Institut für Mittelstandsforschung
IfM BONN

Executive Summary

Corporate financing of small and medium-sized enterprises during the COVID-19 pandemic

André Pahnke, Sebastian Nielen, Christian Dienes and Christian Schröder

IfM-Materialien No. 300

Abstract

For just over three years, the COVID-19 pandemic, as an international health emergency, has significantly impacted everyday life and economic life worldwide. The rapid global spread of COVID-19 became not only a health crisis but also an economic crisis, affecting essential areas of corporate finance. Therefore, and as some kind of retrospection, this study examines the impact of the COVID-19 pandemic on the financing of small and medium-sized enterprises (SMEs) based on the Survey on the Access to Finance of Enterprises.

Access to finance became a significant problem for more but not for the majority of SMEs at the beginning of the COVID-19 pandemic

At the beginning of the COVID-19 pandemic, access to financing was not seen as a significant problem by the vast majority of SMEs. Nevertheless, the proportion of enterprises that rated access to finance as highly problematic at that time increased significantly compared to previous years. This is particularly true of small enterprises in Germany, where the proportion of enterprises facing difficulties in accessing finance has almost doubled.

Falling profits hampered access to finance

SMEs with declining profits were particularly likely to face significant problems in accessing finance. This correlation was very strong, especially at the beginning of the COVID-19 pandemic. More than half of SMEs in Germany (56.6%) reported falling profits over this period. Although the measures taken to contain the COVID-19 pandemic also led to reductions in variable costs, in particular, these cost reductions were not generally able to compensate for the declines in sales. Less than a fifth of SMEs in Germany (17.3%) reported rising profits at the beginning of the COVID-19 pandemic. Thus, the ratio of enterprises with rising to enterprises with falling profits reversed at that time.

Improved access to public funds counteracted a general deterioration in the financing environment

While at the beginning of the COVID-19 pandemic, a larger proportion of SMEs reported a deterioration rather than an improvement in access to debt capital, this was not the case for access to public funds. In fact, from the perspective of a large proportion of SMEs, public funds, subsidized loans, and grants were not only more accessible during this period but also constituted a larger proportion of the financing of German SMEs compared to previous years.

Government support measures were very significant

Most German SMEs, which benefited from government support measures to cushion the economic impact of the COVID-19 pandemic between October 2020 and March 2021, rated them as “very significant.” This applies in particular to wage subsidies. Not every euro area country considers government support measures significant, although a larger proportion of SMEs have taken advantage of government support measures in some.

SMEs have coped well overall with the COVID-19 pandemic but may currently face even greater challenges

The proportion of SMEs reporting significant problems in accessing finance has now returned to pre-pandemic levels. The low insolvency rates in Germany also indicate that most German SMEs can continue their business activities. However, as the COVID-19 pandemic subsides, other problem areas, such as recruiting skilled labor and rising costs, are (once again) gaining in importance and could present SMEs with long-term challenges.