

1st Danube Financing Dialogue (22nd and 23rd March 2012)

Results of the Matchmaking Session

The Matchmaking Session was held in the innovative yet simple format called World-Café, designed to build a living network pattern. The World Café is a suitable setting for gathering ideas and creating direct dialogue within large groups in comparatively short time. It helps pooling the participants' knowledge and perspectives, exchanging and developing new ideas as well as identifying opportunities.

Four topics were discussed at 10 different tables with a chairperson per table: support for SMEs, access to financial resources/ products for SMEs, innovative financial instruments and needs and challenges for SMEs.

Support for SMEs

The main objective of this discussion was to obtain feedback on specific steps that would stimulate the SME sector and remove barriers to its development.

In spite of the variety of views, many of the comments on supporting SMEs referred to **governmental support**. More specifically, most of the comments addressed the current financial instruments (loans and grants) as well as coordination and information issues. Due to a **lack of funds for SMEs** additional instruments for financial support (e.g. grants) are desirable on the one hand. Structural funds programmes are too limited in geographic scope and do not sufficiently accommodate SMEs. Therefore, SMEs should be further integrated in the structural funds provided from the European Commission and it should be easier for SMEs to cooperate regardless of transnational and cross-border areas (e.g. cooperation between Germany and Romania would often be very useful). And not to forget that national state aid continues to be a big problem, too.

On the other hand, **Technical Assistance** (e.g. training in project preparation, partners search process, consultation on the increasing the number of customers and frequency of customers, etc.) is also highly appreciated. Furthermore, there is a third factor which could be helpful for developing the SME sector: **NGOs** could also help supporting SMEs due to a **complex bureaucracy and unclear legislation**.

Due to the **lack of information** in South-East Europe, more Europe-wide information on financing instruments and programmes for SMEs should be exchanged and disseminated. SMEs need to know 'where the support money is' (both banks and public funds) and how to access the money. Initiatives like the 'cluster house' in Niš (Serbia) can act as central information structure for SMEs (on-stop-shop). Alternatively SMS clusters could provide this information to members and exchange experiences among members. Furthermore, in countries such as Serbia, **business conditions are pretty bad**. For example, **taxes and brain drain** are considered to be too high. There is also a lack of incentives for educated people to come back home, etc. Hence, tax impediments should be abolished and therewith a big part of tax evasion could be avoided. But also other important governmental steps should be taken regarding the brain drain, etc.

Good projects elaborated with good partners with a support from local government are missing. However, there have been **differences between political support and grant access**. Most grants are for public authorities and they do not apply, which also cuts the opportunities of the SMEs to participate. Low rate of funds absorption is due to inactivity of national/ local entities. In addition, there has been **too much differing information** (information is scattered and contradictory), which means there are significant difficulties to access to the right information an SME needs.

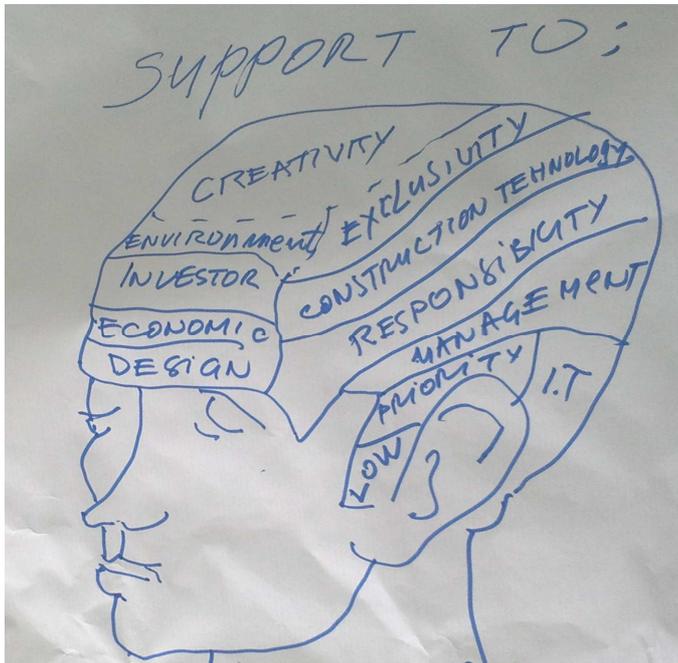
In the EU, the same rules should be applied to all member states with regards to patenting. In other words, **uniformed patents for all Member States** would be highly appreciated in contrast to national rules, as they facilitate the development of patents and support innovation.

Financial support by banks is not sufficiently accessible. Procedures for applying for bank loans are not always clear. There is generally too little investment in the social economy. Actually, there is a very little support for start-ups. Banks are also often not qualified to assess the real potential of a business idea. There are no specialists that could assess e.g., technical innovations and their potential. Someone in between is urgently needed to help assess the innovations and business ideas and helps obtain financing. This should be a governmental service or a structural funds service.

Although many participants advocated the development of a single **Danube Region Programme for cluster and SMEs network building**, some participants were in favour of cooperation between SMEs – SMEs, SMEs – government, SMEs-NGOs, etc. The same group of participants believed that not only “cluster building” should be targeted by public support. Building clusters or SME-partnerships could help with exchanging of ideas and information on different challenges and issues regarding the SMEs.

In this context it was also stated out that the SMEs within the Danube Region seems to be very isolated. Therefore Danube-wide measures are needed to help SMEs to work together (ex. Annual Danube business forums would be useful).

Another idea consisted in the importance of **supporting media** to promote successful examples of SMEs. Last but not least believing in the future and the potential of the Danube Region market can help the development of the Danube Region.



Innovative Financial Instruments

SMEs often face problems in receiving 60-70 percent of the needed amount, but for the rest of the investment there are guarantees that are rather appreciated. In this context the discussions pointed to the need for **developing a “Danube Institution”** which would guarantee for the quality of the SME projects to easily access financial support from banks. Therefore, the Danube Institution should not co-finance projects, but rather bail for them. Beside the concrete project idea, another important issue would be the presentation of the project to potential investors (business plans, presentations, credibility...).

Certain representatives complained about the important **lack of money as a result of the economic crisis** and other national problems. As a consequence, these representatives could not present any specific ideas on what an innovative financial instrument could be.

Due to the fact that financial institutions are interested in the projects carried out by a specific SME, there is a big **lack of information** as well as an **absence of financial institutions** (in some countries knowledge about EBRD, EIB, etc. regulations is lacking). Banks have preferential treatment (preferred topics, preferred type of companies, preferred conditions etc.) and no innovative solutions on how to support enterprises. Loan terms are currently unattractive and are based only on collaterals.

Another solution has been seen in **creation of mixed financing instruments for start-ups and training for bank employees**. Banks should be able to sell also other innovative products beside their core products and should discuss with their clients on other financing options.

Representatives from **Bulgaria and Bosnia and Herzegovina** highlighted the **lack of national banks**. All existing banks are foreign banks which make the negotiation processes more complicated. Other participants complained about the existing **conditions to get loans**. Several SME representatives stated that they decide not to grow with their company because they couldn't effort the rates and conditions proposed by the banks for financing.

In conclusion, many SMEs are interested in innovative financial instruments but they seem reluctant to discuss on the topic. Participants raised a number of ideas on how to improve the presently 'conservative' state of financing and generally believed that there is much potential to do so.

Access to Financial Resources for SMEs

This session was predominantly attended by entrepreneurs and public entities from different governance levels. Most of the comments addressed the current structure of the financial instruments (loans and grants) as well as coordination and communication issues.

First of all, the need for **research addressing the main challenges of accessing financial resources** for SMEs was expressed. The participants agreed that it would be helpful if public institutions, such as the OSCE, draft and provide a study on how to address those challenges.

SMEs and other stakeholders (public institutions) have **different human resource capacities and different frameworks and objectives** when it comes to the financing of projects. Therefore SMEs need require advisory services and capacity building initiatives in order to be supported in accessing Financial Resources. Another point is the **lack of circulation of new ideas**. Due to limited time and limited human resources SMEs cannot always access the newest research results and papers as well as information which would be important in order to develop innovative projects. Furthermore, there is **no “theoretical/ thematic infrastructure” for new ideas such as social economy** projects. This topic should be specifically included in the funding programmes.

Some representatives of the lower Danube countries complain about the **lack of information for public financial instruments**. Additionally, there is **lack of experience** on how to manage and/or mobilise financial resources such as grants for SMEs. Available financial instruments are often not flexible enough and do not always offer the opportunities for SMEs, especially for start-ups.

Additionally, **corruption** is hindering the competitiveness of SMEs and their access to public financial instruments.

The participants proposed the establishment of a **Danube Development Fund** financed from unspent Structural Funds money. This Fund should also focus on private companies from the Danube Region that are active in the EUSDR priority areas.

Another proposition is the building up of an **online platform** in order to enhance the access of information on financial instruments and the exchange of know how between the various stakeholders/ governance levels involved (“one stop shop” principle). Such platform would encourage SMEs to develop projects or extend ongoing projects. The platform should also include information on the development of activities and resources that national authorities are pursuing/ offering.

The **co-financing of projects** is a necessary condition, yet one that is difficult to be honoured under the current regulations. A lot of programmes’ rules limit cooperation among SMEs due to specific types of projects proposed by the programmes (e.g. narrowly defined priorities, specific propositions of entities or partnerships etc.). For instance, the financing of projects covering several sectors or addressing different topics including both, public and private entities, is rather difficult, e.g. for example projects including profit and non-profit activities.

Needs and challenges for SMEs

The discussion group consisted of public and private bankers, consultants, SME representatives, representatives from public institutions (e.g. OSCE, University, Ministries, etc.)

The participant shared the consensus that **cash-flow funding** is better for SMEs than asset-based funding. However, SMEs are confronted with **large bureaucratic obstacles** in order to access EU & national funding. The majority of the SME representatives endorsed co-financing and pre-financing within the grants. A balance should be sought between certain partially profit, partially non-profit projects and public grants and loans.

Due to the lack of venture capital and funds in South-East Europe, **start-up money** is needed for financing highly innovative, but risky start-ups. EU programmes should develop **risk-friendly funds for innovative SMEs** and EU programmes procedures should be harmonised. EU and national legislators should work on a more risk-friendly regulation, when it comes to the financing of real economy, innovation and SMEs. More credit lines should be offered by public and EU banks, for competitiveness and energy efficiency.

Certain banks are often not in the position to **assess and recognize the potential/assets of SMEs**. They rather focus on guarantees and security packages and prefer financing large companies and mid caps. Furthermore, many types of bank loans are considered to be too expensive, especially for more risky businesses. In short, on the one hand, banks should take more gambles for innovative SMEs and on the other hand risk-takers are needed (EU, OECD, national state, banks, entrepreneurs ...).

Public procurement rules should also be increasingly **harmonised in the EU**. Public procurement procedures could facilitate access to finance for SMEs, yet these procedures need to be improved as to allow SMEs to be able to compete.

However, it is compulsory to have a centralized procurement system (e.g. Austrian national regulation for procurement and Austrian Federal Procurement Agency - FPA) in order for SMEs to participate, too. Since 2001 the FPA has helped to save almost 200 Mio. EUR in taxpayers' money by centralized public procurement every year by:

1. Bundling: ministries, prisons, high-schools have been buying at FPA. Now, federal provinces, municipalities, universities and hospitals joined the team.
2. Standardisation: many different ideas FPA culminated them in a uniform products catalogue.
3. Professionalism: New products, new standards, new procedures, FPA has got to front with these developments every single day.
4. 4. Equality: Equal opportunity to win a contract in FPA competitive bidding. The unique criteria are supplier qualification, product quality and price.

Due to the lack of knowledge of the SMEs, **consultants can also support** SMEs in developing projects. For example, a lot of SMEs cannot build up a credible business plan. In the same way, building clusters could help SMEs to talk to government/ institutions/ bank. Besides, business incubators could assist to the SMEs or OECD offers support, too. Business vocational training should also be enhanced.

Last, but not least, **general public and media** do not acknowledge enough, how much SMEs and family businesses contribute to the society. They are sceptical, when it is about profit organisations. Hence, the EU Commission should develop a strategy, which should be implemented at national-regional-local levels **to promote and develop more awareness on SMEs as economic driver**. An in-depth analysis of SMEs needs and gaps would contribute to a vision on SMEs.