



Investment Reform Index 2010: Results of the Access to Finance dimension

MONITORING POLICIES AND INSTITUTIONS FOR
DIRECT INVESTMENT IN SOUTH-EAST EUROPE

Skopje, FYR Macedonia

The IRI 2010 measures reforms in 8 policy dimensions derived from the OECD's *Policy Framework for Investment*

IRI 2010 Dimensions

1. Investment policy and promotion
2. Human capital development
3. Trade policy and facilitation
4. Access to finance
5. Regulatory reform and parliamentary processes
6. Tax policy analysis
7. Infrastructure for investment
8. SME Policy *

...developed by OECD member and non-member participants as part of the OECD Initiative on Investment for Development (launched in 2003)

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IRI 2010 covers 10 economies

Albania

Bosnia and Herzegovina

Croatia

Kosovo under UNSCR 1244

Former Yugoslav Republic of Macedonia

Montenegro

Serbia

Moldova

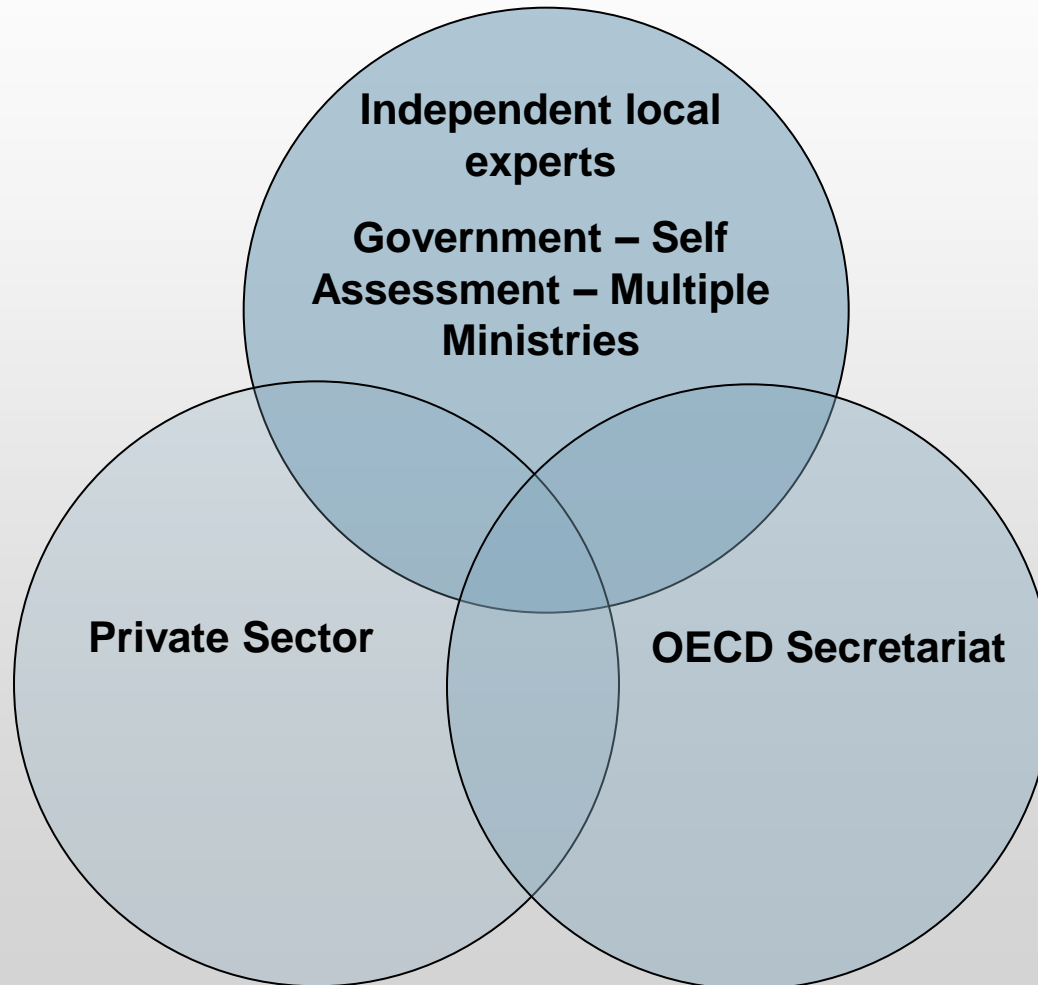
Bulgaria

Romania

IRI
1. Inv pro
2. Hu de
3. Tra
4. Ac
5. Re pa
6. Ta
7. Inf inv
8. SM

Process

Process – IRI 2010



Method

Human Capital Development Assessment Framework

4 Sub-dimensions

Inclusive Strategy
Formulation

Inputs to
Initial
education

Vocational
education and
training

Continuing
education and
training

Human Capital Development Assessment Framework

4 Sub-dimensions

Inclusive Strategy
Formulation

2 indicators:

- Workforce skills strategy : design and evidence
- The inclusiveness of strategy formulation

Human Capital Development

Level 1	Level 2	Level 3	Level 4	Level 5
No dialogue across government, private sector or civil society on workforce skills development	Consultation across Ministries occurs but on an <i>ad hoc</i> basis.	Consultation across some Ministries and external stakeholders used to improve programmes and policy, but on an <i>ad hoc</i> basis.	Comprehensive inter-Ministerial co-ordination integral to strategy development and delivery, as is consultation with external stakeholders.	Level 4+ wide variety of internal and external consultative and co-ordination mechanisms used continuously, also for strategy monitoring.

- The inclusiveness of strategy formulation

Key Findings

Access to Finance

Access to finance remains a major concern in SEE

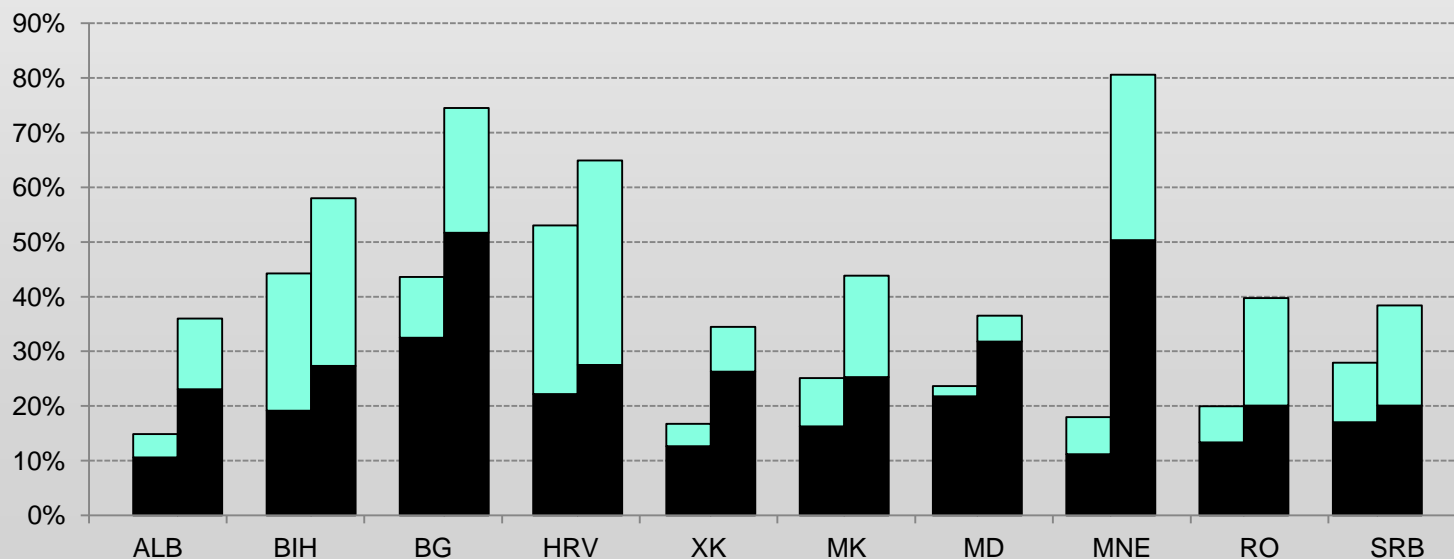
- 47% of SEE firms consider access to finance a significant obstacle to their growth and development
- SMEs generally obtain financing from banks, however the higher administrative costs and risks involved in lending to SMEs reduce banks' willingness to lend to them.
- SMEs tend to use short-term loans, including credit cards and overdraft facilities
- A lack of both collateral and project/borrower information are generally behind the rejection

Access to Finance

However the financing environment is improving

- Domestic credit to the private sector has increased both to individuals and to companies between 2005 and 2008
- Nevertheless, in most economies, loans to companies represent a decreasing share of total credit to the private sector

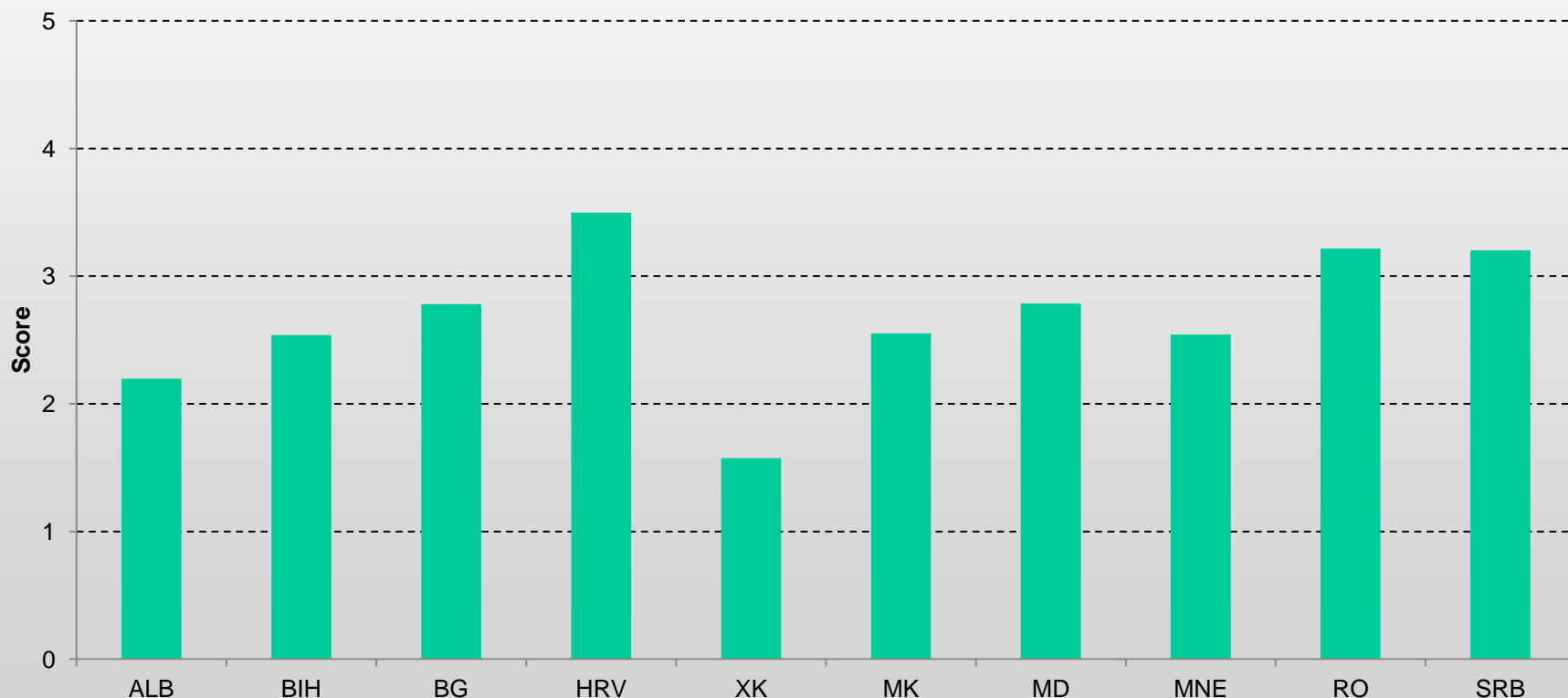
Evolution and composition of domestic credit to the private sector



Access to Finance

Access to finance is a major concern of entrepreneurs in SEE. The problem has been accentuated by the global financial crisis.

Access to finance: dimension average scores



General findings and recommendations

- Measures are needed to **improve quality and scope of data** in credit bureaus and collateral registries.
- No Western Balkan government **systematically collects data on access to finance** (only in Serbia is there some).
- Governments should explore the scope for **development of the market for informal equity finance**.
- Fully assess the **design and impact of credit guarantee schemes**.
- Need clearer **legal and regulatory frameworks for micro-finance**.

Sub-dimension 2: Legal framework

- Insolvency laws in SEE are well developed:
 - Most economies have set up **specific laws** governing insolvency procedures
 - Regulations provide for both company **liquidation and reorganisation**
 - **Moratoria** have been established to enable firm management to submit a rescue plan to creditors, and clear tests for eligibility are in place
 - **Bankruptcy administrators are well regulated** and the SEE insolvency laws stipulate the qualifications, training and certification that bankruptcy administrators must obtain.
- However, they have some weaknesses:
 - Insolvency laws are **not systematically implemented and enforced**
 - Insolvency procedures often **take a long time**
 - **Resources, in particular qualified professionals, are too limited** to proceed with all the insolvency cases in due time.

Sub-dimension 2: Legal framework

- Governments in SEE have made significant efforts to **promote credit information services**:
 - In all SEE economies, the **legal framework** for credit bureaus has been developed
 - **Credit bureaus** are well established in most SEE economies
 - **The breadth and depth of information** collected by the credit registries is generally satisfactory, and includes both positive and negative information on individuals and businesses over a significant period over time
- However, there are some weaknesses:
 - In most SEE countries, credit information is **collected solely from banks**; no data is collected from independent financial service providers utility and phone operators
 - In most countries, **coverage is not complete**
 - In some economies, credit bureaus only **focus on individual credit** data rather than firm credit data

Sub-dimension 2: Legal framework

- The environment for pledging **fixed and movable collateral** has been improved:
 - In most countries moveable assets are **legally acceptable** forms of collateral
 - All SEE economies have implemented **collateral registries** for fixed and moveable assets to limit uncertainty over collateral valuation and reliability
- However, there are some weaknesses:
 - A few countries still do not have a **complete legal framework** for pledging moveable assets
 - The **quality, scope and reliability of the data** on fixed and moveable collateral could be improved

Sub-dimension 3: Financial instruments availability

- While bank lending is dominant in the region, specific financial instruments can be better suited for the specific needs of SMEs
- Leasing and factoring allow companies to obtain finance based on the value of specific assets
 - **Leasing market is developing rapidly in the region** and legal framework is in general well developed
 - In contrast, **factoring service are fairly recent** and only in Croatia does it represent more than 2% of GDP
- Small volume of equity finance are problematic for SMEs, in particular for innovative companies:
 - Only a very **limited number of venture capital funds** operate in SEE
 - **Business Angels Networks**, which are only developed in Croatia, could be an efficient way to contribute filling the equity finance gap
- Microfinance institutions are well-developed in the SEE and in some cases, limit with traditional banking is getting blurred

Sub-dimension 4: Guarantee schemes

- **Guarantee schemes** exist throughout South East Europe:
 - In the most developed programmes, **numerous types** of guarantees are available
 - The **volume and number of loans** issued by the guarantee schemes is increasing
 - Generally the guarantees offer **clear rules and fair and transparent applications** procedures
- However, there are some weaknesses:
 - Some schemes have a **low coverage of risk**, contributing to limited take-up by firms and banks
 - Some guarantee schemes are **poorly resourced**
 - **Mutual guarantee schemes** are non-existent, besides in Croatia

Sub-dimension 5: Investment readiness

- Most SEE countries have some support for **investment readiness programmes**:
 - Support to improve investment readiness has been set up in many economies in SEE, especially in **chambers of commerce**
 - In general, the existing programmes are **well connected to other government services** provided to companies
 - A few countries have set up a **central institution in charge of ensuring co-ordination** among investment readiness programmes offered by various organisations in the economy
- However, there are some weaknesses:
 - A few countries have only set up **ad hoc investment readiness programmes**
 - Some programmes suffer from **inadequate resources** and trained staff