Financial Instruments for Argentine SMEs after the Crisis.
Teachings from the German Case

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Abstract: In spite of the fact that in Germany there are some traditional financial instruments that have been developed efficiently, such as the state-owned bank of promotion, the systems of mutual guarantee and the access to the financial system, the SMEs must also face the difficulties presented in the access to financing. However, the access of the SMEs to banking financing is being threatened by the application of Basel II which will imply for the SMEs being put to qualification of risk (rating) at the time of asking for a loan. Even though the application of Basel II in Argentina appears to be something relatively distant, it would be important to generate, from the public politics field, spreading about its consequences for the SMEs.

On the other hand, several causes indicate the growing presence of the own capital in the financing of businesses (for example the conciseness of innovatory ideas) which intensifies the necessity and importance of specific instruments for the SMEs. In this way, the possibility to have access to financing through the Capital Market was specified with the opening of the Neuer Markt (New Market at Stock Exchange Market Frankfurt) in March 1997, whose later evolution and transformation resulted in a lesson for Argentina. The appearance of hybrid instruments in Germany, which has been spread under the name Mezzanine Kapital, with the aim of covering the intermediate spectrum between the own capital and the debt was also a lesson for the Argentine SMEs. This instrument is assimilated to equity, increasing the possibilities of access to the Debt Market, and at the same time, as far as investors are concerned, it means making more progress, and more efficient the saving-investment channel without discriminating the SMEs group.

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1 Introduction

We started from the premise that after the severe macroeconomic crisis triggered at the end of the year 2001, the Argentine economy had to face a real challenge of reconstruction in which the resurgence of companies is required as an essential component of a growth strategy. This strategy has to strengthen competencies and resources of the country. On the other hand, the German economy shows clear signs of impossibility of tempering the recession-revival economic cycle and at the same time there is a growing interest in the roles of new businessmen and small companies in the competitive dynamics of the nation.

In this context, the financing subject under the Argentine financial system crisis and the breaking of the communicative channel with the international financial market is a field of particular interest. In spite of the fact that small German companies have a wide number of financial instruments, they have to face restrictions when acceding to the credit.

The importance of the section of the SMEs in Germany is notable. Consequently, a more complex term for the word ‘SME’, apart from the quantitative use of the parameters of common definition for the spectrum of the SME in any economy, underlies in this country. The wide concept of the SME term considered as an independent company (Hauser, 2000) is essential for the German society. In Germany, the strong link between the SME’s and its owners’ behaviours influences its conduct in the market and determines the socio-political importance of the German SMEs (Hauser, 2000; Günterberg y Kayser, 2004).

In Germany, more than 99% of every firm is situated in the SMEs’s rank. According to the IfM Bonn’s informations, the German SMEs contribute almost 50% of the gross Added Value (AV) of the country, but what is more important is that they reflect a 70% of the total of employment.

The prevailing financial system for the SMEs in Germany highlights the presence of the own capital and the bank financing as the main sources. The German SMEs identify the lack of access to the credit as one of the most important obstacles that must be faced to develop their business (IfM Bonn, 2002). This situation together with the importance of the sector in the German economy justify the existence of governmental programmes that support the development of the SMEs.

In general, the policy of the financial support for the SMEs in Germany is concentrated on the promotion of the investment process, leaving the short-term financing to the private and cooperative bank sector.

As a result, a strong relationship between cooperative banks and credit boxes is registered in the SMEs’s financing. It was only during the last decades that important banks discovered the SMEs as potential clients in Germany (Albach, 1995).
The financial pattern preferred by German and Argentinian SMEs’s entrepreneurs is situated in the debt field in which the valid interlocutors are banks, suppliers and non-formal lenders (Ruda, 1997; Ascúa, 2001).

The access to the bank debt market on the part of the SMEs in view of the future implementation of the New Agreement Basel II has generated great worry in Germany. The temporal restriction in the access to the Debt Market and the growing Own Capital requirements should promote the use of other financial instruments.

Contrary to big businesses, the SMEs face little opportunities to set their initiatives due to the lack of financing alternatives (Winkelmann, 1982). The Equity Market provided by Venture Capital Funds (VC) is restricted to bigger companies among the smaller ones and it is virtually absent in high technological enterprises and in the start-up of new businesses.

In this section, the guarantee system is also analysed since this matter is usually adhered to the difficulties that the SMEs must face to gain access to the credits, especially long-term financing.

In Germany, because of the SMEs’s financing, the Risk Coverage System has been institutionalized through the guarantee system of mutual character (Kokalj, Paffenholz y Moog, 2003). Despite this system is of private character, it is described as a mutual one since the society which gives the guarantee includes the SMEs under a philosophy of mutual help and participation.

This system has been acting since the middle of the fifties when the guarantee companies (KGG)² were institutionalized. The members of these companies are not the SMEs directly, but their representation is indirect through entrepreneurial chambers.

The number of SMEs supported by KGG ascended to 5,300 firms in the year 2003, a similar standard registered in previous years (Verband der Bürgschaftsbanken, 2004). 92% of the granted guarantees was allocated to traditional bank loans and the remaining 8% was destined to the financing originated in companies of capital sharing which is a segment that has been gradually increasing its importance (+14% in relation to the year 2002).

The need to provide the process of granting loans with more security after the rules of Basel II came into effect, will intensify the activity of the entities of SMEs’s loans consolidation (Kokalj, Paffenholz y Moog, 2003).

From a total of more than 3,000,000 companies in Germany (IfM Bonn, 2003), only around 3,200 attain the legal figure of public companies and only 20% of them is contributing in the Capital Market (Ruda, 2003). There are obstacles of diverse nature that explain the low development in the Capital Market (for

² Kreditgarantiegemeinschaften.
instance, bureaucratic barriers to the income, maintenance of the control, avoidance of unwished promotions and the cost of income, etc. (Albach, 1995)). The access to certain markets such as the euromarket or the German bond domestic market is restricted to a minimum volume (Ruda, 1997).

Taking into consideration the Capital Market in Germany, the opening of Neuer Markt as an exchange segment specialized in the SMEs and in a quick growth in March, 1997 opened a path full of strong positive expectations. This opening made possible for a lot of SMEs to have access to the financing through the Capital Market. At the beginning of 2002, around 325 SMEs quoted their shares in the Neuer Markt, after a great number of Initial Public Offering (IPO) had been produced in 1999 and 2000 (Ruda, 2003).

From the beginning of 2001, an important fall in IPO’s quantity was produced as a result of the bigger distrust on the market and the valuation of the stocks. During the year 2002, the Capital Market and especially the Neuer Markt suffered a very important fall in the value of the “papers” in quotation (around 75% of the stock-exchange capitalization was lost in two years) which forced the Frankfurt Stock Exchange to integrate the Neuer Markt in the Prime Standard: TecDax 30 in replacement of the NEMAX 50 and the Technology All Share (TecAllShare) instead of NEMAX Allshare (Ruda, 2004a).

The economic damage caused by the falsification of balances in big companies such as Enron, Worldcom or Kinowelt introduced a very detrimental effect in the Capital Market: the loss of the investors’s confidence.

Another mechanism present in Germany is the financing through the VC. Taking into account the “Own Capital” financing matter, an intensive field of VC activities through the specific legal figure over societies of participation in capital (KBG) has been developed in Germany since the nineties. These companies were quickly transformed in the bridge between the SMEs’ capital needs and the potential investor of an important group of investors. These KBG constitute pools of capital having been specialized in the doing of business with SME (Ruda, 1997, Loos, 1996).

VC companies may be described as pools of capital for investment, which is transferred to the SME, especially the new ones that are in a low-grade activity stage but that show a high-growth potentiality for a limited period.

There are some requirements in order for the market of VC to be developed:

a) The existence of a sufficient number of young and innovative companies.

b) A dynamic capital market which allows the exit of VC from the firms they have invested in (Ruda, 2002; Ruda y Martin, 2000).
Since 1996, around 11,000 SMEs have been receiving capital contributions from the Private Equity market. Contrary, around 5,800 SMEs are in the investment portfolios of capital participating companies (Paffenholz, 2002). Even though the VC market has been developing in a positive way since the last decade, it is still a faraway alternative on the SMEs businessmen’s perception (IfM Bonn, 2004).

2 Challenges in the Financing Process of the SMEs in Germany: Basel II\(^4\)

The committee of Basel (BIS)\(^5\) was created by the presidents of the Central Banks of the countries belonging to the Group 10 (G10) in 1974. Nowadays, the countries that integrate it are represented by their Central Banks and the institutions that formally hold unlawfully the responsibility to act as bank supervisors. It prepares the guidelines for the supervision standards, the limits and recommendations about the bank practices in order to be adopted by the supervising body in the different countries according to the local needs and the political decisions. Reducing the gap between countries on the subject of prudent bank supervision is also one of its aims. It is not formally a supervising body and its conclusions and recommendations do not have legal support.

The Capital Agreement in 1988 (Basel I), set a minimum requirement of capital only based on the credit risk. In 1996, an amendment was created in order to incorporate the risk market, that is to say the risk derived from the fluctuations on the assets prices with a quotation, the interest rates and the types of change. In simple terms, Basel I set that the minimum capital must be of at least 8% of the weighted assets due to their risk.

Since the day in which the Capital Agreement (put into effect in 1988) started up, the bank industry has been acquiring a high grade of complexity. The recent history of the international capital markets includes serious events of financing crisis, for instance, Tequila at the end of 1994 and the Asian crisis that started in the middle of 1997 and continued in Russia, Brazil and Turkey. This made the Committee of Basel elaborate a new outline for the determination of minimum capital requirements that reflects the complexity of the banking world, being much more sensitive to the risk.

The first document was presented in order to be discussed at the beginning of 1999 and numerous comments and several participants of the market were


\(^5\) www.bis.org.
incorporated, for example Central Banks, bank supervision bodies, credit multilateral organisms, bank associations, risk qualification agencies, and commercial banks among others.

The proposal – known as Basel II – was presented to the G10 countries, to participants of the bank sector and to countries that are not members of the Committee in June, 1999. It has also been bowed to several consultative rounds and after that, some of the suggestions proposed by the different participants of the financial markets have been incorporated.

The goal of the New Agreement is to achieve a measurement of the regulating capital more sensitive to the risk. This has to be supplemented with the deepening of the bank supervision process and the market discipline.

Even though some resistances and delays were registered, the consultative rounds finished in the middle of 2004 with the aim of implementing the New Agreement at the end of 2006. A transition period in which the regulators might be able to make use of certain discretion until they achieve the standards proposed by the Committee of Basel was also foreseen.

The new approach proposed by Basel II is based on the following three pillars:

- Minimum capital requirements;
- Bank supervision process about the necessary capital level and;
- Market discipline (public spreading).

The proposal directs the application of more sophisticated risk measurement models in order to move from an accountancy approach to another that contributes to a dynamic management of the risks. The banks may choose between three alternative methods (standardized, based on advanced and basic internal qualifications) to face the credit risk proposing incentives to move towards the application of the more advanced method.

**Future-oriented changes**: The current norms of Basel are based on the determination of a capital ratio that arises from the consideration of the capital quantity belonging to the bank (numerator) and the risk measurement in which the bank defined by the assets weighted by their risk level (denominator) is fallen into.

In the New Agreement, the capital definition does not vary and the objective is that the minimum capital percentage to be maintained does not do it either since it stays in 8% of the assets total.

On the other hand, the denominator is modified since the assets are weighted due to their risk, changing the measurement methodology. The aim is to improve the

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6 Recently, the Committee of Basel has recognized the need to extend the application of the New Agreement up to the end of the year 2007 by virtue of the intensity and duration of the previous consultative rounds.
evaluations about the risks carried out by the banks in order to make the capital ratios more representative of the risk profile of each entity (higher sensitivity towards the risk).

The Agreement in force covers two types of risks: of the credit and of the market. The New Agreement, apart from modifying the measurement methodology, it incorporates the explicit treatment of the operative risk, that is to say, the risk of producing losses as a result of personal processes, inappropriate or faulty internal systems or due to external events. As regards the methodology, the New Agreement introduces three different options for the credit risk calculation and other three possibilities for the operative risk measurement.

The alternatives for the measurement of the credit risk are:

- The standard method;
- The basic IRB method and;
- The advanced IRB.

The standard method for the credit risk is similar to the current Agreement in which the banks have to classify their active portfolios (exposition) in categories liable to be supervised from the noticeable characteristics of the applications just mentioned. This method states fixed risk considerations that correspond to each category. It also uses evaluations and external credit qualifications in order to improve the sensitivity towards the risks regarding the Agreement in force. The standard method also includes a specific treatment for the retail financings in which the loans granted to the SMEs, under certain parameters, are included.

At the same time, the New Agreement introduces the internal qualifications (IRB), in its two versions: basic and advanced. Concerning the use of the IRB, the main effect is that the internal risk evaluations made by the banks about their active portfolios must be used to calculate the needs of the minimum capital.

The IRB is based on four quantitative inputs:

- **PD**, weighs up the probability that the borrower fails during a determined temporal horizon;
- The **LGD**, that calculates the proportion of the exposition that would be lost if the default were produced;
- The **EAD**, that estimates in the credit compromises, the liquidity that would be probably owned by the debtor if the default were produced and;
- The **M**, calculates the remaining maturity term of a financing.

Once the value of each factor is determined, the function of risk consideration generates a specific capital requirement for each loan operation. In the particular case of the debtor SMEs, the New Agreement foresees an adjustment factor in the
formulæ of risk consideration in front of the rest of the companies evaluated by the IRB method.

Three methods have been foreseen for the evaluation of the operative risk:

- the Basic Indicator method;
- the standard method and;
- the Advanced Measurement Approaches (AMA).

In the same way as it occurs with the risk credit, the New Agreement is based on the development of the technique banks of internal evaluation, that is to say the AMA, for the evaluation of the operative risk.

Even though the techniques applied to the operative risk are developing more and more quickly they are far from the reaching the accuracy which may be used to quantify the credit and the market risks (Bank for International Settlements, 2004). It is expected the banks with international activities gradually adopt the AMA method, more sensitive towards the risk.

The banks with lower exposition to the operative risk may use some of the two more sensitive methods, the basic indicator and/or the standard, which require that the banks maintain an operative risk capital similar to a fixed percentage of a specific risk measurement.

Taking into account the basic indicator method, 15% of the average of gross income (ratio set by the Committee of Basel) of the last three years must be considered for the calculation of the required minimum capital.

In the standard method, the banks have to calculate a requirement of individual capital for each business line following the limits of the basic indicator method. As a result, the total minimum capital is obtained as a sum of the different requirements of each business line.

The second pillar of the New Agreement, that is to say, the “process of bank supervision over the necessary capital level”, is aimed at the need of the banks to evaluate their capital position with respect to their global risks and at the need of the supervisors to examine and adopt the appropriate measurements as an answer to these evaluations. All in all, it is expected that not only the banks but also the supervising institutions must have capacities for the risk evaluation. In this sense, it is feasible to wait for the banks and their supervisors to use the stress testing in order to assure they maintain a capital level with enough margin to support the sensitivity. 7 If the test is not surpassed by the banks, the supervisor must have enough capacity to demand the banks to reduce their risks and/or increase their capital.

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7 It is obvious that the banks must adequate a quota of enough capital in order to be protected from the probability of an opposing economic situation when they apply the IRB method for the credit risk.
The third pillar, “Market discipline (public spreading)” has as a main objective to complete the minimum capital requirements of the first pillar and the process of supervision of the second one. The New Agreement intensifies the intentions of the Committee of Basel to promote the market discipline developing a group of spreading requirements that allow the participants to evaluate the principal information about the risk profile of a bank and about their level of capitalization\(^8\) in the market. This need of public diffusion is considered to be very important in the New Agreement since the use of internal methodologies for the risk measurement may be possible for the banks to enjoy a greater discretion when determining their capital needs.

In Germany, there is a great worry about the implementation of the norms of Basel II since it is thought the banks may consider the SMEs less attractive as borrowers (IfM Bonn, 2003). Thus, in Europe and specially in Germany, a strong campaign of communication and of preparation in the market, especially the one integrated by the SME has been developing since the beginning of the current decade.

From the different alternatives the SMEs rely on for their financing, the self-financing and the bank loans are the most significant sources for the German firms these days. This consideration does not substantially change for the analysis of the future financing system being highlighted a level growth of the instruments such as the leasing and the loans of state-owned encouragement. The incorporation of a partner, the factoring and the Mezzanine Kapital are instruments of growth still of low importance for these SMEs (Kayser and Wallau, 2003).

![Figure 1: Central points of the future SMEs financing](source: IfM Bonn, 2003)

According to the IfM Bonn work in 2003, 43.7% of the consulted German SMEs had a very good or good knowledge about the criterions set by the internal rating of companies (Kayser and Wallau, 2003). Only 11.4% represented a lack of information.

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\(^8\) The banks must publish information about the security and supervision reasons and the periodical reports demanded by the regulating authorities.
The main points that must be taken into account in the future system of financing to the SMEs are located around the change in the system of loans grantings on the part of the banks and credit boxes. On the other hand, new instruments for the financing of the SMEs are also visualized.

The heterogeneity of the SME’s spectrum in Germany, just as in the rest of the world, has special implications in the future system of financing. In Germany, for most of the SMEs the predominance of the bank credits will continue with a growing importance of the leasing and the factoring. In contrast, an expansion of the financial system and better possibilities of access to the credit are expected by the innovative firms and/or the larger ones of the SME’s group. (Kayser, 2003).

During the last decade, the intensification of the globalization process reached the financial system and, at the same time, new markets opened together with a major risk and progress diversification.

Similarly, taking into account the bank work, regulating principles, that later affected the relationship bank-SME, were established (Capital Agreement, 1988 derived from the Committee of Basel of bank supervision that depends on the Bank for International Settlements – Basel I). According to the IfM Bonn analysis (2001), the proportion of bank financing destined to small companies was reduced from 77.3% to 75.7% during the last years of the previous decade. Even though this process has not been generated by Basel II, it makes evident the importance of the subject as it gets closer to the put into effect of the new regulation (in 2006).

Under Basel II control, the obligations of the banks when granting a finance must be oriented to the individual valuation of the inherent risk. The credit risk is the cause of the liquidity qualification and, therefore of the rating determination.

Source: IfM Bonn, 2003

Graphic 1
Difficulties by Basel II
Implication of Basel II for the SMEs:

- Disposal for the information transmission as a pre-requirement to the access to acceptable credit conditions in which an open and appropriate financial communication with the funding agency is needed.

- Organization of auditing and control activities. However, in most of the SMEs’ cases, the systems, instruments and the structure of the organization for the presentation of the information must still be adapted.

- Working out of a business-oriented strategy, although the strategic planning may be considered to be odd by the SMEs. It must be established in order to be transmitted to the outer of the firm.

This change generates special implications because the good relationship between the SMEs and the bank entities, especially the credit boxes and the cooperative banks, has been traditional in Germany (Kayser, 2001).

Since the nineties, the globalization process that made the own financial institutions compete in an expanded and attractive market, though it is evidently risky, for the portfolio diversification, was intensified. Therefore, and after the financial crisis of the emerging markets suffered in the last years, the rules of Basel II established the banks’s obligations in the sense of orienting the granting of loans according to the valuations of the implicit risk of each individual operation.
The valuation of the risk mentioned above must be based on an individual judgement about the quality of the payee and about the document that implements the operation using the “external rating” system traditionally circumscribed to large companies with public quotation.

3 New Financial Instruments for the SMEs in Germany

In the financial field, the hybrid instruments are what is considered to be the enterfloor in architecture. In Germany, the instrument named Mezzanine Kapital has been developed with the aim of covering the intermediate spectrum (hybrid) between the own capital and the debt during the last years (Walther, 2003; Nathusius, 2000).

The emergency of this type of hybrid instruments originated as collateral tools of the business of the banks (operations of high performance but of high risks) in The United States and The United Kingdom in the seventies. In the eighties, the hybrid instruments were transformed into the ideal vehicle for the concision of the MBO operations and, at the same time, they were turned into an alternative for investors who look for high performances. In Germany, the hybrid instrument had an important development that helped it being transformed into the third market with a world-importance at present (Walther, 2003).

Mezzanine Kapital constitutes the German version of the financial hybrid instruments whose institutionalization is given through the equity issues of participation in order to attract investors and the divisibility of the application of the fund constituted in the SMEs.

Between both extremes (debt and own capital), there is a great difference in the term, the guarantee and the security, etc. Thus, the hybrid instruments cover an important financial space for non-quotable companies in the commodity exchange since they represent flexible and dynamic financial means. These instruments are individually constructed following the measurements of the claimants and they are bridges of relationships with potential investors also. This role has been gaining a special importance during the last years in virtue of the new rules called Basel II that will be put into effect in 2006/2007 and that will cause the appearance of some restrictions for the non-quotable companies in the access to the bank credit in the Stock Exchange.

Mezzanine Kapital is similar to the own capital for the financial institutions and, therefore it increases the possibilities of access to the debt market without the need for the SMEs to directly enter the capital market. On the other hand, this instrument means higher performances for the people who contribute to the
Mezzanine Kapital funds. As a result, the saving-investment channel becomes more efficient whilst it reduces the negative effect of the diseconomy of scale in the financial operations of the SMEs.

In Germany, the access to the bank financing has been very difficult not only for the new companies but also for the SMEs during the last few years. The banks tend to rationalize the credit and, as a result, a question about whether there are alternatives concerning the bank credit appears. The banks try to reduce the risk and, at the same time, they also try to look for a way in which they can improve the business income. Consequently, chances related to the hybrid system have emerged: Mezzanine Kapital.

This system known either in Europe or in The United States is a help as regards the relationship risk-performance. Mezzanine Kapital is situated between the loan (bank) and the own capital.

Mezzanine Kapital is an instrument relatively new in Germany. It allows the exit of the investor through Buy-Outs and/or Buy-Ins and the search for a financial growth.9

Mezzanine Kapital operates as a link between the bank capital and the own capital in the relationship risk-performance. In Germany, the Mezzanine Kapital subject matter follows the international orientation.

In order for the banks to achieve a better ratio performance-risk, they may enter a business to finance the process of creation of the SMEs replacing the traditional loan scheme with the use of the financial hybrid instruments via. For instance, the equity kickers constitute a vehicle that was proved in order to step up the performance with the receipt of the interests of both parts, agent and principal.

Under certain conditions, this is also valid for the own-investor capital. This hybrid may be shown through the transformation law, that is to say options to obtain preferred shares. In Germany, there are hybrid instruments that combine the own capital with help in order to gain capital in the form of loans. The following types may be cited:

- Distinction according to forms orientated to the capital or the private market.
- Distinction according to the orientation towards the performance or the value growth.
- Distinction according to the proximity to the own capital or the debt.
- Distinction according to the life cycle of a company.

9 It expands the limits established by the traditional bank loan which is based on the balance analysis (Mason, 1998; Ascúa, 2001). In Germany, it is common to think of the finance with a maximum of 4 to 4.5 times the predicted Earnings Before Interest, Taxes, Depreciations, and Amortization (EBITDA) according to the traditional system of bank analysis (Nathusius, 2000).
At the same time, one of the current tendencies related to the market development is oriented towards a financial interlink since the external “own” capital finances companies and is transformed into the financial backer of the Mezzanine Kapital system.

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**Figure 2**
Path of the hybrid Instruments in the Risk/Return relationship

**Own capital**
- Quasi-own capital
- Atypical fixed participation in the capital
- Loan with option
- Loan with the right to change (variable according to performance)
- Preferred shares

**Quasi-debt**
- Typical fixed participation in the capital
- Loans with royalty according to activity
- Partners’ loans
- Subordinate loans
- Special rights

**Debt**

**Mezzanine Kapital**

Source: Nathusius, 2000

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**Figure 3**
MEZZANINE Kapital

Source: Nathusius, 2000
In the field of financial engineering, Mezzanine Kapital is a derivative system which is subdue to the happening of some event. At the same time, it is composed of various instruments, of a unit or of a mix of possibilities. Thus, it works only for the lenders, the founders of companies such as financial payees, the management and for the partners.

<table>
<thead>
<tr>
<th>Interested</th>
<th>Interests situation</th>
<th>Financial instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financier</td>
<td>• Risk adapted to the performance.</td>
<td>FK: -</td>
</tr>
<tr>
<td>Financial payee</td>
<td>• Steady and long-term financing.</td>
<td>FK: 0</td>
</tr>
<tr>
<td>(company)</td>
<td>• No capital service in the first development phases of the company.</td>
<td>FK: -</td>
</tr>
<tr>
<td></td>
<td>• Convenient conditions.</td>
<td>FK: 0</td>
</tr>
<tr>
<td>Management</td>
<td>• Steady and long-term financing.</td>
<td>FK: 0</td>
</tr>
<tr>
<td></td>
<td>• Convenient conditions</td>
<td>FK: 0</td>
</tr>
<tr>
<td></td>
<td>• Attention to the financing principles.</td>
<td>FK: 0</td>
</tr>
<tr>
<td></td>
<td>• Participation in the success of the company.</td>
<td>FK: -</td>
</tr>
<tr>
<td>Partner</td>
<td>• Own capital leverage by means of debt.</td>
<td>FK: +</td>
</tr>
<tr>
<td></td>
<td>• Growth of the value of their participation.</td>
<td>FK: 0</td>
</tr>
<tr>
<td></td>
<td>• To avoid the dissolution of their current participation in the company.</td>
<td>FK: +</td>
</tr>
<tr>
<td></td>
<td>• Exit channel working.</td>
<td>FK: 0</td>
</tr>
</tbody>
</table>

Source: Nathusius, 2000

Notes: FK: Debt, MK: Mezzanine Kapital, EK: Own capital

Chart 1
Interest situation according to financial form

The financial structure is a complex process when the company works with various financial instruments. For this process, it is important for the people who take part in it to know the different alternatives before taking a decision.

The definition and the delimitation of the Mezzanine Kapital system is shown in chart 12 which includes a large spectrum of alternatives between the extremes, own capital and debt. The intensity of the access to the variables of Mezzanine Kapital depends on the dynamics of the capital market (Walther, 2003).
Among the different types of Mezzanine Kapital, the following ones are highlighted (Betsch and Groh, 2000):

<table>
<thead>
<tr>
<th>Equity Mezzanine</th>
<th>Mezzanine Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Equity Mezzanine with an option to subscribe for the debt</td>
<td>- &quot;Patriarchal&quot; loan</td>
</tr>
<tr>
<td>- Equity Mezzanine with cover and/or guarantee.</td>
<td>- Conditioned loan</td>
</tr>
<tr>
<td>- Naked warrants.</td>
<td>- Debt with high performance</td>
</tr>
<tr>
<td>- Equity with the right of conversion.</td>
<td>- Debt with option to be transformed into equity</td>
</tr>
<tr>
<td>- Equity with an option to subscribe for the debt.</td>
<td>- Commercial loan</td>
</tr>
<tr>
<td>- Equity with subordination according to performance (equity kicker).</td>
<td>- Profit after the construction</td>
</tr>
<tr>
<td>- Genusscheine (shares with special prizes).</td>
<td>- Zero bonds</td>
</tr>
<tr>
<td>- &quot;Secure&quot; participation.</td>
<td>- Debt with public quotation (Negotiable obligations (ON))</td>
</tr>
<tr>
<td>- Sweet equity (shares with preferred conditions MBO/MBI–)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Betsch and Groh, 2000

Chart 2
Components of Mezzanine Kapital

In the future, and as a result of the Basel II norms, the financial hybrid instruments will acquire a special importance for the SMEs. The restriction to the access to the debt market and the increasing requirements of own capital will promote the use of this type of instruments (Walther, 2003; Kokalj and others, 2003; IfM Bonn, 2003).

Taking all this into consideration and according to the IfM Bonn, the emerging difficulties of Basel II in the access to the financing, depending on the acceptance of the German SMEs’s entrepreneurs, will concentrate on a high security demand to be offered by the credit payees and a high level of opening to the firm (Kayser, 2003).
Advantages of the Mezzanine Kapital:

- Increase of the own capital proportion.
- Growth of the credit quality.
- Improvement of the rating.
- Expansion of the access space to a credit financing.
- Lower interests rates in loans.
- Better refinancing conditions.
- Direct improvement of the liquidity situation in the investment and/or expansion process.
- Protection in the face of an eventual reduction of the pre-existent structure.

4 Teachings for the Argentine Case

4.1 Basel II in Latin America and in the Argentine Financial System

It is essential to mention the new regime established by the Committee of Basel in Latin America. This is very important since around 130 countries in the whole world adopted the criterions of Basel I and all the central banks located in Latin American countries calculates the requirements of minimum capital using the Basel I methodology.

The aim of the new regime is to replace the system used in almost all the countries of the world in 1988 and that was surpassed by the constant crisis caused since then (Mexico 1994, Asia 1997, Russia 1998). The New Capital Accord Basel II, whose basic document was accepted at the end of May, 2004 and would be formally implemented at the beginning of 2007, maintains, in 8% over its assets, the pattern of minimum capital reserve requirements which a bank must assume in order to operate in a market. However, it adds new criterions for the credit risk evaluation and proposes a regime of transparency much wider for the system.

In this sense, there is a consensus that the financial activity is worried about Basel II since the New Capital Accord will affect directly or indirectly all the banks. The implementation of these norms on the part of large international banks will imply that most of 90% of the international financial flows will be reached by these new dispositions.
Thus, the New Agreement will acquire special importance in the region since the following characteristics are highlighted in the financial systems (Llistrerri, 2001; CEPAL, 2004; Tami, 2004):

The financing sources principally come from the bank system, and the development of the capital markets is limited;

The credit to the private sector tends to be concentrated on large companies and on short-termed operations;

As the margins of intermediation are elevated and exceed the ones that rule over the more developmental financial systems, there is a negative selection concerning the credit claimants which represents a higher relative risk;

• The regulating mechanisms have some deficiencies, with a diverse degree according to the countries, not due to the absence of norms but to the insufficiencies of the mechanisms of supervision. This is reflected by the presence of deficiencies in the risk control, the degree of capital adaptation to the risk level and insufficiencies found in the provisions on the part of banks. Even though most of the countries in the region have adopted the guidelines present in the Basel I Agreement (1988), all these deficiencies are still present;

• There is a general relative low banking level due to the fact that important sectors characterised by the economic activity are excluded from it.

The norms of Basel II worry the banks established in Latin America reaching not only the small entities but also the main American banks and the large European ones (that have just decided to implement the more advanced level of Basel II (Rodríguez Batlle, 2004a)). This is so because, independently of the size of a bank, the new norm will affect all the entities. What makes the international banks of larger size to be worried about is the New Agreement consideration about the risk diversification.

In this aspect, the main banks which are interested in the emerging economies\textsuperscript{10} have send their recommendations to the Committee of Basel in order to make some modifications in the document-agreement base since, in the new norm, there is only a partial recognition of the benefits of the diversification (there are places in which the models implemented by Basel II are very strict and occur in capital charges very elevated).

In this way, the lower credit quality of the adjusting entries, and not the improvements in terms of the portfolio diversification, found in foreign banking institutions that have important investments in emerging economies, are recognised. In this context, the use of the model proposed by Basel II is excessively restrictive and it does not motivate the diversification.

\textsuperscript{10} Especially the Spanish banks with strong investments in Latin America during the nineties have shown their worry in that sense.
According to the conclusions that come from the Federation of Latin American Banks Congress (Felaban, México), the implementation of the New Capital Accord of Basel II will increase the costs of the entities that operate in Latin America and the concentration of the system in few entities. At the same time, and even though it will rule since 2007, it is probable that the external financial flow will drop into emerging economies in the future since these regulations based on the implicit risk measurement of the active placements have an impact on the capital requirements of the entities.

The problem is that those criterions of evaluation will result in major or fewer capital requirements that have to be kept in confidence depending on the risk that will mean to operate in different markets or in different types of operations.

As a result, some banks that operate in the global market have warned the Committee of Basel (responsible for the determination the rules) about the need to include the benefits of operating in diversified markets in the evaluation as it will result in a lower average risk.

Taking this question into consideration, Griffith-Jones and others (2004) demonstrated the hypothesis that the relationship risk/performance of a diversified portfolio of loans that includes developed regions, emerging regions and the ones in the process of development is more efficient than the one of a portfolio exclusively concentrated on developed countries. That is to say, the general risk level of the ‘diversified portfolio’ weighted by the contingent losses must be lower.

It is evident that the adoption of new Basel II criterions will have, without any doubt, an impact on the capital flow of the emerging countries. It is very risky not to motivate the global banks to maintain their interest in these markets. The bankers of the region are afraid that an excessive capital allocation may reduce the relative investment appeal in emerging countries because of the insufficient recognition of the international diversification of a bank (Rodriguez Batlle, 2004a; 2004b; Tami, 2004).

For instance, in the work of Segoviano and Lowe (2002) in which the IRB method is applied on the financial system of Mexico in 1994 and 1996, the capital requirements for the system would have been 40% more and may have been duplicated for various entities. With the reforms included in the New Agreement (third round) that impact is reduced to a third (Rodriguez Batlle, 2004a).

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12 It could be proved that the analyzed period is one of the most critical for the Mexican economy of the previous decade. This aggravated the conclusions.
According to the criterions of evaluation proposed, operating with countries that do not have an investment grade of quality\(^\text{13}\) will imply to rise up to 50% the capital requirements (Felaban, 2004). Consequently, there would be only funds for those countries or projects whose profitability may cover that high cost. Thus, there are two options: to reduce the funds volume or to agree to a much more elevated cost for those who will use it.

For this reason, an adequate and progressive implementation of Basel II will be important in a region that has a great need of external capital flows and of a bigger penetration of the banking within the company (Felaban, 2004).

There are big gaps with the developed world. Thus, when implementing the agreement it would be important not to negatively affect the economies of the region.

From the Committee of Bank Supervision of Basel, a different view is maintained since there is a strong emphasis on the regulating capital of the banks. But the decisions of each bank go beyond according to their goods, prices and individual interests because of being in a certain market.

Even though the requirement proposed, the minimum capital keeps on being 8% over assets. Despite the fact that nowadays in many financial systems in Latin America that percentage is even superior, the relevance of the risk qualification and of the rating granting to the active portfolios of entities involves a high reduction probability of the liability coverage (deposits) into assets (loans) which inevitably allows the raise of the own capital need.

The IRB methodology is an incentive for the international banks to maintain a loan portfolio of low risk and to reduce their credit presence in countries not so much developed.

A specific worry is the one concerning the financing of projects in developing countries. The proposals of Basel II assume that the financing of projects is implicitly more risky than the act of carrying out corporative loans and public companies, among others. This will imply a greater minimum capital requirement in order to enter that fringe of loans. Undoubtedly, this regulation is a question of developing countries that require growing private investments concerning production and infrastructure.

For a country as Argentina, that in order to maintain the economic growth will need to reactivate the entry of external capitals, it is essential for the risk evaluation to be carried out by the international banks at the moment of lending to

\(^{13}\) It corresponds to titles of state-owned debts and/or of first category (investment grade), that is to say, that rely on credit qualifications from AAA to BBB (low and/or average risk). In Latin America, Chile and Mexico they are nowadays located in this category.
their local affiliated companies, banks, national companies and, even more, the State.

At that moment, the Argentine financial crisis, that occurred at the end of 2001, caused the violent exit of the nonfulfillment of the technical norms coming from Basel I due to its magnitude. Gradually, the Argentine financial crisis is restoring them and, according to the CBAR, it will continue moving towards Basel II with a lower path than the international one. In this sense, its full implementation is foreseen in Argentina in the year 2010, although it is expected that from the CBAR gradual measurements would be adopted in order to reach the aim (Figueroa and others, 2003).

It is also considered that the banks characterized by their international performance would be starting to implement the New Agreement in a short period.\textsuperscript{14} It may be supposed that a small group of entities would start implementing their own model of risk evaluation in a short period of time whilst most of the banks will continue with the current norms but with the additional capital charge per operative risk.

For the particular case of the Argentine financial system and after the crisis in 2002, an important exodus of foreign banks has occurred changing the tendency of the nineties. The need to enter in the accounts the risks of markets inherent to Argentina in the fulfillment of the capital requirements, which were included in Basel II, has influenced these decisions.\textsuperscript{15}

Finally, there are three points concerning the New Capital Accord and the financial systems in Latin America that have to be mentioned due to their relevance:

- The New Agreement may emphasize the procyclical character of the financial system behaviour. If the capital requirements are more sensitive to the risk measurements and if the risk tends to increase during the period characterized by the recession and/or depression, the banks may feel the need to reduce their credit activity just when the real economy is more vulnerable. Not only the external qualifications (which implement the standard method) but also the ones resulting from the internal evaluations will drive towards a credit concentration in the recessive stages of the economic cycle strengthening both effects. As a result, there is an aggravation of the crisis (that is to say, it generates a superior volatility of the financial market).

The Committee of Basel considers this type of procyclical behaviour is endemic to the financial systems and it is not only the result of the regulating

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\textsuperscript{14} Especially foreign banks that perform in Argentina are able to implement the IRB.

\textsuperscript{15} More or less 20 Argentine financial institutions had 12 entities of foreign capital (45.5% of the total of the deposit) in December, 2001, whilst this register was reduced to 7 banks (27.6% of the pointed total) in December, 2004. To carry out this comparison, a deposit rating elaborated by the CBAR was used.
requirements (Heinrich, 2003). The only important mention done by the Committee about this is that it would not be advisable to use credit risk measurements that are excessively vulnerable to the short-termed revisions.

- The New Agreement would be giving a dominant role to the action of the risk examining companies. It appears as an incentive for the banks to reduce the capital requirements carrying out loans to entities that have a high rating.

It is evident that many emerging countries have a scarce spreading of these examining agencies (ratings) at the moment there are doubts as regards the quality of the decisions adopted by these agencies. Besides, lots of authorities of bank supervision have pointed out the poor relevance of the external qualifications for the business-oriented risks and the potential problems associated with the private and public qualifications of sovereign risks.

There are also some studies that are afraid of reducing the positions with specific risks, extending their exposure to the systemic and also risking the deposit insurance funds.

Even though the Committee of Basel incorporated in its third consultative document the possibility that the use of external qualifications for the corporative risks is left to the authority of national control’s discretion, it was not made an essential and/or compulsory part of the standard method.

Although nobody can disprove that the decisions about the credit granting must be based on the strict evaluations about the credit and that the authorities of financial supervision must have the means to examine the way in which the banks manage this credit risk, all this takes place. In this way, it is supposed that with the New Capital Accord an important incentive must exist to motivate the development of high quality qualifications and to promote better internal evaluations of the credit.

- As far as the main theme of this investigation is concerned, the New Capital Accord will penalize the SMEs. Even though the New Agreement wants to compare the own resources holdings with the risk, and does not want to benefit any of the economic sectors, it considered all types of loan operations to be equal at the beginning. After the consulting round made, the Committee of Basel revised the financing risks for the SMEs and modified its initial proposal. The Committee has recognised that it would be unfair to treat loans to every type of companies, either large or small, in the same way, and that means to ignore some important aspects of the risks associated to the exposure on the face of the SMEs.

Thus, the standard method within Basel II also includes a specific treatment for the retailer operations, in which operations directed towards the SMEs would be included.
The relevance of the SMEs in the national economies reside not only in their contribution and participation in the processes of production and growth, but also in their ability to generate employment. Because of this, they have received and still receive support on the part of the governments and have special recognition, although modest, in the new norms of Basel II. As the characteristics associated with the the SMEs under the IRB schemes are recognized, the banks are authorized to distinguish the loans to large companies from the ones to the SMEs. In this case, the exposure in relation with the SMEs gets a lower capital requirement of up to 30% according to the size of the lender. This may definitively mean an approximate reduction of 10% in the total loan to the SMEs (Rodriguez Batlle, 2004b).

It is interesting pointing out that even though a justification of opposing selection could appear as a direct effect of the implementation of the New Capital Accord for the SMEs at the moment of negotiating the access to the financing, Griffith, Segoviano and Spratt (2002) demonstrated that for a SME sample the capital requirements emerging from the implementation of the new norms were lower than the ones for large companies. In this sense, it emerges the need to look deeply into the analysis in order to fulfil the operative evaluation requirements not only of risk but also of credit. This conclusion will drive to the consideration of the factors mitigated to the negative factor in the access to the financing of the SMEs: the influence of the structural costs of analysis and information on the presence of operations of small size (Mason, 1998; Ascúa, 2001).

4.2 The Argentine Case

Although in the last years the policies of promotion and development for the SMEs have experimented important changes concerning the instruments used and the participation of the private and public agencies, these policies have left aside the instruments of protection to emphasize the mechanisms of public intervention and the market dynamics in a more balanced relationship. This is concerned with policies to help companies to compete, improve their efficiency and reinforce their management ability with the aim of taking part in a globalized world and obtaining a superior bond with the production lines.

The governments have transformed the old policies of loans and subsidies, which in most cases were indiscriminated, into a measurement scale that tries to facilitate the access of the SMEs to the private financial market in similar conditions to the ones of the large company. For this reason, policies of loans with the focus on certain SMEs’ segments, the structure of societies of reciprocal guarantees that

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16 It deals with a sample that is not securely representative of the type of SMEs prevailing in Latin America. It also derives from the work of Griffith, Segoviano and Spratt (2002), the capital requirements will also increase for a certain type of large companies in the New Agreement.
aim at improving the conditions of access to the credit and at reaching, through viable projects, the interest rates levels and more favourable terms in the financial market have been developed. In this sense, the action of the under-secretary’s office of the small and medium size company (SME) has been concentrated on the above-mentioned direction during the last years. Without being sufficient, it is an exception in the economic policy of the last decade.

After the crisis of the year 2002 and, apart from the role that supposedly may assume the credit to the SMEs, especially to the exporting ones, in the recovering process of the loans at the end of the year 2003, the SMEs are still suffering the same restrictions, which belong to the stage before the crisis, in the access to the financing.

<table>
<thead>
<tr>
<th>Loans' fixed costs:</th>
<th>Granting loans is an activity with important fixed costs especially related to a previous evaluation, but also with its supervision and recovering. In small operations, the fixed costs have a higher importance which makes the banks to ask for higher interest rates or directly not to analyse the case.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal weakness of the contracts:</strong></td>
<td>There is, especially in Latin America, an imperfect protection of the creditor when having the need to litigate due to loan recoverings and/or guarantees liquidation (Cristini and others, 2001; Interamerican Development Bank, 2004).</td>
</tr>
<tr>
<td><strong>Asymmetries of information:</strong></td>
<td>Opposing selection and moral Risk. The agency’s theory is the theoretical frame used to understand the financing of the SMEs (Jensen and Meckling, 1976; Mason, 1998). The granting of loans is a contract in which the bank is the principal and the SME is the agent. When extending a loan, the bank is carrying out an investment in the businessman and waiting a return in the form of interest rates and a refund of the initial capital. Although the principal has the expectation that their interests would be protected by the agent, that is not firmly secured because there is an opposition of interests. Thus, in order to mitigate the risk, the bank must evaluate. However, this is not a simple task because a part (the bank) cannot detect the necessary information to secure the decisive process, producing an asymmetry in the information in which the consequence is the fall in the “opposing zone of selection” (Akerlof, 1970; Stiglitz and Weiss, 1981). The banks cannot verify ex_ on the presence of relevant information which is necessary to take the decision of giving the financing.</td>
</tr>
</tbody>
</table>

**Box 1**

Restrictions in THE ACCESS to the financing of the SMEs

The perception of the presence of financing demand is given by an important number of applications that either the national authorities or the banks have received to canalize lines such as Italian credits, fopyme and subsidies of rates, among others.17 However, the participation in the total of loans destined to the SMEs is maintained in levels hystorically low: only explain 6% of the total of loan operations with a volume, three times lower, added to the loans stock on 31st December, 2000 explain it.

It is obvious that the *gap* between offer and demand of financing for the SMEs obeys the credit norm put into effect that does not motive the banks proximity to the SMEs. Actually, the spirit of the credit norms of the CBRA characteristic of the nineties is maintained with a pro-corporation bias every time it forces the banks to make higher forecasts of the loans granted to the SMEs because it considered them to be riskier and it also has the need to evaluate new changes that
serve as a bridge between the banks and this kind of companies which are the superior employment generators.

Having this goal in mind, it is necessary to secure the implementation of the legislation to promote a better incentive to the banks. As a result, they will attend the SMEs trying to mitigate the current condition of the multipurpose financial entities. The experience indicates the need of the financial activity specialization, for instance in attending small companies.

All this allows the examination of the norms of regulation and supervision applicable to the SMEs on the subject of capital and provision requirements with a higher level of professionalism. At the same time, they are also looking for more creative solutions to achieve the more detailed goals.

As it has been mentioned on the previous sections, the SMEs must also face the difficulties in the access to the financing in Germany, although there are a series of traditional financial instruments that have been developed efficiently:

- State-owned encouragement banking.
- Mutual guarantee systems.
- Access to the financial system, especially via corporative banks and credit boxes.

On the other hand, it has also been highlighted that the capital market has registered a magnificent fall with the disappearance of the Neuer Markt for the SMEs after the promising beginning in the middle of the previous decade.

At the same time, the mentioned characteristic of access to the bank financing on the part of the SMEs is being threatened by the put into effect of the New Agreement of Basel II since the last years. Consequently the banks, SMEs supporting institutions and Investigation Institutes, etc. have been mobilized. The own firms also suffered this process that drove them to deepen the knowledge about this New Agreement and its implications.

Even though the implementation of Basel II appears as something relatively distant in Argentina, it would be important to generate spreading about its consequences for the SMEs from the public policy field.

In this sense, it emerges as necessary the analysis of measurements that lead to a superior generalization of the action of the risk examining companies that will have a role of growing relevance at the moment of granting risk ratings to the financing operations given by the banks.

The risk examining companies, as it has been mentioned before, are specialized companies that have as an aim to satisfy the information demand on the part of the

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18 The New Agreement would be fully implemented in Argentine in 2010.
investors by means of the risk qualification of the securities to be situated through the public offert regime.

In Argentina, it is evident the need to increase the number of risk examining companies with the objective of allowing an easier access to such qualification and, as a result, reducing the uncertainty degree in the financial presence in the SMEs.\footnote{In Argentina, the Act 656/92 and its modifications regulates the action the Risk Examining Companies which are ruled under the fiscalisation of the National Values Commission.}

It is also vital to mention the fact that not only for the regime of public quotation and access to the capital market but also for the future flux of the bank action under Basel II, the SMEs will need to rely on the risk qualification rating. As a result, it appears a worry about the opportunities that the SMEs will have concerning the access to that risk qualification on the part of the firms that, up to now, have been specializing on sovereign risks and large corporations.

It is also exemplary for the Argentine SMEs’s case the emergency in Germany of:

- Companies of VC and/or of capital participations and;
- The **hybrid instruments**, which have been spread under the name of Mezzanine Kapital in Germany.

It is interesting to stop at this last point since in Germany, only in the last few years the instrument called Mezzanine Kapital was developed under this concept with the aim of covering the intermediate spectrum (hybrid) between the own capital and the debt (Walther 2003; Nathusius, 2000).

Thus, the hybrid instruments cover a financial space which is important for the nonquotable companies in the Commodity Exchange as they represent flexible and dynamic financial means.

These instruments are individually constructed following the desires of the claimants and they are transformed into relationship bridges with potential investors. This role has been acquiring a special importance in virtue of the new rules named Basel II during the last few years. These rules will be put into effect in the year 2007 and that will cause restrictions in the access to the bank credit on the part of nonquotable companies in the Stock Exchange.

As far as the financial entities are concerned, Mezzanine Kapital is similar to the own capital. As a result, it increases its possibilities of access to the debt market without the need for the SMEs to directly enter the capital market. On the other hand, as for the entities that contribute to the Mezzanine Kapital fund, this

\footnote{In 1997, a record was registered in the field of the National Industrial under-secretary’s office of creation of the Risk Examining SMEs Promotion Programs, but it was not implemented.}
instrument means more elevated performance. Consequently, the saving-investment channel is made more efficient reducing the negative effect of the diseconomy of scale in financial operations for the SMEs.

Up to now, there is a poor literature about the financial hybrid instruments, especially concerning the aptitude when shaping new companies. In section 5, it was presented the potential of the financial hybrid instruments. Germany is far away from selling out this model. In Argentina, the private financial community is not imbued with these instruments and there are still not incentives to develop these products.

Taking into consideration the German experience, the following ideas-force emerge:

• Development of an instrument battery according to the interest groups, the premises and the rules that contextualize the financial engineering task for new SMEs.

• Structure of a “construction box” of financial components in which the hybrid Mezzanine Kapital is located between the own capital and the debt.

• Development of a group with standard solutions and contract models for the formation of new SMEs.

It is also interesting for Argentina the fact that in Germany, the own capital and, in few cases the quotable SMEs, have registered an index of participation which is superior to the one verified by large companies (Ruda, 1997). In the same way, most of the SMEs do not reach the frontiers of size still in the long term. Besides, the dynamic of this type of companies is shown in the rate of employment creation and in the introduction of innovations, a process that has been generating growing capital demands.

Therefore, if a financial instrument must be especially designed for the SMEs, it should consider the investors’s interests and the capital needs that the SMEs must face (Ruda, 2003). The characteristics these instruments have to follow were empirically investigated (Wossidlo, 1990):

• Capital offer with the aim of permanently financing the risk, but first assuming the debts and covering the losses.

• Independence of the legal figure and flexibility if this one has to be changed.

• Interests compatibility, especially to maintain the independence of the “typical” entrepreneurs in the SMEs.

• Improvement of the credibility.

• A high degree of standardization.

• Ability to attract a high number of investors.
In the process of greater access to the VC and/or hybrid instruments on the part of the German SMEs mentioned above, some legal figures have been designed. These figures involve not only the VC but also the hybrid instrument (Mezzanine Kapital) in their speciality in order to reduce the risks inherent in the financial activity and to avoid the discriminative asymmetries that derived from the legislation, especially all that is related with the fiscal treatment.21

After the crisis in the year 2002, a range of opportunities for new financial instruments was opened. Among them, the financial trusts with public quotation, that is to say, under the controller of the National Values Commission was highlighted. The public quotation is relevant since in Argentina one of the most important long-term saving sources is administered by the Retirement and Pension Fund Management (AFJP is the Spanish term), that is to say, the contributions of the future retired people. This amount of savings can only be legally invested in instruments (securities and/or financial placements) that have investment grade risk qualification.

In 2004, 77 financial trusts were issued with a public quotation of $1,623 millions, from which only 2% were driven to the SMEs22. The rest was a secularity of loans of consumption (Gainvest, 2004).

An improvement in the own capital endorsement in the SMEs is vital for the introduction of innovations. At the same time, the globalization process, under which the SMEs have to face the growing needs of investment in investigation and development expenditure, launches new products and/or processes and develops its human resources. All this justifies the instruments need especially designed for the SMEs that increase their access and own capital availability.

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It was developed under the motto “Financial problems and new financial instruments for SME. A comparison between Germany and Argentina. Teachings

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21 In this paragraph, there is a reference to the legal gap that exists in Argentina not only of VCs but also of hybrid instruments. At the same time, there is also a reference of the discriminative fiscal treatment which is in favor of the bank activity in the case of the financial trusts.

22 It involves 5 trusts organized by Garantizar, Reciprocal Guarantee Company (SGR) directed to the SMEs producer of exporting agricultural goods.

23 Deutscher Akademischer Austauschdienst.
for Argentina” with the participation of Professor Dr. Walter Ruda (Germany) and the collaboration of Professors Dr. Thomas Martin; Dr. Marc Piazollo and MBA Markus Pfeffer.

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