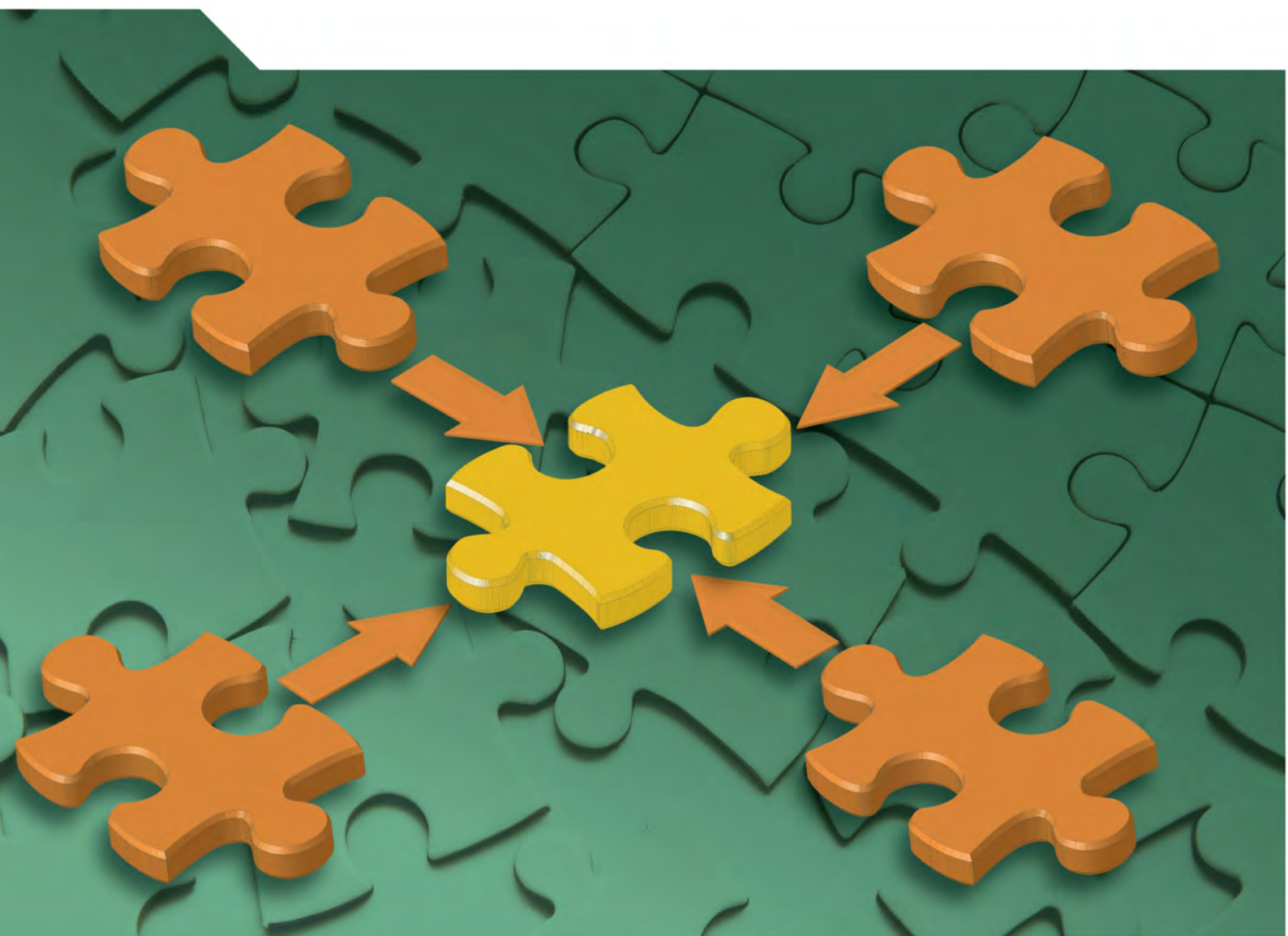




Financing SMEs and Entrepreneurs 2019

AN OECD SCOREBOARD



BACKGROUND INFORMATION

ABOUT THE OECD

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the digital economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

ABOUT THE CENTRE FOR ENTREPRENEURSHIP, SMES, REGIONS AND CITIES

The Centre helps local, regional and national governments unleash the potential of entrepreneurs and small and medium-sized enterprises, promote inclusive and sustainable regions and cities, boost local job creation and implement sound tourism policies.

More information: www.oecd.org/cfe/sme



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ABOUT THIS PUBLICATION

Financing SMEs and Entrepreneurs 2019: An OECD Scoreboard 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.

In addition to the core indicators on SME financing, it provides additional information on recent developments in capital market finance for SMEs, online alternative finance, and findings of demand-side surveys. It contains a thematic chapter on how SMEs can leverage intangible assets to access finance. This document presents highlights from the 2019 edition of *Financing SMEs and Entrepreneurs: An OECD Scoreboard*.

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INTRODUCTION

SMEs play a key role in economic growth, job creation, regional and local development and social cohesion. Almost all businesses are small or medium-sized, and they generate around 60% of total employment and 50% to 60% of value added on average in the OECD area. Access to finance is a critical prerequisite for the development and growth 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 2019: An OECD Scoreboard*. It highlights key developments in SME and entrepreneurship finance over the 2007-17 period; provides an overview of trends in government policy in this area; describes recent methodological improvements; and offers recommendations to further improve the evidence base. The full publication provides information for 46 countries worldwide (see back cover for the list of participating countries).



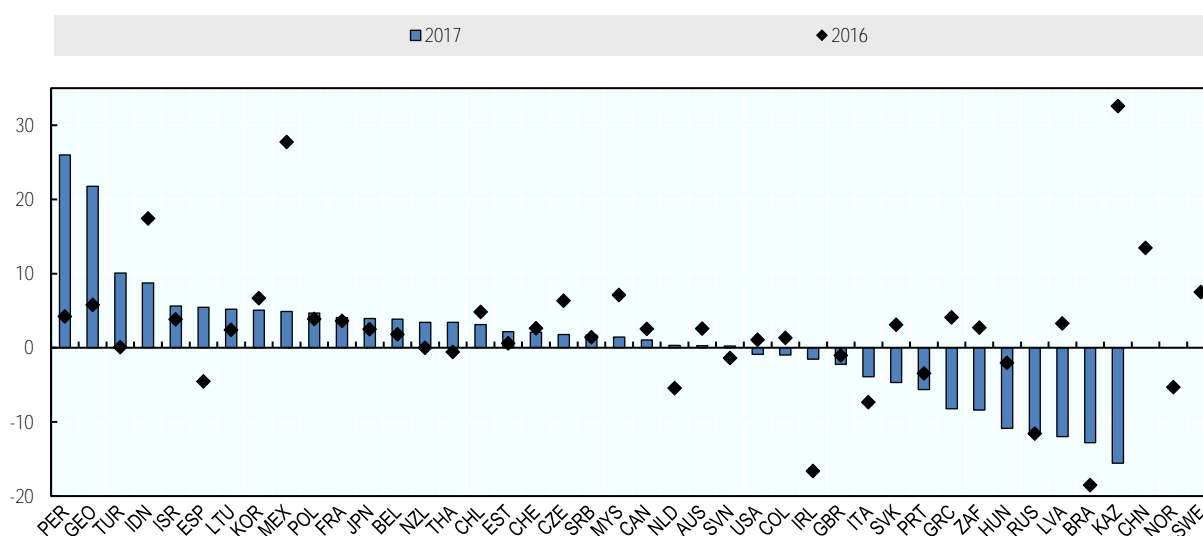
BANK LENDING TO SMES IS INCREASING AT A MODERATE PACE ACROSS COUNTRIES ...

Data on loan growth shows significant cross-country variation in 2016 and 2017, with different factors driving these trends:

- Increased availability of **alternative sources of finance**, for example in the United Kingdom and the United States;
- Lingering **effects of the financial crisis** in countries that were impacted more severely, and where the median value of outstanding loans fell by 3.9% between 2016 and 2017;
- A challenging **macro-economic environment** in some countries, such as Brazil and Russia;
- Expansion of **self-financing opportunities**. A growing share of SMEs have seen their profit margins recover, and are thus relying on self-financing for their investment needs and cash flow requirements.
- In some **emerging economies**, such as Indonesia, Peru and Turkey, loan growth continues to be strong, as a result of financial deepening and increased access to formal financial services.

Figure 1. Trends in outstanding SME loans

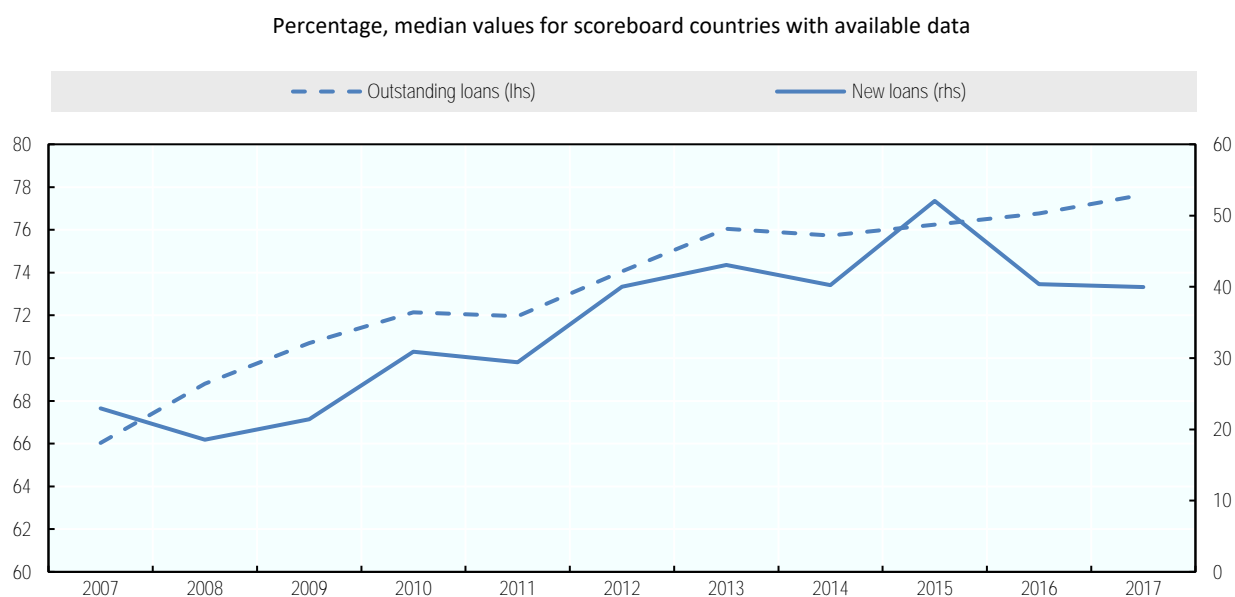
Year-on-year growth rate, as a percentage



Data indicate a continued shift in the SME loan portfolio of banks **from short-term to long-term lending**.

Several developments appear to be driving this trend. Small business owners may be increasingly able to meet their short-term financing, working capital and liquidity needs from other sources. Small firms may also want to “lock in” low interest rates by borrowing long-term. Finally, the gradual recovery in corporate investments since the financial crisis may also have contributed to the growing share of long-term lending activities.

Figure 2. Share of short-term SME loans as a proportion of all SME loans

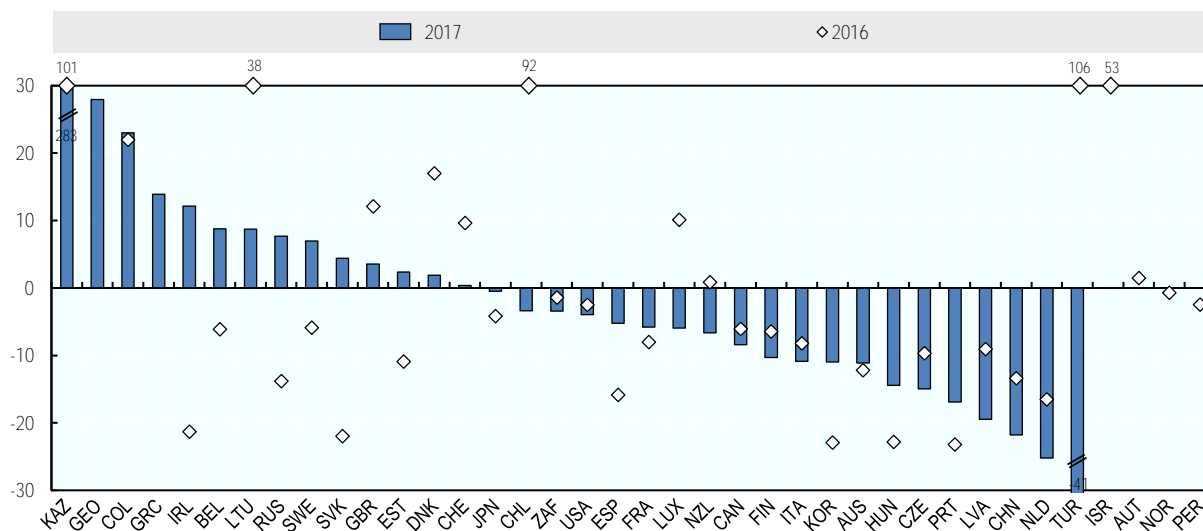


... BUT NOT AS MUCH AS COULD BE EXPECTED GIVEN THE FAVOURABLE CREDIT CONDITIONS AND BUSINESS ENVIRONMENT

Lending developments took place against the backdrop of broadly positive macroeconomic conditions and improvements in the business environment. Global GDP grew by 3.6% in 2017, and **payment delays, bankruptcies and non-performing loans (NPLs) continued to decline** in a majority of scoreboard countries. The decline in bankruptcy rates was documented across the board, in countries with different levels of income and economic growth, credit conditions and loan growth, and is broadly in line with trends in previous years.

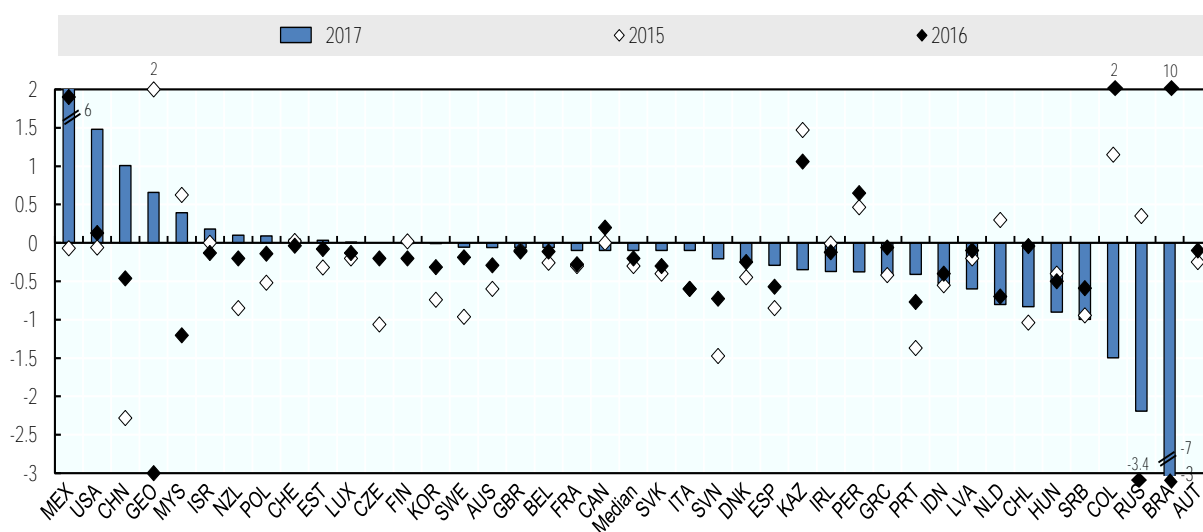
Figure 3. SME bankruptcies

Annual change, as a percentage



Furthermore, **credit conditions remained favourable** in a majority of countries in 2017, with the median SME interest rate declining for the seventh consecutive year. Survey data from the European Union and the United States confirm that fewer SMEs consider access to finance as their most pressing concern. Data on collateral requirements and rejection rates also point to a stabilisation of the conducive credit conditions observed in recent years.

Figure 4. Change in SME interest rates

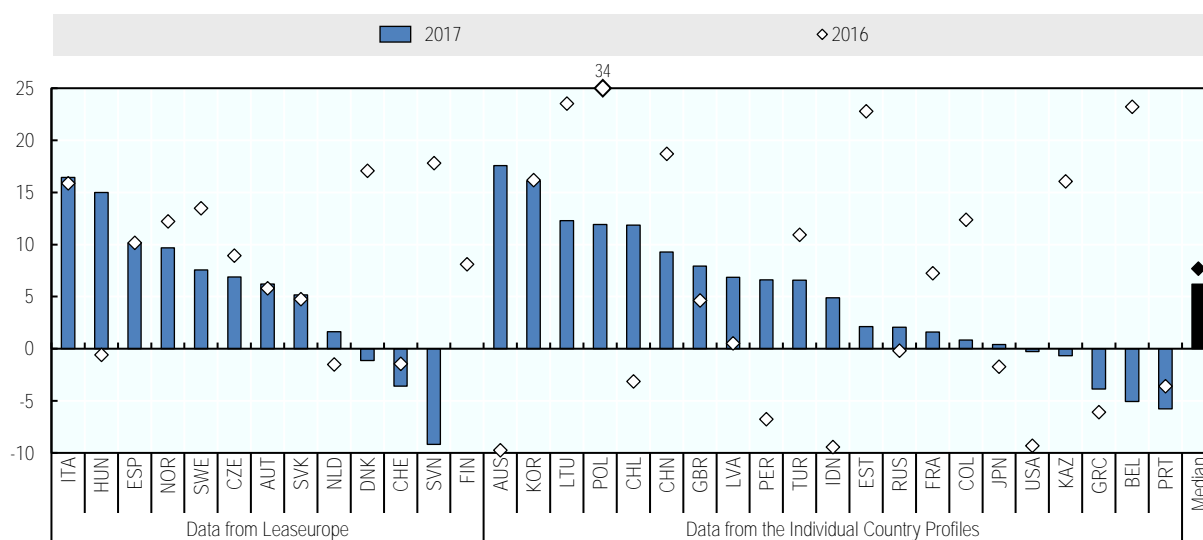


THERE IS A NOTABLE EXPANSION IN THE USE OF ALTERNATIVE FINANCING INSTRUMENTS BY SMEs

In tandem with lending developments, volumes of various **alternative financing instruments continued to expand in 2017**, often significantly. **Factoring volumes** were up by a median value of 3.3% in 2017, broadly in line with previous years, with demand from internationally active SMEs driving the growth of the industry. **Leasing and hire purchase volumes** rose in 26 out of 34 countries at a median rate of 6.2%, with potential substitution effects for SME bank lending.

Figure 5. Leasing and hire purchases

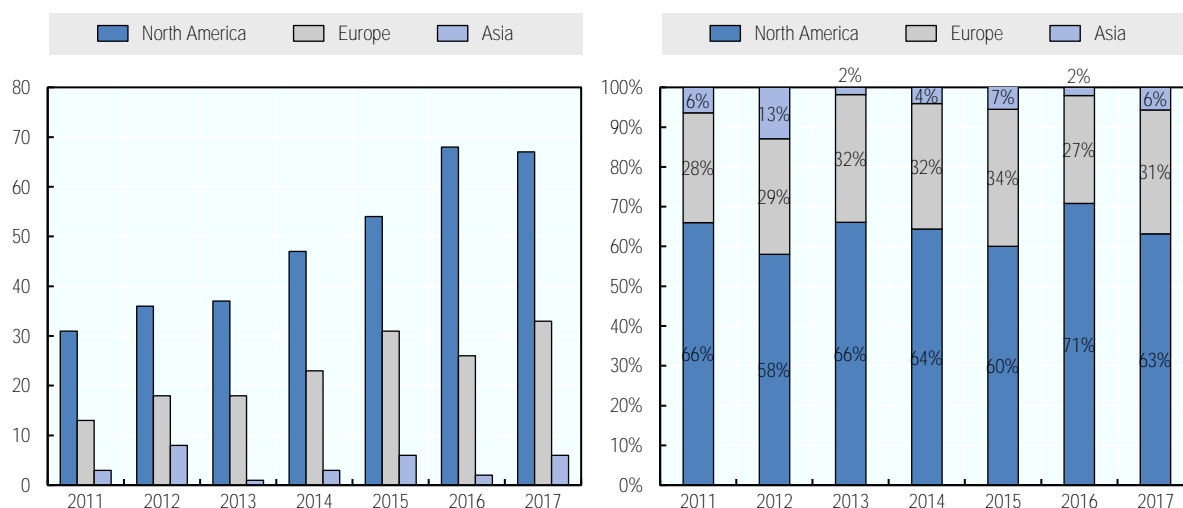
Year-on-year growth rates, as a percentage



Private debt grew by 10% globally, and by 27% in Europe in 2017, pursuing the expansion which began after the crisis. This instrument is of particular relevance for larger and more mature SMEs facing a major transition, such as a change in ownership, expansion into new markets and/or activities, or acquisitions.

Figure 6. Private debt by region

In USD billion (left) and as a % share of world total (right)

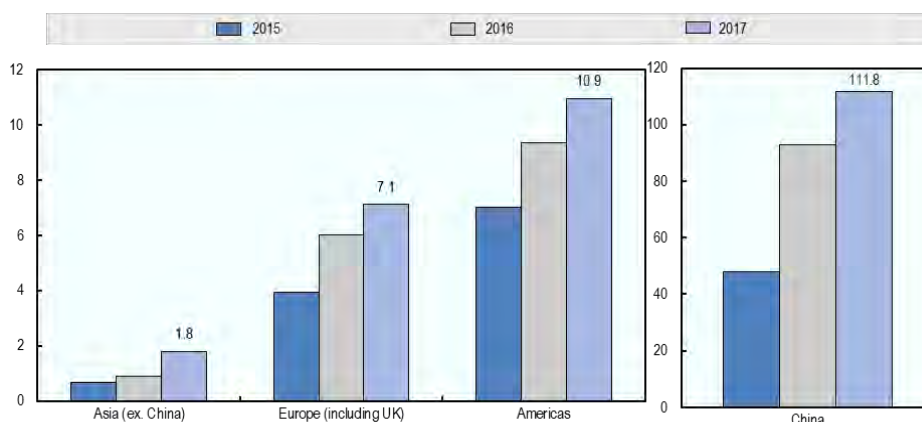


Venture capital investments also grew in a majority of countries in 2017. Markets were buoyed by relatively strong economic growth in 2017, as well as government support in many countries.

Online alternative finance, such as equity crowdfunding and peer-to-peer lending, expanded strongly in 2017, especially in countries with relatively small markets. Debt-based crowdfunding activities are more common than equity-based and non-investment based models. China is home to the largest market by far, followed by the United States. Within Europe, volumes are highest in the United Kingdom.

Figure 7. Growth in online alternative finance

Volume in Scoreboard countries, billion USD



HOWEVER, SEVERAL SME SEGMENTS CONTINUE TO FACE PROBLEMS IN ACCESSING FINANCE

The positive developments detailed above mask persistent the difficulties of some firms in accessing finance. In countries where the overall economic recovery from the crisis has been slower, there is cause for concern. The Italian stock of SME loans, for example, decreased continuously between 2013 and 2017, by 17% in total. In Hungary, another country hit hard by the financial crisis, the stock of SME loans fell by 19% over the same period.

In addition, **young firms and start-ups, innovative ventures** with an unproven business model **and micro-enterprises** continue to face structural problems accessing sufficient external finance at reasonable conditions. These businesses often lack assets that can be easily used as collateral. Although these firms are often well endowed with **intangible assets**, challenges continue to prevent SMEs from using them to obtain financing (see Box 1).

Box 1. Fostering the use of intangibles to strengthen SME access to finance

The thematic chapter of the Scoreboard puts a spotlight on intangible assets, which refer to "an identifiable non-monetary asset without physical substance," such as patents, copyrights, brand equity, software of computerised databases. These assets, which constitute a growing share of SMEs' overall assets, are currently of only limited use to leverage finance, especially straight debt. Several challenges make it hard for lenders to assess the value of intangible assets, and to collateralise them, including:

- The existence of different valuation methods;
- Difficulties in obtaining effective security over intangible assets;
- Redeployment issues and absence of liquid secondary markets;
- High transaction costs.

Country experiences illustrate that over time, policies can create a virtuous cycle, whereby transaction costs are lowered, and data and standard practices become more available. Lessons can be drawn from an overview of current practices of public support to intangible-backed financing of countries around the globe, in particular:

- Reaching scale will require lowering transaction costs and the adoption of a long-term approach;
- Guarantees (and insurance) appear to be crucial elements of the policy mix;
- The private sector needs to be engaged;
- A strong evidence base needs to be established and shared;
- The market would benefit from more standardised valuations methods;
- Patents are a solid starting point, but other types of intangibles should also be considered for collateralisation.

THE DIVERSIFICATION OF FINANCING INSTRUMENTS HAS BEEN SUPPORTED BY POLICY...

Governments around the world recognise the importance of stepping up efforts to increase SME take-up of a diverse set of financing instruments. Many governments developed new initiatives in 2017 and 2018 to ease access to various sources of finance, in addition to the wide range of policy instruments already in place. This approach is also in line with the G20/OECD High Level Principles on SME Financing. Based on information from 46 participating countries, four broad **emerging policy trends** can be discerned:

- An increasing number of countries have developed or improved their **regulatory frameworks and introduced targeted policies to support Fintech developments**, such as equity crowdfunding and peer-to-peer lending;
- Governments have been focusing on **addressing payment delays**, for example by introducing payment codes and e-invoicing systems, and by incentivising timely payments from public bodies;
- Many countries have developed or increased **support for the venture capital industry**, mainly through the establishment or expansion of public funds co-investing with private actors;
- **Credit guarantees**, the most widespread instrument to support SME finance, are being expanded in scale and volumes, or modified in terms of eligibility criteria and the provision of complementary advisory services in many countries. A common objective is to better target specific SME segments, such as innovative firms, start-ups or women entrepreneurs.



... BUT THERE IS A CONTINUED NEED TO MONITOR EMERGING DEVELOPMENTS

On the whole, SME finance developments have been positive over the last few years, thanks in part to government initiatives. However, policymakers will need to closely monitor emerging developments. While the crisis of a decade ago is largely over, mega-trends such as **stagnant productivity** and the **slowdown and fragmentation of global value chains** will pose a challenge for small businesses in the years to come. In addition, **digital technologies** offer opportunities for small companies, including in their ability to obtain funding. It will therefore remain crucial to monitor SME financing developments and to further improve the evidence base.

RECOMMENDATIONS FOR DATA IMPROVEMENTS

Data gaps on SME finance remain significant. Further efforts to improve the collection of data and evidence on SME financing are encouraged, with priority focus on three areas:

- **Collect more granular data on SME financing.** The SME population is highly heterogeneous, and financing conditions and challenges differ substantially along parameters such as the age of the firm, its size, location, sector, growth potential, as well as the characteristics of the principal business owner, such as gender or business experience.
- **Work towards greater international harmonisation of demand-side survey methods.** This would enable more meaningful analysis of the drivers of trends in SME access to finance and financial conditions. There are pronounced differences across existing surveys in terms of methodology, questions asked, coverage and scale, hindering international comparisons. In addition, these surveys are not undertaken in all scoreboard countries.
- **Strengthen the evidence base on alternative financing instruments other than straight bank debt.** As non-debt financing instruments represent an increasing share of SME financing, there is a need to gather better SME-specific data that have broad coverage and can be compared across countries.

Through the SME financing *Scoreboard*, the OECD will pursue its efforts to increase transparency in definitions, support data collection of 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 2019

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Highlights

Financing SMEs and Entrepreneurs 2019 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 2019 report covers 46 countries: Australia, Austria, Belgium, Brazil, Canada, Chile, the People's Republic of China, Colombia, the Czech Republic, Denmark, Estonia, Finland, France, Georgia, Greece, Hungary, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Korea, Latvia, Lithuania, Luxembourg, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Peru, Poland, Portugal, the Russian Federation, Serbia, the Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States.

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