SME Financing in the Mediterranean: Challenges Ahead

Outline for a CEPS-IEMed Working Group

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Micro, small and medium sized enterprises are the key driving force for economic development in the Mediterranean. Their role is essential as providers of employment and innovation opportunities and as key players for regional and local development and social cohesion.

Aware of their importance, several Euro-Mediterranean initiatives such as the Euro-Mediterranean Charter for enterprise, adopted at the Caserta Ministerial Conference\(^1\) in 2004 strived to set key principles to create a business environment conducive to investment and private sector development in the region. The Union for Mediterranean\(^2\), a French initiative born on 13 July 2008 in Paris is also expected to foster business development and financing opportunities in several sectors and involving a multitude of actors.

Among the key areas which were emphasized in the 2004 Charter, SME access to finance enjoys a chief place. A working group to examine this core issue was established and recommendations\(^3\) were published in February 2006 and presented in the Euro-med Conference Ministers for Industry in the same year. The main issues highlighted in the report included guarantee of debt financing, microcredit and venture capital. Several recommendations were agreed. These efforts were followed by a comprehensive policy assessment report\(^4\) on the implementation of Charter in 2008 in cooperation with the European Training Foundation (ETF), the OECD and the European Investment Bank (EIB). The report was presented at the Nice Ministerial in November 2008. Concerning the access to finance dimension, the report emphasized asset-backed bank lending as the main source of external financing for enterprises in the region. Overall it concluded that progress has been more tangible in developing financial facilities for enterprises (for example loan guarantees, microcredit...) than in improving the credit environment (for example lack of information on tax policy).

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\(^3\) [http://ec.europa.eu/enterprise/policies/international/files/sme_access_to_finance_en.pdf](http://ec.europa.eu/enterprise/policies/international/files/sme_access_to_finance_en.pdf)
In an effort to reexamine the 2004 Charter and to reassess its key indicators, access to finance was agreed to be one of the areas (together with market access, human capital and innovation) where further actions are needed. The reassessment of the different dimensions of the Charter is a work in progress by the Working Party on Euro-Mediterranean industrial cooperation.

The recent Union for the Mediterranean also emphasizes the importance of MSME development in the region. Among the six priority projects which will gain support from the UfM Member States, the Mediterranean Business Development Initiative (MBDI), mainly targeting MSME will strive to foster growth and development in the region. The MBDI implementation will follow the recommendations of the European Investment Bank’s commissioned feasibility study to be discussed in the following weeks.

There is no doubt that access continues to be one of the thorniest challenges for the creation, development and survival of SME especially the innovative ones. Acute asymmetries of information, lack of reliable track records, overreliance on collaterals and lack of equity... continue to impede a fluid access to finance and particularly debt finance. The financial crisis has exacerbated the general context for SMEs. Today, most companies are facing a clear downturn in demand of good and services on one hand and shortage of credit on the other due to the tightening of credit conditions.

Due to the uncertainties surrounding SME development in the Mediterranean region particularly those related to access to finance, the CEPS-IEMed high level Working Group will explore new financial and policy avenues to improve access to finance in the region in the context of the reassessment of the 2004 Charter and the future developments of the MBDI.

The Working Group will meet two times in 2010 to discuss the following issues:

1- Obstacles (to) and gaps (in) SME financing in the Mediterranean region and the impacts of the financial crisis;
2- An independent assessment of the access to finance dimension under the Euro-Med Charter for Enterprise;
3- An assessment of credit guarantee schemes effectiveness to promote SME financing and growth;
4- The role of trade finance and avenues to promote this source of financing;
5- The role of bank diversity and capital markets in the region to promote sustainable and competitive innovative financing sources;

Since the adoption of the Charter in 2004, many developments have occurred since then, including the willingness to align the Charter with the Small Business Act (http://ec.europa.eu/enterprise/policies/sme/small-business-act/), new challenges like climate change and financial crisis, failure to complete the Free Trade Area by the target date of 2010 (by a number of countries), lack of South-South harmonisation and integration.


De-pollution of the Mediterranean, maritime and land highways, civil protection, Mediterranean solar plan, higher education and research, and business development initiative.
6- Proposals for future actions.

The discussions will materialise in a CEPS Report which will be written by Dr. Rym Ayadi, Senior Research Fellow⁸ and “rapporteur” of the Group, Annie Cordet-Dupouy, Sabaudia Consulting and co-author of feasibility study of the MBDI and Dr. Emrah Arbak, Researcher at CEPS. The report will be published in September 2010 to reflect the consensus of its members.

Contributions from participants and speakers are also welcomed.

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⁸ Dr. Rym Ayadi is Director of MEDPRO (MEDiterranean PROspects, www.medpro-foresight.eu ), a €3 Million consortium funded under FP7 research framework, to think about the political, economic and social future of the Mediterranean countries.
About CEPS

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About IEMed

The European Institute of the Mediterranean (IEMed), founded in 1989, is a consortium comprising the Catalan Government, the Spanish Ministry of Foreign Affairs and Cooperation and Barcelona City Council. It incorporates civil society through its Board of Trustees and its Advisory Council formed by Mediterranean universities, companies, organisations and personalities of renowned prestige.

In accordance with the principles of the Euro-Mediterranean Partnership's Barcelona Process, and today with the objectives of the Union for the Mediterranean, the aim of the IEMed is to foster actions and projects which contribute to mutual understanding, exchange and cooperation between the different Mediterranean countries, societies and cultures as well as to promote the progressive construction of a space of peace and stability, shared prosperity and dialogue between cultures and civilisations in the Mediterranean.

Adopting a clear role as a think tank specialised in Mediterranean relations based on a multidisciplinary and networking approach, the IEMed encourages analysis, understanding and cooperation through the organisation of seminars, research projects, debates, conferences and publications.

Research activity in Economics related to the Euromediterranean Region during the last years

The promotion of social-economic development in the Mediterranean is one of the main lines of work of IEMed by identifying and analyzing the most relevant trends within the Region and by encouraging a prospective and propositive reflection on necessary reforms to be taken in the key sectors that are directly involved in the modernisation and development of the economies of South Mediterranean countries in the horizon of the creation of the Euromediterranean Free Trade Area. For this purpose, IEMed constantly interacts and works together with Euromediterranean social and economic stakeholders, networks and international organisations.

North-South cooperation

Taking into account the dynamics of globalization that imply a strong interdependence between North and South, IEMed gives special relevance to North – South social-economic cooperation for a joint, sustainable and equitable development of the Mediterranean Area as a whole and for the consolidation of a common space of security, stability and prosperity, that is the final objective of the ENP since it was launched in March 2003. Thus, the promotion and monitoring of initiatives tending to boost social-economic and entrepreneurial networks and dialogue and exchange of ideas and good practices constitute a strategic line of work for IEMed.