

## IMPACT OF THE FINANCIAL CRISIS ON CREDIT AVAILABILITY FOR SMEs WORLD WIDE

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Note of the Permanent Representative WASME in Vienna, Norbert W. Knoll-Dornhoff for the 47th Session of the Governing Body WASME 27 - 28 Nov 2008 in Vienna, Austria.

With a view at the global economic slowdown, it became apparent that economies in all regions of the world have significantly begun to lose momentum. In October and November 2008 extensive surveys have been undertaken as well in industrialised and in less developed Countries on the impact of the financial crisis on credit policy by lending banks and the wider impact on the near future of SME business, exports, investments and development.

As a general result of such surveys approximately one third of the SME entrepreneurs briefed, stated that they are currently experiencing a tightening of credit policy by their banks (extreme restrictions have been decided e.g. in Iceland and in Central and East European Countries) and two third expect that in the short and medium term it will be more difficult to obtain credit – at least at economically acceptable conditions – for their business.

### 1. SMEs in Countries with weak credit ranking

The World Bank Group “Ease of Doing Business” recently issues the annual report 2009 investigating regulations that enhance business activity and those that constrain it across 181 economies. A set of regulations affecting 10 stages of a business’s life are measured : starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. Data in Doing Business 2009 are current as of June 1, 2008. The indicators are used to analyse economic outcomes and identify what reforms have worked, where, and why. It must be expected that the global financial crisis will further downgrade those Countries in their ranking which were 2008 among the last third in the stage “Getting Credit”.

Firms consistently rate access to credit as among the greatest barriers to their operation and growth. Credit registries, institutions that collect and distribute credit information on borrowers, can greatly expand access to credit. By sharing credit information, they help lenders assess risk and allocate credit more efficiently. And they free entrepreneurs from having to rely on personal connections alone when trying to obtain credit.

Three indicators are constructed to measure the sharing of credit information:

- o Depth of credit information index, which measures the extent to which the rules of credit information system facilitate lending based on the scope of information distributed, the ease of access to information and the quality of information.

- o Public registry coverage, which reports the number of individuals and firms covered by a public credit registry as a percentage of the adult population.

- o Private bureau coverage which reports the number of individuals and firms, covered by a private credit bureau as a percentage of the adult population.

The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending.

It is interesting to note that Malaysia offers SMEs the world best conditions for „Getting Credit” and ranks No. 1 in this stage. On top of the World Bank rating are also Singapore (No. 5) and the Republic of Korea (No. 12). It would be worth to analyse in detail the structure and methods which these Countries applied for achieving such excellent ratings.

## 2. Urgent international actions required: A stability package for the financial markets

The government’s ability to deal efficiently with financial crisis can be improved by establishing an effective regulatory body in order to reduce high-risk lending practices of financial institutions.

To reduce liquidity problems, the central banks may require high liquid reserve in the form of higher required reserves, low risk assets, and cash. Higher required reserves would reduce banks’ return on deposits, would reduce the risk of the banking sector and would cause the loss of some of the local deposits to the banks abroad.

Tax on capital inflows to reduce speculations, interest rate ceilings on deposits to reduce competition by risky banks to attract deposits, and limits on the percentage of lending to the real estate sector would reduce the probability of having a financial crisis. Finally, redirecting financial capital inflows toward direct investment and equity finance and away from debt financing will serve developing countries better in the long run. Also redirecting finances will reduce liquidity problems and potential financial crisis.

## 3. Austria’s Stability Package: A positive example for other economies.

The package puts up a "risk protection umbrella" and guarantees that the Austrian financial institutions will be able to fulfil their important economic functions. It also protects their customers and thus strengthens the level of trust in Austria as a financial centre.

the package to stimulate the economy and to encourage future investments the Austria has also laid emphasis on measures for SME

promotion in the years 2009 and 2010. Those measures include:

- o Additional budget for growth projects

- o Provision of additional low interest loans: existing volume will be extended; as most of the enterprises in Austria are small an additional program will provide small loans for these companies; for all SME mezzanine capital will be provided via the European Investment Bank (EIB) as mezzanine capital.

- o Increase of the frame for guarantees

- o Additional budget for the internationalisation of businesses to strengthen exports

- o Additional means in the fields of energy efficiency and environment activities.

o Infrastructure projects will be preferred to stimulate the economy.

#### 4. Vienna Communiqué

The Vienna Communiqué shall comprise a chapter “Stability Package for SMEs” with the following recommendations:

Financial Transaction Tax: Countries with bad rankings in the World Bank Report 2009 “Ease of Doing Business” in the stage “Getting Credit” shall impose a of 0.3 per mill for every financial transaction. Revenues from the tax shall be used to create “Financial Crisis Funds” to stabilise the situation in future economic crisis, to hedge against the risks of the financial system and to provide micro-loans to micro- and smaller companies using the experience of Grameen Bank founded by Nobel Laureate Prof. Muhammad Yunus, Bangladesh.

International Conference on the Depth of Credit Information - ICCI to facilitate access of SMEs to lending: WASME shall organise the Conference together with local Banks of Malaysia, Singapore, Republic of Korea and Bangladesh (Grameen Bank) to take place in the second half of 2009.

European Investment Bank – EIB - Global Loans for SMEs: Many of the loans went to large-scale, non-sustainable oil, gas, mining, dam and industrial projects – sectors that may be economically viable for the EIB but mainly benefit subsidiaries of EU companies. Only a small fraction of the EIB budget went to SMEs. THEREFORE request EIB to Provide Global Loans for SMEs in Countries who up to date did not receive such loans. In the past six (6) years, including the year 2007, the following ALA Countries received no financing from EIB: Asia: Bangladesh, Republic of Korea, Malaysia, Nepal, Singapore, Thailand. Latin and Central America: Argentina, Bolivia, Chile, Costa Rica, El Salvador, Guatemala, Macao, Nicaragua, Paraguay, Regional-Latin America, Uruguay, Venezuela, West Indies, Yemen.

The World Association for Small and Medium Enterprises (WASME), founded in 1980 in New Delhi, India, is now recognised as the largest professionally managed global non-governmental organization with Members comprising of national governments, chambers of commerce and industry, small business authorities and associations, banks and financial institutions, training and consultancy agencies serving micro, small and medium enterprises, primarily in developing countries. WASME is managed by a competent Secretariat and works out of its own building at Noida ( close to New Delhi ) supported by professionals in Information Services, Economic Research, Marketing, Technology Transfer and other specialized subjects. It is served by Permanent Representatives in Washington DC, Vienna, Paris, Bangkok, Geneva, Brussels and Kuala Lumpur.

WASME organises an international SME Convention annually. The 2006 Conference is scheduled to take place at the Korea Exhibition Centre (COEX) in Seoul, South Korea, during 26-29 April 2006 at the invitation of WASME Korea Federation.

WASME is the only international non-governmental organization of SMEs enjoying Consultative Status with Economic and Social Council of the United Nations, International Labour Organisation, United Nations Conference on Trade and Development, United Nations Education ,Scientific and Cultural Organisation , UNIDO United Nations Industrial Development Organisation and World Intellectual Property Organisation.

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