OliverWyman

Prepared for: Government of the Netherlands

Ministry for Economic Affairs and Climate

CREATING THE BEST SME DEBT FINANCE ECOSYSTEM

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EXECUTIVE SUMMARY (1/5)

Context of Dutch SMEs and approach of the study

- **With the ambition to improve the Dutch SME financing ecosystem, the Ministry of Economic Affairs and Climate engaged Oliver Wyman to analyse the SME debt financing ecosystem in the Netherlands, benchmark it against peer countries, identify performance gaps, understand their causes and explore solutions deployed in peer countries.** This analysis specifically focuses on debt finances for traditional SMEs (not equity finance, or start-ups, or specific sub-segments that may be relevant to specific policy priorities)
- **While SMEs, especially micro/small SMEs, are the backbone of the NL economy and have generated significant growth in recent years, there is room to improve access to debt financing to unlock further investments and GDP growth**
  - SMEs are the backbone of the NL economy, driving 61% of gross value added (GVA), with 2/3rd coming from micro/small SMEs.[1] They also account for 71% of employment and 55% of exports[1]
  - NL SMEs have lower debt levels and borrow less than EU peers (SME new debt / SME GVA is 4% for NL vs. 16-30% for EU peers)[2]; NL new SME lending is declining, while increasing in DE and FR[2]
  - So far, decreasing debt levels have not prevented Dutch SMEs from growing (NL SMEs had among the highest GVA CAGR in 2018-2022) [2], but there are indicators, such as a higher returns on assets,[3] that are consistent with the claim that Dutch micro/small SMEs are not achieving their full growth potential as it is harder to access debt in NL (vs EU peers) and as a result some SMEs invest sub-optimally[4]
  - Although bank loans are still their most important source of financing (still 73% of new SME debt for loans <€1M came from banks in 2022[5]), micro/small SMEs are increasingly struggling to obtain a bank loan in the NL vs. EU peers, in spite of generally higher profitability and solvability (on average Dutch banks reject 60% more applications than EU peers)[6]
  - While access to finance is not, across all SMEs, the primary challenge they identify when asked (finding talent is)[6], the low lending rate, high rejection rate, discouragement rate, and high returns on assets suggest that many SMEs may not have access to debt finance if and when they need it, including many who may be bankable
- **We took a three-step approach to benchmark the Dutch SME debt financing ecosystem:**
  1. Analyse how the Dutch SME debt financing ecosystem compares with peer jurisdictions with a framework defining the "best SME debt financing ecosystem"
  2. Map successful policy measures and approaches that peer jurisdictions have undertaken to address similar challenges
  3. Identify key measures that could be relevant for the Dutch SME debt financing ecosystem, which need to be further explored in a next phase
- **Our review is based on a combination of public data, existing literature, and interviews with Dutch and European institutions[7]**
  - Desk-based reviews of data and reports from Dutch institutions (including CPB, CBS, DNB) and European ones (ECB, OECD)
  - Interviews with key stakeholders, on the demand side, the supply side (major Dutch banks and alternative finance providers) and other member of the SME debt financing ecosystem (regulator, government bodies supporting SMEs, and intermediary chains)
  - Interviews with relevant European promotional institutions (UK, DE, FR and EU) to discuss policy measured deployed to address issues similar to the Netherlands
- **We defined a "Best SME debt financing ecosystem" along three dimensions:**
  1. *Orientation:* clear for SMEs where to go to find the right financing and support, external support is broadly available
  2. *Bank loans:* easy and fast to request, rejection rates and interest rate levels on par with EU peers, easy to request government guarantees
  3. *Non-banks loans:* broadly available alternative financiers that solve market failures and drive innovation, while SME and lender protection is ensured

1. SME Performance Review, European Commission, 2023, Oliver Wyman analysis; 2. ECB, European Commission; 3. CPB, 2019; 4. Beck & Demirguc-Kunt, *Journal of Banking and Finance;* 5. Onderzoek non-bancaire financiering, Stichting MKB Financiering, 2022; 6. Survey on the Access to Finance of Enterprises (SAFE), European Central Bank, 2023; 7. Note: while we have made our best efforts to ground our conclusions in data, the available data is frequently highly limited and anecdotal guidance on certain figures was necessary as a basis for some perspectives in this report.

EXECUTIVE SUMMARY (2/5)

Challenges faced by Dutch SMEs and comparison with other jurisdictions

- **We identified three main challenges that Dutch SMEs face in accessing debt financing, compared to EU peers**

  a) Orientation*:* Micro/small SMEs are increasingly struggling to navigate the lending process

  - Micro/small SMEs tend to have more limited financial knowledge (in NL only 20% of micro SMEs (vs. 28% EU peers) and 38% of small SMEs (vs. 42% EU peers) have good financial knowledge)[1]
  - Therefore, SMEs rely heavily on support from banks (62%) and accountants (35%) for advice.[2] These traditional channels are still larger than online (31%).[2] However, traditional support is decreasing as banks have reduced branches and advisors (NL has the fewest branches per 100k adults (NL: 5 vs. DE: 10, SE: 11, UK: 16, FR: 33))[3] and many accountants were found not to have enough business lending knowledge, especially on non-banking lenders.[4] Professional intermediary chains for SME Lending are stepping into this gap, but are mostly still small (NL: 25-30% of new SME debt volume vs. UK: 70%[3]) and less mature (on advice standards, kick-back bans, platform standards etc, compared to e.g., the NL mortgage intermediary market)
  - Also, government support is more fragmented in NL as it lacks a central, leading SME development institute (like Bpifrance, KFW, or Almi in peer countries).[5] In NL, SME support is spread across many national and local institutes, while budgets are relatively small. This makes SME orientation more difficult[5]
  - Due to this limited support, NL micro/small SMEs have a higher drop-out rate (respectively 70% and 40% higher than medium-sized SMEs) in the orientation & start of application phase.[4] 42% of micro/small SMEs drop-out because they are discouraged or do not know where to start.[4] NL SMEs are also 40% more discouraged (i.e. unwilling to try because they expect rejection) to apply for bank loans than EU peers[4]

  b) Bank loans*:* Banks are increasing constrained by (European) regulation to finance micro/small SME loans

  - While banks are generally willing to lend to micro/small SMEs, various factors have forced NL banks to become selective on micro/small SME loans the last years.[5] Since 2018, new bank lending to SMEs in the Netherlands has *declined* at a 12% CAGR[5]
  - Factors for this decline include: increased regulation (e.g., certain EBA LOM requirements are difficult for micro/small SME to adhere to[12]), high regulatory fixed costs from KYC/AML and EBA LOM (which reduce the profitability of micro/small loans), relatively high carrying cost of risk-weighted assets (60-70% of the banks' SME book is below investment grade, requiring more risk capital)[5], high cost of default (NPL rate of micro (5.1%), small (4.0%) loans is ~3x higher than for medium loans (1.6%)[8]), and a cultural reluctance to apply full risk-based pricing[5]
  - Furthermore, bank lending in NL has become increasingly standardized, digitized and credit decisions are data-driven, leaving limited room for customization and expert judgement[5]. (Digitization is required to improve profitability and client experience for SME loans). Instead, in other EU countries where smaller/regional banks play a larger role, expert judgement from the local branch manager are often still considered in the acceptance and credit decision[5]
  - Today, 40-50% of micro and small 'completed' bank loan applications are rejected.[7,9] Some Alternative Finance Providers have even higher rejection rates. European survey-based data indicates that SME rejection rates are 60% higher in NL than EU average.[6] But, we need to be careful with these numbers as there is no uniform definition of rejection-rates and SME-based surveys (SAFE & Financingsmonitor) could be underestimating actual rejection-rates (e.g. SAFE suggests a 10% rejection-rate in NL). Key reasons for rejecting SME loan applications include affordability (also driven by Duty of Care), negative payment remark (BKR), sector (banks have higher minimum solvency rate for certain sectors) or company age (banks typically require 15-18 months of transactional data at minimum), while lack of collateral is typically not a main rejection reason for micro/small SMEs[5]
  - The main government guarantee scheme has had limited impact on reducing rejection rates of micro/small loans. The first root cause is the non-digital & individual loan guarantee set-up (as it requires manual review and registration by the banks, the guarantee is often not considered in the banks' digital credit & acceptance decision for micro/small loans). Second, the total guarantee volume is very small: only 3% of new SME lending has a government guarantee. [10] Third, other issues were raised: the current guarantee focuses on lack of collateral (which is not the primary rejection reason for loan applications), has an unclear impact on the banks' RWA and has a high one-off upfront commission which is passed-on to the SMEs [11]

1. "The intermediary market in The Netherlands," 2022 – 2023, Adfiz, 2023; 2. Finance monitor (2022); 3. World Bank; 4. NBA, 2019; 5. Expert interviews; 6. Survey on the Access to Finance of Enterprises (SAFE), ECB, 2023; 7. These bank rejection rates are confirmed in interviews with main banks but differ from Finance Monitor. Possible explanations are: different definitions. We recommend further exploration; 8. Lending by major Dutch banks to Dutch SMEs, DNB; 9. Expert interview. Rejection rate: approved dossiers as % completed dossiers; 10. RVO data; 11. We note that the Ministry of Economic Affairs and Climate is actively working to Implement recommendations from the recent BMKB evaluation; 12. EBA LOM requires banks to assess the SME's projected financials (scenario based), strategy & business model, owners capabilities, reliance on single clients/key person. For micro/small SMEs this information is often not available; 13.

EXECUTIVE SUMMARY (3/5)

Challenges faced by Dutch SMEs and comparison with other jurisdictions

c) AFP loans: Alternative Finance Providers (AFPs) are growing fast, but are struggling to achieve new competitive funding and are generally costly for SMEs

- Today, AFPs are a key part of the SME financing ecosystem. Some AFPs play a valuable role as they are serving SMEs that are unable to get bank financing (young SMEs, riskier SMEs with a good plan, SMEs that require loan customization, e.g. slightly longer pay-back period) and are stimulating innovation (new products, new credit assessment models, faster processing).
- Due to more constrained bank financing, micro/small SMEs are increasingly turning to alternative lenders such as leasing, private debt, crowdfunding and factoring. The AFP market share for new micro/small loans has increased significantly the last years, reaching 45% of new micro SME loan volume and 16% of new small SME loan volume in 2022.[1] These are estimates as the full AFP market and new bank loan volume (excl. renewals) is not officially measured. Also, reliable data on the AFP market across EU peers is not available which makes international comparisons difficult.
- AFPs generally can finance more easily SMEs rejected by banks, thanks to their higher risk appetite, reduced regulatory constraints, lower regulatory cost, innovative risk-models and fast decision processes. However, AFPs also generally charge higher prices to offset higher risk and require a fee for "middle man" intermediation between the SME and the Fund / Investor providing the loan (AFP interest rates are 1-4% points higher than banks; factoring and short-term credit can be even 3-6x higher though are typically shorter term)[2]; on top of this, AFPs charge one-off success-fees of 2-4% and yearly service fees of 0.75-1%).[2]
- AFPs are also less regulated (mainly through the Code of Conduct, but penetration is still low), and there are concerns about SME protection (high and opaque prices, and limited standards on Duty of Care, affordability, default process and cost)[2]
- Many AFPs indicate that they struggle to scale due to lack of funding. Institutional investors are still reluctant to step in (as risk-adjusted returns are low, the asset class is still new and has limited track-record, and ticket sizes are small for Pension funds).[2] Lack of funding could slow down financing to micro/small SMEs through AFPs[2]

1. Onderzoek non-bancaire financiering, Stichting MKB Financiering, 2022; 2. Expert interviews, Oliver Wyman analysis;

EXECUTIVE SUMMARY (4/5)

Policy measures taken by peer countries facing similar challenges

- **We have reviewed how peer jurisdictions support SMEs. National Promotional Institutions (NPIs) are typically the key actors and provide products and services to solve challenges similar to the ones we have highlighted**
- **While the context is different in each market, we observe three broad approaches to support the SME financing ecosystem:**
  a) *Indirect support leveraging mostly market solutions*, e.g., BBB (UK), SBA (US), EIF (EU): government supports the market with indirect support such as guarantees and investments in equity/debt funds, usually targeting specifically identified market failures (e.g., starters, growth SMEs, innovation, sustainability)[1]
  b) *Intermediated SME financing*, e.g., KfW (Germany), ICO (Spain), HBOR (Croatia): government offers larger balance sheet support via intermediaries that have the direct interface with SMEs (esp. on-lending to banks serving SMEs) with the aim to reduce cost of funding; it is most suitable when changing lenders' incentives changes lenders' behaviour[1]
  c) *Direct intervention*, e.g., Bpifrance (France), BDC (Canada), Enterprise Singapore: government intervenes directly in the market, through the NPI which offers a broad range of products and services directly to SMEs, including direct loans, direct investment into SMEs, advisory and coaching, etc., and often serve as a one-stop-shop approach not only for SME financing but also for broader SME-support activities (e.g., coaching, education, networking) [1]
- **This is reflected in the variety of products offered by NPIs across jurisdictions**
  – Most NPIs will offer forms of *indirect support* to lending, especially through guarantees (which reduces cost of capital and losses in case of default) and sometimes on-lending (which instead focuses on reducing the cost of funding)[1]
  – Emerging approaches include 'tranched' portfolio guarantees, which allow to improve the crowd-in effect of government interventions (by allowing other market participants to intervene, e.g., buying more senior tranches) and limit government exposure (e.g., when the government retains the mezzanine tranches)[1]
  – In addition, a limited number of NPIs (e.g., Bpifrance) deploy *direct lending* to directly complement private lending (usually in addition to indirect support measures)[1]
  – **Beyond financial hurdles, NPIs are increasingly identifying behavioural challenges for SMEs and addressing these issues by offering non-financial services to support SMEs such as:**
  – *One-stop-shops:* to support SMEs through the full lending process (e.g., BPI website or Enterprise Singapore platform)
  – *Referral schemes:* to make sure that whenever an SME is rejected by a bank, it's application is automatically directed towards other banks or most suitable alternative finance providers
  – *Education schemes:* to educate SMEs via coaching programs (with mentors/peers), educational programs (which include case studies), self-assessment tools (e.g., to understand level of digitization and/or potential other improvements), accelerator programs, etc.
- **This variety in approaches to support SMEs has translated in very different institutional landscapes across countries**
  – While countries like Germany consolidate most NPI activities in one entity (KfW), France has established an SME-focused NPI, and the UK has established multiple specialist entities specialised by sector or policy area
  – Those models also usually change through time as France's example illustrates, with Bpifrance being the result of a decade-long organic evolution towards consolidation

1. Oliver Wyman analysis

EXECUTIVE SUMMARY (5/5)

Potential measures to explore to support the SME debt financing ecosystem

	Policy measure to explore	Action options	Peers
Orientation	**1. Simplify existing government support**	Make it easier for SMEs to find the right government support; this can be achieved through various approaches such as aggregating the offer of schemes on a one-stop-shop window, embed products, or consolidating some existing institutions	
	2. Leverage intermediaries	Support the evolution of the intermediary market for SME lending with broader adoption of the Code of Conduct or other standards on advice, pricing, data, platforms and a possible kick-backs ban. Explore vouchers for micro SMEs to ensure broad access	
	3. Bank referrals	Encourage standardization & scaling of bank referral schemes to AFPs. Explore referring to a (market-based) referral platform	
	4. Improve public reporting on SME access to finance	Require banks and APFs to publish more data (by loan size) on new SME lending: e.g., volumes, # loans, rejection rates, use of guarantees, average affordability, referrals, NPL rates. Align definitions across the ecosystem.	
	5. Analytics tools	Develop tools (based on e.g. tax data) for SMEs to compare their business to similar companies (by size, sector, region) and focus on specific challenges they face such as sustainability and digitalisation	
	6. Assess unrealized potential and equity financing needs	• Unrealized potential: Analyse firm-level data to estimate the GVA potential of improving the SME debt financing ecosystem • Future mix: Analyse equity financing and determine the need for debt and equity support for different parts of the SME landscape	
Bank lending	**7. Enhance government guarantee schemes**	Make banks part of the solution by reducing their cost of risk and capital to lend to SMEs, specifically: • Refine existing schemes[1]: streamline application process, remove manual steps, adjust fees and coverage limits • Explore a new, broader, digital guarantee scheme: target top rejection reason, make it portfolio-based, with clear benefits to bank (digital, easy to implement, clear criteria, reduce RWAs), low-cost for SMEs, leverage EIF support	
	8. Better company data	• Explore if company tax data can be shared digitally with lenders (SME remains owner and approves) • Stimulate the use of new data (PSD2, source government data) and track adherence and usage	
	9. Reduce KYC and EBA LOM costs	• Explore a digital wallet where verified documents can be shared digitally with lender (SME remains owner and approves) • Explore a KYC utility where expertise and capacity are bundled to perform KYC which can be (re-)used by all lenders • Explore pragmatic solutions to meet more difficult EBA LOM requirements for micro/small SMEs[2]	
AFP	**10. Support AFP with Funds to lend out. SME protection**	• Funding: Explore an improved, larger DACI successor which invests in Funds that lend out on AFPs (targeting priority SME segments) • SME protection: Explore how to protect SMEs against high interest rates, price in transparency and excess leverage (affordability)	

1. We note that the Ministry of Economic Affairs and Climate is actively working to Implement recommendations from the recent BMKB evaluation, which are consistent with this guidance; 2. e.g., EBA LOM requires banks to assess the SME's projected financials (scenario based), strategy & business model, owner's capabilities, reliance on single clients/key person. This is not always easy for a micro/small SME

SECTION 1

COMPARISON OF THE DUTCH SME FINANCE LANDSCAPE VS. PEER COUNTRIES

SME ECOSYSTEM: WHAT DOES GOOD LOOK LIKE? HOW TO MEASURE?

		What does "good" look like?	How to measure?
SME performance		• **SMEs are growing and contribute to the economy** • **SMEs have healthy debt levels**	• **SME contribution to economy:** SME GVA as % national GVA • **SME growth:** SME GVA growth • **New SME lending:** new SME debt as % SME GVA
SME ability to get debt financing	**Orientation**	• **It is clear for SMEs where to go**: who can best finance, which guarantees/grants apply, who can advise in process • **External support should be broadly available** and low-cost	• **Discouraged:** % SMEs discouraged to obtain new bank loan • **Bank branches:** # bank branches per capita • **Intermediary market**: % market share
	Bank loans	• Bank loan application process should be **easy and fast** • **Viable SMEs should be able to get a loan** • **Risky SMEs** should also be able to get a loan, but **pay a risk premium** • **Government guarantees** should be **easy to request** • **Interest rate levels** should be in line with European averages	• **Fast process:** % New SME bank loan applications still pending • **rejection rate:** % completed new SME bank loans rejected • **Government support:** % of GDP (direct loans, guarantees) • **Interest rate level:** average by loan size
	Non-banking loans	• **Alternative Financing** should be **broadly available, but SME protection should be ensured**	• **Alternative Finance market:** % market share • **Interest rate levels:** delta with bank loans • **Regulation**: how much

SME ECOSYSTEM: EACH MARKET IS UNIQUE, THERE IS NO OBVIOUS PEER FOR NL TO EMULATE

Note: there is no single metric to determine a 'best' SME debt financing ecosystem, and most individual metrics can be too-high or too low. We have sought to indicate performance based on the context of the model each country is pursuing

		SME performance			Orientation			Bank loan				Non-Bank	Market	How is the government supporting SMEs?
		SME GVA contrib.[1]	SME growth p.a.[2]	New SME lending[3]	Discouraged SMEs vs. EU avg[4]	Bank branches/ capita[5]	Intermediary use[6]	Gov. Support cost[7]	Fast process[8]	Rejection rate vs EU avg[9]	Interest rate[10]	AFP market share[11]		
Targeted, indirect		61%	+5%	4%	+40%	5	20%	2%	11%	+60%	2.6%	27%[11]	• SME: high output, low debt • Bank: concentrated, more difficult to get a loan • AFP: growing, some regulation	• Targeted support, focused on guarantees and indirect investments
Targeted, indirect		48%	N/A	12%	N/A	16	70%	2%	N/A	N/A	N/A	N/A[12]	• SME: avg. output, low debt • Bank: competitive, easier to get loan due to challenger banks • AFP: growing, some regulation	• Targeted support (by central (BBB)), focused on guarantees and indirect investments (also in AFPs)
Broad, indirect		47%	+0.1%	16%	+50%	10	N/A	17%	8%	-14%	2.8%	N/A	• SME: avg. output, avg. debt • Bank: competitive, easy to get a loan • AFP: small, regulated	• Large, intermediated support by KfW (on-lending to banks w/ low cost funds)
Broad, direct		42%	+2%	26%	-30%	33	N/A	12%	5%	-14%	2.0%	N/A	• SME: avg. output, high debt • Bank: competitive, easy to get a loan • AFP: small, regulated	• Large direct intervention by (BPI, Almi) with direct support (direct lending, direct investment, one-stop-shop)
Broad, direct		47%	-1%	22%	N/A	11	N/A	N/A	N/A	-57%	N/A	N/A	• SME: avg. output, avg. debt • Bank: competitive • AFP: medium, some regulation	
Broad, direct		59%	+4%	31%	-230%	[TBC]	N/A	N/A	4%	-29%	2.3%	N/A	• SME: high output, high debt • Bank: concentred, easy to get a loan • AFP: small, some regulation	• Mix. Large, direct & indirect support by local governments

High performance vs peers   Medium performance vs peers   Low performance vs peers   (% difference vs NL)   GA: Guarantees, IL: Indirect lending, DL: Direct lending, IE: Indirect Equity

1. SME GVA as % national GVA. European Commission: SME Performance Review, Eurostat, 2022, 2018 (UK) ; 2. CAGR '17 – '22 - European Commission: SME Performance Review; 3. New SME loans as % SME GVA, ECB: Bank business volumes on loans, European Commission: SME Performance Review, 2022; 4. Discouraged borrowers: decision not to apply for a loan for fear of rejection, ECB: SAFE, 2022; 5. Commercial bank branches per capita, from the World Bank, 2021—this metric is a proxy for the extent to which branch-banking models are used in underwriting; 6. Based on expert interviews and available analysis; 7. Materialized state support in terms of balance sheet size of lending and guarantees, Oliver Wyman Analysis; 8. Share of SMEs for whom application outcome is still pending, ECB: SAFE, 2022; 9. Rejection rate from ECB: SAFE, 2022 compared to European average; 10. Loans <=€250k – ECB: MFI Interest Rate Statistics, 2022 ; 11. AFP market share as % new SME debt. Non-bank financing <€1M as a % of total financing of <€1M, SMF: MKB Onderzoek Non-Banciare financiering 2022; 12. Comparable data for UK across segments is not available, the UK has a competitive AFP market that also includes challenger banks who lend deposits. Sentiment based on expert interviews.

EUROPEAN SME LANDSCAPE: SMES ARE THE BACKBONE OF THE DUTCH ECONOMY AND PLAY A ROLE WHICH IS SIMILAR OR EVEN LARGER THAN IN OTHER EUROPEAN COUNTRIES

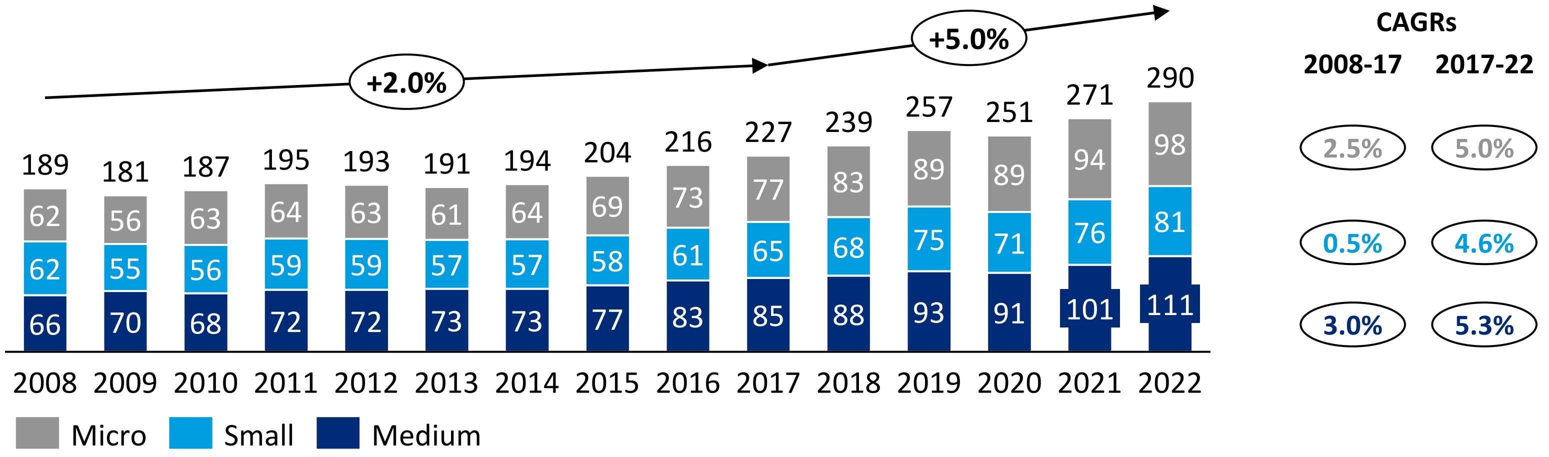
Country	Type of enterprise[1]	Number of enterprises	Share of total enterprises	Share of people employed	Gross value added as share of GDP	Value added by SMEs CAGR (2008 – 2023)
	Micro	1,378,718	95.8 %	27.6 %	20.8 %	3.32%
	Small	48,743	3.4 %	18.4 %	17.2 %	
	Medium-sized	9,954	0.7 %	17.8 %	23.4 %	
	SMEs	**1,437,415**	**99,9 %**	**63,8 %**	**61.4 %**	
	Micro	2,108,178	84.4 %	19.1 %	13.7 %	1.11%
	Small	327,130	13.1 %	21.4 %	16.6 %	
	Medium-sized	50,689	2.0 %	16.9 %	16.2 %	
	SMEs	**2,485,997**	**99.6 %**	**57.4 %**	**46.6 %**	
	Micro	684,819	95.6 %	34.9 %	23.4 %	3.85%
	Small	25,751	3.6 %	16.6 %	19.9 %	
	Medium-sized	4,410	0.6 %	14.8 %	15.7 %	
	SMEs	**714,980**	**99.9 %**	**66.3 %**	**59.0 %**	
	Micro	3,085,610	95.0 %	23.9 %	16.0 %	-0.16%
	Small	135,344	4.2 %	15.4 %	14.1 %	
	Medium-sized	20,585	0.6 %	12.4 %	12.0 %	
	SMEs	**3,241,539**	**99.8 %**	**51.7 %**	**42,1 %**	
	Micro	643,604	94.3 %	20.4 %	15.2 %	1.9%
	Small	31,744	4.7 %	18.4 %	14.9 %	
	Medium-sized	5,835	0.9 %	17.4 %	17.3 %	
	SMEs	**681,183**	**99.8 %**	**56.2 %**	**47.4 %**	
	Micro	5,248,080	95.3%	32.2%%		UK GVA growth data N/A
	Small	217,240	3.9%	15.6%		
	Medium-sized	35,940	0.7%	12.9%		
	SMEs	**5,501,260**	**99.9%**	**60.7%**		
	Micro	22,744,173	93.5 %	29.4 %	18.6 %	1.92%
	Small	1 332 200	5.5 %	19.4 %	16.5 %	
	Medium-sized	204,786	0.8 %	15.5 %	16.6 %	
	SMEs	**24,281,159**	**99.8 %**	**64.4 %**	**51.8 %**	

1. Micro firms: 0-9 employees, small firms: 10-49 employees, medium-sized firms: 50-249 employees. Source: European Comission, UK Government

SME OUTPUT: NL HAS THE LARGEST SME OUTPUT AND AMONG THE ONES WITH THE FASTEST GROWTH

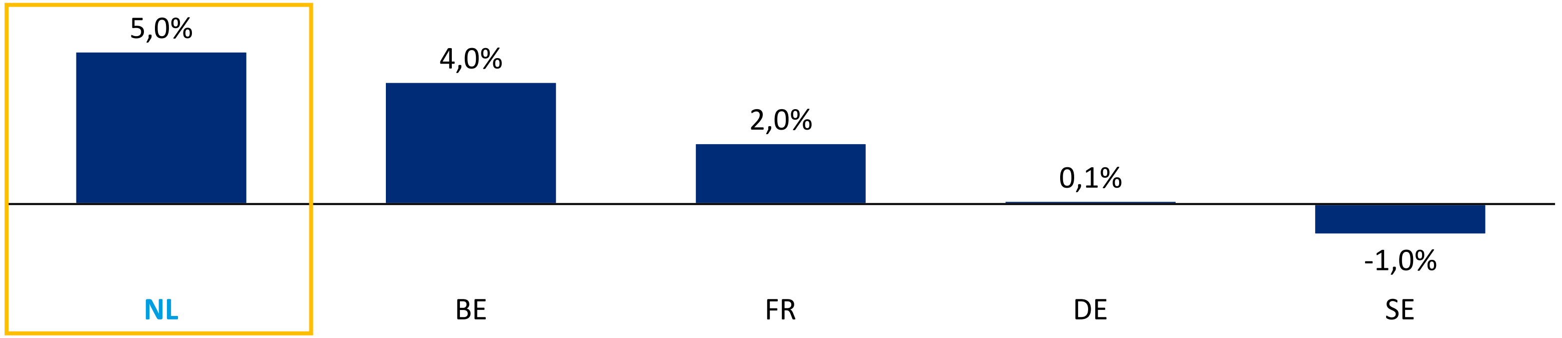
Gross value added (GVA) from SMEs by segment

2010-2023, EUR B



GVA growth rate for all SMEs by country

2017-2022, CAGR



Source: European Commission

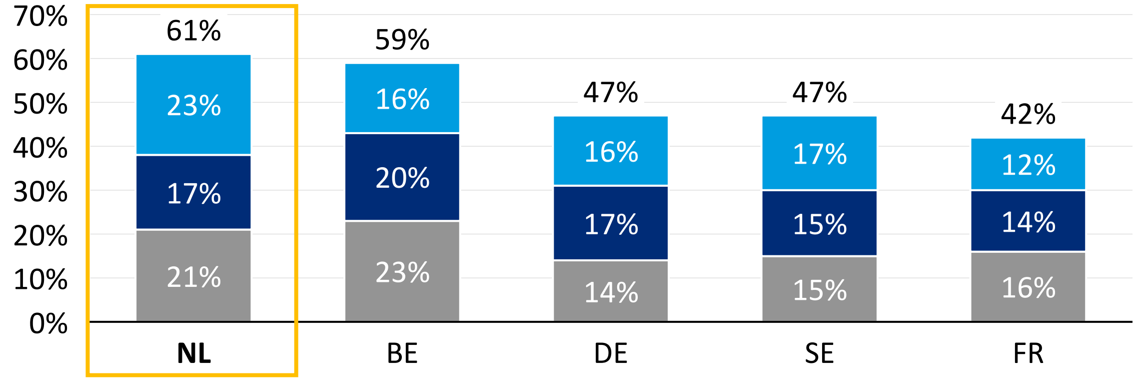
Perspectives

- The Netherlands has nearly the fastest growing SME output (GVA) segment since the global financial crisis
- The pace of SME output growth has accelerated in recent years
- We note that the Micro segment GVA may be heavily impacted by ZZP / sole-contractors (anecdotally this is larger than in other sectors) but there is no immediate way to separate this

SME DEBT VS ECONOMIC CONTRIBUTION: NL SMES HAVE A HIGH GVA CONTRIBUTION, AND HAVE LOW LEVEL OF NEW DEBT

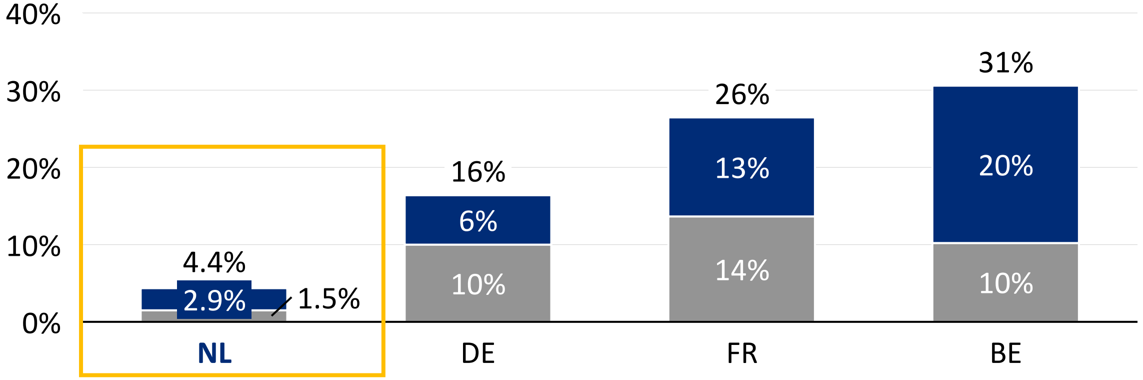
SME GVA as % national GVA

2022



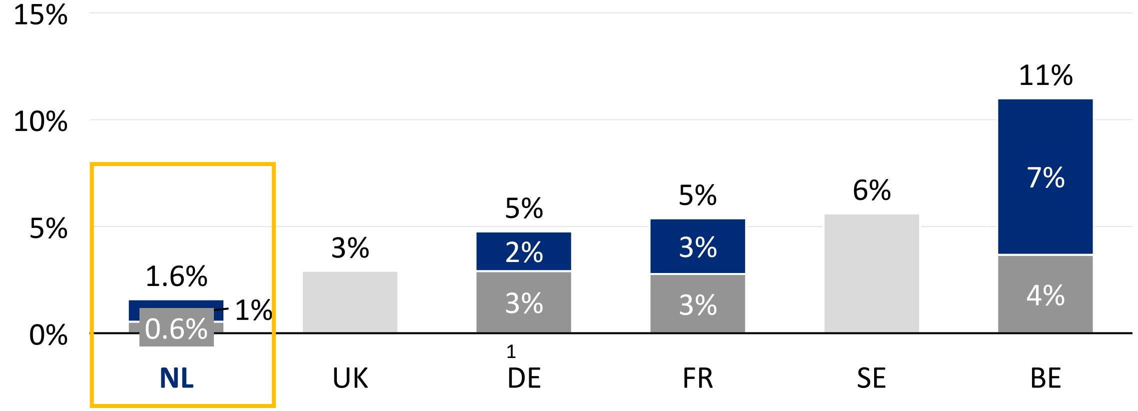
New SME debt as % of SME GVA

2022



New SME debt as % of national GDP

2022



Legend: SME types

Micro Small Medium

<250k 250k-1M

Source: ECB, OECD, Bank of England, Oliver Wyman Analysis. This chart assumes, as is widely assumed in ECB and OECD literature, that vast majority of loans < EUR 1M are SME loans; < EUR 250k: Micro; > EUR 250k, < EUR 1M: Small & Medium

NL PERFORMANCE: KEY CHALLENGES AND IDENTIFIED ROOT CAUSES

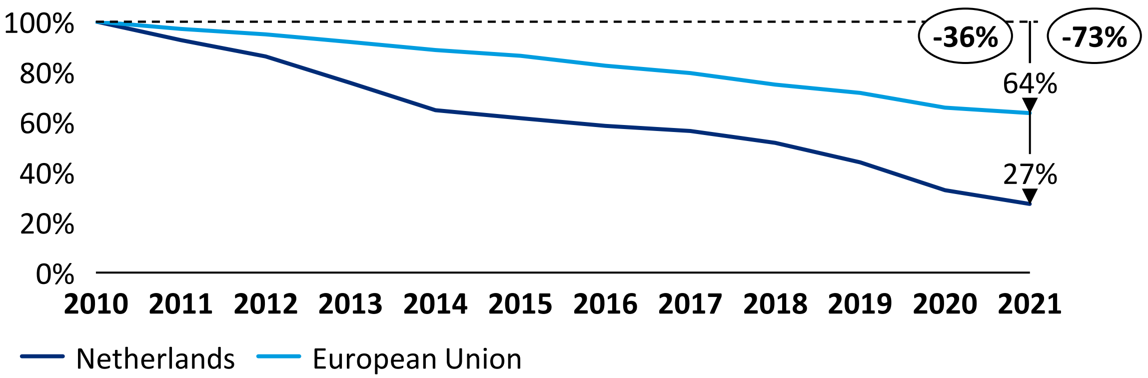
x Deep dives follow

	Key challenges	Root causes
A Orien-tation	• **Micro/small SMEs struggle to find the best financing solution** • **They get limited support in orientation**, while very needed due to limited financial knowledge • **Micro/small SMEs are 40-70% more likely to drop-out in orientation than Medium SMEs**	• **Dutch SMEs are, overall, healthy and productive but some metrics suggest there are opportunities to improve their access to debt financing that could unlock further growth** 1 **Banks and small accountants are still primary orientation channels, but bank support is reduced** as less small SME advisors (after branch closure), **accountants not always sufficient know-how** • **Intermediary market, which works well for Mortgages, is still small for SME lending** (20-30% of volume), immature (no advice standards, kickback bans, single IT platform) and costly for micro SME • **Gov. support to SMEs is fragmented** across many organizations
B Bank loans	1 **Micro/small SMEs struggle to get bank loans (note: mainly low risk SMEs are accepted) (.** NL rejection rate +60% higher than EU peers. 2 **NL SMEs are most discouraged to apply for banking financing** compared to peers • **Gov. support** (as % GDP) **is small** compared to peers as very targeted 3 **Bank loan interest rates only slightly higher** than peers – on par for loans in Germany, 10% higher than in Belgium and 20% higher than in France—this is a limited problem	4 **New bank regulation** (EBA LOM, KYC/AML, Basel 3) has **forced banks to reduce their risk appetite** and **lowered profitability of micro/small loans.** SME bank loan book <250k EUR shrank by -22% since 2019 • **Main rejection rates are Affordability**, **Duty of Care, negative BKR registration** or **sector** (e.g., Restaurants, Construction, Agri, Retail) • **Main guarantee scheme have limited impact on reducing rejection rates** as **focused on lack of collateral** and **non-digita**l (manual review and registration, so rarely considered in acceptance decision). Also SME commission is high.
C AFP loans	1 **Micro/small SMEs rejected by banks turn to AFPs for financing.** In 2022 already 45% of new micro and 16% of new small SME debt came from AFPs. NL is after UK the largest AFP market • **Regulation of AFPs is limited.** Only Crowdlenders require a license. Direct lending, factoring, lease do not require licenses. Prudent behaviour mainly enforced via Code of Conduct, but penetration is still low	• **AFPs can finance rejected SMEs because of higher risk appetite**, **higher price levels**, **lower costs**, customized products, innovative risk-models, fast decisions, **but also due to less regulation** • **AFM has concerns about SME protection: Duty of Care (affordability and default mgt standards) and (too) high prices and limited price transparency** • **AFP struggle to scale further because of high cost of funding.** Risk adjusted returns are (too?) low, asset class still new, ticket sizes are too small for institutional investors. Government funding (which is lend out via funds on AFP platforms) remains requested

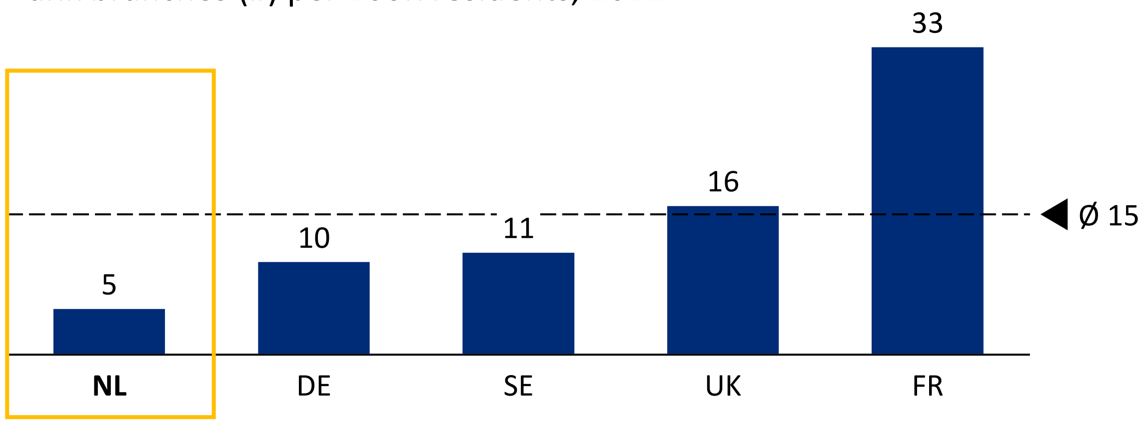
1. These direct channel rejection rates for banks are confirmed in interviews with the main banks, but differ from the Finance monitor. Possible explanations are: different definitions, Finance monitor is based on all channels (incl. intermediary which has a much lower rejection rate: ~10%). It is recommended to explore with NVB and SMF how to get to an uniform definition of rejection rates and how to report on this accurately

ORIENTATION ROOT CAUSES: BANKS ARE STILL THE PRIMARY ORIENTATION CHANNEL, BUT BANK SUPPORT IS REDUCED WITH THE DECLINE OF THE BRANCH BANKING MODEL

Number of bank branches in the Netherlands and EU average[1]
% branches in 2010



Commercial bank branches per capita, Netherlands and peer countries
Bank branches (#) per 100K residents, 2021



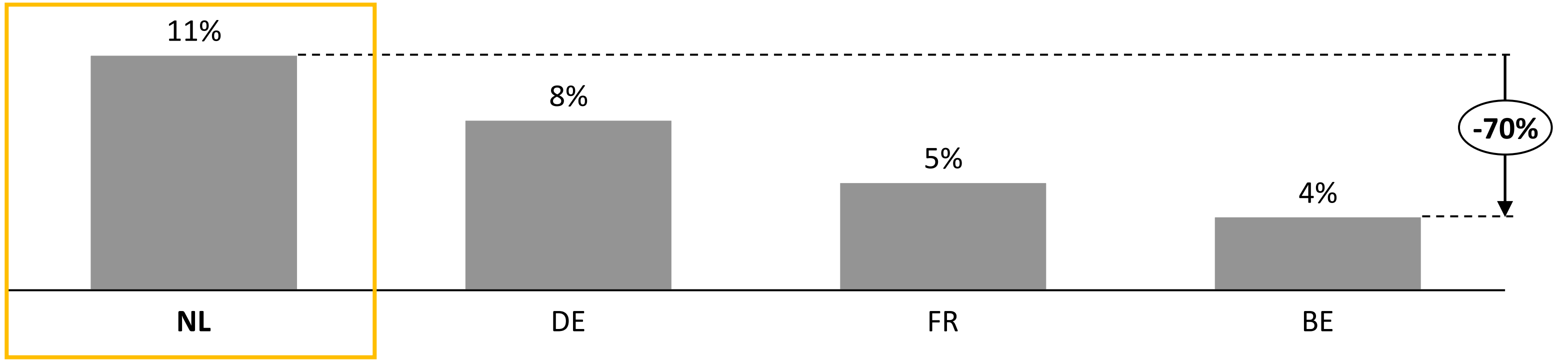
1. ECB, 2022; 2. World Bank, 2021

Summary of transformation in NL banking model

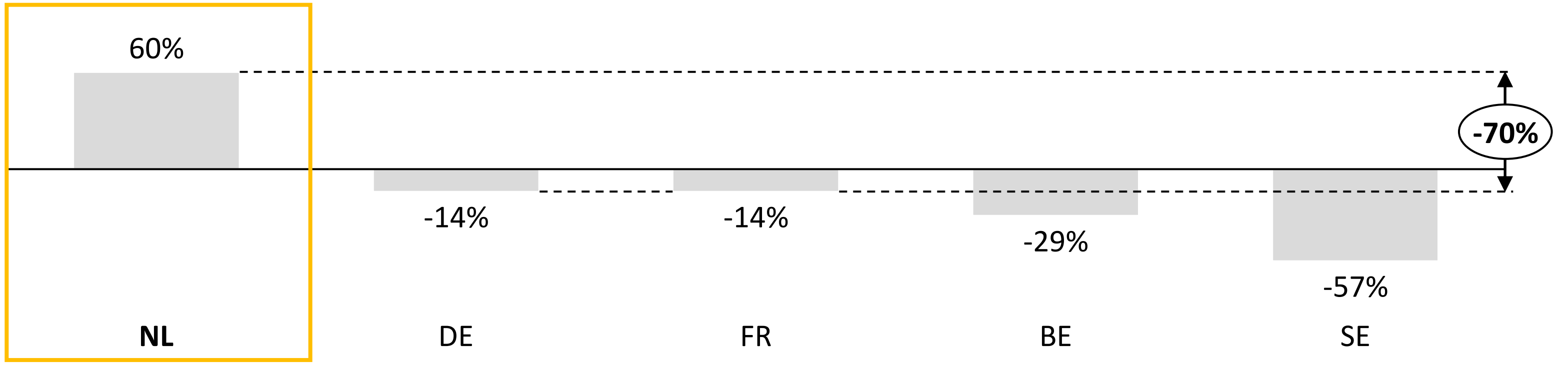
- Since 2010 the Netherlands has lost 73% of its bank branches, more than any other European country. This decline reflects mostly:
  - The transition from branch banking to centralized underwriting models that large banks with scale to invest in data-driven underwriting have taken
  - The extent to which banking in the Netherlands is dominated by large banks that replaced branch banking with central underwriting (mid-sized banks have generally been more likely to keep branches open)
- The branch-banking model relies on branch managers and loan officers who have local information and time and incentives to support SMEs through the process
- The result of this trend is that Netherlands has the fewest commercial bank branches per capita among peers
- The small number of branches reflects that NL is more urban than most peers, but also that in a high-urban nation a small number of large banks can dominate the market at the expense of medium-sized banks, which typically rely on regional strengths to compete
- Medium sized banks, which are still common in many peer countries, play an important role in SME lending – relying more on SME loans as a share of total assets

BANK LENDING CHALLENGES: NL SME BANK LOANS HAVE HIGHER PENDING RATE AND HIGHER REJECTION RATE

Process speed: % SMEs whose latest lending process is still pending
Percentage of respondents[1], 2022 H2



Rejection rates: % new SME bank loans rejected by the bank relative to peer average
Percentage of respondents[1], 2022 H2



Source: ECB Safe survey. 1. Base: Enterprises that had applied for bank loans (including subsidised bank loans)

Key insights

- NL SME bank loans have
  - **Highest pending rate** (suggesting the application process takes long). NL pending rate is 11% vs. 4-8% in peer countries
  - **Highest rejection rate.** According to SAFE**,** NL rejection rate is 16% vs. 4-8% in peer countries. Rejection rate is significantly higher for small loans (<250k). Low rejection rate in peer countries due to government support

B 1 SME ACCESS TO NEW LENDING: NEW SME LENDING IS LOWER AND FALLING IN THE NETHERLANDS COMPARED TO PEER JURISDICTIONS

New bank lending to SMEs: Micro[1]
EUR B

	2018	2022	CAGR between 2018–2022
NL	€7.3B	€4.4B	-12%
BE	€24B	€17.1B	-8%
FR	€59.6B	€65.3B	2%
DE	€86.4B	€94.7B	2%

New bank lending to SMEs: Micro [1]
% of GDP

	2018	2022	Delta (ppts)
NL	1.0%	0.6%	-0,4
BE	5.5%	3.7%	-1,8
FR	2.6%	2.8%	0,2
DE	2.7%	2.9%	0,2

New bank lending to SMEs: Small & Medium[1]
EUR B

	2018	2022	CAGR between 2018–2022
NL	€10.9B	€8.3B	-6%
BE	€51.3B	€33.9B	-10%
FR	€48.9B	€61.2B	6%
DE	€63.1B	€60.7B	-1%

New bank lending to SMEs: Small & Medium [1]
% of GDP

	2018	2022	Delta (ppts)
NL	1.5%	1.0%	-0,4
BE	11.8%	7.3%	-4,4
FR	2.1%	2.6%	0,5
DE	2.0%	1.9%	-0,1

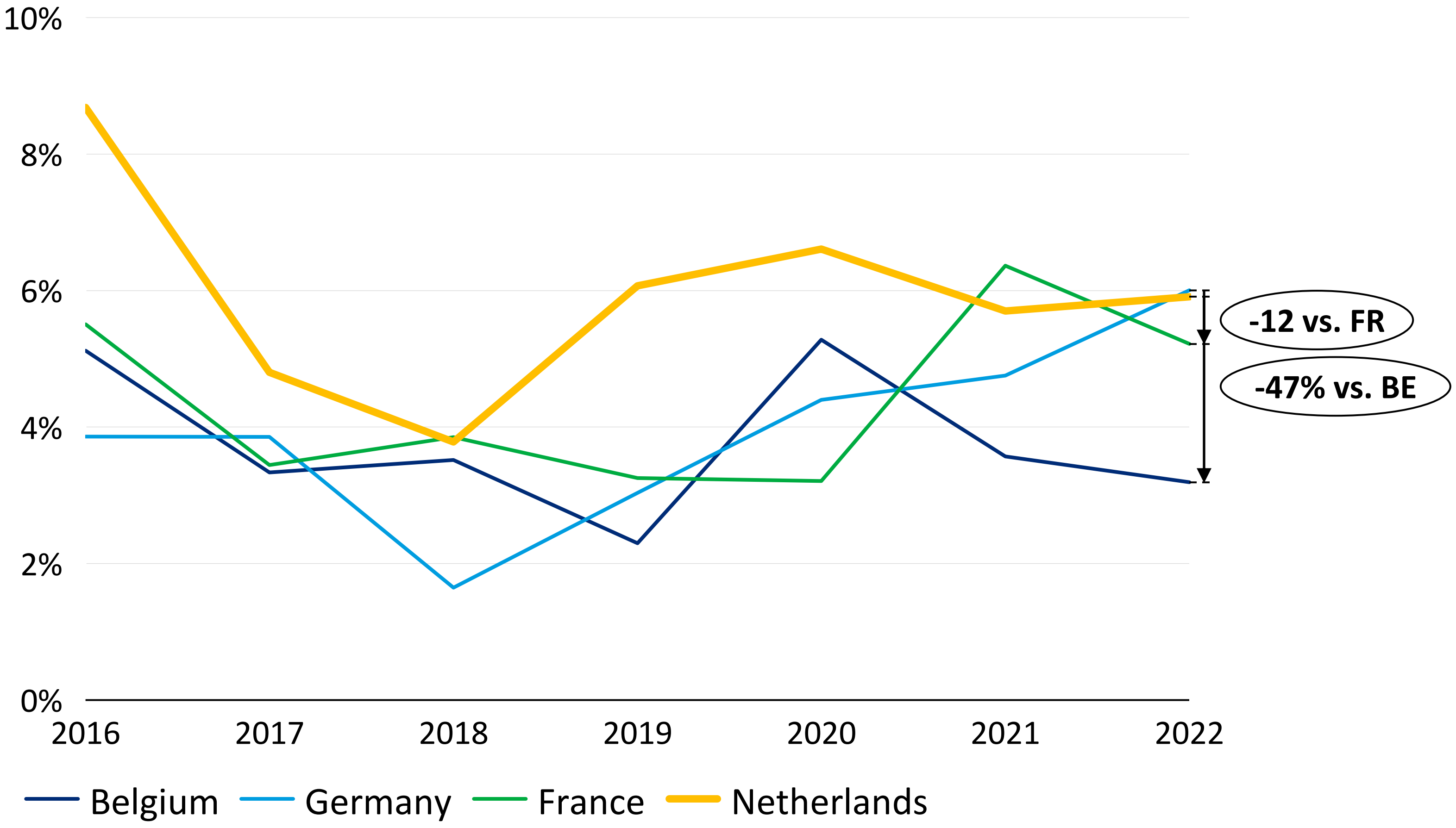
Perspectives

- In recent years, new lending the Dutch SMEs as a share of GDP (and SME GVA) fell
- Micro SMEs have seen the greatest retreat in lending from already low levels:
  - The level of new lending to micro SMEs has fallen from an already low 1% of GDP to 0.6% of GDP compared to ~3% in peer countries
  - Over that period, the absolute value of new lending to SMEs has declined faster than in any peer country – indeed in France and Germany it has grown
- For small and medium SMEs, bank loan volumes are much lower as a share of GDP, and have fallen by more than any except France and Germany, where new loan volumes are an order of magnitude higher

1. Presented are volumes of loans below <€250K with an assumption that these are issued to micro SMEs.
Source: Source: Bank business volumes on loans, European Central Bank, 2018-2023

BANK LENDING CHALLENGES: A LARGE SHARE OF NL SMES ARE DISCOURAGED FROM SEEKING BANK LOANS

SMEs discouraged[1] from applying for a new bank loan
% of respondents[2]



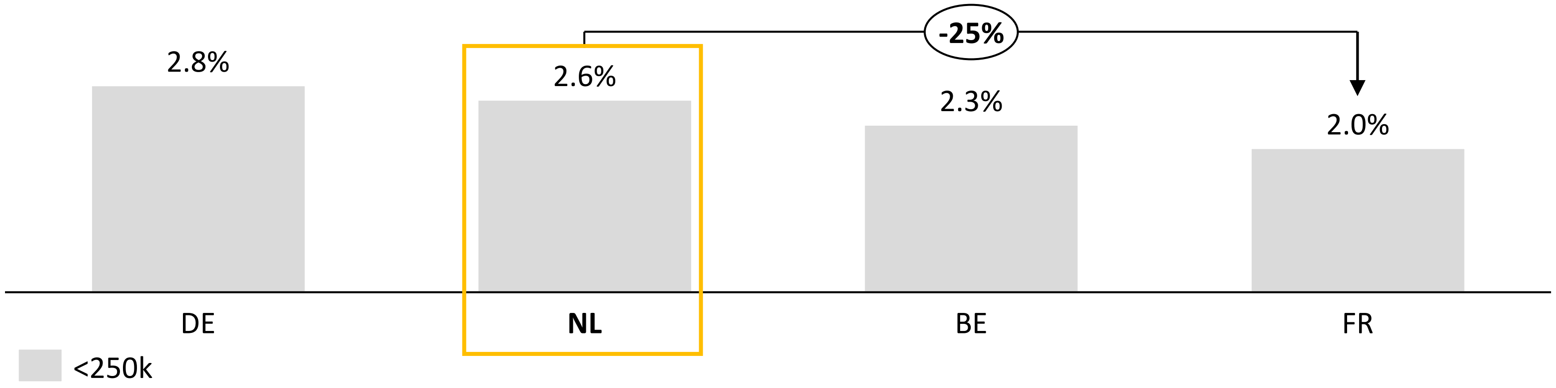
Key insights

- NL SMES are the most discouraged to obtain new bank loan
  - NL on par with DE
  - FR = 10% less discouraged SME
  - BE = 50% less discouraged SME
- Discouraged means SMEs will not apply for a new bank loan despite having a financing need because they do not think their application will succeed
- Discouragement appears to be mostly driven by the following:
  - Cumbersome and long application process
  - High rejection rates

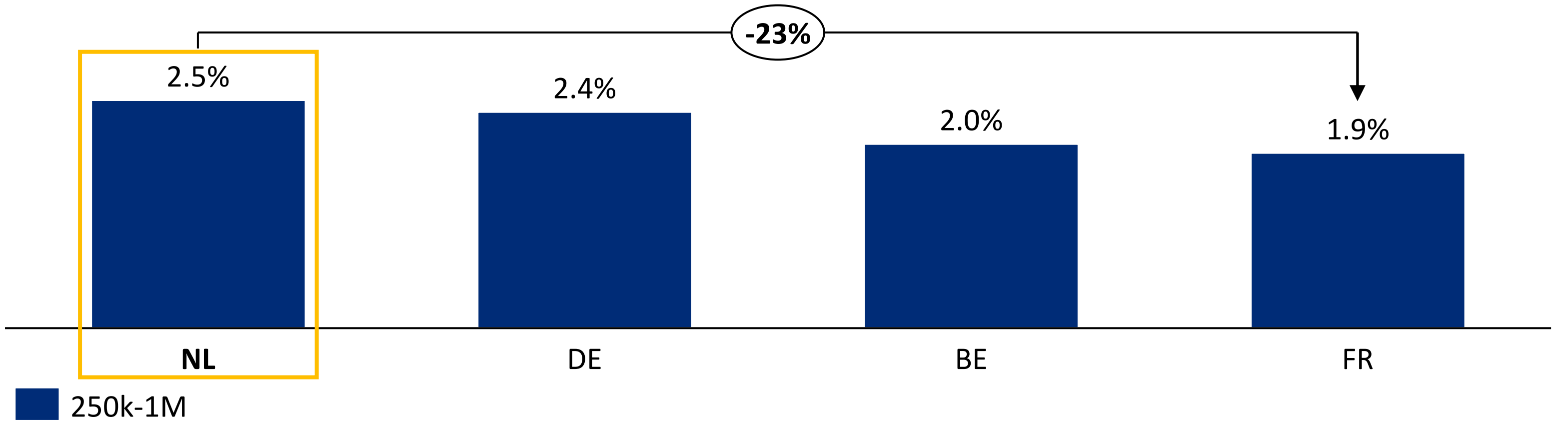
Source: ECB SAFE . 1. Discouraged borrowers: decision not to apply for a loan for fear of rejection; 2. Base: Enterprises for which bank loans (including subsidised bank loans) are relevant

BANK LENDING CHALLENGES: NL SMES PAY ONLY SLIGHTLY HIGHER INTEREST RATES THAN PEERS

Interest rate levels SME bank loans – small loans (<250k)[1]
2022



Interest rate levels SME bank loans – medium loans (250k-1M)[1]
2022



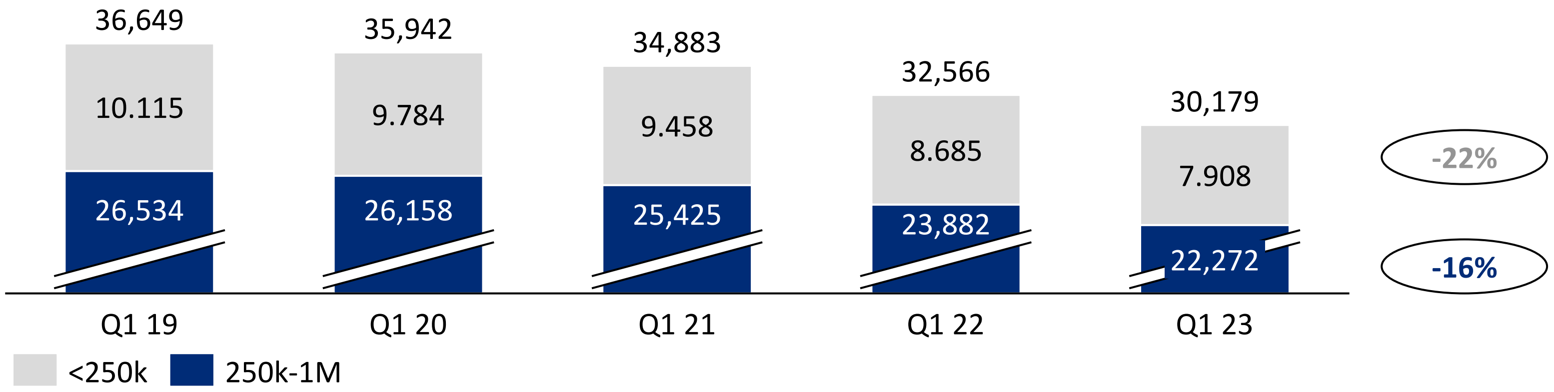
Key insights

- **Overall, NL SME bank loan interest rate levels are slightly higher than peer countries**
- **Loans <€250k:** NL interest rate slightly higher (NL & DE = on par, BE = 10% lower, FR = 25% lower)
- **Loans €250k-1M:** NL SME interest rate slightly higher (NL & DE = on par, BE & FR = 20% lower)

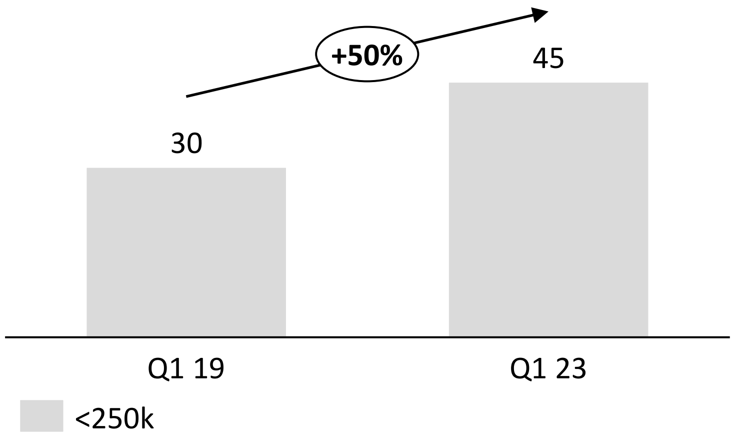
1. Based on the average interest rate on new business loans with a maturity up to 3 months, over 3 months and up to 1 year and up to 1 year . Source: ECB MFI Interest Rate Statistics for non-financial corporations; Oliver Wyman analysis

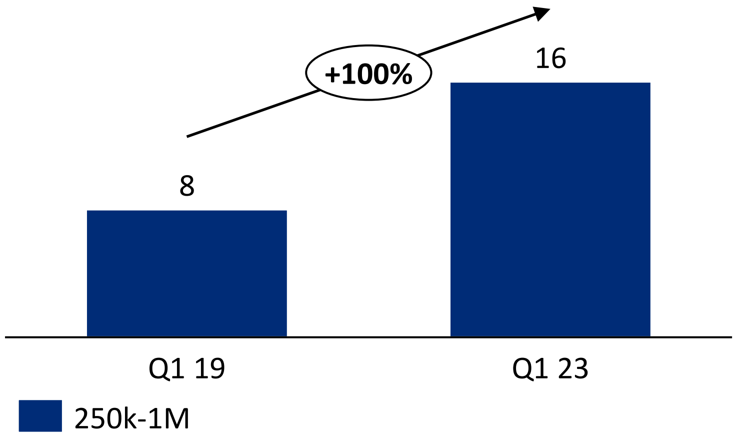
BANK LENDING CHALLENGES: BANKS HAVE LOST MARKET SHARE TO AFPS

SME loan book (outstanding loans)– top three banks[1]



Market share Alternative Finance Providers - % of new SME lending volume[2]





1. Lending by major Dutch banks to Dutch SMEs, DNB, 2023; 2. SMF, 2023

Key trends

- SME loan book of the three main banks has decreased 22% for <€250k and 16% for €250k-1M loans since Q1 2019
- Non-bank lenders – so called "Alternative Finance Providers" – are gaining rapid market share in the smaller loan segments. In 2022, already 45% of new micro SME debt was provided by AFPs

ALTERNATIVE FINANCE PROVIDERS: OVERVIEW OF THE MARKET (1/2)

Product	Description	Market share[1]	Major NL players
Leasing	• The oldest AFP segment, primarily composed of financial leases on vehicles and machines • In a financial lease, the SME owns an asset that is used as collateral against a loan • Credit assessment is focused on the asset, not the SME; rejection rates are low at 30 – 35% and typically due to negative Bureau Krediet Registratie or an application from an excluded industry • Lease firms are highly dependant on non-traditional intermediaries for origination (e.g. car dealers, equipment vendors) • Funding is typically wholesale, institutional funding (e.g. insurance companies) via a securitized loan book • Typical loan size is €20K	~40%	dtc, Hiltermann Lease Groep, Pon
Direct lending	• This segment consists of firms that lend directly to SMEs, primarily dedicated lenders whose products are similar to loans • Direct lenders often have sector-specific specializations (e.g. Qredits focuses on starters, Mogelijk focuses on commercial real estate) • Direct lenders typically lend capital from financial institutions (banks, family offices, insurance companies, pension funds) in structures that vary in sophistication, from a direct loan to an SPV structure that is non-recourse to the lender • Among the fastest growing sectors	~30%	Qredits Microfinanciering Nederland, mogelijk
Crowd funding	• Crowdfunding platforms connect borrowers, such as SMEs, with lenders who range from retail investors and wealth individuals to family offices and hedge funds /credit funds, providing information to inform underwriting • Some platforms agree dedicated SPVs structures with financiers put a large share of lending that meets the SPV criteria into those portfolios so the end-lender is often the same for a large share of loans—in these cases they can use guarantees on loans such as BMKB • These platforms charge a fee to lenders and borrowers for originating the loan and typically have little or no exposure to the loans after origination • Rejection rates are estimated at 50% among completed applications (65% of applications are not completed)	~20%	october, Collin Crowdfund, Horeca Crowdfunding, geldvoorelkaar.nl

Source: Onderzoek non-bancaire financiering, Stichting MKB Financiering, 2019-2022, Expert interviews, Oliver Wyman analysis

ALTERNATIVE FINANCE PROVIDERS: OVERVIEW OF THE MARKET (2/2)

Product	Description	Market share	Major NL players
Factoring	• In a factoring transaction, a business – typically an SME – sells an invoice due from a customer to a factoring firm at a discount to its face value • Products vary: in some factoring the lender has recourse to the SME if the customer does not pay the invoice, or the lender can charge a penalty fee (e.g., 1%) if the customer pays the invoice late; other products are non-recourse, and the lender can only pursue the customer – these are typically more expensive • Effective annual interest rates in are high, often 20 – 30%, though typically short term (invoices may be 30 – 90 days, factor periods may be just 10 days) • The average ticket is small, approximate €3K	~10-15%	SVEA Freelance Factoring voldaan NoviCap
Short-term credit	• These AFPs provide short-term loans typically with rapid application/underwriting processes (e.g., paid-out within 24 hours of application) • Loans are typically at very high annual interest rates 30-50% over short periods of time • Loans are often back by personal guarantees from SME owners who have assets, which can expedite underwriting • The average ticket is small, approximate €3K	Unknown	Bridge Fund Swish Fund

Source: Onderzoek non-bancaire financiering, Stichting MKB Financiering, 2019-2022, Expert interviews, Oliver Wyman analysis

SME POTENTIAL: INCREASING ACCESS TO DEBT FOR SMES MAY BE A VIABLE STRATEGY TO STIMULATE GROWTH, FOSTER INNOVATION, AND HELP ACHIEVE FULL POTENTIAL

The role of debt in stimulating growth for SMEs

- **There is some indication that Dutch SMEs have been experiencing higher return on assets than SMEs in peer jurisdictions**
  - Company statistics suggest Dutch SMEs have higher returns on assets than peers: 8% vs. 5% in 2022[1,2], although these numbers may be biased by reporting standards
  - At the same time, balance sheet overall structure has remained in line with peer jurisdictions (with equity-to-asset ratio at 47-46% in 2022)[2]
- **Higher return on assets creates incentives for additional capital**
  - Higher return on assets signifies that investments and business operations are generating more profits relative to the amount of capital invested[3,4]
- **Economic theory suggests that potential constraints on access to capital are consistent with higher than average rates of returns on capital**
  - One of the primary challenges faced by SMEs is limited access to capital, particularly when compared to larger businesses[3]
  - SMEs often struggle to secure financing from traditional sources such as banks due to perceived higher risks associated with smaller businesses, limited collateral, and lack of established credit history[3]
- **Additional debt could help with increasing access to capital for capital-constrained Dutch SMEs and may unlock further growth**
  - Taking on debt would allow SMEs to access capital without diluting ownership or giving up equity, which can be particularly beneficial for small business owners who want to retain control over their ventures – though this evidence is also compatible with an equity financing gap

Perspectives from academic papers

"We find the average real return to capital in these enterprises is (…) substantially higher than market interest rates"

- **De Mel, McKenzie, & Woodruff, *The Quarterly Journal of Economics***

"Small firms face larger growth constraints and have less access to formal sources of external finance"

- **- Beck & Demirguc-Kunt, *Journal of Banking & Finance***

"Firms with productive investment opportunities underinvest. Lack of access to finance is a frequent complaint of microenterprises (…) the estimated return to capital (…) was three to five times higher than market interest rate."

- McKenzie & Woodruff, *The World Bank Economic Review*

1. CPB, 2018; 2. Orbis Data, 2022; 3. Rajan and Zingales, 2001; 4. de Mel, McKensie, Woodruff, 2008;

LITERATURE REVIEW: STUDIES FIND THAT SMES WITH CAPITAL CONSTRAINTS TEND TO HAVE HIGHER RETURNS ON CAPITAL AND THUS HIGHER GROWTH POTENTIAL

Main topic	Paper title	Conclusions on impact of access to finance on SME growth	Authors	Source
Access to finance is a significant obstacle for SME growth	Small and medium-size enterprises: Access to finance as a growth constraint	*"There is substantial evidence that small firms face larger growth constraints and have less access to formal sources of external finance, potentially explaining the lack of SMEs' contribution to growth"*	Thorsten Beck Asli Demirguc-Kunt	Link Journal of Banking & Finance
	Access to Finance and Growth: Evidence from Dutch SMEs	*"Based on a sample of 2,680 SMEs, evidence is found that access to finance is a major growth restraint during the financial crisis and the years afterwards" (…) "Bank financing, however, has a negative effect on firm growth (…) indicating that bank financing is not readily available (…) and banks do not grant SMEs the amount of bank financing needed in order to finance their growth"*	Julia Goldhausen	Link UNIVERSITY OF TWENTE.
	The Impact of Access to Finance on the Performance of the SME Sector	*"Easy access to finance has a significant impact on the performance of the SME sector, (…) and an appropriate macroeconomic environment can increase the performance of this sector. (…) the growth of SMEs offer the opportunity to diversify their sources of financing. (…) both public authorities and banks must pay special attention to this sector and adopt a series of measures to facilitate access to finance and stimulate the business environment."*	Erika-Maria Doaca	Link Universitatea „Alexandru Ioan Cuza" din Iași
	What are the biggest obstacles to growth of SMEs in developing countries? – An empirical evidence from an enterprise survey	*"The results show that SMEs perceive access to finance as the most significant obstacle which hinders their growth"*	Yao Wang	Link BORSA ISTANBUL
Smaller firms with constraints in access to capital tend to have a higher than interest rates ROA	Returns to Capital in Microenterprises: Evidence from a Field Experiment	*"We find the average real return to capital in these enterprises is (…) substantially higher than market interest rates" (…) Returns are found to vary with entrepreneurial ability and with household wealth"*	Suresh de Mel David McKenzie Christopher Woodruff	Link THE QUARTERLY JOURNAL OF ECONOMICS
	Experimental Evidence on Returns to Capital and Access to Finance in Mexico	*"Firms with productive investment opportunities underinvest. Lack of access to finance is a frequent complaint of microenterprises (…) the estimated return to capital (…) was three to five times higher than market interest rate."*	David McKenzie Christopher Woodruff	Link THE QUARTERLY JOURNAL OF ECONOMICS

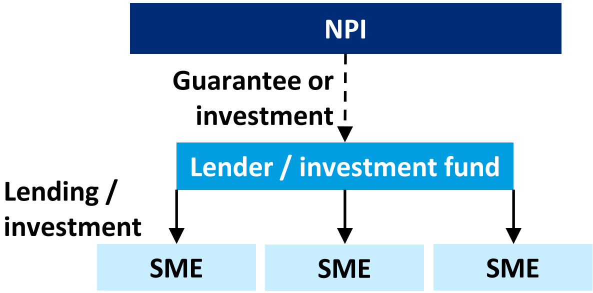
SECTION 2

CASE STUDIES OF POLICY MEASURES AND APPROACHES FROM PEER COUNTRIES

SOLUTIONS FROM PEERS: WHILE THE CONTEXT IS DIFFERENT IN EACH MARKET, WE OBSERVE THREE BROAD APPROACHES TO SUPPORT THE SME FINANCING ECOSYSTEM

Indirect support, leveraging market solutions

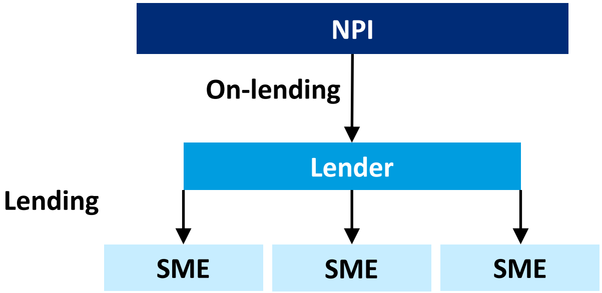
- NPIs support the market with indirect support, usually targeting specifically identified market failures (e.g., starters, growth SMEs, innovation, sustainability)
- Indirect products used include:
  - Guarantees (individual or portfolio)
  - Investing in funds (debt/equity) that support challenger banks, AFPs, and other players of the SME financing ecosystem
- Initiatives can also be policy-driven (e.g., sustainability, innovation)



SBA
BRITISH BUSINESS BANK
EUROPEAN INVESTMENT FUND

Intermediated SME financing

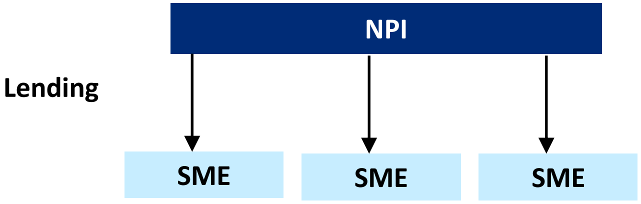
- Government offers balance sheet support via intermediaries that have the direct interface with SMEs (esp. on-lending to banks serving SMEs) with the aim to reduce cost of funding
- It is most suitable when changing lenders' incentives changes lenders' behaviour



HBOR
HRVATSKA BANKA ZA OBNOVU I RAZVITAK
KFW
Instituto de Crédito Oficial

Direct intervention

- Government intervenes directly in the market through the NPI, which offers a broad range of products and services directly to SMEs, including
  - Direct loans
  - Direct equity investment into SMEs
  - Wide range of other financial products (e.g., export finance)
  - Non-financial services such as advisory, coaching, marketplace solutions, etc.
- NPIs often also serve as a one-stop-shop approach not only for SME financing but also for broader SME-support activities (e.g., coaching, education, networking) Direct lending to SMEs



ALMI FÖRETAGSPARTNER
bpifrance
bdc
European Investment Bank

Most relevant examples for NL

SOLUTIONS FROM PEERS: DIFFERENT APPROACHES ARE REFLECTED IN THE VARIETY OF PRODUCTS OFFERED BY NPIS ACROSS JURISDICTIONS

Core products and services for each
Note:

- Some NPIs may offer products and services that are not flagged, but to a lesser extent
- Different NPIs may target different segments

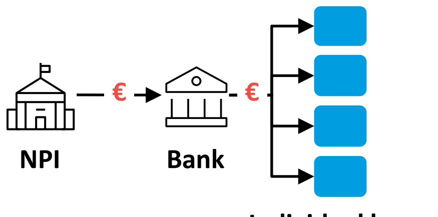
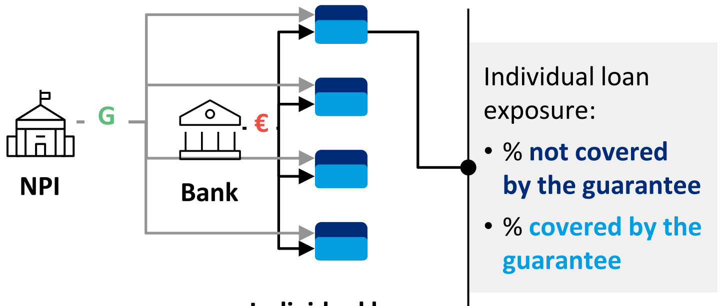
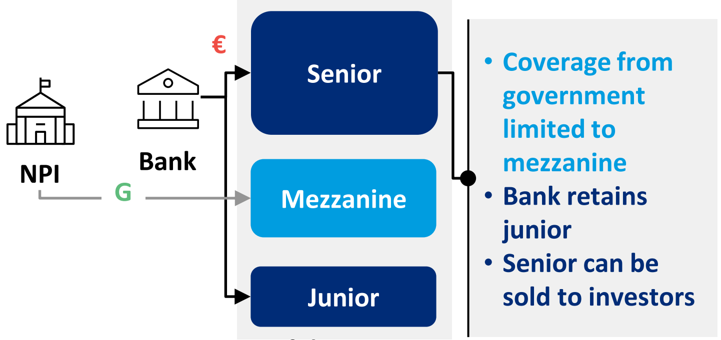
		National									Multilateral	
		ICO	BPIFRANCE	KfW	CDP	SACE	BBB	UKEF	BDC	SBA	EIB	EIF
		Spain	France	Germany	Italy	Italy	UK	UK	Canada	USA	EU	EU
	Fund size/assets (USD)	~40 Bn	~105 Bn	~580 Bn	~550 Bn	~29Bn	~108 Bn	~14 Bn	~31 Bn	~562 Bn	~605 Bn	~115 Bn
Grants	Grant		✓		✓		✓		✓	✓	✓	
Debt	Direct	✓	✓		✓				✓		✓	
	On-lending	✓		✓					✓			
	Guarantees	✓	✓	✓	✓	✓	✓		✓	✓		✓
	Referral platform						✓					
Equity	Direct	✓	✓	✓	✓				✓		✓	
	Indirect (FoF)	✓	✓		✓		✓		✓	✓		✓
Export finance	ECA financing (various)	✓	✓	(✓)		✓		✓				
	Guarantees		✓	(✓)		✓		✓				
Services	E-learning		✓						✓			
	Advisory	✓	✓	✓	✓				✓	✓	✓	✓

DIRECT LENDING: DEBT PRODUCTS OFFERED BY NPIS USUALLY INCLUDE LOANS AT FAVOURABLE TERMS OR WITH REPAYMENT LINKED TO SPECIFIC EVENTS OF "SUCCESS"

	Favourable terms	Repayment linked to technical success	Repayment linked to commercial success	
	Innovation loan[1]	Conditional grant/Forgivable loan	Income-contingent loan	Success-sharing loan
Key features	• Low or no interest • Favourable terms (grace period and long amortisation)	• Repayable only if the project successful • Repayments triggered by meeting success criteria or waived if project unsuccessful	• Repayable via royalties on revenue • No repayment if revenue not generated	• Repayment linked to commercial milestones • Total repayment may exceed principal
Typical growth stage	Start-up/Scale-up (TRL 8–9)	R&D, start-up & scale-up (TRL 3–9)	R&D, start-up & scale-up (TRL 3–9)	R&D, start-up & scale-up (TRL 3–9)
Examples	Innovate UK Innovation loan bpifrance Innovation loan	bpifrance Repayable advance Tekes Research, development & piloting loan FFG R&D general programme	רשות החדשנות Israel Innovation Authority R&D repayable grant Swedish Energy Agency Business development and commercialisation loan	Wallonie énergie SPW Repayable advance
Pros and cons	• Terms allow time to develop technology • More accessible than commercial loans • No or low repayments if company fails	• Funding repaid if project successful • Technical success not guarantee of repayment ability • Onerous reporting requirements (need to track success milestones)	• Repayments triggered automatically: lower reporting • Revenue ensures ability to make repayments	• Repayment level adapted to project's commercial success • Potential to capture project's upside • Onerous reporting requirements (need to track success milestones)

1. Innovation loan is not a debt blending instrument as it does not include a grant element. However, repayment-free period and long amortisation allow the recipient to develop technology prior to making any repayments.

INDIRECT LENDING AND GUARANTEES: INDIRECT LENDING TYPICALLY COMPRISES ON-LENDING SOLUTIONS AND/OR GUARANTEE SCHEMES (SINGLE NAME OR PORTFOLIO)

Instrument	Illustration	Challenge addressed, key features and pros/cons
On-lending KFW		**Challenge addressed**: Reducing the cost of funding **Key features**: Loans extended by the NPI to eligible intermediaries for onward lending to support specific policy priorities (e.g., SME lending) **Pros/cons**: + Conditions of the ultimate loans to SMEs are typically **set by the NPIs** (including interest rate) – Requires **substantial public capital allocated** to the NPI (large asset base of the NPI)
Single name guarantee BKMB		**Challenge addressed**: Reduce cost of capital and losses in case of default **Key features**: Pari passu loan guarantee provided by a government (through NPI) to an eligible bank for a given share of the amount of each loan individually **Pros/cons**: + **More limited balance sheet implications** for government, and can provide **leverage to public capital** – Each potential loan must be **assessed by both the bank and guarantee provider, ex-ante and on an individual basis** (which may create uncertainty and operationally complexity) – In case of a loss, the guarantee linearly covers the percentage of the loss, so the **government always pays the same share of the losses** (increasing EL and hence limiting leverage potential)
Portfolio guarantee with tranching British Business Bank ENABLE Guarantee Program		**Challenge addressed**: Reduce risk born by the bank to ultimately reduce SME rejection rates **Key features:** Guarantee provided by a government (through NPI) on a portfolio of a bank's SME loans, as long as it includes only loans fulfilling certain pre-set criteria (which are checked ex-post) **Pros/cons**: + Government does not pay until a certain cumulated number of losses is achieved, leading to a lower EL for the same public capital deployed: **higher potential leverage of public capital** + The bank can obtain **significant capital benefits**, and can sell the senior trance + Possibility to **sell the senior tranche to investors create potential for extra leverage** – More **complex set-up** and limited use in Europe

INDIRECT LENDING AND GUARANTEES: THE BBB OFFERS A SPECTRUM OF GUARANTEES, FROM PORTFOLIO TO SINGLE NAME, WITH AND WITHOUT 1ST LOSS RETENTION

British Business Bank

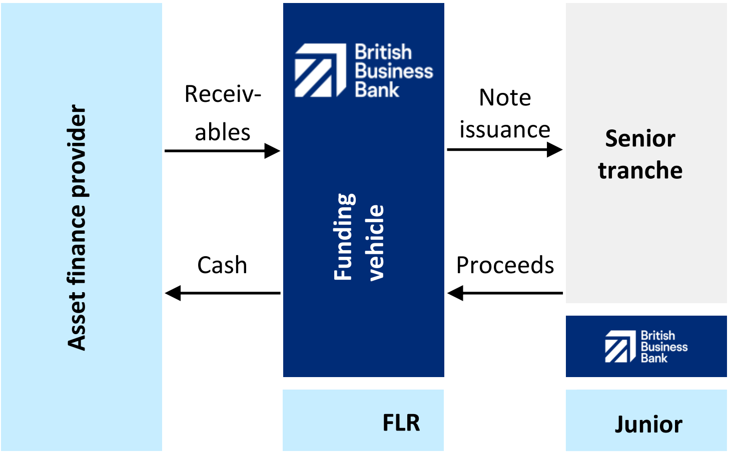
The BBB has three main guarantee programs, addressing different failures/policy goals

ENABLE FUNDING

Commitments: £1.0bn (cumulative)

# of DPs: 8

Senior funding and capital markets refinancing:



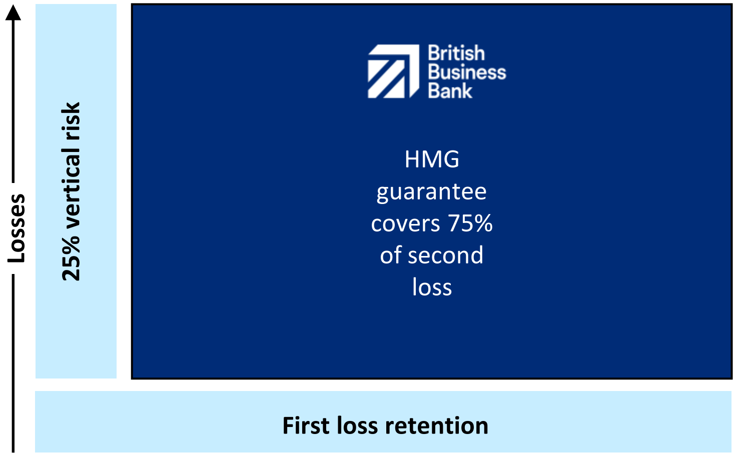
- **Commercial** (profitable)
- **Funding constraints** for asset financiers
- **Capital markets access** for the same
- **Accelerates** BAU lending
- **Bespoke** transactions

ENABLE GUARANTEE

Commitments: >£2.0bn (cumulative)

# of DPs: 7

Portfolio of new lending



- **Commercial** (profitable)
- **Capital efficiency** for banks
- **Funding constraints** for non-banks
- **Accelerates** BAU lending
- **Bespoke** transactions

DIRECT GUARANTEE

Commitments: £1-2bn (cumulative)

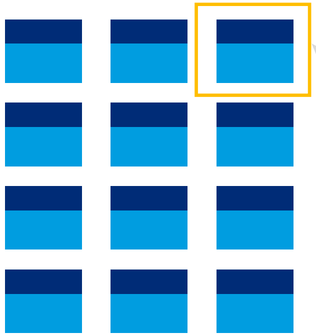
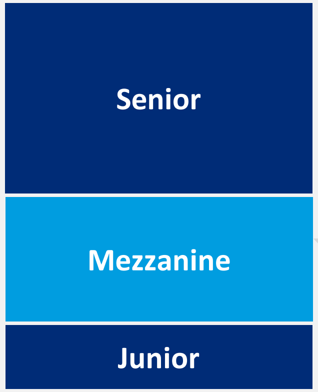
# of DPs: 55-70

Direct Guarantee facility

- **Subsidised** (spending)
- Shifts lender **risk appetite**
- Incentivises **additional** lending
- **Standardised** transactions

SINGLE NAME VS PORTFOLIO GUARANTEES: PORTFOLIO GUARANTEES ARE USUALLY CHARACTERISED BY A MORE EFFICIENT LEVERAGE OF PUBLIC FUNDS

Comparison among possible frameworks for the management of public guarantees

Framework	Illustrative representation	Operational characteristics
Single name mechanism	 Single exposure consisting of: • A portion **not covered by guarantees** • A share **covered by a state guarantee**	• *On each position, coverage is provided on a pro-rata basis for a portion of the amount* • In the event of a loss, the guarantee covers the percentage of the loss in a linear manner • Therefore, the guarantee is equivalent to a linear reduction of the original exposure amount • Each credit position must be covered by a specific guarantee , in relation 1-1
Portfolio mechanism with tranching	 **State guarantee coverage** limited to specific *tranches*	• The guarantee is provided in relation to the accumulated losses of a selected portfolio of positions, covering losses starting from a specific amount and up to a maximum amount *(tranche)* • The amount of the guarantee claimed is a function of the loss on the guaranteed tranche. In the case of insurance on the mezzanine tranche, the initial losses will remain the responsibility of the originator who retains the junior tranche • *Depending on how the attachment point of the tranche is calibrated, the guarantee can cover both expected and unexpected losses* • The coverage relationship is not specific to individual positions but is granted on a pool basis for the preselected portfolio

Source: Oliver Wyman analysis

TRANCHED PORTFOLIO GUARANTEES: A MEZZANINE GUARANTEE CAN REDUCE CAPITAL INTENSITY AND RISK WEIGHTING FOR LENDERS

Portfolio tranching/Second loss guarantee example

Illustrative Example on a €1B portfolio (€1 B)

Portfolio	Tranche	*Tranche*	Detentore del rischio	
Bank loan portfolio €1B	**Senior €800M**	**80%**	Investors in the market	• This tranche is relatively protected and can be securitized to institutional investors (e.g., pension funds, insurance companies), • This enables lower capital absorption for the originating entity and reduced use of funds by the State
	Mezzanine €100M	**10%**	State	• The State guarantees the unexpected loss of the portfolio, reducing significantly the risk-weighted assets required for the portfolio
	Junior 100€Mln	**10%**	*Originator*	• The originating bank is left with full responsibility for the first losses of the portfolio, equivalent to the expected loss

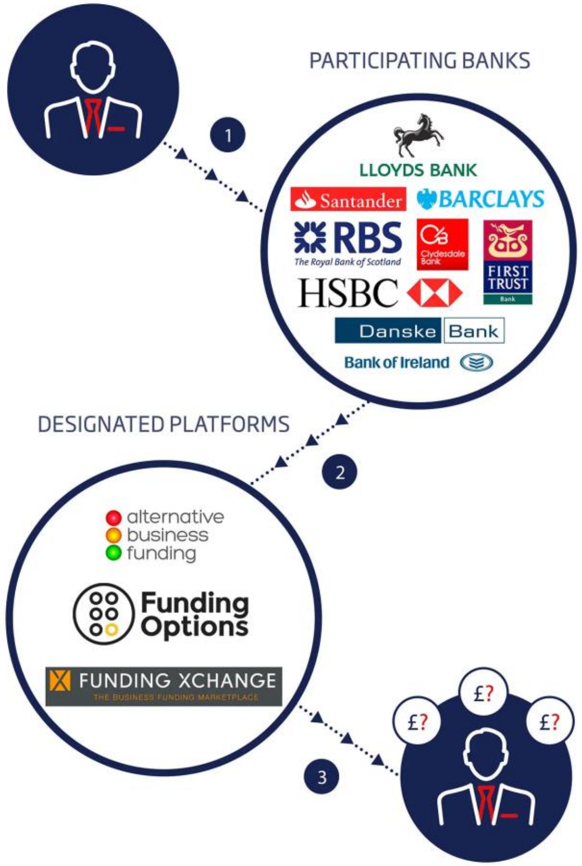
Covering only the mezzanine would allow the State to provide a guarantee of €100 million on a total disbursed amount of €1 billion, generating an internal multiplier of 10x

Tranche not covered by state guarantee | Tranche covered by state guarantee

Source: Oliver Wyman analysis

REFERRAL PROGRAM: BBB'S REFERRAL PLATFORM FACILITATED SEVERAL SMES SERCURING LENDING FROM BANKS FOLLOWING AN INITIAL REJECTION

Launched in November 2016, the scheme requires nine of the UK's biggest banks to pass on the details of SMEs (with consent) that they have turned down for finance to three Government designated finance platforms



1. Your business approaches a participating bank for an eligible lending facility:
   – Eligible businesses
     - with turnover of up to £25m
     - with an address in the United Kingdom
     - which carry out commercial activities as their principal activity
     - which are not part of a group which as a whole has an annual turnover which is equal to or greater than £25
   – Eligible products:
     - Overdrafts
     - Loans
     - Invoice Finance
     - Asset Finance (excluding operating leases)
     - Credit cards
2. If your business is unsuccessful you will automatically be offered a referral to the designated online platforms, whom ay be able to help you find the finance you are looking for – if you agree to the referral, your details will be passed on by the end of the next working day
3. The lenders on these platforms may be able to offer you funding, if a suitable match is found

Outcome

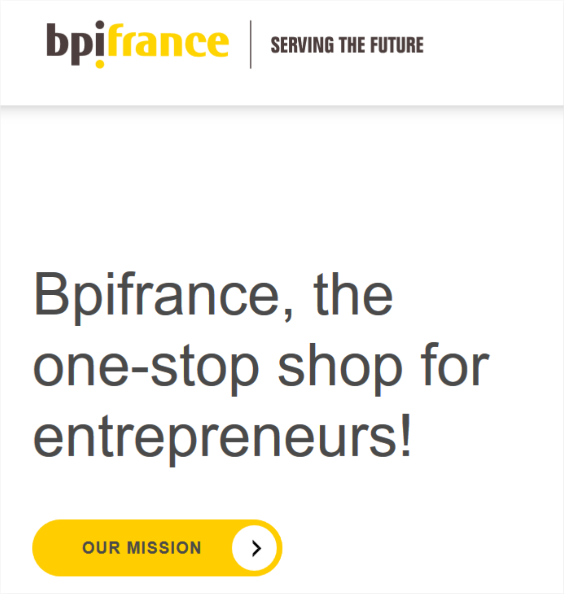
- Since November 2016, more than 45,000 small businesses who were rejected for finance from one of the big banks have been referred under the scheme
- In total, the scheme has facilitated over 2,500 businesses securing more than £56 million of funding
- Of this total, since 1 July 2019 the policy has helped 889 businesses raise over £23 million of funding
- The three quarters (Q3 2019 – Q1 2020) before the Covid-19 pandemic were the most successful in terms of deals made since

Source: BBB website, HMT statistics

ONE-STOP SHOP: OVER TIME, BPIFRANCE BECAME THE SINGLE, GO-TO SOURCE OF INFORMATION FOR SMES AND DEVELOPED DEDICATED TOOLS & SOLUTIONS

Bpifrance initiatives

- Bpifrance, founded in December 2012, is now a well-established presence in France to **support the small to mid-sized regional economy, restore competitiveness and reinforce business investments**
- Over time, Bpifrance has become the single, go-to source of information for SMEs and developed **dedicated tools and solutions to support the digitalisation of local enterprises**, addressing the knowledge gap. The initiatives launched by Bpifrance can be divided into four clusters:



COACHING PROGRAMMES

- Financing the provision of advisory from external providers to allow SMEs integrate innovation into their development strategy

EDUCATION PROGRAMMES

- Bpifrance Université offers online training to SME clients and members of Bpifrance's communities
- Bpifrance also publishes practical guides for its clients on digital themes

DIGITALOMETER

- In 2018 Bpifrance launched the "Digitalometer", a 15-minute online free questionnaire for the entrepreneur to self assess their level of digitalisation

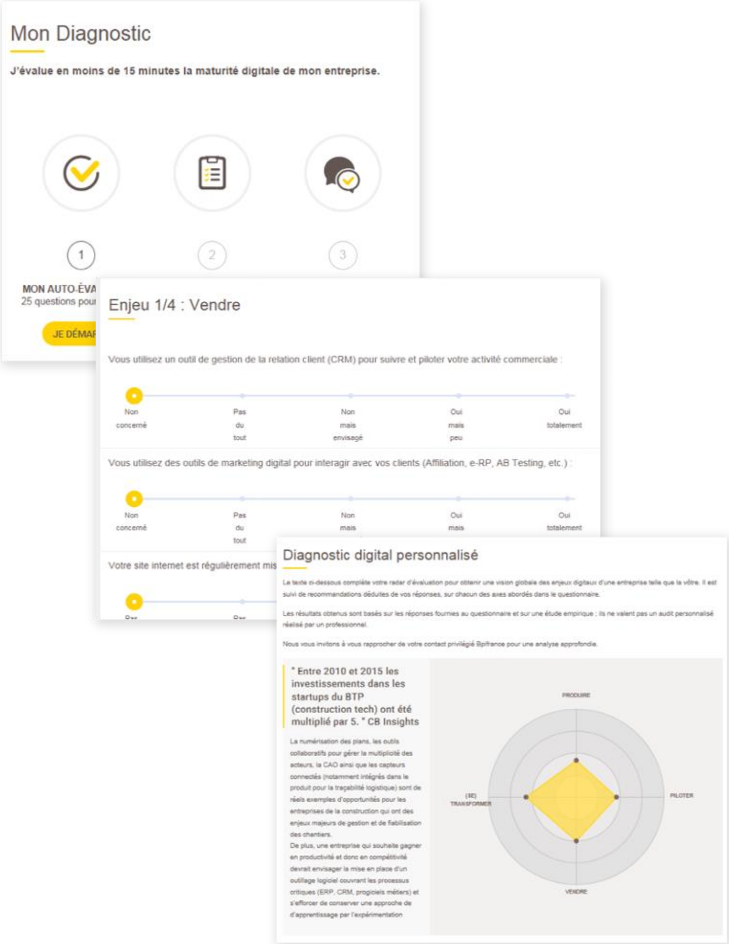
THE SME ACCELERATOR

- A 24-month programme targeted towards supporting SMEs looking to scale up to the mid-cap

ONE-STOP SHOP: WIDELY USED TOOLS INCLUDE THE SELF-ASSESSMENT FUNCTIONALITIES ALLOWING SMES TO IDENTIFY OWN NEEDS (E.G. ON DIGITAL)

bpifrance

Screenshots of questionnaire



Detail on the Digitalometer

- Free online, 15-min questionnaire that enables companies to **measure their digital maturity** and **identify their progression phases, needs and challenges**
- Launched in 2018 as part of **support programme for digital transformation** of SMEs and midcaps
- Maturity assessment is based on **penetration of digital levers across four dimensions**:
  - **Sales**: online CRM tool, digital marketing and sales tools, etc
  - **Management and Admin**: consistent ERP across company, digital tooling for HR and Finance, analytics to inform decision-making, etc
  - **Production**: digitalised relationship with suppliers, digital solutions to improve process productivity, etc
  - **Organisation**: remote/smart working, digital collaboration tools, digital training curriculum
- Post-assessment, the Digitalometer provides **personalised recommendations** to support digital transformation
- Users are also directed to **BPI France's digitalisation support**: e-learning modules, consulting, LAB study, testimonials from companies and experts

DIGITALIZATION PLATFORM: SINGAPORE'S SME GO DIGITAL WAS LAUNCHED TO INCREASE PRODUCTIVITY BY FACILITATING DIGITALISATION OF SMES

INFOCOMM MEDIA DEVELOPMENT AUTHORITY

Singapore's Industry Digital Plans

Description

- The SME Go Digital programme was launched in 2017 by two government agencies; it aims to **increase productivity by facilitating digitalisation among SMEs**
- The program includes **sector-specific one-stop portals for SMEs and tech vendors**, with practical support available at every stage:
  1. **Digital Roadmap:** Provide starting point for SMEs to assess their digital readiness and identify opportunities to digitalise (via case studies and industry guides)
  2. **Digital Consultancy:** SMEs can access free, comprehensive business diagnosis and advisory services on available digital solutions, with referral to more specialist support
  3. **Digital Solutions:** SMEs can review list of pre-approved digital solutions supported under the Productivity Solutions Grant (PSG) scheme, under which they can funding support for implementing those digital solutions
  4. **Digital Sector Projects:** Launch pilot projects with large corporates and other leaders to co-create digital solutions tailored to SMEs' needs
  5. **Digital Project Management Services:** SMEs can engage project managers to support with digitalisation: changes to business processes, job redesign, etc; SMEs can receive funding up to 70% of costs of support

DIGITALIZATION PLATFORM: SINGAPORE'S SME GO DIGITAL PROVIDES SMES WITH CURATED SOLUTIONS ALREADY LINKED TO PRE-APPROVED FINANCING

INFOCOMM MEDIA DEVELOPMENT AUTHORITY

Singapore's Pre-approval process

Description

- IMDA reaches out to vendors through a monthly Vendor Briefing
- At these sessions, IMDA shares information about the **SMEs Go Digital** programme and how vendors can apply for pre-approval of digital solutions under the programme
- Pre-approved solutions are assessed by IMDA to be **effective, market-tested and cost-effective**
- They may be eligible to be considered for various **Government incentive support**
- To be pre-approved under the programme, vendors will be evaluated on **capacity and capability,** as well as whether the solution meets the **requirements of target sectors**

INSTITUTIONAL LANDSCAPE: THE OBSERVED VARIETY IN APPROACHES TO SUPPORT SMES HAS TRANSLATED IN VERY DIFFERENT INSTITUTIONAL LANDSCAPES…

Segment/sector		Germany	France	UK
1	SMEs	KfW Bankengruppe	Caisse des Dépôts; bpifrance	British Business Bank
2	Infrastructure & sustainable energy	KfW Bankengruppe	Caisse des Dépôts; bpifrance	UK Infrastructure Bank
3	Public sector	KfW Bankengruppe		
4	Export and international-lisation	KfW IPEX-Bank; Federal Ministry for Economic Affairs and Energy, Euler Hermes, pwc	coface	UK Export Finance
5	International development finance – Public	KfW Entwicklungsbank	afd Agence Française de Développement	British International Investment
5	International development finance – Private	KfW DEG	Proparco Groupe Agence Française de Développement	Department for International Development

Source: Oliver Wyman analysis

… WHICH HAVE ALSO CHANGED THROUGH TIME; FOR INSTANCE, FRANCE'S BPIFRANCE IS THE RESULT OF A DECADE-LONG ORGANIC EVOLUTION TOWARDS CONSOLIDATION

	Product-focused entities	Grouping of debt products under Oséo	Consolidation of activities within Oséo	Grouping of Oséo and CDC Ent. within Bpi	Integration of Coface within Bpifrance
Debt	**BDPME** *(credits for SMEs)* **ANVAR** *(foster Innovation)*	oséo oséo financement oséo innovation	oséo	bpifrance bpifrance SERVIR L'AVENIR	bpifrance bpifrance SERVIR L'AVENIR
Guarantee	**SOFARIS**	oséo garantie			
Equity	cdc entreprises	cdc entreprises	cdc entreprises fsi FONDS STRATÉGIQUE D'INVESTISSEMENT	bpifrance INVESTISSEMENT	bpifrance INVESTISSEMENT
Export	coface	coface	coface	coface	coface
	Before 2005	2005	2010	2012	2016

Consolidation +

SECTION 3

APPROACHES POTENTIALLY APPLICABLE TO THE NETHERLANDS

POLICY MEASURES TO EXPLORE: SUPPORTING ORIENTATION

	Policy measure	Rationale and description	Options	Peer example
Orientation	**1. Simplify existing government support**	Wide range of schemes, institutions and platforms to support SMEs makes it difficult for SMEs to navigate the landscape and find the most suitable form of financing & support	Make it easier for SMEs and banks to navigate government support; this can be achieved through various approaches such as • Aggregating the offer of schemes on a one-stop-shop serving as a window to SMEs • Designing the products so that they are embedded in existing services • Consolidating some of the institutions serving SMEs	KfW offers few, simple products via banks UK aggregated innovation loans across NPIs Consolidation of institutions and establishment of a one-stop-shop
	2. Leverage intermediates	Intermediaries can be an effective support for SMEs to identify the best financing solution and apply for this	Support the evolution of the intermediary market for SME lending with broader adoption of the Code of Conduct or other standards on advice, pricing, data, platforms and a possible kick-backs ban. Explore vouchers for micro SMEs to ensure broad access	70% new SME lending volume via intermediaries Wide use of auditors for Swedish small SMEs
	3. Bank referrals	Most SMEs still begin their financing journey with their primary bank. When rejected, banks could refer SMEs to other lenders	Encourage standardization & scaling of bank referral schemes to AFPs. Explore referring to a (market-based) referral platform	BBB operates a mandatory referral scheme that referred 11K SMEs in 2019 with +19M£ in additional loans
	4. Improve public reporting on SME access to finance	Current public data on SME financing is not complete (e.g., AFP, certain banks missing), not granular enough – which makes reporting very difficult	Require banks and APFs to publish more data (by loan size) on new SME lending: e.g., volumes, # loans, rejection rates, use of guarantees, average affordability, referrals, NPL rates. Align definitions across the ecosystem.	Regular publication of data on bank lending to SMEs (e.g. aggregate volume of all banks)
	5. Analytics tools	SMEs struggle to assess the impact of an investment (e.g., sustainability)	Develop tools (based on e.g. tax data or public data such as company registers) for SMEs to compare their business to similar companies (by size, sector, region) and focus on specific challenges such as sustainability (to design a net zero transition plan or improve their CO2 footprint) and digitalisation	Singapore and France offer tools for SMEs to compare their digitalisation and assess needs
	6. Assess unrealized potential and equity financing needs	Evidence suggests that NL' SMEs have unrealized potential; quantifying this requires further analysis of SME micro data	• <u>Unrealized potential</u>: Analyse firm-level data to estimate the GVA potential of improving the SME debt financing ecosystem • <u>Future mix</u>: Analyse equity financing and determine the need for debt and equity support for different parts of the SME landscape	France, Canada and many other European jurisdictions (incl. EIB) have launched detailed studies on SME financing situation

POLICY MEASURES TO EXPLORE: SUPPORTING BANK LENDING

	Policy measure	Rationale and description	Options	Peer example
Bank lending	**7. Enhance government guarantee schemes**	Guarantees can help reduce rejection rate of bank and AFPs as they reduce cost of capital and impact of SME default	Make banks part of the solution by reducing their cost of risk and capital to lend to SMEs, specifically: • Refine existing schemes[1]: streamline application process, remove manual steps, adjust fees and coverage limits • Explore a new, broader, digital guarantee scheme: target top rejection reason, make it portfolio-based, with clear benefits to bank (digital, easy to implement, clear criteria, reduce RWAs), low-cost for SMEs, leverage EIF support	EIF launched 6 portfolio guarantee products under InvestEU to improve access to debt finance in specific policy areas ENABLE scheme is portfolio-based
Bank lending	**8. Better company data**	Better SME (financial) company and transactional data will improve the lenders' credit assessment and will allow lenders to underwrite more loans and reduce cost	• Explore if company tax data can be shared digitally with lenders (SME remains owner and approves) • Stimulate the use of new data (PSD2, source government data) and track adherence and usage	UK's Openbank.org publishes API performance stats from all banks on uptime, # calls, call response times to ensure banks are complying with PSD2 regulations
Bank lending	**9. Reduce KYC and EBA LOM costs**	KYC costs and EBA LOM costs are high and material relative to the profits of micro/small SME loans; reducing them makes SME lending more profitable	• Explore a digital wallet where verified documents can be shared digitally with lender (SME remains owner and approves) • Explore a KYC utility where expertise and capacity are bundled to perform KYC which can be (re-)used by all lenders • Explore pragmatic solutions to meet more difficult EBA LOM requirements for micro/small SMEs	Estonia's digital ID for companies Invidem failed partly because banks could not align on an uniform standard

1. We note, based on an evaluation of BMKB in 2022 that a number of recommendations on improving that facility were made and many of those recommendations are in the processes of being implemented.

POLICY MEASURES TO EXPLORE: SUPPORTING AFP LENDING

	Policy measure	Rationale and description	Options	Peer example
AFP lending	**10. Support AFP with Funds to lend out. Ensure SME protection**	AFPs are struggling to scale due to lack of and high cost of funding. Support selective AFPs with funding and review regulations to ensure micro/small SME are adequately protected	• Funding: Explore an improved, larger DACI successor which invests in Funds that lend out on AFPs (targeting priority SME segments) • SME protection: Explore how to protect SMEs against high interest rates, price in transparency and excess leverage (affordability)	UK BBB invested 1.27B GBP AFPs via debt funds and its FCA runs 'sandbox' to test financial innovations UK, FR and DE require license for AFPs

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