Financing Sustainable Growth: SMEs and GVCs at the heart of the G20 agenda

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Growth is sustainable when it balances economic, environmental and social considerations, with a long-term and global horizon. The type and quality of growth matters.

At macroeconomic level warnings signs are increasing:

- “Debt-at-risk” ($19 trillion; 40% of corporate liabilities); “Debt-to-Ebitda” (all-time high of 5.8)
- Covenants at a minimum and “Mark-ups on intangibles” for debt-funded takeovers have jumped.
- Highly leveraged deals (~60% of US buyouts in 2019; surpassing pre-2008 peak)
- Funds go longer and into more risky assets, leading to greater illiquidity risk.
- Financing trade key challenge; especially SMEs struggle to bridge cash-flow gap.

From a Regulatory perspective – Capital base has strengthened but:

- Excesses from Banks moving to shadow lenders
- A fragmentary approach to financial regulation poses material challenges. Economic policies need to be coordinated with financial regulation.
- Trade finance negatively affected with Banks being crowded out & increased systemic risks (capital & KYC requirements, cross-border fragmentation).
SMEs deliver on average more than 40% of GDP and 50% of employment globally, and provide 80% of new jobs in the EU → hence all are keen to support SMEs ... but

- **The Perception Trap → Banks are not lending**
  - Banks cannot prosper without being at the heart of local businesses and communities, and therefore cannot prosper without supporting SMEs.
  - Key role of a bank is not “simply” to lend, but to support customers with products tailored to their needs, and this includes the correct assessment of their risk profile inclusive of a proper understanding of the business’ objectives and development stage.
  - A successful entrepreneur, SME or just client is the primary interest for any bank as it ensures both low credit risk and long term business.

- **The Perception Trap → Non-bank finance sources are alternative to Banks**
  - Surveys in recent years show that successful SMEs are likely to use more than one source of finance to both start and sustain their business – BUT most SMEs in practice only use one source of finance.
  - Different sources complement each other ensuring that firms are more appropriately financed, resulting in banks have better risk profiles on their books and ultimately both being more successful.
"The G20 process is the platform that offers Governments and social stakeholders the opportunity to write the world’s future agenda" (A. Merkel).

From Turkey in 2015, B@O actively supported each Presidency to ensure continuity in agendas and progresses.

It established an annual B@O-B20 roundtable on SMEs and GVCs. Key to this work is “Join the dots”.

In 2021, Italy will hold the Presidency; a timely & unique opportunity to shape the agenda for the future with SMEs at its core.
Fostering Productivity to achieve sustainable growth

Think Small First – Integrate, enabling finance to SMEs throughout Global Value Chains across international borders; important to avoid thinking of single SMEs in a vacuum

Access to credit ultimate engine to support growth; focus on enabling accessible financing. There is no “one solution fits all” in SME financing ➔ finance alternatives need to be tailored around the firms’ needs, as complements NOT competitors.

Harmonize Productivity policies with Economic Growth and Financial Stability – Productivity is about “working smarter”, not “working harder”
• At individual firm level: reduce gap from “frontier” firms
• At macroeconomic level: harmonise strategic growth activities and implementation of regulations

Few examples
§ Reinforce SMEs innovation vs. regulatory burden build-up
§ Investing in infrastructure and PPPs vs. rules settings’ consequences on long-term investment
§ Sustain inclusive productivity vs. regulatory fragmentation and cross-border inconsistencies

Leveraging digital – Innovation must be at the heart of any new strategy.

➔ A practical recommendation: SME passports across Global Value Chains