

How much do SMEs borrow from the Banking System?

Abstract

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There is a substantial literature about bank lending to small and medium enterprises (SMEs). This literature has mostly concentrated on three issues: the fraction of bank lending that goes to SMEs, the differences in lending to SMEs by large and small banks, and the number of banks from which SMEs borrow. Mainly because of data limitations, the definition of a SME has been linked with the size of bank loans: most frequently commercial loans by individual banks of less than \$1 million are defined as loans to SMEs. The use of debt with individual banks as a measure of firm's size has several shortcomings. On the one hand, classifying firms size using an univariate criterion could be very misleading because of technological differences between firms, and this can be the case if debt is used as a proxy of firms' assets. On the other hand, there is evidence that firms also differ in the number of banks they borrow from and the relationship between firm size and the number of lenders is not obvious. Thus, this relationship must at least be explored previous to the use of lending with individual banks as a measure of firms' size.

We use here a data set from the Central de Deudores of the Banco Central de la República Argentina to attempt to shed some light on the extent of this problem. Restricting ourselves to the data on corporations, we consider four definitions of SMEs and the relevance of the definition chosen in determining the measured fraction of total financial system lending that go to SMEs. We compare the four definitions and provide a measure of the divergence between them. We also classify firms using cluster analysis to investigate to what extent multivariate analysis can be a better tool to separate firms, by letting the data reveal the groups in the population. Finally, we use some econometrics to investigate to what extent total lending of a firm can be affected by factors different from its size, as the number of lenders it borrows from or whether its lender is public or a private financial institution, or whether it is a large or a small bank. This analysis could shed some light about how much relevant information about firms is missing when we separate firms into large and small using univariate criteria.