

Helping Small Firms Is Key to Recovery

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Lenders and some governments now realize that helping smaller businesses in Central and Eastern Europe is essential to saving economies

With the worst of the global financial crisis maybe still looming, some of the world's largest lenders have started thinking small in Central and Eastern Europe.

And for that, they deserve a round of applause.

Lenders like the European Bank for Reconstruction and Development and the European Investment Bank—even some governments—have wisely realized the urgency of supporting small and medium-size companies as the region's economies crawl through the next two years and credit markets tighten.

Last month the EBRD announced a 100 million euro loan to Banca Transilvania to promote lending to these "SMEs" in Romania. Banca Transilvania is the country's leading bank for the small and middle-size sector, with more than 125,000 clients.

The EIB, chief lender to European Union member states, is being considerably more ambitious. It's increasing lending to European SMEs by 50 percent to 15 billion euros through 2010. The EIB has already earmarked 5 billion euros to help commercial banks in Central and Eastern Europe get small businesses the cash they need to survive these lean times and is considering increasing that allocation in the next two years.

Governments, as well, are reaching out. The Czech government, historically a closer friend to the multinational than to the entrepreneur, recently introduced a strategy for bolstering its economy during the financial crisis that includes increased financing for programs supporting SMEs. The cabinet of Slovak Prime Minister Robert Fico has endorsed a similar stimulus strategy for small companies and is even considering state guarantees for business loans that commercial banks are likely to shy away from as too risky in this volatile environment.

Why are these efforts so important? Because SMEs, defined in Europe as companies of fewer than 250 employees with an annual turnover under 50 million euros, are the foundation of the foundering Central and Eastern European economies, which despite early optimism have been clobbered by the financial crisis.

The Volkswagens, Hyundais, and Kia Motors of the world may get all the incentives and headlines in countries such as the Czech Republic and Slovakia, but SMEs are vital engines of employment and growth. In the EU smaller businesses account for 99 percent of companies and 80 percent of employment in certain sectors, including textiles, according to the EIB.

Yet attend any meeting of local and expatriate entrepreneurs at the American Chamber of Commerce in Prague, for instance, and one of the first things you'll hear is how hard it is to get money out of Czech banks to fund expansion or merely stay operational during slow periods—and that's in the best of economic times. With banks worldwide guarding their checkbooks just as the global economy is caving in, small businesses are struggling to raise cash.

That's why the EBRD stepped in in Romania, one of the shakiest economies in the region and in danger of descending into recession this year. Orders to SMEs have dropped significantly since October, while companies have had a harder time borrowing in a tighter credit market. According to the EBRD, its loan will allow Banca Transilvania to continue lending to small business and should directly benefit more than 7,500 of the local bank's clients.

The financing "will allow Banca Transilvania to continue lending to the real economy," Nick Tesseyman, EBRD director for financial institutions, said in a statement.

Governments can and should play a pivotal supporting role by looking beyond lending to legislative reform. Some Slovak analysts, for instance, say corporate regulation is too rigid and that the government should focus on improving the business environment by cutting payroll taxes—which are high throughout much of Central and Eastern Europe—and making the labor market more flexible. European Union members such as Romania could also try to pump some money into their economies by better using EU aid funds available to new members.

Whatever their individual strategies, governments should make every possible, meaningful effort to complement the work of international lenders in supporting smaller businesses. These companies are the bedrock of their economies, and now is not the time to forget that.