Financing SMEs and Entrepreneurs 2017
AN OECD SCOREBOARD

HIGHLIGHTS

Financing SMEs and Entrepreneurs 2017: An OECD Scoreboard is based on data collected for the individual country profiles and information from demand-side surveys. The report includes indicators on debt, equity, asset-based finance and financing conditions, complemented by information and recent public and private initiatives to support SME finance. Taken together, these indicators form a comprehensive framework for policy makers and other stakeholders to evaluate the financing needs of SMEs, and determine whether they are being met. This report also constitutes a valuable tool to support the design and evaluation of policy measures, and to monitor the implications of financial reforms on access to finance and financing conditions for SMEs. It builds on previous editions with important improvements in methodology, analysis and country coverage.

In the current edition, detailed profiles are presented for 39 countries:

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- Korea
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- Malaysia
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- The Netherlands
- New Zealand
- Norway
- Portugal
- Russian Federation
- Serbia
- Slovak Republic
- Slovenia
- Spain
- Sweden
- Switzerland
- Thailand
- Turkey
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- United States

For further information, please visit the OECD.Stat database: http://dotstat.oecd.org/?lang=en.

Full country profiles will soon be available online at: http://dx.doi.org/10.1787/fin_sme_ent-2017-en.
I. Introduction

At a time of disappointing economic growth and weak global trade and investment, small and medium-sized enterprises (SMEs) and entrepreneurs have emerged as a driving force for more inclusive and prosperous societies. Fostering these firms’ contributions can ensure that benefits of growth are shared more broadly. This calls for a renewed policy focus to level the playing field for SMEs across all dimensions of the business environment, and in the area of access to finance in particular. Yet, when seeking bank credit, SMEs continue to face more stringent financing conditions and higher interest rates compared to large businesses, and find themselves even more at a disadvantage when attracting alternative sources of finance.

This document is based on the annual report Financing SMEs and Entrepreneurs 2017: An OECD Scoreboard. It highlights key developments in SME and entrepreneurship finance over the 2007-15 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 in this area.

II. SME financing: Recent developments

Lending to SMEs generally improved in 2015, with a significant upward trend in new SME loans. While in 2013, only 6 out of 20 countries reported an increase in new SME lending, this number increased to 9 in 2014, and to 11 in 2015. For example, the volume of new SME loans in Finland rose by more than 23% in 2015 after seven consecutive years of decline. The median value of the annual growth rate of participating countries rose from -2.6% in 2013 to -0.1% in 2014, and then to 6.4% in 2015, illustrating a significant recovery in new lending to SMEs over this period (see Figure 1).
Outstanding SME loans also continued to increase in 2015, but at a slightly slower pace. In 2015, trends pointed to a general recovery in outstanding SME loans, although slowly and with variations across countries. In 2014, only 10 out of 31 countries experienced negative SME loan growth, down from 14 out of 31 in 2013, and this ratio remained constant in 2015. In addition, 2015 growth levels surpassed the growth level observed in 2014 in 17 out of 30 countries, indicating that growth accelerated (or became less negative) in a small majority of instances. The broadly positive picture is also illustrated by the median value of outstanding SME loan growth, which rose from 0.54% in 2013 to 1.37% in 2014, and to 1.64% in 2015 (see Figure 2).

In some emerging economies, SME loan growth slowed. In Chile, Colombia, Malaysia, Serbia and Turkey, growth in outstanding SME loans decelerated in 2015 compared to previous years. It should be noted, however, that the inflation-adjusted SME loan growth remained higher than the median value of 1.6% for participating countries, exceeding 8% in Malaysia and Turkey, for example. Slower growth in SME lending in these countries could be more sustainable than double-digit growth, and should therefore not necessarily be interpreted as a negative development.
Credit conditions eased further in 2015, but large cross-country differences persist. The average interest rate charged to SMEs declined in 2015 for almost every scoreboard country, mainly due to loose monetary policies. SME interest rates in 2015 were often less than half of their 2008 level – and in Belgium, France and Luxembourg even as low as one third. Demand-side surveys also suggest a continued easing of credit conditions in a majority of participating countries, including a decline in loan rejection rates. At the same time, large cross-country differences persist, with credit standards remaining comparatively tight and interest rates relatively high in the economies most affected by the financial and ensuing sovereign debt crisis, such as Greece, Hungary, Ireland, Portugal and Slovenia. Moreover, in emerging economies with relatively high inflation rates, including Brazil, Chile, Colombia, Georgia, Malaysia, Mexico, the Russian Federation, Serbia and Thailand, 2015 interest rates remained on average more than twice as high as the median value of participating countries (see Figure 3).

The gap in credit costs between SMEs and large enterprises remains wide. While the median spread between interest rates charged to SMEs and to large enterprises rose steadily over the 2007-14 period (with a small dip in 2013), this value decreased in 2015, from 1.48 down to 1.39 percentage points (see Figure 4). The spread remains much more pronounced than over the pre-crisis period, however, indicating that declining interest rates benefited large enterprises more than small ones. In 2008, the median interest rate charged to SMEs was 14.9% higher than the rate charged to large enterprises, whereas in 2015, that percentage stood at 56%.
For the first time since the crisis, payment delays declined in a majority of participating countries. In 2015, payment delays were down in more than two thirds of participating countries for which data are available. Moreover, payment delays were down by more than 30% in Belgium, Chile, and Portugal, and by more than 50% in Denmark and the Netherlands. This trend contrasts with 2013 and 2014, when there were roughly an equal number of countries experiencing an increase in B2B payment delays, as there were with a decrease. At the same time, the data also illustrate that there is considerable variance in the payment behaviour in B2B transactions across countries.

SME bankruptcies continued their downward path in 2015. The relatively favourable macro-economic conditions appear to have had a significant impact on the number of SME bankruptcies. The median year-on-year change in bankruptcies turned negative for the first time in 2013, dropping by 5.3%, and this trend gathered pace in 2014 and 2015, with a drop of 6.89% and 9.07%, respectively (see Figure 5). In 2015, bankruptcies decreased in 20 scoreboard countries and increased in 9 (Australia, Colombia, Denmark, France, Luxembourg, Portugal, the Russian Federation, Switzerland and Turkey). In China, Hungary, the Netherlands and Spain, the number of bankruptcies dropped by more than 20% year-on-year in 2015, and in Greece even by more than 40%. In Australia, Austria, Canada, Denmark, Greece, Japan, Korea, the Netherlands, the United Kingdom and the United States, bankruptcies were at a lower level in 2015 than in 2007.
The investment climate and weak demand for credit may be contributing to holding back a stronger recovery in SME lending. Despite loose credit standards, low interest rates and an improvement in economic conditions, as evidenced by declining bankruptcies and payment delays, the recovery in lending to SMEs often remained slow and uneven in 2014 and 2015. In the United States, for example, the outstanding stock of SME loans only increased in 2015, and by less than 1% in real terms. This occurred against the backdrop of sharply falling SME interest rates, fewer SMEs citing access to finance as their main concern, and increasing credit availability. A similar trend can be discerned in Italy, where credit to SMEs fell in 2015, although by less than in 2014, and then broadly stabilised in the first half of 2016, although data indicate an improved availability of credit in recent years. Weak demand for credit stemming from a lack of investment opportunities may explain this phenomenon. Indeed, the annual growth rate of new lending to SMEs is positively and significantly correlated with “Gross fixed capital formation (GFCF)”, which constitutes a proxy for investment opportunities (see Figure 6).

Figure 5. Trends in bankruptcies, 2007-15

Figure 6. Trends in new lending and gross fixed capital formation, 2015
Non-performing loans (NPLs) did not show a clear trend in 2015 and generally continued to exceed pre-crisis levels. In 2015, 4.27% of all SME loans were non-performing for the median scoreboard country, up from 3.4% in 2014, and from 2.52% in 2007. NPLs as a percentage of total business loans showed a more positive trend, with 16 countries observing a decrease, and only 7 countries observing an increase (see Figure 7). The median value of NPLs as a percentage of all business lending stood at 3.37% in 2015, a decrease from 3.6% in 2014. The decline in the NPL ratio (as a percentage of all business loans) was most pronounced in Ireland, Hungary and Spain. These three countries observed a sharp spike in their NPL rates between 2008 and 2013, and in 2015 were at 60% to 70% of their post-crisis peak. In contrast, in Italy and Portugal, which also saw a sharp increase in their NPL ratio in the aftermath of the financial crisis, SME NPLs continued to rise, although at a slower pace compared to previous years. In 2015, NPL ratios were generally still higher than in 2007, with the exception of Canada, Colombia and Japan.

![Figure 7. Non-performing loans, 2007-15](image)

Venture capital (VC) investments were down in a majority of countries and remained well below pre-crisis levels in 2015. Although global venture capital investments were up by 14.2% between 2014 and 2015 in volume terms expressed in USD, this increase was driven mostly by developments in the United States, where investments were up by 17.1% over the same period, and where the venture capital market is particularly well developed. In most countries for which data are available, venture capital investments plummeted between 2008 and 2009, and subsequently followed no clear pattern, except for a small uptick in 2011. In 2015, however, VC activities declined significantly in a majority of countries, pulling the median value down to its lowest level since 2007. Austria, Hungary, Korea, the Slovak Republic and the United States are the only countries, where VC activities in 2015 surpassed their 2008 levels (see Table 1).
The use of asset-based financing instruments continued to develop at an uneven pace. Factoring volumes expanded over 2009-14. Data for the reference period suggest that the availability of factoring was not severely impeded by the outbreak of the financial crisis, and in fact served as an attractive substitute in lieu of more traditional credit. In 2015, however, factoring volumes stagnated, potentially as a result of easier and cheaper availability of bank credit. In contrast, new production in leasing and hire purchases almost universally increased between 2014 and 2015. Growth was particularly pronounced in China, the Czech Republic, Denmark, the Netherlands and Slovenia, with leasing and hire purchases almost universally increased between 2014 and 2015. This marks a break with previous years, where the picture was more mixed. Expressed as a relative number of the 2007 level, the median value of new production in leasing and hire purchases for scoreboard countries rose from 0.79 in 2014 to 0.92 in 2015, reaching levels close to the pre-crisis period, after the sharp decline observed in 2009 (see Figure 8).

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Several challenges continue to limit SMEs’ uptake of non-bank finance instruments, especially from the capital market. On the demand side, many entrepreneurs lack financial knowledge, strategic vision, resources and in some cases, the willingness to attract sources of finance other than straight debt. The limited demand for alternative financial instruments can also be attributed in part to their disadvantageous tax treatment vis-à-vis straight debt. On the supply side, potential investors are dissuaded by the opacity of the SME finance market (see Box 1), a lack of investor-ready projects and exit options, as well as persisting regulatory impediments. As a consequence, financial instruments for SMEs often continue to operate in thin, illiquid markets, with a low number of market participants. The thematic chapter of this report examines recent policies to address existing challenges and recommends taking a holistic policy approach to stimulate SMEs’ uptake of non-bank finance instruments (see Figure 9).

Box 1. Policies to improve the credit information infrastructure

One of the main difficulties faced by SMEs in accessing financial markets is related to information deficiencies. SMEs are known to be opaque, often lacking audited financial statements or other credible credit data that would allow investors to reliably assess the risks and potential benefits from investing in them. The development of a credit risk assessment infrastructure plays a crucial role in overcoming existing information asymmetries and improving transparency in SME finance markets. Below are two examples from Japan and France.

- Japan established its Credit Risk Database (CRD) in 2001, led by the Japanese Ministry of Economy, Trade and Industry and the Small and Medium Enterprise Agency (SMEA). The CRD provides credit risk scoring, data sampling, statistical information and related services. The database therefore does not only facilitate SMEs’ direct access to the banking sector, but also smooths access to the debt market by enabling the securitisation of their claims.

- The ESNI initiative aims to overcome these information asymmetries in France by making use of both, the Banque de France’s credit assessment of nonfinancial companies, as well as internal ratings from banks. The ESNI was set up in March 2014 by private banking groups and with support from the Banque de France as a Special Purpose Vehicle, with the first securities issuance taking place one month later for an amount of for EUR 2.65 billion. The securities, regulatory and banking supervisory authority ensures that this scheme is compliant with existing regulation.
SME finance remains high on the policy agenda. Many governments developed new policy initiatives in 2015 and the first half of 2016 to ease SMEs’ access to finance. In addition to the wide range of instruments already in place, the following broad policy developments can be discerned for 2015:

- **Credit guarantees remain the most widespread policy instrument and their design is continuously being revised** to keep up with the shifting demands of their beneficiaries. Selected examples of some novel features introduced by countries are provided in Box 2;

- **There is an increased effort to stimulate alternative financing instruments, in particular from the capital market.** Governments recognise that SMEs remain too reliant on bank financing compared to large enterprises, rendering them more vulnerable to economic downturns and cyclical swings, and are taking action to remedy this;

- **There are increasing efforts to stimulate crowdfunding activities, mainly through changes to financial regulation** in order to increase the financing options available to SMEs and improve legal transparency and clarity;

- **The trend towards specifically targeting innovative firms with high-growth potential has continued,** acknowledging their particular importance with respect to job creation, as well as economic and productivity growth;

- **Financing to SMEs is increasingly provided in combination with consultancy services.** Recent evidence suggests that the provision of financial support to SMEs is most successful when offered in combination with consulting services, business advice or network opportunities for the beneficiaries of the programme, or with financial education more generally, as these services can address the sometimes underdeveloped financial skills of entrepreneurs;
• There are continued efforts to help SMEs access new markets through internationalisation via targeted and innovative financing instruments, such as export credit insurance, trade credit, or a mixture of private and public risk capital;

• Supporting female entrepreneurs has become an integral objective of many policies or programmes. Many governments in OECD countries and emerging economies have recognised the need for making their SME support policies more inclusive to help underrepresented members of society pursue entrepreneurial projects, and thus contribute to economic growth and prosperity.

Box 2. Recent developments in credit guarantee schemes

Ireland - The Irish guarantee scheme, introduced in 2012, was reviewed in 2014 and this evaluation resulted in a number of adjustments, such as coverage of a wider range of financial products, an increase in the portfolio cap, as well as the removal of the annual portfolio cap, most of which became operational in mid-2015 and early 2016. In addition, guarantees for refinancing loans, where an SME’s bank has exited or is exiting the Irish SME market, have been permitted since 2015.

Italy - The increased use of credit guarantees in Italy has been bolstered by progressive changes in its endowment, expansion of eligibility criteria, and the provision of a government backstop guarantee, ensuring a more favourable prudential treatment of guarantees, thereby relieving banks from capital charges for loans covered by the Central Guarantee Fund.

Mexico - The government recently put in place an auctioning system, whereby financial institutions can bid for the right to obtain guarantees, as part of its relatively large-scale guarantee programme.

III. Looking ahead

Despite recent positive developments, several important challenges remain. Further improvements in SMEs’ access to finance hinge on solid economic growth and investment opportunities. Recent economic projections have been revised downward, and there is increasing evidence that the global economy is stuck in a low-growth trap, with global investments and trade well below historical values. A souring economic climate could derail the tentative recovery in SME financing, particularly since most SMEs remain highly dependent on traditional bank debt and vulnerable to changing credit conditions. Furthermore, despite recent increases in SME lending, many SMEs, especially micro-enterprises, as well as young or innovative firms, continue to face financing constraints in access to both, bank and equity finance.

The G20/OECD High-level Principles on SME Financing call for strengthening SME access to credit, while supporting the diversification of other financing sources. Governments should continue to take actions which enable small firms to access a broader range of financing instruments. Tapping into a wide range of financing instruments across the risk-return spectrum would help SMEs obtain the forms of finance most suited to their needs at different stages of their life cycle, be more resilient in the face of crisis, and enable them to contribute to economic growth that is more inclusive and sustainable.

IV. Methodological framework

There are important methodological and structural improvements in the 2017 edition of this report. SME and entrepreneurship financing trends are monitored through core indicators, listed in Table 2, whose selection is based on criteria of usefulness, availability, feasibility and timeliness. The core indicators address specific dimensions related to SMEs’ access to finance. When considered as a set, they provide a consistent snapshot of a country’s market for business finance and its changes over
time, with continuous efforts to increase the timeliness and comparability of the data. In addition, there are important methodological and structural improvements in the 2017 edition of this report:

- **A new indicator on the relative number of loan applications** has been included. Along with analysis of survey data, this enables a better understanding of demand and supply-side factors in SME lending.

- This edition also provides for the first time **more in-depth, cross-cutting country analysis** that examines trends in SME lending and overall financing conditions across clusters of countries, as well as their relationship with key economic variables.

- Since June 2016, the **scoreboard data are available on the OECD.Stat website**. Data on core indicators can be consulted, downloaded and put to further use, thereby addressing a longstanding demand to improve access to the data, and exposure of the publication to a wider audience.

- The **printed publication contains a two-page country snapshot** for every participating country, presenting the data on core indicators and summarising the state of play regarding SME access to finance, while the **full country profiles are available online** on the OECD website.

**It is imperative for countries to further improve data collection on SME finance.** Evidence-based policy making to support SME finance must be underpinned by reliable data and information. This publication has made important strides in this respect, but further efforts are needed. Cross-country comparability of data on SME financing remains limited due to differences in SME and core indicator definitions, as well as in data collection methods. This is especially the case for survey data on loan conditions. To enable more timely collection of data and improve international comparison in the future, it is necessary for countries to advance in the harmonisation of data content, the standardisation of methods for data collection, as well as to improve transparency and accounting practices by financial institutions. More specifically, it is of paramount importance to improve reporting on SME loan variables and to fill the gaps in available data, as well as to collect more systematically information on the take-up of non-bank sources of finance. Efforts beyond should also aim at increasing the granularity of available data, to provide information by firm size, age, sector of operation and other relevant parameters.
## Table 2. Core indicators in financing SMEs and entrepreneurs 2017

<table>
<thead>
<tr>
<th>Core indicators</th>
<th>Unit</th>
<th>What they show</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The allocation and structure of bank credit to SMEs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding business loans, SMEs</td>
<td>Volumes in national currency</td>
<td>SME demand for and access to bank credit. A stock indicator measuring the value of an asset at a given point in time, and thus reflecting both new lending, as well as bank loans that have accumulated over time along with loan repayments.</td>
</tr>
<tr>
<td>Outstanding business loans, total</td>
<td>Volumes in national currency</td>
<td></td>
</tr>
<tr>
<td>Share of SME outstanding loans</td>
<td>% of total outstanding loans</td>
<td></td>
</tr>
<tr>
<td>New business lending, total</td>
<td>Volumes in national currency</td>
<td>SME demand for and access to bank credit. It is a flow indicator, measured over one year, which tends to respond faster to short-term developments and is therefore more volatile than stocks.</td>
</tr>
<tr>
<td>New business lending, SMEs</td>
<td>Volumes in national currency</td>
<td></td>
</tr>
<tr>
<td>Share of new SME lending</td>
<td>% of total new lending</td>
<td></td>
</tr>
<tr>
<td>Short-term loans, SMEs</td>
<td>Volumes in national currency</td>
<td>The structure of SME debt, i.e. the share of outstanding credit with an initial maturity of less than one year and more than one year, respectively. This could be considered as a proxy to gauge the purpose of SME bank loans, i.e. for operational and investment needs.</td>
</tr>
<tr>
<td>Long-term loans, SMEs</td>
<td>Volumes in national currency</td>
<td></td>
</tr>
<tr>
<td><strong>Extent of public support for SME finance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government loan guarantees, SMEs</td>
<td>Volumes in national currency</td>
<td>These indicators illustrate the extent and uptake of government programmes and instruments supporting SMEs’ access to finance.</td>
</tr>
<tr>
<td>Government guaranteed loans, SMEs</td>
<td>Volumes in national currency</td>
<td></td>
</tr>
<tr>
<td>Direct government loans, SMEs</td>
<td>Volumes in national currency</td>
<td></td>
</tr>
<tr>
<td><strong>Credit costs and conditions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate, SMEs</td>
<td>%</td>
<td>The cost of SME loans and how it compares to large firms.</td>
</tr>
<tr>
<td>Interest rate, large firms</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Interest rate spread</td>
<td>Percentage points</td>
<td>Proxies the conditions SMEs face when applying for bank credit.</td>
</tr>
<tr>
<td>Collateral, SMEs</td>
<td>% of SMEs needing collateral to obtain bank lending</td>
<td></td>
</tr>
<tr>
<td>Percentage of SME loan applications</td>
<td>SME loan applications/ total number of SMEs, in %</td>
<td>The (unmet) demand for and utilisation of credit by SMEs, and willingness of banks to lend.</td>
</tr>
<tr>
<td>Rejection rate</td>
<td>1-(SME loans authorised/ requested), in %</td>
<td></td>
</tr>
<tr>
<td>Utilisation rate</td>
<td>SME loans used/ authorised, in %</td>
<td></td>
</tr>
<tr>
<td><strong>Non-bank sources of finance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venture and growth capital investments</td>
<td>Volumes in national currency and year-on-year growth rate in %</td>
<td>The take-up and ability to access non-bank finance instruments, including external equity for start-up, early development and expansion stages, as well as asset-based finance, such as leasing, hire purchases, factoring and invoice discounting.</td>
</tr>
<tr>
<td>Leasing and hire purchases</td>
<td>Volumes in national currency</td>
<td></td>
</tr>
<tr>
<td>Factoring and invoice discounting</td>
<td>Volumes in national currency</td>
<td></td>
</tr>
<tr>
<td><strong>Financial health</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-performing loans, total</td>
<td>% of total business loans</td>
<td>The incidence of late or non-payments for SME loans, compared to the overall corporate sector. This proxies the (relative) riskiness of lending to SMEs.</td>
</tr>
<tr>
<td>Non-performing loans, SMEs</td>
<td>% of total SME loans</td>
<td></td>
</tr>
<tr>
<td>Payment delays, B2B</td>
<td>Number of days</td>
<td>The occurrence of payment delays in the B2B sector, i.e. the difficulty in paying and being paid, to capture the extent of cash flow problems.</td>
</tr>
<tr>
<td>Bankruptcies, SMEs</td>
<td>Number and year-on-year growth rate in %</td>
<td>A proxy for the overall business environment in which SMEs operate and the ability of small firms to survive economic downturns and credit crunches.</td>
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</tbody>
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