

## RURAL ENTREPRENEURSHIP THEMATIC INITIATIVE – RURAL FINANCE

### The Financial Crisis- Supporting SMEs in Rural Areas

Facilitating access to finance for SMEs is one of the crucial elements of economic recovery in Europe in general, and for the rural economy in particular. Access to finance for rural SMEs is not solely a problem related to the quantity of funding. It is a multi-faceted issue where inadequate flow of information between supply and demand contribute to a tightening of credit standards and increase the cost of borrowing. Various other factors specific to the rural economy also have considerable impact including lack of bankable collateral, seasonality, longer term life cycles for return on investment, etc.

#### Why are SMEs experiencing difficulties to find Credit support?

The trends in SME finance in some Member States have encouraged some rural SMEs to seek for alternative sources of finance. Innovative, local schemes can play an important role in providing this alternative.

The access to finance in general, and to rural finance in particular is not strictly a problem of supply of finance. Often the root of problems lie on the the demand side. This can be tackled, in part, by improving linkages between the suppliers of rural finance and those that need it, including better flows of information, training of SME managers, self-assessment tools, creation of various forums where potential financiers, investors and rural enterprises can interact, use of award schemes and tools to improve the quality of demand.



#### How is it working in Rural Europe ?

The ENRD Rural Entrepreneurship initiative on Rural Finance has provided insight into various aspects of rural finance through its research activities, including identification of a range of innovative local, regional, and national rural finance schemes, gauging the perceptions of various stakeholders such as public administrations, various financial institutions, as well as an EU-wide outlook on the field of enterprise funding.



*Surveys have been prepared & conducted by the ENRD Contact Point with the assistance of the National Rural Networks collect information on examples of active rural finance schemes, financial engineering instruments introduced and activated or not activated under the rural development programmes of EU member states, and the reasons behind these decisions. The perspective of various commercial banks on providing credit to rural SMEs has also been an integral part of this research.*

Information was collected from National Rural Networks, Managing Authorities and Paying Agencies, as well as commercial banks operating in the EU-27.



## Sharing of experiences amongst Member States

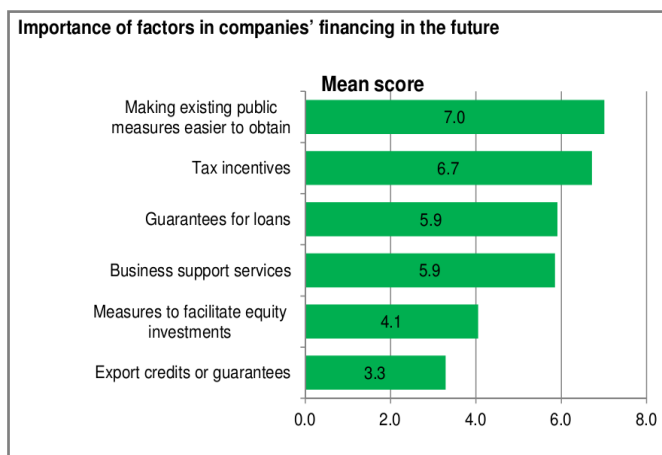
Twenty five examples of rural finance schemes operational in various EU Member States have been collected. These can be divided into two broad categories namely “bottom-up” and “top-down” schemes. The “bottom-up” schemes are generally characterised by a good level of sustainability.

On the other hand “top-down” rural finance schemes tend to have broader regional and national geographical coverage. A variety of funds belong to this category, including venture capital funds, credit funds and guarantee funds. Some notable features of these funds include the use of electronic processing and web-based self-evaluation tools for beneficiaries, the strong emphasis on stimulating cooperation and networking among beneficiaries, as well as on the provision of training and various business support services to improve the effectiveness of the funds.



## What is the perception of Financial Institutions about Rural SMEs ?

This scope of the survey was to find out if there were any special criteria applied for rural SMEs, the risks of lending and the role of EAFRD co-financing, the relative importance of various factors in assessing credit applications by rural SMEs, the trends in credit standards and demand for credit, and the importance of information and advisory services.



Relative importance of factors in companies' financing in the future  
Source: DG Enterprise and Industry. SMEs' access to finance. Survey 2011

The survey found that banks do not apply specific criteria for rural enterprises. With regards to the perception of risk of lending to rural enterprises, banks consider this equal or only slightly higher than lending to enterprises operating in areas not characterised rural.

However, an interesting finding of the survey has been that proof of EAFRD funding has a positive effect on the assessment of credit applications by rural SMEs. The applicant's balance sheet, credit history, and the quality of the business proposal have been ranked of higher importance than other factors by respondent financial institutions.

Considering the economic activity of SMEs, a strong preference for manufacturing exists over only a slight preference for agriculture, forestry and fishing, and low preference for rural tourism. Banks have not experienced considerable changes in credit standards over the past year, and do not expect changes in credit standards or in demand for credit over the next one-year period.

Follow the ENRD website  
for further developments

<http://enrd.ec.europa.eu/>

Coming soon... *Technical Seminar by the Latvian Network, EU Rural Review on Rural Finance, Financial Engineering Workshop.....*

### Get informed!

Read the ENRD Report. Contains detailed descriptions of the rural finance schemes submitted by National Rural Networks, and much more....

