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The Pivotal Role of Credit Resources in the Financing Structure of SMEs: A Comprehensive Qualitative Analysis of Growth, Financial Risk, and Hidden Opportunity

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Abstract

Small and Medium-sized Enterprises (SMEs) are fundamental to national economic stability, driving innovation, employment, and regional development. However, their growth is perennially constrained by the challenge of securing adequate financing. This article explores the critical role of credit resources within the broader financing structure of SMEs. It begins by establishing the socio-economic significance of SMEs, highlighting their unique characteristics of flexibility and adaptability. The analysis then dissects the spectrum of external financing sources, categorizing them into debt-based (bank loans, bonds, leasing) and equity-based (public offerings, venture capital) instruments. A central focus is placed on the mechanisms, advantages, and inherent limitations of bank credit, which remains the most prevalent yet often inaccessible source for smaller enterprises. The article further examines alternative instruments like leasing and corporate bonds, evaluating their suitability for different stages of business maturity. Finally, it investigates the domain of venture capital and private equity, framing them as essential, though demanding, pathways for financing high-growth, high-risk, and innovative ventures. The study concludes that a nuanced understanding of these financial instruments, aligned with an SME's lifecycle and risk profile, is essential for fostering a resilient and dynamic entrepreneurial ecosystem.

Keywords: SME Financing, Credit Resources, Bank Lending, Venture Capital, Capital Structure

1. Introduction: The Indispensable Role of SMEs in the National Economy

Understanding the role of Small and Medium-sized Enterprises (SMEs) is fundamental to grasping the dynamics of any modern national

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economy. SMEs are not merely smaller versions of large corporations; they possess distinct characteristics that make them vital for economic vitality and social stability. Their relatively small scale, coupled with significant technological and managerial flexibility, allows them to adapt swiftly to market changes and evolving consumer demands. This high adaptability ensures a robust and resilient economic foundation, as SMEs often permeate almost all sectors of the domestic market. According to recent OECD analysis, the restrictive financing environment faced by SMEs has direct implications for investment, productivity, and competitiveness, making access to capital a critical policy concern [1].

The development of SMEs contributes to the broader economy in several critical ways. They invigorate various industrial sectors and often serve as integral links in larger value chains by undertaking specific production phases for major enterprises, thereby expanding the operational capabilities of larger firms. Furthermore, through coordinated state and regional programs, SME growth can catalyze regional economic development, mitigate existing disparities between territories, and foster inter-regional economic cooperation. From a fiscal perspective, a thriving SME sector broadens the state's tax base. It also acts as a catalyst for scientific and technological progress, stimulating innovation that might otherwise remain dormant in more bureaucratic corporate structures.

Beyond their economic function, SMEs exert a profound influence on the social landscape. An increase in the number of SMEs directly correlates with the creation of new employment opportunities, which is a primary mechanism for reducing unemployment. This, in turn, leads to a rise in monetary income for broad segments of the population, enhancing their purchasing power and overall quality of life. Moreover, the entrepreneurial environment fostered by SMEs provides a platform for individual skill development and self-actualization, contributing to a more equitable and just society by democratizing economic opportunity. The core economic objectives of fostering SME development are multifaceted, including reducing the shadow economy, significantly increasing production volumes, enhancing enterprise competitiveness, channeling financial flows into the productive sector, and maximizing the utilization of domestic material and technical resources.

Given their critical importance, the question of how to effectively finance SMEs becomes paramount. While internal sources of funding (retained earnings, personal savings) are often the first port of call, they are rarely sufficient to support growth, modernization, or expansion. This necessity forces SMEs to seek external financing, which is broadly categorized into debt-based instruments (borrowed funds) and equity-based instruments (attracted funds). The choice between and within these categories is a complex strategic decision that can determine an enterprise's long- term viability.

2. The Landscape of External Financing: Debt vs. Investment

External financing sources are fundamentally divided into two main groups: borrowed funds and investment (or attracted) funds. Borrowed funds, such as bank loans and bonds, create a creditor- debtor relationship. In this arrangement, the company assumes a clear obligation to repay the principal amount along with specified interest, typically backed by collateral or guarantees. Failure to meet these obligations grants the creditor the right to claim the pledged assets. Once the debt is repaid, the company's obligations to the creditor are fully discharged.

Investment funds, on the other hand, are directed towards replenishing a company's capital. The selection of an effective source to meet investment needs is heavily influenced by the desired maturity of the funds. Long-term investment resources provide a stable inflow of capital, offering greater reliability compared to short-term financing, which introduces uncertainty regarding future access to capital. For sustainable development, long-term investment is often essential. However, long-term financing is not without its own challenges. It is less flexible; if interest rates fall, a company becomes locked into a relatively expensive capital structure. It is typically more costly than short-term capital due to the higher risk profile for the lender. Furthermore, it almost always requires rigorous due diligence, compelling the borrower to disclose extensive information, including detailed business plans and financial forecasts, to substantiate the viability of the project and the capacity to service the debt.

The viability of accessing these sources is not solely a matter of the enterprise's need. It is equally about the enterprise's ability to meet the stringent demands of the capital providers. A positive credit history, market reputation, financial transparency, and the liquidity of its securities in secondary markets are all critical factors that determine a company's ability to attract capital on favorable terms. In essence, the optimal source of financing is contingent upon the specific needs, risk profile, and capacity of the SME. For relatively short-term and modest funding requirements, bank loans often present the most appropriate solution. For larger volumes of long-term capital, the public placement of securities may be a more realistic, albeit more demanding, avenue.

1. Bank Credit: The Conventional but Constrained Pillar

For decades, bank credit has been considered the most widespread and, in many cases, the most acceptable source of business financing. The core of the bank lending process is a rigorous assessment of the borrower's creditworthiness. A bank's own profitability and liquidity are intrinsically linked to the financial health of its clients. To mitigate risk, banks must be confident not only in the efficient use of borrowed funds but, more importantly, in the client's strict adherence to repayment schedules. This assessment typically revolves around two central questions: first, is the borrower *capable* of fulfilling its obligations in a timely and complete manner? Second, is the borrower *willing* to do so?

The answer to the first question is derived from a comprehensive financial and economic analysis of the enterprise. The second question is more complex, often involving legal considerations and an evaluation of the management's personal integrity and reputation. To secure an affirmative answer to the second question, banks almost invariably require collateral or other guarantees. The structure and content of the financial indicators used in this analysis are designed to reflect the enterprise's ability to deploy borrowed funds effectively and its readiness to meet payment deadlines.

The lending process is fraught with risks. Factors such as shifts in consumer demand, technological disruptions, rising costs, or falling product prices can severely impact a borrower's financial standing, jeopardizing loan repayment. Consequently, a bank's credit analysis must

assess a multitude of qualitative and quantitative factors to gauge the degree of risk it is willing to assume. Recent data from the European Central Bank indicates that while monetary policy easing is beginning to reduce interest rates for firms, a net 12% of euro area enterprises reported a decrease in bank interest rates in early 2025. However, the same survey revealed that SMEs continue to experience tighter financing conditions compared to large firms, with a net 1% of SMEs reporting a decrease in interest rates versus 26% for large corporations [2]. This disparity underscores the persistent structural challenges smaller enterprises face in accessing affordable credit.

The key principles underpinning a bank's lending decision are:

- The degree of profitability of the credit operation.
- The borrower's financial condition.
- The quality and competence of the enterprise's management.
- The borrower's reputation and history with the bank.
- The availability of acceptable collateral.

Despite its foundational role, bank financing has distinct limitations. Chief among them is the matter of maturity. Even highly investment-attractive SMEs often find that banks predominantly offer short-term and, to a lesser extent, medium-term loans. Long-term lending is rarely practiced due to the elevated and uncertain risks associated with extended time horizons. Another critical feature is the nearly mandatory demand for collateral, which applies almost irrespective of the project's intrinsic viability. This reliance on tangible assets for security creates a significant barrier for many SMEs, particularly those in the service or technology sectors with limited physical collateral.

1.1. Leasing: A Derivative Form of Credit Financing

Leasing can be considered an indirect form of bank credit, particularly useful when an enterprise wishes to avoid direct ownership of an asset (operational leasing) or lacks the financial capacity or collateral to purchase it outright (financial leasing). Globally, leasing is recognized as an effective and reliable method for acquiring equipment and other fixed assets.

Leasing offers several advantages over conventional bank loans:

- **Risk Mitigation:** The risk of non-repayment is reduced, as the lessor retains ownership of the equipment.
- **100% Financing:** Leasing often covers the full cost of the asset, eliminating the need for the enterprise to provide a down payment.
- **Flexibility:** Leasing agreements can be structured with flexible payment schedules tailored to the lessee's cash flow.
- **Reduced Tax Burden:** Leased equipment is typically not included on the lessee's balance sheet, potentially reducing property tax liabilities.
- **Support for Producers:** Leasing creates additional sales channels for equipment manufacturers, stimulating production and technological advancement.

However, leasing is not without drawbacks. The lessor bears the risk of physical and moral obsolescence of the equipment, which is often reflected in higher interest rates compared to standard bank loans. Additionally, because the lessee does not own the asset, it cannot be used as collateral for other financing, potentially limiting future capital-raising options. Nevertheless, the advantages often outweigh these limitations, and international experience underscores the indispensable role of leasing in effectively realizing specific investment projects.

2. Capital Market Instruments: Bonds and Equity

As enterprises grow and require larger volumes of capital, they may look beyond bank credit to the capital markets. These instruments offer the potential for longer maturities and larger sums, but they also come with increased complexity and regulatory requirements.

2.1. Corporate Bonds: A Path to Long-Term Debt

Issuing bonds allows companies to address long-term financing needs that bank loans typically cannot satisfy. Through a public offering, an issuer can tap into a large, diversified pool of investors, reducing dependence on a single lender a significant advantage over concentrated bank financing. A successful bond issuance helps build a public credit history. The issuer also gains greater flexibility in debt management, as it can buy back its own bonds on the secondary market if it has excess cash, thereby reducing its debt burden.

From a financial management perspective, bonds offer efficiency, as interest payments are often treated as tax-deductible expenses, reducing the company's overall taxable profit. However, bond issuance is not a viable option for all companies. The associated costs, underwriting, legal, and regulatory can be prohibitive for smaller or relatively young enterprises, making such issuance only economically justifiable for larger volumes of debt. Thus, corporate bonds are often the domain of larger, more established firms.

To enhance investment attractiveness, issuers may employ various features, such as profit-linked interest rates instead of fixed coupons, or the issuance of convertible bonds. Convertible bonds occupy a middle ground between debt and equity. They allow the holder to convert the bond into a predetermined number of common shares at a future date. This conversion feature makes them more attractive to investors, enabling the issuer to offer a lower coupon rate and thus reduce the cost of capital.

2.2. Public Equity Offerings: The Pinnacle of Prestige and Challenge

For many companies, a public offering of shares (an Initial Public Offering or IPO) is the most prestigious method of raising capital, though it is attainable by only a select few. Compared to other sources, an IPO offers distinct strategic advantages. Unlike retained earnings, which are volatile and uncertain, an IPO provides an immediate and substantial inflow of capital independent of future economic conditions. In contrast to bank loans, an IPO eliminates dependency on a single financial institution and, crucially, carries no obligation for the repayment of principal. And unlike bonds, there is no contractual obligation for interest payments; capital is raised on a permanent, non-repayable basis.

Beyond the immediate capital infusion, a successful IPO brings additional benefits:

- It significantly enhances the issuer's financial credibility and public profile.
- It creates opportunities for subsequent debt issuances on more favorable terms and facilitates securing loans against the collateral of the company's own shares.

- It provides an effective tool for ongoing market valuation, which is essential for strategic decisions like mergers and acquisitions.

However, an IPO is a rigorous process that demands significant market stature and transparency. Companies considering this route must have a proven track record, a history of regular and comprehensive disclosure about management and ownership, a liquid secondary market for their shares, and a consistent record of profitability. The fundamental prerequisite for any public offering is the investment attractiveness of the securities, which is contingent not only on financial metrics but also on robust corporate governance standards.

3. Venture Capital and Private Equity: Financing the High-Growth Frontier

Venture capital and private equity represent a unique category of financing, primarily accessible to enterprises with high-growth potential but which, for various reasons (e.g., lack of collateral, unproven business model, high risk), cannot access traditional debt or public markets. This form of financing is intrinsically linked to the business lifecycle.

Venture capital is typically provided to enterprises in different stages of development:

- **Seed:** Companies at the project or business idea stage.
- **Start-up:** Companies in the initial organizational phase.
- **Early Stage:** A combined group encompassing both seed and start-up ventures.
- **Expansion:** Companies ready to scale their operations.

Beyond these, venture capital can also be utilized for specific transactions like Management Buy-Ins (MBI) or Management Buy-Outs (MBO).

Venture capitalists provide capital primarily in the form of an equity investment, acquiring a stake in the company's charter capital. Unlike strategic investors who often seek immediate control, venture capitalists aim to provide the financial leverage for growth, typically planning to exit their investment after a period, usually through a trade sale or an IPO, to realize a return on their investment. According to the National Venture Capital Association's 2025 Yearbook, the U.S. venture capital industry continues to lead globally, accounting for 57% of total worldwide deal

value with \$215.4 billion invested across 14,320 deals in 2024. However, the report also notes a challenging exit environment, with just 42 IPOs raising \$41.2 billion, and total assets under management in the VC industry now sitting at \$1.25 trillion [3].

The sources of venture capital are diverse, ranging from the formal sector, comprising funds and companies that pool capital from institutional investors (pension funds, insurance companies) and corporations—to the informal sector, dominated by "business angels." Business angels are affluent individuals who provide capital for start-ups, often in their earliest stages, in exchange for ownership equity. Their critical advantage lies in their accessibility; they are often the only source of funding for businesses at the seed and start-up phases, filling a crucial gap that formal venture capital funds and banks are unwilling or unable to bridge. International experience confirms that for high-risk, long-term, technology-oriented projects, venture capital is not just a funding option but is often the only viable one.

4. Conclusion

The financing of SMEs is a complex ecosystem where the nature of the enterprise must align with the characteristics of the capital source. SMEs are indispensable to national economies, not only as engines of growth, employment, and innovation but also as agents of social stability and regional balance. However, their potential is perpetually constrained by the challenge of accessing appropriate financial resources.

The analysis reveals a clear hierarchy and trade-off among financing options. Bank credit, the most traditional source, is often the first recourse for short-to-medium-term needs. Yet, its stringent requirements for collateral and its inherent aversion to long-term, high-risk lending create significant barriers for many SMEs, particularly those in their nascent stages or lacking tangible assets [2]. Leasing offers a valuable derivative, mitigating some risks for the lender while providing a pathway for SMEs to acquire essential capital equipment without the burden of upfront ownership.

For more mature and larger SMEs, capital market instruments present compelling alternatives. Corporate bonds enable access to substantial, long-term capital from a diversified investor base, albeit at a significant transactional cost. An initial public offering (IPO) represents the ultimate achievement in public financing, offering permanent capital and enhanced credibility, but it demands a level of scale, transparency, and governance that most SMEs cannot meet.

Finally, for the most innovative and high-growth-potential ventures, often the ones that hold the key to technological advancement and future competitiveness venture capital and private equity emerge as the most appropriate, and sometimes only, source of funding. While demanding significant equity and involvement, venture capital is uniquely structured to tolerate the high risk and long gestation periods characteristic of transformative business ideas [3]. The role of business angels in bridging the earliest-stage funding gap is particularly critical.

In conclusion, there is no single "best" financing source for all SMEs. The optimal capital structure is a function of the enterprise's lifecycle, its risk profile, its growth trajectory, and its capacity for transparency and governance. Policymakers and financial institutions must recognize this diversity. Fostering a healthy SME sector requires a multifaceted approach that simultaneously strengthens the capacity of banks to engage in risk-based lending, supports the development of alternative credit channels like leasing, and actively cultivates the ecosystem for private equity and venture capital, particularly for early-stage, high-innovation enterprises. Only through such a comprehensive and nuanced strategy can the full potential of SMEs as the cornerstone of a resilient and dynamic economy be realized.

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