Financing SMEs and Entrepreneurs 2024

An OECD Scoreboard

POLICY HIGHLIGHTS

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ABOUT THIS PUBLICATION

Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard contributes to filling the knowledge gap in SME finance trends and conditions. The 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 information on recent developments in fintech and findings of demand-side surveys. It contains a thematic chapter on sustainable finance for SMEs, focusing on the key challenges these companies face in seeking out and accessing financing for the green transition, and policy recommendations in this area.

This document is based on the report *Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard.*

It provides evidence on recent trends in SME and entrepreneurship finance for close to 50 countries worldwide, gives an overview of the range of policies and instruments governments deploy to support SME access to finance, and offers recommendations to strengthen the evidence base. It provides official government data up to 2022, complemented by the latest available data.

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Introduction

Since 2020, the global economy has been hit by a series of shocks, with strong impacts on small and medium-sized enterprises (SMEs) and entrepreneurs and their access to finance. The COVID-19 crisis, and Russia's war of aggression against Ukraine, sparked a surge in inflation. SMEs have been particularly impacted, as they have limited ability to pass increased costs onto customers without losing competitiveness. As they traditionally rely on debt to finance operations and investment, SMEs have also been hit hard by the corresponding steep increases in policy interest rates in most countries and the tighter lending environment.

Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard shows that 2022 marked a sharp increase in the cost of SME financing, unprecedented in the history of the exercise. This, along with an increase in the share of SMEs requiring collateral for loans, deterred many SMEs from seeking debt finance, weighing down on new lending and the outstanding stock of SME loans. Equity finance also fell sharply as investors turned towards fixed-return asset classes, driving down start-up valuations and affecting VC fundraising. Leasing activities fell too, although less severely than after the pandemic, but factoring activities saw marked growth.

Given the critical role SMEs play in driving resilient, sustainable and inclusive growth, governments around the world have been taking measures to support SME access to finance, including through actions to support diversifying financial sources and instruments to meet the different needs of all types of SMEs and entrepreneurs. Both policy makers and financial actors are placing increasing attention on accelerating the green transition of SMEs, including through the development and expansion of sustainability-linked and green loans, credit guarantees, equity and grants. However, SMEs continue to face challenges in tapping into the large pool of sustainable finance, in part due to their limited ability to provide sustainability performance data, which are increasingly required by financial institutions and supply-chain partners.

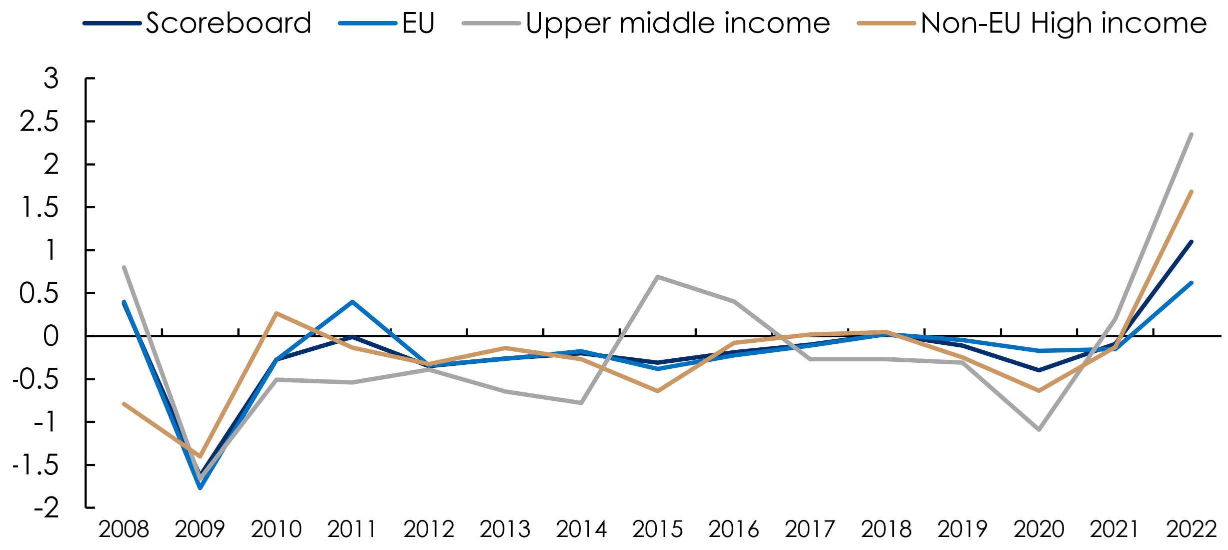
In 2022, the cost of SME financing increased sharply

In 2022, Central Banks around the world tightened monetary policy in response to rising inflationary pressures. The increase in policy interest rates was transmitted almost one-to-one to the real economy, including corporate and SME interest rates, with the Scoreboard median of SME interest rates rising by 1.1 percentage points. This was not only the steepest annual increase in the Scoreboard's history (Figure 1), but because the increase was relative to a long period of historically low rates, the marginal impact of the increase was even more stark.

All country groups followed this trend. High interest rates and the overall tightening of lending conditions contributed to an increase in the share of SMEs requiring collateral by 1.17 p.p. in 2022. Although core inflation is expected to continue to ease in 2024, monetary policy continues to be restrictive with an unwinding of high interest rates expected to be gradual, weighing on the recovery of SME lending, at least in the near term.

Figure 1. **Changes in SME interest rates**

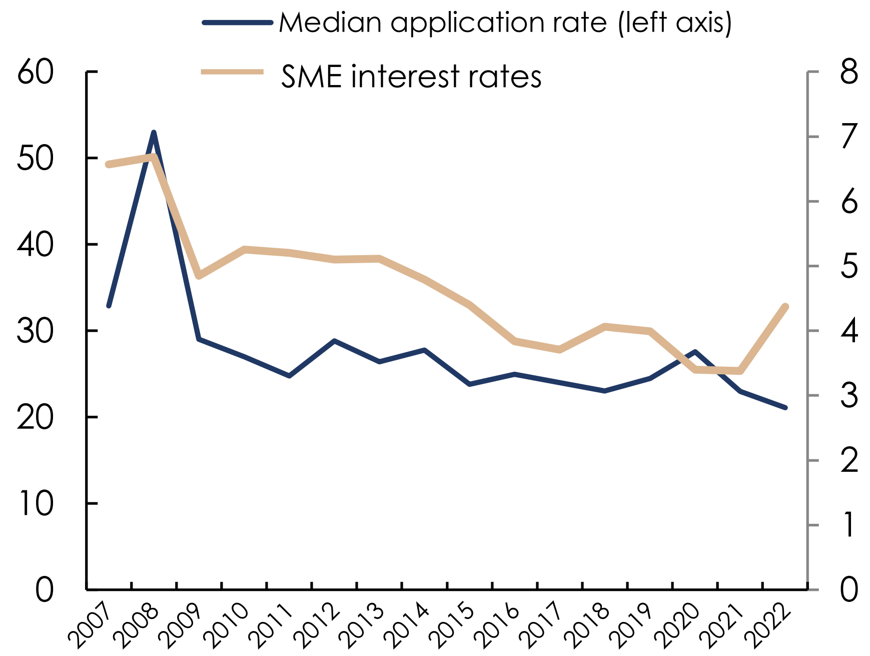
Median value, nominal rates, percentage points



Source: Data compiled from individual country Scoreboards

Figure 2. **SME application rates** (left axis) **and interest rates** (right axis)

As a percent



Source: Data compiled from individual country Scoreboards.

Interest rate spreads remained stable, but collateral requirements increased

Although the significant increase in interest rates did not translate into a similar increase in interest rate spreads, collateral requirements did increase. Moreover, there are risks that spreads may increase going forward. Many banks increasingly imposed tighter conditions on SMEs in 2023 to further reduce risk.

The escalating costs of credit and tighter terms have deterred SMEs from seeking debt finance, resulting in a decline in application rates. Application rates of SME loans declined by 2 p.p. alongside an increase in interest rates of 1.1. p.p (Figure 2).

SME lending declined as a result of tightening conditions, although with some cross-country heterogeneity

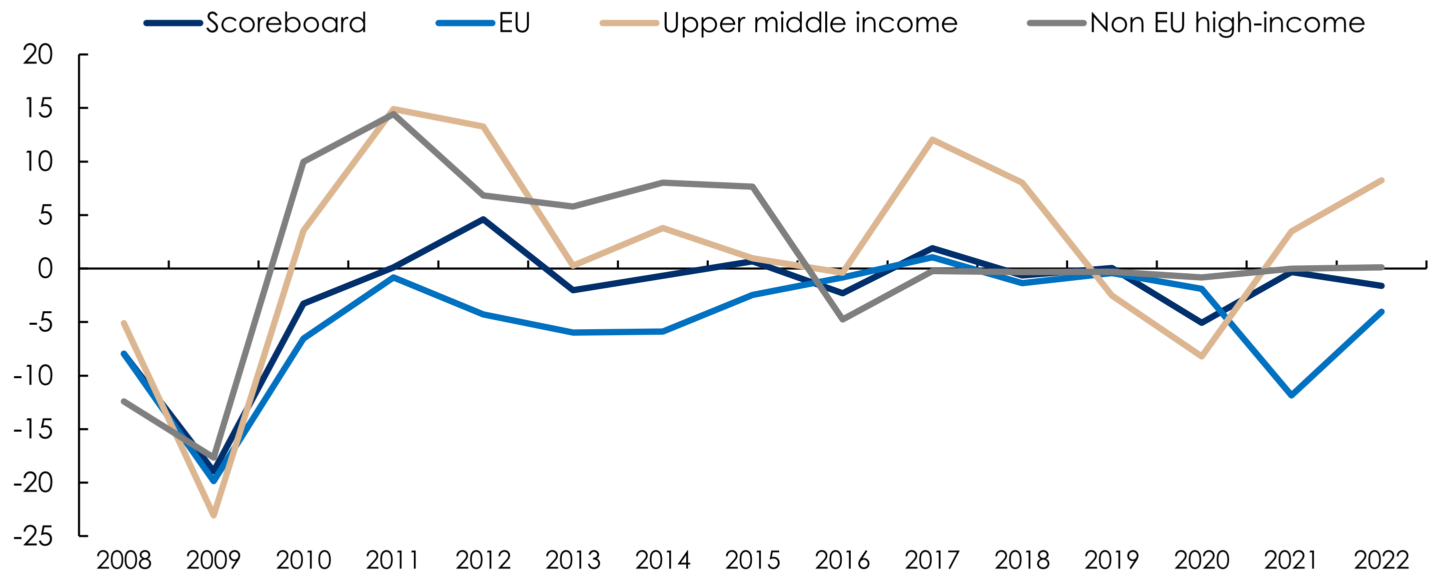
After declining by 0.3% in 2021, the Scoreboard median in new lending fell by a further 1.8% in 2022. New lending to SMEs declined in most countries, driven by rising interest rates and reduced credit availability due to increased risk aversion of banks. In addition, policy rate increases occurred at an exceptional pace and magnitude, resulting in a significant increase in the cost of new loans. Latin American countries were an exception to this trend, with the flow of credit to SMEs increasing. This can be explained in part by the region's gradual economic recovery after the pandemic, along with smaller impacts of the energy crisis compared to other regions. Going forward, if the stringent credit environment persists, SME lending will likely continue to remain weak across the board.

The stock of existing SME loans also contracted, by 1.14%, following weak growth in 2021 (0.25%) following the phasing out of COVID-19 support. However, there is also some heterogeneity across countries.

While stocks in non-EU high-income countries grew, in part explained by a constant flow of new loans to SMEs, in the EU and upper-middle-income countries they fell. In the EU, the decline was partly explained by higher repayment rates, with many SMEs trying to avoid higher borrowing costs, particularly in light of the repricing of floating-rate debt and the relatively high share of variable-rate loans. A decline in new loans in the EU and an increase in bankruptcies also contributed to the decline in stocks, as banks are required to write off loans in the event of a bankruptcy.

Figure 3. **Growth in new SME lending, 2008-22**

Median year-on-year growth rate, as a percentage

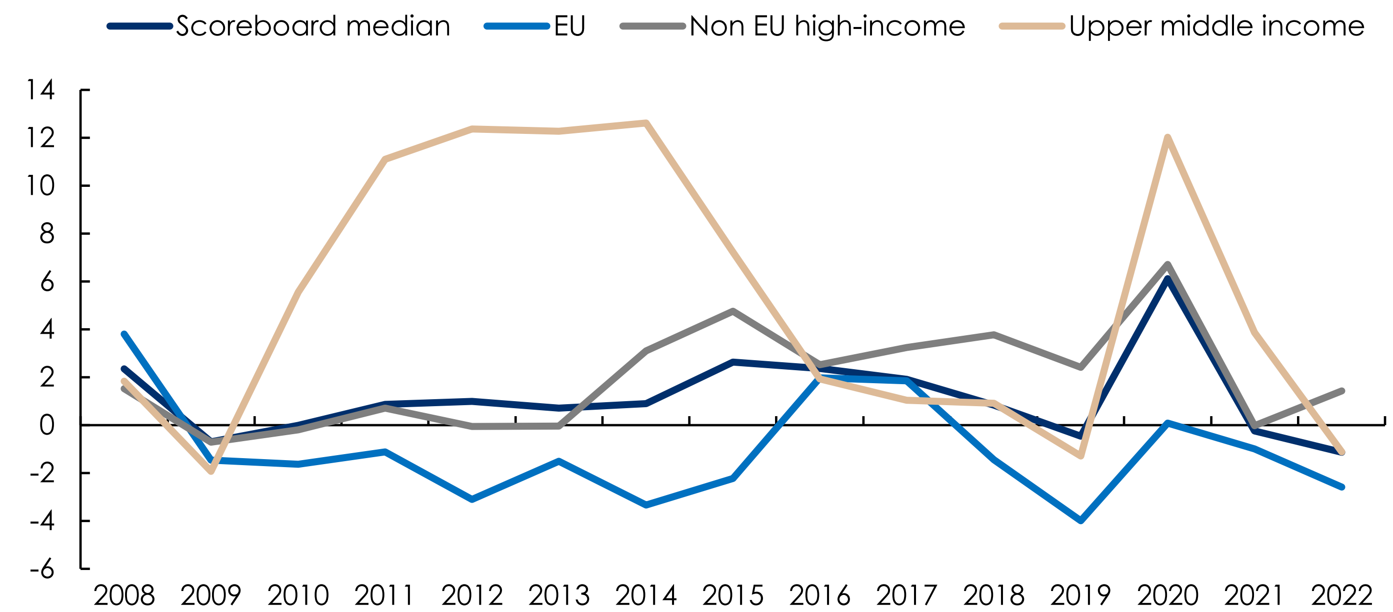


Note: All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using base year 2007. GDP deflators for non-OECD countries were extracted from the World Development Indicators from the World Bank. Non-EU High-income countries include Australia, Canada, Chile, the United Kingdom and the United States. Upper middle-income countries include Brazil, Colombia, Kazakhstan, Mexico and Serbia.

Source: Data compiled from individual country profiles.

Figure 4. **Growth in outstanding SME loans, 2008-22**

Median year-on-year growth rate, as a percentage



Note: All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using base year 2007. Data for non-OECD countries were extracted from the World Development Indicators from the World Bank. Non-EU high-income countries include Australia, Canada, Chile, Japan, Korea, New Zealand, the United Kingdom and the United States. Upper middle-income countries include Brazil, Colombia, Kazakhstan, Malaysia, Mexico and Serbia.

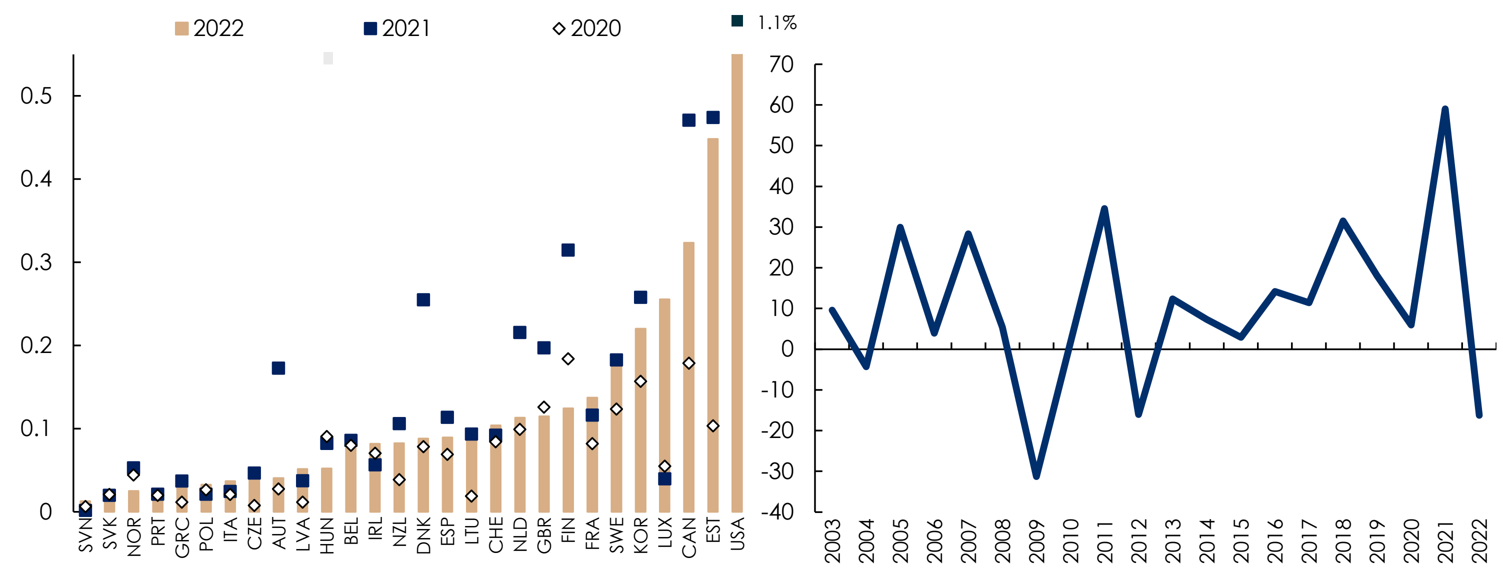
Source: Data compiled from information received from individual country Scoreboards.

Equity finance declined sharply in 2022 albeit after historically high growth in 2021

Venture capital (VC) investments continued to experience strong volatility. They declined sharply in 2022, (by 16.2%), after the historic growth experienced in 2021, when VC investment activities increased by 60% (Figure 5). The decline was particularly strong in the second half of the year when interest rate hikes contributed to many large-scale investors', including pension funds, turning their investments towards less volatile fixed-return asset classes. This shift resulted in a decline in start-up valuations, which put further downward pressure on VC fundraising. The share of down rounds of deals worldwide increased from 6.8% between 2017 and 2021 to 8.6% in 2022, particularly in later stages (Preqin, 2023). With many valuations down and VC investors pulling out, VC fund returns suffered, as seen in the decline of the Internal Rate of Return (IRR) of many VC funds. However, despite the fall in VC financing in 2022, VC volumes were still significantly higher (40%) than they were in 2020.

Figure 5. **Venture capital volumes by country**

Volumes as a percent of GDP (left), median growth rate (right)



Note: All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using base year 2007. Data for non-OECD countries were extracted from the World Development Indicators from the World Bank. Non-EU high-income countries include Australia, Canada, Chile, Japan, Korea, New Zealand, the United Kingdom and the United States. Upper middle-income countries include Brazil, Colombia, Kazakhstan, Malaysia, Mexico and Serbia.

Source: Data compiled from information received from individual country Scoreboards + OECD Entrepreneurship Finance Database.

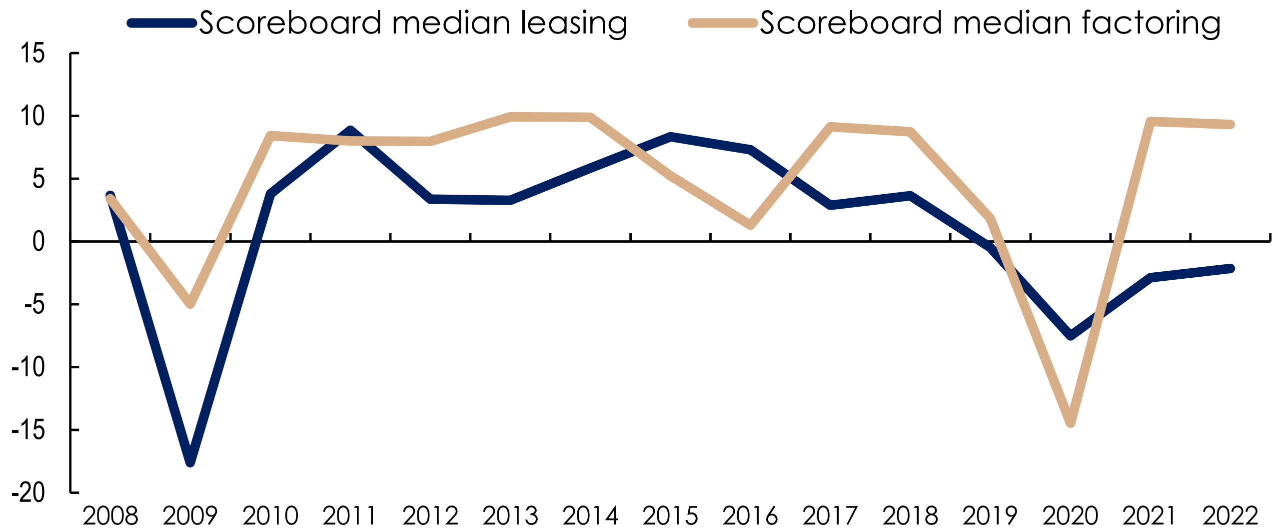
Leasing activities continued to decline, while factoring grew strongly

Leasing activities continued to decline (by 2.15%) in 2022, albeit at a slower pace than in recent years. However, there was significant variability depending on the type of asset. In Europe, leasing for equipment, for example, saw high growth (up 8.7%% in 2022), while real estate contracted by 6.5%.

In contrast, factoring activities experienced a strong rebound, growing 9.3% in 2022. as tight lending conditions and high borrowing costs incentivised SME demand. On one hand, factoring can provide working capital more easily than bank finance as they offer more flexibility than traditional lending (in terms of time to access capital, requirements and expansion of capital limits), particularly in the context of tighter conditions. On the other hand, as banks are more risk averse, overindebted businesses might find selling their account receivables at a discount as an option to access finance. In addition, persistently high inflation may increase late payments and reduce liquidity positions, which factoring can help to mitigate for.

Figure 6. **Leasing and hire purchases and factoring activities**

Median growth rate



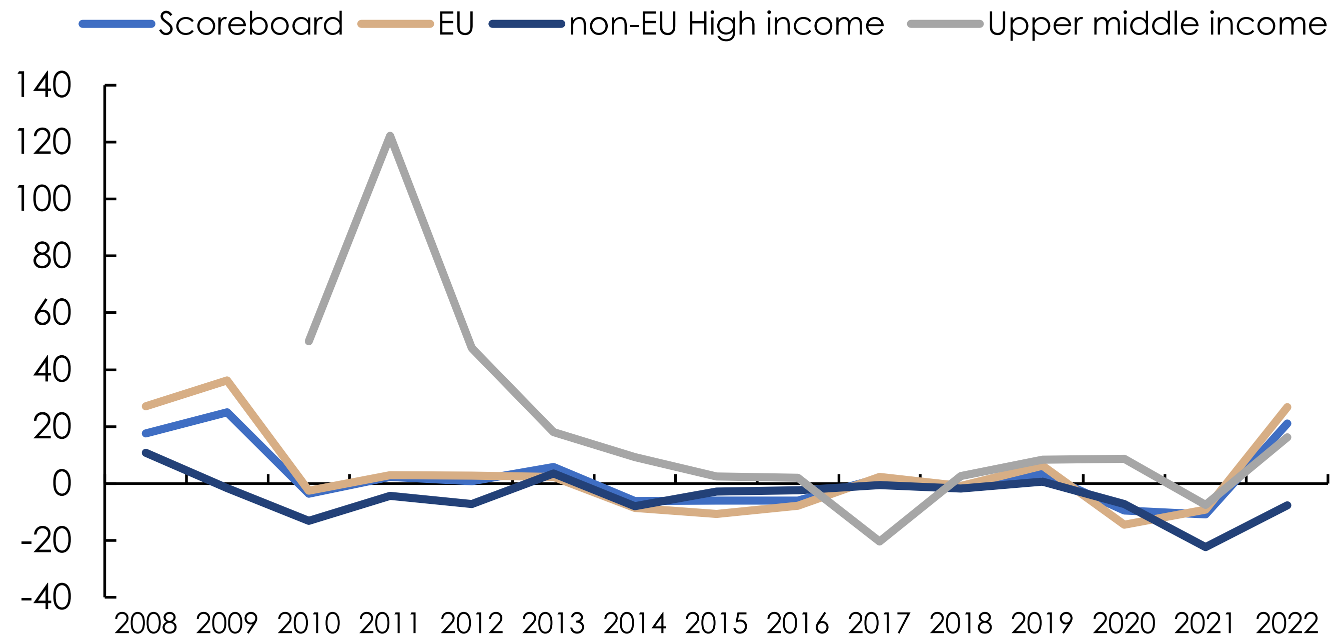
Source: Data compiled from individual country Scoreboards.

Payment delays and non-performing loans were stable but bankruptcies increased in most countries

Enterprise distress indicators reacted to the heightened cost of credit and the uncertain economic environment in 2022, but they also reflect governmental measures aimed at counteracting the negative effects of inflation and credit tightening.

Payment delays were relatively stable due to initiatives to streamline payment periods in some countries, and non-performing loans (NPLs) have continued their long-term downward trend, thanks to constant NPL deleveraging, as well as the implementation of debt restructuring measures. On the other hand, bankruptcy rates increased in almost all groups of countries, in part due to the resumption of court activities and adjustments (Figure 7).

Figure 7. **SME bankruptcies by group of countries**



Source: Data compiled from individual country Scoreboards.

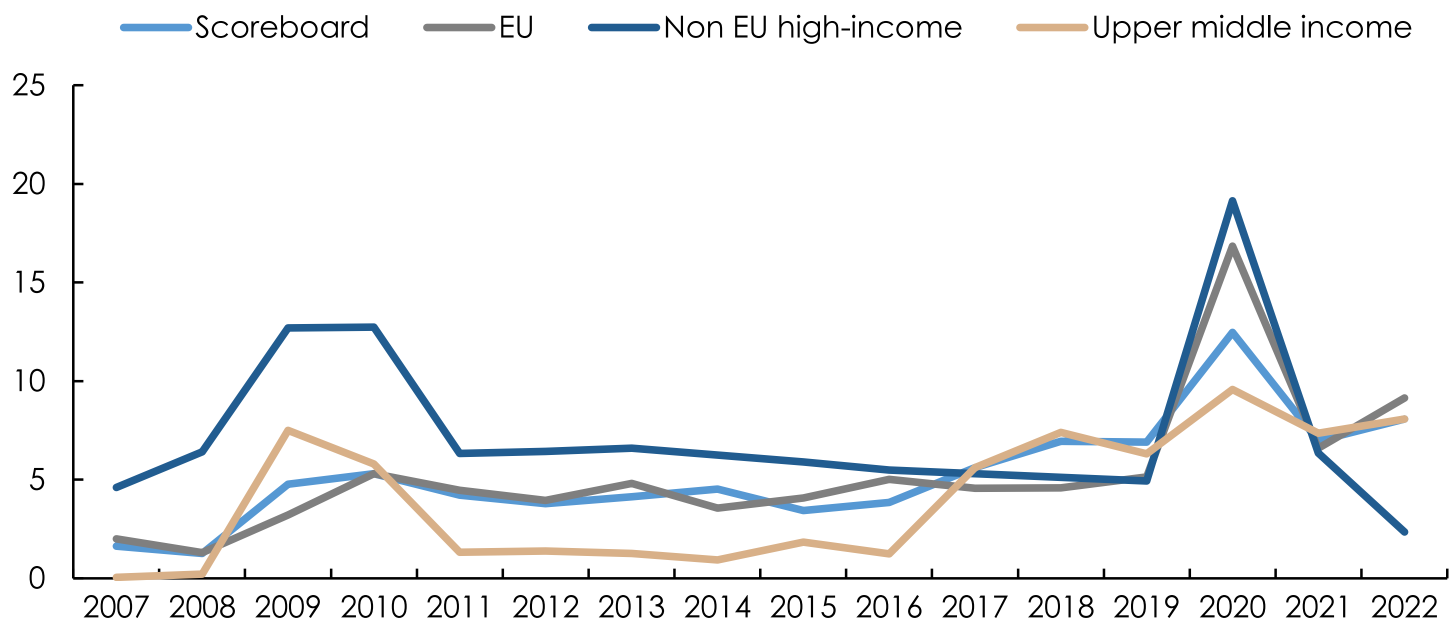
SME finance policies in 2022 and 2023 evolved rapidly in response to the uncertain economic environment

Support measures ranged from immediate interventions, such as those aimed at buffering against the spike in energy and raw material costs, to long-term initiatives like promoting gender equality in access to capital. There was also a growing emphasis on diversifying financial sources and instruments to help SMEs sustain their investments, in particular for the green and digital transitions. Based on information from participating countries, a number of broad emerging trends can be discerned:

- **Financial support targeted SMEs affected by inflation and high energy costs.** SMEs have faced a number of shocks since 2020 that have threatened their development and growth. On the heels of the COVID-19 crisis, SMEs were hit by a significant increase in input costs and inflation, which was exacerbated by the energy crisis stemming from Russia's war of aggression against Ukraine. To mitigate these challenges, governments provided support, often and particularly to those SMEs burdened by rising input and energy costs. Temporary support has taken the form of tax deductions subject to specific eligibility criteria, energy cost subsidies to mitigate price increases, and provision of loans targeting SMEs facing higher liquidity constraints.

- **Targeted government guarantees are being put in place to strengthen SME lending in light of tighter conditions.** With many SMEs finding it difficult to access the necessary capital to maintain operations in a high inflationary environment, a number of governments are launching new financial support measures, including credit guarantees targeted to specific objectives, purposes and profiles of firms. Despite the decline in the use of government credit guarantees after the pandemic, the contribution of government-guaranteed loans to the SME loan stock increased to 8% in 2022 (up from 6.9% in 2021) (Figure 8).

Figure 8. **The median contribution of government guaranteed loans to SME loan stock**
Median year-on-year growth rate, as a percentage



Source: Data compiled from individual country Scoreboards.

- **Additional efforts to reduce late payments are part of the policy mix to strengthen SME liquidity.** Late payments from public and private customers are a longstanding issue for SMEs, for whom payments serve to provide access to liquidity without taking on debt. In the current challenging context, many governments have announced reviews to assess the efficacy of their current late payment laws. Other governments have put in place new laws and directives to enhance prompt payments and strengthen SME liquidity, aiming to increase SMEs' financial resilience.

- **Governments are increasingly implementing measures to address the gender gap in access to finance.** A notable trend is the establishment of government-backed funds specifically designed to strengthen women-led enterprises. These funds typically target early-stage businesses, supplying women entrepreneurs with the capital required for growth. Alongside the financial support, there are initiatives designed to provide female entrepreneurs with skills and networks to successfully secure lending.

- **In addition, there has been a push for greater transparency in access to finance by gender.** This includes efforts to collect and publish data on the gender breakdown of entrepreneurs receiving different types of finance. The goal is to highlight the extent of the gender gap and encourage more equitable funding practices. The present Scoreboard is working to mainstream the collection of gender-disaggregated data and information and collaborating with other international initiatives in this area.

- **Measures to promote alternative financing instruments to sustain SME investments in the twin transition are being introduced.** Following COVID-19 "build back better" measures, which included support to help SMEs adapt to the green and digital transitions, governments are continuing to work to build SME resilience to macroeconomic shocks. The current tightening of lending conditions has led many SMEs to reduce their investments, with implications for their ability to undertake resource efficiency and digital transformation efforts. In particular, for the green transition, SMEs face important constraints in the access to and uptake of sustainable finance (Box 1). Recent measures include quasi-equity instruments with specific criteria, including demonstration of financial viability, SME investments in digital transformation, sustainability and internationalisation. Other measures included support for R&D investments.

The new *OECD Recommendation on SME Financing*, adopted in 2023, provides important guidance to governments in their efforts to foster access to a diverse range of financing instruments for SMEs and to build evidence-based policies in this area (OECD, 2023).

www.oecd.org/industry/smes/oecdrecommendationonsmefinancing/

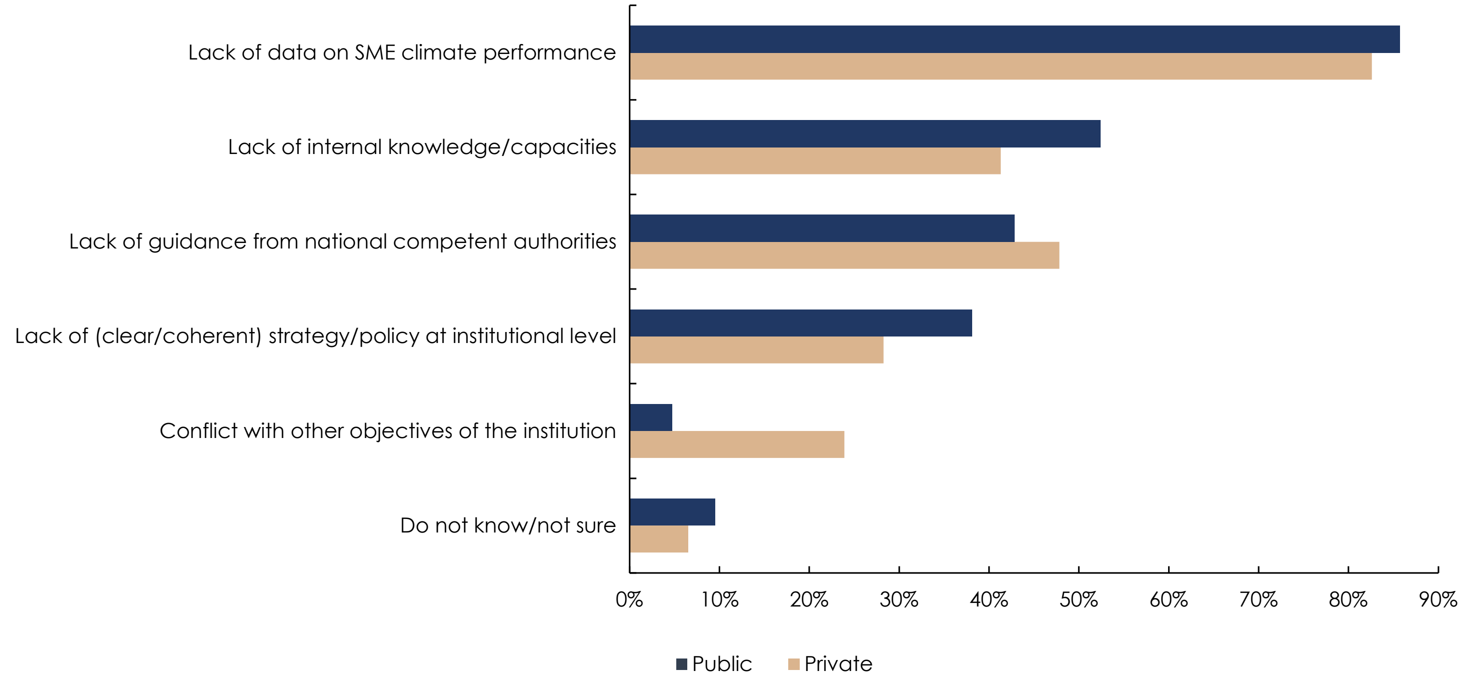
Box 1. **No net zero without SMEs and access to sustainable finance**

The thematic chapter of the 2024 edition of the Scoreboard provides an overview of the sustainable finance landscape for SMEs. It offers information on financial institution approaches and government policies, along with policy recommendations in this area. Key findings include:

- There can be no net zero without SMEs. SMEs play a central role in driving innovative solutions to the climate crisis but also have a significant environmental footprint, accounting for around 40% of greenhouse gases in Europe, for example (OECD, 2023).
- Access to finance is a major constraint for SMEs' actions towards net zero and will likely represent an even bigger constraint in the future. According to a new OECD survey, financing conditions are increasingly influenced by sustainability considerations, and financial institutions are facing increasing non-financial reporting requirements that, in turn, create larger reporting burdens for SMEs(OECD, 2023).
- Despite the growing availability of sustainable finance, SMEs struggle to access it due to difficulties in providing sustainability performance data, which is increasingly sought out by lenders to manage risks, develop financing instruments and meet reporting requirements (Figure 9).
- Moreover, SMEs also risk losing access to sustainable finance if they cannot show credible net zero transition plans, a significant issue for SMEs in high-emitting and hard-to-abate sectors.
- SMEs' limited awareness of sustainable finance, often due to lack of information, together with capacity constraints and market and regulatory uncertainty, poses additional challenges for SMEs, weighing down on observed demand, which is exacerbated by limited incentives from lenders to develop tailored solutions for SMEs' net zero investments.
- SMEs need a stronger business case and external support to boost their investments in sustainability and seek related financing. Public actors play a key role in creating a stable and conducive regulatory and policy environment for sustainable finance and investment, offering both financial and non-financial support to SMEs. Private sector involvement, including financial institutions, Fintech, ESG intermediaries, and accountants, is crucial to bridge the financing gap and create a supportive ecosystem.
- The OECD Platform on Financing SMEs for Sustainability contributes to efforts to increase the supply and uptake of sustainable finance by SMEs. It addresses knowledge gaps and promotes dialogue on policies that support sustainable finance for SMEs among public and private and public financial institutions, policymakers, ESG (environmental, social, and governance) actors and SME representatives.

Figure 9. **Data is the biggest challenge for most banks**

What are the key challenges you face in integrating climate change considerations in financing/investment decisions regarding SME clients? (% of respondents)



Source: Financing SMEs for sustainability – Financial institution strategies and approaches (OECD, 2023).

Recommendations for data improvements

Data gaps in SME finance remain significant, and further efforts to improve the collection of data and evidence on SME finance should be pursued. Despite the importance of diversification of financing instruments for SMEs, data on non-debt sources of finance, including online alternative finance, tend to be incomplete or not SME-specific. This hinders the ability of policy makers to monitor emerging trends and should constitute a point of focus for data improvement efforts. Furthermore, demand-side side surveys have limited comparability between countries, given differences in coverage, methodology and definitions, and efforts towards greater harmonisation are needed.

Another crucial issue relates to the granularity of available data. Given the diversity of the SME population, the value of disaggregated SME finance data has long been recognised for policy making and analysis. The OECD is currently undertaking efforts to collect more disaggregated data. Data collection and related analysis have started by geographical location and by gender of the principal owner, and efforts to improve country and time coverage are continuously being pursued. In particular, additional efforts are needed to collect gender-disaggregated data, as few countries appear to be collecting this information despite its high policy relevance.

In this context, the OECD is also collaborating with other international initiatives which seek to strengthen information on access to finance by women-owned businesses. The collection of additional dimensions (e.g. sector of operation and firm size) is foreseen to be incorporated in the near future.

More generally, 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-operation in these areas.

Conclusions and the way forward

SMEs have been impacted by recent macroeconomic developments, characterised by an increase in the cost of finance and a drop in lending and venture capital. Nevertheless, there are indications that many SMEs were able to withstand this less favourable financing environment so far, thanks to better liquidity positions compared to the onset of the pandemic crisis. However, there is no room for complacency, particularly in light of the expected persistence of tight conditions and the need to boost investments in the twin transitions.

The Scoreboard will continue to evolve in order to help monitor developments in the SME financing and policy landscape, as well as progress in implementing the OECD Recommendation on SME Financing, to support governments in developing policies that meet SME financing needs, foster greater resilience and contribute to a sustainable and inclusive economy.

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OECD, Publishing, Paris
https://doi.org/10.1787/fa521246-en

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