European Commission
Enterprise and Industry

SMEs' Access to Finance

Survey 2011

Short summary

Difficult access to finance is among the top concerns (15%) of SMEs. Almost two-thirds (63%) of the EU SMEs who applied for a bank loan during the last six months received the whole amount they asked for. However, 11% of the applications were rejected and 17% received less than they applied for. In addition 4% declined the loan offer from the bank because they found the conditions unacceptable. So about one third of the SMEs did not get the finance they had planned for.

In general, the SME respondents in Europe consider that the conditions of bank financing worsened during the previous 6 months of 2011 in terms of the interest rate and other costs, collateral and required guarantees. However the most pressing problem continues to be finding customers (24%).

30% of companies are using bank loans and 40% are using bank credit line or overdraft facilities. Bank loans are also the most widely preferred external financing solution to realise firms' growth ambitions (63%).

Generally it is the larger (both in terms of staff and turnover) and older enterprises that are more likely to get the external finance that they request. Younger and smaller firms are more likely to get only some of the finance they requested, and, indeed, to be rejected outright. The highest rejection rate was among the micro companies employing less than 10 people (16%) and among SMEs active between 2 and 5 years (24%).

Regarding equity financing, it was used by 7% of the SMEs and the main challenge concerning this source of financing is the lack of investment readiness or financial knowledge.

This survey was requested by the Directorate General for Enterprise and Industry of the European Commission, in cooperation with the European Central Bank. Fieldwork comprised telephone interviews among SME managers and was conducted by Ipsos MORI between 22 August 2011 and 7 October 2011.

The survey was developed together with the European Central Bank. A joint ECB/European Commission survey round is conducted every two years. The full results of the survey can be found on the Commission website: http://ec.europa.eu/enterprise/policies/finance/data under *Access to finance 2011*.

This document is a summary of the findings from the 2011 SMEs' Access to Finance Survey. The survey provides information on the financial situation, financing needs, access to financing and expectations of SMEs in the six preceding months and comprises a sample of more than 15,000 firms across 38 countries (the European Union, the European Free Trade Association as well as other countries participating in the Entrepreneurship and Innovation Programme). This summary shows results at an aggregated EU-wide level. A separate Analytical Report[1] is available which explores in detail the differences by country, type of SME and SME versus LSE. SMEs are defined here as firms with 1-249 employees; LSEs as firms with 250+ employees.

More information on the European Union is available on the Internet (http://europa.eu).

This publication is financed under the competitiveness and innovation framework programme (CIP) which aims to encourage the competitiveness of European enterprises.

[1] http://ec.europa.eu/enterprise/policies/finance/files/2011_safe_analytical_report_en.pdf

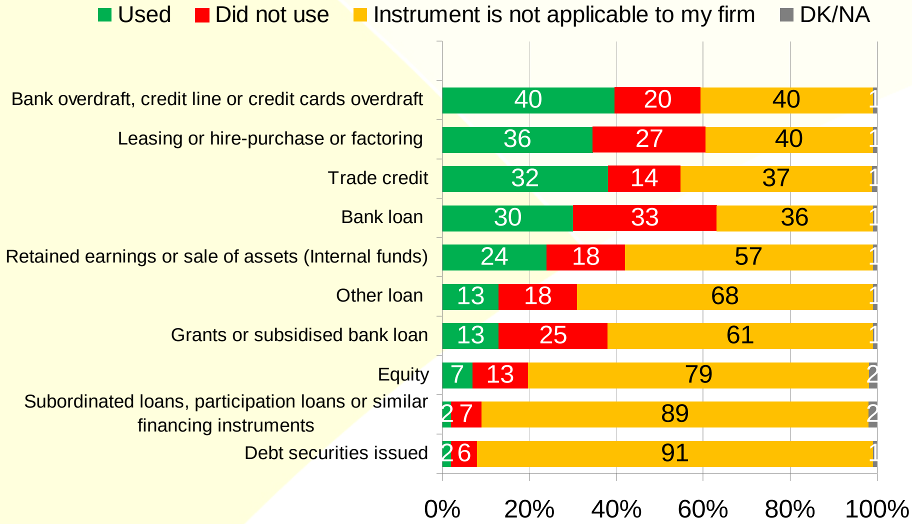
Access to finance

Access to finance is the second most pressing problem facing EU SMEs (cited by 15% of business managers), after *finding customers* (cited by 24%). At the country level, access to finance is the most pressing problem in Greece (mentioned by 30%), Slovenia and Estonia.

Use of financing

In most (56%) cases, EU SMEs used only external financing when they were looking for sources of finance in the last six months – more than double the figure in 2009 (27%). One fifth (20%) say that they used both internal and external sources of funding while just a small number (4%) say they only used internal funding (down from 14% in 2009).

Companies' use of internal and external financing in the past six months



Base: % All EU-27 SMEs

The most widely used external sources of financing in 2011 are bank overdrafts (40%), leasing/hire purchase/factoring (36%), trade credit (32%) and bank loans (30%). In total, 75% of EU SMEs used at least one source of debt financing in the past six months. This is an increase on the level in 2009, when 61% used debt financing for the same period.

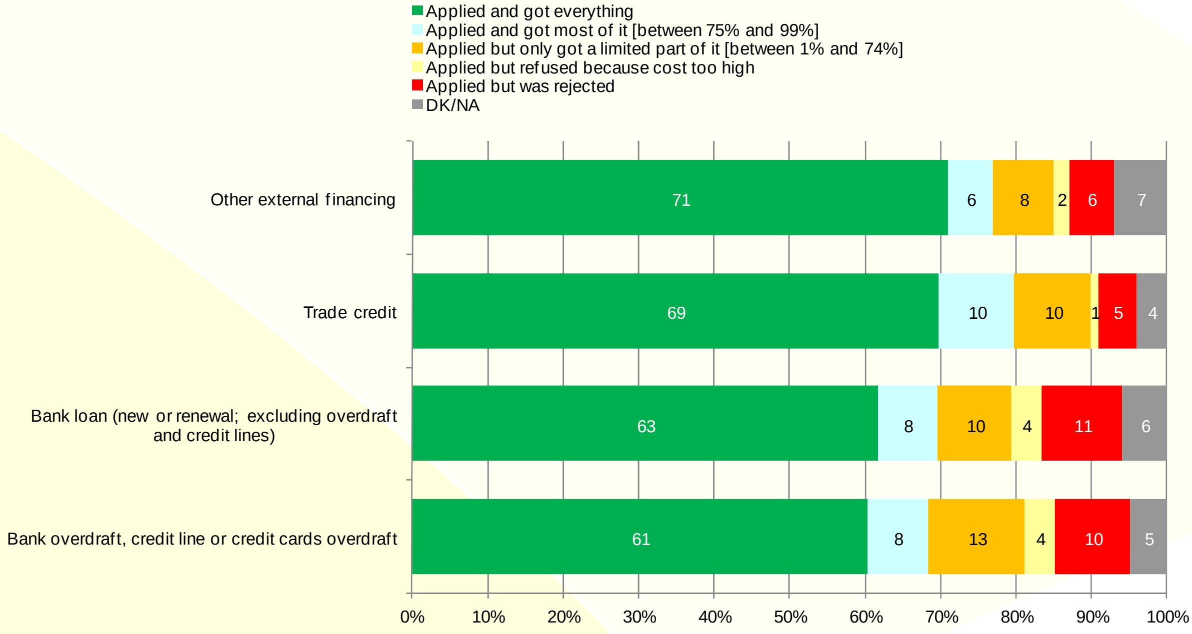
Equity financing was used by less than one in ten SMEs (7%) in the last six months. Its use was more likely among larger businesses (11% of those with 250+ employees) and SMEs owned by venture firms (14%). Gazelles (firms that are less than five years old who have grown at more than 20% per annum) are also slightly more likely (12%) than SMEs overall to have used equity financing.

Experiences with applications for external finance

Just under a fifth (19%) of EU SMEs applied for a *bank loan* in the past 6 months, down from 26% in 2009, which can be a reflection of generally lower demand for products and services – the general economic conditions. The main reason for not applying for finance (in around a half of cases) was that internal funds were sufficient. While having sufficient internal funds was the most common reason overall for not applying for this finance, those in Ireland, Greece and Iceland were most likely to have not applied because of possible rejection.

Two-thirds of EU SMEs who applied for a bank loan got everything they requested. However, 11% of the applications were rejected and 17% received less than they applied for. In addition 4% declined the loan offer from the bank because they found the conditions unacceptable. So about one third of the SMEs did not get the finance they had planned for. SMEs in Finland and Sweden were most likely to have got everything they requested when applying for bank loans and bank overdrafts, while a significantly higher proportion in Greece and Ireland were rejected.

Outcome of the application for external financing



Base: SMEs who applied for each type of financing in the past 6 months, % EU-27

Generally it is the larger (both in terms of staff and turnover) and older enterprises that are more likely to get the external finance that they request. For example, 77% of LSEs who applied for a bank loan in the past six months got everything compared with 63% of SMEs. Younger and smaller firms are more likely to have secured only some of the finance they requested, and, indeed, to have been rejected outright. The highest rejection rate for bank loans is among the micro companies employing less than 10 people (16%) and among SMEs active between 2 and 5 years (24%), compared with only 9% of firms active for 10 years or more.

Loans as external source of financing

Half (50%) of SMEs in the EU have taken out a loan in the past two years and banks were by far the most common provider of those loans (used in nearly 9 in 10 cases). *Working capital* was the purpose of nearly half of the loans, while *purchasing land, buildings, equipment or vehicles* accounted for a similar proportion.

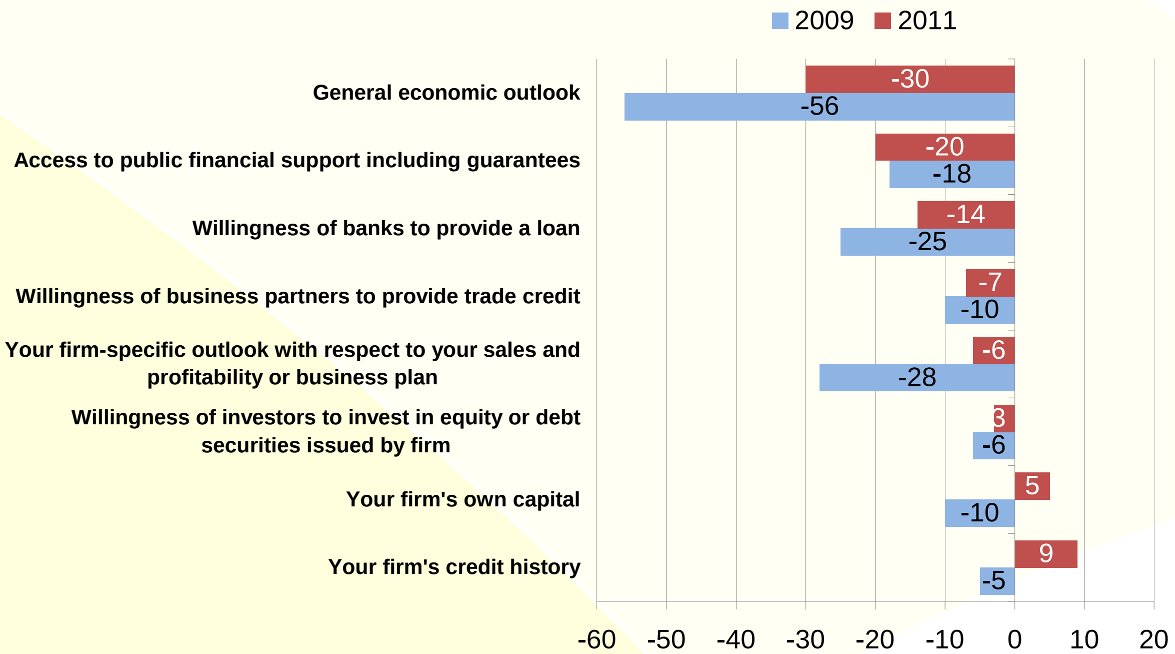
Among those SMEs to have taken out a loan, €100,000 to €1 million was the most common amount borrowed (33%) with almost as many (32%) borrowing €25,000 to €100,000. The proportion of small loans under €25,000 was 23%, while the largest loans of €1 million+ were taken out by only 12% of SMEs.

Banks were by far the most common provider of loans to SMEs in the EU. Of those who obtained a loan in the last two years, 87% obtained their loan from that source. This is broadly unchanged from 2009 (88%). Only 4% obtained their loan from a private individual such as a family member or friend, while 8% obtained their loan from other sources, such as micro-finance institutions or government-related sources.

Access to external financing

On balance, SME managers are more pessimistic than optimistic about the *general economic outlook.* Just over two-fifths (43%) say it has deteriorated in the past six months, while 12% say that there has been an improvement (an overall net balance of opinion of -30%). Sentiment about the economic outlook has improved significantly since the 2009 survey when the overall net balance of opinion was -56%.

Changes in key factors in the last six months



Net results: % Improved – % Deteriorated

Base: % All EU-27 SMEs

Views are more mixed about SMEs' own *firm-specific outlook* - managers are a little more likely to be pessimistic than optimistic about their own prospects with respect to sales and profitability over the last 6 months. Opinion is very slightly more positive with regard to their *firm's own capital* over the last 6 months and nearly twice as many SMEs say that their *credit history* improved over the past 6 months (22%) as say it deteriorated (13%).

Across all the EU SMEs surveyed, it is reported more likely that banks have become less willing to provide a loan over the last 6 months (27%) rather than more willing (13%), with 33% unchanged. In 2009 the balance was more negative, with nearly four times as many SMEs reporting that banks willingness to loan had worsened (32%) rather than improved (7%).

Among those who are able to make a judgement as to whether *access to public financial support* has changed in the past six months, managers are seven times more likely to judge that it has deteriorated (22%) rather than improved (3%). In addition, SME managers in the EU are twice as likely to have seen the *willingness of business partners to provide credit* to have deteriorated over the last 6 months (14%) rather than improve (7%).

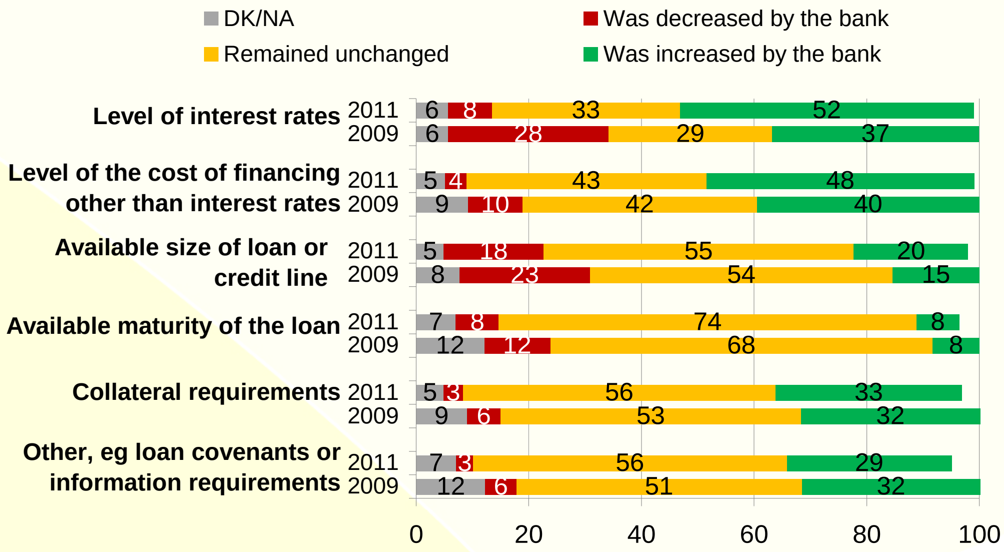
Changes in the need for external financing

Looking at the overall results across the EU27, the balance of opinion is that SMEs' need for a bank loan is slightly more likely to have increased over the previous 6 months (15%) than decreased (12%), but most say that their situation is unchanged (42%). This is consistent with the pattern for bank overdrafts, trade credit and other forms of external finance and is also fairly consistent with the pattern in 2009.

Terms and conditions of bank financing

Just over half (52%) of all managers whose company applied for a bank loan report that interest rates have been increased by the bank over the last six months. Only 8% report a reduction in rates, and 33% say that there has been no change. This compares to only 37% of managers in 2009 reporting increased rates and 28% reporting a reduction.

Changes in bank financing terms and conditions in past 6 months



Base: % All EU-27 SMEs

In most cases, non-price terms and conditions remained unchanged over the past six months. However, conditions are more likely to have been increased than decreased (eg a third of managers report that the collateral requirements have been increased by their bank compared with only 3% seeing a decrease).

More positively for businesses, the available size of loan is slightly more likely to have increased (19%) than decreased (17%). However, the other conditions attached are also more likely to have grown (29%) than reduced (3%).

Confidence in being able to get future financing

Most SME managers in the EU (63%) say that they feel confident that they would be able to obtain the desired result after talking to banks about financing, broadly in line with the findings from 2009. However, most are not able to talk about their confidence in talking with equity investors and venture capital firms about finance, as it is not relevant to their firm. Among those who did answer, opinion is split. In total, only 16% say they are confident that, should they talk about financing with equity investors or venture capitalists, they would obtain the desired result compared to 22% who are not confident.

External financing in the future

Among SME managers who expect their company to grow in the coming years, bank loans are by some distance the most favoured form of external financing (among 63% of SMEs). Around one in five managers say that insufficient collateral (or guarantee) would be the main limiting factor stopping them receiving financing (22%) and a similar proportion say that interest rates and a price that could be seen as being too high would limit their ability to attract financing (20%).

Expected availability of internal funds and external financing

When asked about their company's prospects for acquisition of internal funds, half of SME managers say that they expect its availability will remain unchanged in the next six months (48%). Around one in six say that they expect their company's prospects for internal funds to improve in the next six months (17%) and one in eight think it will deteriorate (12%). A similar pattern emerges with regard to the availability of bank overdraft, credit line or credit cards overdraft in the next six months, as well as the availability of bank loans and of trade credit and other sources of funding.