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Credit Mediation for SMEs

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Credit Mediation for SMEs and Entrepreneurs: Draft Final Report

This document contains the draft final report on credit mediation schemes implemented in some OECD countries as a response to the financial crisis and credit tightening for SMEs and entrepreneurs. It has been revised to take into account comments and additional information following its discussion at the April 2012 session of the WPSMEE. It is part of the WPSMEE Programme of Work and Budget for 2011-2012 in the area of SME and entrepreneurship financing.

Delegates are now invited to declassify this report under the written procedure. Any additional comments should be sent to the Secretariat by Monday, 18 February 2013, after which the document will be declassified on Olis.

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ABSTRACT

In the wake of the 2008-09 financial crisis, a number of European OECD countries introduced credit mediation schemes, as a new, often temporary mechanism to help ease access to finance by SMEs.

This report investigates the nature of credit mediation and credit review schemes implemented in selected countries (i.e. Belgium, France, Germany, Ireland and Spain) in the aftermath of the financial crisis. The study focuses on regulatory frameworks and operational practices, and examines the reach of these schemes and their effectiveness in easing access to finance for credit-constrained firms, on the basis of monitoring and evaluations conducted at the country level. The report also presents new framework initiatives, such as the Appeals Process in the United Kingdom, intended to improve the transparency and effectiveness of appeals to SME credit rejection.

JEL codes: G21, G28

Keywords: Credit, Financial Crisis, Credit Mediation, Credit Review, SMEs

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EXECUTIVE SUMMARY

In the wake of the 2008-2009 global financial crisis, a number of European OECD countries introduced credit mediation schemes, as a new, often temporary mechanism to help ease access to finance by SMEs. France was the first country to set up a credit mediation programme in 2008, followed by Belgium in 2009 and Germany in 2010. Germany phased out the programme at the end of 2011, as planned, while in France and Belgium mediation schemes have been continued, evolving into a longer-term initiative to support SMEs which encounter difficulties in credit and insurance markets. Other countries have subsequently introduced similar mechanisms under different names and at different scales, including Ireland, which created a Credit Review Office in 2010, and Spain, which set up a financial facilitation mechanism in 2011 to provide SMEs with independent risk assessment and to facilitate applications for public funding. In the United Kingdom, an independent credit review system was set up in 2012, to oversee the process of appeal to credit rejection at the largest UK banks, in accordance with a new set of principles for a fair, prompt and transparent process.

Credit mediation schemes are addressed to SMEs whose demand for credit has been entirely or partially rejected by financial institutions. They do so by reducing the information gap between prospective borrowers and lenders. This can be done either by conducting an independent assessment and, if it is positive, submitting additional information to the financial institutions, or by bringing together SMEs and credit institutions, often with the support of other experienced parties, in an effort to reconcile the differences between them. By facilitating the exchange of information and advising firms on how to articulate and communicate business plans and financial reports, credit mediators address a key source of conflict in the credit process, which is often hampered by communication deficiencies. Importantly, the credit mediation activity is advisory in nature and neutral, in the sense that it aims to facilitate lending relationships, but the mediator generally has no authority to impose a decision on a financial institution. In addition, credit mediators have been entrusted with other 'soft' functions, such as monitoring the financing framework, assessing the difficulties encountered by SMEs and providing advice to competent authorities.

The outreach of the schemes and the credit mobilised by mediation vary largely across countries, depending on the scope of the programmes, the resources committed at the national and regional levels and on the SMEs' awareness about mediation. The credit mediation scheme in France is the largest of these initiatives, consisting of a network of 105 local mediators and mediation panels across the country, which build on local expertise and institutions, ensuring that in-depth, specific and contextual knowledge is part of the mediation process. The departmental directors of the Banque de France, the key player in the mediation process, are the mediators and work in co-operation with Prefects, the Government-backed SME development fund (OSEO), experts from local professional networks and business associations. In the other countries, the credit mediation or facilitation activity has been entrusted to central institutions experienced with SME financing or highly reputed professionals, supported by small teams of experts. In Belgium, the scheme is operated by the national centre of reference with regard to SME financing (*Centre de Connaissances du Financement des PME - CeFiP*). In Spain, the financial facilitation programme is managed by the state-owned Official Credit Institute (*Instituto de Crédito Oficial - ICO*), which provides SMEs and entrepreneurs with advisory services and direct funding. On the other hand, in Germany and Ireland national mediator offices have been set up, composed of an experienced and highly reputed mediator and a relatively small number of credit officers, working in close collaboration with other institutions, such as Chambers of Commerce, and experts. In the United Kingdom, an Independent

Reviewer was appointed, supported by an independent Operational Review Team from a consultancy company.

The evidence suggests that credit mediation mechanisms have been effective in responding to the appeals of credit-constrained SMEs and have facilitated, in most cases, the revision of lending decision by banks. Over time, as the prolonged crisis contributed to turning punctual financial difficulties into structural problems for many SMEs, the complexity of the cases submitted to mediation has increased and the scope of mediation broadened, from short-term loans to credit insurance and equity finance. Small firms with less than 50 employees have been the main users of the programmes, although the lack of awareness about the service often represents a key obstacle for a broader uptake by SMEs.

The promptness and rapidity of mediators in treating the applications have been important to support the cases under mediation and to encourage a rapid response by financial institutions. As in most cases the difficulties encountered by entrepreneurs originated from communication deficiencies, lack of financial skills and strict risk parameters applied by banks, improving the capacity of entrepreneurs to supply adequate information to the lender has proved a key element of success in the mediation activity. By supporting SMEs to increase the quality of their files, mediation can foster learning by entrepreneurs and improve their capacity to understand the information requirements of the credit market and to develop adequate reporting. By highlighting problems of financial literacy, credit mediators have also driven efforts to streamline lending procedures and improving their transparency, including the adoption of common templates across financial institutions. At the same time, the analyses by credit mediators and reviewers show that a skill problem exists also on the side of lenders. Following the financial crisis, attitudes to lending have been changing very quickly, with bank officials often applying strictly risk parameters and credit scoring methods, rather than searching for workable solutions to challenging situations. A more customer-focused approach could improve lending relationship with SMEs, but would also require adaptation in communication practices and specific skills on lenders servicing the SME market.

The relatively short time of operation of credit mediation and the lack of firm-level data limit the possibility to assess the impact of mediation services on firms' survival prospects and performance. In principle, financial additionality is implied by the conditions for activating the credit mediation, that is, the prior refusal to a loan application. However, for a rigorous evaluation of financial and economic additionality, applicant firms should be monitored throughout and following the mediation process, and appropriate control groups should be identified to disentangle mediation effects from selection effects. Additionality should also be assessed in relation with other existing government measures and market services, taking into account that, in most cases, credit mediation schemes do not charge any fees for their services and depend entirely on public funding. The burden on public budget should be assessed against the costs of alternative measures to ease SMEs' access to finance. This also implies that transparency on the costs of mediation programmes, which are often covered through different budget lines, should be improved.

Publicly-supported credit mediation differs from consultancy services provided in the markets by professionals and service firms, mainly because it has a system-wide target, such as restoring and smoothing relationships between banks and the SME sector, it often works through concerted actions with several different actors and institutions, and implies a neutral role of the mediator. Nevertheless, the type of service provided may compete with that of business consultants, which provide SMEs advice on business plans, financial management and credit relations. In order to inform discussion on the effectiveness of mediation and its possible evolution from temporary measure to long-term policy instrument, a rigorous evaluation should thus also take into account the degree to which the public

service, generally free of charge, competes with and crowds out market business services, or, on the contrary, fills a gap in the market of services to SMEs.

1. Introduction

Rationale and objectives

The OECD Working Party on SMEs and Entrepreneurship 2010 study on *Assessment of Government Support Programmes for SMEs and Entrepreneurs Access to Finance in the Global Crisis* (OECD, 2010) identified two techniques that appeared to have been effective in limiting or easing credit constraints to SMEs and entrepreneurs during the 2008-2009 global financial crisis: credit mediation and mutual guarantee societies (MGSs). Under its 2011-2012 Programme of Work, the OECD Working Party on SMEs and Entrepreneurship agreed to undertake two distinct analytical studies on these instruments¹.

Both MGSs and credit mediation address the problem of information asymmetry in the risk assessment process, which typically limits entrepreneurs' and SMEs' access to finance. MGSs are private guarantee institutions created by beneficiary SMEs, usually run by entrepreneurs who bring an SME perspective to risk assessment. An independent business perspective is also brought into the risk assessment process by credit mediation schemes, which bring together SMEs seeking credit and banks that are not currently prepared to lend to those SMEs, in an effort to reconcile the differences between the parties. Typically, firms whose credit applications are rejected bring their case before a mediator or, in some cases, in front of a *mediation panel*, in which the SME, the bank and other interested parties (i.e. business associations) participate.

If MGSs have existed, sometimes for decades, in about half of OECD countries (mainly in Europe) and in a several non-member countries, credit mediation schemes or credit review processes have been adopted only recently and in a small number of countries. In particular, credit mediation mechanisms were set up during the recent crisis, at a time when the entire financial market was malfunctioning and when a serious risk of credit tightening for small enterprises existed.

This report investigates the credit mediation mechanism or credit review schemes implemented in a number of OECD countries (i.e. Belgium, France, Germany, Ireland and Spain) in the aftermath of the financial crisis. Also, the report presents new framework initiatives, such as the Appeals Process in the United Kingdom, intended to improve the transparency and effectiveness of appeals to SME credit rejection. In more detail, the present report:

- Investigates the nature of credit mediation and credit review schemes implemented in selected OECD countries, focusing on both regulatory frameworks and operational practices;
- Examines the reach of these schemes and their effectiveness in easing access to finance for credit-constrained firms, on the basis of monitoring and evaluations conducted at the country level.

The evaluation objective is constrained by the limited evidence available. With the exception of France, which started its credit mediation programme in 2008, the evidence is limited by the relatively short time of operation, and refers mainly to the degree of uptake of the programmes (number of firms having accessed mediation, amount of credit mobilised as a result of mediation, etc.) and the typology of firms supported. As the schemes evolve or are phased out, more substantive elements will be needed to identify strengths and weaknesses of credit mediation programmes, and to thoroughly assess their financial

¹ On Mutual Guarantee Schemes see the report "SMEs and Entrepreneurship Financing: The Role of Credit Guarantee Schemes and Mutual Guarantee Societies in supporting finance for small and medium-sized enterprises" (OECD, 2012).

sustainability and additionality, thus bringing new insights to the policy discussion on tools to ease SMEs and entrepreneurs access to finance.

2. The rationale for credit mediation

In the wake of the recent financial crisis, the financial situation of SMEs deteriorated in many countries (OECD, 2010). According to the *OECD Scoreboard on SME and entrepreneurship finance* (OECD, 2012), over the period 2007-2010, SMEs faced more severe credit conditions than did large enterprises, in the form of higher interest rates, shortened maturities and increased requests for collateral. The European Central Bank Survey on SME access to finance, undertaken every six months², shows that, in the euro area, the slowdown on the supply side was matched by negative perceptions by SMEs of bank's willingness to lend. In the first half of 2009, the net balance³ of SMEs stating that the availability of loans had deteriorated peaked at 33%. In the second half of 2010, as the recovery strengthened, this share decreased to 9%, to increase again to 20% in the second half of 2011. The share of SMEs that reported a loan rejection increased from 12% to 18% between the first and the second half of 2009. The reported rejection rate decreased to 11% in 2010 and increased again, up to 13%, in the second half of 2011.

As a sizeable share of small businesses encountered difficulties in accessing adequate financing, policy makers were urged to address their credit constraints. Some countries introduced credit mediation schemes, as a new, often temporary mechanism for addressing the problem of information asymmetry in the risk assessment process, which often limits SMEs' and entrepreneurs' access to finance. France was the first country to set up a credit mediation scheme in 2008, followed by Belgium in 2009 and Germany in 2010. Other countries have introduced similar mechanisms under different names and at different scales, including Ireland, which created a Credit Review Office in 2010, Spain, which launched a credit facilitation programme in 2011, and the United Kingdom, where an independent credit review system was set up in 2012, to oversee the process of appeal to credit rejection at the largest UK banks.

These schemes share the objective of easing access to finance for SMEs whose demand for credit has been entirely or partially rejected by financial institutions. In all of the schemes, the key mechanism implemented to achieve this objective is to reduce the information gap between the SMEs seeking credit and the financial institutions that are not currently prepared to lend. This can be done either by conducting an independent assessment and, if it is positive, submitting additional information to the financial institutions, or bringing together SMEs and credit institutions, often with the support of other experienced parties, in an effort to reconcile the differences between them. In other instances, the objective of the credit review mechanism is to ensure that SMEs have access to a fair and transparent appeals process.

By facilitating exchange of information, as well as learning and development of financial reporting skills, the credit mediation mechanism addresses a key market failure identified in the literature, arising from asymmetric information and agency problems. Because of imperfect information on the borrower's characteristics and behaviour, banks have difficulties distinguishing good risks from bad risks ('adverse selection') and in monitoring borrowers once funds have been advanced ('moral hazard'). Changes in interest rates can be used to compensate for risk, but banks may be hesitant to increase rates, in the belief that, by driving out lower-risk borrowers, this may result in a riskier loan portfolio. Therefore, they have an incentive to engage in credit rationing, even when the borrowers are willing to pay higher rates (Stiglitz and Weiss, 1981; OECD, 2006).

2 See www.ecb.int/stats/money/surveys/sme/html/index.en.html

3 The net balance is the difference between the percentage of firms reporting that a given factor has increased and the percentage reporting that it has decreased.

Although the credit rationing argument would apply to businesses in general, SMEs are especially affected because the problem of information asymmetry is more acute in their case. In fact, most of them are unlisted and are not required to make public disclosure of their financial reports, although they are generally obliged to produce them and make them available to relevant authorities upon request. The broad range of SMEs' productivity and survival rates makes the problem of imperfect information on the individual firm even more relevant and contributes to the credit rationing by financial institutions.

Experience has shown that, in the credit process, conflicts between SMEs and financial institutions are in fact mainly related to information problems, which add to, and in some cases explain, disagreement on business plans or on viability of investment plans (Box 1).

Box 1. Sources of conflicts in the credit process between SMEs and financial institutions

Problems of communication

- The entrepreneur may be unclear in the request for credit, providing poor quality or incomplete information, or in explaining the working capital shortage that generates cash flow needs.
- The bank may be unclear in its continual requests for documentation or meetings, whose purpose may be explained with insufficient clarity to the entrepreneur.

Disagreements on business plans

- The entrepreneur may have a viable proposal that is not presented with sufficient clarity to the prospective financier.
- The bank may request substantial changes in the entrepreneur's business plan. For example, the plan may propose to spend an excessive share of resources on the development of a new product and insufficient resources on production of the product.

Conflicts over existing credits

- The entrepreneur's difficulties may arise in relation with existing lines of credit. The entrepreneur may request an increase in existing credits or a restructuring, in light of temporary difficulties in meeting obligations. Conversely, the bank, because of these, may tighten conditions on credit.

Lack of authority by the local bank or branch

- The scope for financing local enterprises, whose project is positively assessed by local staff, may be limited by insufficient authority of the local bank or branch, which is subject to decisions taken at a higher echelon in the bank or group.

Lack of knowledge about supporting instruments or other funding sources

- The bank may request that the entrepreneur seek an official credit guarantor or a mutual guarantee society as a pre-condition for receiving credit. The entrepreneur may not be aware of the possibilities and sources to obtain support from guarantee schemes.

Source: OECD (2010).

The supply of adequate information to the lender has become even more important for businesses after the 2008-2009 financial crisis, when, according to the UK Independent Reviewer, a seismic shift in attitudes to lending occurred very quickly, demanding significant adaptation in communication practices, information requests and disclosure to both businesses and lenders. Before 2008, credit had become more easily available, with lenders often focusing more on selling individual products on the basis of limited information about customers, rather than on the businesses' overall lending needs and ability to repay. Since the crisis erupted however, the approach to lending has generally reversed. Bank officials have

tended to apply rather strictly risk parameters and credit scoring, an automated statistical method used to assess the default probability (i.e. score) of loan borrowers (Griggs, 2012).

Since the 1990s, the adoption of credit scoring methods, which involve analysing large amounts of historical data on borrowers, has been found to have a positive impact on SME lending, as it allows reduction in costs and time of granting a loan, greater consistency of credit evaluation and focus on difficult cases or large loan requests (DeYoung et al., 2010)⁴. The scoring method was first adopted in consumer lending, based on the large amounts of data readily available for banks on the performance of consumer credits and on the characteristics of borrowers. In the case of SME lending, however, the data needed to manage the granting of loans on a statistical basis may be available only to large banks, which are in fact the main adopters of credit scoring, or to smaller financial institutions that share or ‘pool’ data. There also exist credit reference agencies that provide credit scoring systems to banks which lack their own historical database (UNCTAD, 2001). The credit scoring provided to banks by external agencies can cover both the business and the individuals in the business, based on their personal credit experience and rating.

The benefits of credit scoring, in terms of efficiency in the lending process, are widely recognised. By reducing the time and resources needed to assess the single loan request, credit scoring allows the financial institution to serve a larger base of customers, especially SMEs. However, credit scoring is an impersonal tool that can substantially reduce the relationship between lenders and small businesses and select against those entrepreneurs which have limited credit history, lack collateral and have particular difficulties in presenting financial information. Automation of risk assessment procedures appears to have a negative impact especially on small lending size levels (Griggs, 2012). Furthermore, in the case of new start-ups and businesses that are switching from one bank to the other, credit scoring based on personal data are more relevant to the process, in spite of being less transparent to applicants.

In the early evaluations of the effects of the financial crisis on SME lending (e.g. OECD, 2009), inappropriate and indiscriminate use of credit scoring mechanisms, including rigid interpretation of non-factual behavioural personal data, was identified as one important source of denial of credit to even deserving SMEs. In the United Kingdom, for instance, over 2011-2012, credit scoring accounted for about 40% of cases for appeals, following original declines at largest banks (Griggs, 2012).

The credit mediation mechanism addresses the hurdles or sources of conflict in the credit process by favouring dialogue and exchange of (other) information between the parties and, often, bringing in independent expertise, which may support the entrepreneur in better articulating his/her plans and the financial institution in considering new relevant elements in the risk assessment process.

Importantly, the process of credit mediation generally requires that SMEs review the financial information that was previously provided to the credit institutions and submit additional information to improve their case. Poor quality of the application is in fact one of the reasons for rejection by financial institutions. In Belgium, for example, the credit mediator estimates that communication deficiencies are at the origin of the obstacles in accessing finance for about 70% of the cases submitted to mediation, (CeFiP, 2011a). By helping SMEs to improve the quality of their files, credit mediation is expected to

4 Credit scoring can take different forms, of which three types are mainly adopted: (i) judgmental, (ii) statistical and (iii) non-statistical, non judgmental. The judgmental approach, which assesses risk based on the experience and opinion of the loan officer, is adopted largely by micro lenders. Statistical approaches are based on historical data and include discriminant analysis and logistic regression. Non-statistical, non-judgmental methodologies include a variety of operational research methods, neural networks and genetic algorithms (Thomas, 2000; Van Gool et al., 2009).

foster a learning process on the side of the entrepreneurs and to improve their ‘financial literacy’, that is, their capacity to understand the information requirements of the credit market and to develop adequate reporting.

At the same time, the review and possible reversal of lending decisions, according to well-defined standards of promptness and transparency, may favour learning by the bank’s staff, improving their understanding of what information should be required from customers to improve communications (Griggs, 2012). Furthermore, the credit mediator may take into account a broader range of firm indicators for a thorough assessment of the firm’s creditworthiness.

3. The objectives of the credit mediator

Credit mediation schemes and credit review mechanisms are typically characterised by a mandate that includes the facilitation of information exchange between prospective lenders and borrowers, advice to entrepreneurs on supporting services, monitoring of credit markets and reporting to competent authorities.

In the first two areas, mediation services already exist in the private market, with service providers, such as accountants or business consultants, specialised in supporting families and businesses in their negotiation with financial institutions, typically to lower the cost of financing, and in developing bankable business plans. The credit mediation programmes launched by some governments during the crisis differ from the market services along several dimensions. First, they had a systemic target, addressing the system-wide limitations of SMEs in accessing finance, often as part of a broader anti-crisis package, which may have included also specific commitments by banks. As such, they were conceived as a temporary measure for exceptional circumstances, and a concerted action engaging a large number of actors. In other cases, they have been set-up with a longer-term horizon to fill a perceived gap in the market and contribute to ease constraints to SMEs, promoting more transparent practices in the lending process. In all cases, however, the credit mediation programmes have implied a neutral role of the mediator or facilitator.

Mediation

Credit mediation or financing facilitation schemes across countries share the key objective of ensuring that credit is not refused to viable businesses with valid credit propositions. This objective is pursued through a credit review process and by facilitating communication between the businesses encountering credit limitations and financial institutions. The mediator may also be called to help re-establishing a dialogue that has terminated abruptly between the parties (CeFiP, 2010) or to scrutinise the internal appeals process of banks, as in the case of the United Kingdom.

A common feature of credit mediation schemes is that they are advisory in nature and do not have the power of enforcement among the parties involved. That is, the mediator does not have the authority to impose a decision on a financial institution, and a financial institution is not obliged to accept a mediator’s recommendation. However, in case the mediator recommends the financial institution to grant credit and the institution refuses, it may be required to explain the reasons for rejection (e.g. Ireland). Also, the mediator can help negotiations for a repayment plan that the firm believes is more viable (e.g. Belgium).

Information and advice

In the course of the process, the mediator can provide entrepreneurs with information and advice about available instruments to support their credit requests, such as credit guarantee tools provided by different

institutions. In some cases, the mediator has facilitated access to public guarantee schemes or engages guarantors in the mediation process, strengthening its effectiveness in opening up credit lines for viable businesses.

In France, for instance, OSEO (the Government-backed SME development fund), whose national and local teams support the work of credit mediators, provides bank loan guarantees that can represent a solid basis upon which the mediation can advance and succeed.

In Belgium, the mediator informs the parties about economic support measures and provides advice to firms and entrepreneurs on other funding sources, including public funding or credit guarantees offered by different institutions. Among these instruments, the Mediator has facilitated access to the *Initio* fund (CeFiP, 2010). This is the credit-related activity of a public credit institution, the Participation Fund (equally sharing risk with the financial institutions interested), intended for the financing of tangible, intangible and financial investments, or for the financing of the working capital requirement related to the launching of a new business. The fund can also finance the take-over of activities by new entrepreneurs, private individuals and legal entities alike, insofar as they can be regarded as a small company, including the company to be taken-over or that has been taken-over⁵. The Belgian mediator also facilitates contact between firms and other public authorities, including tax collectors and semi-public social security funds.

Monitoring and reporting

Credit mediators are commonly entrusted with other ‘soft’ functions, such as monitoring the financing framework, assessing the difficulties encountered by small firms in accessing finance and providing advice to competent authorities.

In Belgium, the mediator reports periodically to the government authorities, providing also suggestions and recommendations on how to improve SME financing conditions.

In France, the credit mediator submits to the French President a regular report on its activity and informs the government about the financing difficulties met by firms, in order to enable it to anticipate the risks and propose preventive measures (Liebert, 2009). The Credit Mediator also monitors key indicators on financing conditions, in cooperation with the Treasury and Economic Policy Directorate General.

In Ireland, the Credit Review Office (CRO) provides reports for the use of the Minister for Finance on the performance of the banks participating in the credit review scheme in lending to SMEs. This is achieved by providing summary information on the outcomes of the credit reviews. Furthermore, the CRO examines the lending policies of the banks towards SMEs, sole traders and farm enterprises, including systems of exemptions to policy. This provides background to the review process and forms the basis of a report to the Minister for Finance, which may inform considerations of future policy measures.

In the UK, the Independent External Reviewer, appointed in April 2011, is required to produce an annual report on the overall effectiveness of the banks’ appeals process, which is then made available to the public through the Better Business Finance website⁶. The independent review of the appeals process is one of the 17 commitments agreed upon by the British Bankers’ Association, to improve banks’ relationships with business, ensure better access to finance and promote understanding of the needs of

5 See www.fonds.org/en/creditactivities/initio.

6 www.betterbusinessfinance.co.uk

business customers. As such, monitoring and transparency through public disclosure of the Reviewer's assessment are an important step in the process.

4. Regulatory framework and entrusted institutions

Credit mediation schemes have developed as a response to the tightening of credit financing conditions for SMEs and entrepreneurs in 2008-2009. In many countries, the credit tightening took the form of more stringent conditions to borrowers, particularly small ones, increased requirement of collaterals and guarantees, and, as a result, more frequent refusal of credit.

Credit mediation schemes were first introduced as a part of anti-crisis packages or government programmes to sustain access to finance and preserve jobs in the SME sector during the crisis (2008-2009) and the uncertain recovery (2010-2011). It follows that credit mediation was mainly conceived as a temporary measure, to be phased out at a determined time or as conditions permit. In some countries, however, the mediation programmes have been extended beyond the limit initially planned or have evolved into a part of the infrastructure servicing SMEs.

France

The first scheme of this type was introduced in France, in the framework of the anti-crisis measures. In October 2008, the French President appointed a national Credit Mediator for business as a follow-up to the measures taken to ensure the stability of the banking system and to support corporate activity. The guidelines for credit mediation were formalised in a sectoral agreement signed on 27 July 2009 for the period running to 31 December 2010. However, in July 2011, although SMEs' access to credit appeared to have significantly improved, the French Ministry of the Economy announced that the credit mediation mission would be extended until the end of 2012. It was subsequently extended to 2013, under the new French Presidency; on 4 January 2013, a new national Credit Mediator was appointed by the President⁷.

The 2008 mission letter by the French President defined the framework of action of the Mediator, along the following broad guidelines (Liebert, 2009):

- Ensure that no company experiencing financing problems is left to fend for itself;
- For the purpose, all applications should be taken into account, dialogue restored and, wherever possible, appropriate solutions be proposed;
- Ensure that commitments made by financial institutions are respected;
- The Credit Mediator and the French Banking Federation signed an agreement in November 2008, in the framework of the economic support plan, when the banking sector committed to boost lending to companies by 3% to 4% in 2009. In particular, in the framework of credit mediation, banks committed to support the activity of their corporate clients, without scaling back the loan amounts, or stiffening credit conditions, in the forms of increased guarantee for instance, unless under exceptional circumstances;
- Ensure that government authorities are advised and kept informed. The national Mediator reports to the Minister of the Economy and the Governor of the Banque de France;

⁷ Ms. Jeanne-Marie Prost, appointed in January 2013, succeeds Mr. Gerard Raméix (2009-2012) and Mr. René Ricol (2008-2009) as French national Credit Mediator.

- The Credit Mediator submits to the French President a regular report and monitors key indicators on financing conditions, in cooperation with the Treasury and Economic Policy Directorate General.

The Banque de France is the key player in the mediation process, whose guiding principles are competence, neutrality, accessibility, responsiveness and transparency. In fact, the French credit mediation scheme consists of a network of 105 local mediators. These are departmental directors of the Banque de France, working on a face-to-face basis at the departmental level. Each department has implemented, under the chairmanship of the Prefect, a monitoring unit in which the director of the Banque de France and the paymaster-general participate. Credit mediation relies on the competence and neutrality of the directors of the Banque de France and enhanced cooperation between financing partners (Liebert, 2010). These are also supported by national and local teams of OSEO, the Government-backed SME development fund, which can also provide credit guarantees.

Other “trusted third-party mediators” are appointed in each department. These are generally experts from local professional networks, as well as trade associations, employers’ federations and associations. Indeed, before applying for mediation, any company can request the assistance of one of these experts. The support of the professional network is intended to ensure that in-depth, specific and contextual knowledge is part of the mediation process.

Over time, the scope of the credit mediation has been extended to issues related to credit insurance and equity financing needs. In particular, in April 2009, the credit mediator and the main private equity funds signed a partnership agreement aiming to meet firms’ equity financing needs through funds stemming, in particular, from wealth tax revenues⁸.

The credit mediation scheme is not assigned its own budget. Rather, the operational costs of the national team are covered by the Ministry of the Economy, through different budget lines. At the department level, the Banque de France takes charge of the costs (Mediateur du Credit, 2010).

Belgium

The Corporate Credit Mediator was created in Belgium in February 2009, as a part of the ‘Economic Revival Programme’ set up by the Federal Government and of the ‘Federal Plan for SMEs’ set up by the Minister for SMEs and the Self-Employed. Through credit mediation, the Federal Government intends to offer an effective service in support of the real economy and the SME fabric in particular, based on the collective involvement of the many stakeholders concerned, including inter-trade, trade and sectoral organisations⁹.

The scheme has been entrusted to the *CeFiP* (Centre de Connaissances du Financement des PME or *BeCeFi* – Belgian Knowledge Centre for SME Financing), the national centre of reference with regard to

⁸ In 2009, the Corporate Consolidation and Development Fund (Fonds de Consolidation et de Développement des Entreprises –FCDE), a public-private fund, was launched by the French government with a budget of EUR 200 million. This was created in the framework of the general interest programme FSI-France Investissement, and managed by the Caisse des dépôts et consignations (CDC). It aims to assist high-potential companies experiencing difficulties, which have applied for credit mediation and have not managed to raise enough equity capital from private investors (Liebert, 2009). It is in fact the credit mediator that identifies the firms eligible for the FCDE and addresses the entrepreneurs to this source of funding.

⁹ See www.mediateurducredit.be

SME financing, which provides information and analysis to Belgian authorities, entrepreneurs and their representatives, as well as financial institutions¹⁰.

Though mainly focused on bank credit, the mediator also handles requests from companies that are encountering difficulties with their credit insurance contracts.

Germany

The German government announced the establishment of national credit mediation in December 2009, in an effort to boost SME lending¹¹. Credit mediation thus was implemented as a temporary instrument to offset the credit crunch brought about by the financial crisis. Therefore, as initially planned, the scheme was phased out at the end of 2011. A budget of EUR 3.4 million was required to finance the scheme over the whole period.

The German mediator worked in close collaboration with the German Chambers and the Credit Institutions. In fact, when considered appropriate and relevant to advance the case submitted, the German mediator has turned to appropriate professional bodies and also brought into the mediation process project development institutions, with the possibility to provide other funding opportunities. In particular, Chambers of Commerce in Germany have been active in establishing mediation panels, involving all relevant stakeholders, in cases where negotiations between the firm and the bank became difficult.

Ireland

The *Credit Review Office* (CRO) was established in March 2010 by the Irish Minister for Finance and started operation in April 2010. It is an independent body consisting of the Head of the Credit Review Office¹² and a panel of experienced senior lenders, who have previously worked in the financial services industry for major lending institutions. Furthermore, the CRO consults with a small group of non-bankers, which includes a highly experienced Chartered Accountant, a senior executive in one of the trade organisations, and a retired executive from a County Enterprise Board, on cases that the Credit Review Office is unable to support. In addition, a non-banker who is an experienced public sector commercial evaluator and Chartered Accountant sits on every credit panel. In its daily operations, the CRO is also assisted by Enterprise Ireland, the government organisation responsible for the development and growth of Irish enterprises in world markets. The mission of the office is to “ensure that the credit system is operating effectively for SMEs, including sole traders and farm enterprises”.

As in other countries, the Credit Review Office has no regulatory or statutory powers to override bank lending decisions, which are a matter for the internal policy and governance of the banks. In the event that the CRO’s opinion is that the lending could have been made within acceptable risk boundaries, the bank is required to comply with the recommendation or explain to the Credit Review Office why they will not do so.

The mediation process applies to the customers of the banks engaged with the National Asset Management Agency (NAMA), established in 2009 as one of a number of initiatives taken by the Irish

¹⁰ Since February 2009, Mr Chris Dauw has carried out the Credit Mediator duties within BeCeFi.

¹¹ A former member of the executive board of the German Förderbank "Investitions- und Förderbank Rheinland-Pfalz GmbH", Hans-Joachim Metternich, was named Credit Mediator and took up his role in March 2010, based in Frankfurt.

¹² Mr. John Trethowan has been appointed Head of the Credit Review Office.

Government to address the serious crisis in Irish banking. The guidelines which created the Credit Review Office are contained in Statutory Instrument SI 127 of 2010¹³. Ireland's two pillar banks (Bank of Ireland and AIB) are both covered by the process.

Two criteria explicitly guide the assessment of the CRO:

- a) That the borrower's business can generate enough cash to service the interest and repayments of the debt and that the borrower is demonstrating confidence in the business as a going concern.
- b) That the bank's risk tolerance is not being set too high and that the covenants such as security requests and pricing are not unreasonable for the levels of risk involved.

The CRO has also encouraged the standardisation of loan application information, to shorten the lending process. In the view of the CRO, a standardised format for formal credit application would reduce the problems related with serial requests for information from banks, as well as the dissuasion that comments or actions of a few bank frontline staff may produce on entrepreneurs or farm owners (Credit Review Office, 2012)¹⁴.

Spain

The Spanish 'financial facilitation' mechanism was announced in 2009 and launched in 2010, as part of the activities of the Official Credit Institute (*Instituto de Crédito Oficial – ICO*), a state-owned corporate entity attached to the Spanish Ministry of Economic Affairs and Competitiveness, through the Secretariat of State for the Economy. ICO has the status of Spanish State's financial agency and plays a part in economic policy projects, also helping to alleviate critical situations and natural disasters. In these circumstances, ICO operates once the public funds have been allocated and/or through the compensation of interest rate spreads. As State's Financial Agency, ICO also manages financing instruments for development and provides financing for the internationalisation of Spanish companies. As a Specialised Credit Institution, ICO provides medium- and long-term financing for productive investments by enterprises established in Spain. It does so through direct operations (*ICO directo*) and through second floor loans (*Linea de Mediacion*), whereby loans are granted through private credit institutions, under loan conditions established by ICO, which assumes the credit risk¹⁵.

The credit facilitation mechanism set up in Spain is the *ICO Advisory* service (*ICO Asesoramiento*), which has been operating through the 'Financial Facilitator' (*Facilitador Financiero*) web portal, whose main objective is to provide the self-employed and SMEs with independent risk assessment (by way of a technology platform to assess risk) and with a direct line communication with ICO to apply for funding for investment or working capital purposes (*ICO directo*) or loans backed by guarantees of mutual guarantee schemes (*ICO SGR*).

¹³ See www.irishstatutebook.ie/2010/en/si/0127.html

¹⁴ In September 2012, a new guide to compile firms' business plans was launched by the Irish Ministry for Small Business. The guide has been designed to assist SMEs in developing and presenting a robust business plan and cash flow credit forecast, as a key part of an application for credit. The Business Plan Template was developed by the Irish Banking Federation (IBF) and the four accountancy institutes represented by the Consultative Committee of Accountancy Bodies-Ireland (CCAB-I).

See www.ibf.ie/Libraries/Guides_Forms/CCABI_IBF_Business_Plan_Guidance_2012.sflb.ashx

¹⁵ See www.ico.es

The advisory service has been linked with the second floor loan activity of ICO. In fact, credit risk assessment and advice are intended for enterprises and self-employed whose request for a loan below EUR 2 million had been rejected by a financial institution that delivers ICO-funded credit under its *Linea de Mediacion*. According to ICO (2010), the requests are processed on the basis of detailed information about financial conditions and business activity submitted by the applicant (including also socio-demographic information in the case of self-employed) and information from delinquency databases. In a similar way, ICO also proposes prospective borrowers a pre-analysis service, before they apply at banks for some ICO-related product. In case of positive assessment about business viability and ability to pay back the loan and interest charges, ICO submits the case to the financial institution to take the final decision on the request for lending and contact the entrepreneur to communicate the next steps required.

When announced in 2009, the Financial Facilitator portal was also intended as a tool for monitoring financing needs and obstacles encountered in the lending process by SMEs (ICO, 2009). According to ICO, this platform has helped to improve knowledge about SME financing requirements and to develop or improve services and delivery mechanisms.

United Kingdom

In April 2011, as part of the 17 commitments to businesses by the Business Finance Taskforce¹⁶, the six largest banks in the United Kingdom¹⁷, launched the Appeals Process, agreed a new set of principles for a fair, prompt and transparent appeals process, for businesses that are dissatisfied with the lending process. These principles are aimed also at increasing consistency of approach across financial institutions, hence at easing entrepreneurs' dealing with the lending process.

Under these principles, an appeal can be made by any business with a group turnover of GBP 25 million or less, including potential start-ups, after any formal request for lending has been declined. To ensure transparency, accessibility, fairness and promptness, banks have agreed to the following operational principles:

- i) the decision is reviewed by a second person from within the bank who was not involved in the original decision;
- ii) the bank considers all the information originally provided by the company and asks for more when deemed necessary;
- iii) the result of the appeal is communicated to the entrepreneur within 30 days;
- iv) if lending is still declined after an appeal, the bank provides information on alternative sources of finance that may be more appropriate or provide support in another form, such as liaising the entrepreneur with a business mentor.

The banks participating in this initiative have also agreed on the appointment of an external Independent Reviewer, supported by an independent Operational Review Team from a consultancy, whose selection

¹⁶ The Business Finance Taskforce was created in 2010 by the main financial institutions in the UK to ensure money is lent prudently and fairly to support the economic recovery while avoiding another credit surge. In its final report in October 2010, the Taskforce committed to 17 recommendations intended to add further momentum to existing initiatives to improve banks' relationships with business, lead to better access to finance and promote understanding of the needs of business customers. See Report at www.bba.org.uk/download/5726.

¹⁷ Barclays, HSBC, Lloyds, RBS, Santander and Standard Chartered.

was backed by the UK Department for Business, Innovation and Skills and HM Treasury¹⁸. The Reviewer monitors and scrutinises the appeals process, providing direction to the consultancy, which conducts on-site and off-site monitoring of the banks' appeal process throughout the year. The Reviewer and the Operational Team produce an annual report, which is submitted to the banking sector, the government, and the general public.

5. Eligibility and procedures

Credit mediation schemes are directed towards companies whose loan application was rejected by a financial institution. This rejection of a request for lending, or debt restructuring, is considered as a pre-requisite for additionality across schemes. The programme may address the entire business sector, with no specific size limit for the eligible company, including also craft firms or professionals, as in the case of Belgium and France, or be restricted to entrepreneurs and SMEs.

In Germany, the mediation programme was directed at self-employed, entrepreneurs and SMEs with an annual turnover up to EUR 500 million, whose rejected credit was above EUR 15 000. It was also requested that the mediation process be activated within three months of the rejection. Finally, to be eligible, the SME cannot have filed for bankruptcy or be in a legal dispute with the bank.

In Ireland, the CRO targets firms with less than 250 employees, turnover of less than EUR 50 million, and/or a balance sheet value of less than EUR 43 million. This is the EU definition of SME businesses, and is also the criteria on which the Financial Regulator's Code of Practice for lending to SMEs has been based. Sole traders and farm enterprises are also included in the target SMEs. The appeals are restricted to credit demands in the EUR 1 000 -500 000 range. These can be applications for credit that have been entirely or partially rejected, or unsuccessful demands for debt restructuring. However, decisions by participating institutions to refuse applications for credit facilities because of EU State Aid rules are not eligible for review.

The Ireland's CRO also considers complaints by small firms related to terms and conditions attached to a credit facility or its price. This is the case for instance of a request for direct collateral security to cover the lending, which the firm considers unreasonable taking into account the risk factors. Applications can also be made by borrowers who have been kept waiting for an unreasonable time for a response to their credit application, or internal credit appeal.

In Spain, to have access to the Financial Facilitator's services, in particular to the advisory service for rejected loan applications, businesses are required to be based in the country and meet the conditions set by the EU to be considered an SME, namely: i) number of employees less than 250; ii) an annual turnover not exceeding EUR 50 million and/or annual balance-sheet total not exceeding EUR 43 million; iii) not owned by 25% or more by another company or joint-venture that does not meet the above requirements. Furthermore, the amount of the financial transaction analysed by the advisory service cannot exceed EUR 2 million.

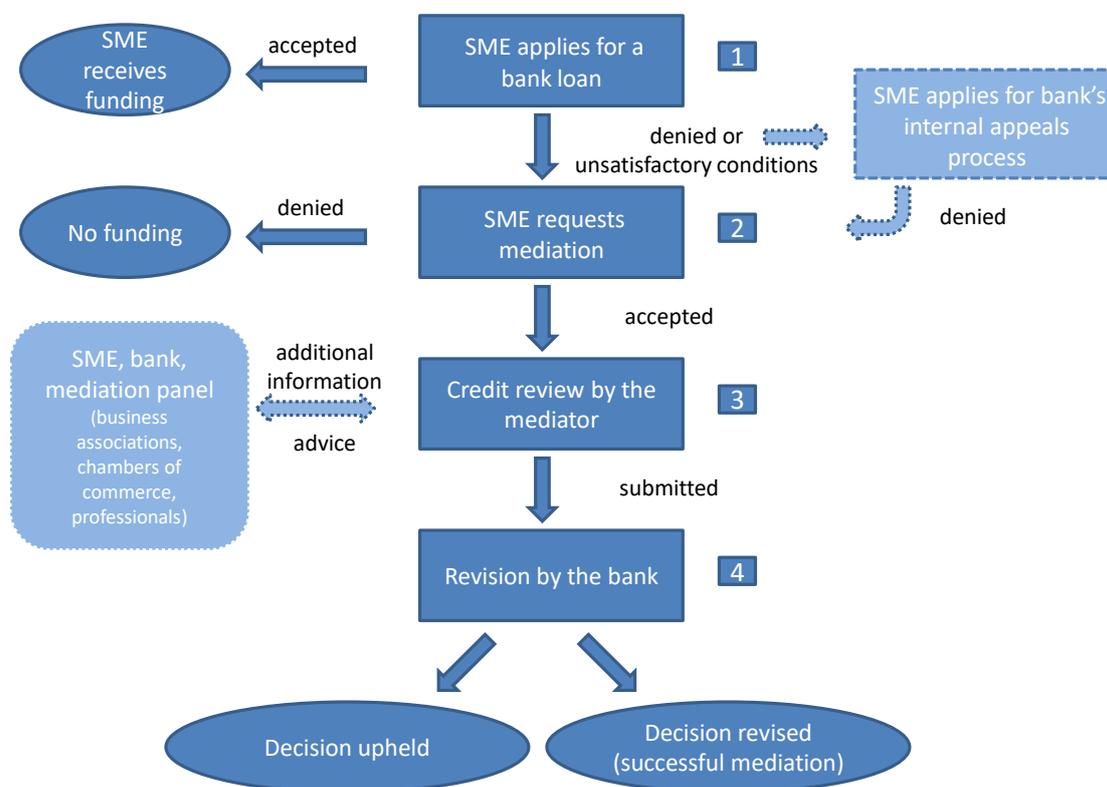
In the United Kingdom, the Appeals Process is designed for firms whose turnover or group turnover does not exceed GBP 25 million. The Appeals Process can also be accessed by potential start-ups, that is, would be entrepreneurs whose request for credit has been turned down.

¹⁸ In 2012, Professor Russell Griggs was appointed as Independent Reviewer and the consultancy firm Promontory as supporting consultancy.

The process of credit mediation

The credit mediation scheme is commonly designed as a multi-step process (Figure 1).

Figure 1. The Credit Mediation process



1. The firm's credit request has been denied, either partially or entirely. Alternatively, in some cases firms might contact the mediator if they are unsatisfied with the conditions proposed by the bank.
2. The firm or the entrepreneur appeals to the credit mediator, generally through a web application, email or telephone contact. In some cases, the mediation process starts after the first rejection and before any bank's internal appeals process (e.g. France, Germany). In other cases, the submission of applications to the mediator is allowed only after completion of the bank's internal appeals process and further denial or dissatisfaction on the side of the entrepreneur (e.g. Ireland). The 'Credit Mediation File' includes information about the firm's activities and financial situation, as well as about the loan requested and why the firm believes lending should be resumed. In France, a trusted third-party mediator can be selected by the firm at the local level to assist with the application.
3. The credit mediator evaluates the application and considers acceptance to the mediation scheme. At this stage, the mediator may have a first consultation with the financial institution on the credit request, as well as demand the applicant additional information to better instruct the case. The mediator may also take into account information from databases about

delinquencies (e.g. Spain). Beside the specific case of the loan under examination, the mediator may also provide a first evaluation of the firm's financial problems and advice on possible solutions or alternative funding possibilities (e.g. Germany). If the application is accepted, the mediator develops an action plan with the firm, informs the financial institution that mediation proceedings have been initiated and may demand that it reviews its position on the loan demand. Alternatively, or in case difficulties persists, the mediator contacts directly the financial institution to discuss the main problems and possible solutions, facilitate bilateral discussions between the applicant and the bank, or turn to the appropriate mediation panel, including professional bodies, business associations or other financial institutions.

The credit review is undertaken by a mediation panel (e.g. France, Germany), by an experienced senior lender (e.g. Ireland) or small office of experts (e.g. Belgium). The scrutiny of banks' appeals processes in the United Kingdom is conducted by an Independent Reviewer and an Operational Team.

4. The mediator communicates the results of its assessment, or the conclusions of the mediation panel, to the financial institution, on which rests the final decision of whether to grant the loan or not.

6. Assessment

Data limitations and methodology challenges

Assessment of the impact of credit mediation schemes on SMEs' access to finance is at an early stage. The evidence is at present limited by the relatively short time of operation of these initiatives and generally consists of statistics on SMEs' access to these programmes, acceptance rate, share of mediated cases that resulted in loan acceptance ('successful mediation'), volumes of credit being mobilized, typology of firms supported and number of jobs protected. This section presents the evidence on these indicators for the countries that have adopted credit mediation schemes and regular reporting on their activity.

In general, credit mediation schemes do not charge any fees for their services (e.g. France, Belgium, Germany). They are therefore not financially autonomous and depend entirely on public funding. In this regard, the Irish Credit Review Office represents an exception, as it charges a small fee between EUR 100 and EUR 500, depending on the original loan amount.

Evidence shows that SMEs have been the main beneficiaries of credit mediation across countries, even in the case of mediation schemes designed to assist the business sector at large. It also indicates that small firms, with less than 50 employees, have been the main users of the programmes. Furthermore, in most cases, the credit treated for mediation has consisted in small loans. In spite of this, the credit mobilised by credit mediators has been non-negligible, in part for the rapid diffusion of the instrument, especially in France, and in part for the relatively high success rate, with the majority of firms assisted succeeding in their access to credit.

In principle, financial additionality is implied by the conditions for activating the credit mediation, that is, the prior refusal to a loan application. Nevertheless, the available data does not allow to draw definitive conclusions about the financial and economic additionality of the programmes, nor on their financial sustainability. Rigorous evaluation of these dimensions would demand detailed financial data at the level of firms and credit mediation schemes. In particular, an assessment of financial sustainability would require detailed financial reporting on the mediation activity, which is not the case when the scheme does not have a budget of its own, but rather is funded out of other public budget lines. Detailed

reporting on the costs of the mediation activity would also be required to assess mediation against alternative public measures to ease SMEs' access to finance.

With regard to financial and economic additionality, the evaluation would require data to be collected on both firms that have accessed mediation (the 'treatment'), and on some 'untreated' control group. However, even when firm-level data are available, the evaluation presents important methodological challenges.

An exploratory study on 'Credit Mediation and Bankruptcy' by the Banque de France¹⁹ shows that measuring the effect of credit mediation on firms' propensity to go bankrupt is a key challenge, because of the difficulty in separating the *mediation effect* from the *selection effect*. That is, the observed lower bankruptcy propensity of firms benefiting from successful mediation, compared to firms for which mediation failed, can be related to two elements: the positive and immediate cash flow from the bank (treatment), and the fact that less risky companies have a better chance to be successful and gain access to credit (selection bias). Disentangling these effects requires comparing treated firms with a control group of firms that have similar characteristics in terms of a priori credit risk and propensity to go into mediation ('matching techniques'). The control group is generally identified on the basis of firm financial variables, among others, collected from yearly balance sheets. However, the data from the Banque de France show that businesses pursuing mediation often suffer from some sudden change, which affects their creditworthiness. The experience of Credit Mediation managers in France confirms that, in many cases, the reason for the banks to cut credit lines is a sharp drop in turnover. Matching successful mediation cases with benchmark firms on the basis of financial variables may therefore be difficult, because the last balance sheet available before entering mediation, typically referred to the previous fiscal year, does not necessarily reflect the situation of the firm at the time it enters credit mediation. In fact, these firms are likely to have experienced a financial shock, for instance due to a sudden drop in demand, which can be hardly estimated on past financial variables.

Measuring the direct impact of credit mediation on firms' financial and economic performance represents one of the several challenges to assess the programme's economic additionality. The evaluation should also take into account the market offer of similar services and the degree to which the public mediation service, generally free of charge, competes with or crowds out market business services, or, on the contrary, fills a gap in the market of services to SMEs. The post-crisis experience of public mediation has been characterised by system-wide targets and a neutral role of the mediator, which distinguish the programmes from consultancy services provided in the market by professionals and service firms. Restoring and smoothing relationships between banks and the SME sector, often through concerted actions with several different actors and institutions, are common objectives in these programmes. Nevertheless, the type of service provided may compete with that of business consultants, which provide SMEs advice on business plans, financial management and credit relations. Beyond crisis times, any discussion on a possible evolution of mediation from temporary measure to long-term policy instrument should also consider the existing market for business services, their effectiveness in addressing information asymmetry and other sources of conflict in credit relations, the opportunities to strengthen the business service sector and the rationale for a long-term public offer in this area.

¹⁹ Presentation at the 40th Session of the OECD Working Party on SMEs and Entrepreneurship (October 2011).

Access to credit mediation and success rates: country level evidence

The scope and reach of credit mediation vary largely across countries. Table 1 provides some descriptive evidence on the scope and results of credit mediation in Belgium, France, Germany and Ireland, and on the Appeals Process in the United Kingdom.

The French credit mediator handled more than 30 000 applications over four years, amounting to more than 600 cases per month on average. In Germany, where credit mediation was operational for less than two years, the mediator dealt with 59 cases per month on average. In Belgium, 711 applications were received by the Mediator over 2009-2011, and in Ireland the CRO has processed 262 applications over about two years. Accordingly, the credit volume mobilised as well as the number of jobs preserved also display large variation.

There are important caveats about the estimates on the number of jobs preserved, as they might be considered indicative of a possible maximum mediation outcome. In fact, these figures take into account the total number of employees of the assisted firms. These correspond to jobs preserved under the assumption that the firms would have ceased their activity without the intervention of the credit mediator.

Table 1. Credit mediation schemes: key indicators

Programme	Years	Key evidence
Corporate Credit Mediator Belgium	2009-2011	<ul style="list-style-type: none"> • 712 applications treated • 712 firms assisted (98% with less than 50 employees) • EUR 153 million mobilised • 64% of the employment preserved (2 605 jobs) • Successful mediation: 60%
Credit Mediation Office France	November 2008 – December 2012	<ul style="list-style-type: none"> • 30 196 applications accepted • 16 501 firms assisted • 291 314 jobs involved • EUR 4 196 million mobilised • Successful mediation: 62%
Credit Mediator Germany	March 2010 - December 2011	<ul style="list-style-type: none"> • 1 290 firms assisted, of which 307 had been denied credit • EUR 254.5 million mobilised • 9 794 jobs preserved • Successful mediation (on earlier full credit rejection): 31%
Credit Review Office Ireland	April 2010 – September 2012	<ul style="list-style-type: none"> • 262 applications accepted • EUR 9.6 million mobilised • 813 full time and 46 part time jobs protected • Successful mediation (on earlier credit rejection): 56%
Appeals Process UK	April 2011 – March 2012	<ul style="list-style-type: none"> • 2 177 appeals • Success rate: 39.5%

Source: CeFIP (2011a; 2011b), Mediateur du Credit (2012), Credit Review Office (2012), Kreditmediator (2011), Griggs (2012).

The differences in the uptake of the service by firms can be explained by the resources committed by the countries, but also, at least in part, by the extent to which the credit mediation facility is known in the business community. Indeed, the Belgian Mediator has identified as a relevant problem the

communication on the programme itself. A CeFiP survey conducted in 2010 among 630 Belgian SMEs reveals that less than 7% know about the mediation service. Similarly, in the UK, only 2% of denied credit requests went into the appeals process (Griggs 2012).

Widespread communication and advertisement through the various SME stakeholders (business associations, chambers of commerce, etc.) and the general media is generally needed to sustain a high level of awareness and participation. Advertising the overturn rates, which are often non-negligible, is also believed to increase the credibility and effectiveness of the credit mediation facility and hence its take-up (Griggs 2012).

In the following paragraphs, details are provided on the performance of credit mediation schemes in Belgium, France, Germany and Ireland.

Belgium: the Corporate Credit Mediator

According to the 2011 CeFiP report, between its creation in 2009 and the end of 2011, the Belgian Credit Mediator handled 712 files corresponding to a total credit volume of EUR 153 million. The rate of successful mediation was 60%, and it is estimated that 64% of the employment concerned was preserved, equivalent to 2 605 full time jobs. In 2011, the number of applications to the Mediator decreased, reflecting also the reduced propensity of entrepreneurs to invest due to the crisis. However, the trend reversed in the last months of 2011, when the number of applications increased by 50% compared to the same period in the previous year (CeFiP, 2011b).

The 2010 CeFiP report provides details on the types of firms accessing the service and the financing problems brought in front of the Mediator. Over 2009-2010, 98% of the firms that accessed mediation were SMEs with less than 50 employees. The most frequent problems were related to the need for short-term funding (38%) and medium- to long-term funding (26%). Much less frequent were problems related to delinquency on existing credit (10%) and delayed payments (8%).

On average, the amount of credit treated for mediation amounted to EUR 270 100, although a large share of the requests (40%) concerned credit in the EUR 50 000 – EUR 249 999 range. In only 11% of the cases did the loan volume exceed EUR 500 000 (CeFiP, 2010).

The mediator estimates that about 70% of the cases submitted to mediation were affected by some form of communication problem, such as slow communication between the parties, lack of key elements in the business plan communicated by the firm to the bank, lack of exchange on public measures or even abrupt interruption of communication between the lender and the borrower (CeFiP, 2011a).

According to the 2011 mediator report, raising awareness of SMEs remains a priority to increase uptake of the service by SMEs. For this purpose, a pilot initiative was launched in the Luxembourg Province, where a partnership agreement was signed with the local Chamber of Commerce to provide the mediation service in a decentralised way. The pilot initiative is temporary and intended to increase knowledge about credit mediation, also through the demonstration effect that would be produced at the local level by success stories (CeFiP, 2011a).

France: the Credit Mediation Office

Over the operation period November 2008 - December 2012, the French Credit Mediator treated 37 157 applications nationwide. Of these, 30 196 were accepted. The success rate was 62% and the number of firms supported in this way was equal to 16 501.

The Mediator estimated that the amount of funding made accessible through the mediation service over 2008-2012 at EUR 4 196 million and the employment accounted for by the firms supported at 291 314 jobs (Mediateur du Credit, 2012).

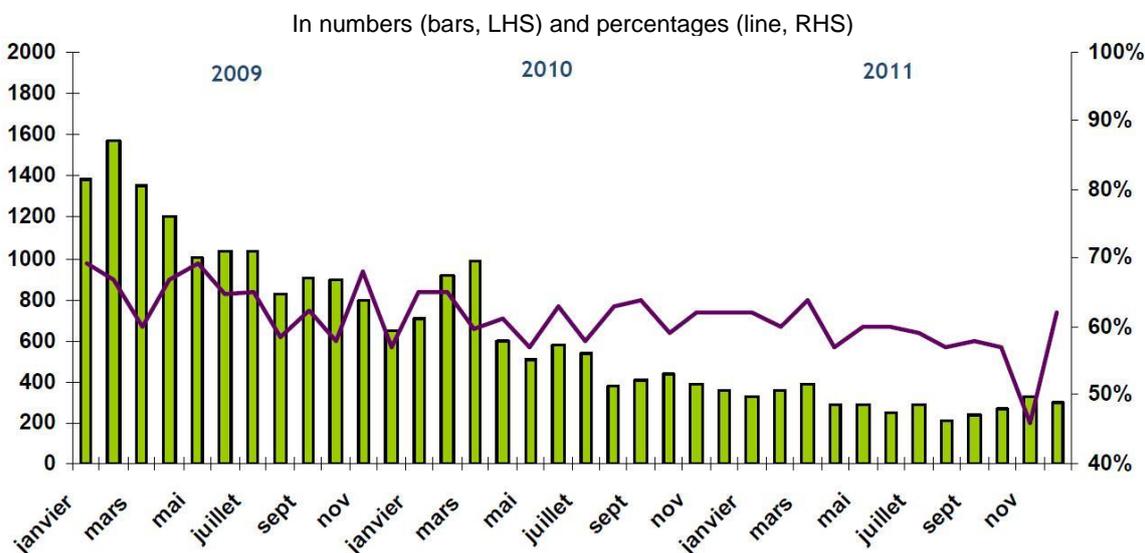
Rapidity in the processing of application was highlighted as a key success factor in the mediation scheme. In the 48 hours following the validation of the on-line mediation application, the local mediator contacts the firms and informs it as to its decision. Furthermore, if the case is accepted for mediation, the credit institutions are notified about this and have five working days to review their positions. After this period has elapsed, the local mediator contacts the firm again to monitor progress and eventually develops a mediation plan.

Figure 2 illustrates, for the period January 2009 – December 2011, the monthly-based trend in acceptance of mediation requests and the success rate. This was relatively stable over time, whereas the number of applications treated by the mediators has substantially declined since the second half of 2010.

In the first years of operation, the first reason for applying for mediation was refusal of a short-term bank loan. Other common reasons included difficulties related to credit insurance and trade credit financing, and problems related to debt restructuring and equity capital needs (Liebert, 2010).

In 2011, 96% of the demands accepted concerned firms with less than 50 employees. The loans under mediation amounted to less than EUR 50 000 in 59% of the cases and the highest share of request arrived from the service sectors (38%), whereas demands from industry firms amounted to 14% of all accepted applications (Mediateur du Credit, 2011).

Figure 2. Credit mediation in France: dossiers accepted for mediation and success rate, January 2009 – December 2011



Source: www.mediateurducredit.fr.

In 2012, the Mediator reported increasing complexity in the cases submitted for mediation, mainly related to structural problems linked with the prolonged drag in economic activity. This also explains the slight decrease in the acceptance rate of applications (78% in 2012 against 81% over 2008-2012) and in the success rate of mediation (58% in 2012 against 62% over 2008-2012), in spite of the decreasing number of cases treated (378 applications per month in 2012). In 2012, firms with less than 50

employees continued to account for the large majority of demands (95%) and the credit concerned to be limited to less than EUR 50 000 in most of the cases (56%). The share of demand from firms in the services sector slightly increased (40%), mainly composed of enterprises in the commerce sector (28%) (Mediateur du Credit, 2011).

The effectiveness of the credit mediation activity has been facilitated by the appointment of correspondents for bank networks at the departmental and regional levels. Indeed, one of the indirect effects of the mediation programme concerns the strengthening of linkages at the local level, between SMEs, financial institutions and assistance networks. Also, the credit mediation scheme seems to have induced changes in the procedures adopted by banks, some of which have implemented a sort of pre-mediation process, whereby cases that entail a manageable risk are renegotiated with the firm, in order to avoid a request for the formal mediation process (Liebert, 2010).

Germany: the Credit Mediator

Over December 2009 – December 2011, the time of existence of the programme, 1 290 firms received support from the Credit Mediator in Germany. In the case of 903 firms, the credit constraint could be eased by supplying information on additional support programmes and by providing consultancy to the firm. The number of employees in the assisted firms amounted to 20 400.

Moreover, the Credit Mediator assisted 307 firms which had been previously denied credit. Following the intervention of the Mediator, banks have reversed their decision and granted the credit in 96 cases. The additional mobilized loan volume amounts to EUR 254.5 million. The firms supported contributed to the retention of 9 794 jobs (Kreditmediator, 2011).

Ireland: the Credit Review Office

During the first quarter of operation in 2010, a low number of applications (12) were received by the Ireland's Credit Review Office, despite 2 650 visits being registered on the website and 198 calls being made to the helpline by borrowers (CRO, 2010b). The reasons for such a low response initially were attributed to:

- A fear that using the internal appeal and Credit Review Office processes may damage the borrowers' relationship with the banks - especially with front-line staff.
- A weariness to enter another process to have the lending request assessed, having already engaged in the bank's internal review process (CRO, 2010c).

To address this low turnout, additional marketing and publicity efforts were made to promote the CRO's activities, including a media campaign on national and regional channels and participation of the CRO to SME events and conferences. Also, the two pillar banks have agreed to ensure that all letters of rejection to eligible borrowers include the CRO leaflet (Department of Finance, 2012). As a result, in 2011, the level of awareness of the CRO appeared to be high, with 60% of micro enterprises and approximately 70% of SMEs indicating they were aware of its existence (Mazars, 2011).

In addition, the ceiling for loan amounts that could be referred to the CRO was lifted from the initial EUR 250 000 to EUR 500 000. The application process has also been revised and simplified with the CRO entering borrowers' appeals directly into the bank's process for appeal, if not already done so, and simplification of the borrower information required for application (CRO, 2011).

From April 2010 to September 2012, 262 applications (including applications awaiting eligibility confirmation) had been treated by the CRO (CRO, 2012). It is estimated that, as a consequence of the review process, EUR 9 619 724 of credit was mobilised, whereas the value of credit being upheld amounted to EUR 7 114 653. The employment preserved was estimated at 813 full time jobs and 46 part time jobs (CRO, 2012).

Table 2. Ireland's Credit Review Office activity: applications and successful mediation (April 2010 - September 2012)

Bank	Application Rec'd but held at Office until Eligibility confirmed With Bank	Overturned by Internal Appeals/ got credit ¹	Abandoned /Withdrawn by customer ²	Application Received And proceeding Through Review process	CRO Decision			Total
					Banks' Credit Decision Upheld	Bank's Credit Decision Disputed/Bank Subsequently Provided Credit	More work required by Borrower and Bank or withdrawn by customer	
AIB	9	10	9	8	43	49	8	136
Bol	4	10	13	7	33	47	12	126
Total	13	20	22	15	76	96	20	262

1. Only tracked since May 2011-new procedures. 2. Considered abandoned if no response after 6 months. 3. Includes applications awaiting eligibility confirmation.

Source: Credit Review Office (2012).

Table 3. Ireland's Credit Review Office activity: credit mobilised (April 2010 – September 2012)

In EUR

Formal appeals	Banks' credit decision upheld	Banks' credit decision disputed / bank provided credit
AIB	4 213 700	4 642 874
Bol	2 900 953	4 976 850
Total	7 114 653	9 619 724

Source: Credit Review Office (2012).

In his ninth quarterly report (October 2012), the Credit Reviewer highlighted the need for a thorough assessment of the CRO activity, to ensure that the original mandate continues to be met, also in the light of the evolving policy scenario, which includes a new Loan Guarantee Scheme launched by the Irish Government in 2012. The Credit Reviewer deems that lending conditions have tightened for 'marginal' SMEs, which are currently in a challenged financial condition, but may have a viable recovery plan. Accordingly, the Reviewer sees a rationale for the Credit Review Office to continue its activity and encourage banks to maintain a customer focus and assist these firms, many of which may be essential to help the economy return to growth and fuller employment (Credit Review Office, 2012).

7. Conclusions

In the aftermath of the 2008-2009 global financial crisis, credit mediation schemes were set up in a number of European OECD countries, as part of temporary anti-crisis measures, and have, in some cases, evolved into a longer-term initiative to ease access to finance by SMEs that are denied credit by banks or

face challenging financial conditions. The increasing difficulties SMEs encounter in their lending relationships have also driven government efforts to streamline lending procedures and the transparency and promptness of lending decisions, including the adoption of common templates across financial institutions and the revision of banks' internal appeals procedures.

Credit mediation addresses some of the main hurdles or sources of conflict in the credit process, such as information asymmetry and communication deficiencies, facilitating the exchange of information between prospective lenders and borrowers and the development of joint solutions, providing advice to entrepreneurs on how to improve the articulation and communication of business plans, directing firms to other available support services. Importantly, credit mediation is advisory in nature and neutral, in the sense that it aims to facilitate lending relationships, often by engaging additional actors and expertise in the negotiation process, but the mediator has no authority to impose a decision on a financial institution.

In recent years, credit mediators have also assisted governments in monitoring the financing framework and assessing the difficulties encountered by SMEs. In this regard, they have worked as an additional source of information "on the ground", close to the SMEs and their credit channels, at a time when timely monitoring has been of the greatest importance for implementing anti-crisis measures or phasing out temporary instruments.

The available evidence in the small number of countries with established mediation programmes (Belgium, France and Ireland, whose mediation schemes are still in operation in 2013, and Germany, whose mediation programme phased out in 2011), suggests that these mechanisms have been effective in responding to the needs of SMEs that had been denied credit and in facilitating the reversal of lending decisions by banks. Small firms, with less than 50 employees, have been the main users of the programmes. The rapidity of mediators in treating the applications has been important to support the cases under mediation and to encourage a rapid response by financial institutions. As in most cases the difficulties encountered by entrepreneurs originated from communications deficiencies, lack of financial skills and strict risk parameters applied by banks, improving the capacity of entrepreneurs to supply adequate information to the lender has proved to be a key element of success in the mediation activity. In this regard, the benefits of credit mediation appear to extend beyond the individual loan case assisted. By providing support to SMEs to increase the quality of their files, mediation can foster learning by entrepreneurs and improve their capacity to understand the information requirements of the credit market and to develop adequate reporting.

The credit mediators' reports in these countries, as well as the review of the banks' appeals process conducted in the UK by an Independent Reviewer indicate however that a skill problem exists also on the side of lenders. Following the financial crisis, attitudes to lending have been changing very quickly, demanding significant adaptation in communication practices, information requests and disclosure to both lenders and borrowers (Griggs, 2012). Since the crisis erupted, bank officials have tended to apply strictly risk parameters and credit scoring methods, rather than searching for workable solutions to challenging situations. A more customer-focused approach, however, requires specific skills on lenders servicing the SME market (Credit Review Office, 2012).

The outreach of the schemes and the credit mobilised by mediation vary largely across countries, depending on the resources committed at the national and regional levels and on the awareness of SMEs. Indeed, in some countries, the lack of awareness about the service has represented a main obstacle for a broader uptake by SMEs, although media campaign and close collaboration with banks to diffuse information to loan applicants have proved effective in some cases.

Also, the types of requests to the mediators appear to have evolved over time. If during the financial crisis credit mediators responded to waves of rejections by banks, mainly for short-term credit and trade financing, over the last two years the cases submitted have presented increasing complexity, related also to equity funding, as the prolonged crisis has contributed to structural problems in the financial conditions of applicants.

The available evidence suggests mediation has helped most applicants in their search for bank funding. However, the relatively short time of operation of these credit mediation services and the lack of firm-level data limit the possibility to assess the impact of mediation on firms' survival prospects and performance. For the evaluation of financial additionality and economic additionality, applicant firms should be monitored throughout and following the mediation process, and appropriate control groups should be identified to disentangle mediation effects from selection effects.

Additionality should also be assessed in relation with other existing government measures and market services, taking into account that, in most cases, credit mediation schemes do not charge any fees for their services. Thus, generally they depend entirely on public funding. The burden on public budget should be assessed against the costs of alternative measures to ease SME access to finance. This also implies that transparency on the costs of mediation programmes, which are often covered through different budget lines, should be improved.

Publicly-supported credit mediation differs from consultancy services provided in the markets by professionals and service firms, mainly because it has a system-wide target, such as restoring and smoothing relationships between banks and the SME sector, it often works through concerted actions with several different actors and institutions, and implies a neutral role of the mediator. Nevertheless, the type of service provided may compete with that of business consultants, which provide SMEs advice on developing business plans, improving financial management and reporting, or assist firms in negotiating conditions on their debt. A rigorous evaluation of credit mediation, to inform discussion on its effectiveness and possible evolution from temporary measure to long-term policy instrument, should thus also take into account the degree to which the public service, generally free of charge, competes with and crowds out market business services, or, on the contrary, fills a gap in the market of services to SMEs.

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