



Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard



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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.



The full book is accessible at

OECD (2020), *Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard*

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Introduction

In today's global economy, SMEs and entrepreneurs are at the heart of the search for inclusive growth in countries around the world. Ensuring small firms have access to finance in the appropriate forms and volumes is a prerequisite for their development and growth.

In times of crisis, such as the one the world is currently facing in the context of the COVID-19 pandemic, access to finance becomes even more critical to address the immediate and profound effects on SMEs. At the moment of publication, the impacts of the crisis are still unfolding, with the longer-term implications for SME access to finance still unknown. Governments around the world are

designing policy responses towards SMEs in need of external finance. This context, coupled with longstanding challenges in this area, calls for further strengthening the evidence base in order to get SME financing policies right.

This document is based on the report *Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard*. It highlights key recent trends in SME and entrepreneurship finance; provides an overview of developments in government policy in this area; and offers recommendations to further improve the evidence base. The full publication provides information for 48 countries worldwide (see back cover for the list of participating countries).



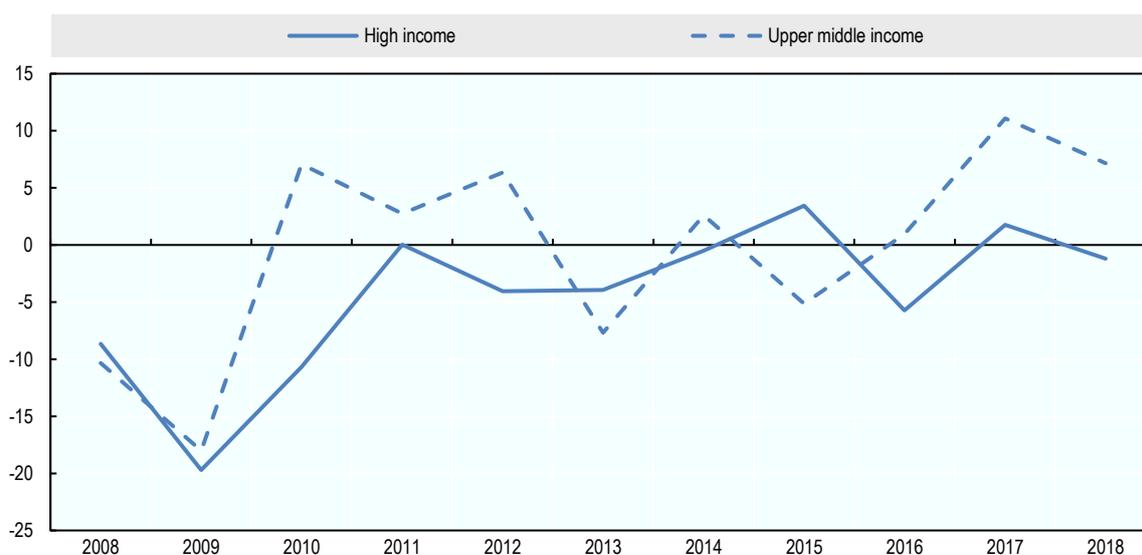
Growth in SME lending was stalling, even before the COVID-19 outbreak...

Following an uptick in 2017 across income groups, the median growth rate for new SME loans decreased in 2018, and turned negative in high-income

countries (-1.2%). The median for all participating countries stood at **0.69%**, down from 3.06% in 2017 (see Figure 1).

Figure 1. New SME loans, median growth rate

As a percentage, by income group (2008-18)



Data on the **outstanding stock of credit** confirms this reversal. The year-on-year change in the median value for all participating countries with relevant data

declined from 2.02% in 2017 to **0.77%** in 2018, with negative growth rates in almost half of the Scoreboard countries.

...despite generally favourable financial and credit conditions

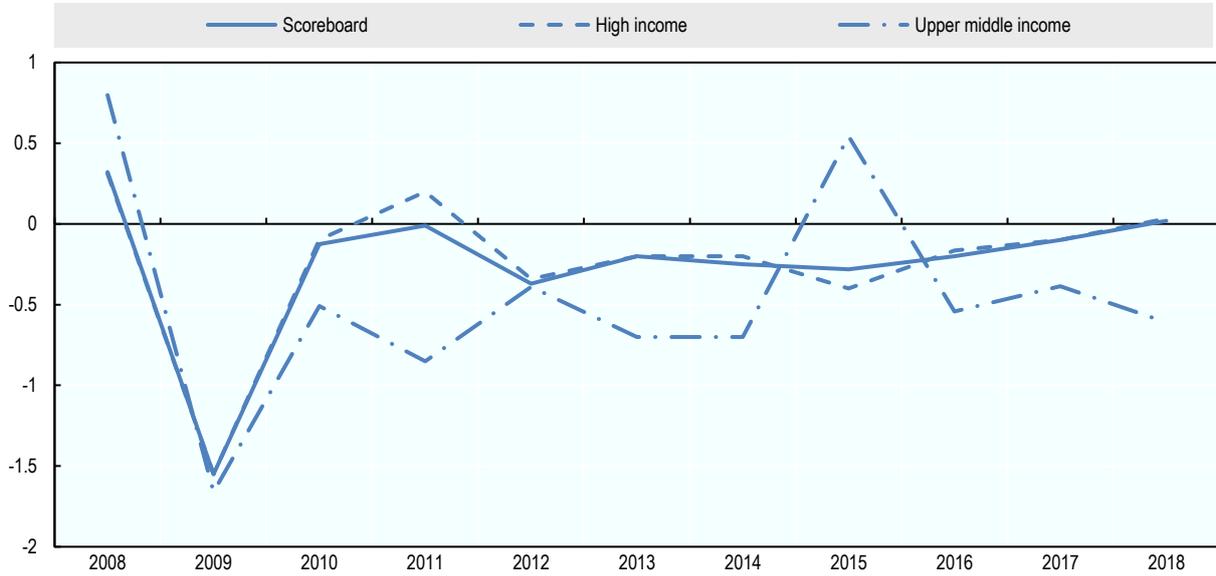
The **cost of credit remains very low** in historical perspective. Moreover, **collateral requirements decreased** in 2018 and **rejection rates were low**.

Data on payment delays for 2018 shows a **decline in twelve countries** for which data are available and an **increase in three countries**, with another four countries remaining constant. The median value for all Scoreboard countries stood at **19.77 days**, while the average stood at around **15 days**. The OECD median (10.79 days) stood slightly lower than the EU median (11.39 days). Overall, the median payment delay has experienced a strong decrease since 2013 and appears to be recovering pre-crisis levels.

On the other hand, **nominal interest rates for SMEs**, which had been declining in high-income countries since 2011, experienced a **small uptick in 2018** (Figure 2). While the rise was very modest (**0.03%**), it could indicate that **financial conditions may be beginning to tighten** for SMEs in these countries. Meanwhile, interest rates in participating middle-income countries continued to decrease, with a median growth rate of **-0.61%**, signalling that the SME interest rate gap between countries in these two income groups is widening.

Figure 2. Nominal SME interest rates, median growth rate

As a percentage, by income group (2008-18)



The sluggish growth in SME loans may be attributable in part to stagnating demand for some segments of the SME population. It may also be related to the cyclical downturn in 2018, which has since become more entrenched. **Trade tensions** deepened in 2019 and **business and consumer confidence** declined, resulting in **subdued investment** in businesses and infrastructure. Global GDP growth slowed to 3.5% in

2018, and dipped to 2.9% in 2019, with increasingly negative prospects for 2020.

The **COVID-19 pandemic** is having a pronounced impact on SME cash flow management, with longer-term implications for access to finance. Its impact will undoubtedly leave its mark on SME financing for the foreseeable future.



SMEs are increasingly turning to alternative financing instruments: online alternative finance, leasing and hire purchases, and factoring...

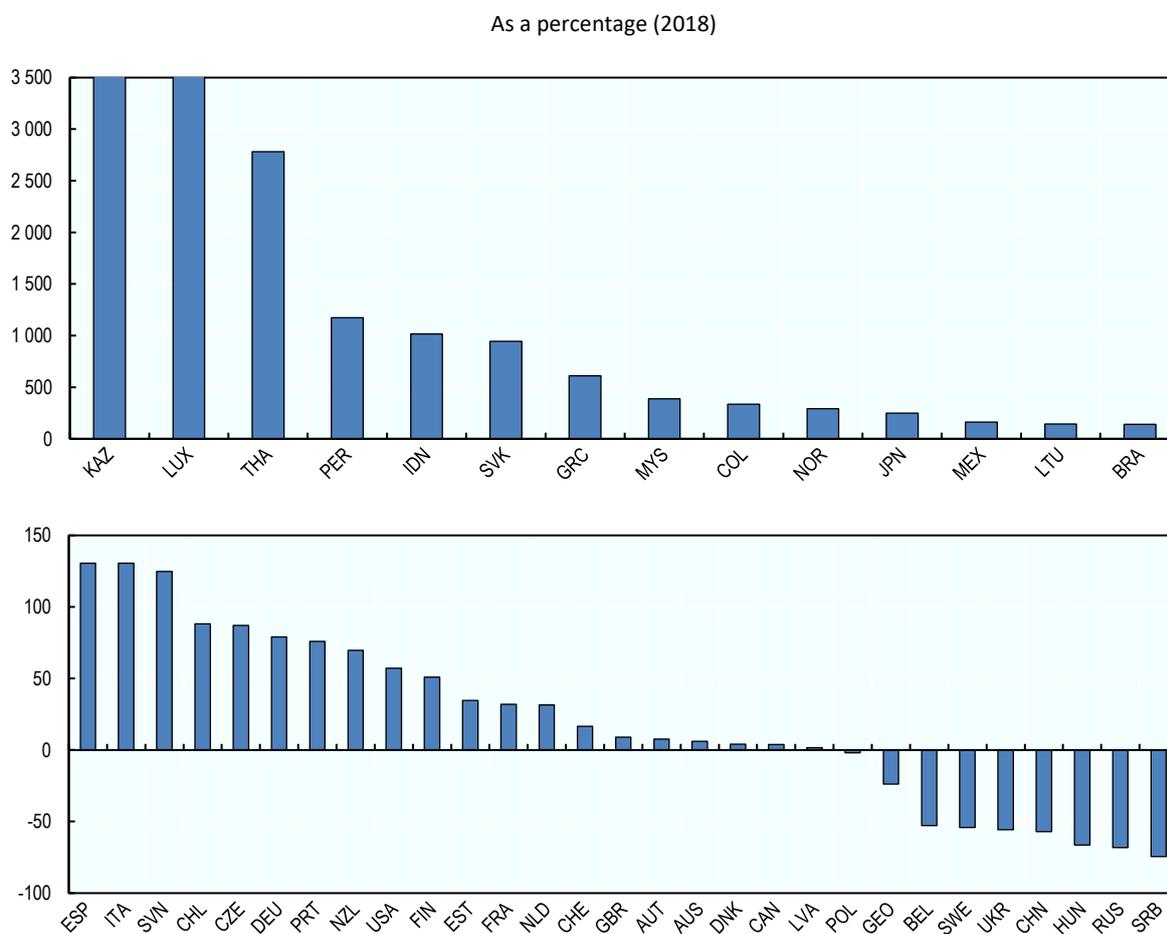


On the other hand, SMEs are increasingly turning to alternative financing instruments

Financing instruments other than straight debt have experienced strong growth in recent years, and they have become an increasingly viable option for SMEs in need of finance. SME finance is being transformed by financial innovation and Fintech in many jurisdictions. This fast-moving area of SME finance

grew significantly in recent years. In 2018, online alternative finance grew by median rate of 54%, albeit often from low base levels (Figure 3). The thematic chapter of the report shows that these instruments are receiving increasing attention from regulators and policy makers.

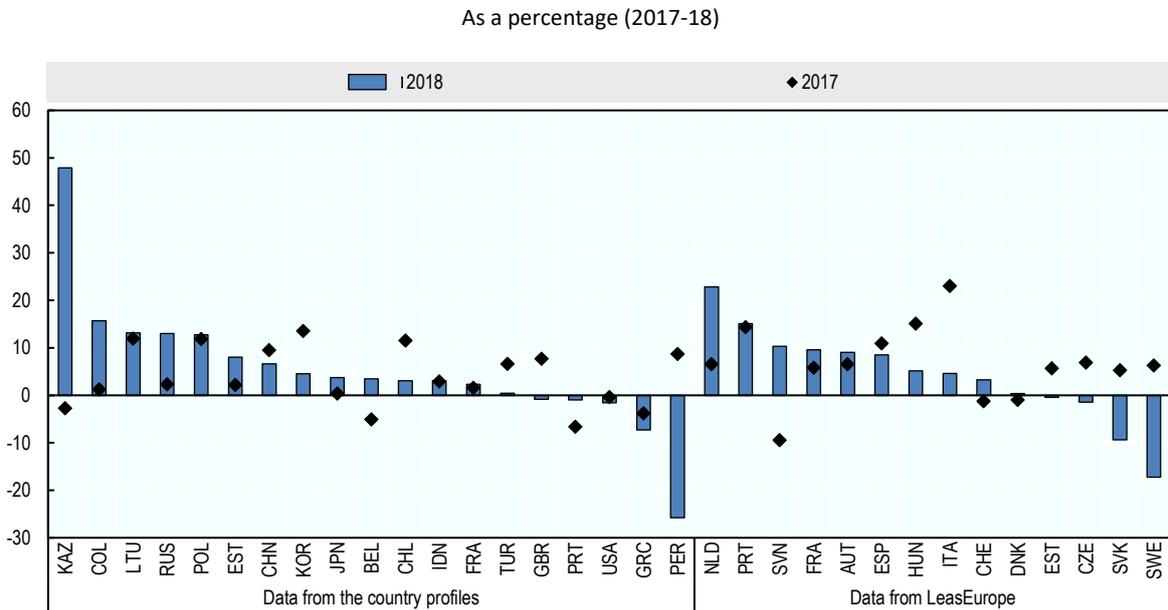
Figure 3. Online alternative finance volumes, growth rates



Other sources of finance, such as leasing and hire purchases have also become more widely used by SMEs in recent years. Leasing and hire purchases experienced growth in most countries under study in

2018, in line with developments in previous years. The median growth rate stood at 3.8% in 2018 (Figure 4).

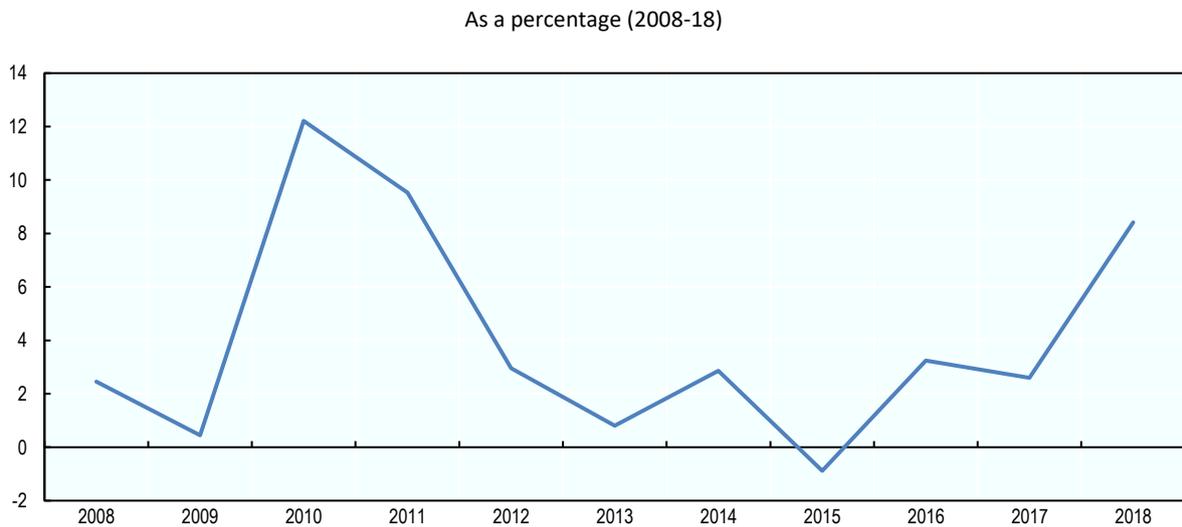
Figure 4. Leasing and hire purchases, growth rate



Meanwhile, **factoring volumes are the rise** as well (see Figure 5), with a high growth rate in 2018 (8.4%), not far from the peak growth rate observed in the

post-crisis period (12.2%), and up sharply from the 2017 growth rate. At the country level, factoring figures are highly volatile from one year to the next.

Figure 5. Factoring, median growth rate

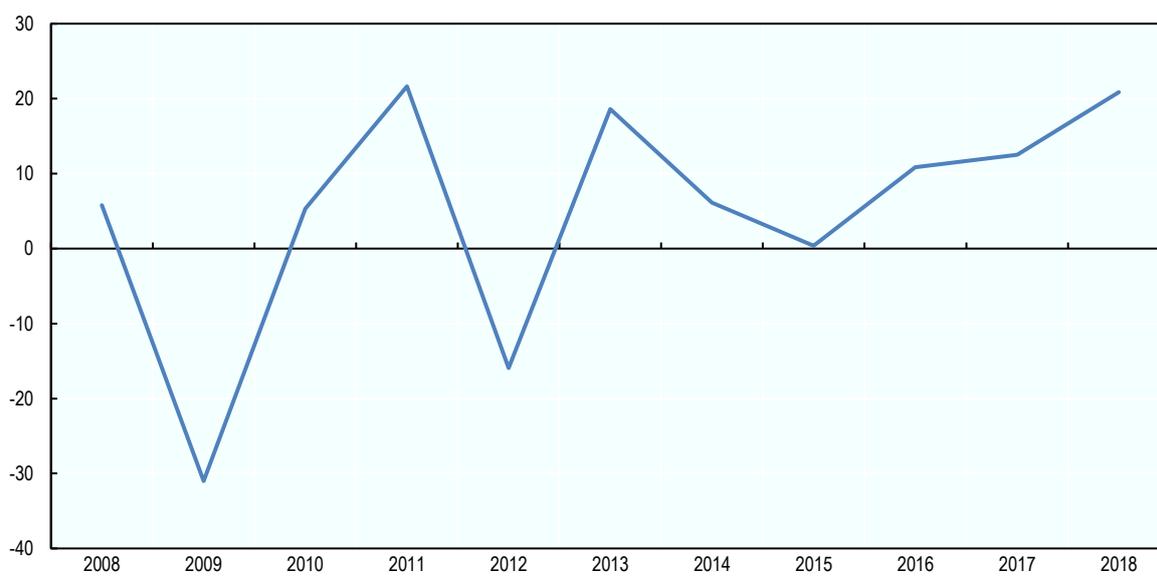


The private equity market tends to be strongly cyclical, and has expanded in many countries. Indeed,

growth in venture capital volumes accelerated from **0.4% in 2015 to 20.9% in 2018** (Figure 6).

Figure 6. Venture capital, growth rate

As a percentage (2008-18)



Policy developments are evolving rapidly

Many countries have taken policy action to support SMEs and entrepreneurs to access the finance they need for their creation and growth. In terms of government policies, a number of **emerging trends** can be discerned in recent years:

- **Credit guarantee volumes** continued to rise modestly in 2018;
- Public support for **equity finance** instruments remains strong;
- Regulatory approaches and targeted policies to **support Fintech** developments are becoming more widespread;
- Initiatives to foster “**open banking**,” whereby financial institutions are obliged to share their data with third-party financial service providers, are emerging;
- Financial support for **internationalisation** is gaining importance;

- Governments are implementing **online tools** for SMEs and entrepreneurs to find the appropriate financial support.

Information about **longer-term trends** can be found in Table 1. In addition, at the time of publication, many policy makers at the supra-national, national and sub-national levels are taking action to **dampen the immediate impacts of the novel coronavirus pandemic (COVID-19)**. The main emphasis of this first round of measures is to enable viable businesses to deal with temporary liquidity shortages stemming from the outbreak. The majority of these initiatives can be classified into the following categories:

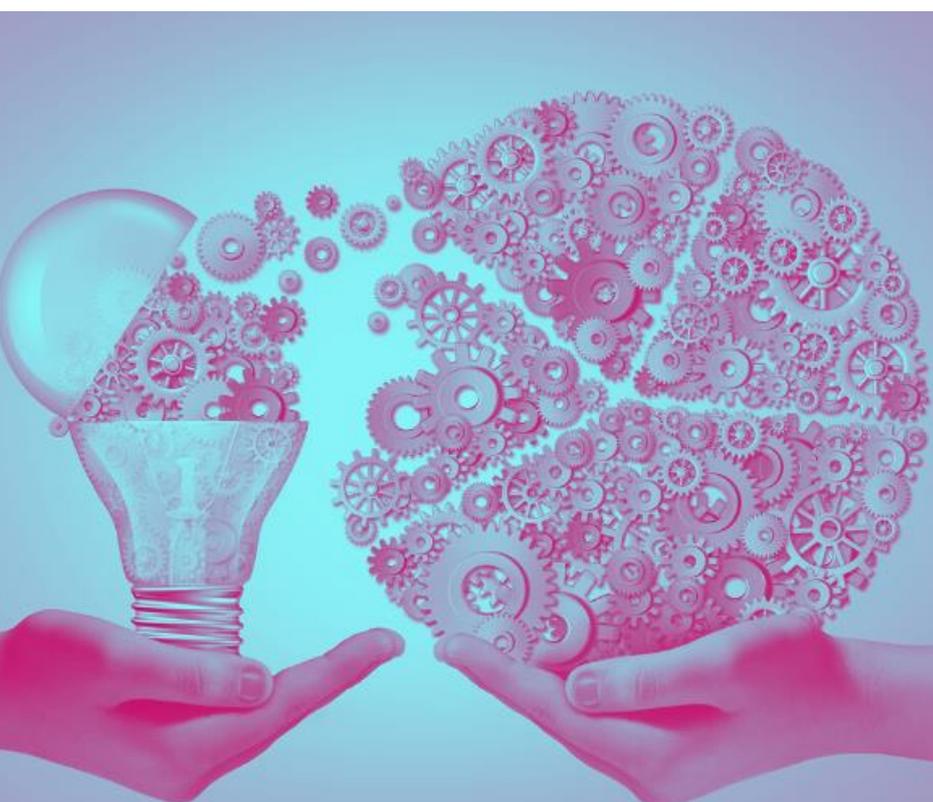
- The expansion and creation of **financial support instruments** such as loan guarantees, direct lending facilities, grants and subsidies;

- The **deferral** of tax and social security payments, debt payments and rent and utility payments;
- Various **tax relief** measures;
- Initiatives related to **shortening of working time, temporary lay-offs and sick leave**;
- More **structural policies** to enable small businesses to remain operational and increase resilience, such as those to help them digitalise, reach out to new markets and facilitate tele-working.

The thematic chapter of the 2020 edition of the Scoreboard puts a spotlight on **the evolution of SME financing policies since the 2008 financial crisis**. This overview of policy developments is timely, at a moment when SMEs around the world are once again facing mounting difficulties to access funding in the context of the coronavirus pandemic of 2020. Despite

important differences between the 2008 financial crisis and the crisis brought on by the global pandemic, the policy experiences from the previous crisis may hold lessons for policy makers seeking to cushion the impact of COVID-19 on SMEs.

The chapter documents that support to stimulate debt financing increased significantly in the immediate aftermath of the financial crisis. However, after 2012 policy placed an emphasis on **targeting specific sub-groups** of the SME population that face particular challenges in raising finance. The focus has also shifted to improving the **delivery and eligibility criteria** of existing policies. In addition, **support for equity instruments** has grown in recent years. Another significant development relates to regulation, where the emphasis has shifted from guaranteeing financial stability to **regulating the Fintech industry**.



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Growth in venture-capital volumes accelerated from 0.4% in 2015 to 20,9% in 2018



Table 1 summarises broad developments of SME financing policies since the 2008 crisis.

Table 1. Overview of the evolution in SME finance policies

Characteristic	Aftermath of the crisis	Recent years
Target beneficiaries	Broad SME population	Subgroups of the SME population: innovative firms, start-ups, lagging regions, women
Support for debt financing	Strong increase in credit guarantee volumes Direct lending Credit mediation	More focus on the delivery and eligibility criteria of support measures Creation of SME banks
Support for equity financing	Equity instruments were kept largely in place	Tax incentives Establishment of funds/funds of funds SME bank activities
Regulatory measures	Emphasis on financial stability Supply-side regulation (bank capital requirements)	Regulation of Fintech industry Emergence of regulatory sandboxes

There is a need to closely monitor emerging developments

After several years of positive developments in SME financing, the emerging economic effects of **the COVID-19 global pandemic** are dramatically changing the outlook for global growth. The outbreak is not only an unprecedented public health emergency. It is also sowing the seeds of a deep economic crisis, putting considerable strain on societies and posing immense challenges to policy makers around the globe. Small businesses and entrepreneurs are at the heart of these disruptions and they are deeply affected, not least when it comes to their ability to access finance for cash flow needs and longer-term investments.

What is more, **weak trade and investment flows** and **the re-organisation of supply chains** could also negatively impact the availability of credit and other forms of finance for SMEs in the years to come. At the same time, the extent to which SMEs will be able to leverage **digital technologies**, including for obtaining external finance, remains to be seen. It is therefore crucial to continue to monitor SME financing developments and to further improve the evidence base.

The OECD will continue to track policy responses for SME financing, as well as the longer-term implications of the global pandemic on SMEs, with the aim of supporting governments in their policy interventions.

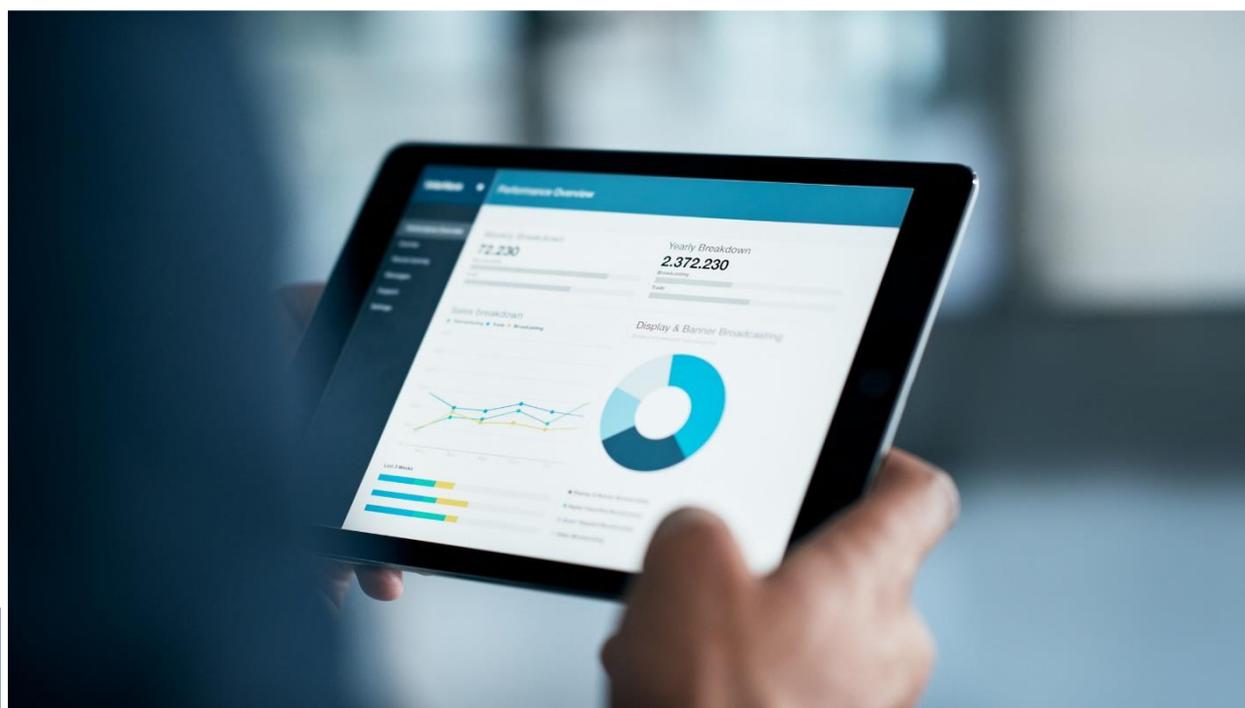
Recommendations for data improvements

Data gaps on SME finance remain significant and further efforts to improve the collection of data and evidence on SME finance should be pursued. In particular, **demand-side surveys** have **limited comparability** between countries, given differences in coverage, methodology and definitions. More meaningful analysis could stem from greater harmonisation of these surveys, and the OECD is supporting new efforts in this area. Finally, despite the diversification of financing instruments for SMEs, non-debt sources of finance tend to be covered by data that is **incomplete or not SME-specific**. This hinders the ability of policy makers to monitor trends, and should constitute another point of focus for data improvement efforts.

Another crucial issue relates to the granularity of the 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 investigating the current availability of disaggregated data, including its collection periodicity, government intentions to collect disaggregated data, as well as data sources. This will support the longer-term ambition to collect and report more granular data, by size of the enterprise, its age, sector of operation, ownership status, geographical location, and characteristics of the principal owners, such as their gender.

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-ordination in these areas.



FINANCING SMES AND ENTREPRENEURS 2020: AN OECD SCOREBOARD Highlights

Financing SMEs and Entrepreneurs 2020: 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 capital market finance for SMEs, online alternative finance, and findings of demand-side surveys. It contains a thematic chapter on broad policy developments since the 2008 financial crisis. This document presents highlights from the 2020 edition of Financing SMEs and Entrepreneurs: An OECD Scoreboard.

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