



# Enhancing Long Term Finance for SMEs in Europe

COLLECTIVE  
INTELLIGENCE  
FROM OUR  
EXPERT GROUP

Paris, April 2024

This initiative is jointly promoted by

**INBONIS**<sup>̄</sup>**RATING**  
THE CREDIT RATING AGENCY FOR SME

 **SME FINANCE  
FORUM**

# EXECUTIVE SUMMARY

## KEY ACTIONS AGREED BY THE EXPERT GROUP:

### shorted by importance and short term feasibility:



#### Banking channel

##### PUBLIC-PRIVATE SHARED INVESTMENT MODELS:

Building on the success of initiatives like "France Relance," this action advocates for collaborative investment strategies that engage both public and private sectors in financing bank-originated SME/Midcaps quasi-equity loans. Such partnerships are essential for creating a supportive ecosystem that promotes growth, ensuring these businesses can access the necessary capital while distributing risks effectively.

**55% likely to be implemented in the short term according to the attendees.**

##### STANDARDIZATION OF PUBLIC GUARANTEES:

EIB to inspire a "common framework" for SME bank portfolio guarantees that National Public Institutions (NPI) could implement in a standardized way. By establishing common minimum data requirements and thorough asset assessments, this initiative will enhance investor confidence and streamline the funding process, making it easier for scale-ups and SMEs to secure the financing they need.

**26% of chances to be implemented in the short term.**



#### Expand Alternative funding channel

##### DEVELOPING ACCEPTABLE BENCHMARKS TO FOSTER RETAILISATION:

Establishing reliable and accepted benchmarks through the Euroepan Data Warehouse (EDW) SME loans is essential to broaden investors base into SME debt/equity loans ensuring compliance with national regulators "appropriate" definition according to PRIIPs requirements.

It has been demonstrated that SME/Midcap private lending, as measured by the Spread Risk Indicator (SRI), exhibits limited volatility compared to private equity. However, the lack of appropriate benchmarks or proxies currently limits the expansion of this asset class into retail investment.

**50% of the attendees think they can take action this year to solve this issue.**

##### MARKET TRANSPARENCY THROUGH QUALITY MONITORING AND REPORTING:

Implementing robust monitoring reporting frameworks will ensure investors have access to high-quality data, facilitating informed decision-making and fostering trust in SME/mid caps backed assets.

It will bring to SME/midcaps private debt the best practice identified in the Collateralized Loan Obligation (CLO) markets where all the companies in the portfolio are rated by Credit Rating Agencies.

**26% of attendees think they can take action this year to solve this issue.**

# 1. Why did we launch this initiative?

For the first time, Inbonis Rating and the SME Finance Forum assembled a group of high-level experts with a wealth of talent, knowledge and innovative mindset to challenge the status quo of European SME access to long-term finance:

1. There are 250 000 medium-size SMEs & midcaps in Europe, representing 1% of the total number of SMEs and accounting for 35,7% of the employment. According to a recent study<sup>[1]</sup> led by the European Investment Bank (EIB), medium-sized SMEs and midcaps (with a turnover of more than 10 million euros per year) located in strategic sectors are the ones with the greatest potential for growth.
2. SMEs' dependency on banks remains high in the Eurozone, with 70% of external financing being reliant on banks, against 40% in the US<sup>[2]</sup>.
3. Recent evidence estimate an equity and hybrid capital shortfall of EUR 450-600 billion for European SMEs<sup>[3]</sup>.

Coming from all relevant stakeholders across Europe, the experts attended an intensive session to confront their complementary views, best practices and **craft new solutions to ultimately define what changes can improve European SME financing.**

Gathering this expert group comes at an opportune moment, echoing the sentiments of distinguished experts like Enrico Letta, Christian Noyer, and Mario Draghi. Their collective acknowledgment of the necessity to channel more savings into productive real economy investments reinforces our conviction and mission.

**But our initiative is not just about discussion or ideas; it's about making tangible changes.**

With this 1st Expert group deliberation, we want to plant seeds for real for future growth—not only to address current issues, but to lay the foundations for continued collaboration and bridge-building among experts. We aim to inspire and foster connections that will lead to our next gatherings, maintaining momentum in our shared endeavors. Certain issues were identified relevant to the main goal, and we will activate in Europe ad-hoc focus groups throughout the year until the next annual deliberation.

[1] See: [www.eib.org/en/publications/20230277-hidden-champions-missed-opportunities-mid-caps-crucial-role-in-europe-s-economic-transition](https://www.eib.org/en/publications/20230277-hidden-champions-missed-opportunities-mid-caps-crucial-role-in-europe-s-economic-transition)

[2] European SMEs Financing Gap, Euler Hermes.

[3] [https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME\\_COVID-19Recapitalisation2020%20\(1\).pdf](https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME_COVID-19Recapitalisation2020%20(1).pdf)

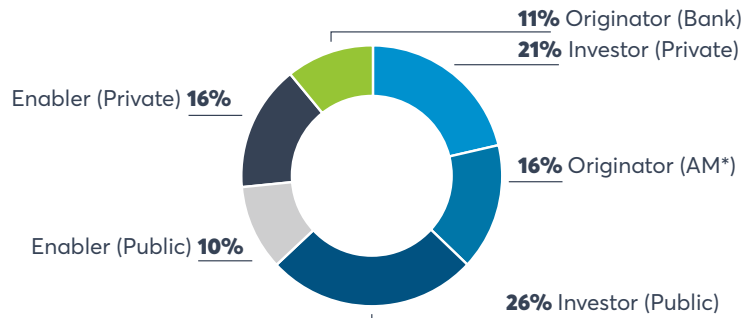
## 2. Methodology

In the initiative *Enhancing Long Term Finance for SMEs in Europe*, we used innovative tools in order to ensure inclusive participation with a broad range of relevant stakeholders. We respected the principles of the deliberative process, including **respect for one another, intellectual openness, curiosity and empathy**. The end-goal of this **deliberative exercise was to generate collective intelligence** oriented towards certain actions.

The process included the following phases:

### 1. Selecting the group of high-level experts

we gathered in the same room Experts from 6 relevant stakeholder groups that can impact SME finance in Europe.



\*AM = Asset Manager

### 2. Analyzing the context

we developed an analysis of the situation with relevant data and trends, and identified a number of news and academic articles that we shared with the deliberators ahead of time.

### 3. Identifying and reflecting the various issues at stake from different perspectives

we identified two of the most relevant issues associated with SME long term finance and contextualized them taking into account the various dimensions.

### 4. Choosing an initial speaker

among the deliberators that introduces the framework of the discussion and exposes various possible alternatives of action or questions to the group.

### 5. Engaging in the actual deliberation

in small sub-groups of four or five deliberators per table. Tables were designed to each include various representatives of the six categories of stakeholders. Each table assigned a spokesperson in charge of conducting the deliberation and presenting the main conclusions before the rest of the deliberators.

### 6. Generating collective intelligence

at the end of the deliberation in small groups, the various spokespersons presented their main solutions and conclusions, which were ordered by the main moderator on a flipchart. The group of deliberators decided collectively on the best solutions amongst the various alternatives by using an interactive polling online tool.

# ABOUT

---

## About SME Finance Forum

The SME Finance Forum was established by the G20 Global Partnership for Financial Inclusion (GPII) in 2012 as a knowledge center for data, research and best practice in promoting SME finance. As an implementing partner for the GPII, the International Finance Corporation (IFC) was tasked with managing the initiative.

## About Inbonis Rating

INBONIS RATING is the first independent Credit Rating Agency for SME and mid-caps registered and supervised by the European Securities and Markets Authority (ESMA). INBONIS Rating issues credit ratings on SMEs and mid-sized companies in any sector throughout the European Union. Inbonis is also recognized as an External Credit Assessment Institution (ECAI) by the European Banking Authority (EBA). INBONIS Rating is a B-corp company.

## Contact the promoters of :

### Enhancing Long Term Finance for SMEs in Europe

COLLECTIVE INTELLIGENCE FROM  
OUR EXPERT GROUP

Paris, April 2024

**INBONIS**RATING  
THE CREDIT RATING AGENCY FOR SME

---

[geraldine@inbonis.com](mailto:geraldine@inbonis.com)



**SME FINANCE  
FORUM**

---

[smefinanceforum@ifc.org](mailto:smefinanceforum@ifc.org)

[www.inbonis.com](http://www.inbonis.com)