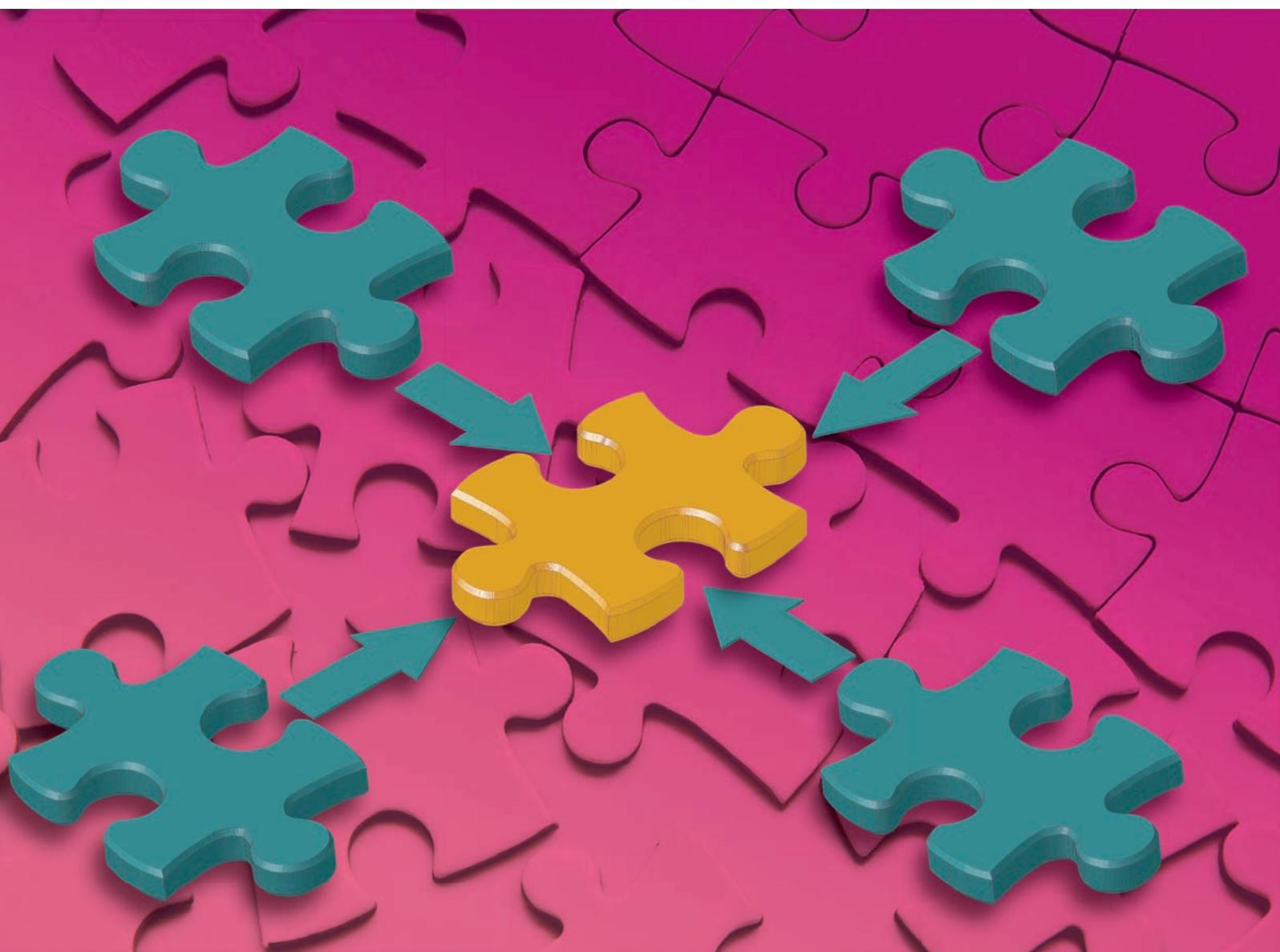


Highlights



# Financing SMEs and Entrepreneurs 2018

AN OECD SCOREBOARD



## ■ Background information

Financing SMEs and Entrepreneurs 2018 contributes to filling the knowledge gap in SME finance trends and conditions. This annual publication provides information on debt, equity, asset-based finance, and conditions for SME and entrepreneurship finance, complemented by an overview of recent policy measures to support access to finance. By providing a solid evidence base, the report supports governments in their actions to foster SME access to finance and encourages a culture of policy evaluation.

The 2018 report covers 43 countries: Australia, Austria, Belgium, Brazil, Canada, Chile, the People's Republic of China, Colombia, the Czech Republic, Denmark, Estonia, Finland, France, Georgia, Greece, Hungary, Ireland, Israel, Italy, Japan, Kazakhstan, Korea, Latvia, Luxembourg, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Russian Federation, Serbia, the Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States.

In addition to the core indicators on SME financing, it provides additional information on recent developments in capital market finance for SMEs, crowdfunding and related activities, and findings of demand-side surveys. It contains a thematic chapter on the evaluation of publicly supported credit guarantee schemes.

This document presents highlights from the 2018 edition of the *Financing SMEs and Entrepreneurs: An OECD Scoreboard*.

More information: [www.oecd.org/cfe/sme](http://www.oecd.org/cfe/sme)



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# Financing SMEs and Entrepreneurs 2018: An OECD Scoreboard

## Highlights

### Introduction

SMEs play a key role in economic growth, job creation, regional and local development and social cohesion. Almost all businesses in the OECD area are small or medium-sized, and they generate around 60% of total employment and 50% to 60% of value added on average. Access to finance is a critical prerequisite for the development and creation of SMEs. Longstanding challenges in this area limit their creation and growth in many countries, which has often given rise to policy intervention. A reliable evidence base is crucial to get these policies right.

This document is based on the annual report *Financing SMEs and Entrepreneurs 2018: An OECD Scoreboard*. It highlights key developments in SME and entrepreneurship finance over the 2007-16 period; provides an overview of trends in government policy in this area; describes recent methodological improvements; and offers suggestions to further improve the evidence base. The full publication provides information for 43 countries world-wide.

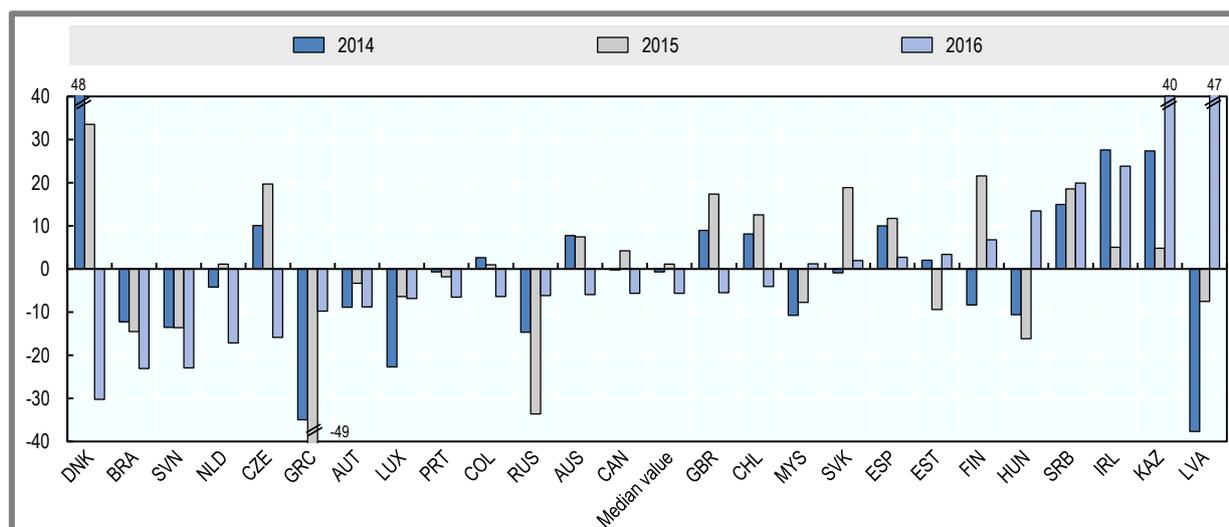
The report illustrates that lending to SMEs declined in a majority of countries in 2016, while alternative sources of finance became more widely used. This trend coincided with improvements in the operating environment for SMEs, as evidenced by a drop in bankruptcies and payment delays, and a more positive macro-economic outlook.

## Recent developments in SME access to finance

Following multiple years of growth, new lending to SMEs was negative in 15 out of the 25 countries that provided data. The median value growth rate in new SME lending fell from 2.6% in 2015 to -5.6% in 2016.

**Figure 1. Trends in new SME lending**

Year-on-year growth rate, as a percentage



The decline in new lending can be attributed to several factors, often depending on national circumstances. In Australia, Austria, the Czech Republic, the Netherlands and the United Kingdom, survey data suggest that lower demand for credit is contributing to this development, which in turn may be linked to weak investment dynamics. In other countries, such as Greece, Slovenia and Portugal, financial institutions appeared to have become more risk-averse when lending to SMEs, and high levels of non-performing loans still weigh on the supply of credit, especially for segments within the SME population that are deemed risky. In Brazil and the Russian Federation, the decline appears due in large part to unfavourable macro-economic conditions.

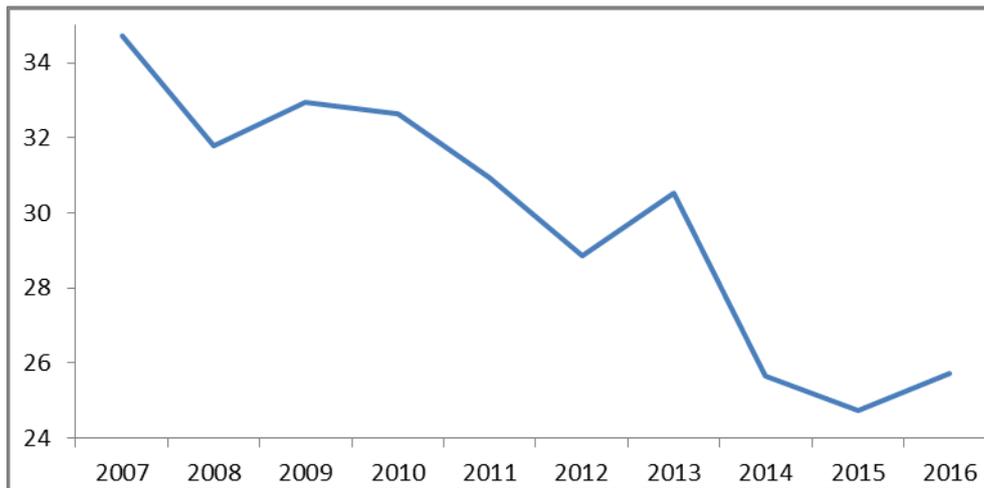
In contrast, the outstanding stock of SMEs loans grew in 24 out of 34 countries. The data on outstanding SME loans is influenced by a greater number of factors than data on new lending, which explains the divergence that can be observed between these two indicators, even though they both provide information about developments in credit markets. In particular, the pace of loan repayments, changes in the maturity of loans and fluctuations in non-performing loans may lie behind the disparity in trends for stock and flow data in SME loans.

**In addition, data indicate a shift in the SME loan portfolio of banks from short-term to long-term lending** as evidenced by a steady decline in the median value of the share of short-term loans over the 2007-2016 period. Various factors may play a role. Recent improvements in cash flow and profitability may be allowing small firms to rely on internally generated revenues for their day-to-day operations, thus leading to a decline in external short-term financing. In addition, some SMEs may want to borrow on longer terms as interest rates decline, so as to “lock in” low rates. Finally, the recovery in corporate investments has been relatively weak and uneven since the financial crisis. Nevertheless,

GFCF growth rates for the OECD area were positive over the 2010-16 period, and this may have boosted the demand for demand for longer-term credit.

**Figure 2. The share of short-term SME loans as a proportion of all SME loans**

Percentage, median values for scoreboard countries for which data were available



**Credit conditions generally improved in 2016, following the recent trend in previous years.** This is most evident in interest rates. The average interest rate charged to SMEs declined in 2016 for 30 out of 36 countries. SME interest rates already decreased significantly between 2011 and 2013, and have continued to decline since, with the exception of Canada, Colombia, Israel, Kazakhstan, Mexico and the United States. Loose monetary policies are driving this trend in many parts of the world.

In addition, loan rejection rates were down in a majority of countries in 2016 and survey data from across the OECD suggest that access to finance is becoming less problematic for SMEs.

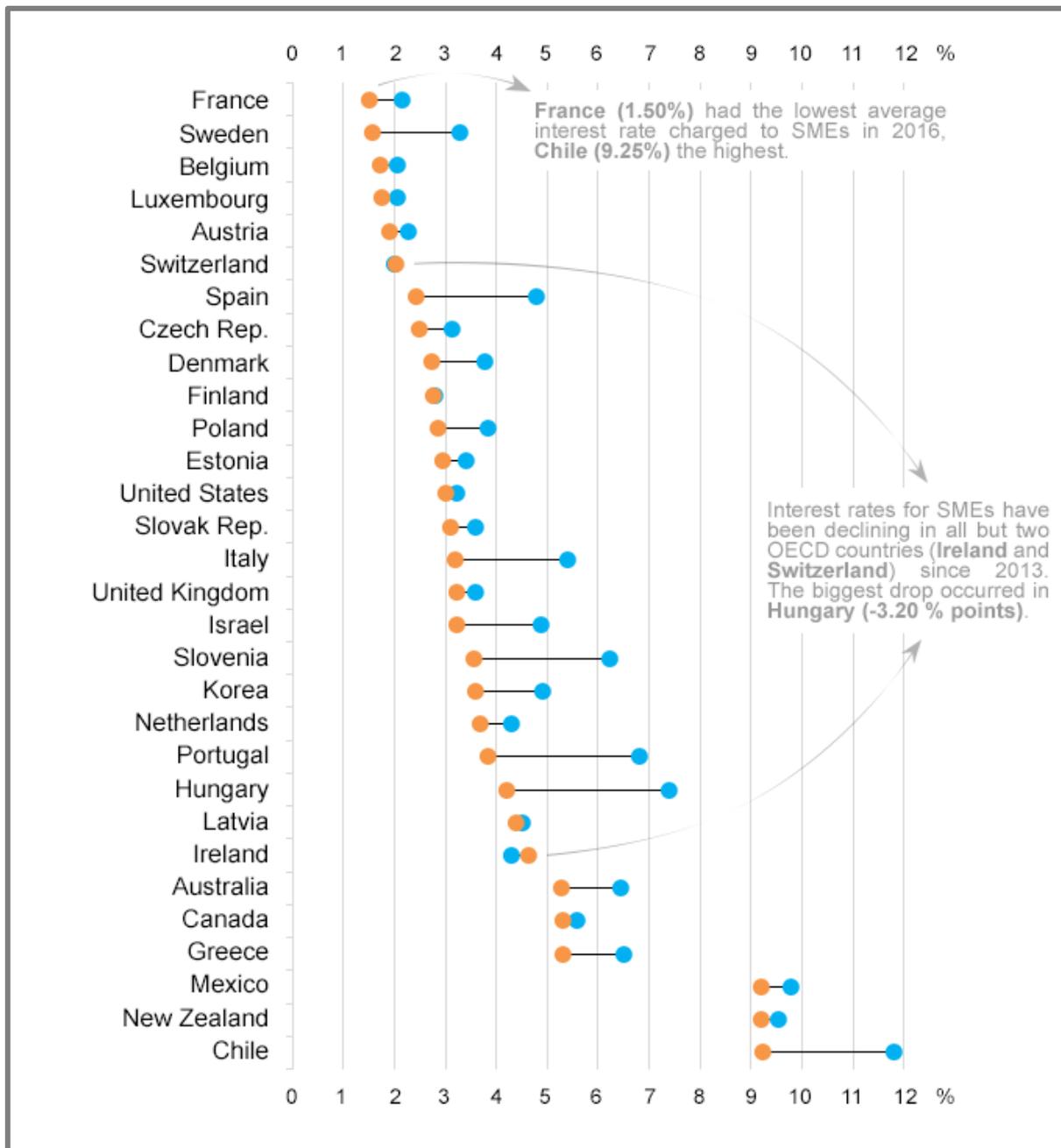
Despite these positive developments, structural problems to access external sources of finance persist, especially for young firms and start-ups, micro-enterprises, and innovative ventures with an unproven business model. These businesses often lack assets that can be easily used as collateral. Although these firms are often well endowed with intangible assets, many challenges persist to use these assets to obtain SME financing (see Box 1).

**The number of bankruptcies was down in a majority of scoreboard countries for the fourth consecutive year in 2016.** The median year-on-year change in bankruptcies declined by an annual 6.5% in 2016, after a fall of 6.9% and 9.1% in 2014 and 2015, respectively.

No clear trend can be discerned for payment delays and non-performing loans in 2016, but both indicators are generally at lower levels than in the period immediately after the financial crisis.

Figure 3. Average interest rate charged to SMEs

2013 and 2016 levels



### Box 1. Collateralising intangible assets: Current challenges

The importance of intangible assets for SMEs, and fast-growing innovative firms in particular, is growing. Intangible assets refer to “an identifiable non-monetary asset without physical substance” such as patents, copyrights, brand equity, software of computerised databases. In the United Kingdom, for instance, data from the Intellectual Property Office highlight that corporate investments in intangibles rose considerably more rapidly than investments in intangible assets over the 1990-2014 period. A number of challenges inhibit small firms from leveraging this value to obtain debt funding, such as:

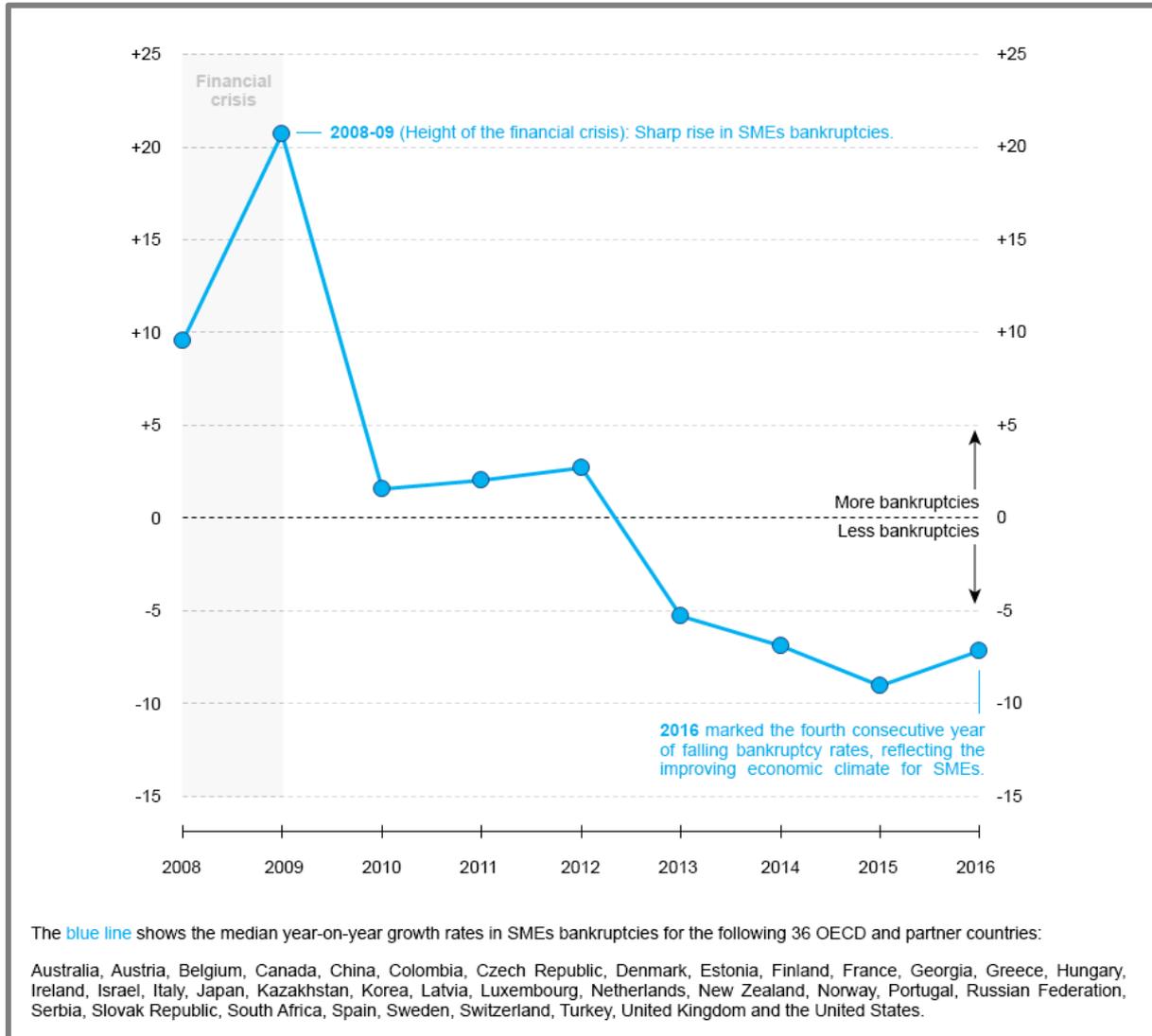
- Gauging their proper value;
- Insufficient corporate reporting;
- Redeployment issues;
- Obtaining effective security over the asset;
- Absence and illiquidity of secondary markets;
- High transaction costs;
- Insufficient bank understanding

Governments have recognised the importance of enabling fast-growing, intangible asset-rich firms to access appropriate sources of financing, and are developing initiatives to enable SMEs to leverage these assets to obtain financing.. A number of countries have set up special schemes to address the challenges associated with collateralising intangible assets. In certain cases, “ring-fenced” funds for investments in intangible assets have been established by development banks, while other approaches focus on overcoming the problems of valuation and high transaction costs, for example by covering part of the costs of intellectual property evaluation reports, providing guidance and training to the financial industry or developing standards for valuation. Some governments have introduced guarantees, insurance and subsidies for financial institutions that accept intangible assets as collateral, as well as compensation schemes to cover bad debts.

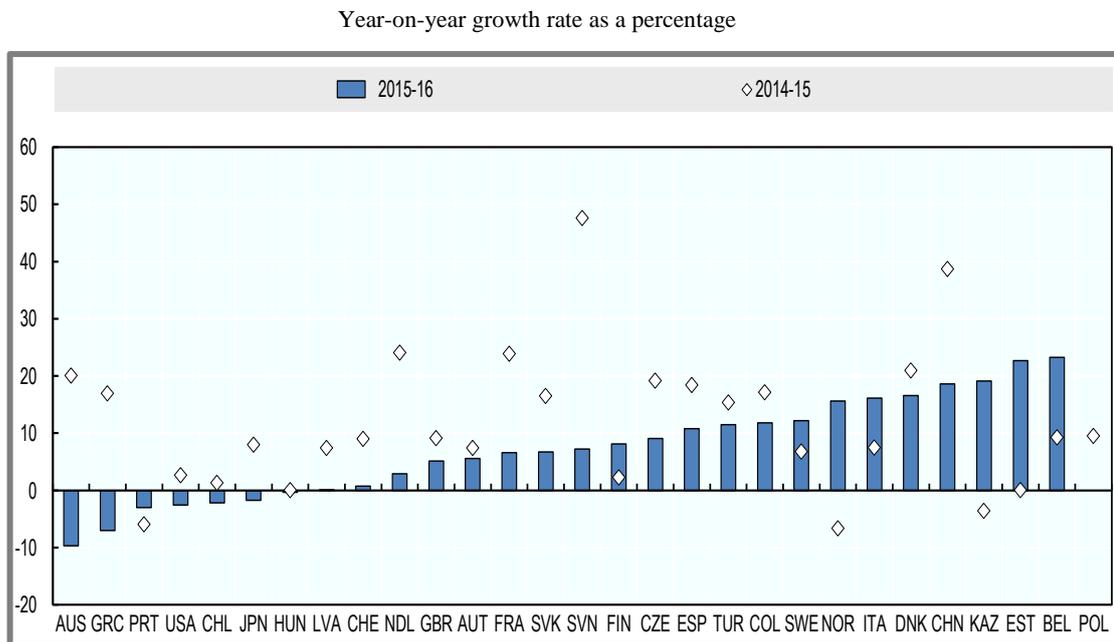
Although good practices may vary substantially across jurisdictions, a few common issues arise. First, initiatives in this area are likely to incur losses in their early stages, and patience over the medium term is required to build scale and drive down costs. Second, private sector involvement is key. Third, guarantees (and insurances) appear to be crucial elements of the policy mix. Fourth, schemes appear to be more successful if they focus on a relatively wide range of intangible assets, beyond patents. Fifth, data gathering, sharing and analysis, along with evaluation will be critical to success - both in operating such schemes, and in determining their effectiveness.

**Figure 4. Trends in bankruptcies**

Median year-on-year change for OECD and partner countries, in %



Alternative financing instruments other than straight debt are becoming more widely used by SMEs. Asset-based finance comprises finance instruments that are based on the value of specific assets, rather than on the credit standing. It represents a well-established and widely used alternative for many SMEs. Within this category, leasing and hire purchases on the one hand, and factoring and invoice discounting on the other are the most well-known and widely used instruments. Leasing and hire purchase activities showed an increase for the second consecutive year in 2016.

**Figure 5. New production in leasing and hire purchases**

**Factoring** volumes were also up in 2016 in around two-thirds of countries for which data are available. Both factoring, leasing and hire purchases constitute relatively common sources of financing appropriate for a relatively broad range of SMEs.

**Venture capital investments** increased in a majority of countries in 2016, although volumes usually remain pre-crisis levels. Equity type instruments are often well-suited for innovative ventures at the early stages of their life cycle, a small but crucial segment of the SME population. Venture capital investments as a percentage of GDP show wide country variations (see Figure 5).

**Private debt** is particularly relevant for SMEs facing a major transition, such as a change in ownership, expansion into new markets and/or activities, or acquisition. Its market has nearly quadrupled in size between 2006 and 2016, especially in Europe, with strong growth in recent years.

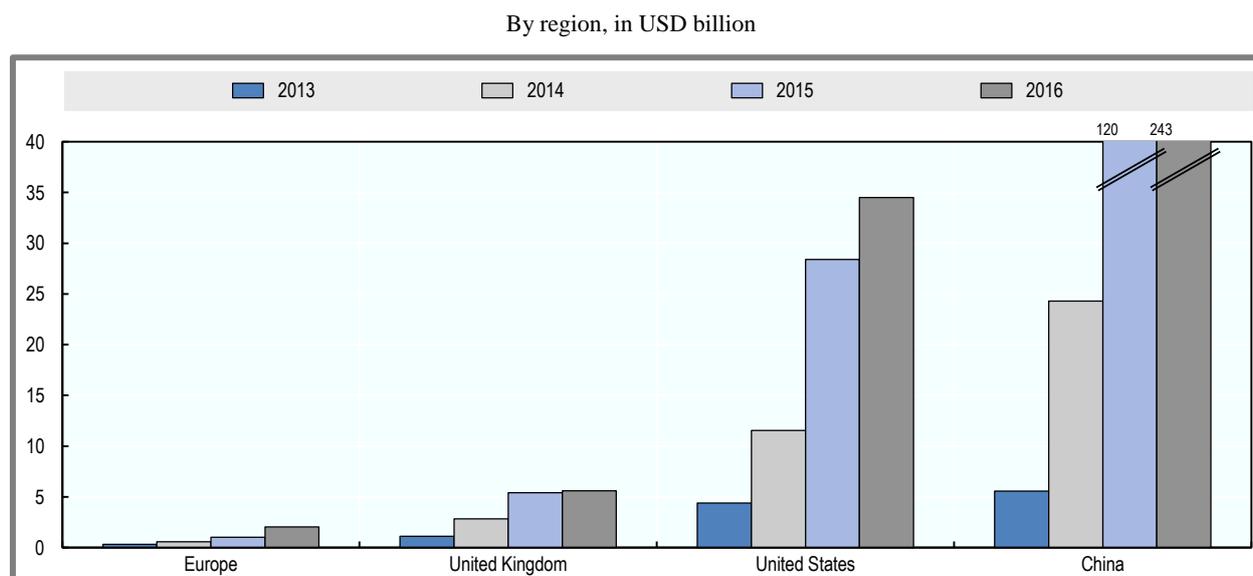
**Online alternative finance** is a means of soliciting funds from the public for a project/firm through an intermediate platform, usually through the Internet, and comprises peer-to-peer lending activities, equity crowdfunding and online invoice financing. It has a strong potential to grow and serve the financing gap among SMEs, especially for young firms with medium or high credit risk.

While in many countries, crowdfunding and related online alternative finance activities are still in their infancy, activities are growing rapidly, doubling in volumes every year between 2013 and 2016 in a number of countries. In addition, large regional differences in the take-up of online alternative finance persist, with markets in the United Kingdom, United States and especially China vastly out-measuring those in continental Europe.

**Initial Public Offerings (IPOs)** offer an alternative route for firms to access additional capital through a stock market launch. In both Europe and the United States, the number of listed companies is in decline in recent years, especially for the SME segment. There are several potential reasons for this apparent decline in participation in stock markets by

SMEs. Entrepreneurs may be more likely to seek exits through mergers and acquisitions, rather than to acquire capital through an IPO. Furthermore, a stock market launch may not be particularly viable for entrepreneurs, who may lack the resources, knowledge or finances to structure an IPO. In addition, investor sentiment may not have fully recovered from the shock of the global financial crisis, and similar to bank lending, may have turned more risk-averse and favourable to large caps, leading SMEs to look for alternative sources of financing.

**Figure 6. Total online alternative finance market volumes**



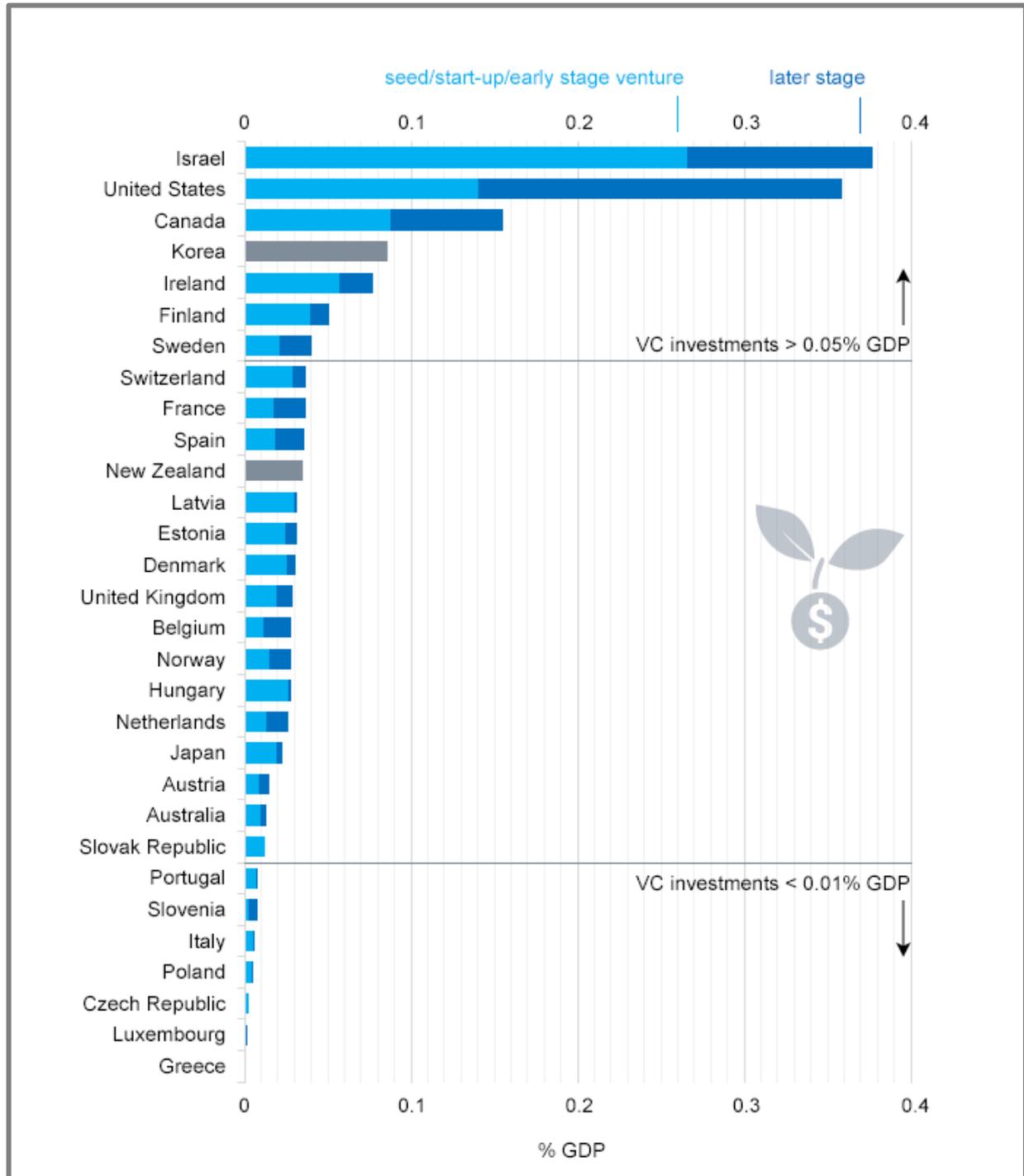
## Government policy responses

SME finance remains high on the policy agenda around the world, and many governments developed new initiatives in 2016 and the first half of 2017 to ease access to various sources of finance, in addition to the wide range of policy instruments already in place. Based on information from 43 participating countries, a number of broad emerging policy trends can be discerned.

- **Credit guarantees remain the most widespread instrument and their design continues to be adjusted.** Most countries have a credit guarantee scheme in place. Loan guarantees were the main instrument for governments to mitigate the impact of the financial crisis and volumes usually remain well above pre-crisis levels. These schemes have often been modified in recent years to keep up with the needs of their beneficiaries. Changes may cover eligibility criteria, volumes, risk management, the provision of counter guarantees, and other parameters. The need to evaluate the performance and cost-effectiveness of credit guarantee schemes has been widely recognised, but practices vary greatly (see Box 2).
- **Policies to boost equity-type instruments and other sources of finance complementary to straight debt are proliferating,** in recognition of the fact that many SMEs remain over dependent on straight debt and innovative high-risk SMEs struggle to find sufficient external financing to sustain their growth ambitions.

**Figure 7. Venture capital investments as a percentage of GDP**

2016 or latest available year



- **Governments around the world continue to stimulate crowdfunding activities**, mainly through changes to financial regulation to remove legal uncertainties and guarantee appropriate investor protection, while making it easier for firms to raise money through platforms. New forms of innovative finance, such as peer-to-peer lending and crowd-sourced equity funding, can increase the financing options available to SMEs.
- **Governments have been working to address the financing gap among innovative start-ups with comprehensive policy reforms.** Governments moved to foster growth of a start-up ecosystem for high growth potential and technologically advanced SMEs with wide-ranging policy measures that include specific efforts to improve their access to finance, but also address other concerns such as the regulatory burden, managerial skills, access to labour, governance, innovation and internationalisation. In particular, several countries implemented comprehensive “start-up packages” that aim to encourage creation and growth of high-impact firms.
- **Financing needs of SMEs are increasingly being addressed at regional level.** Governments are seeking to respond local needs and requirements of SMEs, which can sometimes be region-specific. This allows for more tailor-made policies and enables a better uptake of public SME finance initiatives.

**Box 2. Evaluating publicly supported credit guarantee programmes for SMEs:  
Selected results from an OECD/EC survey**

The thematic chapter of the 2018 Scoreboard surveys practices to assess costs and benefits of credit guarantee schemes (CGS) for SMEs. Results point to a wide range of evaluation approaches across schemes and countries.

In terms of the objective against which the added value of the programme is measured. Financial additionality is the most common criterion for evaluation, with economic additionality and financially sustainability used less often. The body conducting the evaluation also tends to vary, while independent evaluations are preferable to self-evaluation.

Regarding the frequency of evaluations, while evaluations are ideally undertaken regularly, one-off evaluations do not appear to be uncommon; Furthermore, the extent to which evaluation results are used for operational decisions is not uniform. Ideally, results should feed into design changes to the CGS;

Finally, the use of data is a challenge for evaluating CGS. Counterfactual analysis needs to be developed to understand what would have happened in the absence of the CGS. To do so, detailed data on firms benefiting from guarantees have to be collected, but also on unsuccessful applicants. The paucity of such micro-level data, and the difficulties of linking separate databases, is a major area for improvement in future evaluation exercises.

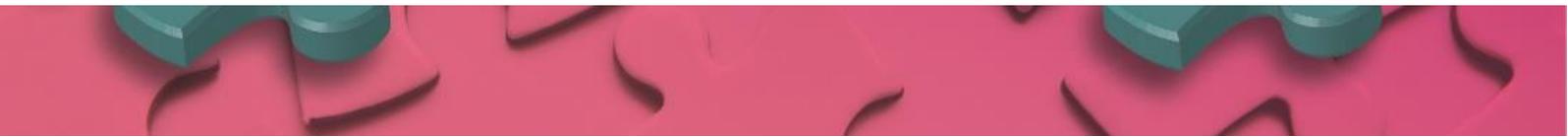
## Recommendations for data improvements

**Data gaps on SME finance remain prominent and further efforts to improve the collection of data and evidence on SME finance should be pursued.** First, the SME population is very heterogeneous, and financial challenges differ substantially according to firm characteristics such as the age of the firm, its size, location, sector and growth potential. The characteristics of the principal business owner, such as their gender or business experience, may also influence access to finance. Despite the widespread recognition of the need to tailor policies to the different needs of the enterprise population, data collection efforts do not always capture granular information along these parameters. More disaggregated data, including those collected by central banks and/or statistical offices from financial institutions and other providers of finance, would benefit the assessment of the impact and effectiveness of initiatives on these different segments.

**Second, surveys directed to a representative group of SMEs or to senior loan officials provide valuable additional insights** alongside more qualitative information. These surveys are not universally adopted, however. In addition, there appears to be wide differences in terms of methodology, questions asked, coverage and scale of existing surveys, hindering international comparisons. An international harmonisation of survey methods by sharing and adopted good practices among surveyors would enable more meaningful analysis SMEs' access to finance and financial conditions.

**Third, the evidence base continues to be weak when it comes to most sources of finance other than straight bank debt.** While some government institutions and non-governmental bodies (such as sector organisations) collect these data, they are often not SME-specific, incomplete, hard to compare from one country to the other, and sometimes questions arise about the reliability and methodology of data collection efforts. Ideally, data on volumes of a broad range of financial instruments should be collected according to a clear definition of the financial instrument, a proven and transparent methodology, with a breakdown by firm size and other relevant parameters and conducted at the international level to allow for cross-country comparability.

Through the SME financing Scoreboard, the OECD will pursue its efforts to increase transparency around definitions support data collection on an increasing number of indicators by a wide range of countries, share and disseminate lessons learned and good practices, and improve international co-ordination in these areas.



## **FINANCING SMES AND ENTREPRENEURS 2018 AN OECD SCOREBOARD**

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