

Financing SMEs and Entrepreneurs: An OECD Scoreboard

Workshop on SME Finance
Session 4: The International Experience

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Overview

- SME finance: structural issues and government policies
- Financing SMEs and Entrepreneurs: An OECD Scoreboard
 - Emerging trends
 - Impact of Basel III on SME lending
 - Recommendations for data improvement

1. Impediments to SME access to finance

- Supply side (banks)
 - Credit rationing due to market failures such as:
 - Information asymmetries
 - Moral hazard
 - Adverse selection
 - Lack of sufficient collateral
- Demand-side (SMEs)
 - Lack of a proper business plan and incomplete financial statements
 - Lack of financial literacy
 - Reluctance of growth-oriented SMEs to share ownership

Common policies to address structural problems

Supply-side measures

Debt

- Direct government loans

- Government loan guarantee funds

- Credit rating bureaus

- Credit mediation and reporting requirements

Equity

- Seed equity funds

- Publicly-backed venture funds (funds-of-funds model)

- Angel or venture capital networks and associations

Demand-side measures

- Finance education and training

- Information provision

Recent initiatives for SME finance

- **Ireland**
 - New Competitive Start-up Fund
 - New Micro Finance Fund
 - Temporary Partial Loan Guarantee Scheme
- **Mexico**
 - Strategy for Federal Government Funding of Small and Medium Enterprises
- **United Kingdom**
 - New National Loan Guarantee Scheme
 - New Seed Enterprise Investment Scheme

2. Financing SMEs and entrepreneurs: An OECD Scoreboard

- Framework to monitor trends in SMEs' and entrepreneurs' access to finance – at the country level and internationally – and a tool to support the formulation and evaluation of policies.
- 21 participating countries
- 13 debt and equity indicators
- Contribution to G20 work on SME finance

The Indicators

1. Share of SME loans in business loans	7. SME non-performing loans/SME loans
2. SME short-term loans in SME loans	8. SME interest rates
3. SME loan guarantees	9. Interest rate spreads between large and small enterprises
4. SME guaranteed loans	10. Percent of SMEs required to provide collateral on their last bank loan
5. SME direct government loans	11. Venture capital and growth capital
6. SME loans authorised/SME loans requested OR SME loans used/SME loans authorised	12. Payment delays
	13. Bankruptcies

Growth of SME business loans remains weak...

Growth of SME business loans, 2008-10

Year-on-year growth rate, as a percentage

Country	2008	2009	2010
Canada	-0.1	3.7	-0.9
Chile	11.3	6.9	8.8
Denmark	-13.7	-19.2	22.9
Finland	2.6	-16.3	-22.0
France	4.3	1.0	5.7
Hungary	4.9	-6.8	1.3
Italy	2.1	1.2	6.6
Korea	14.1	5.5	-1.0
The Netherlands	-5.0	-24.2	5.1
Portugal	9.2	1.8	-2.0
Slovak Republic	34.1	-0.3	..
Slovenia	16.7	-0.9	-8.8
Sweden	7.2	20.4	..
Switzerland	5.9	5.3	1.3
Thailand	9.5	7.4	7.2
United Kingdom	8.2	1.4	-6.1
United States	3.6	-2.3	-6.2

... while SMEs' share in total loans remains stable

SME loan share of total business loans, 2007-10

As a percentage

Country	2007	2008	2009	2010
Canada	17	16	18	18
Chile	17	15	18	18
Denmark	12	9	9	11
Finland	27	22	20	14
France	26	26	26	26
Hungary	59	58	58	60
Italy	19	18	18	19
Korea	87	83	84	81
Portugal	78	78	78	77
Slovak Republic	63	74	76	..
Slovenia	57	56	55	50
Sweden	89	89	92	..
Switzerland	81
Thailand	28	27	27	38
United Kingdom	11	11	12	12
United States	30	28	28	29

SMEs face more severe credit conditions than large firms

- Higher interest rate spreads
- Shortened maturities
- Increased requests for collateral

Bankruptcies rose in most countries

Bankruptcies, 2007-010

Various measures, all enterprises

Country	Unit	2007	2008	2009	2010
Canada	per 1 000 firms	3.1	3.1	2.9	2.2
Denmark	Number	2 401	3 709	5 710	6 461
Finland	% of firms in bankruptcy proceedings	0.9	1.0	1.2	1.0
France ¹	Number	48 111	52 104	58 930	56 883
Hungary	per 10 000 firms	566	624	726	805
Italy	Number	6 165	7 521	9 429	11 289
Korea	Number	2 294	2 735	1 998	1 570
The Netherlands	Number	4 602	4 635	8 040	7 211
Portugal	Number	26 446	31 167	24 917	26 990
Slovak Republic	Number	169	251	276	344
Sweden	Number	5 791	6 298	7 638	7 274
Switzerland	Number	4 314	4 221	5 215	6 255
United Kingdom	Number	12 507	15 535	19 077	16 045
United States	Number	28 322	43 546	60 837	56 282

Government policy responses to improve SME access to finance during the 2008-09 crisis

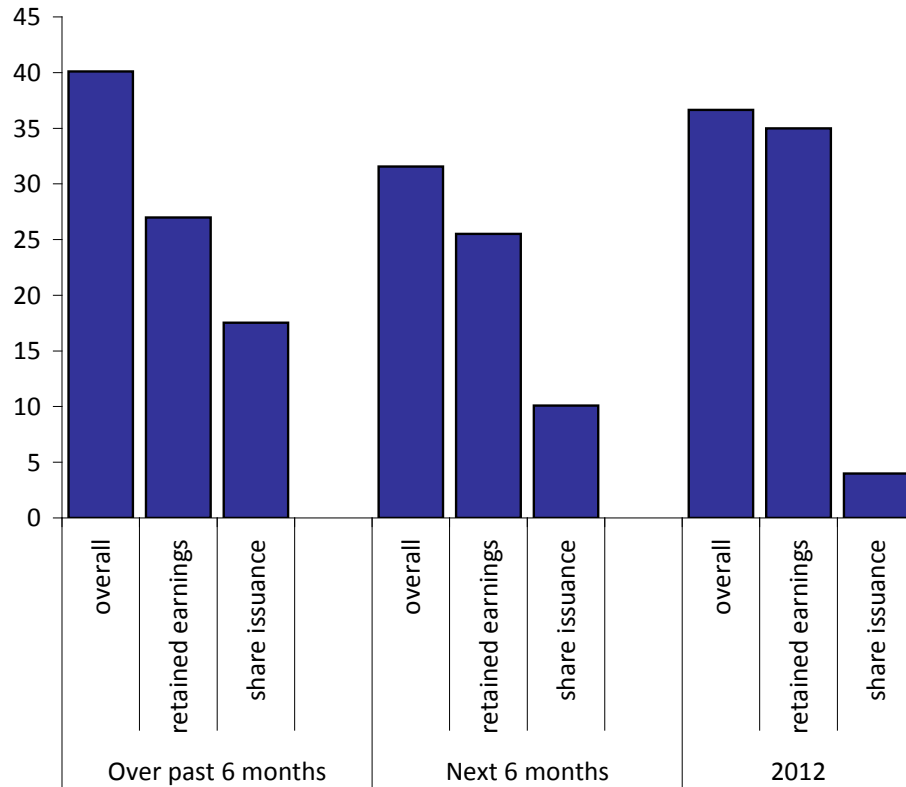
Policy Response	Countries
Increased amount of government loan guarantees and/or % guaranteed, number of firms eligible, countercyclical loans	Canada, Chile, Denmark, Finland, France, Hungary, Italy, Korea, the Netherlands, Portugal, the Slovak Republic, Slovenia Switzerland, Thailand, United Kingdom, United States
Special guarantees and loans for start ups	Denmark, the Netherlands
Increased government export guarantees	Denmark, Finland, the Netherlands, New Zealand, Portugal, Sweden, Switzerland
Government co-financing	Sweden
Increased direct lending to SMEs	Chile, Hungary, Korea, Slovenia
Subsidised interest rates	Portugal, Thailand
Venture capital, equity funding and guarantees	Canada, Chile, Denmark, Finland, France, Italy, the Netherlands, New Zealand, Sweden, United Kingdom
New programmes: business advice	Denmark, New Zealand, Sweden
Tax exemptions, deferments	France, Italy, New Zealand, Sweden
Credit mediation	France, Thailand

Potential Impact of Basel III on SME Lending

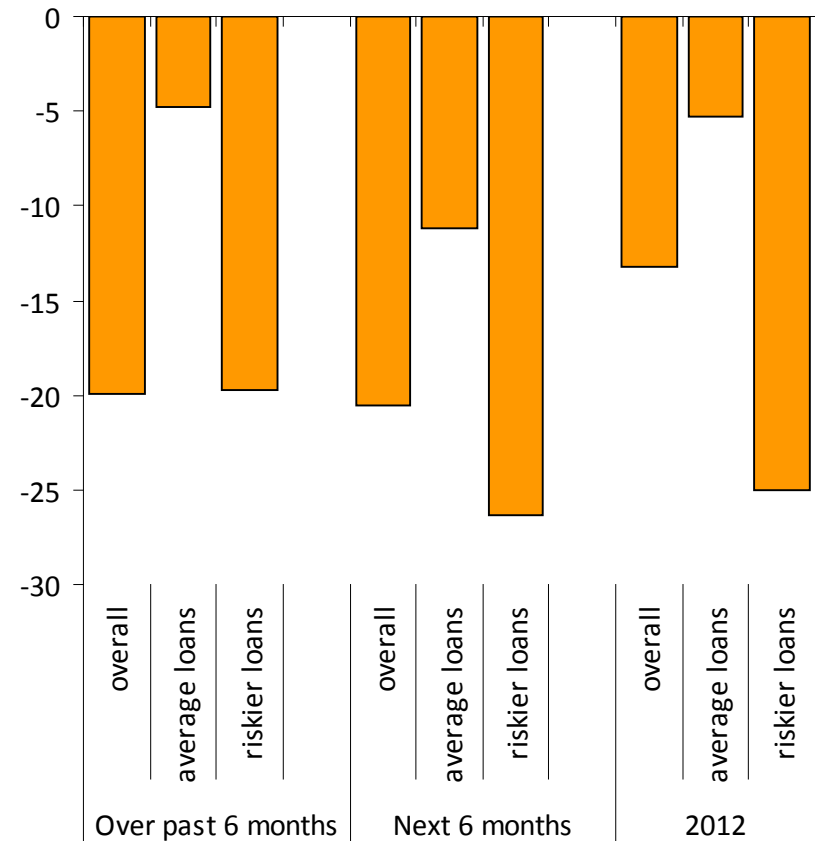
- Some argue that SMEs are affected more by financial instability than large firms thus, they may benefit from economic and financial stability due to Basel III.
- Others believe that loans and other banking services will become more expensive and harder to obtain under Basel III.

Banks in Europe have already begun implementing changes

Capital Position



Risk-weighted Assets



Source: ECB, Bank Lending Survey, July 2011.

Note: the net percentage is defined as the difference between the sum of the percentages of the banks that reported increase 'considerably' or 'somewhat' and the sum of the percentages of those that reported decreased 'somewhat' or 'considerably'.

Basel III Conclusions

- Banks seem to be competing with each other to boost capital and liquidity, possibly in order to retain a good credit rating.
- Accumulating reserves in the midst of a weak recovery could have negative impacts on the growth of the real economy and job creation.
- Policy makers might want to consider exerting pressure to promote a more gradual approach by banks to meet Basel III.

Data Improvement Recommendations

1. Require financial institutions to use the national definition for an SME based on firm size;
2. Require financial institutions to report on a timely basis to their regulatory authorities SME loans, interest rates, collateral requirements, by firm size and broken down into the appropriate size subcategories, as well as those SME loans which have government support;

Data Improvement Recommendations

3. Encourage international, regional and national authorities as well as business associations to work together to harmonise quantitative demand-side surveys in terms of survey population, questions asked and timeframes; encourage the competent organisations to undertake surveys twice yearly;
4. Promote the harmonisation of the definition of venture capital in terms of stages of development.

Thank you

Contact

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