

Financing of Belgian SMEs after the global financial crisis

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Research objective

At the beginning of 2018, the banking sector was claiming that credit granting conditions became easier and that the volume of credit being granted increased. From different surveys of business-owners, however, it was clear that less credit had been granted to smaller firms, that lending conditions had been tightened and that the banks were setting stricter requirements when granting credit. A large group of SMEs still reported problems in obtaining bank financing . In this paper we will discuss the situation regarding the funding of Belgian SMEs over the period 2008-2018.

The following research questions will be discussed: Is there an increase in the demand and supply of financing in the last 10 years ? Do smaller SMEs at the end of 2018 have more financing problems than larger SMEs? Which factors can facilitate future financing of SMEs? What are the challenges for the future?

After investigating the SME financing literature, we will empirically test a number of hypotheses concerning the financing problems of SMEs using data from comparable surveys held in Belgium in the years 2008, 2010, 2014 and 2018. Based on the empirical results we will present an overview of the bottlenecks that SMEs encounter in practice. We will conclude our paper with a number of recommendations for suppliers of financing, company leaders and policy makers.

Conceptual development

Access to financing is critical to the growth of SMEs. Small and micro firms do have disadvantages over large firms in terms of access to external financing. This is due to information-asymmetry between investors and entrepreneurs which is more pronounced in financing small firms than in financing large firms. Small firms do have often difficulties to communicate credibly about their quality. Suppliers of financing try to solve problems of information-asymmetry by implementing specific loan conditions and by asking guarantees. Young and smaller firms often have to provide more guarantees, especially more personal guarantees. Within the financing constraint literature, supply side arguments build on various factors such as agency costs, information asymmetries, high uncertainty of outcomes, problems of nepotism and the provision of collateral impacting the ability to attract external financing. However, financing constraints can also be explained by demand side arguments such as the lower willingness to borrow or to attract equity. SME owners seem to be reluctant to use financing sources which dilute their perceived control over the firm like external equity.

Methodology

The results of four surveys on SME financing sent to a sample of Belgian SMEs will be discussed. After deduction of the invalid answers, our results are based on answers from 651 SMEs (2008), 992 SMEs(2010), 901 SMEs (2014) and 301 SMEs (only Flemish SMEs in 2018). The survey contains 32 questions divided into eight categories: the characteristics of the responding firms, the demand for external finance, the use of bank and non-bank financing, problems of obtaining external financing, the use of government measures. In the 2018 survey we also asked information about the factors to facilitate external financing in the future and the perceived challenges. The data obtained from the written surveys were processed statistically using SPSS. Differences between family and non-family SMEs, as well as between micro-enterprises (with less than 10 employees) and other SMEs (between 11 and 250 employees) are tested using a chi-square analysis or a Mann-Whitney test.

Results

Between 55% and 65% of the firms indicate that they have sought external financing in recent years, mainly to finance equipment and materials or to finance working capital. Almost 70% of the firms also indicated that they had to attract external financing in the near future. When asked whether they have encountered problems in attracting funding, about two out of ten entrepreneurs say that they have encountered many problems in obtaining bank financing. Less problems are reported when obtaining alternative funding (13.8%). About 20% to 27% of the firms also report that they have experienced one or more refusals when applying for a bank credit. When applying for alternative financing, a refusal percentage of 10% was calculated. The main reasons for a refusal are: insufficient repayment capacity, a lack of equity or own funds and insufficient guarantees. Using Chi-square analysis our results show that micro-firms significantly have more problems in attracting external financing in comparison with larger SMEs.

Regarding the availability of financing, we note that bank financing (short-term overdraft facilities as well as long-term loans) and leasing are perceived as more than enough available. Many types of financing are insufficiently known to the entrepreneurs. This is also established with regard to the use of different types of financing. The traditional types of financing (bank credits and leasing) are more frequently used than newer types of financing or market financing (crowd funding, obligations and equity financing). Insufficient knowledge regarding these types of financing as well as a fear of loss of control are being cited as a reason. In addition to retained earnings, bank financing and supplier financing are also indicated as types of financing that will be used in the near future.

The entrepreneurs were asked which government measures they know well or less well and whether they have already utilized certain government measures. Only the notional interest deduction is well known. The other measures are known by only one-fifth of the respondents at most. This is also reflected in the use of these measures. Only the notional interest deduction was used by a large majority of the firms. The guarantee scheme and the Tax shelter were used by approximately 10%-20% of the firms. The remaining measures achieve even lower figures. The entrepreneurs were presented with a list of guidance initiatives that are subsidized by the government. The respondents know very little about these initiatives. Only the use of the SME portfolio for seeking advice is reasonably well known (43%).

A list of nine suggestions that could facilitate the financing problems of the firms was presented to the entrepreneurs. They were asked how important they render these suggestions. The majority of the respondents (64.7%) indicate that tax incentives are important. Measures to reduce the cost and the administrative burden of financing (58.9%) and measures to improve the knowledge of the different types of financing (53.6%) are rated as important by half of the respondents. It is also noteworthy that measures to support the preparation of financial applications and measures to provide more help in choosing an appropriate type of financing are indicated as important by 4 out of 10 respondents.

The entrepreneurs were asked to assess which challenges they consider most important for the next two years. Attention is mainly focussed on bringing in new costumers and finding suitable personnel in the challenges for the future. Meeting the competition is also an important challenge. Approximately four in ten firms render the improvement of access to financing as an important challenge. Nevertheless, eight out of ten respondents think that improving access to risk capital is unimportant.

Based on survey research, we can conclude that the situation in terms of bank financing for larger SMEs clearly improved in comparison with the situation at the time of the global financial crisis in 2008, but that smaller SMEs were still finding it difficult to find appropriate and affordable finance. In particular, long-term funding was more difficult to obtain.

Contribution

Based on the results of the survey, an overview is given of some bottlenecks encountered in obtaining finance for SMEs: eg. lack of repayment capacity, lack of equity capital, fear for loss of control, too many guarantees required, lack of knowledge about new financing instruments, lack of market financing. For these bottlenecks a number of possible solutions is suggested for finding a way round or alleviating those bottlenecks. We will also present a number of recommendations for suppliers of financing, company leaders as well as policy makers.