

Centre for Entrepreneurship, SMEs and Local Development

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**TOUR DE TABLE ON THE IMPACT OF THE FINANCIAL CRISIS
ON SMES AND SME FINANCING:**

**Intervention by Professor Salvatore Zecchini, President of the Institute for
Industrial Promotion (IPI), Italy**

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Issues of SME promotion and development are felt all around the world, and this is shown by the number of countries around the table today. There is a common ground to be covered, and of course we must couple the global dimension with the specificity of local requirements. Turning to the impact of the financial crisis on SMEs and SME financing, I have drawn up with the Secretariat a short note and I would like to highlight a few points very briefly.

The first problem is the shortfall in demand. The financial crisis has already spread out into the real economy and we have seen a very sharp decline of domestic consumption in major economies, which represents the engine of growth for emerging economies. This fall of domestic demand has also been transmitted to external trade. In other words, there is simultaneously a decline in both domestic and foreign demand. Hence, there is quite clearly an economic imbalance that cannot be considered as just a phase in the business cycle, even though we have enjoyed relatively high growth in the OECD area over the last decade.

The second problem is the continuation of the credit crunch. The approach that has been followed so far by the United States and major European Countries, has been to clean up the assets side of the balance sheets of financial institutions. Mechanisms are being put in place to remove toxic assets from balance sheets in order to rebalance the equity base. However, this type of measure does not guarantee that credit flows are going to start again until a better balance between risk and equity base is achieved in the balance sheets of banks. This is likely to be a lengthy process. In the meantime, great caution is being employed by bank managers in granting additional credit. Consequently, there are fears concerning credit expansion in Europe. If we look at figures provided by the European Central Bank (ECB), we still see high growth rates, but these are lower than in previous quarters, showing a degree of inertia in credit flows.

These two points could affect SMEs to different extents, and it will be interesting to hear the comments of the delegations concerning the impact that they see on their small and medium sized enterprises, since there is not yet a significant evidence in this respect. After all, if you look at the Basel II criteria for capital provisioning against credit, you realise that a special treatment is given to small and very small enterprises by including them in the retail sector. However, SMEs do not fit all into this category.

My third point concerns the request of comments to the country delegates on the nature of the felt impact and the measures being taken to face it.

The final point is related to a number of measures that we wish to be taken at EU level. For example, the launch of a major programme of investment funded by the EU. This is for the simple reason that all European countries are experiencing more or less the same problems and that there should be a sense of burden sharing within the European Union, for instance, by mobilising lending institutions at EU level for a major programme of public investment.

Summary given at the end of the Tour de Table

I will try to summarise in a few points the very rich discussion we had, that gives us a flavour of the range of diverse situations within the same problem. I would draw a number of conclusions:

1. In every country, there are signs of slowing economic activity and credit crunch. However, it seems too early to see clear evidence of the overall impact on SMEs, except in some specific countries, and I took particular note of the presentation of the UK delegate.
2. Governments have a major responsibility in responding to the consequences of this crisis, that is still underway. Government responses in some countries have gone farther than in other countries. Overall, government responses are aimed at the economy as a whole, rather than at the SMEs specifically.
3. The third conclusion is on how to assign responsibility for action. The general sentiment is that each country has to do its own part. Still, there is scope for international cooperation and we have heard some interesting views by certain EU members and by the representative of the European Commission. But I think that this scope for cooperation could be explored going beyond the regional agreements or schemes for cooperation.
4. Most of the measures that are envisaged or that have been taken so far, are in the financial area, rather than on the real economy side. The rationale behind this is that by using financial levers it will be possible to have an impact on the real economy. Nonetheless, there are some measures on the real side -- in terms of public expenditure or incentives to private investments, that could be considered.
5. Among financial instruments that have been used, credit guarantee mechanisms appear to be the main solution used so far due to their leverage effect, since they have greater financial impact compared to other measures in the financial field.
6. Basel II regulations are a catalyst for discussion in the international arena, firstly, because it is a recent development in terms of enforcement of these rules; secondly, because enforcement has not been even across countries, and thirdly, because the composition of the subgroup of SMEs differs when compared to the subgroup which is relevant for special treatment in the Basel II framework. In fact, there is some sort of a gap between the two aggregates. I think that the relationship between Basel II and SMEs financial difficulties needs to be further examined.
7. My final point concerns employment. Some countries' delegates highlighted that the difficulties faced by SMEs can have a significant impact on the employment situation. In this respect, it may be best to consider a much more diversified approach when addressing the subject of SMEs to encompass also employment measures.