

SME Financing: A Comparative International Perspective

A journey across various regions in the world to discuss the absolute importance of small-medium enterprises in every economy and their means of financing.

Emanuele Arrigoni

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1. Introduction

Small-Medium enterprises (SMEs) are crucial in any economy, while their means of financing differ significantly from region to region. Banks are preferred in Europe, which relies especially on guarantees, while US' channels include federal support and a rising non-banking sector along with conventional banking. On the other hand, in Northeastern Asian countries, most of liquidity is provided to firms through guaranteed schemes operated by governments or policy banks, with dedicated SME equity markets for start-ups with innovative ideas. This article will carefully examine each model from multiple perspectives, providing valuable and forward-looking insights.

1.1. Why definitions matter

It is necessary to note, before any comparisons, that the acronym "SME" could have different definitions in different geographical areas. Whilst in the EU, SME is defined by having less than 250 employees, together with restrictions on either turnover or balance sheet; in the US there are Small Business Administration (SBA) size definitions which could differ based on industries, with employee limits generally being 500. Japan has different definitions for each sector, with restrictions on capital and personnel determined by law. China's definition varies according to the "ministries and statistics bureau."

1.2. Global economy: A financing gap

With Micro-Small-Medium Size Enterprises (MSME) financing gaps in the trillions, in an era seemingly filled with fintech credit, new financial intermediaries and guarantee schemes, it could be difficult to make clarity. The most recent IFC (International Finance Corporation)/SME

Finance Forum’s report on MSME finance gaps is indispensable, especially for its breakdowns on gap sizes, by region. The OECD (Organisation for Economic Co-operation and Development) Scoreboard section provides comparable data on loan rates, guarantees and insolvency ratios for more advanced countries. IMF (International Monetary Fund), FSB (Financial Stability Board) and BIS (Bank for International Settlements), on the other hand, analyze banking relationships with private markets and their policy consequences.

2. European Union: bank-centered policy with guarantees

Banks are the primary financing source for SMEs in the EU. Using ECB’s SAFE (Security Action For Europe) survey, we have information about trends in applications, outcomes, credit costs, by country and size, in addition to EIB Investment Survey (EIBIS): SAFE looks at credit, while EIBIS analyzes investments. These reports show, for each country, a bank-based model with leasing and factoring trends suffering stricter conditions in 2023, then stabilizing in 2024-25. What is not visible at first sight is guarantee arrangement. At an EU level, EIF and EIB support each other through portfolio guarantees and intermediary loans, including Invest EU schemes. Also, most Member States have their own promotion banks. Their primary purpose is to distribute risk to increase credit cash-in and cash-out, especially if their banks maintain strict lending criteria. For those interested in getting deeper in the subject, EIF’s European Small Business Finance Outlook¹, as well as Invest EU’s webpage on EIB/Commission², provide really interesting data.

2.1. Takeaway

Hence, SME financing in Europe remains bank-driven with a strong dependence on guarantees. Current debates in policymaking revolve around finding new credit routes in market-based mechanisms, even if opacity concerns expressed by regulators in non-bank credit markets persist.

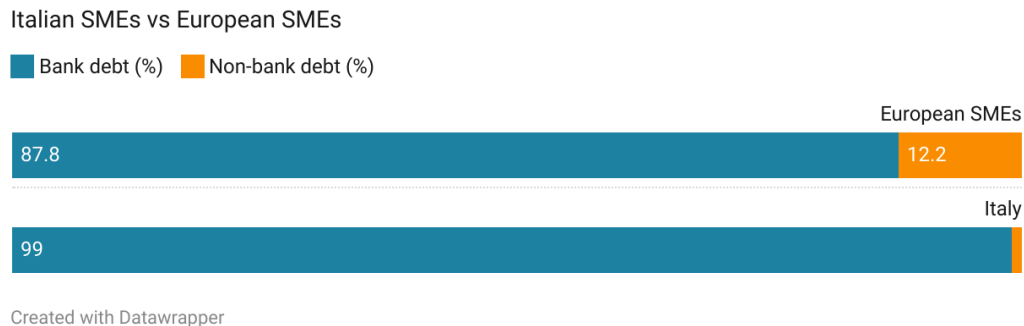


Figure 1: Italian SMEs vs European SMEs

2.2. A short zoom on Italy

The Italian model is very similar to the European one, with factoring being particularly significant to corporates’ working capital and public sector debt, while minibonds occupy their small and stable corner market for more structured issues. Assifact’s latest report³ shows factoring turnover for 2024 at about €289bn, excluding tax credits, which is a good size reference for comparison with other countries. On the cyclical front, surveys from the Italian Central Bank

¹https://www.eif.org/news_centre/publications/eif-working-paper-2024-101.pdf

²<https://www.eib.org/en/products/mandates-partnerships/investeu/index?>

³https://www.assifact.it/wp-content/uploads/2025/10/Rapporto-sul-mercato-del-factoring-2024_ENG.pdf

detail changes in supply principles and demand dynamics through 2024-25.

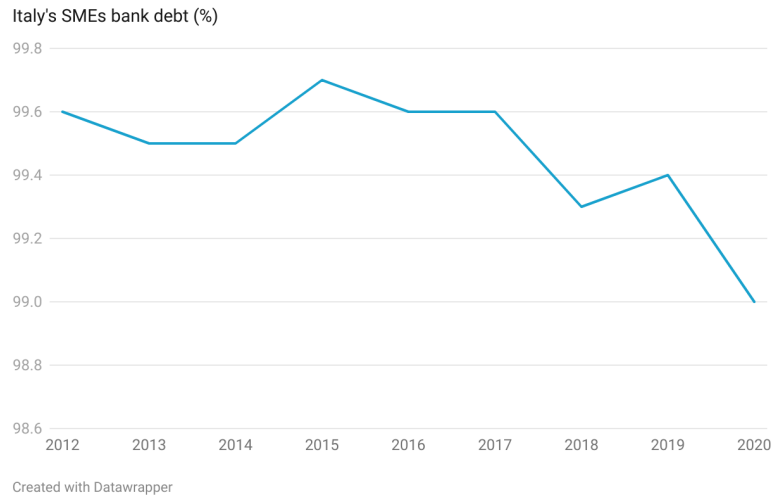


Figure 2: Italy's SMEs bank debt

3. United States: polycentric market, with private credit now mainstream

SME financing in the US is deliberately drawing from various sources. Companies apply to small and large banks, online/fintech lenders, finance companies, credit unions and community development loan providers. For information on which companies apply to whom, surveys conducted by the Federal Reserve's Small Business Credit Survey (SBCS)⁴ are the most authoritative source to refer to. 2025's primary report, together with "Firms in Focus Chartbook" series⁵, provide informative and easily interpretable graphics. SBA-guaranteed loans remain critical for credit support. Official activity reports show that SBA-backed lending is equal to \$56 billion in FY2024, simply highlighting the scale of these federal guaranteed channels in practice. Compared to similar European EIF or Asian networks, although the roles and sharing mechanisms are different, public credit sharing remains broadly similar to those described. Private credit, on the other hand, presents an extremely dynamic scenario. IMF's 2024 GFSR (Global Financial Stability Report)⁶ outlines the evolving scenarios for risk channels in private credit, which is becoming a substantial asset class, while the BIS characterizes the contexts in which it is developing (e.g., stricter banking regulation). At a non-bank level, lenders are gradually increasing their lending to the middle market, sponsor-backed companies and even to the upper tier of SMEs

3.1. Takeaway

Although the US model is clearly more heterogeneous, with banks flanked by a range of non-bank institutions, the modus operandi of banks seems to have shifted from a restrictive approach to a more facilitative one: regulators and rating agencies are now interested in the relationships between banks and non-bank financial institutions (NBFI) in terms of liquidity, rather than compromising the channel itself.

⁴<https://www.fedsmallbusiness.org/reports/survey/2025/2025-report-on-employer-firms?>

⁵<https://www.fedsmallbusiness.org/reports/survey/2025/2025-small-business-data-chartbooks>

⁶<https://www.imf.org/-/media/files/publications/gfsr/2024/april/english/ch2execsum.pdf>

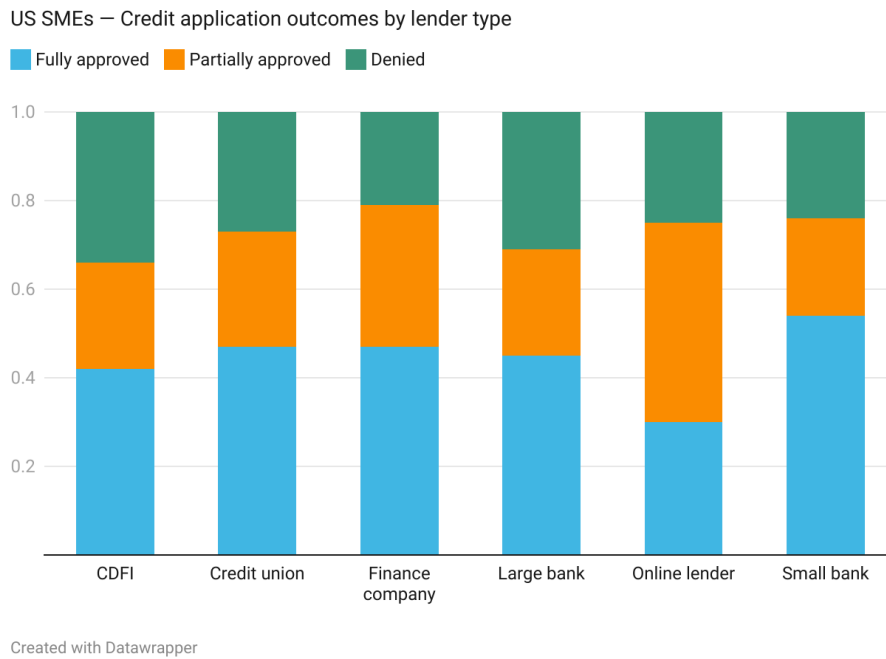


Figure 3: Credit application outcomes by lender type

4. China: government-promoted inclusive finance, large-scale guarantee mechanisms, and SME-oriented stock markets

China's support for financing small and medium-sized enterprises remains tied to government policies. In addition, large amounts have been allocated through inclusive finance targets and instruments, with a slight increase in risk sharing in their public guaranteed system. By July 2024, for example, the National Financing Guarantee Fund (NFGF) had begun to increase its risk share from 20% to 40% for technological innovation in small and medium-sized enterprises, clearly indicating that the state was assuming credit risk to facilitate lending by the banking sector. Overall, for example, data reveals further growth in inclusive lending to small and micro enterprises, with an increase of around 12% year-on-year in the third quarter of 2025, reaching around RMB 36.5 trillion. Alongside bank and guarantee-based channels, China has developed a part of the stock market specifically targeting smaller, innovation-driven companies: Shanghai's STAR Market, Shenzhen's ChiNext and Beijing Stock Exchange. These equity markets are not the core financial channel for average small enterprise's working capital, but they are relevant for tech-driven SME growth financing. China measures the monthly confidence index of Chinese SMEs through the SMEI. A $SMEI > 50$ indicates expansion, a $SMEI < 50$ indicates contraction and a $SMEI = 50$ indicates no change. The objective is to provide comprehensive evaluation and dynamic observation of the status and development of China SMEs via three dimensions: performance, expectation, and credit. In May 2016, SMEI was uploaded on Bloomberg Terminal as the core index reflecting the economic development of China SMEs.

4.1. Takeaway

The Chinese model combines channeled bank loans, risk sharing with governments and customized stock markets for innovators, representing a different balance from Europe and the United States.

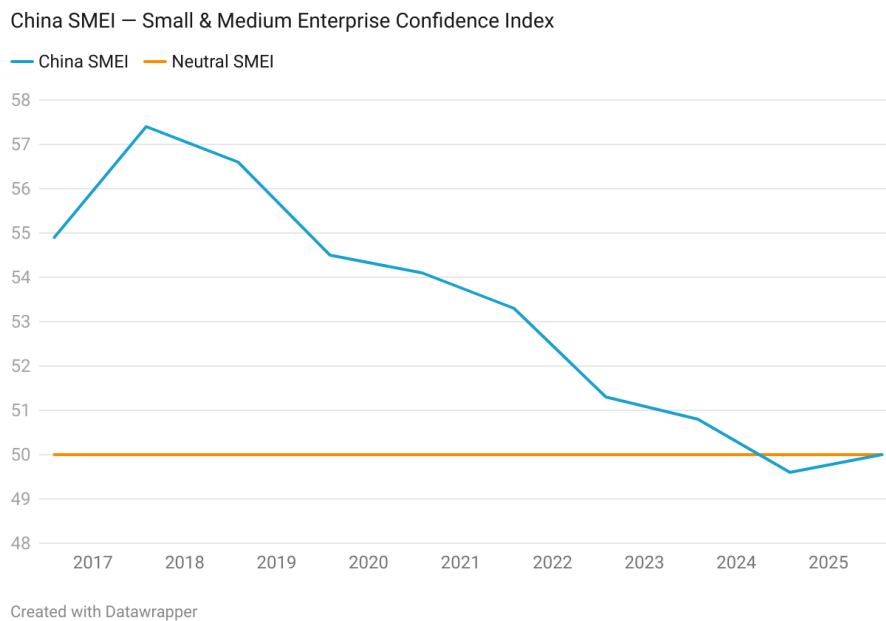


Figure 4: China SMEI — Small & Medium Enterprise Confidence Index

5. Japan: Credit guarantees, policy loans as its foundation

SME financing in Japan is based on supplementary credit, with 51 credit guarantee corporations (CGCs) supporting bank loans to SMEs, while the Japan Finance Corporation (JFC) extends credit insurance to these CGCs through insurance loans. This is clearly a countercyclical operation, which has seen an increase in size during crises (pandemics, natural disasters). You can check the Japanese CGC/JFG guide⁷, JFC annual reports and JFC guides for clear flowcharts and up-to-date information on these programs. Equity financing also exists for growing companies in the TSE (Tokyo Stock Exchange) Growth Market, although improvements in continuity and transferability in 2025 have increased its quality. However, for most small manufacturers or suppliers, secured bank loans are and will likely remain the foundation.

5.1. Takeaway

Japan uses commercial banks to distribute credit, along with other elements such as public guarantees or insurance policies, in order to maintain the flow of credit during economic cycles, while its Growth Market is exploited to distribute equity capital to growing companies.

6. How the models differ and what to watch out for in the future

6.1. Instruments

- EU: Bank loans remain the main source of financing. Portfolio guarantees and promotional banks ensure stability of flows; leasing and factoring are spread. Market channels are growing more slowly.
- United States: Multi-channel system (banks, online platforms, shadow banking) supported by SBA guarantees. Private credit is increasingly financing the mid-market.
- China/Japan: Strong public guarantees and policy loans; equity markets are used by SMEs. Secured bank loans remain critical for most businesses.

⁷https://www.jfc.go.jp/n/english/report/pdf/jfc2024e-sme_web.pdf

6.2. Market structure and risk

European and US authorities are analysing non-bank intermediation and gaps in private credit data (such as evergreen funds: liquidity and links with banks). Yields have normalised with the reduction in rates in 2025, an important factor for borrowers looking for private credit.

7. Implications for SMEs and economic policymakers

1. There is no perfect model.

Banking systems with strong guarantees offer more coverage, while those with more market channels are faster but require more control over the non-banking sector. Each country must find the right combination, considering its laws (e.g. insolvency, guarantees), the quality of credit data and investors' power.

2. Guarantees remain essential.

Whether we are talking about EU programmes, SBA loans in the US or JFC systems in Japan, all show that risk sharing between the public and private sectors maintains credit even in difficult times. The next challenge is to understand how to help even the most fragile or innovative sectors, making companies' capital more solid.

3. Private credit will also grow in Europe.

It will no longer be just an American phenomenon. In Europe, we will see more loans originating from banks and then transferred to private funds, with ESMA (European Securities and Market Authority) and ECB controlling on leverage and transparency. These intermediaries will be able to offer tailor-made loans to SMEs, secured by assets or sponsors, but careful attention will be required for costs and conditions.