



## TURIN ROUND TABLE

on

# the Impact of the Global Crisis on SME & Entrepreneurship Financing and Policy Responses

held at Intesa Sanpaolo, Palazzo Turinetti

Turin, Italy

26-27 March 2009

## CHAIRS' SUMMARY

**TURIN ROUND TABLE**  
ON  
**THE IMPACT OF THE GLOBAL CRISIS ON SME & ENTREPRENEURSHIP FINANCING**  
**AND POLICY RESPONSES** (26-27 March 2009)

**CHAIRS' SUMMARY<sup>1</sup>**

**I. INTRODUCTION**

1. The Turin Round Table, held under the auspices of the OECD Working Party on SMEs and Entrepreneurship and hosted by Intesa Sanpaolo, provided an opportunity for a rich exchange of views between the main stakeholders, i.e. governments, representatives of SMEs and financial and international institutions, about the impact of the current economic recession on SMEs and entrepreneurship, especially on their financing. During the meeting, participants presented evidence that SMEs have been hard hit by the global crisis.

2. SMEs are an important part of all economies and they are essential for the economic recovery. Helping SMEs helps the whole economy to regain strength and to return to sustainable growth. SMEs need special attention in the current economic recession. Overcoming the present difficult conditions for SMEs and entrepreneurs requires effective short-term measures, that need, however, to be linked to structural improvements in the SME financial environment over the longer term in order to be successful and to restore growth.

3. There was general concern during the Round Table about the demand shock facing SMEs, but also about the shortage of credit and the still relatively high interest rates applied to small business.

4. Generally speaking, most SMEs are suffering from the demand shock, whereas the credit crunch differs in severity and timing across countries. Credit tightening has been severe in spite of the drastic easing of monetary conditions by central banks. Interest rate spreads have risen to unprecedented levels, thereby partially offsetting the effects of the easing of monetary policy.

5. The conclusions emerging from the debate were in line with the *OECD Brasilia Action Statement on SME and Entrepreneurship Financing* (March 2006), which stressed that the appropriate broader framework conditions are a critical determinant for SME financing. Indeed there is a need for “reliable governance, tax, regulatory and legal frameworks that provide a level playing field for all economic

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<sup>1</sup> The Round Table was co-chaired by Mr. Jacques Augustin, Deputy Director for Tourism, General Directorate for Competitiveness, Industry and Services, Ministry of Economy, Industry and Employment, France, and by Mr. Salvatore Zecchini, President of the Institute for Industrial Promotion (IPI), Italy

entities irrespective of size”. In particular, participants noted that any government measures taken to ease SME financing should not impair fair competition and should avoid contributing to a rise in protectionism.

## II. RESOLVING THE PROBLEM OF INSUFFICIENT WORKING CAPITAL

6. Almost all participants acknowledged that there is an increased problem of insufficient working capital which is threatening the survival of SMEs. Several speakers noted that the situation regarding working capital had deteriorated rapidly at the end of 2008 and worsened in the first quarter of 2009. There is evidence that if steps are not taken to resolve the liquidity crisis, SME exits will increase in the near future. All participants shared the urgency of this situation.

7. A number of examples of good practices were put forward to resolve this problem of insufficient working capital.

### *Making guarantees effective*

- The most widely used measure has been the extension of SME loans and loan guarantees. What was learned from previous crises was that capital injections into banks were not sufficient to increase lending and that government guarantees were also required. In countries where SMEs are export-oriented, governments are also expanding export credit guarantees. However, some banks are still reluctant to take up loan guarantees. There was much discussion about overcoming their reluctance to participate in the schemes.
- Participants described the additional measures being taken by their governments such as the creation of “**credit mediators**”; the **monitoring of SME lending by banks** through timely reporting and the establishment of a **code of conduct for SME lending by banks**. Another policy response which attracted interest is where the government gives pre-fund agreements directly to the SMEs which then can be taken to the banks to obtain guaranteed loans.

### *Dealing with cash flow problems*

- To deal with cash flow problems, countries reported a number of temporary **tax measures** they had undertaken such as tax cuts and deferrals. It was suggested that governments give priority to reducing taxes that are “profit insensitive” that is, taxes which are paid regardless of whether the SME is making a profit (e.g., payroll taxes). Some governments are also **deferring social contributions** by SMEs.
- SMEs in **supply chains** are particularly vulnerable and some governments are **guaranteeing their accounts receivable**. In a number of countries fiscal stimulus packages allocate a percentage of government procurement to SMEs. Another major problem noted by a number of speakers is the increase in **payment delays**. To alleviate cash flow problems some governments are leading the way in paying their SME suppliers within 30 days or less. Furthermore, the European Commission is revising the directive on payment delays in view of improving the payment behaviour.

### **III. ASSISTING INNOVATIVE START-UPS AND HIGH -GROWTH SMES**

8. There was a general consensus that it is necessary to ensure that innovative start-ups and high-growth SMEs have access to adequate funding at times of economic recession.

- Some governments are stimulating the provision of private risk capital through co-investment. They are in line with OECD Brasilia Action Statement which emphasizes that “with appropriate incentives for management, public equity funds can operate so as to help catalyse and leverage the provision of private risk capital.”
- Some governments are also reducing or eliminating taxes on capital gains for investment in SMEs by venture capital funds.

### **IV. IMPROVING THE SME AND ENTREPRENEURSHIP FINANCIAL ENVIRONMENT IN THE LONG TERM**

- As SMEs often lack face-to-face contact with bank managers due to the current impersonal structure of the modern banking system, banks could consider balancing their scoring methods for assessing SME credit-worthiness with adequate room being left for “relationship banking”. Returning, to some extent, decision making on SME loans to local branches could help in cases where the circumstances and viability of individual businesses need to be better accounted for. Local branches should be staffed by personnel who have adequate skills in dealing with SME lending. Banks could also enter partnerships with business service providers to help them reduce the risks in SME lending. Overall, it needs to be stressed that banks and the financial community are part and parcel of any solution to the SME and entrepreneurs’ financing problem. SMEs have to do their part to improve the transparency of their economic and financial conditions, as well as in improving the quality of their credit demand. More cooperation is therefore required among banks, SMEs and governments.
- Issues have been raised regarding SMEs and the regulatory framework of Basel 2 and its pro-cyclical potential effects; if Basel 2 is revised in the wake of the financial crisis, governments could assess the possible effects on SME lending.
- Evidence was offered that automatic systems of credit evaluation did not always function to the effect that viable companies could obtain credit. It was considered that less reliance should be placed on automated credit scoring methods. New systems are needed to evaluate the credit risk of SMEs on a company basis rather than on a sectoral basis.
- The specific financing needs of micro-enterprises (less than 10 employees) which predominate the SME sector were considered. In traditional activities, small firms often require modest financing to conduct their business. This could be provided through micro-finance in countries which do not already have such schemes.

## **V. OTHER POLICY RESPONSES TO IMPROVE SME AND ENTREPRENEURSHIP FINANCING**

### ***Improving SME and entrepreneurs' information and competencies***

- Improving the provision of general information on SME-related government measures is crucial for the implementation of government policy and programmes. It could be facilitated in partnership with business service providers or business associations. As indicated in the OECD Brasilia Action statement "...informing SMEs of the range of financing options (e.g., public guarantee programmes, business angels, and bank loans) will ensure greater take-up of schemes".
- Also competence building should spur the qualified demand for financing among SMEs. The managerial competencies of SMEs—especially in the field of finance—have to be supported. In order to improve the level of financial knowledge among SMEs, governments could support business development services and training programmes.

### ***Facilitating dialogue and consultation between governments, SMEs and financial institutions***

- SMEs should be engaged in the design of relevant finance-related policies and programmes from the outset to ensure that their perspectives and needs are well understood and taken into account. Examples were given of regular communication and consultation with the representatives of SMEs through forums and round tables to raise awareness and to assess the effectiveness of existing measures and programmes to help SMEs to access finance.

### ***Improving knowledge of the situation of SME and entrepreneurs' financing***

- There is a need for more timely and SME specific data on the supply of and demand for financing so that the real situation of SMEs is known and so that policy makers can determine if their measures are working. Several OECD countries are improving transparency in bank lending by encouraging the timely public disclosure by banks of the composition of their loan portfolios by size of firm.

## **VI. OECD**

- In this regard, OECD should promote data gathering on the supply of financing made available to SMEs and the demand for financing by SMEs. OECD could promote a Scoreboard on SME and entrepreneurship financing data and policies. The Working Party on SMEs & Entrepreneurship (WPSMEE) should monitor, report on, and discuss SME financing trends on a regular basis.
- OECD should also continue facilitating the *Tripartite Dialogue between governments, SMEs and the financial institutions*, to periodically review progress in strengthening SME and entrepreneurship financing.