Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard

Small and medium-sized enterprises (SMEs) and entrepreneurs are crucial for tracing new paths to more sustainable and inclusive growth, thanks to their role in developing and diffusing innovation and providing employment. However, they can only fulfill this role if they obtain the finance necessary to start and grow their business. Access to finance represents one of the most significant challenges for these firms, which the recent financial and economic crisis has exacerbated in many countries. Addressing this recurrent structural problem is imperative in order to improve the well-being of societies.

Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard analyses trends in access to finance over the period 2007-2012, based on annual and quarterly data from central banks and national statistical agencies. It contains a thematic chapter on alternative financing instruments for SMEs and entrepreneurs, with a focus on mezzanine finance.

Objectives

The Scoreboard's objective is to collect data on SME and entrepreneurship financing in order to:

1.Improve the understanding of business financing needs and provide the basis for a more informed policy discussion;

2.Give finance suppliers a more comprehensive understanding of their clients' needs, thus enabling them to design better products and services;

3.Allow policy makers to assess whether firms' financing needs are being met, and to feed into the design and evaluation of government policies and programmes;

4.Help governments monitor the implications of financial reforms on SMEs' and entrepreneurs' access to finance.

Detailed profiles are presented for 31 countries: Austria, Belgium, Canada, Chile, Colombia, the Czech Republic, Denmark, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Korea, Mexico, the Netherlands, New Zealand, Norway, Portugal, Russian Federation, Serbia, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States.

The Scoreboard includes 13 indicators of debt, equity and framework conditions for SME and entrepreneurship finance, along with information on public and private initiatives to support SME finance. It also contains a discussion on methodological issues – including recommendations for data improvements – as well as statistical resources.

Since its inception in 2012, the Scoreboard has become an important international reference for monitoring developments and trends in SME finance, with important improvements in each successive edition.

Key findings

SMEs faced the dual challenges of an uneven recovery and bank deleveraging

In 2012, the challenging macroeconomic environment, characterised by subdued growth and demand, translated into declining profits for SMEs and reduced availability of internal funding in most countries. At the same time, the financial sector continued the deleveraging process started in the aftermath of the global financial crisis. In some countries, the sovereign debt crisis increased the deficiencies in capital adequacy. This squeezed credit availability for the entire banking system, but impacted SMEs more than large firms, due to their greater dependence on bank financing.

Despite monetary easing, credit availability was a constraint for many SMEs. Credit conditions for SMEs remained tighter than for large firms

In most countries, monetary easing did not result in an increased flow of credit from financial institutions to the private sector, especially SMEs. On the contrary, following a weak recovery in 2010-11, in 2012 the stock of outstanding loans decreased in some countries and expanded at a slower pace in others, including emerging economies that had experienced substantial business credit growth in 2010-11. Moreover, in most countries SMEs experienced stiffer credit terms than large firms, in the form of higher interest rates, shortened maturities and increased requests for collateral. This reflected heightened risk aversion on the part of banks.

Payment delays and bankruptcy continued to increase

The business environment continued to be challenging for SMEs. Payment delays and bankruptcy figures remained high in most countries. Significant increases in failing companies were observed in the countries hit by the sovereign debt crisis.

Alternative sources of finance for SMEs and entrepreneurs were limited and volatile, albeit with some recovery in levels of equity finance

Equity financing was severely affected by the financial crisis, in particular seed and early stage investment. In 2012, however, equity funding had recovered to its pre-crisis level in a significant number of countries, in part as a result of targeted policy measures. Policy also supported expansion of alternative forms of finance, such as mezzanine finance, which combines debt and equity features. Nevertheless, bank lending continues to be the most common source of external finance for many SMEs and entrepreneurs, including innovative and high-growth enterprises.

Most governments extended SME finance support measures and adopted new instruments.

In 2012, the use of government guarantees to secure bank lending to SMEs continued to be widespread. Furthermore, new elements were added to some of these programmes, such as reduced red tape and more rapid provision. Other public instruments to enhance SME and entrepreneurship finance included direct loans; micro loans; export guarantees; and support for risk capital (equity), either in the form of co-financing, tax credits for investors or the promotion of crowd funding, and mezzanine finance.

Financing conditions are expected to remain challenging for SMEs and entrepreneurs in most countries.

In 2013-14, weak demand, deleveraging by banks and the deterioration in asset quality may further constrain credit for SMEs, despite the recovery. On the other hand, a number of policies targeting SMEs could potentially boost SME lending and make it more viable.

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