



**Funding for rural SMEs**  
**Needs, access to finance, rurality**

**The findings of the ENRD Rural Finance thematic initiative  
and the role of networks in facilitating rural SME funding  
in 2014-2020**


21 November 2013  
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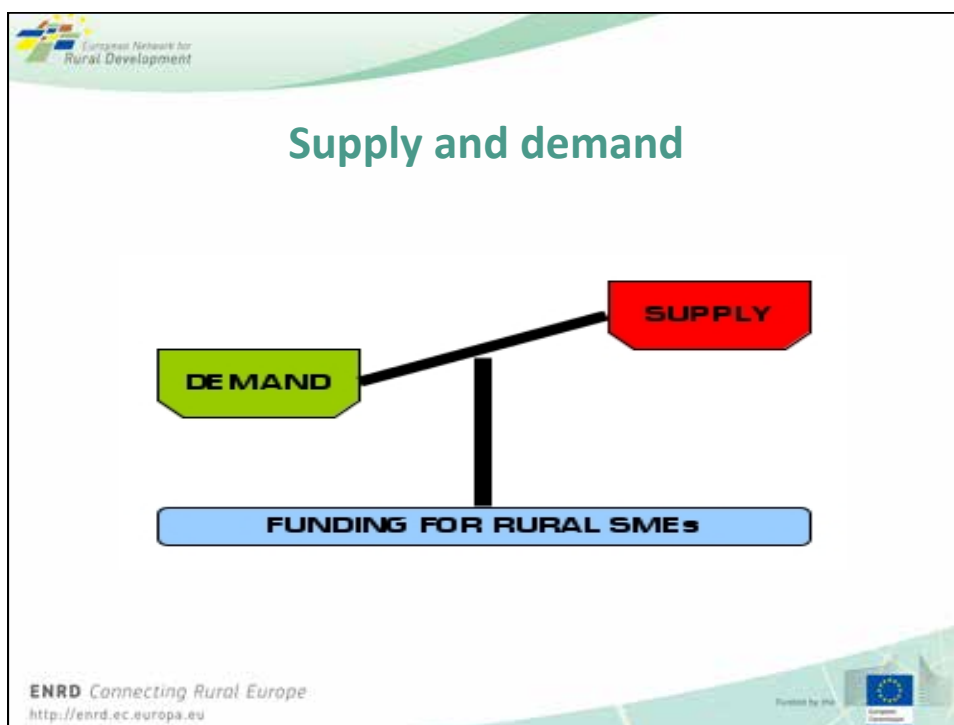
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**This presentation**

- The basic issue of supply and demand
- The findings of the ENRD thematic initiative
- The challenge of access to finance of rural SMEs
- Some good practice examples
- A roadmap for ways ahead

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## ENRD Rural Entrepreneurship Thematic Initiative: Rural Finance (Final Report)

- published in February, 2012
- extensive literature review
- analysis of supply and demand patterns
- surveys of Managing Authorities on FI in the RDP, on other financial instruments operating in EU MS, on commercial banks' perspectives on RF

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## Main findings of the ENRD RF report

- an **information gap** exists relating to rural specific access to finance surveys - rural SME specific data at EU-27 level a necessity
- **business support services**, self-assessment tools, networking and training are important for improving access to finance and building trust
- a **great diversity of RF schemes** exist and these can facilitate mutual learning and cooperation among NRNs to share experiences

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## Information gap


**No territory specific classification in relevant surveys:**

- SMEs are not classified by area of operation or registered headquarters, e.g. predominantly rural, peripheral, urban, etc.

**SMEs are classified in surveys by size and activity:**

- some surveys exclude SMEs whose activities relate to agriculture, forestry or fisheries

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## Access to finance for rural SMEs

**Difficult access to finance for Rural SMEs**

- economic crisis and responses
- supply side contraction
- capacities gap
- SME funding
- 'rurality'

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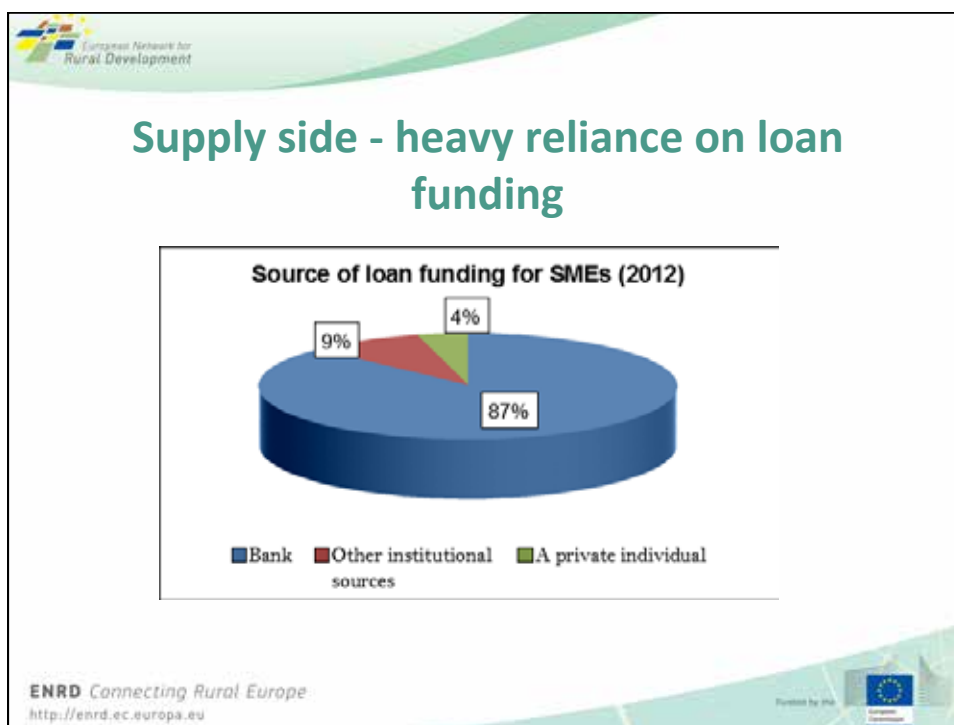
## Some trends in SME funding

**Negative trends**

- 56% of SMEs use only ext. funding (27% in 2009)
- loans from banks = dominant type of ext. funding
- alternative fundings sources (9% of SMEs)
- decreasing willingness of banks to provide a loan
- deterioration of supply of bank loans continues
- partially or non-successful loan applications by SMEs doubled
- typical loan size for SMEs < 100,000 Euro

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## The demand side

- rural businesses possess less financial management and business planning capacities
- lack of information on behalf of creditors located far away from rural businesses
- low availability of business support mechanisms
- more than 50% of SMEs apply for loans < 100000 Euro

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## Rural finance trends - an update

- slight decline in the financing gap
- increase in the demand for bank loans (up 5%)
- decrease in the need for external financing due to insufficient availability of internal funds (down 4%)
- marginal increase in the deterioration of availability of bank loans
- 65% of EURO area SMEs reported successful bank loan applications
- increase in interest rates reported
- cost of financing other than interest rate - slight decline
- SMEs do not expect a negative trend in the availability of bank loans in the next 6 months

- **Note:** The above represents overall findings and averages / variations between EU MS in the EURO area may be substantial
- **Source:** Survey on the access to finance of SMEs in the euro area (SAFE) ECB, October 2013

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## The specific challenge of rural funding

Bringing supply and demand together

- Identifying and assessing specific market failures
- mapping alternative sources of funding
- bridging the information gap
- Improving access to finance**
- making the most of EAFRD FEI
- utilising ENRD and NRN resources
- networking and knowledge sharing

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## Some good practices from EU MS

- ▮ adopting international equity and venture capital valuation guidelines (Finland)
- ▮ municipalities 'team up' with a commercial bank for micro-credit in an underdeveloped area (Latvia)
- ▮ pooling local resources for a cooperative credit union (Latvia)
- ▮ advice and help with networking among supported beneficiaries (Germany)
- ▮ decoupling from financial markets declared as a goal of the Fund (Germany)
- ▮ guarantees amounting to 80% of the credit borrowed to support people living in underprivileged areas (France)
- ▮ involving banks as financial intermediaries in a micro-credit scheme (Portugal)
- ▮ providing advanced, web-based support tools to potential beneficiaries to help creditworthiness assessment (Italy)
- ▮ targeting a niche market (rural women entrepreneurs) (Latvia)
- ▮ setting up local investment companies for the development of local economies (Sweden)

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## What can we build on?

- ✓ banks - no specific criteria for rural SMEs
- ✓ EAFRD co-financing - positive effect on banks' SME creditworthiness assessment
- ✓ scope to improve the demand side investor readiness
- ✓ information, networks, tools available
- ✓ improved, more flexible FI framework under the CSF
- ✓ rural SME risk seen equal or only slightly higher by banks

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## Self-assessment for better to funding

- Assessing the financial health, the stage of development of the business, and internal capacities for financial management to deal with a funding mix of public and private funding sources
- Defining development needs/the project
- Mapping the financial products / sources of external funding available in the area where the business operates (this includes sources of external funding from the market, as well as public sources)
- Assessing eligibility for funding from the mapped financial products related to area of operation, economic activity, type and size of business
- Looking at what financial and business support services are available
- Checking the time-frame necessary for the acquisition of the external funding source
- Updating and finalising the planned funding mix for the project
- Preparing the applications for funding
- Submitting the applications for funding
- Implementing the project

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## Focus of activities to improve access to finance

- Improving access to information on rural SMEs
- Focused situation and needs analysis
- Improving rural SMEs` access to information on funding opportunities
- Improving creditors` knowledge on rural SMEs
- Capacity-building to improve SME financial management and credit-worthiness
- Making better use of EU financial instruments
- Networking and knowledge exchange

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**References and additional information**

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**Thank you for your attention.**

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