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SPOKE 4

D4.1.3 – Sustainability and SME's credit access

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Sustainability and SME's credit access

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Context and Importance of the Issue

Small and medium-sized enterprises (SMEs) are pivotal to the global economy, particularly in Italy, where they constitute a significant portion of the industrial and service sectors. Despite their importance, SMEs often face challenges in accessing bank credit, which is crucial for their growth and sustainability. The increasing emphasis on environmental, social, and governance (ESG) factors in financial decision-making has raised questions about how sustainability practices influence SMEs' access to credit. This study addresses this gap by examining whether SMEs with sustainable business models enjoy better access to bank loans and improved debt servicing capabilities.

Methodology and Key Findings

The study employs a panel data analysis of 125 listed Italian SMEs across 14 regions from 2017 to 2021. A Sustainability Business Model (SBM) score, comprising 20 items across disclosure, processes, and governance, was developed to measure sustainability practices. Financial data were sourced from the Orbis database, while qualitative sustainability information was hand-collected from corporate reports.
Key findings include:

- SMEs with higher SBM scores secured more short-term and long-term bank loans, with short-term loans being more prevalent.
- Sustainable SMEs demonstrated a stronger capacity to service their debt, as reflected in higher interest coverage ratios (ICR).
- The positive relationship between sustainability and credit access strengthened over time, likely due to evolving regulatory and market pressures post-Paris Agreement.

Policy Implications

Encouraging Sustainable Practices Among SMEs

Policymakers should consider implementing incentives, such as tax breaks or grants, to encourage SMEs to adopt sustainable practices. This could enhance their creditworthiness and facilitate easier access to bank financing. In the different European countries, SMEs are transitioning to sustainability at different rates, with the greatest progress being made in Germany, followed by Italy, Portugal, Austria, Spain and France (Madrid-Guijarro and Durendez, 2023; Courrent et al., 2018).

Enhancing Transparency and Disclosure

Non-financial firms—especially SMEs, which are essential to the European economy and play a key role in value chains and community dynamics—face growing pressure to align their operations with ESG criteria, a challenge that, while significant for banks, is even more critical for these smaller enterprises (Gomes and Pinho, 2023; Angilella and Mazzù, 2015).

Developing standardized ESG reporting frameworks for SMEs can help banks more accurately assess the sustainability performance of these enterprises, leading to improved credit evaluations. Providing training programs to assist SMEs in understanding and implementing effective disclosure practices can improve their transparency and attractiveness to lenders. Organizing events that bring together banks and SMEs to discuss sustainability can foster mutual understanding and collaboration, leading to more favorable credit terms for sustainable businesses.

Recommendations

Integrating Sustainability into Credit Assessment

For SMEs, integrating sustainability into business models should be a strategic priority to enhance credit access and reduce financing costs. Banks are encouraged to develop specialized financial products tailored to sustainable SMEs, leveraging ESG metrics in credit assessments. Policymakers should establish frameworks that align SME sustainability efforts with broader economic and environmental objectives, such as those outlined in the EU Green Deal.

Implementation and Evaluation

Establishing systems to collect data on the impact of sustainability practices on SME credit access can help in refining policies and demonstrating the benefits of sustainable business models. Regularly reviewing and updating policies to reflect emerging best practices in sustainability and SME financing will ensure that the regulatory environment remains supportive and effective.

Conclusion

By implementing these policy recommendations, governments and financial institutions can create an enabling environment that promotes sustainable practices among SMEs, thereby enhancing their access to bank credit and contributing to broader economic and environmental goals (D'Apolito et al., 2024).

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