www.dnib.com">www.dnib.com</a></p>
<b>Support in the implementation phase</b>	<ul style="list-style-type: none"> <li>• Using online systems to allow clients to initiate L/C's and reduce the paperwork involved in trade transactions.</li> <li>• Developing international banking alliances using online systems to reduce costs and extend services such as international cash management.</li> <li>• Making agreements with affiliated banks abroad to give each other guarantees to help domestic clients who wish to apply for a foreign loan.</li> <li>• Offering pre-shipment financing to cover the high costs connected with initiating and developing new markets.</li> </ul>	

eye-catcher



### Promoting Cross Border Investments by SMEs

*KfW Programme for Investments by SMEs Abroad (D)*

The KfW Mittelstandsprogramm - Ausland is designed to finance cross-border investments by German enterprises, their subsidiaries domiciled abroad or joint ventures on favourable conditions. In addition to long-term investment projects, projects in the areas of technology transfer, market entry, preparatory studies, start-up or business development can also obtain financing. The loans are granted via all banks. However, to encourage lending, KfW takes 50% of the credit risk of the on-lending bank throughout the life of the loan.

[www.kfw.de/d\\_kfw/invest/foerder/f\\_foerder7.htm](http://www.kfw.de/d_kfw/invest/foerder/f_foerder7.htm)



**Providing supplementary services at little or no cost to SMEs**  
**Suggestions for action**

**BANKS & PUBLIC FUNDING INSTITUTIONS**

- 1. Banks and public funding institutions, in cooperation with SME and professional organisations, should be at the forefront in fostering promising entrepreneurs. This could be achieved by:**
  - organising business plan contests and awards for start-ups and other SME groups;
  - supporting the development of expertise on specific business issues (such as start-up, succession and innovation) in universities and other public research centres;
  - promoting special chairs in entrepreneurship in universities;
  - intensive co-operation with qualified accountants and others dealing with these groups.
- 2. Banks and public funding institutions, in cooperation with SME and professional organisations, should offer support to help businesses survive in the early stages. This could be achieved by:**
  - distributing brochures on how to start a business and providing start-ups with software to develop a financial plan;
  - participating in the development of incubator centres;
  - organising start-up courses and training courses.
- 3. Banks and public funding institutions, in cooperation with SME and professional organisations, should offer support to SMEs at the succession stage to ensure successful transfer. This could be achieved by:**
  - training specialised Account Managers capable of giving tailor-made advice on financial products and services appropriate to business transfer;
  - creating a network with qualified accountants and others dealing with business succession;
  - supporting SME and professional organisations in training programmes for successors;
  - participating (in collaboration with SME organisations) in databases aimed at matching buyers and sellers of companies to be transferred.
- 4. Banks and public funding institutions should support training programmes and advice to SMEs in the innovation and expansion stages offered by SME representative organisations and accountancy firms. This could be achieved by:**
  - developing expert teams inside and outside the bank in marketing and technology appraisal;
  - ongoing monitoring and mentoring of technology-based SME clients;
  - participating in the development of business technology centres.

## **SME AND PROFESSIONAL ORGANISATIONS**

**SME and professional organisations should actively support their members in various business crossroad situations. This could be achieved by:**

- developing a Start-Up Package, in cooperation with banks, providing start-ups with professional advice which enables them to get support on favourable terms.
- developing and promoting the concept of crisis groups with the participation of professionals, such as qualified accountants and business consultants, to help organise a suitable rescue package for businesses in crisis.

## **GOVERNMENTS**

**Governments should also support SMEs, for example by:**

- offering favourable tax allowances for people investing in innovative companies;
- offering allowances against capital gains tax and inheritance tax in order to ease the financing requirements for business transfers both within and outside the family;
- creating a business climate where making a fresh start after business failure is possible.

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## ANNEX 1

### THE FIRST ROUND TABLE OF LEADING REPRESENTATIVES FROM THE BANKING SECTOR

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The first Round Table was established in July 1993, on the initiative of European Commissioner Vanni d'Archirafi, to develop better co-operation between Financial Institutions and SMEs. It was invited to make practical proposals to improve SMEs' access to financing.

It met 7 times and had 8 members from the banking sector (in 7 Member States) plus representatives of SMEs and Craft firms. It reported in May 1994.

#### BACKGROUND

At that time, SMEs complained that their cost of credit was greater than that of larger companies, that banks focused on collateral rather than business potential, that there was a lack of long term finance available to SMEs and that banks were generally reluctant to finance small companies. On the other hand, banks claimed that loans to SMEs were not only very costly to administer but were at the higher end of the risk spectrum, leading to losses which were damaging to the savings which depositors entrusted to them.

#### RECOMMENDATIONS

The First Round Table recommended:

- Better communication between SMEs and Banks.
- Improved training for bankers to understand the realities of SMEs.
- Banks should develop tailor-made products, including long term loans suitable to SMEs' needs.
- Member States should develop Guarantee Funds similar to SOFARIS (France) and the Dutch Loan Guarantee Scheme.
- Development of Mutual Guarantee Schemes throughout the European Union.
- Efficient use of EIB Global Loans through experienced financial intermediaries knowledgeable in the SME sector.
- A large part of the (then) new EIF should be used to finance SMEs.
- Interest subsidies on EIB loans.
- Encouragement of Seed and Venture a Capital Funds throughout the EU.

Further detail is set out on pages 4-7 of the First Round Table Report (Towards a More Efficient Partnership between Financial Institutions and SMEs), published on May 19th, 1994.

The First Round Table supported its analysis with proposals on three other major aspects of the financial environment in which SMEs operate. Firstly, strengthening SMEs' capital resources through tax incentives to investors and shareholders, subordinated loans, replication of the German development finance model and a European Seed Capital market. Secondly, ensuring adherence to agreed payment periods, which was a major problem to many SMEs. Finally, that SMEs concentrate on improving management skills.

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## ANNEX 2

### THE SECOND ROUND TABLE OF BANKERS AND SMEs

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The Second Round Table was established by European Commissioner Christos Papoutsis in September 1995. It aimed to examine contentious issues in the relationship between Banks and SMEs and to identify best SME funding practices by banks and financial institutions in various EU Member States for dissemination throughout the European Union. The objective was to help banks and SMEs to develop stronger and closer relationships, thereby enabling SMEs to start in business, survive, prosper and create employment.

A leading bank in each Member State was asked to nominate an expert to carry out the preparatory work for the Final Report. Seven major SME Representative Organisations in Europe participated. Practising accountants in several Member States were consulted. The Round Table held 6 workshops and reported in February 1997.

#### BACKGROUND

As in the First Round Table, SMEs felt that banks overcharge, were excessively risk adverse, had unreasonably high collateral requirements, did not provide sufficient risk capital and were insufficiently transparent and inconsistent in their behaviour. Banks had issues in terms of frequency and quality of information from SMEs, which created difficulties in building effective and lasting relationships. Accountants thought Banks concentrated too much on risk rather than the qualities of the entrepreneur's business prospects and were detached from their customers.

The Round Table produced a comprehensive and detailed report which demonstrated the range, depth and complexity of the issues involved. It concluded that much progress had been made in improving the relationship between banks and SMEs. It also noted that the nature of the European Union, its social, cultural and economic diversity, made it difficult to promote best practices on a pan-European scale or make assumptions in relation to their transferability.

The Second Round Table Report addressed the issues of improving SME financing and better communication between banks and SMEs, identified how banks support entrepreneurship and examined banks' organisational structures in terms of how the SME market might be better serviced.

#### RECOMMENDATIONS

The Round Table made recommendations to Banks, SME Representative Bodies, National and Regional authorities and the European Union. These included the following:

- Banks should concentrate on improving their relationship with SMEs by developing and refining products and services to facilitate funding of SMEs,
- SMEs were encouraged to develop structures to facilitate comprehensive and constructive dialogue with banks in order to improve transparency; to improve financial management; and to insist on adherence to agreed payment conditions from larger industrial organisations and the public sector.

- National and Regional authorities were asked to encourage Mutual Guarantee Schemes, Venture Capital Funds and a European Capital Market through fiscal and/or financial measures; to make it attractive to reinvest profits; to reduce legislative, administrative and fiscal burdens on business; and to nominate an ombudsman to deal with conflicts.
- European Institutions were encouraged to undertake pilot actions for new financial instruments; favour the exchange of best practices between all interested parties; and to use the European Investment Bank, European Investment Fund and Structural Funds to facilitate access to finance.

Further detail is set out on pages XIV-XV of the Second Round Table Report published on February 27th, 1997.

### **BEST PRACTICES IDENTIFIED**

The Second Round Table examined many good practices and identified those which could be adopted by Financial and SME organisations in other Member States:

1. Best Practice in risk assessment by Banks
2. Best Practice in risk assessment by SMEs
3. Best Practice in dealing with high risk clients
4. Best Practice in support for specific target groups
5. Best example of virtual banking
6. Best example of private risk finance
7. Incentives for successful SMEs
8. Support for debt-laden businesses
9. Encouragement for entrepreneurs
10. Best Practice in organisational streamlining
11. Consultation by banks

Details on each of the Best Practices above are set out on pages XII and XIII of the Second Round Table Report.

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**ANNEX 3**

**LISTS OF MEMBERS AND EXPERTS OF THE ROUND TABLE**

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# 3<sup>RD</sup> ROUND TABLE OF BANKERS AND SMES

## Member Organisations and High Level Representatives

MS	Member Organisation	Representative	Title
<b>SME ORGANISATIONS</b>			
EUR 15	UEAPME	Mr Hans-Werner MÜLLER	Secretary-General (co-chairman of the Round Table)
EUR 15	UNICE	Baron Georges JACOBS	President
EUR 15	Eurochambres	Mr Jörg MITTELSTEN SCHEID	President
EUR 15	EuroCommerce	Mr Igino SOGARO	President
EUR 15	CCACE	Mr Mario CAMPLI	President
EUR 15	Junior Chamber in Europe	Mr Theo DE BEIR	Chairman
EUR 15	Women's World Banking	Mrs Inger BERGGREN	President, Fundación Laboral WWB en España
<b>BANKING ASSOCIATIONS</b>			
EUR 15	European Association of Cooperative Banks	Mr Wim MEIJER	Voorzitter Raad van Beheer, Rabobank Nederland
EUR 15	European Savings Banks Group	Mr Chris DE NOOSE	Chairman of the Management Committee
EUR 15	European Banking Federation	Mr Nikolaus BÖMKE	Secretary-General
<b>PUBLIC FUNDING INSTITUTIONS AND BANKS</b>			
D	Deutsche Ausgleichsbank	Herr Dr LESSER	Vorstandsmitglied
EL	Agricultural Bank of Greece	Mr Dimitrios SANTIXIS	Vice-Governor
F	Banque du Développement des PME	Mrs Ariane OBOLENSKY	Présidente du Directoire
FIN	FINNVERA	Mr Marku MÄKINEN	Managing Director
I	Banca Nazionale del Lavoro *	Mr Ademaro LANZARA	Deputy CEO (co-chairman of the Round Table)
<b>OTHER FINANCIAL INSTITUTIONS</b>			
EUR 15	EVCA	Mr Serge RAICHER	Secretary-General
EUR 15	European Mutual Guarantee Association	Mr Guido VERHAEGEN	Vice-President
EUR 15	EURADA	Mr Christian SAUBLENS	Director

\* Privatised during the course of the Round Table

# 3<sup>RD</sup> ROUND TABLE OF BANKERS AND SMES

## Participants in the Expert workshops

(names in **bold** are those of experts nominated directly by the members)

Member State	Round Table Member	Experts	Organisation of Expert	Email	Telephone	Fax
<b>RAPPORTEURS</b>						
NL		<b>Prof. Dr. Leo VERHOEF</b>	Stichting Fonds Toekomst Middelgrote Ondernemingen (STMO)	<a href="mailto:L.H.J.Verhoef@eutechpark.tue.nl">L.H.J.Verhoef@eutechpark.tue.nl</a>	+31 40 2 47 39 51	+31 40 2 46 67 12
IRL		<b>Mr Barry McNAMARA</b>	Bank of Ireland	<a href="mailto:esu@boinet.ie">esu@boinet.ie</a>	+353 1 665 3300	+353 1 665 3750
<b>EUROPEAN COMMISSION</b>						
EUR 15		<b>Mr Albrecht MULFINGER</b>	DG Enterprise	<a href="mailto:albrecht.mulfinger@cec.eu.int">albrecht.mulfinger@cec.eu.int</a>	+32 2 295 39 42	+32 2 295 21 54
EUR 15		<b>Mr Jeremy HEATH</b>	DG Enterprise	<a href="mailto:jeremy.heath@cec.eu.int">jeremy.heath@cec.eu.int</a>	+32 2 295 16 76	+32 2 295 21 54
<b>SME ORGANISATIONS</b>						
EUR 15	UEAPME	<b>Mr Garry PARKER</b> <b>Mr Marcel ROY</b> Mr David WIGGINS Mrs Evelyne BRINKERT Mr Tino VACCARI Mr RIVIERE Mr de CAMBOURG Mr José ALVES DA SILVA Mr Hans-Peter LARSSON  Mr Phil NICHOLS	UEAPME Zentralverband des Deutschen Handwerks Forum of Private Business FEM Confartigianato / Fedart Fidi APCM APCM PME-Portugal Företagarna Riksorganisation Forum of Private Business	<a href="mailto:ueapme@euronet.be">ueapme@euronet.be</a> <a href="mailto:m.roy@zdh-brussels.com">m.roy@zdh-brussels.com</a>	+32 2 230 75 99 +32 2 230 85 39	+32 2 230 78 61 +32 2 230 21 66

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Member State	Round Table Member	Experts	Organisation of Expert	Email	Telephone	Fax
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Member State	Round Table Member	Experts	Organisation of Expert	Email	Telephone	Fax
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## ANNEX 4

### DEFINITIONS

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**SME Organisations** defend the interests of SMEs across a whole spectrum of issues, which includes raising awareness of the issue of access to finance among their members. They offer them support in their dealings with banks; help entrepreneurs to tackle difficult crossroads situations (e.g. business transfers); promote guarantee schemes; supply a wide range of information material; and provide referrals to alternative sources of finance and appropriate expert advice.

**Commercial Banks** are generally large Public Limited Companies (PLC's) with substantial branch networks. They are usually universal banks offering the entire range of banking services to their clients either through the bank itself or through specialised subsidiary companies for products such as Invoice Discounting, Life Assurance, Insurance, Mortgages etc. Shareholders range from private individuals with small shareholdings to large institutional investors, including Pension Funds.

**Co-operative Banks** are full universal banks characterised by decentralised multi-tiered structures (ie. local, regional and national levels). Members are owners and clients of their local co-operative bank. The goal of co-operative banks is not profit maximisation or the pursuance of public objectives, but the economic development of their own members. Unlike other banks, voting rights do not depend on the amount of capital owned, but on the application of the principle of one member-one vote.

**Savings Banks** are retail banks and other similar financial institutions. They generally have a significant share in their national domestic banking markets, broad national distribution channels, common customer-oriented savings bank tradition and act in a socially responsible manner. They have different legal forms and their market focus includes essentially individuals, households, SMEs and local authorities.

**Public Funding Institutions**, acting as agents for national governments or as managers of public programmes and incentives, have specific missions and roles to play between bank and entrepreneur. They promote private initiatives in favour of entrepreneurship; work in partnership with banks and venture capital funds; facilitate access to finance for SMEs by releasing collateral for bank loans or by acting as catalyst for raising additional equity finance; strengthen the awareness and orientation of the banking system towards SMEs; and create new innovative instruments in order to correspond to SMEs' needs.

**Regional Development Agencies** have similar objectives to Public Funding Institutions as regards access to finance, but with a specific regional focus. They can complement the activities of banks by acting as intermediaries with SMEs and providing high quality, low cost (or free) human resources; access to a quality deal flow; improved quality of project presentation; reduction in the transaction costs carried by the bank; a free resource in mentoring, deal follow-up and supervision; and PR benefits for banks seen to help implement regional public policy objectives in regions.

A **professional qualified accountant**, within this report, is a member of a legally recognised national accountancy body which has statutory authority to regulate the training and conduct of its members and which usually licenses professional practice (the more detailed official definition can be found in the FEE study on the Liberalisation of the Accountancy Profession in Europe).

**Private Guarantee Entities** (which include Mutual Guarantee Societies, Mutual Guarantee Funds and/or Guarantee Banks) are financial companies held by SMEs or SME Representative Organisations, banks and (sometimes) public authorities that provide guarantees for loans and other financial operations of adherent SMEs and micro-firms in order to facilitate their access to finance. They also provide technical support. SMEs and micro-firms pay a small fee for the guarantee given.

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**ANNEX 5**

**ROUND TABLE WORKPLAN**

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# 3<sup>RD</sup> ROUND TABLE OF BANKERS AND SMES

## Workplan

Transparency	Segment-specific SME Products (bank & non-bank)		Improving Account Management	Financing Transfers of Enterprises / Microfinance	Financing Transfers of Enterprises / Microfinance (continuation)	Embedding SME policy within banks' organisational structure
19/20 Nov 98	10/11 Dec 98	21/22 Jan 99	11/12 Feb 99	11/12 Mar 99	15/16 Apr 99	6/7 May 99
<b>Madrid</b>	<b>Athens</b>	<b>Bonn</b>	<b>Rome</b>	<b>Paris</b>	<b>Vienna</b>	<b>Lisbon</b>
<ul style="list-style-type: none"> <li>Information sharing</li> <li>Risk assessment – a new approach</li> <li>Rating – a new framework</li> <li>Start of comparison of the instruments offered by public banks</li> </ul>	<ul style="list-style-type: none"> <li>Specific needs: Start-ups, Growing businesses, Innovative businesses, Women entrepreneurs, Young entrepreneurs</li> <li>Available options: Loan Guarantee Schemes, Mutual Guarantees, Special conditions and rates, Seed / Venture Capital, Going public</li> <li>Cost of products</li> <li>Complementarity and synergy between providers of finance</li> <li>Needs throughout the lifecycle</li> <li>Market failures (i.e. financing intangibles)</li> </ul>	<ul style="list-style-type: none"> <li>Status of SME account managers</li> <li>Skills and knowledge of SME account managers</li> <li>Accreditation (European SME MBA)</li> <li>Front office structures</li> <li>Specialised account managers</li> </ul>	<ul style="list-style-type: none"> <li>Matching buyers and sellers</li> <li>Buyer's financing sources and options</li> <li>Financing goodwill</li> <li>Role of banks and SME organisations in due diligence</li> </ul>	<ul style="list-style-type: none"> <li>Continuation of Paris agenda</li> </ul>	<ul style="list-style-type: none"> <li>Removal of bureaucracy</li> <li>Potential new role of SMEs</li> <li>Back office structure</li> </ul>	
Non-traditional Banking Channels	Transnational Financing	Interim Report Meeting	Additional Support for SMEs	Risk assessment and Rating	Drafting Meetings	Final Meeting of the Members
14/15 Jun 99	1/2 Jul 99	16 Jul 99	9/10 Sep 99	30 Sep / 1 Oct 99	29 Oct 99	19 Jun 2000
<b>Stockholm</b>	<b>Helsinki</b>	<b>Brussels</b>	<b>Dublin</b>	<b>London</b>	17 Nov 99	<b>Brussels</b>
<ul style="list-style-type: none"> <li>Virtual / electronic banking</li> <li>Partnership banking</li> <li>New channels</li> </ul>	<ul style="list-style-type: none"> <li>Financing problems of transnational projects</li> <li>Cost of money transfers</li> <li>Impact of the Euro</li> <li>Impact of cross-border bank mergers and acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>Review of Interim Report</li> <li>Orientations for the Final Report</li> </ul>	<ul style="list-style-type: none"> <li>Training</li> <li>Consultancy / advice to accompany loans (package services)</li> <li>Mentoring</li> <li>Links to Business Angels</li> <li>Mediation</li> <li>Role and approach of special service units within banks</li> </ul>	<ul style="list-style-type: none"> <li>Risk assessment and rating in detail</li> <li>Discussion of draft Final Report text</li> <li>Feedback on Transfers study</li> </ul>	28 Jan 99 10 Feb 99 <b>in Brussels</b>	<ul style="list-style-type: none"> <li>Adoption of the Final Report</li> </ul>