2

SMEs in Europe: An Overview

2.1 Introduction

In his *Principles of Economics*, first published in 1890, Alfred Marshall concluded that, in an industrial society, profit is achievable not only through capitalistic enterprise, but also through alternative economic systems. Profit, in particular, becomes possible through the distribution of a multitude of firms, each of which is specialized in a given phase of the production process. The beneficial effects of a similar process would be measurable not only in economic terms, but also in terms of the enhancement of living standards, triggering a sort of virtuous cycle among workers, thus creating a community based on general scientific and technical knowledge aimed towards productivity. Hence, large and small businesses would be able to prosper by interacting within their local territory. Expanding opportunities for small and medium-sized enterprises (SMEs) has been subject to different interpretations in economic literature over time, such expansion being considered as both essential to the survival of SMEs and an obstacle to the flexibility of the firms themselves.

There have been many studies of SMEs based on the contributions of classics: for example, Rostow (1960), Chandler (1962), McGuire (1963)

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and Greiner (1972). These studies have as a common denominator a vision of the small business not as a finished entity but, rather, as a mandatory phase in a natural and ineluctable process of growth, in which a small business can grow or, alternatively, become extinct.

A different approach appeared in the 1970s. The economic crisis, with the managerial and organizational distress of many large companies that had become too imposing and marked by officialism, led to a revaluation of the small business model. It came to be considered as a more flexible form of organization and, therefore, particularly suitable to function in a more complex and turbulent social-economic environment. In 1973, *Small is Beautiful. A Study of Economics as if People Mattered* by E.F. Shumacher strongly echoed this. The book criticized the Fordistic development of capitalism as materialistic, efficiency-minded and oriented towards an idolatry of excess. The focus of the book was on the economic development of underdeveloped countries that did not need complex organizations and high capital technology as much as they needed intermediate and appropriate technology.

In addition to the theories mentioned above, which could be defined as “extreme”, since the 1980s various studies have formulated a third theory that identifies SMEs as stable and independent entities having distinct and typical characteristics, structures and managerial mechanisms (Churchill and Lewis 1983).

It appears misleading to consider SMEs as “immobile” in present-day economic and social contexts, where globalization and rapid technological development render competition more and more aggressive as the interaction between economic actors becomes increasingly articulate and turbulent.

Virtuous SMEs, capable of facing the continuous challenges of the market and conquering their own enclave, are not static entities in an ever-evolving world. On the contrary, they are organizations that identify and follow paths of growth and affirmation while maintaining their reduced size.

SMEs account for 95 % of companies, provide 60–70 % of employment opportunities and generate a large portion of new work posts in the economies of OECD countries.

Studies show that the development of SMEs is linked tightly to economic growth. For example, Beck et al. (2005) reveal the robust positive relation between the two. According to Ayyagari et al. (2007), in high-income countries SMEs contribute, on average, up to 50 % of the gross national product (GNP).

SMEs possess specific strong and weak points that require appropriate policies. With the appearance of new technologies and globalization, the importance of many activities of economies of scale has decreased, while the potential capability of small businesses has risen.

However, many of the problems that SMEs traditionally face – lack of funds, difficulty in the use of technology (optimization), limited managerial skills, scarce productivity, normative confinements – have worsened in a globalized, dynamic and technology dominated environment.

On one hand, large companies reduce and commission various activities; on the other, the relevance of SMEs to the economy is expanding. In addition, the competition linked to the rise of these businesses heavily influences the increase in productivity and the consequent economic growth.

This process implies a great mobility of work posts, which is, itself, a fundamental aspect of the competitive process and structural change. Less than half of small start-ups survive for more than five years, and only a small number is able to become part of the group of companies that are leaders in innovation.

2.2 European Commission Definition of SMEs

There are multiple definitions of SMEs. However, rarely do these definitions differentiate between micro (artisan), small and medium-sized enterprises, thus creating more than a little confusion.

The notion of SMEs has been an object of study for the European Commission since the beginning of the 1990s.

In a single market with no internal boundaries, it becomes essential that pro-SME policies have a common definition for reasons of consistency and efficiency. A single definition also limits the incidence of distortion in competition, given the evident interaction between the requirements of SMEs and the opportunity for the organizations that satisfy these requirements to access community and national benefits to promote and assist their development.

In 1996, the Commission adopted Recommendation 96/280/CE, April 3, 1996, which established the first common definition of SMEs. This definition has been extensively applied in a variety of contexts, both community and national. Nevertheless, the definition has also shown various weaknesses, leaving space for both interpretive difficulties and the elusive practices of a few, mostly large enterprise groups, regardless of the traceability to the concept of an SME comprising the elements of a single company.

Given such weaknesses, the European Commission modified the critiques and parameters of the definition of SMEs in Recommendation 2003/361/CE May 2003, which replaced its predecessor Recommendation 96/280/CE, April 3, 1996.

The new definition entered into force on January 1, 2005; it is applied to all policies, programs and measures relating to SMEs put into effect by the Commission.

The new definition is the result of in-depth discussions between the Commission, the Member States, business organizations and experts, and even two consultations carried out on the Internet.

The changes introduced reflect the economic developments that have taken place since 1996 and a growing awareness of the specific obstacles that SMEs find themselves facing.

The document is particularly important in the light of the fact that the new regulation will directly influence all future actions by the community legislator. Particularly, it will play a significant role in the tricky subject of forms of aid to states, the next structural funds program, and the rules of accounts and budgets of all European businesses.

The new definition is more appropriate for the various categories of SMEs, affording greater consideration to the different liaisons between companies. Furthermore, the definition helps to promote innovation and favors partnerships while ensuring that public programs concentrate only on companies truly in need of aid. The Recommendation essentially extends the concept of enterprise to all entities that exercise an economic activity regardless of its juridical form. Such an extension addresses some interpretative doubts relative to the nature of enterprise for those businesses that carry out an artisan activity, or individual or family-run activities.

Recommendation 2003/361/CE states that a business may qualify as small or medium-sized if it meets the criteria regarding autonomy, staffing levels and financial turnover.

Autonomy: An enterprise is defined "autonomous" if it is neither associated with nor linked to another business – that is, if it does not control (or is not controlled by) other companies.

Staffing levels:

- A micro enterprise should have fewer than 10 employees;
- A small enterprise should have fewer than 50 employees;
- A medium-sized enterprise should have fewer than 250 employees.

Financial turnover:

- A micro enterprise should have an annual turnover or a total annual balance (which corresponds to the total of the company's assets) of less than €2 million;
- A small enterprise should have an annual turnover or a total annual balance of less than €10 million;
- A medium-sized enterprise should have an annual turnover or a total annual balance less than €43 million.

In summary: in micro, small and medium-sized enterprises, the criteria regarding staffing levels and annual turnover are cumulative, in the sense that both must coexist.

The criteria governing the definition of "actual" employees are essential in determining into which category an SME fits. This criterion depends on whether personnel is full-time, part-time or seasonal, and includes the following categories:

- employees;
- the people that work for the company – i.e. employees that, according to national legislation, are considered as the other employees of the company;
- owners and management;
- partners who conduct a regular activity within the company and that benefit from the financial advantages that derive therefrom.

Not considered as part of the work force are those who benefit from an apprenticeship contract or students with internship contracts. In addition, no record is made of the duration of maternity or family leave.

With regard to the financial status of a business, the annual turnover is determined by deducting all relevant outgoings from the sum obtained during the year of reference for the sale of products and for services rendered. Turnover does not include tax on additional value (IVA [Impuesto al Valor Agregado]/VAT [Value Added Tax]) or other indirect taxes. Another relevant change concerns the new notion of independence; only an independent enterprise can qualify as an SME: no other company may control more than 25% of an SME, either directly or indirectly. This is particularly important because it is defined more precisely and because it includes partnerships in the concept of independence. It was not clear how partnerships would be viewed prior to the establishment of the new definition.

2.3 US Small Business Administration Definition of SMEs

In the United States, the definition of SMEs varies according to the sector in which a company operates. The US Small Business Administration (SBA) determines the variable thresholds, which generally include the following parameters:

- fewer than 500 employees; or
- an annual turnover of less than US$5 million.

Depending on the sector, the range for employees may vary from 50 to 1500 and the turnover could vary anywhere between US$750 thousand and US$38.5 million.

2.4 Other Definitions of SMEs

On an international level, multilateral institutions do not share a specific definition of an SME. As evidenced in Table 2.1, the maximum number of employees can vary between 50 and 300. If one analyzes profit, this varies between US$3 million and US$15 million.

2.5 The OECD Study

Based on an analysis conducted on OECD information concerning the various definitions of an SME (with exclusive reference to the parameter of the employees), 33 out of 34 participating countries (Australia excluded) yielded the following results: 24 countries use the European Community definition (i.e. all EU countries in addition to Mexico, Switzerland and Turkey). The remaining seven countries (Canada, Colombia, South Korea, Israel, New Zealand, Russia, Thailand) use their own national definitions, each of which differs from the others (see Table 2.1).

In short, the definition of SMEs proposed by the EU primarily uses the criteria of quantity (employees, turnover, assets). In the USA, on the other hand, what is essential in defining SMEs is the number of employees, with the exception of non-productive sectors.

2.6 The SMEs Business Environment in Europe

The EU-28 is represented by countries which have adhered to a unique economic and political partnership, based on 28 countries with a combined population of 507 million inhabitants in 2014 (Croatia joined the EU as of July 1, 2013) which account for most of the continent (see Table 2.2).

Table 2.1 SME definitions

Country	Micro ent.	Small ent.	Medium ent.	Large ent.
Canada	–	0–99	100–499	>500
Colombia	0–10	11–50	51–200	>500
South Korea	0–9	10–99	100–299	>500
Israel	0–4	05–20	21–100	>500
New Zealand	0–9	10–49	50–99	>500
Russia	0–15	16–100	101–250	>500
Thailand	–	0–50	50–200	>500

Source: Our elaboration on OECD data

Table 2.2 Eurostat population change

Country	2013	2014
Belgium	11,161.6	11,204.0
Bulgaria	7,284.6	7,245.7
Czech Republic	10,516.1	10,512.4
Denmark	5,602.6	5,627.2
Germany	80,523.7	80,780.0
Estonia	1,320.2	1,315.8
Ireland	4,591.1	4,604.0
Greece	11,062.5	10,992.6
Spain	46,727.9	46,507.8
France	65,578.8	65,856.6
Croatia	4,262.1	4,246.7
Italy	59,685.2	60,782.7
Cyprus	865.9	858.0
Latvia	2,023.8	2,001.5
Lithuania	2,971.9	2,943.5
Luxembourg	537.0	549.7
Hungary	9,908.8	9,879.0
Malta	421.4	425.4
Netherlands	16,779.6	16,829.3
Austria	8,451.9	8,507.8
Poland	38,533.3	38,495.7
Portugal	10,487.3	10,427.3
Romania	20,020.1	19,942.6
Slovenia	2,058.8	2,061.1
Slovakia	5,410.8	5,415.9
Finland	5,426.7	5,451.3
Sweden	9,555.9	9,644.9
United Kingdom	63,905.3	64,308.3
EU 28	505.0,675.0	507.0,416.6

Source: Our elaboration on Eurostat population change (1,000 population).

The list of member countries and their respective gross domestic product (GDP) at market prices from 2008 to 2013 is presented in Table 2.3.

In the EU, SMEs comprise the majority of businesses, and are a primary employment resource and a stimulus for development. In 2014, SMEs in the EU-28 area totaled approximately 21.3 million, with 886 million workers and with an added value of €3.5 trillion. Tables 2.4, 2.5 and 2.6) show, respectively, the number of companies, number of employees and added value present in the EU-28 zone from 2008 to 2014.

Table 2.3 GDP at market prices

Country		2013	2012	2011	2010	2009	2008
Belgium	B	395,262.1	388,254.3	379,990.6	365,747.0	349,702.7	355,065.5
Bulgaria	BG	41,047.9	40,926.7	40,103.1	36,764.3	36,078.4	36,450.2
Czech Republic	CZ	157,284.8	160,947.8	163,579.1	156,369.7	148,357.4	160,961.5
Denmark	DK	252,938.9	250,786.4	246,074.7	241,516.9	230,231.3	241,087.3
Germany	DE	2,809,480.0	2,749,900.0	2,699,100.0	2,576,220.0	2,456,660.0	2,558,020.0
Estonia	EE	18,738.8	17,636.7	16,403.8	14,709.1	14,138.2	16,511.0
Ireland	IE	174,791.3	172,754.7	171,042.3	164,931.2	168,114.0	186,870.2
Greece	EL	182,438.0	194,204.0	207,752.0	226,210.0	237,431.0	242,096.0
Spain	ES	1,049,181.0	1,055,158.0	1,075,147.0	1,080,913.0	1,079,034.0	1,116,207.0
France	FR	2,113,687.0	2,091,059.0	2,059,284.0	1,998,481.0	1,939,071.0	1,995,850.0
Croatia	HR	43,561.5	43,933.7	44,708.6	45,004.3	45,090.7	48,129.8
Italy	IT	1,618,904.0	1,628,004.0	1,638,857.0	1,605,694.0	1,573,655.0	1,632,933.0
Cyprus	CY	18,118.9	19,411.1	19,486.7	19,062.9	18,423.1	18,768.8
Latvia	LV	23,265.0	22,217.0	20,197.0	18,015.1	18,816.1	24,403.2
Lithuania	LT	34,955.6	33,314.0	31,247.3	28,001.3	26,934.8	32,696.3
Luxembourg	LU	45,288.1	43,812.0	42,410.4	39,370.8	36,093.9	37,522.5
Hungary	HU	100,536.5	98,699.4	100,350.9	97,814.8	93,317.7	107,150.1
Malta	MT	7,543.9	7,212.8	6,893.2	6,599.5	6,138.6	6,128.7
Netherlands	NL	642,851.0	640,644.0	642,929.0	631,512.0	617,650.0	635,794.0
Austria	AT	322,594.6	317,213.1	308,675.0	294,207.9	286,188.4	291,930.4
Poland	PL	395,962.4	386,143.3	377,028.1	359,816.0	314,689.4	363,691.8
Portugal	PT	171,211.0	169,668.2	176,166.6	179,929.8	175,448.2	178,872.6
Romania	RO	144,282.2	133,806.1	133,305.9	126,746.4	120,409.2	142,396.3
Slovenia	SI	36,144.0	36,006.0	36,868.4	36,219.6	36,166.2	37,951.2
Slovakia	SK	73,593.2	72,184.7	70,159.8	67,204.0	63,798.9	65,679.0
Finland	FI	201,341.0	199,069.0	196,869.0	187,100.0	181,029.0	193,317.1
Sweden	SE	436,342.4	423,340.7	404,945.5	369,076.6	309,678.7	352,317.1
United King.	UK	2,017,193.8	2,041,491.2	1,863,940.9	1,816,615.0	1,663,573.3	1,907,212.3
EU 28		13,529,099.6	13,437,764.0	13,173,516.9	12,789,850.6	12,245,901.0	12,986,406.7

Source: Our elaboration on Eurostat gross domestic product at market prices (€million).

Table 2.4 EU-28 number of enterprises

Number of enterprises						
	Micro (%)	Small (%)	Medium (%)	SMEs (%)	Large (%)	Total
2014	19,676,714 92.1 %	1,403,820 6.6 %	233,051 1.1 %	21,313,585 99.8 %	45,457 0.2 %	21,359,042
2013	19,025,518 92.1 %	1,362,643 6.6 %	225,952 1.1 %	20,614,113 99.8 %	44,021 0.2 %	20,685,134
2012	18,783,480 92.1 %	1,349,730 6.6 %	222,628 1.1 %	20,355,838 99.8 %	43,454 0.2 %	20,399,292
2011	19,138,446 92.2 %	1,359,983 6.5 %	222,022 1.1 %	20,720,451 99.8 %	43,159 0.2 %	20,763,610
2010	19,364,827 92.4 %	1,328,203 6.3 %	219,086 1.0 %	20,912,116 99.8 %	42,014 0.2 %	20,954,131
2009	18,407,598 92.0 %	1,335,615 6.7 %	223,021 1.1 %	19,966,234 99.8 %	42,440 0.2 %	20,008,674
2008	18,655,757 91.9 %	1,374,163 6.8 %	225,884 1.1 %	20,255,804 99.8 %	44,242 0.2 %	20,300,046

Source: Our elaboration on Eurostat, National Statistical Offices, DIW econ, London Economics.

At first glance, it is possible to deduce from Tables 2.4, 2.5 and 2.6 that the most numerous type of SME is the micro enterprise, which makes up 90 % of the total of companies. In addition, micro enterprises account for approximately 28 % of personnel employed in all enterprises and generate 21 % of added value produced by all companies.

The added value generated by SMEs in the EU-28 has returned to its level prior to the financial crisis that began in 2008 and, in the period 2013–2014, grew by 2.8 %. Similarly, the number of people in employment registered an increase of 0.16 %, while the number of SMEs diminished by 0.23 %. However, changing the trend of the previous period (2012–2013), the number of businesses dropped by 0.90 %. Table 2.7 summarizes these data.

2.7 A Comparison between the EU-28, Japan and the USA

Having presented the EU-28 data, we are able to conduct a brief analysis in order to compare European SMEs to those of Japan and the United States. The comparison is also significant in light of the fact that the

Table 2.5 EU-28 number of employees

Number of persons employed						
	Micro (%)	Small (%)	Medium (%)	SMEs (%)	Large (%)	Total
2014	38,369,835	27,134,078	23,125,668	88,629,583	44,394,691	133,024,3273
	28.8 %	20.4 %	17.4 %	66.6 %	33.4 %	
2013	37,618,702	26,712,322	22,761,274	87,092,299	43,634,097	130,726,395
	28.8 %	20.4 %	17.4 %	66.6 %	33.4 %	
2012	37,494,458	26,704,352	22,615,906	86,814,717	43,787,013	130,601,730
	28.7 %	20.4 %	17.3 %	66.5 %	33.5 %	
2011	37,881,704	26,906,990	22,638,152	87,426,846	43,597,457	131,024,303
	28.9 %	20.5 %	17.3 %	66.7 %	33.3 %	
2010	38,292,646	26,778,437	22,457,527	87,528,611	42,865,548	130,394,158
	29.4 %	20.5 %	17.2 %	67.1 %	32.9 %	
2009	38,243,087	26,879,684	22,523,479	87,646,250	42,641,337	130,287,587
	29.4 %	20.6 %	17.3 %	67.3 %	32.7 %	
2008	38,251,850	27,017,378	23,054,380	88,323,609	44,316,564	132,640,173
	28.8 %	20.4 %	17.4 %	66.6 %	33.4 %	

Source: Our elaboration on Eurostat, National Statistical Offices, DIW econ, London Economics.

Table 2.6 EU-28 gross value added

Gross value added (€million)						
	Micro (%)	Small (%)	Medium (%)	SMEs (%)	Large (%)	Total
2014	1,304,396	1,116,462	1,115,659	3,536,517	2,578,162	6,114,679
	21.3 %	18.3 %	18.2 %	57.8 %	42.2 %	
2013	1,259,454	1,084,150	1,086,381	3,429,985	2,502,964	5,932,949
	21.2 %	18.3 %	18.3 %	57.8 %	42.2 %	
2012	1,242,724	1,076,388	1,076,270	3,395,383	2,495,926	5,891,309
	21.1 %	18.3 %	18.3 %	57.6 %	42.4 %	
2011	1,256,654	1,089,632	1,093,321	3,439,607	2,504,494	5,944,101
	21.1 %	18.3 %	18.4 %	57.9 %	42.1 %	
2010	1,240,700	1,061,324	1,072,394	3,374,418	2,509,176	5,883,594
	21.1 %	18.0 %	18.2 %	57.4 %	42.6 %	
2009	1,180,545	1,036,295	1,017,258	3,234,099	2,287,314	5,521,412
	21.4 %	18.8 %	18.4 %	58.6 %	41.4 %	
2008	1,321,166	1,131,028	1,113,063	3,565,257	2,550,714	6,115,971
	21.1 %	18.5 %	18.2 %	58.3 %	41.7 %	

Source: Our elaboration on Eurostat, National Statistical Offices, DIW econ, London Economics.

Table 2.7 Annual growth in SME performance indicators 2012–2014

Size class	Indicator	% change 2012–2013	% change 2013–2014
Micro	Enterprises	–0.93	–0.28
	Value added	1.57	2.46
	Employment	–0.98	–0.25
Small	Enterprises	–0.42	0.33
	Value added	0.99	2.87
	Employment	–0.21	0.34
Medium	Enterprises	–0.50	0.45
	Value added	0.72	3.14
	Employment	–0.07	0.62
Large	Enterprises	–0.40	–0.49
	Value added	–0.03	2.39
	Employment	0.05	–0.08
SMEs	Enterprises	–0.90	–0.23
	Value added	1.12	2.80
	Employment	–0.51	0.16
Total	Enterprises	–0.90	–0.23
	Value added	0.63	2.63
	Employment	–0.33	0.08

Source: Our elaboration on Eurostat, National Statistical Offices, DIW econ, London Economics.

economies of these countries are quite similar. In short, there are 20.6 million non-financial SMEs in the EU-28 with approximately 87 million employees, 18.2 million with 487 million employees in the USA and around 3.9 million with 33.5 million employees in Japan.

If the number of companies were to be determined by the GDP, it is possible to see that the EU-28 and USA are much closer than one would think in terms of the number of businesses (1.65 and 1.63 per million of GDP, respectively). Japan on the other hand, has only 0.85 of businesses per million of GDP. If, however, the number of employees is considered over GDP, the result differs; Japan has the highest number of employees per million of GDP (7.24) compared with, respectively, 6.80 and 4.36 employees per million of GDP of the EU-28 and USA.

2.8 A Brief Analysis of Sector Trends in the Period 2008–2013

According to the Eurostat classification, the major sectors are:

- Manufacturing;
- Construction;
- Retail and wholesale;
- Accommodation/food;
- Business services;
- Others.

The EU-28 SME construction sector, which represents 11 % of added value for SMEs and 12 % of the workforce within the businesses, experienced a strong decline in 2008–2013. In 2013, added value was 21.7 % lower than it had been in 2008, employment had dropped by 18 % and the number of businesses dropped by 10.1 %.

The manufacturing sector is performing below its levels in 2008, with a drop in added value of 2.9 % in 2013 compared with 2008. Employment had decreased by 9.9 % and the number of businesses had dropped by 5.3 %. Today, the manufacturing sector provides employment for more than 17 million people and generates 21 % of added value to SMEs in Europe.

The added value of the SMEs in the retail and wholesale sector rose by 3.1 %, while employment and the number of businesses remained the same in 2008–2013. This sector alone accounts for 26 % of the SME workforce and represents 22 % of added value produced by SMEs in the EU.

Conversely, the SME business services sector grew significantly between 2008 and 2013, with a rise in added value of 7 %, a 5.4 % increase in employment and 10.2 % growth in the number of businesses during that period.

Business services produce approximately 13 % of added value for SMEs and employ approximately 9 million people (11 %).

Last, but definitely not least, the accommodation/food sector shows the strongest growth (10.4 % added value and 6.0 % employment) among the five specific sectors illustrated in the present work, as can be seen in Figs. 2.1, 2.2 and 2.3.

2.9 The Major Problems Confronting European SMEs

After presenting the framework of the quantitative nature of SMEs, we should mention the European Commission study, *Survey on the Access to Finance of Small and Medium-sized Enterprises (SAFE)*, 2013. The study

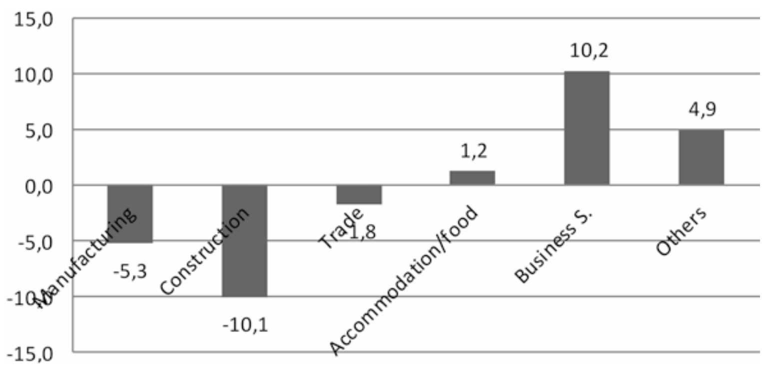

Fig. 2.1 Number of enterprises 2008–2013 percentage change (*Source*: Our elaboration on Eurostat data.)

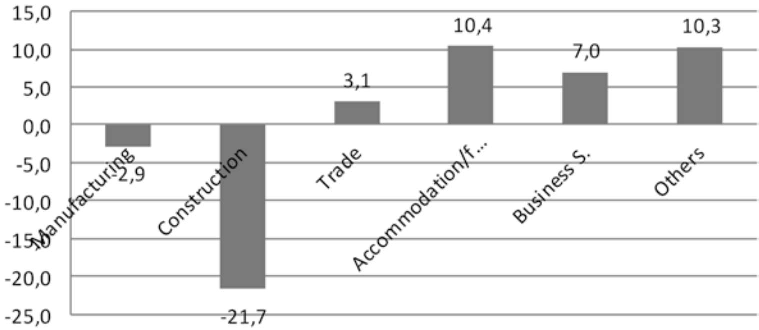

Fig. 2.2 Value added 2008–2013 percentage change (*Source*: Our elaboration on Eurostat data.)

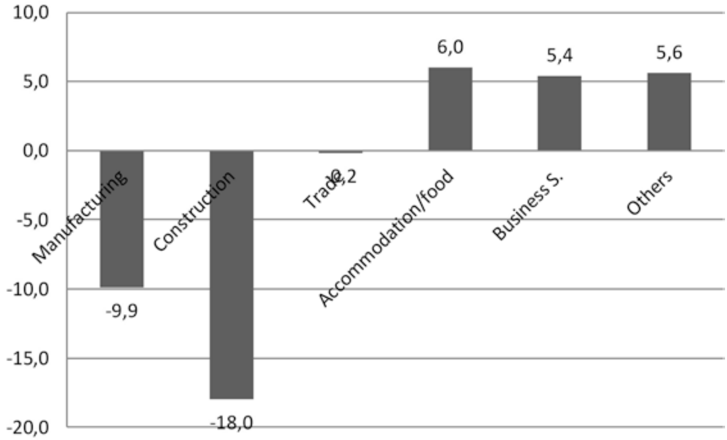

Fig. 2.3 Employment 2008–2013 percentage change (*Source*: Our elaboration on Eurostat data.)

was conducted on 37 European countries including the 28 Member States (EU) and 17 Eurozone countries and had previously been undertaken in 2009 and 2011. Table 2.8 presents a summary of the most persistent problems that European SMEs find themselves facing.

The main issue tackled by European SMEs appears to be the "search for clients", followed by the issue of access to funding. The latter appears stable over time, while the problem of market shares is subject to a slight

Table 2.8 Persistent problems reported by SMEs

Rank	SME problems	2013 (%)	2011 (%)	2009 (%)
1	Finding customers	22	24	19
2	Access to finance	15	15	10
3	Availability of skilled staff or experienced managers	14	14	5
4	Regulation	14	8	4
5	Competition	14	15	8
6	Cost of production of labor	13	12	5
7	Other	7	10	10
8	No Answer	0	1	3

Source: Our elaboration on the access to finance of small and medium-sized enterprises (SAFE) data.

2 % decrease compared with 2011. The difficulties in terms of the apparent similar percentage are the necessity of having skilled managers, aspects tied to standards (this last element has increased considerably since 2011) and competition. Last, but equally important, is the issue of labor costs. The focus will now have to be on how to access the various sources of funding. We shall not discuss these issues here, as they are not strictly pertinent to the purpose of our study.

In terms of impact, regardless of the fact that governments have increased support measures favoring SMEs throughout the financial crisis, SMEs in most countries apparently have not yet witnessed improvement (at least considering the results of the research).

Although various public aid measures are in place to facilitate SME access to funding, ensuring this access for SMEs is still difficult.

With regard to access to various sources of funding, Table 2.9 illustrates the variations in the general SME Access to Finance (SMAF) Index[1] for Member States in the period 2007–2013. In total, 24 countries showed an improvement in their access to financial circles throughout the entire period analyzed. In particular, Latvia, Lithuania, Estonia, France and Ireland experienced significant difficulty regarding funding. The Member States which registered deterioration in their SMAF Index

[1] The SMAF Index provides an indication of the changes in circumstances experienced by SMEs regarding access to funds over time in the EU and its Member States. The Index is calculated using the year 2007 = 100 as the base, allowing the comparison between different states over time. The 2007 reference base deliberately sets a boundary prior to the financial crisis.

Table 2.9 SMAF index (EU = 100, 2007) per country

	2007	2008	2009	2010	2011	2012	2013
Austria	112.0	110.0	116.8	121.4	122.8	122.0	123.0
Belgium	106.0	103.4	106.4	105.5	106.3	109.0	111.0
Bulgaria	91.0	90.2	90.6	91.2	90.8	95.0	98.0
Cyprus	106.0	105.8	105.5	105.9	94.9	95.0	82.0
Czech Republic	99.0	98.4	101.6	105.3	107.1	108.0	109.0
Germany	110.0	110.4	113.5	114.9	114.8	123.0	119.0
Denmark	105.0	103.4	104.5	105.9	106.4	107.0	110.0
Estonia	94.0	94.5	97.3	94.6	99.1	103.0	112.0
Greece	93.0	93.9	98.3	93.6	81.8	79.0	78.0
Spain	86.0	83.8	80.8	89.9	100.3	96.0	101.0
Finland	107.0	108.6	114.8	124.4	122.3	120.0	122.0
France	110.0	110.1	117.1	124.0	120.7	121.0	126.0
Croatia	98.0	96.5	99.5	106.9	112.2	115.0	112.0
Hungary	81.0	78.2	74.6	86.4	91.4	95.0	95.0
Ireland	96.0	95.5	103.1	104.3	106.0	107.0	111.0
Italy	102.0	101.4	107.5	111.0	105.8	96.0	107.0
Lithuania	92.0	90.4	92.4	100.2	103.9	110.0	116.0
Luxembourg	106.0	107.5	111.1	105.7	105.1	107.0	121.0
Latvia	83.0	84.0	77.3	97.2	110.3	111.0	109.0
Malta	105.0	103.2	106.0	108.1	109.5	110.0	106.0
Netherlands	103.0	101.6	108.6	112.7	114.1	117.0	117.0
Poland	100.0	96.6	98.6	101.4	103.2	103.0	108.0
Portugal	95.0	95.1	97.4	99.2	92.2	87.0	97.0
Romania	90.0	87.0	84.5	92.0	92.9	95.0	85.0
Sweden	117.0	117.9	119.8	119.5	112.0	113.0	114.0
Slovenia	103.0	101.5	104.4	107.9	109.9	112.0	114.0
Slovak Republic	107.0	106.7	111.7	110.1	105.5	107.0	112.0
United Kingdom	102.0	104.7	112.4	110.9	107.3	106.0	112.0
European Union	100.0	99.3	102.0	105.4	105.3	106.0	108.0
Eurozone	103.0	102.0	105.9	107.8	106.5	107.0	109.0

Source: Our elaboration of EU Commission-SMEs access to finance index data

score compared with their original position in 2007 were Cyprus, Greece and Romania. The only countries to have a constant index value superior to 110 were Sweden, Germany, France and Austria. It is important to point out that although Sweden registered a deterioration, it remained one of the strongest states in terms of access to funds, with scores superior to the EU-28 average throughout the entire 2007–2008 period.

The SMAF debt finance sub-index is composed of indicators based on the use of diverse sources of debt funding, the perception of SMEs on sources of funding through loans, and true interest rate data on debt. Analysis of the SMAF sub-index reveals that the value of the index applied to the EU-28 Member States has increased by nine points since 2007. The result slightly improves for countries in the Eurozone. Luxemburg, France and Austria represent the countries with the highest sub-index values, while Greece, Cyprus and Romania find a less favorable framework for debt financing. (See Table 2.10.)

If, on the other hand, we consider the "funding as a form of personal assets" sub-index (taking as a reference the volume of investments and the

Table 2.10 SMAF debt finance sub-index (EU = 100, 2007) per country

	2007	2008	2009	2010	2011	2012	2013
Austria	115	114	121	127	126	127	125
Belgium	104	102	105	107	107	109	114
Bulgaria	93	90	90	91	91	94	97
Cyprus	107	106	106	106	93	93	79
Czech Republic	101	100	102	109	113	114	113
Germany	111	111	116	118	117	127	125
Denmark	102	100	103	105	104	101	107
Estonia	94	94	97	96	101	102	108
Greece	95	95	99	95	81	79	77
Spain	85	81	79	91	103	98	104
Finland	102	102	111	123	121	118	121
France	110	109	116	125	122	123	128
Croatia	97	95	99	108	113	115	112
Hungary	79	76	73	87	91	94	93
Ireland	94	93	100	101	102	102	107
Italy	106	104	110	115	109	98	109
Lithuania	92	90	92	102	105	109	116
Luxembourg	107	106	114	110	110	111	128
Latvia	82	83	74	96	111	112	111
Malta	105	102	106	108	109	110	106
Netherlands	100	99	105	112	114	117	115
Poland	102	98	101	106	108	107	111
Portugal	93	91	97	98	92	84	94
Romania	90	87	84	93	93	96	84
Sweden	112	111	119	118	109	110	113
Slovenia	103	101	103	107	110	112	114
Slovak Republic	109	109	115	114	109	110	113
United Kingdom	97	98	108	108	104	104	113
European Union	100	98	102	106	106	106	109
Eurozone	102	101	106	109	107	107	110

Source: Our elaboration EU Commission-SMEs access to finance index data.

number of offers/beneficiaries), Ireland, Estonia, Denmark, Holland and Finland perform best, while Luxembourg, Greece and Spain, according to this sub-index, have fewer opportunities to access sources of funding based on equity. The EU-28 sub-index value is 103, thus indicating a slight improvement since 2007. Sixteen countries have improved their performance, according to the sub-index of personal asset based financing in the period 2007–2013. (See Table 2.11.)

Table 2.11 SMAF-equity finance sub-index (EU = 100, 2007)

	2007	2008	2009	2010	2011	2012	2013
Austria	88	85	91	87	99	95	105
Belgium	113	108	113	93	99	102	92
Bulgaria	77	88	90	88	87	98	104
Cyprus	99	101	101	99	102	103	98
Czech Republic	86	88	94	83	73	71	82
Germany	99	105	96	95	100	97	86
Denmark	120	121	111	108	117	134	125
Estonia	92	93	94	85	83	106	130
Greece	79	85	89	82	81	80	78
Spain	88	94	88	83	80	79	81
Finland	133	141	132	127	125	126	123
France	110	112	121	114	113	111	114
Croatia	100	101	101	99	102	110	107
Hungary	88	88	78	81	92	102	98
Ireland	102	108	116	118	124	131	130
Italy	81	83	88	88	84	86	94
Lithuania	90	90	91	90	92	115	115
Luxembourg	98	110	89	79	75	81	77
Latvia	89	89	90	101	102	100	97
Malta	103	105	105	104	108	106	102
Netherlands	120	114	125	112	109	111	123
Poland	83	85	80	74	74	73	88
Portugal	107	117	99	101	89	97	110
Romania	85	86	84	83	87	87	84
Sweden	138	151	119	123	123	127	117
Slovenia	100	100	109	110	108	107	110
Slovak Republic	89	89	90	85	85	83	103
United Kingdom	129	137	131	124	121	118	102
European Union	100	103	100	97	98	101	103
Eurozone	100	103	103	98	98	100	104

Source: Our elaboration EU Commission-SMEs access to finance index data

In the 2013 European Commission study *Survey on the Access to Finance of Small and Medium-sized Enterprises (SAFE)*, the Analytical Report shows the results of the research on the extent of the utilization of the various forms of financing available for companies. According to the study, internal funds were a principle source of funding for 26 % of EU SMEs in 2013. Additional sources of funding continued to be widely used by SMEs: in particular, current bank accounts (39 %), leasing/renting, purchasing/factoring (35 %), commercial credit (32 %), and bank loans (32 %). Approximately 1 in 7 (15 %) SMEs resorted to other loans from linked companies and/or stockholders, 13 % used subsidized bank loans, 5 % used their own assets and a few (2 %) resorted to subordinated loans. (See Table 2.12.)

In relation to the issue of access to funds, the relationship between the indebtedness of micro, small and medium-sized enterprises of European SMEs must be underlined. The relationship indicates a company's asset structure, in addition to providing a good idea of the financial lever employed. A low percentage implies that a company is less dependent on

Table 2.12 SME forms of funding

Internal and external financing SMEs	Used (%)	Did not use but have experience with instrument (%)	Instrument is not applicable to firm (%)	Na (%)
Bank overdraft, credit line or credit card overdraft	39	21	39	1
Leasing or hire-purchase or factoring	35	26	40	0
Trade credit	32	13	55	1
Bank loan	32	37	31	0
Retained earnings or sale of assets (internal funds)	26	19	54	1
Other loan	15	17	67	1
Grants or subsidized bank loan	13	27	59	1
Equity	5	12	82	1
Debt securities issued	2	5	92	1
Subordinated loans, participation loans or similar financing instruments	2	5	92	1

Source: Our elaboration of *Survey on the Access to Finance of Small and Medium-sized Enterprises (SAFE)*, Analytical Report 2013 data.

loaned money. In general, the higher the percentage of borrowed funding, the higher the risk to which a company is exposed. When, therefore, the relationship is high, a business has a higher debt than its assets. This infers that the company will be subject to higher obligations with regard to the reimbursement of capital and interest, which may become a significant cash outflow.

It ought not to be forgotten that a high leverage level may have a considerable impact on taxation: the higher the level, the higher the interest costs; this impacts the income statement, thus bringing about a decrease in income taxation. A contained level of indebtedness may also reveal that a company has the opportunity to make responsible use of the financial lever as an instrument of business growth, rather than taking advantage of the situation.

Data are reported in Table 2.13.

Table 2.13 SME leverage

SMEs debt ratio			
Country	Medium (%)	Small (%)	Micro (%)
Italy	70.30	76.50	76.80
France	64.90	61.30	61.10
Austria	64.20	61.30	57.00
Croatia	63.00	67.00	68.00
Greece	62.30	57.90	55.70
Slovenia	61.90	63.30	60.60
Sweden	61.80	59.70	59.80
Belgium	61.50	63.10	48.30
Germany	61.50	63.20	62.60
Netherlands	61.10	62.70	54.10
Finland	60.00	60.00	54.30
Spain	58.70	59.40	62.60
Romania	58.30	62.20	61.40
United Kingdom	57.70	55.80	49.60
Luxembourg	57.40	55.60	59.20
Bulgaria	52.80	53.50	48.30
Lithuania	51.10	52.80	55.10
Poland	51.10	50.90	49.50
Ireland	50.90	47.50	49.60
Estonia	48.20	48.00	43.00

Source: Our elaboration of SME taxation in Europe, 2015, EU Commission data.

Table 2.13 is organized on a descending scale of the highest level of indebtedness in relation to medium-sized businesses (column 2);it transpires that this is Italy, with 70.3 %. This “achievement” is also relates to Italian small and micro businesses. At the opposite end of the scale, Estonia has the lowest level of indebtedness, approximately 48.2 % in relation to the country’s medium-sized businesses. It can be deduced that, on average, companies operating in these countries finance an average of 50 % or more of their activity through equity.

2.10 SMEs in EU: A Comparison Analysis of France, Germany, Italy, the Netherlands, Spain, Sweden and the United Kingdom

The focus of this section is the manufacturing sector, which accounts for over 99 % of SMEs. Under analysis are the countries that make up 70 % of EU-28 GDP:

- France;
- Germany;
- Italy;
- The Netherlands;
- Spain;
- Sweden;
- United Kingdom.

Although the countries selected belong to the EU, there is a strong heterogeneity in their economic, social and institutional contexts:

- France – a country with a large centralized state;
- Germany – a country leader in industry;
- Italy and Spain – two Mediterranean countries,;
- Sweden – a country whose economic policies engender a specific industrial setting;

Table 2.14 GDP trends

Country	2008	2009	2010	2011	2012	2013	2014
France	0.20	–2.90	2.00	2.10	0.20	0.70	0.20
Germany	1.10	–5.60	4.10	3.70	0.40	0.30	1.60
Italy	–1.00	–5.50	1.70	0.60	–2.80	–1.70	–0.40
Netherlands	1.70	–3.80	1.40	1.70	–1.10	–0.50	1.00
Spain	1.10	–3.60	0.00	–0.60	–2.10	–1.20	1.40
Sweden	–0.60	–5.20	6.00	2.70	–0.30	1.30	2.30
United Kingdom	–0.30	–4.30	1.90	1.60	0.70	1.70	3.00

Source: Our elaboration on OECD data.

- United Kingdom – an important, yet anomalous, organization; and
- The Netherlands – a country that may be small in size but that has a very high degree of openness towards internationalization.

This chapter presents a rather harsh consideration of the period 2008–2014 for Europe; first, it suffered the effects of the collapse of Lehman Brothers and, subsequently, the crisis of the sovereign debt. Table 2.14 presents the actual GDP trends of selected states during that period.

Table 2.15 details the number of companies operating in the manufacturing sector and Table 2.16 reflects the percentage of SMEs in relation to the total number of manufacturing companies. SMEs represent a very high proportion of the manufacturing sector – over 99 %.

It is interesting to observe that Italy has the highest number of small and medium-sized businesses. In 2008–2011, this figure was almost double the number of SMEs in Germany, Spain, France and the United Kingdom.

In respect of the number of businesses, Spain has suffered the highest loss in terms of percentage in the period 2008–2014 period (–19.10 %), followed by Italy (–14.30 %) and the United Kingdom (–7.12 %). Conversely, as shown in Fig. 2.4, several countries presented a positive result over the same period: France (+8.02 %), Sweden (+10.06 %), Germany (+12.76 %), and the Netherlands (+19.10 %).

Growth is tied to the development of commercial and financial globalization, which, in addition to rapid technological developments, has significantly broadened opportunities for SMEs. The fragmentation of

Table 2.15 Number of SMEs in manufacturing sector

Country	2008	2009	2010	2011	2012	2013	2014
France	210,074	205,449	210,665	248,743	217,949	220,911	226,925
Germany	191,269	175,878	205,417	203,620	203,620	208,070	215,676
Italy	458,332	437,765	425,471	419,391	383,481	384,086	392,794
Netherlands	43,034	45,187	50,361	47,922	47,519	47,821	49,047
Spain	206,556	191,106	187,921	182,252	163,643	163,885	167,107
Sweden	53,964	53,610	54,157	54,280	53,208	56,627	59,392
United Kingdom	130,162	126,936	122,664	121,206	120,419	117,052	120,896
EU-28	2,107,790	2,025,811	2,108,095	2,124,188	2,055,866	2,071,162	2,134,390

Source: Our elaboration on Eurostat, National Statistical Offices, DIW econ, London Economics.

Table 2.16 SMEs in manufacturing sector (%)

Country	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)
France	99.3	99.2	99.3	99.3	99.3	99.3	99.3
Germany	97.9	97.8	98.1	98.0	98.0	98.0	98.0
Italy	99.7	99.7	99.7	99.7	99.7	99.7	99.7
Netherlands	99.1	99.2	99.3	99.2	99.2	99.2	99.2
Spain	99.5	99.5	99.6	99.6	99.5	99.5	99.5
Sweden	99.3	99.3	99.4	99.4	99.3	99.3	99.3
United Kingdom	98.7	98.8	98.9	98.9	98.8	98.7	98.7
EU-28	99.2	99.2	99.3	99.2	99.2	99.2	99.2

Source: Our elaboration on Eurostat, National Statistical Offices, DIW econ, London Economics.

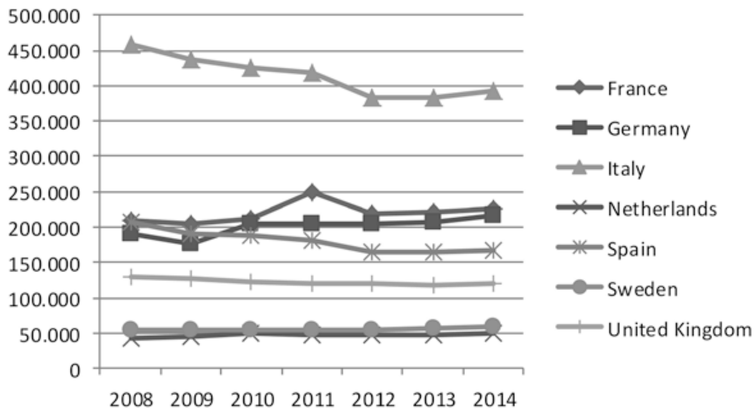

Fig. 2.4 Number of SMEs per country (*Source*: Our elaboration on Eurostat, National Statistical Offices, DIW econ, London Economics.)

the increasingly decentralized and outsourced productive processes of large companies facilitates the emergence and development of small organizations in new and often distant markets, where they carry out complex and sophisticated activities. In this scenario, SMEs seem to have an organizational structure particularly appropriate in a globalized framework because they are able to unite specialized productivity, good technical competence and maximum organizational flexibility. A thorough understanding of these processes requires an in-depth analysis of the make-up of the SME sector. This sector not only has a strong presence of micro enterprises, but also characterized by the heterogeneity of the individual countries. Table 2.17 presents the percentage of workers employed according to classification by size of business (2014 data) in the manufacturing sector.

Italy has the highest percentage of workers employed in micro enterprises (46.0 %) while, conversely, the country has the lowest percentage of workers employed in large enterprises (20.2 %) (see Fig. 2.5). The UK is in the reverse position, where the lowest proportion of workers are employed in micro enterprises (18.3 %), while large companies employ almost 48 % of the countries work. Figure 2.5 presents these data.

Table 2.17 Distribution by employee and size

2014				
Country	0–9 (%)	10–49 (%)	50–249 (%)	250+ (%)
France	29.4	19.2	15.2	36.2
Germany	18.6	23.2	20.6	37.7
Italy	46.0	21.5	12.4	20.2
Netherlands	28.7	20.0	0.2	33.1
Spain	39.5	21.0	13.8	25.6
Sweden	26.2	–	21.2	35.0
United Kingdom	18.3	18.0	16.0	47.7
EU-27	28.8	20.4	17.4	33.4

Source: Eurostat, National Statistical Offices, DIW econ, London Economics.

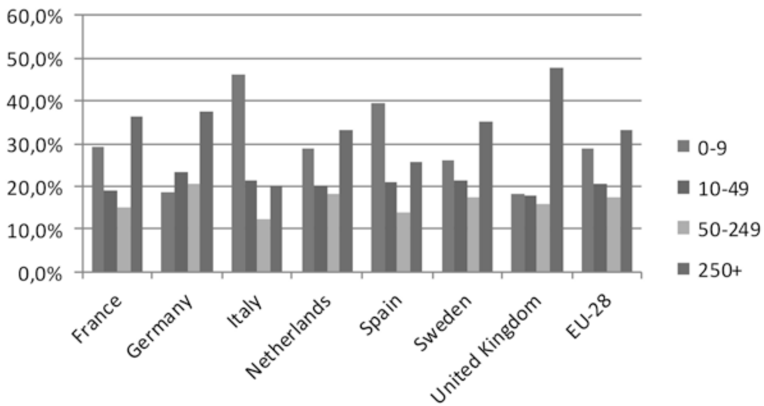

Fig. 2.5 Percentage of workers in micro enterprises (*Source*: Eurostat, National Statistical Offices, DIW econ, London Economics.)

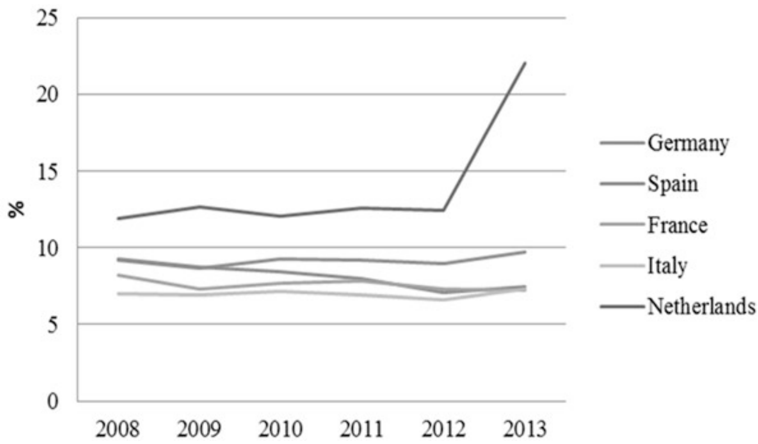

Fig. 2.6 EBITDA/net turnover (*Source*: Our elaboration of BACH data.)

The performance of SMEs in the countries under study here, taking as a reference point the EBITDA/Net Turnover index (which represents the amount of revenue generated per € of turnover, is presented in Fig. 2.6, which reflects the trends of the Index from 2008 to 2013.

Figure 2.6 presents data, by country, in relation to the revenue per € of turnover achieved by SMEs. If 2013, the last year for which data is available, is taken as a reference point, the highest average earnings were achieved in the Netherlands (22.06 %) and Germany (9.74 %). SMEs in Italy, France and Spain all converged on a value of approximately 7 % in 2013.

As to the profitability of SMEs, analyzing the trends in return on equity (ROE) for 2008–2013, it is possible to make a distinction between two groups of countries. The first group is composed of France, Germany and the Netherlands, the second comprises Italy and Spain.

Figure 2.7 shows how the difference between these two groups was evident throughout 2013. The difference between these two groups of countries averages around 8 %.

SMEs are also specific in their funding structure. For external financing, SMEs resort to banks more often than large companies do; however, the risk of their not obtaining funds is greater. As previously pointed out, the SMEs in the countries under study show an evident disequilibrium between internal funds (equity) and external funding (see Fig. 2.8).

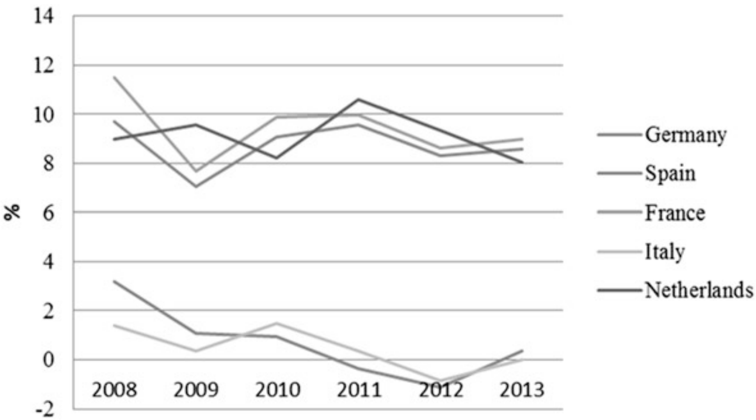

Fig. 2.7 Return on equity (ROE) (*Source*: Our elaboration of BACH data.)

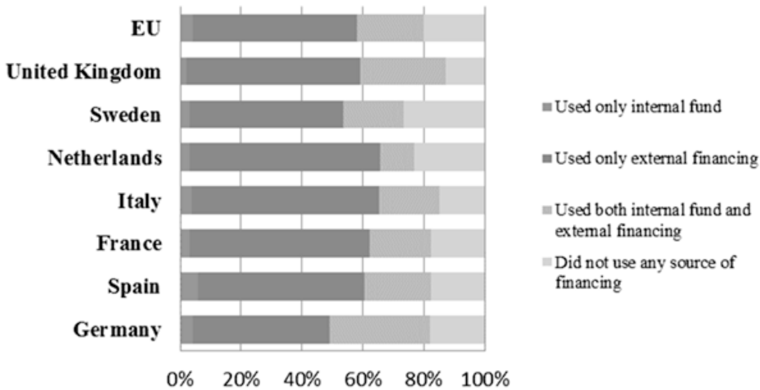

Fig. 2.8 Financing structure of SMEs (*Source*: Our elaboration of *Survey on the Access to Finance of Small and Medium-sized Enterprises (SAFE)*, Analytical Report 2013.)

Let us now examine a few indicators in relation to funding structure. The first indicator is the Asset/Equity ratio, which is an indicator of the financial leverage of a company. The indicator in question has been determined for SMEs in France, Germany, Italy, Netherlands and Spain.

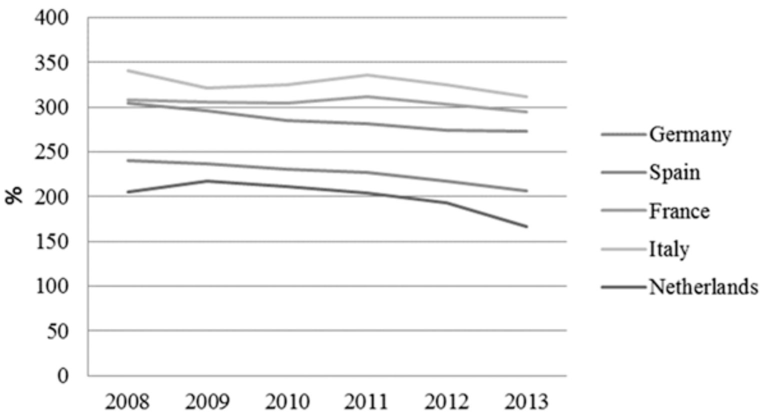

Fig. 2.9 Assets to equity ratio (*Source*: Our elaboration of BACH data.)

As demonstrated in Fig. 2.9, for all countries under study in 2008–2013, the index trend registered a slight decrease. Italy and France were the countries where SMEs had higher leverage. The most virtuous SMEs were those found in the Netherlands. Another important indicator is the ratio between EBITDA[2] (earnings before interest, taxes, depreciation and amortization) and financial charges. Similar indices express the ability of the business to provide adequate cover for the financial costs tied to administrative and financial policies. Given that the EBITDA is calculated net of operative funding provisions and gross of depreciation, it is representative of the flow of circulating capital deriving from operational management (see Fig. 2.10).

The index registers a general increase with the exception of Dutch SMEs, which reached, on average, a maximum value compared with SMEs in other countries. The Netherlands achieved a figure equal to 691 % in 2011, which then decreased to 643 % in 2013. During the same period, following a static trend, French SMEs reached, on average, the highest value equal to 661 % (compared with SMEs in the other countries). Italian and Spanish SMEs show a performance gap compared with the SMEs of other countries, although more contained than the other indicators previously analyzed.

[2] EBITDA or Gross Operating Margin.

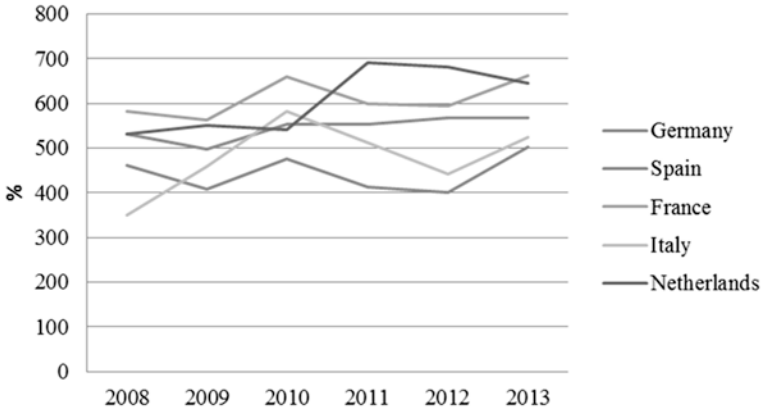

Fig. 2.10 EBITDA/interest of financial debt (*Source*: Our elaboration of BACH data.)

In interpreting the data on the shares of loans relative to SMEs, it is important to emphasize that large companies are usually less dependent on bank financing than are SMEs and that they benefit from the ability to obtain financing directly through the market. SMEs usually have far fewer funding sources available and thus are more vulnerable to the changing conditions of the credit market.

Therefore, in theory, a rise in the quota of loans to SMEs may be attributed to their more favorable access to bank credit compared with large companies. This however, may also be a result of large companies making greater use of non-banking financial instruments.

An increase in the number of loans granted to SMEs may be a reflection of financial and strategic trends and opportunities put into action by large companies, rather than easier access to funding for SMEs. This seems to be the case for Italy, Spain and the United Kingdom. Spain is the country with the highest amount of funding distributed to SMEs: a value that increased from 40 % to 34 % between 2007 and 2013. In the United Kingdom, the increase in the amount of loans given to SMEs over the period does not necessarily indicate an easier access to debt, as the overall volume on loans decreased (OECD, Financing SMEs and Entrepreneurs 2015)[3] (see Fig. 2.11). By contrast, Dutch

[3] Data for Germany are not presented in the OECD study.

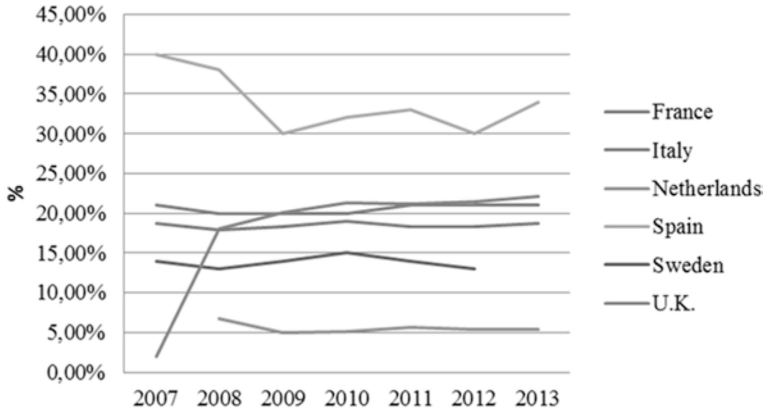

Fig. 2.11 Business loans, SMEs as a percentage of total business loans (*Source*: Our elaboration of OECD, financing SMEs and entrepreneurs 2015 data. *Data for the Netherlands available only for 2008; **Data for Sweden are not available for 2013.)

SMEs showed the lowest values, decreasing from 7 % to 5 % in the period 2008–2013.

From the point of view of risk management undertaken by commercial banks, it is understandable that banks adopt a more selective approach in credit supply during a period of recession in order to preserve the quality of assets on their financial statements. In general, though, the restrictive credit measures are a difficulty SMEs must face, as banking institutions consider SMEs to be a higher insolvency risk, as opposed to large companies. The banking institutions are also wary of SMEs due to their being unable to transition easily from bank credit to other forms of external funding.

Figure 2.12 below illustrates the trend of the cost of money maintained by SMEs in the 2007–2013 period.

For the majority of countries during the period 2007–2010, SMEs found themselves having to face harsher, more restrictive credit conditions compared with large companies. These difficulties, as demonstrated in Fig. 2.11, have taken the form of higher interest rates, shorter terms and more requests for guarantees. Figure 2.11 should be read and analyzed in conjunction with Fig. 2.12, in which the average spreads between interest rates applied to large companies and those applied to SMEs are underlined (see Fig. 2.13).

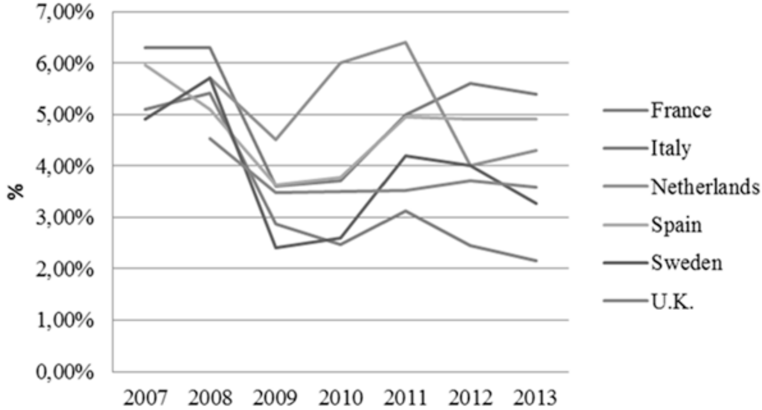

Fig. 2.12 Interest rate, average SMEs rate (*Source*: Our elaboration of OECD, financing SMEs and entrepreneurs 2015 data. *Netherlands and UK data not available for the year 2007.)

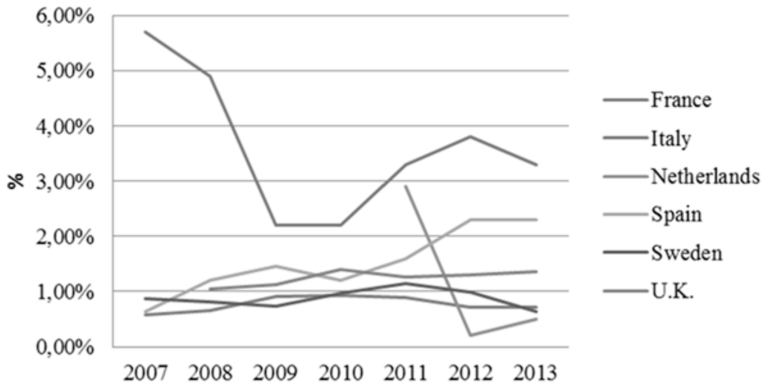

Fig. 2.13 Interest rate spread (between average SME and large % firm rate) (*Source*: Our elaboration of OECD, financing SMEs and entrepreneurs 2015 data. *Netherlands and UK data are not available for the years 2007–2010; **UK data is not available for 2007.)

Two facts should be mentioned in order to illustrate this point. First, SMEs tend to face higher costs for bank funding. A simple comparison between small loans (typical of SMEs) and larger loans (typical of larger companies) demonstrates that, in the countries under study, SMEs paid an average of 1.60 % additional base rate; there were higher peaks in Italy and Spain, where spreads in 2007–2013 reached values of 3.6 % and 1.53 %, respectively.

Listed below are a few considerations regarding access to finance according to the Small Business Act for Europe (SBA)[4] document:

- Rejected requests for funding and unacceptable financing offers (percentage of funding requested by SMEs);
- Access to public financial support, including guarantees (percentage of those interviewed that referred to an impoverishment);
- Availability of banks in granting a loan (percentage of those interviewed that referred to an impoverishment);
- Funding costs for loans with reduced payment compared with high payment (%);
- Total time employed to be paid (days);
- Loss of unpayable credit (percentage of overall turnover);
- Investments in risk capital (percentage of GDP);
- Index of legal rights strength.

See Table 2.18 for the data for the countries under study.)

As demonstrated in Table 2.18, particular attention should be paid to the elevated percentage of the rejection of loans requested by SMEs. SMEs in the most important Eurozone countries (with the exception of Ireland, where access to funding is difficult regardless of size) regularly face more obstacles to funding than large businesses. There are structural reasons why this occurs: SMEs are less readily identifiable; their business capability is often difficult to evaluate because their financial statements are less detailed; and, usually, SMEs generally have a brief credit history. In addition, there are higher fixed costs of evaluation and monitoring. These circumstances translate into higher transaction costs – in particular, those deriving from asymmetrical information.

[4] The Small Business Act for Europe (SBA) is the EU's flagship initiative to support small and medium-sized enterprises (SMEs); it includes a series of policy measures organized around ten principles ranging from entrepreneurship to internationalization and the creation of an administration attentive to the needs of SMEs.

Table 2.18 SMEs access to finance

	France	Germany	Italy	Netherl.	Spain	Sweden	United King.	EU avrg.
Rejected loan applications and loan offers (% of loan applications by SMEs)	13.600	2.500	16.700	38.600	19.200	12.000	21.900	14.400
Access to public financial support including guarantees (% of respondents who indicated a deterioration)	31.500	5.900	17.300	22.500	39.600	4.800	11.900	17.300
Willingness of banks to provide a loan (% of respondents who indicated a deterioration)	34.100	10.400	40.500	39.200	36.900	10.200	17.700	24.600
Relative difference in interest rate levels between loans up to €1 million and loans over €1 million	15.020	39.590	33.490	44.160	23.820	19.880	29.550	23.820
Total duration to be paid (no. of days)	52.000	31.330	113.330	38.670	99.330	31.670	38.330	50.760
Lost payments (% of total turnover)	2.000	2.000	2.700	2.600	2.700	2.000	3.700	3.830
Venture capital investments – early stage (% of GDP)	0.032	0.021	0.004	0.027	0.009	0.053	0.038	0.040
Strength of legal rights (0–10)	7.000	7.000	3.000	5.000	6.000	8.000	10.000	6.820

Source: Our elaboration of SBA Fact Sheets database.

In periods of economic recession, it is inevitable that the sources of credit for small businesses tend to drain more rapidly than those destined to large companies, thus hindering SME activity and investment to a greater extent.

The situation described above is what occurred during the Eurozone crisis. The merit of SME financial health and credit deteriorated to a greater degree than those of large companies, and the prolonged period of economic weakness has had a further negative impact on SME issues of information asymmetry.