3 Funding Spanish SMEs: crucial to growth

Why is the size of Spanish companies a problem? Spain is a country of SMEs, as is evidenced by the small average number of employees among companies or the considerable percentage of employment which SMEs account for in comparison with most of its neighbouring countries. Given that there is a positive relationship between company size and productivity, a larger weight of big companies would facilitate the Spanish economy’s recovery and the achievement of a higher per capita income.

Why do companies not grow? There is no straightforward answer to this question, but among the host of factors that influence company size is the lack of borrowing facilities on suitable terms. According to the BACH database, during the recent crisis, bank funding dropped back from 35% of SMEs’ balance sheet to a mere 29%. Added to this is the fact that the SMEs have no other sources of funding, such as from markets or intra-group loans, in the way larger companies do.

How is SME funding performing? It is improving significantly. New SME lending business (approximated by loans of up to EUR1mn) has increased by 13.7% YoY in terms of the cumulative figure from January to October this year. Moreover, according to the European Central Bank’s Survey on the Access to Finance of Enterprises (SAFE), access to funding is no longer such a major issue as it was in the past and an increasingly large percentage of SMEs obtain either the full, or nearly the full, amount on more comfortable terms as regards both the cost and guarantees. These improvements are, however, more noticeable among the medium-sized companies (with between 50 and 249 employees) than both the smaller businesses (between 10 and 49 employees) and microenterprises (with nine employees and fewer). Although the outlook for bank loans has improved substantially, there is still some way to go before we can see lending restored to sufficient levels, and in fact cumulative new lending transactions to SMEs between January and October this year only represented 45% of the level for the same period in 2008.

On the other hand, Spanish companies have not only seen the volume of bank loans received over the crisis deteriorate, but this has also become more expensive, especially in the case of the SMEs. Before the crisis, SMEs used to pay 1pp more than larger companies for their loans, but this difference had widened to 2.5pp in 2013. Since then the gap has gradually narrowed, thanks to the improvement in lending terms (due to the expansive monetary policies, a decrease in European financial fragmentation and the restructuring of the financial system) and, in the past few months, thanks to the fall in credit risk. The gap between both costs of borrowing currently stands at under 1pp again.

What is being done to improve this situation? Public and private agencies are implementing measures to boost funding for SMEs which are aimed at simplifying administrative procedure, supporting new ventures and internationalisation among SMEs, improving the quality of information on SMEs, reducing the risks for providers of funds (via guarantees, co-financing arrangements, reducing capital consumption), making progress with regard to the financial system’s efficiency and developing alternative, non-bank financing methods.

With respect to this last point, in Europe efforts are being made to promote an initiative that focuses on non-bank financing, Capital Markets Union, although this is really a long-term project. It is important to find a better balance between bank and non-bank funding, as alternative financing can complement its banking counterpart for the initial stages of a project or risky venture. To this end, encouraging a financial culture among SMEs is crucial to them being able to access such original sources of funding, as if they have an average of only 2.8 workers, it is unlikely that any of them can take the time to both learn about and take advantage of them. Whatever the case, alternative funding must be regulated and supervised in a similar
way to banking so as to foment competition and reduce risks. Given the currently small scale of alternative financing, developing it will take time, so it is important to have a sound banking sector.

These efforts to boost funding for the SMEs are particularly important at a time like now, when the Spanish economy is coming back to life again. It is now when the SMEs, the smallest in the economy’s business fabric, must show their potential as the biggest drivers of economic growth. And to do this, it is essential that they have the right tools, such as funding on good terms.

Figure 3.1
Spanish SMEs: biggest problems by company size, second wave 2014 (weighted percentage of companies that say the problem is the most significant)

Figure 3.2
Spain: size of alternative funding (funding over the past year/new loan transactions 2014)

Source: BBVA Research based on the European Central Bank

Source: Bank of Spain, MARF, MAB, IEE, Asociación Española de Crowdfunding
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