

**Survey on Lending  
Practices to SMEs in Austria  
May 2013**



The World Bank Centre for Financial Reporting Reform

## Acknowledgements

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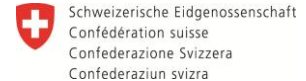
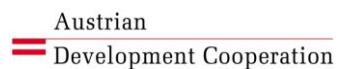
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This Report forms part of the Road to Europe Program of Accounting Reform and Institutional Strengthening (REPARIS) activities of the World Bank's Centre for Financial Reporting Reform (CFRR) in Vienna, Austria.

Through REPARIS, the CFRR supports the development of a policy environment and an institutional framework favoring the introduction, implementation and enforcement of an effective system of corporate financial reporting within countries of the Western Balkans<sup>2</sup> and Moldova.

REPARIS is made possible by the generous support of



<sup>1</sup> The annex provides more information on these organizations.

<sup>2</sup> Albania, Bosnia and Herzegovina, Croatia, Kosovo, Former Yugoslav Republic of Macedonia, Montenegro, and Serbia.

## Contents

Overview.....	4
Context of the study.....	5
1. Loan application process.....	6
2. Banks' assessment and decision making.....	10
3. Evaluation of financial information.....	14
4. Improvement opportunities for SMEs.....	14
Annexes.....	15
Methodology & Limitations.....	15
Participating banks and credit institutions.....	16
The Austrian Banking Sector.....	17
The Austrian SME Sector.....	20
Organization Profiles.....	21
References.....	22

## Abbreviations

BSBV	Industry Sector Banking and Insurance
CESEE	Central, Eastern or Southeastern Europe
CFRR	World Bank Centre for Financial Reporting Reform
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
FRTAP	Financial Reporting Technical Assistance Program
GAAP	Generally accepted accounting principles
MSME	Micro, Small and Medium Enterprise
OECD	Organization for Economic Cooperation and Development
OeNB	Austrian National Bank
REPARIS	The Road to Europe: Program of Accounting Reform and Institutional Strengthening
SEE	South East Europe
SME	Small and Medium Enterprise
WKO	Austrian Economic Chamber Organization
WKOE	Austrian Federal Economic Chamber

## Overview

In September-October 2012, the World Bank Centre for Financial Reporting Reform (CFRR) surveyed Austrian banks with a view to understanding the role played by financial information and audits in lending decisions. Respondents to the survey represent approximately one third of the sector based on total assets. The survey also assessed how banks measure the quality of the financial information they receive as part of a loan application.

The purpose of this report is to inform the accounting and auditing profession, policy makers, and small and medium enterprises (SMEs)<sup>3</sup> and their representative institutions about banks' requirements and expectations regarding the scope of financial information provided by SMEs when applying for a credit. The results of the survey will be incorporated into a soon-to-be-issued Report on Corporate Financial Reporting Reform in Austria.

The main findings of the survey are summarized below.

» ***Banks see external auditing as a key process to ensure the accuracy of accounting information***

Audited financial statements are among the most frequently required documentation as part of the loan application process for SMEs. Of all the impact factors that banks consider when making a credit decision, audited financial statements, if available, are attributed the highest importance. Whether a financial statement is audited or not, and which accounting standards are used, are perceived by banks as important indicators of the quality and accuracy of financial information, especially when medium-sized and larger companies apply for credit. For Austrian banks the reputation of the firm carrying out an audit has a very low impact on the usability of financial statements.

» ***Financial statements play an important role in an SME credit application***

In assessing an SME's credit application, banks draw on information from financial statements to gain insight into the applicants' gearing/indebtedness and profitability, as well as their liquidity and cash situation. The information in financial statements is often compared with other financial information provided in a credit application.

The analysis of the data collected in this Survey on Lending Practices to SMEs in Austria suggests that financial statements, both audited and unaudited, play a key role in banks' decision making process in the course of an SME credit application.

Evidence for the high impact of audited financial statements in banks' credit decision making process in combination with the finding of the relative insignificance of an audit firm's reputation on banks' perception on the usability of financial statements suggests that the Austrian audit profession as a whole has a good reputation for providing reasonable quality-assurance for financial decision making among Austrian credit institutes.

According to another study conducted by CFRR, almost three-quarters of Austrian SMEs outsource the preparation of their financial statements to specialist service providers (CFRR, 2013).

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<sup>3</sup>This report generally refers to the widely accepted definition of SMEs that has been set by the European Commission (European Commission, 2003). According to this definition SMEs include all companies which have fewer than 250 employees and do not exceed an annual turnover of EUR 50 million or a total balance sheet of EUR 43 million. However, the category SME in all parts of the report that refer to data from the questionnaire reflects banks' individual perceptions and internal regulations.

## Context of the study

The importance of SMEs to economic development and job creation is increasingly recognized across the world. With an expected 58 per cent of gross value added in 2012, SMEs are perceived to be the backbone of the economy especially within the European Union (EU). Although they faced particularly challenging economic conditions in 2011/12, SMEs within the EU still account for more than 98 per cent of all enterprises and 67 per cent of total employment (EU, 2012).

Also, within Western Balkan countries' economies, SMEs account for the largest share of total value added, while their contribution to total employment in the private sector ranges from 61-81 per cent (OECD et. al., 2012).

For such businesses, access to finance is a key factor for business start-up, development, survival and growth. Bank lending continues to be the most prominent source of external financing for SMEs at a global level, within the EU, and also within the Western Balkans.

However, especially in the countries of the Western Balkan region, conditions for supplying SME credit have recently tightened significantly due to the current economic environment within the EU and the concomitantly reduced ability and willingness of its banks to provide financing. This is commonly attributed to strong trade, investment, remittances, and financial linkages between the region and the Euro zone.

Limited access to bank credit is a key issue for SME financing. According to the Organization for Economic Cooperation and Development's (OECD) SME Policy Index for the Western Balkans and Turkey 2012, credit growth remained subdued in the region in 2011 (OECD et al., 2012). In 2009, over 45 per cent of micro, small and medium enterprises<sup>4</sup> (MSME) in the Western Balkans perceive access to finance as a moderate to severe obstacle to doing business ((OECD et al., 2012).

Recent studies suggest, that this perception is not only due to a reduced availability of bank financing in general, but also to more stringent conditions in bank lending policies, in particular as regards reporting and documentation requirements in loan applications.

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<sup>4</sup>MSME: Additionally to small, medium and large enterprises, sometimes micro enterprises are treated as a separate group within studies due to this sectors' importance as well as its specific needs and challenges.

## 1. Loan application process

The majority of banks participating in this survey (6 out of 10) stated that the average loan processing time for an SME loan application is between 5 and 15 days, followed by 1-5 days of decision-making, approval, and authorization time, and a 1-5 day-span for the actual loan disbursement.

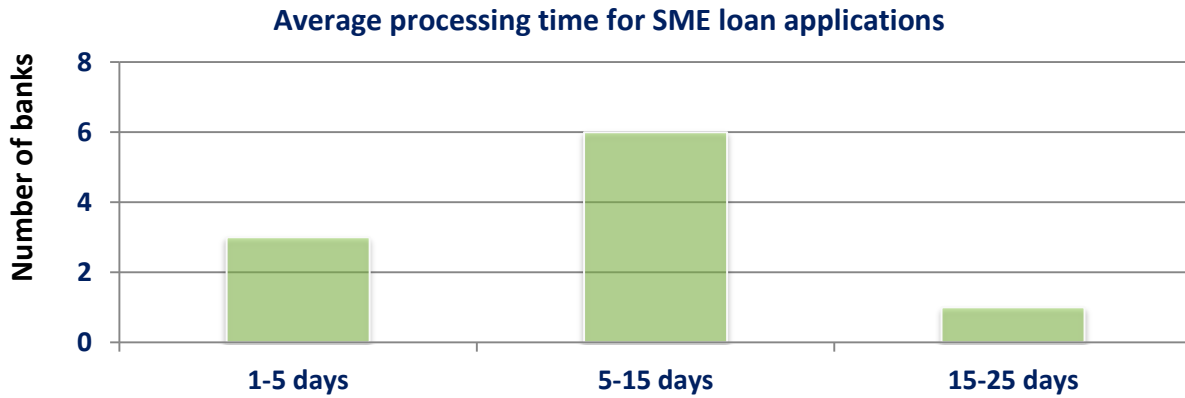


Figure 1: Average processing time for SME loan applications, n=10

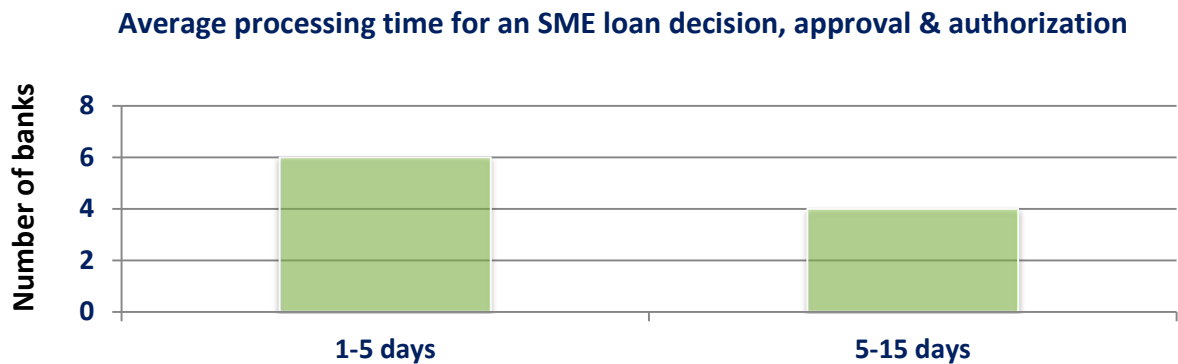


Figure 2: Average processing time for an SME loan decision, approval, and authorization, n=10

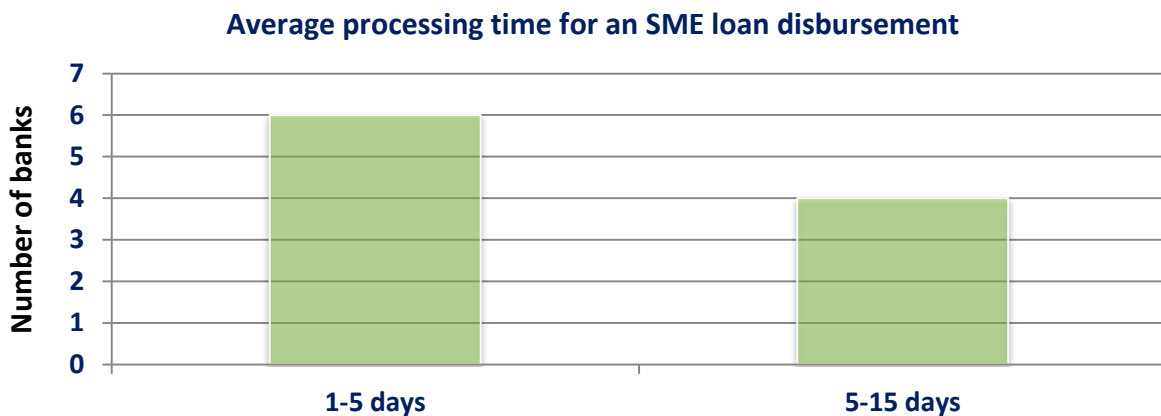


Figure 3: Average processing time for an SME loan disbursement, n=10

The most frequently required documentation as part of the loan application process for SMEs is an audited financial statement and an independent verification or valuation of the assets to be financed. 9 out of 10 banks participating in the survey ask for these documents during an SME loan application.

The majority of the banks do not require other documentation than stated below.

5 out of 10 banks that participated in the survey do not require information on the bank account deposit and the tax returns from the applicant.

Document	Number of banks that require the document as part of an SME credit application
<b>Audited financial statements</b>	<b>9</b>
<b>Independent verification valuation of assets to be financed</b>	<b>9</b>
<b>Owners personal financial information</b>	<b>8</b>
<b>Reviewed unaudited financial statements</b>	<b>8</b>
<b>Business plan incl. cash flow projection</b>	<b>7</b>
<b>Standard questionnaire for financing</b>	<b>6</b>
<b>Tax returns</b>	<b>5</b>
<b>Bank account deposit information</b>	<b>5</b>

Table 1: Documentation required as part of an SME credit application in regard to granting loans, n=10

For applications that are seen as being more risky certain types of documents become more likely to be required within a credit application. Thus, if an applicant is planning to introduce a new product or market development, 7 out of 9 banks are especially interested in a business plan that includes a cash flow projection of the enterprise.

In general, when risks are seen as being higher, banks most commonly draw on information from the business plan including the cash flow projection (on average each bank stated that this document is more likely to become applicable under 2 risk-raising circumstances).

However, if banks serve a new customer, it is also very likely that they will draw on the owners' personal financial information (6 banks out of 9) and the company's tax returns (5 banks out of 9). Processing a new customer's application is by far the most prominent reason for banks to demand and screen additional documents (each bank stated that on average 4 documents are more likely to be required in these conditions).

Among the top four required documents that a bank asks for in an SME credit application, the applicability of audited financial statements is least dependent on the circumstances of the application.

On the other hand, a company's business plan including cash flow projection, which is not usually among the documents most frequently required in an SME credit application, gains value and is usually taken into consideration when the risk factors for the bank increase.

### Documentation requirements for loan applications seen as carrying more risk

		Risk-raising factors			
		Purpose of funds is for new or innovative business proposition	New customer of the bank	Loan Size exceeds certain limit	New product or market development
Documents	Audited financial statements	2 (out of 9 banks)	4	1	1
	Owners personal financial information	2	6		2
	Business plan incl. Cash flow projection	4	6	1	7
	Independent verification valuations of assets to be finances (+assets offered as security)	3	4	2	3
	Standard questionnaire for financing	3	3	1	3
	Reviewed unaudited financial statements	2	4		1
	Tax returns	2	5	1	2
	Bank account deposit information (turnover etc.)	1	3	1	0

Table 2: Documentation requirements for loan applications seen as carrying more risk, n=9

### Risk-rising factors in a credit application / effects on documentation requirements

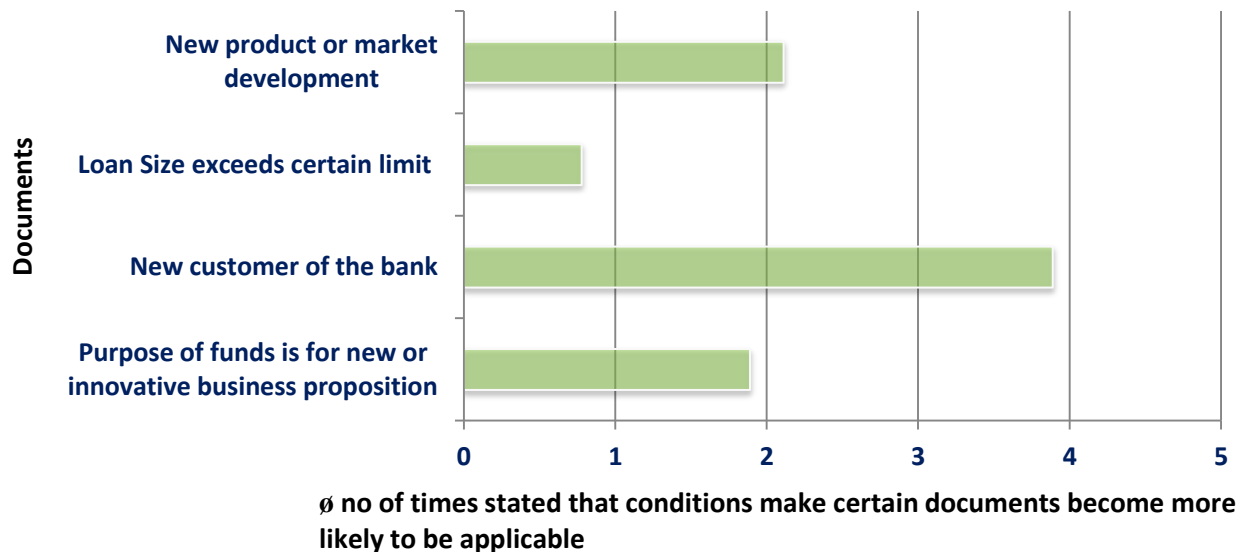


Figure 4: Documentation requirements for loan applications seen as carrying more risk, n=9



### Documents more likely to become applicable under risk-rising credit conditions

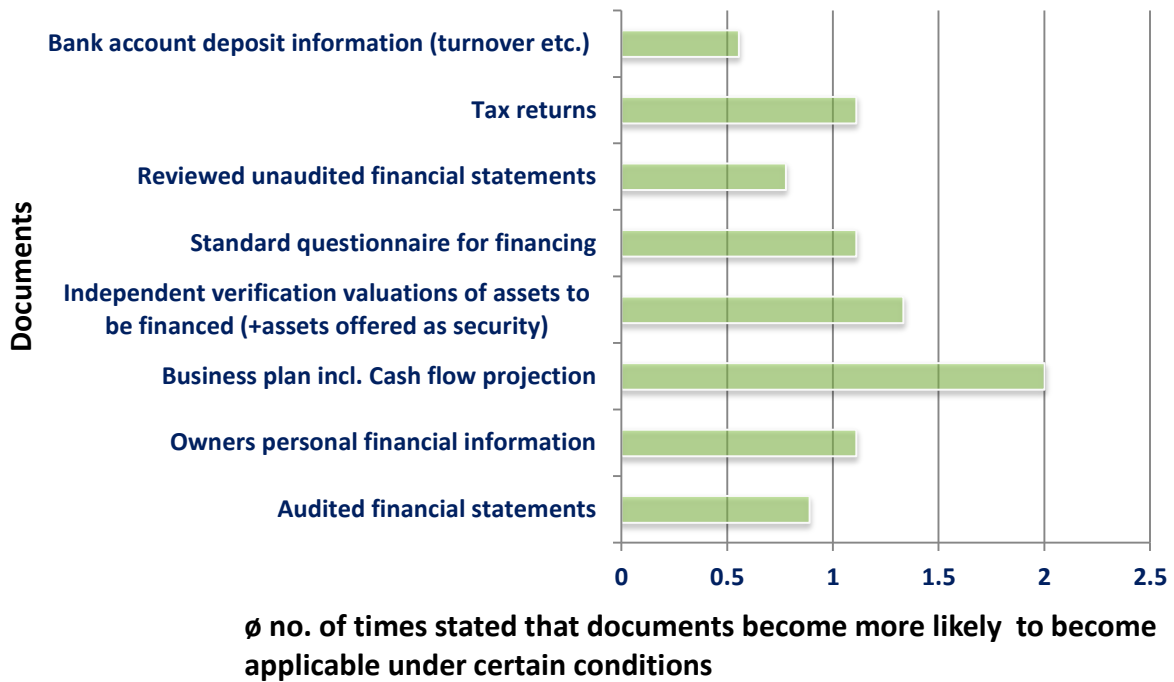


Figure 5: Documents more likely to become applicable under risk-rising credit conditions

### Key Results

- » The majority of banks stated that the average loan processing time for an SME loan application was between 5 and 15 days, followed by 1-5 days of decision-making, approval, and authorization time, and a 1-5 day-span for the actual loan disbursement.
- » The most frequently required documentation as part of a loan application process for SMEs is an audited financial statement and an independent verification or valuation of the assets to be financed.
- » For applications that are seen as being more risky, banks most commonly also draw on information from the business plan, including the cash flow projection.
- » The most frequent reason for banks to demand and screen additional documents is to obtain information on a new customer.
- » Among the top four required documents that a bank asks for in an SME credit application, the applicability of audited financial statements is least dependent on the circumstances of the application.

## 2. Banks' assessment and decision making

The majority of banks state (6) that between 50-75% of all credit applications are approved.

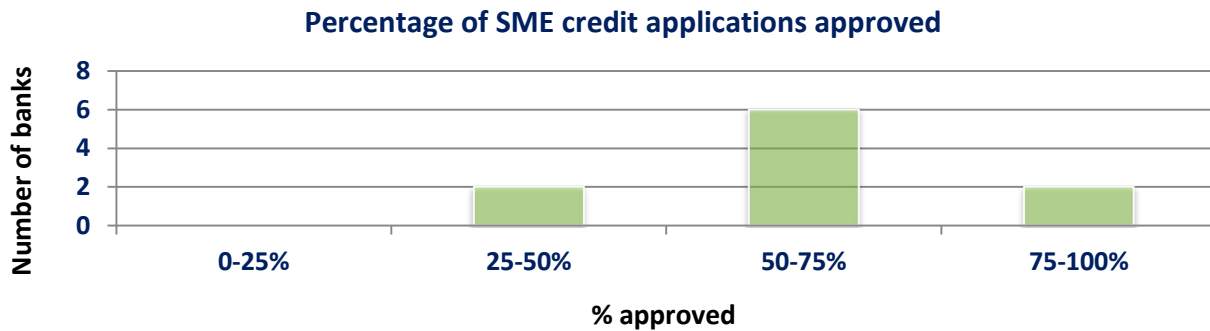


Figure 6: % of SME credit applications approved

While banks state that for micro enterprises the main reason for credit application is to acquire working capital, the common main motive for a loan application for small, medium and large sized businesses is to be able to invest in physical capital like property, plant or equipment.

The need to finance working capital falls as the size of the company increases. Refinancing needs are relatively low in comparison to other purposes throughout all size classes. Large companies however, also apply for loans and credits to finance the acquisition of other companies.

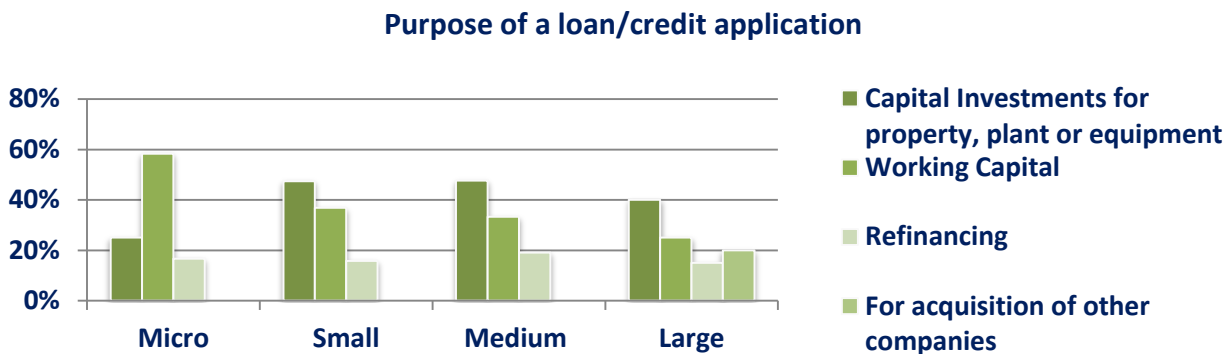


Figure 7: Purpose of a loan/credit application

While medium-term loans are the most prominent loans granted to micro and small enterprises, long-term loans are most popular for medium-sized companies. In general, as the size of the enterprise increases, long-term loans become more important.

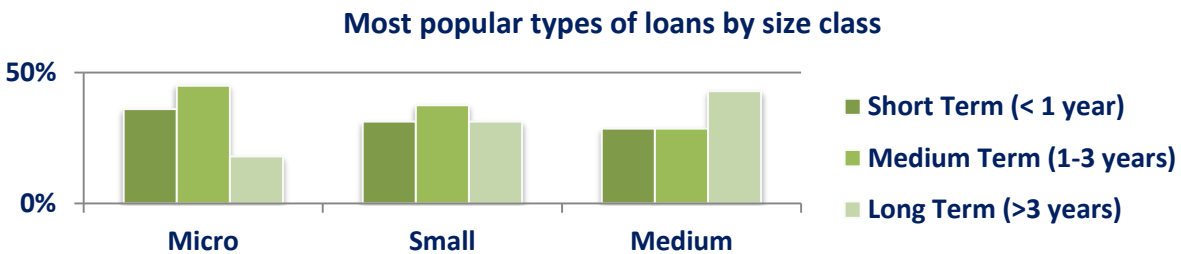


Figure 8: Most popular types of loans by size class

Of all the impact factors that banks consider when making a credit decision, audited financial statements, if available, are attributed the highest importance.

Banks also see the “owners’/managers’ reputation”, “the nature of the business”, “the physical observation of the business”, and “collateral” as important factors in their credit decisions.

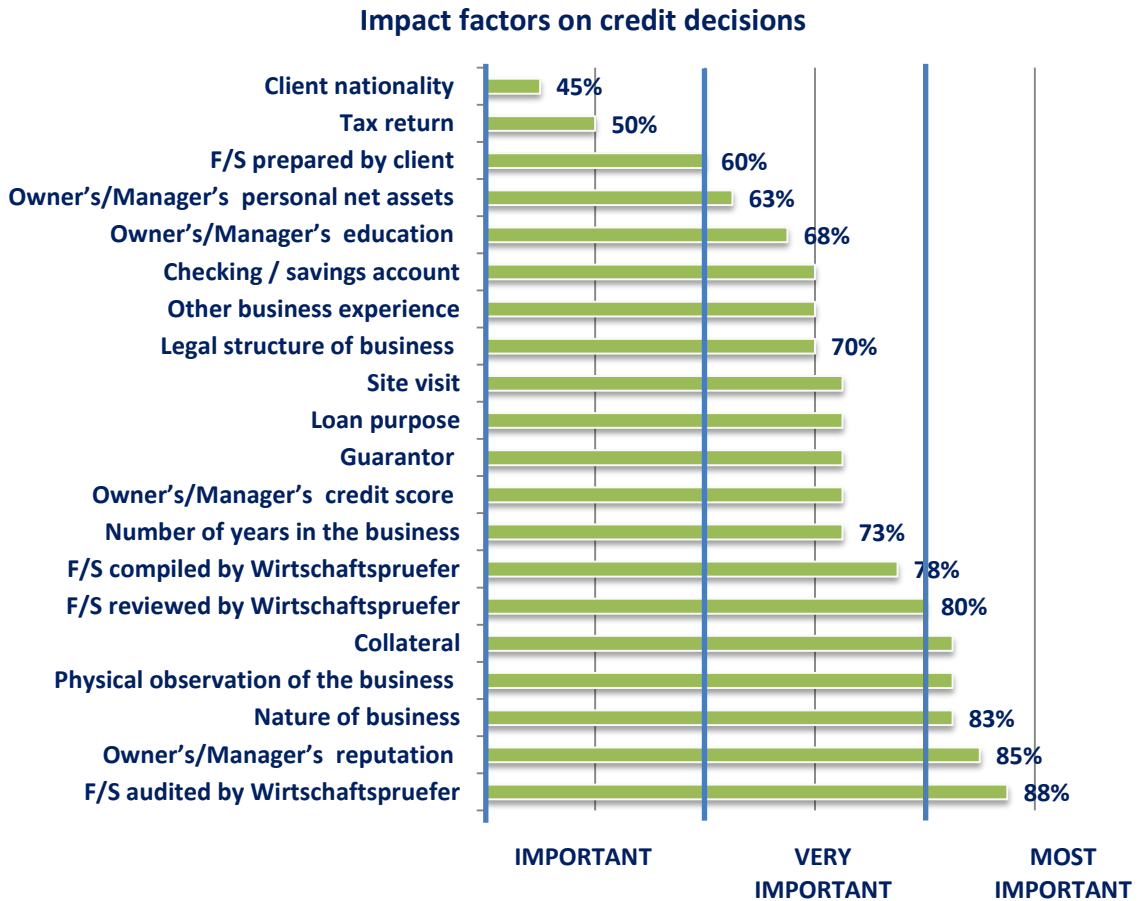


Figure 9: Impact factors on credit decisions

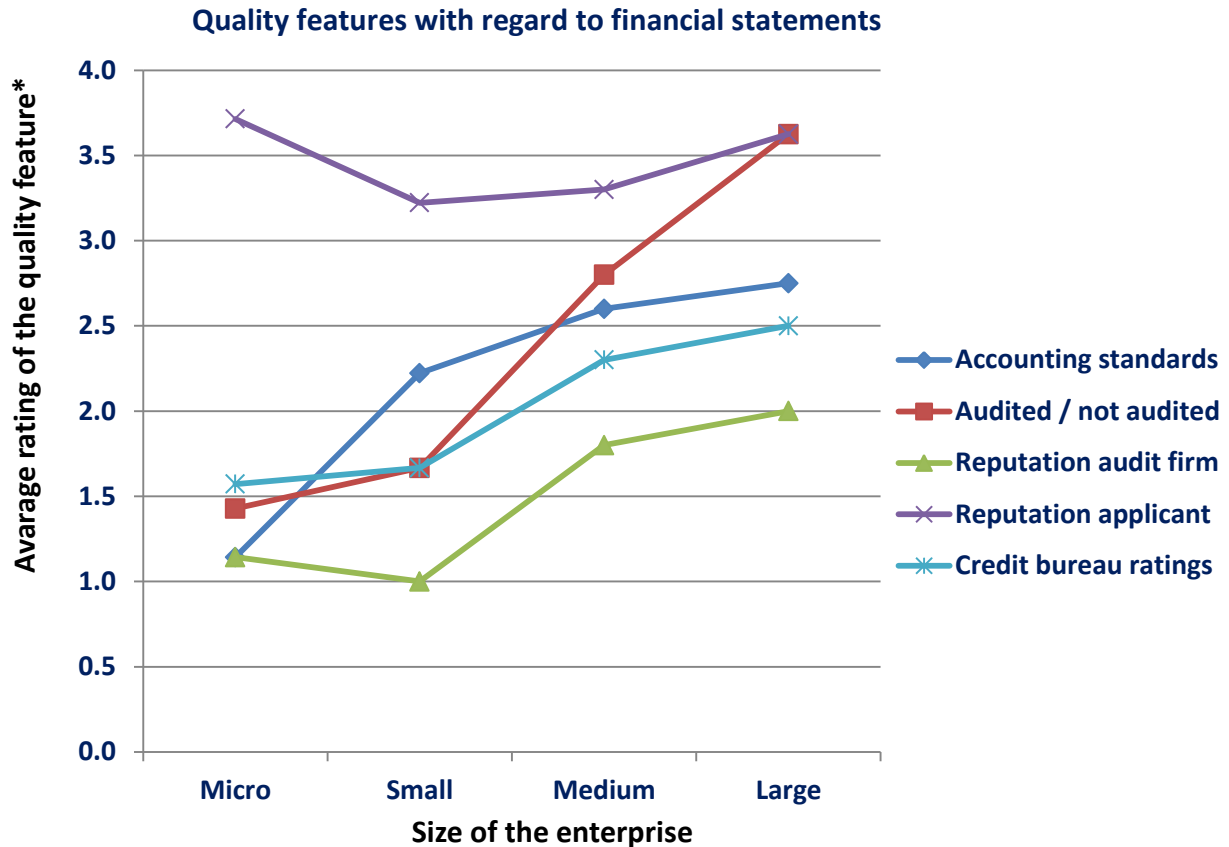
Legend: ‘-’=0; ‘-’=1; ‘=’=2; ‘+’=3; ‘++’=4; max. importance = 40, min. importance = 0; bars represent average importance attributed by all participating banks in % of maximum attributable importance possible; 0-20% = least important, 20-40% = less important, 40-60%=important, 60-80% = very important, 80-100% = most important

For all business classes (micro, small, medium, large), banks consider the reputation of the applicant as the most important feature in assessing the quality of the financial statements submitted with a loan application.

Whether a financial statement is audited or not, becomes more important as the size of the enterprise increases. For large companies this feature is as important as the reputation of the applicant.

The accounting standards that are used also become more important as the size of the enterprise increases. However, relative to other factors, accounting standards are seen as especially important for small enterprises.

For Austrian banks the reputation of the firm carrying out an audit has a very low impact on the usability of financial statements.



\*4 = very important, 0 = least important

Figure 10: Quality features with regard to financial statements

All the banks (100%) state that the information content of financial statements regarding gearing/indebtedness and profitability of SMEs either meets or exceeds their information needs.

In regard to the liquidity and cash situation of the businesses, 70 per cent of banks consider financial statements as an information source that either meets or exceeds their needs, while 30 per cent consider the information in financial statements as insufficient for their information needs.

Only in regard to business risk, does a majority of banks surveyed (60 per cent) see the information content of financial statements as being insufficient.

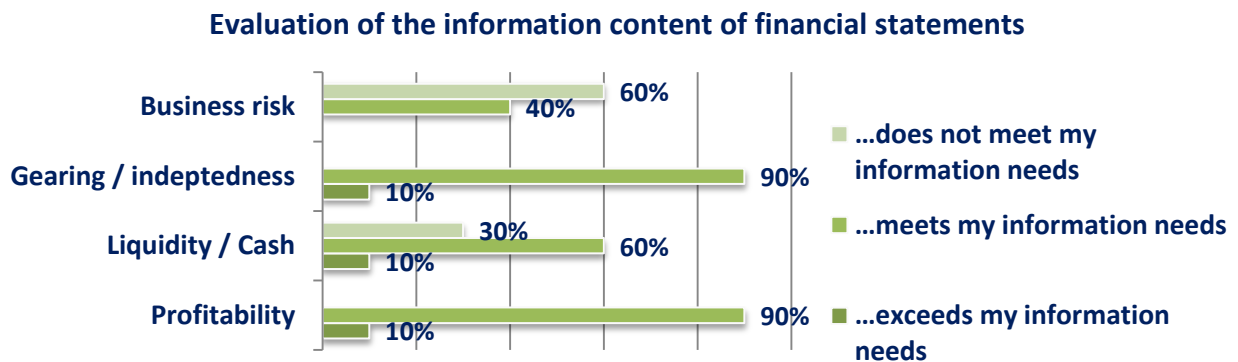


Figure 11: Evaluation of the information content of financial statements

All banks compare the financial information provided in the credit application with the information in applicants' financial statements. 40% of them also compare it with the applicants' tax returns.

Although weak financial management skills seem to be an issue mainly within micro enterprises, insufficient evidence that future cash flows will be sufficient to repay the loan is the main obstacle to bank lending for companies of all size classes.

Insufficient confidence of banks in the financial information provided in a credit application does not have a major impact on SMEs' access to finance.

Especially risky capital structures and insufficient profitability appear to be problems banks face in credit applications from medium-sized enterprises.

Micro and small enterprises often provide a poor business plan in their credit application. Small enterprises also often fail to provide the required collateral.

Financial Obstacles	Size of Enterprise		
	Micro	Small	Medium
<b>Risky capital structure</b>	<b>3 (out of 8 banks)</b>	<b>2 (out of 9 banks)</b>	<b>(6 out of 9 banks)</b>
<b>Unavailability of collateral</b>	<b>3</b>	<b>6</b>	<b>4</b>
<b>Project insufficient profitable</b>	<b>2</b>	<b>4</b>	<b>5</b>
<b>Insufficient evidence to assure future cash flows for repayment</b>	<b>5</b>	<b>4</b>	<b>5</b>
<b>Insufficient confidence in financing information provided</b>	<b>2</b>	<b>2</b>	<b>3</b>
<b>Poor business plan generally</b>	<b>5</b>	<b>6</b>	<b>3</b>
<b>Weak financial management skills</b>	<b>4</b>	<b>3</b>	<b>1</b>

Table 3: Main obstacles to bank lending

## Key Results

- » The main reason for micro enterprises to apply for bank financing is to acquire working capital. Small, medium and large sized businesses mainly apply for credits to be able to invest in plant, property and equipment.
- » While medium-term loans are the most prominent loans granted to micro and small enterprises, for medium-sized companies, long-term loans are most common.
- » On average "audited financial statements" (if available), "the nature of the business", the "owners'/managers' reputation", the "nature of the business", the "physical observation of the business", and "collateral", are the most decisive factors for banks in making their credit decisions.
- » For all business classes (micro, small, medium, large), banks consider the reputation of the applicant as the most important feature in assessing the quality of the financial statements submitted with a loan application.
- » For larger companies applying for a credit, banks also consider whether a financial statement is audited or not and which accounting standards are used, as important aspects for verifying the accuracy of data in financial statements.

- » All banks that participated in the survey state that the information content of financial statements regarding gearing/indebtedness and profitability of SMEs either meets or exceeds their information needs.
- » All banks compare the financial information provided in an SME's credit application with the information in its financial statements.
- » Although weak financial management skills seem to be an issue mainly within micro enterprises, insufficient evidence that future cash flows will be sufficient to repay the loan is the main obstacle to bank lending for companies of all size classes. Insufficient confidence of banks in the financial information provided in a credit application does not have a major impact on SMEs' access to finance.

### 3. Evaluation of financial information

Half of the banks participating in this survey require SMEs to provide a financial statement prepared by a certified public accountant (CPA) when applying for a credit. The other half does not require this but state that 18 per cent of the financial statements are prepared by a CPA anyway (average).

45 per cent of SME borrowers provide filed business tax returns in the loan process.

### 4. Improvement opportunities for SMEs

Bank recommendation to SMEs preparing financial statements and other financial information for a loan application focus on the completeness and the timeliness of the data provided.

Bank recommendation to SMEs preparing financial statements and other financial information for a loan application include:

- Micro- and small enterprises often show only their expenses and their income per period. Liabilities and assets are not shown. These figures are often only provided during discussions with the client.
- The figures provided are often not up to date and are therefore not suitable for a loan application.
- SMEs should provide clear documentation regarding development and value of stocks and unfinished products with a loan application.
- It is also helpful if SMEs provide a clear structure of receivables and payables by maturity.
- Very often, applicants fail to provide scenario-based short- and mid-term liquidity plans.

## Annexes

### Methodology & Limitations

A questionnaire was developed with Microsoft Office Word 2007.

Following the peer reviewing process, the questionnaire was subject to minor changes that were based on the recommendations given by the peer reviewers and the BSVB.

The questions were designed to capture relevant information efficiently, and the survey was designed to facilitate fairly quick completion (20 min).

The final version was in the English language and contained 22 questions, of which 13 were multiple choice questions, 5 were open questions, and 4 were rating questions. Respondents were invited to provide clarification where necessary and where relevant, to specify where the requirements and information differ between enterprises within the SME sector (such as micro, small, and medium).

The questionnaire focused on bank's requirements and expectations of the financial information processed during an SME credit application. The 22 questions were under 5 topic areas: 1.) participating banks and credit institutions, 2.) loan application process, 3.) banks' assessment and decision making, 4.) the evaluation of financial information, and 5.) possible improvement opportunities for SMEs.

On September 17th, 2012 the BSVB invited all Austrian credit institutions to participate in the survey.

An invitation including the Word-file to complete was sent to e-mail addresses from the member database of five of the seven Trade Associations of the BSBV: the "Fachverband der Banken und Bankiers", the "Fachverband der Volksbanken", the "Fachverband der Landes-Hypothekenbanken", the "Fachverband der Sparkassen", and the "Fachverband der Raiffeisenbanken".

The deadline for answering the questionnaire was October 19th, 2012.

Finally, 10 surveys that had been properly completed were used for the analysis. Data analysis has been carried out with Microsoft Office Excel. Data regarding the size of the credit institution has been compared with the statistical online-database of the Austrian National Bank and annual reports of the respective credit institution and was clarified via phone interviews where necessary.

Not all banks divide their business clients into micro, small, and medium firms. These banks have been excluded from the total population when evaluating data that refers to questions that specifically refer to these size classes.

Participating banks segment their business clients according to different characteristics and have different understandings of what an SME is. Therefore the category SME in all parts of the report that refer to data from the questionnaire cannot be understood as a homogenous group of businesses that have specific characteristics, but rather reflect banks' individual perceptions and internal regulations.

There is no indication in the data collected that the criteria and thresholds used by the banks to define an SME correspond with any statutory regulation regarding financial reporting or audit obligations.

Therefore no conclusions can be drawn as to whether companies that are required to submit certain kinds of documentation within a credit application are also required to prepare these documents by law.

## Participating banks and credit institutions

4 out of 10 participating banks were commercial banks, 2 were mortgage banks, 1 was a savings bank and one was a co-operative bank. 2 consider themselves to be mixed banks that offer a broader range of services to their customers.

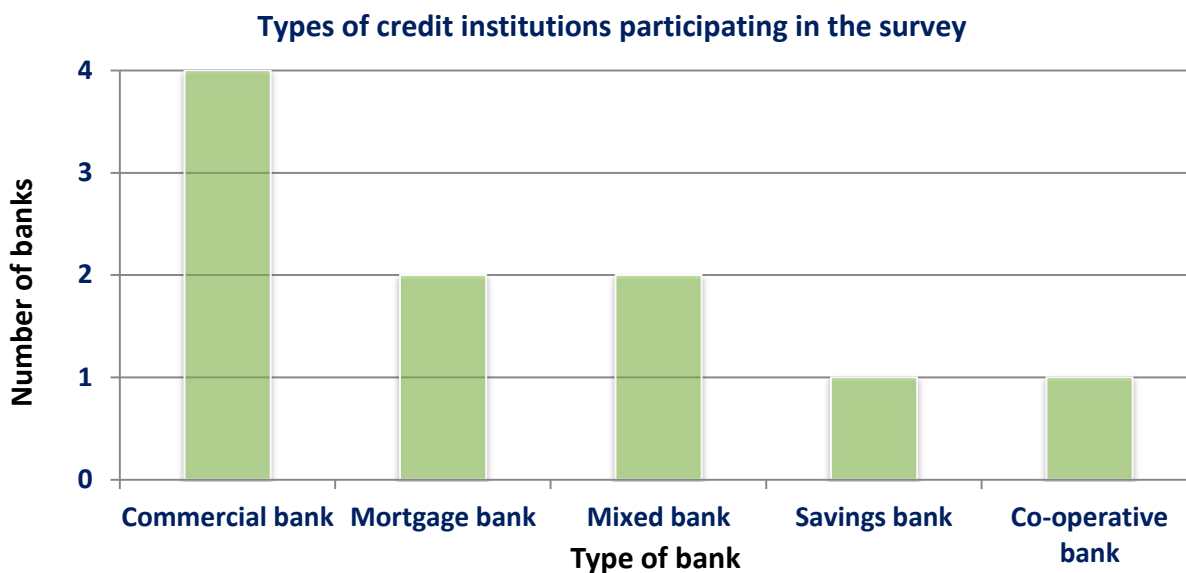


Figure 12: Types of credit institutions participating in the survey, n=10

The survey covers data from most of the major relevant Austrian credit institutions and provides a good insight to the lending practices of Austrian joint stock banks, savings banks, state mortgage banks, and credit cooperatives.

The total balance sheet according to annual accounts after local generally accepted accounting principles (GAAP) of all participating credit institutes amounts to EUR 300.712 Mio. in 2011, that is 30% of the total balance sheet of all Austrian credit institutions (EUR 992.814 Mio.)<sup>5</sup>.

5 of the participants in the survey represented credit institutions with balance sheets of less than EUR 10 Mio., 3 with balance sheets between EUR 10-50 Mio., and two with balance sheets of more than EUR 50 Mio..

The total loan portfolio (loans and receivables to customers) of all banks participating in the survey represents approximately 38% (EUR 165.997 Mio.) of the total lending portfolio of all Austrian credit institutions (EUR 442.267 Mio.)<sup>6</sup>.

5 out of 10 participating banks segment their business clients by the amount of their client's sales only. 4 use a combination of 2-3 company characteristics to classify their customers. 4 banks do not differentiate between micro- and small sized enterprises, though this includes 1 commercial bank that does not see business with SMEs as part of its core business.

9 banks consider the SME sector as significant to highly significant for their business. Of this, three would even describe doing business with SMEs as the predominant part of their business.

<sup>5</sup> For comparison, statistical data from the OeNB (banks' balance sheets) were used.

<sup>6</sup> See above;



## The Austrian Banking Sector

### Structure of the Austrian banking sector<sup>7</sup>

Financial institutions differ according to their legal status, the type of activity (universal or special bank), and by their sectoral affiliation (single or multi sector).

The majority of Austrian financial institutions offer a wide range of services, though some specialize in specific areas or customer groups. Depending on the nature of their activities, banks can be divided into two categories:

1. Universal Banks

Universal banks operate all common banking transactions. In Austria the majority of large institutions belong to this category.

2. Specialized banks

Specialized banks only carry out certain banking activities in which they are specialized. These include: Building associations (Bausparkassen) – for financing housing; Investment companies - for managing investment funds; Credit card companies - for issuing and managing means of payment such as credit cards and the Oesterreichische Kontrollbank – for financing exports and the assumption of liability.

Banks in Austria are also distinguished by their legal form and after their sectoral affiliation:

1. Single-stage sector

This sector includes:

- Joint stock banks - their main activity lies in the financing of large industrial projects and export transactions of the Austrian economy;
- State mortgage banks - they grant primarily mortgage and municipal loans and issue mortgage and municipal bonds;
- Building associations – they primarily grant loans for the purchase of building plots and flats as well as the construction of residential buildings;
- Special banks - they may not take deposits and are specialized in certain areas such as the financing of export transactions, the management of investment funds, the issuance of credit cards, or the granting of medium-or long-term investment loans, etc.
- § 9 BWG branches - these are credit institutions from other EU member states that established branches in Austria

2. Multilevel sector

This sector includes credit institutions covered by a two- or three-tier structure. At the top is the central institution that coordinates and balances the activities of the affiliated institutions. The sector includes:

- Savings banks (Sparkassensektor) with the lead institution Erste Group Bank AG
- Volksbank Credit cooperatives with the lead institution Volksbanken AG
- Raiffeisen credit cooperatives with the lead institution Raiffeisen Bank Austria AG

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<sup>7</sup> Excerpt from Handbuch der OeNB zu Geld und Geldpolitik (OeNB, Dec. 2012).

### Share Of Austrian Bank Sectors – Total Balance Sum

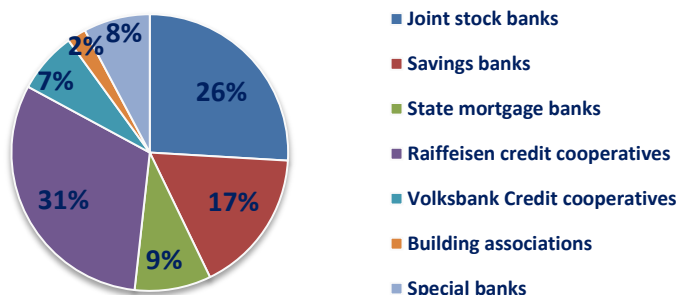


Figure 13: Share of Austrian bank sectors, total balance sum; Data from 31.12.2011; Source OeNB; Branches of European banks not taken into account.

### Share Of Austrian Bank Sectors – Lending Portfolio

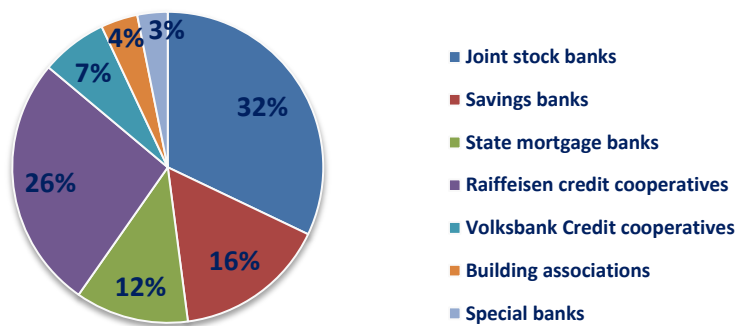


Figure 14: Share of Austrian bank sectors – lending portfolio; Data from 2011; Source: OeNB; Branches of European banks not taken into account.

## Importance of the Austrian banking sector

Austria has one of the highest bank-densities and also one of the highest branch densities in international comparison. Banks contribute about 3.5 per cent to the country's gross domestic product and employ country-wide about 70.000 people (BSBV et. al., 2010).

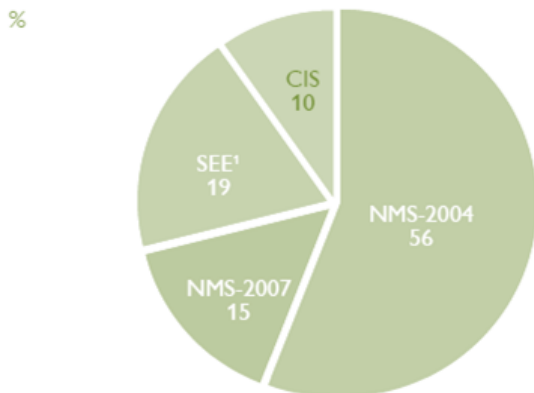
Austrian banks are characterized by a high degree of internationalization. Since the opening up of Eastern Europe, Austrian banks have invested in the region and today are represented in most Central and East European Countries.

According to a publication of the Austrian National Bank (OeNB, 2012), which regularly assesses economic and banking developments in Austria, majority-Austrian-owned banks had a total exposure of EUR 215.5 billion to the whole Central, Eastern or Southeastern Europe (CESEE<sup>8</sup>) area at the end of June 2012.

The SEE region accounts for 19 per cent of this exposure (EUR 41 billion). In comparison, Austrian banks' total international exposure (claims) amounted to EUR 345 billion or 115 per cent of Austrian GDP as at end-March 2012. On the basis of total assets, the CESEE subsidiaries of Austrian banks reported further growth in the second quarter of 2012. CESEE operations continue to be a key profit driver for Austrian banks.

<sup>8</sup> CESEE: Central, Eastern or Southeastern countries that joined the EU in 2004 and 2007, other Southeastern European countries outside the EU, and the members of the Commonwealth of Independent States (CIS).

### Austrian Banking Groups' Exposure to CESEE



### EU-15 Banks' Share in Total Exposure to CESEE



Source: OeNB, BIS; Q1 12.

¹ Albania, Bosnia, Croatia, Montenegro, Macedonia, Serbia, Turkey.

Figure 15: Austrian banking groups' exposure to CESEE / EU-15 banks' share

Although risk costs in the region for Austrian banks diminished somewhat in 2012, which may indicate that the previous deterioration in credit quality may be leveling off (OeNB, 2012), the Eurozone debt crises and particularly the uncertainties in the Eurozone financial system had a negative impact on the business in the Western Balkans.

In general bank lending in the Western Balkan countries has been very much affected by tighter credit conditions, including tighter credit standards, stricter funding conditions and a rise in non-performing loans.

Credit growth slightly recovered at the end of 2010, but remained subdued in 2011 reflecting the economic slowdown caused by spillovers from the euro zone crises (OECD et al., 2012).

A more stringent environment for businesses' access to bank-finance due to the financial crises can also be observed in Austria. SMEs are facing tighter credit conditions. This particularly affects those SMEs which already had a low equity ratio and/or low profitability before the crises (BSBV et. al., 2010).

A parallel survey of Austrian SMEs conducted on behalf of the World Bank finds that the majority of Austrian SMEs that use bank financing to meet investment requirements in the last 3 years believes that bank requirements concerning the provision of financial figures and strategies became tougher in the last 3 years (CFRR, 2013).

Banks continue to be the most important external source of financing for Austrian SMEs.

## The Austrian SME Sector<sup>9</sup>

In Austria 99.7 per cent of all enterprises are SMEs with less than 250 persons employed. These approximately 307,700 SMEs employed almost 1.8 million persons in 2010.

Austrian SMEs generated a turnover of about EUR 398 bn in 2010, which was almost 63 per cent of the turnover of the whole market-oriented economy.

About 87 per cent of the Austrian SMEs in the *market oriented economy*<sup>10</sup> are so-called micro-enterprises with less than 10 persons employed in 2010. Another 10.6 per cent were small enterprises with 10 to 49 persons employed and 1.6 per cent can be categorized as medium-sized (50 – 249 persons employed).

An analysis by industries shows that all industries have a high percentage of SMEs in Austria.

In 2010/11, Austrian SMEs had an average equity ratio<sup>11</sup> of 28.5 per cent. The equity ratio of micro enterprises is the lowest in comparison to other company size classes and accounted to 19.5 per cent. However, from a historical perspective the equity base of Austrian SMEs is increasing steadily. In 2006/07 the average equity ratio only amounted to 23.4 per cent.

The smaller the enterprises - the higher the bank indebtedness: While almost 47 per cent of the capital in micro enterprises was accounts payable to banks, the percentage was lower in small enterprises (36 %) and in medium-sized enterprises (21.5%). The average bank indebtedness of SMEs amounted to 28 per cent.

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<sup>9</sup> Excerpt from the Survey on Small and Medium Enterprise Financial Reporting in Austria, prepared by the Austrian Institute for SME Research for the World Bank CFRR (CFRR et. al, 2013).

<sup>10</sup> This international comparable category excludes SMEs that are active in agriculture and forestry as well as personal services (= personal services with the exception of services that are bound to a special qualification or official permit or that are reserved to other crafts).

<sup>11</sup> The equity ratio indicates the proportion of a firm's capital which is accounted for by equity.

## Organization Profiles

### The World Bank Centre for Financial Reporting Reform

The World Bank Centre for Financial Reporting Reform (CFRR) is a decentralized World Bank office located in Vienna, Austria, which is responsible for assisting countries in the Europe and Central Asia region with corporate sector financial reporting reform activities.

The CFRR provides knowledge and technical assistance services to support governments and other stakeholders with their reform efforts. The CFRR knowledge services include analytical and advisory activities, in the form of technical assistance, capacity building, learning-, and knowledge transfer activities. Currently, along with the diagnostic Accounting and Auditing Reports on the Observance of Standards and Codes (A&A ROSC) program and related follow-up activities, the CFRR is presently implementing two major technical assistance (TA) programs:

(i) The Road to Europe: Program of Accounting Reform and Institutional Strengthening (REPARIS)

The Road to Europe – Program of Accounting Reform and Institutional Strengthening (REPARIS) is a multi-donor trust fund (MDTF) that aims to assist countries in adopting and implementing effective corporate financial reporting systems, aligned with the EU *acquis communautaire*. Beneficiary countries currently include Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro, Moldova and Serbia. The MDTF currently finances a World Bank-executed program (referred to as the regional program), which makes available activities to all countries, and a national project in Albania which is led by the Albanian Government. Funding for the REPARIS MDTF is provided by the Austrian Development Agency, the Austrian Finance Ministry, the Grand Duchy of Luxemburg, and the Swiss State Secretariat for Economic Affairs. The REPARIS MDTF is managed by the Vienna-based World Bank Centre for Financial Reporting Reform (CFRR). It was established in late 2008 and is currently due to run until the end of 2013.

(ii) The Swiss government financed Financial Reporting Technical Assistance Program (FRTAP) for the new EU member states: It is a fee-for-service program, with the CFRR as an implementing agency, to assist the new member states in implementing the requirements of the *acquis communautaire* in the field of financial reporting.

### The Austrian Federal Economic Chamber's Industry Sector Banking and Insurance

The Austrian Federal Economic Chamber's (WKOE) Industry Sector Banking and Insurance (BSBV) is the body representing the whole Austrian banking sector. It is one out of seven industry sectors of the WKOE and provides the link between its seven trade associations<sup>12</sup> and the WKOE.

The legal representation of interests for Austrian business is handled by the Economic Chamber Organization (WKO). This consists of the WKOE (headquartered in Vienna), and nine Regional Chambers in the federal provinces. The Austrian Economic Chambers represent more than 400,000 member companies. Every single person who is entitled to operate an independent business venture in crafts and trades, industry, mining, finance, banking and insurance, transport, information and communication, broadcasting, tourism and leisure, as well as other services, is a member of the WKOE by Austrian law.

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<sup>12</sup> "Fachverband der Banken und Bankiers"; "Fachverband der Volksbanken"; "Fachverband der Landes-Hypothekenbanken"; "Fachverband der Sparkassen"; "Fachverband der Raiffeisenbanken"; "Fachverband der Versicherungsunternehmen"; "Fachverband der Pensionskassen";

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