# Executive Summary

## Determinants of SME financing across selected European countries

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IfM-Materialien Nr. 275

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## Executive summary

Small and medium-sized enterprises (SMEs) make use of the main external financing instruments such as bank credit, overdraft and trade credit very differently in European comparison. The present study therefore examines whether certain company-related factors or rather the financial and economic framework conditions in the respective countries can explain these differences.

### The relevance of financing instruments is primarily determined by factors on the company side

The empirical analysis of SMEs based in nine selected euro countries shows that the relevance — i.e. the actual or potential use — of financing instruments is determined primarily by company-related factors — above all the size, age and innovation activities of the SMEs and their ownership and management structures — but also by the financial and economic framework conditions of the respective country.

### Micro- and innovative enterprises are more affected by credit rationing

Access to external financing instruments is not always without restrictions. Such restrictions are also different in European comparison, with German SMEs being far below average. At transnational level both micro-enterprises and innovative SMEs are particularly affected by financing restrictions. These restrictions are almost exclusively influenced by company-related factors. Financial and economic framework conditions play a very subordinate role.

### Micro- and innovative enterprises more frequently refrain from applying for loans

Despite the need for financing, some companies do not apply for credit because they fear rejection. This behaviour, referred to as self-rationing, is most common in micro- and innovative enterprises and could be the result of previously unsuccessful discussions with potential investors. In addition, high financing costs for micro-enterprises further impede access to financing. For example, they are much more likely than larger SMEs to reject granted financing due to high costs.

**Economic policy measures at European level should take country-specific aspects into account**

When considering the relevance of financial instruments the differences observed between the countries considered cannot be explained solely by the characteristics of the companies and both the financial and economic framework conditions. Apparently, there are specific cultural influences (e.g. risk attitudes of entrepreneurs, financial trajectories) which also play a role here. For this reason, EU economic policy measures which are aimed equally at all SMEs in the EU should take into account the national circumstances of the member states. Otherwise, different effects would be expected in the various countries.

**Comparatively good funding conditions in Germany**

The funding conditions in Germany are comparatively good. This is indicated by the low proportion of German SMEs with limited access to finance by European standards. Nevertheless, micro-enterprises and innovative SMEs in Germany are disproportionately affected by financing restrictions, albeit to a lesser extent than in other euro countries. Therefore, the previous focus of economic policy measures on these two groups of companies is adequate and justified.