Introduction

SME FINANCING: CURRENT SITUATION AND OUTLOOK

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Small and medium-sized enterprises (SMEs) play a crucial role in the economic development and employment dynamics of many countries. Their contribution to innovation and to the reduction of territorial disparities has also been recognized by many authors.

However, these companies often have difficulty obtaining funding due to loan rationing by banks, thus compromising their survival and growth (Psillaki, 1995). This pressure on balance sheet liabilities has even been identified as the most important limitation on SME growth (Manigart and Sapienza, 2017). Crowding-out of the bank debt market is particularly pronounced in developing countries. In developed countries, the main problem of SMEs is less rationing by quantity than by cost, as well as access to sources of financing other than bank loans. Some studies also point to a form of self-censorship, with SME managers reluctant to ask for the advances they need for fear of being turned down.

There are a number of reasons for it being difficult to obtain financing, including insufficient size, which is considered an aggravating factor for default risk, unfamiliarity with funding programs, the use of simplified accounting systems, and the weakness of pledged collateral (Bolton and Freixas, 2006; De Prijcker et al., 2019), particularly when SMEs are still young and/or innovative. Formal lenders often require collateral to deal with their risk exposure, which SMEs may not be able to provide, thus limiting their access to financial resources from intermediated markets. These difficulties, many of which are structural, may be compounded in times of financial crisis. Yet financing is essential to SME development and survival (Berger and Udell, 1998; Beck and Demirgüç-Kunt, 2006), which leads them to turn to other resource providers, such as family and friends. Such sources of funding are attractive at the very beginning of a company's life cycle, but carry a risk, particularly in terms of availability and sustainability, making them unsuitable for regular use. For this reason, many OECD and non-OECD countries have adopted measures to facilitate access to SME funding. Guarantees play a key role among these measures (Zecchini and Ventura, 2009). This is also why regulators sometimes take the question of SME financing into account in their prudential requirements. Such measures are supported by an abundant literature on the impact of insufficient financing for SME development and on the actions needed to remedy the situation.

Several journals and magazines have devoted special issues to these issues. In the 1990s, the *Journal of Small Business and Enterprise Development* brought together several contributions in a special issue devoted to “The Impact of Resources on SMEs: Critical Perspectives” (1994), while the international journal *PME* entitled its issue “SME Financing” (1995). The issue of *Small Business Economics* focused on “European SME Financing: an Overview” (1997). In the wake of the 2008-2009 economic and financial crisis, the subject of corporate and SME financing became central to public policy thinking. In 2014, the *Revue d'économie financière* (REF) took another look at the relationship between competitiveness and SME funding. More recently, in 2018 *Small Business Economics* published a special issue devoted to “New Trends in Entrepreneurial Finance”. The following year it was the *Journal of Family Business Management* that published an issue entitled “New Insights into SMEs: Finance and Family SMEs in a Changing Economic Landscape”. As can be seen from these

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few examples, the topic has attracted constant and fresh interest, so much so that devoting one more special issue to it is perfectly appropriate in an economic context severely affected by the consequences of the Covid-19 pandemic, inflation, and rising interest rates. The new conditions prevailing in both the real and financial spheres thus justify providing academics, professionals, policy-makers, and other stakeholders with an overview of the latest findings on SME funding and what makes it special.

Building on an extensive literature, this special issue is thus intended as a tool and resource for (1) reexamining the strengths and weaknesses of SME access to funding and the recent evolution of this access, (2) illustrating the lessons of recent evaluations of public policy measures in this area and, consequently, (3) encouraging efforts to further expand funding of SMEs.

In order to identify companies' preferences, it remains relevant and effective to break them down by type of resource and to differentiate them—although this is the classic distinction—between debt and equity, and between internal and external sources. Indeed, SME managers choose their financial structure according to their personal goals (Mason et al., 2015), which depend on personal perspectives, the state of the markets, as well as the expectations and context in which the company operates. The order of presentation of the articles gathered here is intended to reflect this outline.

THE FINANCIAL SITUATION OF SMEs IN A CHANGING FINANCIAL WORLD

The first articles in this special issue take stock of how contextual factors such as economic conditions, changes in monetary policy, and the current crisis are affecting SME funding. *Christine Bonnery and Guillaume Richet-Bourbousse* take a new look at how loans to SMEs have evolved over the last ten years, from the end of the economic and financial crisis to the health and then global crisis linked to Covid 19. They report on the development of the productive fabric, the rise of SMEs, and the role played by central banks in stabilizing the system and corporate financing flows. In their article, *Henri Fraisse and Jean-Stéphane Mésonnier* look at the consequences of changes to the monetary and prudential framework introduced in the eurozone and France following the financial crisis. Unconventional operations, and in particular long-term refinancing operations (VLTRO, TLTRO), are said to have been effective overall in supporting funding of SMEs, at least the best-rated companies. The strengthening of the prudential framework, and in particular of capital requirements, pretty much limited credit supply, certainly for the first few years after the financial crisis. Nevertheless, empirical assessments suggest that the support factors introduced to ease requirements on SME risk have worked well in supporting the supply of loans to SMEs.

CONDITIONS OF ACCESS TO THE BANK LOAN MARKET

Bank financing remains a key tool for growing SMEs. On the demand side for funding SMEs, it has long been demonstrated (Belletante et al., 2003) that the majority of SMEs do not seek an optimal capital structure, or a balance between maximizing wealth and the value of the company while minimizing the costs of capital through an appropriate debt structure. They prefer to protect their decision-making independence and to avoid the interference of new shareholder-owners in company management (Lopez-Gracia and Aybar-Arias, 2000). This is why, despite the availability of financing channels other than bank loans, which also complement internal financing, loans retain these companies' preference. Indeed, next to the general economic context and regulatory framework, local and specific loan market conditions are also important, as shown by both *Mounir Amdaoud, Giuseppe Arcuri, and Nadine Levratto*, and *Jérôme Coffinet and Théo Nicolas*, who examine the importance that the form of the banking relationship can take in supporting SMEs. *Mounir Amdaoud, Giuseppe Arcuri, and Nadine Levratto* use data describing companies and the economic context in Italian provinces to show the extent to which the density of a local financing environment can be linked to stronger SMEs, particularly the smallest companies. The dependence of the smallest companies on banks thus remains a major structuring feature of their survival and, more generally, of their trajectory. For their part, *Jérôme Coffinet and Théo Nicolas* point out the impact that the form of the bank-SME relationship can have on SME financing conditions during the business cycle. They attest to the importance that "relationship-based" bank lenders (i.e., those who engage in multiple, long-term interactions with their customers) can have in reducing the cost of SME financing in the event of a downturn. This effect is thought to be all the more important if the SME is able to diversify its sources (multi-banking), once again illustrating the developmental role of the local financing market. The authors point out, however, that while this insurance mechanism works well for the least risky SMEs, that is not the case for the highest risk profiles, which raises the question of obtaining help to fund them, particularly in times of crisis. Finally, *Hélène Euphrasie Alouanga and Georges Kobou* further explore the loan market by proposing an analysis of how the cost of bank loans can depend on relationship-based financing. They base their analysis on a survey of Cameroonian SMEs operating in Douala and Yaoundé in Cameroon. Their results underscore the complementarity between relationship-based financing and bank loans. SMEs that combine both these methods enjoy better access to banks.

THE NECESSITY AND NOVELTY OF EQUITY FINANCING

In addition to financing by banks, equity financing is a crucial instrument for SMEs, particularly when they are young and innovative. Given the inaccessibility of formal financing methods, alternative or informal sources of equity finance have been adopted by companies and explored in the literature. Cummings et al. (2020) point out that "innovations through digitization offer new approaches to exploring the entrepreneurial fundraising process" and that equity crowdfunding is a specific form of financing dealing with public and private participation. Pandher (2019) indicates that venture capital is another source of funding sought by start-ups that is affected by the financier's risk preferences and the characteristics of venture capital. The article by *Ludivine Chalençon and Alain Marion* takes up the question of external financing as a growth driver, based on the study of a particular sector, medical biology laboratories, which has undergone major transformations in capital ownership in recent years. They highlight the key role of external financing, but also, among the laboratories, the importance of equity and, especially, of share-based payments. The study by *Maarouf Ramadan and Luc Tessier* also takes up the issue of equity financing, based on a comparative analysis of the financing models used by French and Quebec business angels to finance young innovative small businesses. Drawing on a survey of these investors, they show that whether investors meet financing needs and which SMEs they choose to support depend on cultural criteria. The article by *Hicham Meghouar and Hibbat-Allah Ezzahid* completes this analysis of equity financing by examining SME access to crowdfunding. Using a lexical and thematic content analysis based on a survey of Moroccan SMEs, they demonstrate the importance of the institutional context, taking into account the legal origin of the judicial framework of the platforms under consideration, as well as the specific characteristics of the companies involved, in particular their age.

GUARANTEES AND PUBLIC FINANCING

Whether it's a question of debt or equity, it has been widely observed that the private equity market has a hard time readily responding to the needs of SMEs. For example, SMEs may be affected by problems of information asymmetry that make the loan market less than transparent. Investment in innovation, particularly by SMEs, can also be considered sub-optimal from the point of view of society, given that the effects of externalities have not been taken into account in individual choices. This is why there are numerous public programs that seek to fluidify the financing market for SMEs, generally in their riskiest phases (start-up and transmission) or when they are involved in particularly innovative and uncertain projects. Providing guarantees plays an important role in public policy, and research has made considerable progress in recent years in empirically assessing their impact. *Julien Brault's* article reviews the evaluation of loan guarantee programs at the European level and points to the positive impact on the growth and survival rate of SMEs that have received such support. This finding is also shared by *Mathilde Lê*, who, based on French data, looks more specifically at the impact of Bpifrance loan guarantees for the transmission of VSEs and SMEs. This research also illustrates how banks can make use of these programs for borrower profiles that initially have too little collateral or that exist in sparsely populated areas where it is more difficult to match sellers and buyers. As for *Raphaël Chiappini, Kymble Christophe, Samira Demaria, Vincent Dortet-Bernadet, Benjamin Montmartin, and Sophie Pommet*, they look at several studies that have empirically assessed the impact of public funding of innovation for SMEs and ISEs in the form of grants, repayable advances, and subsidized loans provided by Bpifrance. In particular, the results point out the positive counterfactual impact that such financing can have on R&D (research and development) spending by these companies and on their development.

WHAT ARE THE CHALLENGES FOR SME FINANCING?

This review of the state of SME financing research concludes with an examination of the major challenges associated with such financing. *Catherine Deffains-Crapsky* concludes by pointing out the specific challenges that the transition to a low-carbon economy raises and the need for SME financing and support, particularly from public institutions. However, since the positive effects to be expected from financing are amplified by, or even dependent on the quality of the environment and internal organization of SMEs, two contributions examine these issues. *Fabrice Gilles, Yannick L'Horty, and Ferhat Mihoubi* study the effects of the support program for SME and ISE managers, the Bpifrance “accelerators”, which the public bank has promoted since 2016. These support programs, which involve consulting, training, and networking services for managers, but that are not accompanied by concomitant monetary support, can have very significant effects on company growth, employment, and investment. However, the internal characteristics of a company also play a role in financing decisions. This is the conclusion reached by *Médéssè Carol F. Gandegnon*, who shows how SME managers make their financing decisions, and to what extent this can affect the support provided.

June 12, 2023

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