



## Denying credit to small and medium-sized enterprises may threaten an economy's growth

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The euro area—from Austria, Belgium, France, to the Netherlands, Portugal, and Spain—teems with small, vibrant businesses, from environment start-ups to food and information technology ventures.

Small and medium-sized enterprises (SMEs) comprise 99% of nonfinancial businesses in the euro area and employ 67% of the total labor force. In Asia, they account for almost 98% of all businesses and employ about 66% of the workforce.

These businesses are vital to a country's economy.

To survive, most SMEs need external funding. The most important direct sources are credit lines, bank loans, and leasing.

Funds are essential—but where are they?

Credit is tight for SMEs, especially when they're starting out, but that's when they need it most. Young enterprises are more likely than older ones to be denied loans, especially by banks. A 2016 European Union-wide survey showed that access to finance was the most important concern for 9% of SMEs.

Difficulty in getting a loan is particularly hard on new businesses in France, Greece, Italy, Portugal, and Spain. Young start-ups there are 4% more likely than older ones to be rejected for a loan, and lack of credit access is also more of a problem for trade and service businesses. Enterprises involved in wholesale and retail trade, repair of motor vehicles and motorcycles, and household goods have trouble borrowing from formal lending institutions. The same is

true, although not as much, for businesses in transport, accommodation and food services, communication, real estate, administrative activities, and arts and entertainment.

Young enterprises have a harder time accessing credit because it's more difficult for them to provide lenders with information on their product and prove that they're creditworthy. They're also unable to provide good collateral. Starter companies lack a proper credit history or, if offered a loan, are forced to pay high interest.

Denying credit to SMEs, especially new ones, may threaten an economy's growth. It's like failing to refuel the tank: sooner or later, the car will stop running.

What can be done to help SMEs?

Governments could make it easier for young businesses to get access to credit. If they can't, then SMEs should have recourse to alternative funding such as venture capital, crowdfunding, and securitization. And fintech offers mobile banking and investment services, which are massively increasing in Europe.

This episode was based on [research](#) done for the Asian Development Bank Institute by Danilo V. Mascia, an assistant professor in banking at Nottingham University Business School, United Kingdom.

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