Financing SMEs and Entrepreneurs 2013

AN OECD SCOREBOARD

OECD

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BETTER POLICIES FOR BETTER LIVES

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Foreword

As the global economy begins to turn the corner following the worst financial and economic crisis in decades, governments, businesses and individuals still face major challenges to prosperity. Small and medium-sized enterprises (SMEs) and entrepreneurs must continue to be key players in national strategies for growth, job creation and social cohesion. SMEs and entrepreneurs are crucial for tracing new paths to more sustainable and inclusive growth, thanks to their role in developing and diffusing innovation. However, they can only fulfill this potential if they obtain the finance necessary to start and grow their businesses.

This Second Edition of Financing SMEs and Entrepreneurs 2013: An OECD Scoreboard brings us a step closer to developing a comprehensive framework to monitor trends in access to finance by SMEs and entrepreneurs at the country level. The report covers 25 OECD and non-OECD countries. It examines 13 core indicators of debt, equity and general market conditions, complemented by a review of government policy measures. This year, its thematic chapter puts the spotlight on the use of credit guarantee schemes, the most widespread tool harnessed by governments to respond to the crisis and to improve financial inclusion. The chapter highlights the emerging challenges for these long-established mechanisms in the present economic and budgetary context.

The report shows that, in 2011, SMEs' access to debt and equity finance – and the conditions at which they were granted – varied across countries. SME lending conditions deteriorated in most countries, particularly as a result of higher interest rates and greater demand for collateral. This was also generally accompanied by modest or no growth in credit volumes, with the exception of a few countries. These diverging performances can be traced to the different degrees to which countries were hit by the crisis and their subsequent recovery in 2009 and 2010.

On the whole, finance for SMEs remained tight but appeared to stabilise in 2011 and early 2012. However, there are strong indications that the sovereign debt crisis in several European countries will lead to further deterioration in bank lending in 2013. In a number of countries, where the crisis resulted in a high level of bankruptcies and left many SMEs in a weaker financial condition, reversing the severe post-2007 job losses in SMEs will be particularly challenging. On the other hand, lending to SMEs has shown impressive growth in fast-growing economies, such as Chile, Russia and Turkey. This financial deepening can help foster an increasingly important role for SMEs in these countries' economic structure and growth dynamics.

By continuing to help countries improve their data on SME finance and monitor new developments in the field, this OECD Scoreboard is a key instrument in governments' policy toolbox. Getting the policies right for SMEs and entrepreneurs for a more vibrant business sector in all countries is not an option: it is an imperative for the creation of new jobs, stronger innovation, more sustainable growth, and greater social cohesion.

Angel Gurría
OECD Secretary-General

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This report was prepared under the supervision of Ms Miriam Koreen, Deputy Director of the OECD Centre for Entrepreneurship, SMEs and Local Development (CFE). Ms Lorraine Ruffing (Consultant, CFE), Ms Lucia Cusmano (SMEs and Entrepreneurship Division, CFE) and Mr Matthias Bürker (Consultant, CFE) compiled and reviewed the report. Ms Cusmano prepared the thematic chapter on Credit Guarantee Schemes, and Ms Ilse Déthune provided technical support.

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Acronyms and Abbreviations

AECM	European Association of Mutual Guarantee Societies
C&I	Commercial and Industrial
CAD	Canadian dollar
CHF	Swiss franc
CLP	Chilean peso
CGS	Credit Guarantee System
CZK	Czech koruna
DKK	Danish krone
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EU	European Union
EUR	Euro
EVCA	European Venture Capital Association
G8	Group of 8
G20	Group of 20
GBP	British pound
GDP	Gross domestic product
GPFI	Global Partnership for Financial Inclusion
HUF	Hungarian forint
IFC	International Finance Corporation
IMF	International Monetary Fund
KRW	Korean won
LTRO	Long-term refinancing operation
MFI	Monetary financial institution
NOK	Norwegian krone
NPL	Non-performing loan
NZD	New Zealand dollar
PE	Private equity
RSD	Serbian dinar
RUB	New Russian ruble
SEK	Swedish krona
SME	Small and medium-sized enterprise
SKK	Slovak koruna
THB	Thai baht
TRY	Turkish lira
USD	United States dollar
VAT	Value-added tax
VC	Venture capital
WPSMEE	Working Party on SMEs and Entrepreneurship

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An OECD Scoreboard

Chapter 1

Reader's Guide: Indicators and Methodology

This chapter outlines the methodology of the Scoreboard on SME and entrepreneurship finance and provides guidance for the interpretation of data in country profiles. It presents the core indicators selected to monitor debt and equity financing, SME solvency and government policy measures to support SMEs' access to finance. The chapter discusses limitations to cross-country comparability and recommendations for the improvement of data collection.

1. Introduction

The OECD Scoreboard on SME and entrepreneurship finance provides a comprehensive framework for monitoring SMEs' and entrepreneurs' access to finance over time. The country profiles present data for a number of core indicators, which measure trends in SME debt and equity financing, solvency and policy measures by governments. Taken together, the set of indicators provide policy makers and other stakeholders with a consistent framework to evaluate whether SME financing needs are being met, to support the design and evaluation of policy measures, and to monitor the implications of financial reforms on SMEs' access to finance.

This second edition of the Scoreboard on SME and entrepreneurship finance contains profiles for 25 countries: Canada, Chile, the Czech Republic, Denmark, Finland, France, Hungary, Ireland, Italy, Korea, the Netherlands, New Zealand, Norway, Portugal, the Russian Federation, Serbia, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States.

2. Indicators

SME and entrepreneurship financing trends are monitored through 13 core indicators, listed in Table 1.1, selected on the criteria of usefulness, availability, feasibility and timeliness

Table 1.1. **Core indicators in the OECD Scoreboard on financing SMEs and entrepreneurs**

Core indicators	What they show
1. Share of SME loans in business loans	SMEs' access to finance compared to larger firms
2. Share of SME short-term loans in total SME loans	Debt structure of SMEs; % used for operations and % used for expansion
3. SME loan guarantees	Extent of public support for SME finance
4. SME guaranteed loans	Extent to which such public support is used
5. SME direct government loans	Extent of public support for SME finance
6. SME loans authorised/SME loans requested or SME loans used/SME loans authorised	Tightness of credit conditions and willingness of banks to lend Proxy for above indicator; however a decrease indicates credit conditions are loosening
7. SME non-performing loans/SME loans	When compared to the ratio of non-performing loans (NPLs) for all business loans it indicates if SMEs are less creditworthy than larger firms
8. SME interest rates	Tightness of credit conditions and risk premium charged to SMEs
9. Interest rate spreads between large and small enterprises	Tightness of credit conditions; indicates how closely interest rates are correlated with firm size
10. Per cent of SMEs required to provide collateral on their last bank loan	Tightness of credit conditions
11. Venture capital and growth capital	Ability to access external equity for start-up, early development and expansion stages
12. Payment delays	Indicator of cash flow problems; difficulty in paying and being paid
13. Bankruptcies	Rough indicator of the impact of a crisis, cash flow problems

(see Annex A for detailed description). The core indicators address specific questions 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. In detail, the core indicators describe and monitor the following key dimensions:

- the allocation of credit by size of firm;
- the structure of SME debt, that is, the share of credit that funds operational expenses versus investment needs;
- the unmet SME demand for credit and the tightening of financial markets;
- the conditions for SMEs' access to credit and how they compare to those for larger firms, including request for collateral and cost of debt;
- the extent and uptake of government guarantee programmes;
- the role that venture and growth capital play in SME financing;
- the incidence of other cash flow constraints, such as payment delays, and the ability of SMEs to survive economic downturns and credit crunches.

3. Data collection

The Scoreboard data are provided directly from experts designated by participating countries, from a range of sources specified in a table in the country profiles. They cover access to finance for employer firms, that is, for SMEs which have at least one employee, operating a non-financial business; non-employer firms and financial companies are in principle excluded from the analysis. This is consistent with the methodology adopted by the OECD-Eurostat Entrepreneurship Indicators Programme.

The business loan data, which is key to the construction of several indicators in the Scoreboard, include overdrafts, lines of credit, short-term loans and long-term loans, regardless of whether they are performing or non-performing loans. Also, this data does not include personal credit card debt and residential mortgages (see Annex A for details).

Most of the indicators are derived from supply-side data provided by financial institutions and other government agencies. This is supplemented by national and regional demand-side surveys in order to provide a more comprehensive view of the evolution in financing trends and needs. Annex D provides references to surveys and statistical resources on SME and entrepreneurship finance in several countries.

The data in the present edition cover the period 2007 to 2011, where 2007 serves as the benchmark year from which trends over the entire period are measured. At the same time, specific attention is placed on changes which occurred in SME financing conditions during 2010-2011.

4. Government policy measures

The Scoreboard is not only a collection of data. It also provides key information on policy trends at the country and international level, and contains a thematic chapter, with analysis of the evolving international framework and policy priorities in the area of SME and entrepreneurship finance. This edition focuses on Credit Guarantee Schemes, an established policy tool for many countries and an instrument of choice to offset the impact of the 2008-2009 global crisis on SMEs' access to finance.

Each country profile includes a section on government policy measures, which intends to monitor recent developments in policies to support the financing of SMEs and entrepreneurs. In most countries, anti-crisis measures were enacted by governments in 2008-2009, and the 2013 edition of the Scoreboard looks at whether these policies and programmes were continued in 2010-2011 or phased out. It also examines the relative burden the various types of policies place on government budgets.

5. Cross-country comparability

At the individual country level, the Scoreboard on SME and entrepreneurship finance provides a coherent picture of SMEs' access to finance over time and monitors changing conditions for SME financing and the impact of policies. On the other hand, there are limits to the cross country comparisons that can be made, due to differences in definition and coverage between countries for many indicators. In a number of cases, it is not possible to adhere to the "preferred definition" of the core indicators. A proxy has been adopted in these instances. This is the case of a key indicator in this exercise, the *SME loan,* which requires bank data collected by firm size, or the availability of SME financial statements from tax authorities. When these conditions are not met, business loans below a given threshold (EUR 1 million or USD 1 million) serve as a proxy for SME loans. For this reason, in each country profile, the Scoreboard data are complemented with a table of definitions, which provides the definition adopted for each indicator and the reference to the data source.

The biggest challenge to comparability remains the lack of harmonisation in the statistical definition of an SME, which continues to prove difficult due to the different economic, social and political concerns of individual countries in their approach to SMEs (see Annex A).

Despite these limitations, it is possible to compare general trends across countries, as the differences in the exact composition of the single indicator are muted when evaluating rates of change. However, again, caution is required in cross-country comparisons, especially as concerns the use of flow variables and stock measures. Flows, which are measured over an accounting period (i.e. one year), tend to reflect short-term events and are therefore more volatile than stocks, which measure the value of an asset at a given point in time, and thus reflect latest flows, as well as values that may have cumulated over time, net of depreciation.

6. Recommendations for data improvements

To enable more timely collection of data and better cross-country comparison in the future, it is necessary for countries to advance in the harmonisation of data content and in the standardisation of methods of data collection. As a step in this direction, the 2013 edition of the Scoreboard includes the following tools: a standardised table for SME finance data collection (Annex B) and a standardised format for reporting government policy programmes' parameters and changes (Annex C).

The adoption of standardised formats for the collection of SME financing information across countries will enable improvements to the quality and time consistency of the monitoring framework, even while allowing for some customisation at the country level.

In the medium-long term, however, it is necessary for countries to progress in the harmonisation of definitions and to improve transparency and accounting practices by financial institutions. Box 1.1 contains recommendations for national authorities to improve the collection of data on SME and entrepreneurship finance.

Box 1.1. **Recommendations for data improvement**

- Require financial institutions to use the national definition for an SME based on firm size.
- 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.
- 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 yearly surveys.
- Promote the harmonisation of the definition of venture capital in terms of stages of development.

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Chapter 2

Recent Trends in SME and Entrepreneurship Finance

This chapter analyses trends in SME and entrepreneurship finance over 2007-11, based on data collected for the country Scoreboards and information from demand-side surveys. A short overview of the global business environment and economic prospects sets the framework for the analysis of SME financing trends and conditions, focusing in particular on the changes which occurred in participating countries between 2010 and 2011. These recent developments are compared with trends over the crisis and early recovery stages. The pre-crisis year 2007 serves as a benchmark. The chapter concludes with an outlook on 2012 emerging trends and an overview of government policy responses intended to improve SMEs' access to finance.

1. Introduction

The present chapter illustrates the emerging trends in SMEs' and entrepreneurs' access to finance for 25 countries over 2007-2011, within the framework of global macroeconomic prospects. This period comprises the most severe global financial and economic crisis in decades (2008-2009) and a recovery period (2010), which lost momentum in 2011 in all but four of the Scoreboard countries. The year 2007 serves as the benchmark from which trends over the entire period are measured. The chapter focuses in particular on the changes which occurred in SME financing during 2010-2011 and comments on some emerging trends and prospects in 2012-2013.

The analysis is based on the Scoreboard's core indicators which address specific questions related to financing SME and entrepreneurs at the country level. Most of the indicators are derived from supply-side data provided by financial institutions. This is supplemented by national and regional demand-side surveys in order to provide a more comprehensive view of the evolution in financing trends and needs.[1]

Consistent time series for country data permit an analysis of national trends in the participating countries. It is by comparing trends that insights are drawn in the present chapter on the varying conditions in SME financing across countries. The analysis on *changes* in variables, rather than on *absolute levels*, helps overcome the main limitations to cross-country comparability of the core indicators, due to differences in definitions and reporting practices. With regard to the comparison of indicators across countries, caution should be exercised, taking into account the use of both flows and stocks to calculate some of the indicators.

2. Business environment and the macroeconomic context

The 2008-2009 financial and economic crisis was the most severe in decades and deeply affected the business and financing environment in many OECD countries (OECD, 2012a). GDP contracted by 3.6% in the OECD area as a whole in 2009, and by 4.3% in the euro area. The 2010 recovery was uneven and, in many instances, came to a halt in the second quarter of 2011. As Table 2.1 illustrates for the OECD area and Scoreboard countries, over 2010-2011, the recovery lost momentum in most cases. GDP growth slowed in the United States, from 2.4% in 2010 to 1.8% in 2011. Similarly, in the euro area, where the 2010 recovery had been less pronounced, the growth rate decreased from 1.9% to 1.5%. In Europe, however, growth performance varied significantly across countries. While some countries, such as Sweden (3.9%), Finland (2.7%), and the Slovak Republic (3.2%) experienced sustained growth rates, Southern European countries like Italy (0.6%) and Spain (0.4%) grew at a much slower pace, or even experienced negative GDP growth, as in Portugal (–1.7%). On the other hand, stronger growth continued to be observed in other countries, including Turkey (8.5%), Chile (5.9%) and Russian Federation (4.3%).

Inflationary pressures continued to be low, although rising, in 2011. The OECD countries experienced an average inflation of 2.5% in 2011, as compared to 1.9% in 2010. In the European Union, the increase in consumer prices reached 3.3% in 2011, against 1.8% in the previous year (OECD, 2012b).

Table 2.1. **Real GDP growth in Scoreboard countries, 2007-11**

	2007	2008	2009	2010	2011
Canada	2.1	1.1	−2.8	3.2	2.6
Chile	5.2	3.1	−0.9	6.1	5.9
Czech Republic	5.7	3.1	−4.5	2.5	1.9
Denmark	1.6	−0.8	−5.7	1.6	1.1
Finland	5.3	0.3	−8.5	3.3	2.7
France	2.2	−0.2	−3.1	1.6	1.7
Hungary	0.1	0.9	−6.8	1.3	1.6
Ireland	5.4	−2.1	−5.5	−0.8	1.4
Italy	1.5	−1.2	−5.5	1.8	0.6
Korea	5.1	2.3	0.3	6.3	3.6
Netherlands	3.9	1.8	−3.7	1.6	1.1
New Zealand	3.4	−0.6	−0.2	0.9	0.5
Norway	2.7	0.0	−1.7	0.7	1.4
Portugal	2.4	0.0	−2.9	1.4	−1.7
Russian Federation	8.5	5.2	−7.8	4.3	4.3
Serbia	5.4	3.8	−3.5	1.0	1.8
Slovak Republic	10.5	5.8	−4.9	4.4	3.2
Slovenia	7.0	3.4	−7.8	1.2	0.6
Spain	3.5	0.9	−3.7	−0.3	0.4
Sweden	3.4	−0.8	−5.0	6.3	3.9
Switzerland	3.8	2.2	−1.9	3.0	1.9
Thailand	5.0	2.5	−2.3	7.8	0.1
Turkey	4.7	0.7	−4.8	9.2	8.5
United Kingdom	3.6	−1.0	−4.0	1.8	0.9
United States	1.9	−0.3	−3.1	2.4	1.8
Euro area	**3.0**	**0.3**	**−4.3**	**1.9**	**1.5**
OECD area	**2.8**	**0.2**	**−3.6**	**3.0**	**1.8**

Source: OECD (2012c), *World Development Indicators*.

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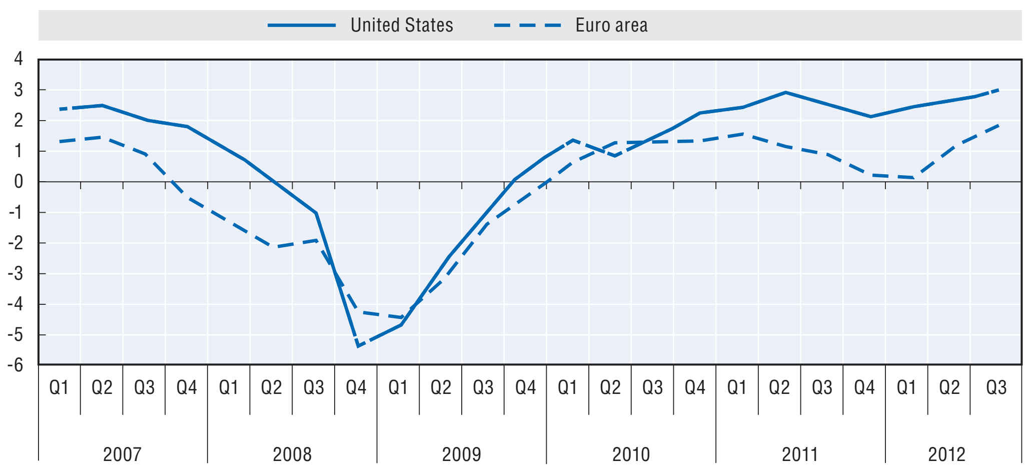
In general, however, demand remained weak as households and businesses sought to improve balance sheets. Unemployment remained high in some countries and increased further in others. Meanwhile, the stimulus provided by additional liquidity and funding to the banking sector ran its course, and the stance of fiscal policy became less expansionary in most countries in 2010-2011. Concerns about the sovereign debt crisis and its possible impact on the fragile banking sector intensified and contributed to heightened risk aversion, which also discouraged bank lending.

Financial conditions

Over 2010-2011, developments in overall financial conditions displayed substantial cross-country variation. Concerns about public debt sustainability led to a rise in government bond yields during 2011. For countries that have sought assistance from the European Union and the IMF, such as Ireland and Portugal, in spite of financing support and strong fiscal consolidation, sovereign spreads continued to widen in 2011. In several other European countries, including Italy and Spain, the rise in government bond yields contributed to a further tightening of credit conditions to the private sector in general. In countries like the United States or some Northern European countries, however, pressures on government bonds decreased and overall credit conditions eased (OECD, 2011, 2012b).

As Figure 2.1 illustrates, a significant degree of uncertainty continued to characterise the financial environment in 2011, with non-negligible swings across quarters and an overall flat trend with respect to the recovery observed between 2009 and 2010 (OECD, 2012c).

Figure 2.1. **Financial conditions indices in the Euro area and the United States, 2007-12**



Note: The index is calculated on the basis of real exchange rate, real interest rate, household wealth, spreads and credit conditions. This latter measure takes into account survey responses reporting tighter bank lending conditions. For the US and the euro area the survey is addressed to banks. A unit increase (decline) in the index implies an easing (tightening) in financial conditions sufficient to produce an average increase (reduction) in the level of GDP of ½ to 1% after four to six quarters. See details in Guichard et al. (2009). Estimation done with available information up to 15 November 2012.

Source: OECD (2012c).

StatLink http://dx.doi.org/10.1787/888932793566

As a response to the financial and economic crisis and the turbulence in financial markets, the United States Federal Reserve and the European Central Bank pursued expansionary monetary policy, which remained largely unchanged in 2011. In order to sustain the banking sector, additional funds were made available, amounting to USD 700 billion in the United States. In Europe, in December 2011, the ECB introduced a three-year long-term refinancing operation (LRTO), which provided an injection of low-interest rate funding (EUR 489 million) to banks in the euro area, with sovereign debt as collateral on loans. A second LTRO was introduced in February 2012, amounting to EUR 530 billion. Despite continuous monetary easing, however, financial institutions had difficulties in translating the increased flow of funds into credit to the private sector.

In 2012, aggregate indicators of financial market conditions improved in the United States and the euro area. However, this aggregate trend masks large differences across EU member states, with financial strains in vulnerable euro area countries and better conditions in others (OECD, 2012c).

3. Lending to SMEs in 2010-2011

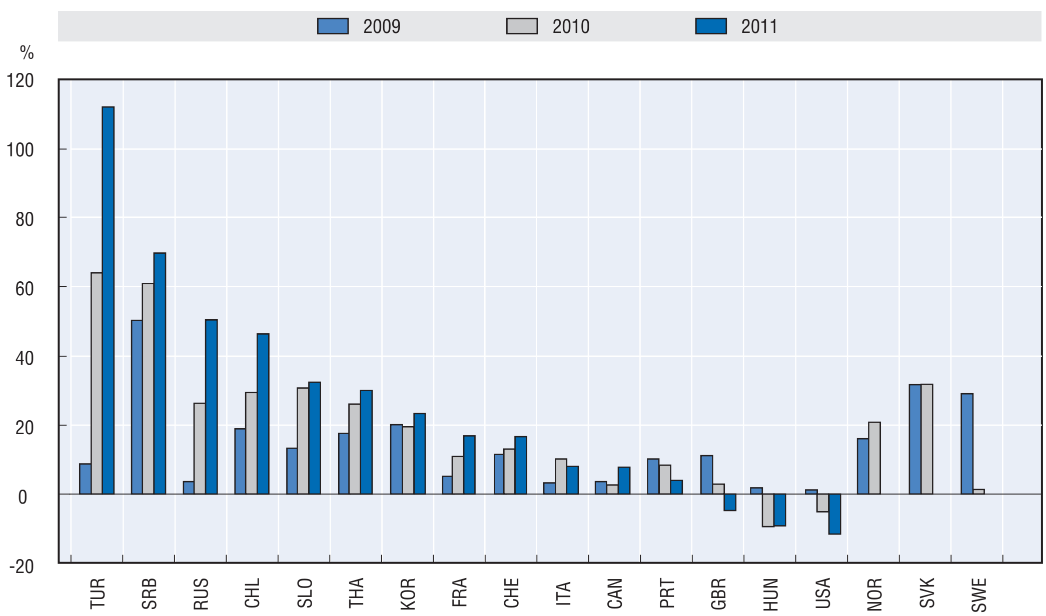
Business loans, SME loans and SME loan shares

The Scoreboard indicators reflected the uncertain or slow recovery during 2010-2011, although, similarly to what was observed for the macroeconomic developments, performance varied significantly across countries.

Outstanding SME loans (i.e. stocks) grew between 2010 and 2011 in the majority of the countries in the Scoreboard, but declined in four countries, including Italy, Portugal, the United Kingdom, and the United States. In the UK and the US, this decline continued a negative trend, so that the stock of SME loans was lower in 2011 than in the pre-crisis period (Figure 2.2). On the other hand, in Italy SME loans recorded negative growth for the first time in 2011, following a substantial increase in the previous two years (Table 2.2). In Portugal as well, in spite of the negative trend since 2010, the stock of SME loans remained above the pre-crisis level.

Figure 2.2. **Trends in SME loans 2007-11**

Relative to 2007, in percentages (2007 = 0)



Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. Data for SME loans in 2011 is not available for Norway, Sweden, and the Slovak Republic. Countries with flow data are not included (the Czech Republic, Denmark, Finland, the Netherlands, Spain). The base year for Russia is 2008. For Ireland, data is not available for 2007-2009. For New Zealand, the indicator is not available.

Source: National Scoreboards.

StatLink http://dx.doi.org/10.1787/888932793585

Conversely, business financing in Chile, France, Korea, Russia, Serbia, Slovenia, Switzerland and Turkey was characterised by continued growth in SME lending, though at different rates. Turkey experienced the greatest expansion in SME lending over 2010-2011, within a context of overall expansion of business lending.

Table 2.2. **Growth of SME business loans, 2007-11**

Year-on-year growth rate, in percentages

	2008	2009	2010	2011
Outstanding SME business loans (stocks)				
Canada	–0.1	3.7	–0.9	5.0
Chile	11.3	6.9	8.8	13.1
France	4.8	0.3	5.4	5.4
Hungary	10.3	–7.6	–11.1	0.3
Ireland	n.a.	n.a.	n.a.	0.9
Italy	2.1	1.2	6.6	–1.9
Korea	14.4	5.0	–0.5	3.2
Norway	25.7	–7.7	4.2	n.a.
Portugal	9.2	0.9	–1.6	–4.0
Russian Federation	n.a.	3.7	21.9	19.1
Serbia	47.0	2.3	7.1	5.5
Slovak Republic	32.4	–0.5	0.1	n.a.
Slovenia	16.6	–2.9	15.4	1.3
Sweden	7.2	20.4	–21.4	n.a.
Switzerland	5.9	5.3	1.3	3.2
Thailand	9.5	7.4	7.2	3.1
Turkey	10.6	–1.6	50.7	29.3
United Kingdom	7.9	3.0	–7.4	–7.4
United States	3.6	–2.3	–6.2	–6.8
New SME business loans (flows)				
Czech Republic	–14.3	–15.0	–14.8	3.6
Denmark	–13.7	–19.2	22.9	–2.4
Finland	2.6	–16.3	–16.5	–4.8
The Netherlands	–5.0	–24.2	5.1	17.6
Spain	–9.5	–26.3	–20.0	–17.2

Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. Nineteen countries reported outstanding SME loans (stocks), five countries reported new SME loans (flows). The indicator is not available for New Zealand.

Source: National Scoreboards.

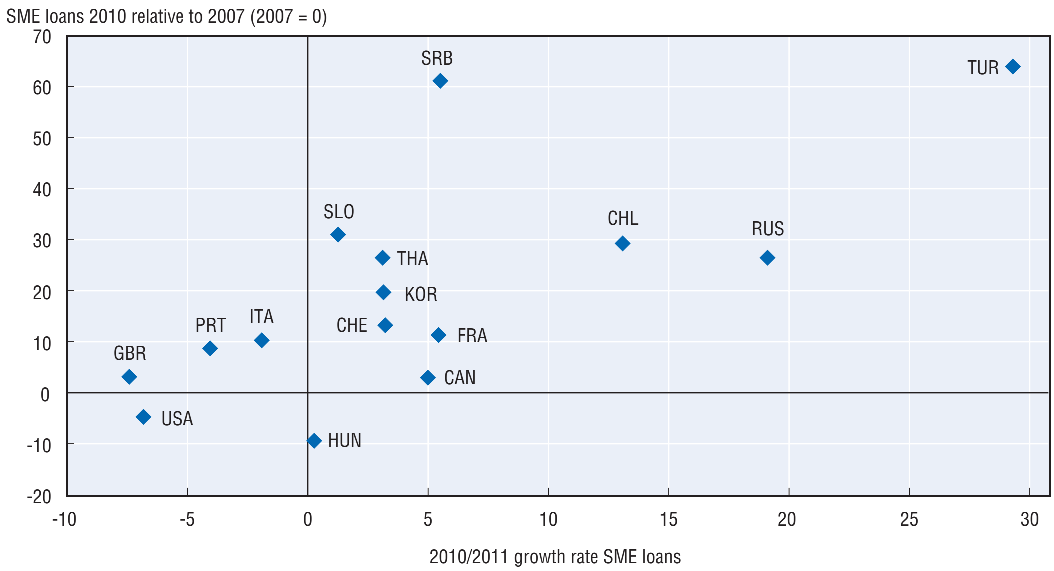
StatLink http://dx.doi.org/10.1787/888932794801

Figure 2.3 monitors the consistency of growth patterns over the period, by comparing the growth rate of outstanding SME loans in 2010-2011 with the trend recorded over 2007-2010, as measured by the ratio of SME loans in 2010 to 2007 levels. The graph suggests a certain degree of consistency in trends. It shows a positive relationship between the two indicators, implying that growth in SME loans was stronger in countries which had recovered to their 2007 level of SME loans in 2010, or which had not been affected as severely by the credit contraction in 2008-2009. On the other hand, countries which still struggled with the effects of the crisis in 2010 experienced lower, mostly negative, growth rates of SME lending in 2011.

In countries that recorded changes in flows, rather than in stocks, volatility was more pronounced, with strong negative growth rates being common over 2008-2010 (Table 2.2). In Spain, new loans to SMEs fell substantially each year since 2007. However, in the Czech Republic, the trend reversed to positive growth in 2011, while in the Netherlands, the recovery in lending flows, which started in 2010, strengthened in 2011.

Figure 2.3. **Growth patterns of outstanding SME loans, 2007-11**

In percentages



Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. Data for SME loans in 2011 is not available for Norway, Sweden, and The Slovak Republic. Countries with flow data are not included (Czech Republic, Denmark, Finland, The Netherlands, Spain). The base year for Russia is 2008. For Ireland, data is not available over 2007-2009. For New Zealand, the indicator is not available.

Source: National Scoreboards.

StatLink http://dx.doi.org/10.1787/888932793604

SME loan shares

The evidence on outstanding SME loan shares, defined as the shares of SME loans over total business loans, helps to set the above indicators on SME lending into the context of general business lending conditions in the Scoreboard countries. As Table 2.3 shows, over the period 2007-2011, SME loan shares increased in only four countries and declined in nine countries. This even occurred where SME loan growth was positive, as in the case of Korea, Russia and Turkey, underscoring that total business loans were growing faster.

It is well recognised that SMEs are more dependent on debt financing than are larger enterprises, which can turn to other types of finance, such as launching public offerings for debt and equity.[2] The narrow set of financing sources typically available to SMEs make them more vulnerable to the changing conditions in credit markets. For this reason, a decline in SME loan shares, which suggests the credit market allocates a relatively smaller share of funding to SMEs, may be particularly worrisome. However, the specific indicator adopted here also reflects the trends in financing opportunities and strategies by large firms. Hence, an increase in SME loan shares can occur also at a time of general lending contraction and might indicate that large enterprises are resorting to other forms of finance, creating more space for SMEs in debt channels. This is the situation observed in the United Kingdom, where the marginal increase in SME loan shares over the period did not indicate better access to debt, as the overall loan volume decreased.

Table 2.3. **Share of SME loans in total business loans, 2007-11**

As a percentage of total business loans

	2007	2008	2009	2010	2011
Outstanding SME business loans (stocks)					
Canada	17.4	15.6	17.9	17.5	17.5
Chile	16.7	15.2	17.5	18.2	17.4
France	20.7	20.4	20.2	20.6	20.9
Hungary	62.4	60.6	60.0	54.5	54.4
Ireland	n.a.	n.a.	n.a.	63.9	67.8
Italy	18.8	17.9	18.3	19.0	18.3
Korea	86.8	82.6	83.5	81.5	77.7
Norway	42.9	43.7	40.4	41.0	n.a.
Portugal	78.3	77.7	77.4	77.3	76.8
Russian Federation	0.0	19.9	21.3	23.7	22.5
Serbia	21.3	23.4	23.7	25.0	26.1
Slovak Republic	65.7	77.1	79.4	79.4	n.a.
Slovenia	49.1	48.2	47.0	51.8	54.3
Sweden	88.9	88.5	92.4	91.1	n.a.
Switzerland	81.4	81.3	80.3	80.1	79.0
Thailand	28.1	26.6	26.9	38.4	36.8
Turkey	40.1	33.8	31.7	35.6	35.5
United Kingdom	20.2	18.0	20.8	21.0	20.6
United States	30.1	27.7	27.6	29.0	26.5
New SME business loans (flows)					
Czech Republic	24.6	19.3	18.8	17.0	18.1
Denmark	12.3	9.1	9.0	11.2	11.7
Finland	27.1	21.9	19.6	15.3	21.1
Spain	39.8	38.4	30.3	31.6	33.0

Note: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. The indicator is not available for New Zealand and the Netherlands.

Source: National Scoreboards.

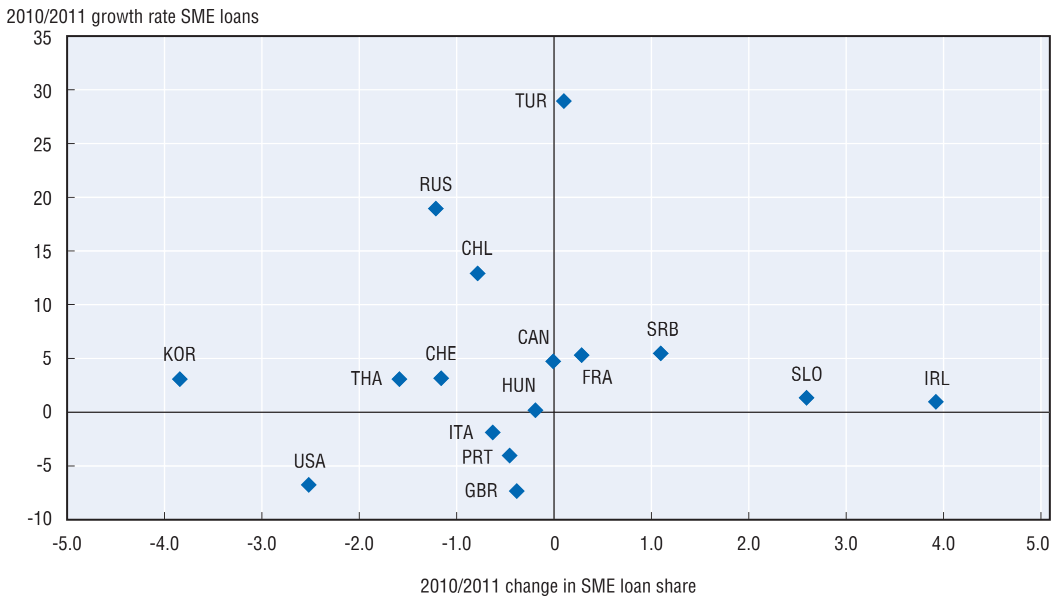
StatLink http://dx.doi.org/10.1787/888932794820

Similarly, a decline in SME loan shares can occur in rather different financing environments. In Russia, in a context of overall expanding loan activity, SME loans grew by 19%, but their share of total business loans fell by 1.2% over 2010-2011. This is explained by the fact that large enterprises were getting a larger share of expanding resources.

Figure 2.4 illustrates this by plotting changes in SME loan shares against the growth rate in SME loans and shows a negative relationship between the two indicators over 2010-2011. In other words, in countries where credit volumes to SMEs expanded, the increase in loans towards large firms was even more pronounced. In four countries (Italy, Portugal, the United Kingdom and the United States) the decrease in SME lending in 2011 also corresponded to a decrease in the share of SME loans.

Figure 2.4. **Trends in SME loan shares, 2010-11**

In percentages



Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. Countries with flow data are not included (Czech Republic, Denmark, Finland, the Netherlands, Spain). Data for SME loans in 2011 is not available for Norway, Sweden, and the Slovak Republic. For New Zealand, the indicator is not available.

Source: National Scoreboards.

StatLink http://dx.doi.org/10.1787/888932793623

4. Credit conditions for SMEs

Costs of credit

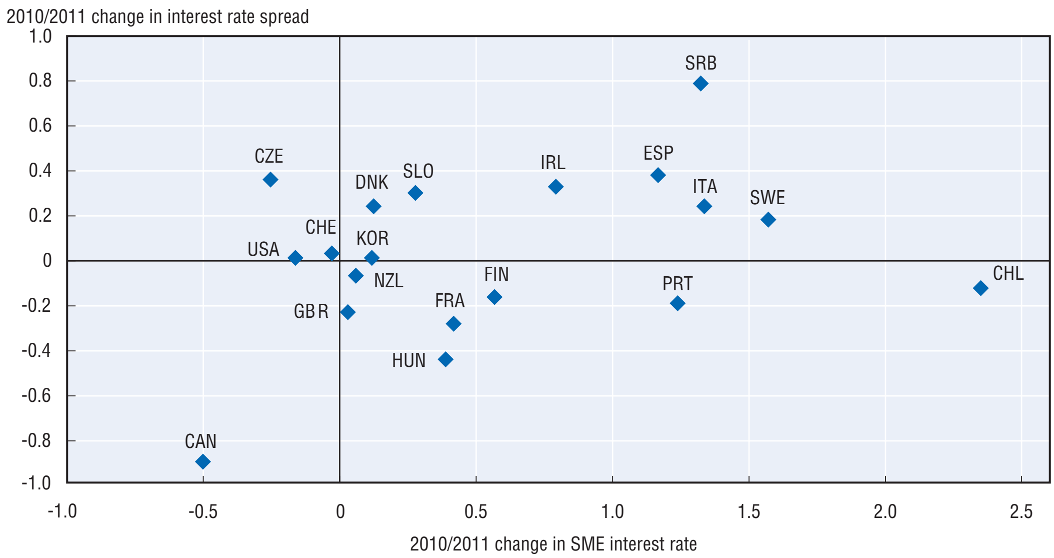
Over 2007-2010 in most countries, SMEs faced more severe credit conditions than did large enterprises, in the form of higher interest rates, shortened maturities and increased request for collateral (OECD, 2012a). After a slight improvement in 2010, credit conditions tightened in most countries in 2011, possibly triggered by an increased awareness of risk on the part of lending institutions.

In 2011, the cost of SME credit trended upward in most countries, as evidenced by the increase in nominal interest rates charged to SMEs.[3] Of the 22 countries that provided information on SME interest rates, only Canada and the Czech Republic experienced a slight decrease. In the euro area, trends in nominal interest rates reflected tensions on sovereign debt, which increased at the end of 2011, as the interest rate on national debt is usually a lower threshold for the cost of financing in the remaining sectors.

The increase in nominal rates was matched in 12 countries by a significant increase in the interest rate spread between loans for SMEs and large firms, which suggests a heightened perception by lenders of risk for SME loans. In this case, however, within the euro area, the cross country comparison does not reveal a common pattern, since in several countries, the SME interest rate increase was accompanied by a reduction in the spread with respect to large firms (Figure 2.5).

Figure 2.5. **Trends in SME nominal interest rates and interest rate spreads**

In percentages



Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. Data for the interest rate spread is not available for the Netherlands (2011), Thailand (2010), and the Slovak Republic (2007-2011). For Norway, Russia, and Turkey data on SME interest rates is not available.

Source: National Scoreboards.

StatLink http://dx.doi.org/10.1787/888932793642

The general trend towards higher costs of credit was accompanied by a continued high level of collateral requirements, which remained substantially higher than in 2007. In some instances, they increased further in 2010-2011. However, it should be highlighted that data on collateral are more difficult to obtain and represent an area where reporting improvements are needed to better assess the evolution in SME financing conditions.

Evidence from demand-side surveys on credit conditions

Information on the demand side complements the evidence from the supply-side data reported in the Scoreboard. In particular, the ECB Survey on SME access to finance, undertaken every six months,[4] shows that, in the euro area, the net balance of SMEs stating that the availability of loans had deteriorated more than doubled in 2011, increasing from 9% in the second half of 2010 to 20% in the second half of 2011. However, this still represented an improvement with respect to the 33% net balance during the crisis (1H2009) (OECD, 2012a). Similarly, the net balance of firms that declared that banks' willingness to lend had deteriorated increased to 23% in 2H2011, compared to 16% over 2010, bringing this indicator close to the highest crisis level (25% in 2H2009) (Table 2.4). The deterioration in perception about banks' propensity to lend can also be linked to the increase in the request for collateral. Higher interest rates were also reported for 2010 and continued to rise in 2011. These trends are in line with the supply-side data from the Scoreboard.

At the same time, perceptions about tightened credit conditions did not result in a change in borrowing behaviour, as the share of SMEs which applied for a loan remained

Table 2.4. **European Central Bank survey on SME access to finance, 2010-11**

As a percentage of total SMEs surveyed

Category	1H2010	2H2010	1H2011	2H2011
Availability of loans				
Deteriorated (net)	12	9	14	20
Willingness to lend				
Deteriorated (net)	16	16	20	23
Applied for a loan	24	25	22	25
Granted in full	63	66	63	62
Rejected	11	11	10	13
Interest rate				
Increased (net)	17	44	54	42
Collateral				
Increased (net)	43	48	49	50

Note: The net percentage is the difference between the percentage of firms reporting that the given factor has improved and the percentage reporting that it has deteriorated or the difference between the percentage reporting that it has increased and the percentage reporting that it has decreased.

Source: European Central Bank (ECB).

StatLink http://dx.doi.org/10.1787/888932794839

almost constant. Respondents reporting a rise in rejection rates increased by 2% over this period and the share of loans granted in full decreased slightly.

5. Equity financing

Equity financing was severely affected by the financial crisis. A sharp decline in venture capital and growth capital occurred between 2008 and 2009. In 2010, equity funding had not recovered to its 2007 level, despite an overall positive economic trend (OECD, 2012a). Countries with high growth rates for venture capital in 2011 include Denmark (+80%), Hungary (+62%), the Netherlands (+56%) and Canada (+30%). On the other hand, a strong decrease was observed in Portugal (–80%), New Zealand (–61%), Switzerland (–37%), Sweden (–25%) and Ireland (–11%).

For half of the countries in the Scoreboard, the level of equity investments in 2011 was still well below the pre-crisis period (2007), averaging about 5% of total financing. This suggests that the uncertain economic climate continued to act as a drag on equity investment (Table 2.5). It should be noted, however, that trends in venture capital investment are difficult to analyse because of the extreme volatility in the data. In particular, just one large deal can cause volatility in countries where the market is not very developed. Furthermore, for most countries, the data are available for venture and growth capital invested in *all enterprises*, irrespective of the size class. Interestingly, in 2011 a significant growth in volumes was recorded for some countries that collect data specifically on SMEs, such as Italy (+65%), Turkey (+33%) and Russia (+20%).

Table 2.5. **Venture and growth capital invested, 2007-11**

Relative to 2007 (2007 = 1) and percentages

	2007	2008	2009	2010	2011	2010/2011 Growth rate (in %)
Canada	1.00	0.72	0.50	0.56	0.72	30.0
Chile	1.00	0.99	0.86	n.a.	n.a.	n.a.
Czech Republic	1.00	2.19	1.84	1.40	n.a.	n.a.
Denmark	1.00	0.93	0.44	0.35	0.63	80.5
Finland	1.00	0.76	0.48	0.76	0.63	−16.9
France	1.00	1.21	1.20	1.47	1.78	21.3
Hungary	1.00	3.49	0.18	1.77	2.86	62.0
Ireland[1]	1.00	1.08	1.28	1.37	1.21	−11.5
Italy[1]	1.00	1.54	0.99	0.98	1.61	65.3
Korea	1.00	0.73	0.87	1.10	1.27	15.6
The Netherlands	1.00	1.18	0.77	0.73	1.15	56.5
New Zealand	1.00	0.81	0.42	1.15	0.45	−61.2
Norway	1.00	0.74	0.37	0.76	n.a.	n.a.
Portugal[1]	1.00	0.88	0.39	0.58	0.12	−80.0
Russian Federation[1 2]	n.a.	1.00	1.06	1.17	1.40	19.6
Serbia	1.00	21.67	n.a.	220.13	n.a.	n.a.
Slovak Republic[1]	1.00	1.14	2.06	1.63	1.64	0.9
Spain[1 2]	n.a.	1.00	1.08	1.08	n.a.	n.a.
Sweden	1.00	1.46	0.75	0.67	0.50	−25.3
Switzerland	1.00	1.03	0.91	1.12	0.70	−36.9
Turkey[1]	1.00	0.52	0.44	1.13	1.49	32.6
United Kingdom[2]	n.a.	1.00	0.63	0.82	0.83	1.8
United States	1.00	0.94	0.63	0.73	0.92	26.3

Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. The indicator is not available for Slovenia and Thailand.

1. SMEs only.
2. Base year is 2008.

Source: National Scoreboards.

StatLink http://dx.doi.org/10.1787/888932794858

6. Payment delays and bankruptcies

Statistics on payment delays and bankruptcies reflect difficulties in maintaining cash flows because of the stalled recovery and tightening of credit markets, as shown by the decline in SME loan shares, and the increase in interest rates and collateral requirements. Payment delays remained high or grew in 10 out of the 15 countries that were able to report. Bankruptcies continued to rise in 2011 in some countries, reaching levels that surpassed the height of the crisis in 2009 (Czech Republic, Italy, Serbia, the Slovak Republic, Spain and Switzerland). Only in Canada, Chile, Korea and New Zealand were bankruptcies lower in 2011 than in 2007.

Compared to 2010, bankruptcies in 2011 followed an upward trend in half of the countries (Table 2.6). While bankruptcy data over time are broadly indicative of the cash flow situation of enterprises, it should be highlighted there are differences in the length of the bankruptcy procedures between countries, so that insolvent enterprises are not declared bankrupt at the same pace.

Table 2.6. **Trends in bankruptcies 2007-11**

Relative to 2007 (2007 = 1) and percentages

		2007	2008	2009	2010	2011	2010/2011 growth rate (in %)
Canada	Per 1 000 firms	1.00	1.00	0.94	0.71	0.65	–9.1
Chile	All firms	1.00	1.05	1.21	0.94	0.93	–0.7
Czech Republic[1]	All firms	n.a.	1.00	2.57	3.02	3.45	14.3
Denmark	All firms	1.00	1.54	2.38	2.69	2.28	–15.4
Finland	% of firms[3]	1.00	1.11	1.33	1.11	1.22	10.0
France	Only SMEs	1.00	1.08	1.23	1.18	1.16	–1.0
Hungary	Per 10 000 firms	1.00	1.10	1.39	1.52	1.83	20.4
Ireland	All firms	1.00	1.25	1.89	1.90	2.13	12.1
Italy	All firms	1.00	1.22	1.53	1.83	1.97	7.8
Korea	All firms	1.00	1.19	0.87	0.68	0.59	–13.4
The Netherlands[2]	Only SMEs	n.a.	n.a.	1.00	0.89	0.88	–0.8
New Zealand	All firms	1.00	1.02	1.24	1.10	0.99	–10.4
Norway	Only SMEs	1.00	1.41	2.07	1.71	1.72	0.4
Portugal	All firms	1.00	1.35	1.46	1.57	1.82	16.0
Russian Federation[1]	All firms	n.a.	1.00	1.11	1.15	0.92	–20.1
Serbia	All firms	1.00	1.05	1.21	1.39	1.54	11.3
Slovak Republic	All firms	1.00	1.49	1.63	2.04	2.45	20.3
Spain	Only SMEs	1.00	2.83	4.92	4.64	5.16	11.3
Sweden	All firms	1.00	1.09	1.32	1.26	1.25	–0.6
Switzerland	All firms	1.00	0.98	1.21	1.45	1.54	6.5
Turkey	All firms	1.00	0.90	0.96	1.31	1.38	5.9
United Kingdom	All firms	1.00	1.23	1.51	1.32	1.40	5.7
United States	All firms	1.00	1.54	2.15	1.99	1.69	–15.1

Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. The indicator is not available for Slovenia and Thailand.

1. Base year is 2008.
2. Base year is 2009.
3. Percentage of firms in bankruptcy proceedings.

Source: National Scoreboards.

StatLink http://dx.doi.org/10.1787/888932794877

7. Summing up and looking ahead

Following a severe crisis in 2008-2009 and an uneven recovery in 2010, conditions to access finance in 2011 remained tight for SMEs and entrepreneurs in most countries. Only one country in the Scoreboard had positive developments in 2011 for most of the core indicators. In Canada, SME loans increased while the SME loan share in total business loans was stable. Credit conditions improved, venture capital recovered and bankruptcies continued to decline. Eleven other countries experienced improvements in SME lending but a deterioration in credit conditions (Chile, France, Korea, the Netherlands, New Zealand, Norway, Russia, Sweden, Switzerland, Thailand and Turkey). For the rest of the countries that experienced modest or no recovery, most, but not all, of their core indicators deteriorated (Czech Republic, Denmark, Finland, Italy, Ireland, Portugal, Serbia, the Slovak Republic, Slovenia, Spain, United Kingdom and the United States).

While this edition of the Scoreboard mainly analyses the data up to 2011, looking ahead, there are indications that both the supply of and demand for credit by SMEs deteriorated in 2012 and will continue to do so.

The sovereign debt crisis that hit several European countries is expected to lead to further deterioration in the lending activities of banks in 2012-2013, increasing the risk of further credit constraints for small businesses in these countries. Table 2.7 shows, for some European countries in the Scoreboard, banks' exposure to sovereign debt, measured as the amount of sovereign bonds relative to core Tier 1 capital. While exposure of banks to their national sovereign bond holdings ranges from 161% (Italy) to 42% (Ireland), the exposure of banks to other countries' sovereign debt is rather limited (Blundell-Wignall, 2012). Banks that hold sovereign bonds of high-debt countries in their portfolio face wholesale refinancing difficulties. As such, they could experience a further deterioration of their balance sheet position, due also to the recessionary environment and emerging credit losses, which would lower their capacity to provide credit to the private sector.

Table 2.7. **Bank exposures to the sovereign debt of six countries**

As a percentage of Core Tier 1 Capital, by country

	Sovereign exposure to					
	France	Greece	Ireland	Italy	Portugal	Spain
France	49	4	1	18	2	3
Ireland	*	*	42	*	*	*
Italy	*	2	*	161	*	4
The Netherlands	29	*	*	*	1	2
Portugal	*	6	3	6	130	*
Slovenia	19	*	1	*	*	*
Spain	*	*	*	5	3	152
Sweden	5	*	*	*	*	*
United Kingdom	9	*	*	*	1	1

* = less than 1%.

Source: Blundell-Wignall (2012).

StatLink http://dx.doi.org/10.1787/888932794896

The implementation of Basel III requirements is also expected to have a significant impact on SME lending and credit conditions. In particular, OECD (2012a) discussed the implications of a rapid versus gradual increase in capital adequacy ratios, the so-called "gold plating", which could lead banks to reduce their balance sheets instead of raising capital, thus, dampening loan growth especially for SMEs.[5] The 2012 IMF Global Financial Stability Reports indicates that European banks continued their deleveraging in 2011 and highlight the risk that a large-scale reduction in bank assets could lead to a credit crunch (IMF, 2012a, 2012b).

Furthermore, the Basel III reforms are likely to affect the use of credit guarantee instruments, depending on the nature of the guarantee institutions (see Chapter 3). As credit guarantees are an instrument of choice in many countries to address the SME financing gap, it will be important to monitor these changes by strengthening and refining indicators that capture access to guarantees provided by public and private schemes.

It will be critical to continue monitoring these conditions through the Scoreboard indicators. It will also be important to improve monitoring of the demand side, in order to assess the degree to which the rapid adaptation of lenders to new requirements is altering credit conditions and borrowers' behaviour. In this regard, the downward trend in loan demand is expected to continue. In the euro area, according to the October 2012 Bank Lending Survey by the ECB, the demand for loans by enterprises continued to decline in the third quarter of 2012, with the demand for mergers and acquisition, inventories and working capital contributing the most to the decrease.[6]

8. Government policy responses in 2010-2011

Governments responded to the global financial crisis and its effects on SME financing with a variety of instruments. The most popular measure was loan guarantee programmes, which expanded substantially over 2007-2011. With the exception of Ireland and New Zealand, every Scoreboard country had a loan guarantee programme that could be ramped up during the crisis, in terms of the total amount of guarantee funds, the share of the loan guaranteed or the number and types of eligible firms. Furthermore, new elements were added to these programmes, or new instruments were created outside of the traditional guarantee programmes.[7] Other public instruments to enhance SME finance included direct loans, micro loans, export guarantees, and support for risk capital (equity) either in the form of co-financing or tax credits for investors.

Table 2.8 reports the broad range of measures undertaken in the Scoreboard countries. These measures carry different costs for public budgets, including some with significant costs (e.g. government direct lending and loan guarantees); some that are cost neutral (e.g. bank targets for SME lending); and some with even negative costs (e.g. negative interest rates for bank deposits at the central bank). These measures also imply varying degrees of engagement by public agencies.

The trends in government policy responses in 2010-2011 reflected the strength or weakness of the recovery at the country level. In economies where the recovery began to fade and bankruptcies continued to mount, many of these programmes were extended or enhanced.

Some countries have adopted programmes based on models in place elsewhere, while others have established new forms of public support. Thus, countries are beginning to react differently to the crisis over time. For example, in 2011, Ireland established lending targets for banks, as well as a Code of Conduct for Business Lending to SMEs. In addition, a loan guarantee programme was launched in October 2012. Russia and Turkey both engaged in subsidising interest rates, which tended to be much higher than in most other Scoreboard countries. Russia offered low interest rate financing for innovation and modernisation. Turkey has created interest rate support programmes to assist enterprises during the financial crisis, as well as to help enterprises in the high technology sector invest in new machinery and equipment.[8]

Among new programmes, Denmark has recently introduced negative interest rates for excess funds on deposit at its Central Bank in order to encourage bank lending. Far from costing the government money, this approach even earns funds. The European Central Bank is also considering using negative interest rates on deposits to encourage banks to lend. The United Kingdom has taken another approach to encourage lending in its Funding for Lending programme. Banks are provided with funds at below-market rates depending on their net lending rate.

It is important to improve the ability of policy makers to monitor the policy environment and evaluate the cost effectiveness of the measures implemented to support SME lending. The Scoreboard is taking steps to harmonise the collection of information on government programmes to promote SMEs' access to finance (see Annex C).

Table 2.8. **Government policy responses to improve SMEs' access to finance**

2007-11

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, Slovak Republic, Slovenia, Spain, Switzerland, Thailand, United Kingdom, United States, Spain
Special guarantees and loans for start ups	Canada, Denmark, the Netherlands
Increased government export guarantees	Canada, Denmark, Finland, the Netherlands, New Zealand, Sweden, Switzerland, Spain, United Kingdom
Gov. co-financing/**Pension fund co-financing**	Sweden, Ireland, Denmark
Increased direct lending to SMEs	Canada, Chile, Hungary, Korea, Serbia, Slovenia, Spain
Subsidized interest rates	Hungary, Portugal, Russia, Spain, Turkey, United Kingdom
Venture capital and equity funding, guarantees	Canada, Chile, Denmark, Finland, France, Hungary, the Netherlands, Spain, United Kingdom
Business advice, consultancy	Denmark, Finland, New Zealand, Sweden
Tax exemptions, deferments	France, Ireland, Italy, New Zealand, Spain, United Kingdom
Credit mediation/**review/code of conduct**	France, Ireland, New Zealand, Spain
Bank targets for SME lending, negative interest rates for deposits at central bank	Ireland, Denmark
Central Bank funding to banks dependent on net lending rate	United Kingdom

Note: Policy responses in bold identify new policy measures introduced in 2011.

Source: National Scoreboards.

Notes

1. See Chapter 1 and Annex A for a discussion of the core indicators and sources of data.
2. However, it should be noted that the use of financing instruments alternative to straight debt (e.g. factoring, leasing, mezzanine finance) has increased also among SMEs in recent years.
3. Interest rates for SMEs are defined differently across the sampled countries, depending on the definition of SME loans. See Chapter 4 for methodological details.
4. The ECB Survey on SME access to finance is undertaken every six months to assess the latest developments in the financing conditions for firms in the euro area. It has been undertaken since the first half of 2009. Among the most important questions are: was there a deterioration in the availability of bank loans and in the willingness of the banks to lend; what was the outcome of the loan application (granted in full or rejected) and did interest rates and collateral requirements increase or decrease. A joint ECB/EC survey round is conducted every two years for all the EU member states and some additional countries.

5. International pressure resulted from Basel III requirements and from decisions taken at the October 2011 EURO summit and EU Council meeting, which gave banks a deadline of June 2012 to raise their "core" capital ratios to 9%, after marking to market their holdings of sovereign debt. The European Banking Authority estimated that the total capital shortfall to be made up at EUR 106 billion.
6. See *www.ecb.europa.eu/stats/money/surveys/lend/*.
7. See Chapter 3.
8. More than 400 000 enterprises benefited from Turkey's interest rate support programmes.

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Financing SMEs and Entrepreneurs 2013
An OECD Scoreboard

Chapter 3

Thematic Focus: Credit Guarantee Schemes

This chapter provides an overview of Credit Guarantee Schemes in Scoreboard countries. The evidence on public schemes provided in the country profiles is complemented by information on private guarantee schemes as well as mixed guarantee schemes (public-private). The chapter sets this evidence within a conceptual framework, discussing the rationale of credit guarantee systems and illustrating the diversity of CGSs, in terms of ownership structure, funding, programme design and operational characteristics. It explores these dimensions in specific credit guarantee schemes in Scoreboard countries and reviews the main policy measures introduced during the crisis to support credit guarantee operations. The chapter then addresses structural and emerging challenges for the effectiveness and sustainability of these schemes. For this purpose, key dimensions for evaluation and performance indicators are examined. The chapter concludes with policy considerations.

1. Introduction

In the aftermath of the 2008-2009 global financial crisis, in many countries, Credit Guarantee Schemes (CGSs) have represented an instrument of choice for policy makers to improve access to finance by SMEs and young firms. This business segment has faced more severe credit conditions in relation to large firms, in the form of increased requests for collateral, shortened maturities and higher interest rate spreads. This suggests that smaller firms were considered to be higher-risk companies by lenders and that the financing gap has become a concern for a greater number of entrepreneurs.

The evidence from the Scoreboard shows that governments responded to increasing difficulties faced by SMEs in credit markets by injecting capital into their loan guarantee programmes and direct lending programmes. Over 2008-2010, new guarantee programmes were set up, and existing loan guarantee programmes ramped up, as part of government anti-crisis packages. In the light of the uncertain recovery, in 2011, many of these programmes were continued or, as part of policies intended to stimulate growth and job creation, some new elements were introduced, tailored at specific categories of SMEs.

The expansion of public guarantee instruments, as well as the increased support to private guarantee schemes, through funding or co-guarantees, has triggered greater demand for monitoring and evaluation. This demand concerns in particular the effectiveness and sustainability of credit guarantee policies in stormy fiscal times. At the same time, there is a need to distinguish the specific challenges arising from the extensive use of credit guarantees as a countercyclical tool from their ordinary functioning as a structural element of financial systems.

Indeed, CGSs are a long-established risk transfer mechanism to ease access to finance for firms and entrepreneurs constrained by information asymmetry, limited credit history and under collateralisation, which, in many countries, have existed since the beginning of the 20th century (Beck et al., 2010). Undoubtedly, their diffusion and relevance have increased significantly over the last several decades, across OECD and non-OECD countries alike. If in OECD countries their late expansion is largely related to the increasing difficulties for SMEs in accessing debt finance, in several non-OECD countries, CGSs have also developed rapidly as a mechanism to expand credit markets and improve financial inclusion.

2. The rationale for Credit Guarantee Schemes

CGSs are used widely across economies as important tools to ease financial constraints for SMEs and start-ups. These firms are typically limited in their capacity to access credit because of under-collateralisation, limited credit history and, often, lack of expertise needed to produce sophisticated financial statements. Because of the information asymmetry that exists between the firm and the potential lender, this latter attributes a high risk of default to the borrower. In the absence of adequate collateral, this eventually results in a partial or negative response to the credit demand. The credit guarantee mechanism is a risk transfer mechanism commonly used to overcome these constraints. The loan guarantee implies that, should the SME default, the CGS will reimburse a pre-defined share of the outstanding loan.[1] In other terms, by reducing the financial loss suffered by the financial institution in the case of default, CGSs reduce the lender's credit risk.

At the theoretical level, there is some divergence of views as to whether government policies should be designed to plug alleged SME financing gaps, in which some SMEs and entrepreneurs that have the capability to use funds productively were they available, do not have access to those funds (Cressy, 2002; OECD, 2006). The conceptual debate has focused on the *excess demand* versus the *credit rationing* hypotheses. According to the first (e.g. De Meza and Webb, 1987), there exists such a gap if interest rates are below the equilibrium, market-clearing rate, as a result of intervention by authorities, which leads to excess demand for loanable funds. The seminal work by Stiglitz and Weiss (1981), on the other hand, underlines the existence of failures in financial markets, due to asymmetric information and agency problems. In particular, banks have difficulties distinguishing good risks from bad risks and in monitoring borrowers once funds have been advanced. They will hesitate to use interest rate changes to compensate for risk, in the belief that, by driving out lower-risk borrowers, high interest rates may lead to a riskier loan portfolio, thus setting in motion a process of adverse credit selection. Therefore, they have an incentive to engage in credit rationing and to allocate credit by quota. In this way, they do not provide or extend the full amount of credit demanded even when the borrower is willing to pay higher rates. In the Stiglitz-Weiss formulation, credit rationing is said to occur if *i)* among loan applicants who appear to be identical some receive credit while others do not; or *ii)* there are identifiable groups in the population that are unable to obtain credit at any price (OECD, 2006).

Although the credit rationing argument applies to businesses in general, SMEs are particularly affected because the problem of information asymmetry is more acute in their case. In fact, most of them are unlisted and are not required to disclose financial information. The broad range of SMEs' productivity and survival rates also contributes to the credit rationing by financial institutions. The asymmetric information often leads to situations in which lending is not based on expected return but rather upon access to collateral, which may reduce or eliminate contract problems such as "moral hazard" and "adverse selection", limiting the downside loss for the lender (Berger and Udell, 1990). However, using collateral increases the cost of borrowing, because transferring control of the collateralised assets often involves legal and other administrative costs. Also, the collateral may be worth more to the borrower than to the lender, whose incentive to sell the assets as quickly as possible may result in under-pricing (Leitner, 2006). In addition, the use of collateral may impose opportunity costs on borrowers, affect business performance and increase the risk of default, to the extent that it ties up assets that might be put to more productive uses (Berger et al., 2011).

Credit guarantee mechanisms are intended to address this market failure, by reducing the financial loss suffered by the financial institutions in the case of defaults. Furthermore, in the case of individual assessment of loans (i.e. *retail* credit guarantee systems), participation in a CGS can improve the relationship between borrowers and lenders, to the extent that it represents an ex ante positive signal to the bank on the creditworthiness of the firm. This can favour the development of a longer-term trust-based relationship, in which the incidence of information asymmetries is reduced (Honohan, 2010). CGSs can also work to improve the efficiency of local financial markets. To the extent that the lender's financing activities is limited to local firms only or to firms that operate in a narrow set of sectors, CGSs provide a way to spread risk. This happens if the scheme supports firms from several regions or different sectors.

3. Typologies and operational characteristics of Credit Guarantee Schemes

There exists a wide variety of designs and types of CGSs, within and across countries. In principle, across all types of schemes, relevant players in the guarantee mechanism include the SME that demands credit, the financial institution that performs an assessment of the borrower's creditworthiness, the CGS that covers a share of the loan with its guarantee, and the government.

The government plays an important role in its function as regulator of financial markets, but can also play a direct role in the guarantee schemes, by providing financial support, participating in their management, or, indirectly, by granting counter-guarantees, whereby the government takes over the risk from the guarantor, up to a pre-defined share of the guarantee.

The actual engagement and role of the different players depend on the legal and regulatory framework, which reflects both international standards and country-level policy objectives, but also on the operational features of the individual scheme. The following paragraphs illustrate this diversity drawing on evidence from *Scoreboard* countries.

3.1. Ownership and management

Depending on the ownership structure and role of shareholders in the management of the scheme, CGSs can be classified into three main typologies: *i)* Public Guarantee Schemes; *ii)* Public-Private (or mixed) Guarantee Schemes; *iii)* Private Schemes. However, even within a given typology, these forms may be very different from country to country, responding to specific market needs and legal and economic framework conditions.

Public schemes

Public Guarantee Schemes (PGSs) are founded on government initiative as a direct policy tool to alleviate financial distress by SMEs. They are generally managed by government related agencies, such as public guarantee banks, or by an administrative unit of a ministry. In some cases, the guarantee schemes are operated through agencies with participation by the private sectors.

Examples of public schemes operated by public agencies include: the Canada Small Business Financing Program (CSBF), a loan loss-sharing programme for government and private sector lenders, managed by Industry Canada, the government's department with responsibility for regional economic development, investment, R&D and innovation; Chile's *Fondo de Garantía para Pequeños Empresarios* (FOGAPE), managed by BancoEstado, the state-owned bank; Denmark's Vaekstfonden (Growth Fund), a government investment fund which provides guarantees to established growth companies, as well as get started loans and equity funding; the Slovak Republic's SME guarantee programmes managed by the Slovak Guarantee Development Bank, owned by the Ministry of Finance; the government-owned Slovene Enterprise Fund; and the US Small Business Administration's (SBA) 7a Loan Program (Box 3.1).

In some countries, particularly those characterised by a strong federal model, public guarantee funds are articulated as a network of local or regional funds, overseen by a central institution. In Russia, the Programme of Guarantee Fund Creation and Development, set up in 2006 by the Ministry of Economic Development, is co-funded by the federal and regional governments. To operate this Fund, 83 organisations have been created in 79 regions. The capital contributions may vary across regions, but the federal level provides at least 50% of the capital.

Box 3.1. **Credit Guarantee Schemes in the United States: The 7(a) loan program**

Several credit guarantee programs are in place in the US, the most important being the 7(a) Loan Program. The program is operated by the Small Business Administration (SBA), a government agency, and started operation as early as 1953, the year of foundation of the SBA.

Size threshold determining eligibility of the program varies by industry affiliation. For manufacturing, firms must have less than 500 employees. For other sectors, the threshold is defined in terms of turnover. Guaranteed loans are allowed to finance various business purposes, including working capital, investment in fixed assets and lands, and – under special conditions – debt refinancing. Importantly, to be eligible borrowers have to certify that they were unable to obtain credits on the regular financial market.

The coverage ratio depends on the loan volume. In the case of small loans (under USD 150 000), 85% are guaranteed compared to 75% of larger loans. The maximum amount of loan is USD 2 million. Maturity depends on the use of the loan. For working capital, the threshold is 10 years as compared to 25 years in the case of fixed assets. The program also specifies a maximum interest rate, which is pegged to the prime (up to 2.75% above the prime) and decreases with the volume of the loan and its maturity. To mitigate the adverse effects of the financial crisis for access to finance of small firms, within the framework of the Small Business Jobs Act of 2010, the maximum amount of loan volume was increased to USD 5 million.

Guarantee fees are expressed as a percentage of the guarantee and are generally paid by the borrower. They consist of an upfront fee and an annual fee. The latter is fixed at 0.54%, while the former increases with the loan volume the maturity of the loan. The maximum upfront fee is 3.7% (for guarantees exceeding 1 million USD and a maturity larger than 1 year).

Source: US Small Business Administration, Quick Reference to SBA Loan Guarantee Programs; OECD (2012).

Guarantee services may also be provided by public entities in a decentralised manner, through the financial system, with little or no direction in how the guarantee scheme is run. For instance, in the case of the United Kingdom's Enterprise Finance Guarantee (EFG), created in 2009 as a counter-cyclical instrument, lending is all held in individual lenders' loan books. Capital for Enterprise Limited (CfEL), a private company entirely owned by the UK government, is responsible for oversight of the scheme; i.e. collecting premiums from borrowers, making payments to lenders to cover defaults, monitoring lending flows and providing audit capability in general. The delivery of the scheme, including the decision to offer an EFG loan or not, is fully delegated to the lender and the central government does not interfere in the operation of CfEL.

In the Netherlands, a full partnership principle is applied by BBMKB (Besluit Borgstelling MKB Kredieten), the debt guarantee instrument of Agentschap NL, an agency of the Ministry of Economic Affairs, Agriculture and Innovation. Through this scheme, the government allocates, out of a given total annual budget, guarantee envelopes to partner banks. Banks supply the guarantee on their own credits without an individual decision made by the fund, that is, decision-making is delegated to banks.

Public-private Guarantee Schemes

Public financial institutions, development banks or SME agencies often play a catalytic role in the establishment of public-private guarantee schemes, in which the public entity may keep a majority stake. For instance, in Hungary, Garantiqa Hitelgarancia, the main guarantee institution in the country, was founded in 1992 by the Hungarian government – which holds the majority share through the Hungarian Development Bank Group – large commercial banks, co-operative savings associations and some enterprise interest group associations, all of which are minority shareholders. In Turkey, the Kredi Garanti Fonu (KGF) is held in equal shares by KOSGEB (Turkey's SMEs Development and Support Organisation), TOBB (The Union of Chambers and Commodity Exchanges of Turkey), entrepreneurial associations and banks. KGF also benefits from counter-guarantees provided by the Turkish Treasury.

In France, a large guarantee programme is managed by OSEO, a development agency owned 90% by the state and 10% by private banks and other institutions. OSEO is headed by a public-sector holding company and reports to both the Ministry for the Economy, Finance and Industry, and the Ministry for Higher Education and Research. At the operational level, however, it is characterised by a large degree of management autonomy.

In the cases of public or mixed schemes, public authorities provide funds for CGSs. However, their direct involvement in the management, credit risk assessment and loss recovery is less common, as these functions are mostly frequently carried out by the lending institutions.

Private Guarantee Schemes: The case of Mutual Guarantee Schemes

Private guarantee schemes are characterised by the direct participation of the private sector, SME organisations and banks in the funding and management of the scheme. The role of the government is generally limited to the regulatory and legal framework and to the provision of financial assistance, which comes either in the form of direct funding or counter-guarantees.

Among the oldest existing schemes are mutual guarantee schemes (MGSs), which are private societies created by borrowers in order to improve their access to finance, predominantly found in European and South American countries. MGSs are characterised by strong ties with the local community and territorial system and, often, member firms operate in a specific sector or value chain. This provides a specific information advantage to the schemes, which are in fact commonly active in credit risk assessment: they evaluate their members, assess their creditworthiness, express recommendations to lending institutions and are involved in the recovery of losses should the borrower default.

The peer review process acts as powerful mechanism for controlling risk and limiting opportunistic behaviour. Since the MGS suffers a loss in case of default, members have strong incentives to closely monitor their peers, which may prevent borrowers from excessively risky behaviour and increase the repayment probability of the loan.

MGSs can be classified into institutions with direct and indirect mutuality. In the case of direct mutuality, the schemes are capitalised by the contribution of member firms, which take on joint responsibility for outstanding credits and are directly involved in the management. In order to be eligible for support, firms generally have to be members of the institution.

In countries with well-established mutual schemes, a multi-layer guarantee structure is commonly observed or is emerging in response to changes in the regulatory and competitive environment, with local schemes that benefit from close proximity to firms and local financial institutions, larger regional schemes that provide co- and counter-guarantees to the first-tier schemes, and the government, which plays a key role as guarantor of last resort, through a central guarantee fund. This is the case of Italy, where a large number of MGSs (*Confidi*) operate at the local level, typically in industrial areas that are characterised by clustering of highly specialised and interconnected SMEs and a well-defined territorial economic identity, related to a sector or value chain (Box 3.2).

Box 3.2. **Mutual Guarantee Schemes in Italy (Confidi)**

Italian mutual guarantee schemes (Confidi) are among the most important schemes in Europe. Almost 1 million Italian SMEs are members of a MGS and guarantees granted by Italian MGSs account for 41% of all guarantees issued by European CGSs and 1.4% of Italian GDP. The coverage ratio typically amounts to 50% of the loan volume.

The first Italian mutual guarantee scheme was created spontaneously by entrepreneurs in the late 1950s as a mean to increase their bargaining power *vis-à-vis* banks and to improve their access to finance. Despite a profound process of reorganisation and mergers over the last 50 years, Confidi have maintained their mutuality character, that is, entrepreneurs are both members and shareholders of the institutions and are often heavily involved in their management. The mutuality character is codified into law as at least 20% of their capital endowment must come from affiliated firms.

The Italian system is characterised by a great variety of mutual schemes, which differ with regard to the territorial coverage and industry affiliation of their member firms. More than 200 institutions exist which are grouped into 7 aggregate national Italian Federations, according to their sector of operation. These federations provide the link between the guarantee institutions themselves and the business associations which promote them. The system works in fact as a two layer system and generally at two interrelated territorial levels. The first level is the local one, which allows for strong ties to the territory and to affiliated SMEs. At this level, credit risk assessment is performed, benefiting from the specific knowledge of local members. The second, higher level generally operates with a regional scope and provides counter-guarantees to the local level. These are second-tier MGSs, which are set up by groups of the same institutions. By providing counter guarantees they allow for a broader sharing of risk across schemes. At the same higher level, counter-guarantees are also offered by entities funded by the regional government. However, banks can by-pass this second level and apply for direct guarantee from a state supported guaranteed fund, such as the Central Guarantee Fund. This latter provides direct guarantees to banks and acts as a guarantor of last resort for the MGSs, to the benefit of SMEs with less than 250 employees.

From 2000-2007, the Fund provided EUR 4.2 billion in guarantees for EUR 8.7 billion worth of loans. In response to the financial crisis, the Italian Government has re-financed the Fund, in order to expand its credit guarantee operations. As a result, in 2009 the Fund guaranteed an amount of credit worth EUR 4.9 billion. Furthermore, the maximum guarantee per firm was increased from EUR 0.5 million to EUR 1.5 million and the eligibility of the previously excluded crafts enterprises was introduced. Throughout 2010-2011, the CGF showed an unprecedented growth and counter-guarantee operations increased at a higher rate than direct guarantees. In 2011, a further EUR 8.4 billion in guarantee loans was supported. Confidi were also supported by local Chambers of Commerce, which provided direct funds as well as counter-guarantees.

Source: De Vincentiis (2008); Zecchini and Ventura (2009); Mistrulli et al. (2011); Locatelli (2012).

Regional and sectoral specialisation are also a feature of the Spanish model of mutual schemes (*Sociedades de Garantia Reciproca* – SGR). Three MGSs, specialised by industry (Leisure, Transport, Audio-visual), operate at the national level. At the regional level there exist 20 schemes, promoted by public agencies, financial institutions, co-operatives, associations, chambers of commerce and SMEs. Also the Spanish model is characterised by a system of public counter-guarantees, which operates through a state-owned reinsurance company, CERSA (*Compañía Española de Reafianzamiento, S.A.)*.

Another example of direct mutualism can be observed in Turkey. The system is divided into three levels: 910 co-operatives at the local level, 32 regional unions and one national umbrella organisation, TESKOMB (the Union of Credit and Guarantee Cooperatives for Tradesmen and Craftsmen), created in 1970. In this case, the shareholders and beneficiaries are the co-operatives. With the guarantee from the co-operative, a member can access credit at lower interest rates from Halk Bank, the Turkish state-owned bank. The difference between the interest rate applied to the loan and the commercial rate is compensated by the State (AECM, 2012a; KPMG, 2012).

In most cases, mutual guarantee systems are the result of bottom-up initiatives. An exception can be found in Portugal, where a mutual guarantee system was initiated in 1992 by IAPMEI, the Portuguese public agency that supports SMEs. With the aim to set basic framework conditions and demonstrate to the private sector the potential of mutual guarantee mechanisms, a pilot society was created, SPGM Sociedade de Investimento S.A., which built guarantee operations and other services aimed at SMEs. Entrepreneurs and SME associations were gradually engaged and, over time, the operational functions of the public pilot entity were transferred to newly created MGSs. Nowadays, SPGM acts as the holding company of the system, offering a range of non-operational services and managing the publicly funded Mutual Counterguarantee Fund (FCGM), which covers part of the risk of the MGSs and can counterguarantee itself with the European Union's "SME Guarantee Facility", managed on behalf of the European Commission by the European Investment Fund, under the EU Competitiveness and Innovation Framework Programme (CIP).[2]

In schemes with indirect mutuality the involvement of firms in the scheme's management is less pronounced than in the case of direct mutual schemes. Typically, the institution is managed by a chamber of commerce or a trade association of which firms are members. Examples include: in France, SIAGI (*Société de caution mutuelle de l'artisanat et des activités de proximité*), created in 1966 by the Chambres des Métiers et de l'Artisanat and later participated also by banks; in Chile, the first mutual guarantee scheme, *PROAVAL*, created in 2008 by a group of professionals, companies and business associations, following the law enacted in June 2007, which introduced the possibility to establish MGSs.

3.2. Legal and regulatory framework

Credit Guarantee Schemes are typically not-for-profit organisations to which specific regulatory systems apply (Leone and Vento, 2012). Although the composition of own funds and management may vary significantly from country to country, as financial intermediaries, CGSs are subject to the control of the prudential supervisory authority. The way the norms of prudential supervision applicable to banks impact the guarantee institutions depends on whether they are qualified as supervised financial intermediaries. If this is the case, these norms directly influence their *modus operandi*. Otherwise, the influence of the norms is indirect, as they affect the technical characteristics of the guarantees issued by the scheme. It should also be noted that some public CGSs, which act on behalf of their ministries, are not subject to requirements on capital and solvency ratio (i.e. Basel III rules), since the funding comes directly out of public budgets and does not figure on their books as own funds.

Control over CGSs can be exercised at various levels, including by public bodies and the Central Bank. The supervision and control of public schemes is generally performed by central government ministries or, if the organisation has the status of financial intermediary, as in the case of France's OSEO, by the Central Bank. For instance, in Korea, KODIT (Korea Credit Guarantee Fund), as a government sponsored organisation, is monitored and assessed by related government departments: the Ministry of Strategy and Finance (Budget Planning), the Financial Services Commission (Operation Supervision) and the Small and Medium Business Administration (Capital Contribution).

The control function can also be delegated to *ad hoc* control structures, supervised by the Central Bank. This is the case, for instance, of MGSs in Italy, which can be classified into supervised schemes (under the direct supervision of the Bank of Italy) and the smaller unsupervised schemes (under inspection of an external body, also subject to the Bank of Italy's supervision). These supervised and non-supervised schemes co-exist and compete in the same markets.

In some countries, a special tax regime is in place to favour the credit guarantee activity. The guarantors may be exempt from the payment of taxes, which enables them to fully re-invest the surplus earned from the activity. This is the case of Spain, where MGSs are exempt from taxes on public subsidies and the returns gained from their investment, which are allocated to a Technical Reserve Fund, intended to increase their solvency (Pia, 2008).

3.3. Operational characteristics

Types of services

CGSs often combine their main service – the provision of a partial credit guarantee on a bank loan or loan portfolio – with the offer of complementary services to SMEs, such as information on financial markets, assistance in the preparation of accounting statements and training programmes. Training programmes are more frequent in the case of public schemes, whereas, in most cases, MGSs are dedicated exclusively to the guarantee activity. Furthermore, public schemes often combine their main guarantee services with a range of other financing support instruments, including risk capital, mezzanine capital, and support for internationalisation.

Export credit guarantees are used widely to ensure exporters against the risk of foreign customers' defaults. In Finland, for instance, Finnvera, the state-owned enterprise that provides financial services to start-ups and SMEs, issues export credit guarantees that cover commercial and political risks. In Chile, CORFO, the government economic development agency, provides guarantees for export and – since 2011 – for import.

Firm eligibility

CGSs differ according to the firms that are eligible for guarantees. In most cases, guarantees are issued only to firms below a given size threshold, as defined in terms of either sales or number of employees, although this threshold may then vary by sector, as in the case of the SBA 7a Loan Program in the United States (see Box 3.1). Eligibility may also differ with respect to the activity for which finance is provided. For example, the Canada Small Business Financing Program (CSBFP) does not grant guarantees for loans intended to finance working capital needs. This was also the case of Chile's FOGAIN, a guarantee fund for investment loans managed by CORFO, until 2001, when it was extended to working capital needs.

In some cases, in order to be eligible, firms have to prove that they have been denied finance on the market due to a lack of collateral. This requirement exists for the US SBA 7a Loan Program and for KGF in Turkey.

As a policy instrument, PGSs may also be directed at specific categories of firms, such as start-ups or innovative firms, in accordance with broader policy objectives. This is the case of KIBO (Korea Technology Finance Corporation), a guarantee institution funded by Korea's central government and banks, which guarantees up to 100% of the loan for companies that invest in technology (Box 3.3).

Box 3.3. **Korea Technology Finance Corporation (KIBO)**

In 1989, the Korean Government funded KOTEC (Korea Technology Credit Guarantee Fund), as a non-profit guarantee institution under the special enactment "Financial Assistance to New Technology Businesses Act". The mission of KOTEC was to contribute to the national economy by providing credit guarantees to facilitate financing for new technology-based enterprises while promoting the growth of technologically strong SMEs and venture businesses. In 2002, the founding Act went through a full-scale revision and was newly titled "Korea Technology Finance Corporation Act". The fund changed its name to Korea Technology Finance Corporation (KIBO).

Since it was founded, the Fund has provided more than USD 167 billion (KRW 183 trillion) worth of guarantees to SMEs that possess prominent technology and business prospects but lack security for financing. In particular, more than 80% of the total guarantee amount was provided to companies that intended to develop or apply new technologies via the Technology Credit Guarantee System. Under this program, a small technology-based company that cannot meet a bank's lending criteria (which usually imply provision of collateral) applies for a technology guarantee. KIBO investigates and evaluates the creditworthiness and the value of the technology of the company. In most cases, the banks rely on the investigation and the approval by KIBO for their decision of the loan extension. Besides guarantee provision, KIBO handles defaults and claims.

KIBO also provides technology appraisals and technological and management-support. The appraisal services include: *i)* technology value appraisal, which estimates the monetary value of the current or prospective technology; *ii)* feasibility assessment of technology business, which evaluates the feasibility of commercialising a current or prospective technology or of expanding a technology investment; *iii)* comprehensive technology appraisal, which evaluates the monetary value of all the technologies of the enterprise, taking into account current and expected business framework conditions.

Source: KIBO *(http://eng.kibo.or.kr/);* Hong (2006); KPMG (2012).

Guarantee assignment process

Three broad types of schemes exist which regulate the relationship between CGSs, banks and SMEs and establish the tasks undertaken by the scheme: *retail*, *portfolio* and *wholesale* guarantee systems.

In *retail guarantee systems,* CGSs typically examine the eligibility of firms, assess credit risk on a case by case basis, and decide whether the guarantee will be granted. In some cases, credit risk assessment is done by both the CGS and the lender. As illustrated in Table 3.1 for a sample of guarantee schemes in Europe, retail-type guarantees are common, especially among mutual schemes, whose competitive advantage builds on in-depth knowledge about borrowers. The knowledge advantage can compensate for the burden

Table 3.1. **Selected Credit Guarantee Schemes: Operational characteristics**

	Credit Guarantee Scheme	Ownership	Restricted to SMEs	Retail vs. portfolio			Credit risk assessment		Guarantee limit	Guarantee period		Coverage ratio (in %)		
				Retail	Portfolio	Combination	Guarantee scheme	Lending institution		Max.	Average	Min.	Max.	Average
Czech Republic	CMZRB	Public		x			x	x	n.a.	15	7.0	n.a.	n.a.	n.a.
France	SOCAMA	Mutual	x	x				x	EUR 200 000	7[1]	n.a.	100	100	100
France	OSEO	Public-Private	x	x	x[2]			x[3]	EUR 1.5 million	15	6.0	20	80	48
Hungary	Garantiqa	Public-Private	x				x	x	HUF 2.5 billion	25	2.0	n.d.	80	65
Hungary	AVHGA	Mutual	x	x			x	x	HUF 1 billion	25	3.7	n.a.	n.a.	61.6
Italy	Federconfidi-Confindustria	Mutual	x	x			x		EUR 2 million	15	1.5	n.a.	n.a.	50
Italy	Federascomfidi-Confcommercio	Mutual	x	x			x	x	n.a.	>5	1.5	n.a.	n.a.	50
Italy	SFGA-ISMEA	Public	x	x			x		EUR 2 million	n.d.	12.0	30	80	62
Netherlands	Agentschap NL	Public				x	x	x	EUR 1 million[4]	12	n.a.	n.a.	n.a.	45
Portugal	SPGM/SCM	Mutual[5]	x			x	x	x	EUR 1.5 million[6]	n.s.	4.0	n.a.	n.a.	10-100
Russian Federation	FSECA	Public	x	x			x	x	RUB 70 million	n.d.	1.8	n.d.	70	48.8
Slovenia	SEF	Public	x	x			x	x	EUR 1.2 million	10	7.0	60	80	n.a.
Spain	SGR/CESGAR	Mutual	x	x			x		legal limit 20 % of own funds	15	8.0	n.a.	80	n.a.
Turkey	KGF	Public-Private	x	x			x	x	TRY 1 million	8	3.0	n.a.	n.a.	73

Notes: n.a.: not available, n.d.: not defined, n.s.: not specified.

1. In some cases for commercial real estate financing the maximum period extends to 15 years.
2. Portfolio approach only for small guarantee commitments.
3. Business organisations and other private agencies are also involved in credit risk assessment. In special cases, OSEO performs its own risk assessment to provide a second opinion on the bank's risk evaluation.
4. For BMKB scheme.
5. Founded by a public entity.
6. For certain credit lines the maximum guarantee is EUR 2.5 million.
7. Depending on guarantee type.

Source: European Association of Mutual Guarantee Societies (AECM).

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of a retail approach, as assessing the credit risk on an individual basis requires qualified personnel and can imply high administrative costs.

In *portfolio guarantees*, the decision to grant a guarantee is not assessed on an individual basis. Rather, it is based on some common characteristics such as the volume of the loan, a minimum level of creditworthiness based on financial statistics, the intended use of the funds, the geographic location of the firm or its industrial affiliation. This regime typically requires a lower expertise on the part of the CGS and entails lower administrative costs.

A portfolio approach is generally observed in the case of guarantee schemes managed by specialised SME lending institutions. Examples include the Canada Small Business Financing Program (CSBFP), which stipulates that SMEs contact the bank that assesses their credit risk. If the SME has a turnover lower than CAD 5 million and the loan is smaller than CAD 350 000 or CAD 500 000, depending on the intended use of the loan, then the bank can make use of the CSBFP's guarantee.

In some cases, the portfolio approach is combined with retail assessment. In France, for instance, OSEO assesses guarantees on a retail basis, except for small guarantees commitments, which are assessed on a portfolio basis. A similar approach is taken by Thailand's Small Business Credit Guarantee Corporation (SBCG), which has both a portfolio and retail schemes. The choice of which scheme is used depends mainly on the size of the loan: the portfolio scheme is intended for small loans while larger credit volumes are guaranteed under the retail scheme. Also in Korea, the retail approach is dominant, with 99.3% of KODIT's guarantees issued directly to borrowers in 2011.

In *wholesale guarantee systems*, there is no direct relationship between the CGS on one side and the borrower and lender on the other. Typically, the role of CGSs is to provide counter-guarantees for non-banking intermediaries, often micro-credit institutions. In fact, in the case of micro-credit, transactions costs implied by retail or portfolio assessment may be relatively high. ACCION International[3] and Women's World Banking[4] are examples of microfinance networks that have been experimenting with this model. In OECD countries, an example for a wholesale guarantee system is Italy's Central Guarantee Fund, which provides counter-guarantees to MGSs (see Box 3.2).

Risk management

Risk management is extremely important for the sustainability, performance and impact of guarantee schemes, since it affects the incentives of borrowers and lenders and determines the incidence of moral hazard type behaviour. Key levers in guarantee risk management are coverage ratio, term of the guarantee (i.e. length) and pricing.

The *coverage ratio* defines the extent to which a defaulted loan is guaranteed. The share varies across schemes, ranging from 20% to 100%. Auction systems can be used to assign guarantee rights, which determine different coverage ratios, as in the case of Chile's FOGAPE (Box 3.4). Beck et al. (2010) report a median coverage ratio of 80% across 76 schemes worldwide. An 80% ratio is also set as the upper threshold for guarantee coverage through public funding in the European Union State Aid Framework. In 2009-2010, this limit was temporarily increased to 90%, in order to ease guarantee support by member states for credit constrained SMEs.

In addition to a maximum coverage, some schemes have a maximum *guarantee period*, whose specification is often used when start-ups are financed, as in their case the default risk tends to decrease over time. Typically, the schemes also set an upper threshold to the

Box 3.4. **Auction systems for guarantee rights: Chile's FOGAPE**

Coverage rates of the Chilean credit guarantee scheme FOGAPE (*Fondo de Garantía para Pequeños Empresarios*) are determined by auctions which take place four to six times per year. The scheme is government owned and managed by BancoEstado, the state-owned bank, which also manages the auctions.

In the auctioning process, banks can acquire guarantee rights for three types of credit, depending on their maturity. About half of guarantee rights are for long-term credits, 30% are for short-term credits and the remaining 20% are for contingent operations, such as letters of credit. In each bid, banks indicate the amount of guarantee rights they wish to acquire as well as the maximum coverage rate associated with the guarantee. Guarantee rights are assigned starting with the bid indicating the lowest coverage rate. Subsequently, bids with higher coverage rates are assigned until the total amount of guarantee rights equals total bids. A single bank can acquire no more than two thirds of all guarantee rights each time. After a bank has been assigned guarantee rights, FOGAPE specifies the details of the guarantee contract, in particular the fees charged to the borrower and the coverage rate.

The BancoEstado can influence the coverage rate by setting reservation prices which depend on the type of products. For long-term loans and contingent credits coverage rates must not exceed 80%, for short run credits the maximum is 70%. Moreover, the BancoEstado can exclude banks if their previous default rates exceed a given threshold or if banks do use less than 90% of the guarantees previously acquired. Between 2006 and 2010, coverage rates have increased from 65% to 77%. In 2011, evidence indicates a reduction to 68%. At the same time, the number of guarantees has increased from 25 000 in 2006 to 64 000 four years later.

Source: Benavente et al. (2006); Bozzo (2011).

amount of the guarantee, which may differ depending on the firm size class. In France, SOCAMA (*Société de Caution Mutuelle Artisanale*), a mutual institution supporting craftsmen through credit guarantees, engages with rather small guarantee commitments, up to EUR 200 000. On the other hand, OSEO, which targets enterprises in higher size segments, sets the guarantee limit at EUR 1.5 million. The maximum guarantee period varies broadly across schemes, in a range between 5 and 25 years. Nevertheless, the average guarantee period is generally below 10 years and, in many cases, it is not above 5 years (see Table 3.1).

Pricing is a key element in the design of CGSs. These generate revenue by charging *fees* for the provision of a loan guarantee, which also impact incentives of borrowers. Two common types of fees include up-front fees and annual fees, which often coexist. The former have the advantage of discouraging unqualified borrowers and ensuring that early defaulting borrowers contribute to the scheme, as well as limiting administrative costs. At the same time, up-front fees imply a higher financial burden for the user at the start of the investment. This method is for instance applied by BBMKB, in the Netherlands, which charges a flat rate of 3% over the guaranteed loan amount, to be paid up-front. Firms in specific target groups often enjoy fee reductions. For instance, Korea's KODIT reduces fees by 0.1%-0.3% if the firm is innovative or engaged in green growth.

The calculation of fees can be based on the size of the loan or on the amount guaranteed. According to a survey conducted in 2012 by AECM on 30 schemes in Europe, the most common basis for premium is the nominal amount of the guarantees. In some cases, annual fees are variables and related to the type of loan or guarantee or to the borrower's risk profile. Although more than one criterion is often used, an internal rating system generally guides the process, which also takes into account the term of the guarantee and the quality of collateral (AECM, 2012b).

Whether the fee is paid by the borrower or the lender depends on the scheme. In some cases, like OSEO in France and the mutual schemes in Spain and Portugal, SMEs pay the guarantor directly, without intermediation from banks. In the case of Canada's CSBFP, it is the lender who has to pay the upfront fee of 2% and the annual fee of 1.25%. In principle, under this setting, the bank can transfer both fees to the borrower. In fact, the CSBFP's 2% upfront fee can be financed as part of the loan, whereas, the annual fee may be collected via an increased interest rate[5].

Raising the price of the loan, by charging guarantee fees, may ensure additionality of the scheme, as only higher risk borrowers that cannot obtain financing without the scheme are attracted. At the same time, if adverse selection sets in, and highly risky borrowers self-select into the programme, the default probability of the scheme may increase and its overall performance lower. Thus, guarantors face a trade-off between, on the one hand, setting prices that ensure additionality and allow the fund to cover its costs, and, on the other, limiting premiums to attract borrowers with a manageable risk profile.

In some cases, partial or full public subsidies are granted to help SMEs pay the guarantee premium. The rationale is that the additional cost for SMEs, on the top of the interest rate, may limit the reach of the guarantee scheme, although in many cases the fee is compensated, at least in part, by a reduction in the interest rate applied by the lender. For example, in Hungary, for the guarantees issued by the Rural Credit Guarantee Foundation (AVHGA), the premium is partially covered by public subsidies if the loan programme is itself subsidised. In the Czech Republic, the State contributes substantially to the payment of the guarantee fees to the Czech-Moravian Guarantee and Development Bank. In the case of Spain's MGS, subsidies on premiums are in some instances provided by regional governments (AECM, 2012b).

4. The role of Credit Guarantee Schemes during the financial crisis

In the aftermath of the 2008-2009 global financial crisis, as access to finance for enterprises deteriorated, many governments responded by injecting capital into their loan guarantee programmes. In many countries, existing programmes were ramped up, in terms of the total amount of guarantee funds and direct lending available, the percentage of the loan guaranteed, the size of the guaranteed or direct loan and the number of eligible enterprises. In some cases, co-financing by public agencies was increased and banks pension funds were used to augment loan guarantee schemes.[6]

In the US, the SBA temporarily increased its guarantee coverage from around 75% to 90%. In Korea, the coverage of guarantees was increased significantly, sometimes to 100%. In the European Union, raising the coverage threshold to over 80% was made possible by temporary changes to the provisions regarding admissible state aid. As a case in point, in France, OSEO increased the coverage ratio to 90%. The EU Temporary Framework for State Aid also allowed for higher aid amounts of EUR 500 000 (equivalent to EUR 3.8 million in guarantees) instead of EUR 200 000 over three years.

Other changes in existing schemes' objectives and operations included: guaranteeing short-term loans and countercyclical loans; postponing the repayment of guaranteed loans; and combining guaranteed loans with business advice services ("get started loans") (OECD, 2010; OECD, 2012).

In some countries, new guarantee programmes were introduced. In the UK, the Enterprise Finance Guarantee (EFG) was launched in 2009, replacing the Small Firm Loan Guarantee (SFLG) scheme. EFG supports counter-cyclical lending, but, to ensure additionality, applicants must show that they have first been denied a loan outside of the EFG scheme. Furthermore, with respect to the earlier scheme, it provides assistance to a larger number of firms, as eligibility criteria have been modified. While SFLG provided guarantees on loans up to GBP 250 000, the EFG indicates an upper limit of GBP 1 million. Also, the upper limit of the turnover for beneficiaries increased from GBP 5.6 million to GBP 25 million. As a result, there was a three-fold increase in the volume of guaranteed loans between 2007-2008 and 2009. In March 2012, the turnover ceiling was further increased to GBP 41 million and the Fund is expected to benefit a significantly larger share of enterprises.

In Ireland, where total business lending declined during the crisis and even more during the recovery period, in April 2012, the government announced the creation of a first Credit Guarantee Scheme. In its initial stage, this will facilitate up to EUR 50 million of additional lending per annum to SMEs for three years, providing guarantees at 75% coverage rate to banks for loans up to EUR 1 million. The target groups will be commercially viable SMEs which have a good performance, solid business plan and a defined market for their goods and services.

Table 3.2 shows the trend in government guarantee support over 2007-2011 for Scoreboard countries, measured in terms of value of guaranteed loans. In most cases, government guarantees provided to SMEs, via the financial system, increased dramatically over 2009-2010. The value of guaranteed loans increased by 65% in Turkey, 80% in Chile, 86% in Italy, 155% in the Netherlands and 338% in Denmark. In Spain, the stock of guarantees intended for the securitisation of funds increased by 23%. In Switzerland, which reports data on government loan guarantees, rather than on guaranteed loans, their value increased by 15%, from CHF 187 million to CHF 215 million.

In a few countries, the upsurge in government guarantee activity took place earlier, at the outbreak of the crisis. Between 2008 and 2009, government guaranteed loans increased by 64% in France and by 87% in the Czech Republic. In Portugal, loans to SMEs guaranteed by the public Mutual Counter-guarantee Fund more than doubled. In Hungary, the flows of guaranteed loans increased by 38%. In Korea, the value of loans guaranteed by KODIT and KIBO increased by 42% between 2007 and 2009, and remained stable afterwards, also due to the policy measure that allowed the roll-over of loans without any guarantees.

In 2011, in some countries, namely the Czech Republic, France, Italy, Korea, the volume of government guaranteed loans declined, although, with the exception of the Czech Republic, it remained far higher than in the pre-crisis period. In some cases this matched a negative or flat trend of SME loans, which may suggest a general slowdown in SME lending activity. In the UK, the level of guaranteed loans declined in both 2010 and 2011, as banks were reaching their limit in terms of what they could receive under the guarantee programmes. Thus, they became less willing to lend, whereas the SMEs' uptake of the programme continued to increase. In fact, guaranteed loans utilised compared to those offered increased over the period from 83% to 90%. As a result, in March 2012, the UK government announced an increase in the limit on guarantee payments which can be made to lenders, to encourage further lending.

Table 3.2. **Government guaranteed loans in Scoreboard countries,[1] 2007-11**

	Unit	2007	2008	2009	2010	2011	Definition
Canada	CAD billion	1.2	1.3	1.2	1.3	1.3	Guaranteed loans for SMEs, flows from central government
Chile	CLP million	284 405	263 610	799 310	1 441 186	1 964 176	Government guaranteed loans to SMEs, flows
Czech Republic	CZK million	2 959	5 094	9 550	10 070	630	Government loan guarantees, SMEs, value of guarantee fund
Denmark	DKK million	130.5	93.8	117.8	515.6	824.8	Government guaranteed loans to SMEs
France	EUR million	5 850	6 861	11 267	10 883	8 826	Government guaranteed loans to SMEs
Hungary	HUF million	381 400	436 400	600 300	472 019	437 200	Government guaranteed loans to SMEs, flows
Italy	EUR million	2 300	2 300	4 900	9 100	8 400	Government guaranteed loans to SMEs by the Central Guarantee Fund
Korea	KRW trillion	39.7	42.9	56.3	56.1	55.5	Value of loans guaranteed by KODIT and KIBO, stocks
Netherlands	EUR million	409	400	370	945	1 040	Government guaranteed loans to SMEs
Portugal	EUR million	740	1 552	4 961	6 285	6 147	Government guaranteed loans to SMEs by the public Mutual Counter-guarantee Fund
Russian Federation	RUB billion	n.a.	n.a.	38.9	66.8	122.7	Loans guaranteed by regional funds of SME assistance
Serbia	EUR million	n.a.	10.5	2.6	2.2	n.a.	Loans to SMEs guaranteed by government, flows
Slovak Republic	EUR million	115	157	143	139	167	Government guaranteed loans to SMEs, flows
Spain[2]	EUR million	5 210	7 053	5 906	7 236	7 502	Government guaranteed loans to SMEs, stocks
Sweden	SEK million	157	131	107	0[3]	0[3]	Government guaranteed loans, by Swedish Credit Guarantee Association
Thailand	THB billion	n.a.	n.a.	21	n.a.	n.a.	Government guaranteed loans to SMEs, stocks
Turkey	TRY million	75.4	402.5	790.6	1 302	1 622	Government guaranteed loans
United Kingdom	GBP million	207.0[4]	178.0[4]	759.5	588.6	362.6	The value of Enterprise Finance Guaranteed (EFG) loans offered to SMEs
United States	USD billion	20.6	16.1	15.4	22.5	18.7	Government guaranteed loans, SMEs, by the Small Business 7(a) loan program

1. Finland and Switzerland are not included as they report data on government loan guarantees, but not on guaranteed loans or guarantee funds.
2. Figures are for guarantees issued for the securitisation funds (stocks).
3. No new government guaranteed loans for SMEs were issued in 2010-2011 by SKGF (Swedish Credit Guarantee Association), which, however, is not the only provider of government guaranteed loans for SMEs.
4. Figures are for the Small Firms Loan Guarantee scheme and relate to financial years.

Source: National Scoreboards.

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In other countries, including Chile, Denmark, the Netherlands, Russia, Spain and Turkey, the upward trend in guarantees or guaranteed loans continued in 2011. In addition, in Finland, where Finnvera loan guarantees had increased during the crisis and then fell moderately in 2010, the positive trend in 2011 led to an overall increase of 19% in relation to the value of SME guarantees recorded in 2007. In this context, Canada represents an exception, as the value of government guaranteed SME loans remained rather stable over this period. However, also in the case of Canada, contrary to other stimulus measures implemented as part of the government Economic Action Plan, changes to the CSBFP, such as the increase in the maximum loan amount, were not phased out in the course of 2011.

In the US, on the other hand, the 2008-2009 crisis had a pronounced impact on the SBA's Capital Access Programs. In particular, the volume of its two largest loan guarantee programmes declined sharply, to rebound in 2010 after the major interventions by the Federal government. The programmes were especially affected by the drop of inter-bank confidence and the negative implications on activities in the secondary market, where about 40% of the 7(a) guaranteed loans are traded (OECD, 2012).

Over 2011-2012, in some countries, as crisis measures were phased out and new programmes were introduced to foster growth and job creation, some guarantee instruments have been tailored to specific categories of SMEs, such as start-ups or innovative firms. In other cases, guarantee schemes have been introduced to facilitate equity investments, addressing, among other objectives, the need for de-leveraging, or support firms during key transitions, including expansion or ownership transmission. For instance, in the Netherlands, the Growth Facility programme (*Groeifaciliteit*), which offers banks and private equity companies a 50% state guarantee on newly issued private equity capital for the private sector (including SMEs), was extended in October 2009. The maximum individual equity capital amount, for which the 50% state guarantee can be applied, was raised from EUR 5 million to EUR 25 million (OECD, 2010).

In some European countries, characterised by established mutual guarantee institutions, these also played an important role to ensure liquidity was maintained for SMEs, as illustrated by Mistrulli et al. (2011) and Bartoli et al. (2013) for the Italian case. Indeed, the financial support provided to MGSs by central or regional governments, in the form of co- or counter-guarantees, and the loosened eligibility requirements suggest they were identified as a potentially effective countercyclical instrument. For some of these schemes, this has resulted into greater exposure to insolvency, which may affect their long-term sustainability. This also combines with the on-going transformation induced by regulatory reforms, such as Basel II and Basel III, which have raised the complexity of the environment and increased the need to upgrade skills and organisational efficiency of guarantee schemes, also to limit the transfer of potential increases in administrative costs to the prices of the services provided.

In several instances, the response to these challenges has been an increase in scale of MGSs, through mergers and consolidation, to reduce the relative costs of the service, as well as to broaden the offer of guarantee instruments. However, this increased scale may come at the cost of proximity, that is, of loosening the relationship these schemes have with SMEs and their local systems. An emerging response to this trade-off is the structuring or strengthening of a vertical guarantee filière, which includes: *i)* first-tier schemes that are close to the firms and the local systems, with larger supervised schemes gradually gaining the largest market shares; *ii)* second-tier regional or inter-sectoral schemes, which provide mainly counter-guarantees or co-guarantees to the first level and are the main counterpart of public institutions for the allocation of public resources to the guarantee system; *iii)* and a well-established national guarantee fund, which provides counter-guarantees (see Box 3.2).

5. Evaluation of Credit Guarantee Schemes

Evaluation is an integral part of the policy process and is all the more important at times of changes in relevance, nature and scope of policy instruments. This is the case for CGSs, which are long-established elements of many financial systems worldwide, but whose policy relevance has increased in recent years. Recent developments in CGSs have resulted, in some cases, in changes in scale, operational characteristics and targets. This raises questions about their role and sustainability over the long term.

In spite of the growing attention by policy makers on CGSs, however, there is a dearth of analysis to systematically inform the process of design, implementation and evaluation of these instruments (Beck et al., 2010). As this chapter illustrates, there exists a large heterogeneity across schemes, which makes comparative assessment particularly challenging. However, some common issues can be identified, based on general evaluation dimensions, such as sustainability and additionality.

5.1. *Financial sustainability*

Financial sustainability refers to the ability of the scheme to generate autonomously the net resources required for operating. It is thus determined by comparing operating costs and financial returns of the scheme (Table 3.3). To the extent that CGSs are financed by public money, the degree of financial sustainability captures the taxpayers' burden from the operations of the scheme.

Table 3.3. **Financial sustainability: Key variables**

Costs	Financial returns
Costs of funds	Guarantee fees
Operational costs	Administrative fees
Losses on guarantees	Return on financial investments

Source: Adapted from Deelen and Molenaar (2004).

Operational costs and loan losses are major determinants of financial performance, and both are closely linked with the design of the guarantee scheme. The operational costs are mainly composed of administrative and management costs, which depend on the approach to risk management. The retail approach to credit risk assessment and the direct engagement in the loan follow-up are commonly associated with high costs (e.g. Beck et al., 2010), since they imply more administrative tasks and qualified personnel. On the other hand, if the guarantor has an information advantage for retail appraisal, a retail approach can allow for higher quality in risk assessment and lower the probability that the borrower will default on a loan, thus reducing the losses incurred by the scheme (Honohan, 2010). The effective loss implied by defaulted loans depends also on other risk management tools, such as counter-guarantees, insurance, and portfolio securitisation.

Other elements in the scheme design determine the guarantee commitment and affect the default rate on loan guarantees. The eligibility criteria and the guarantee terms (e.g. coverage ratio, guarantee limits) impact directly on the amount paid out to lenders, but also produce an indirect effect on financial performance, as selection mechanisms and signals to potential borrowers, limiting or increasing adverse selection and moral hazard.

In terms of financial returns, CGSs typically generate income by charging a guarantee fee to borrowers and/or lenders and by investing their own funds, whose availability is closely related to the losses incurred in the guarantee activity. As commented in Section 3, the guarantee fee carries a trade-off: charging high fees may ensure that costs are covered and that only constrained firms are attracted to the scheme, but, on the other hand, it can limit the uptake to highly risky borrowers.

Evidence

Following the extensive use of guarantees to limit effects of the crisis on SME lending, the exposure of CGSs to risk has substantially increased over the last years. Default rates have increased in most cases, which may threaten the soundness of schemes over the medium-long term. According to a recent survey of nine large guarantee players in Europe and Asia, guarantee schemes used as anti-crisis tools for supporting SMEs reported a considerable increase in bad debts (KPMG, 2012).[7] In Spain, for example, the default rate for MGSs increased from 6.09% in 2007 to 12.68% in 2009. However, this compares with an increase from 2.76% to 8.50% for banks and from 2.89% to 9.10% for savings banks ('Cajas'), which suggests, for mutual schemes, which are more exposed to risk in light of their activity, the relative increase was smaller than for other financial institutions (Afi and CESGAR, 2010). In Italy, in 2011, 50% of the MGSs registered net losses (Schena, 2012).

The countercyclical expansion of CGSs has responded to temporary policy measures and has most often implied a greater commitment of public finances, in the form of direct funding or counter-guarantees. As anti-crisis measures are phased out, the public support in these forms is also expected to decline. At the same time, as solvency problems persists, the increased default rates may continue to affect the financial performance of the schemes and the burdens on the public budget. In this regard, however, continuing the extraordinary support measures may result in much of the credit risk to be transferred from financial markets to the public sector (OECD, 2010).

However, it is important to note that some form of public support is inherent in credit guarantee systems in many countries. Although the empirical evidence is scarce, existing studies identify a public subsidy element in many different types of schemes, including private or mixed models, which may benefit from public co- or counter-guarantees. Income from fees is generally not sufficient to cover both operational costs and loan losses (Green, 2003; Benavente et al., 2006; Honohan, 2010). This evidence suggests that public support to the credit guarantee system is common and possibly essential for the business to be viable for private investors, at conditions that also meet government objectives, such as the service to a large number of viable but credit-constrained SMEs.

At the same time, CGSs' income position appears to be closely linked to their design, approach to credit risk assessment, organisation efficiency and quality of management. For instance, a comparison of 76 CGS across developed and developing countries shows that losses (as measured by the share of defaulted loans) are lower in the case of younger schemes, which may be explained by the time needed for guarantee portfolios to consolidate and defaults and losses to emerge (Beck et al., 2010). The study also find that losses are lower when the private sector is actively engaged in the scheme, although the direct involvement of government in recovery, management and funding *per se* is not associated with higher losses. This suggests the expertise of private financial institutions may be important in assessing and managing risk, but also that public schemes may pursue other objectives over financial sustainability. The country's overall level of development and the size of the fund do not seem to have an effect on the performance of the scheme, which may however be affected by other country-level characteristics, such as the development of the financial sector and the quality of the legal and regulatory system.

The recent regulatory reforms of the financial system (e.g. Basel II and Basel III) also have implications for the financial performance of CGSs. In fact, the greater complexity of the regulatory environment is likely to increase operational costs, whose level may change also as a result of the greater scale and broader scope of schemes triggered by the new requirements. Greater efficiency will thus be needed for CGSs to be sustainable and to limit the transfer of these costs to prices of the guarantee products and services.

Urging schemes to generate sufficient income to be financially independent can provide appropriate incentives for efficient management and organisation. At the same time, this approach can induce overly risk-averse behaviour on the part of the scheme, implying that only the more creditworthy firms obtain loan guarantees. This, in turn, increases the probability that the riskier, but viable SMEs, in principle the target of guarantee schemes, remain without funds (Deelen and Molenaar, 2004). This is especially the case when the loan guarantee programme is part of a policy to support a group of particularly credit constrained firms, such as start-ups, female entrepreneurs or businesses located in a disadvantaged geographic area.

In light of the policy objective to mobilise loanable funds to the advantage of credit constrained SMEs, the adoption of a multi-dimensional perspective in the assessment of public schemes, rather than a focus on financial sustainability *per se*, has been proposed (e.g. Zecchini and Ventura, 2009). Sustainability is thus assessed against the reduction in guarantee premiums, which may facilitate uptake by credit constrained viable businesses. In other terms, sustainability and additionality are evaluated at the same time, taking into account the alternative use made of public resources to achieve similar economic objectives.

More investigation is needed in this area, but assessing financial sustainability in practice has proved difficult due to the lack of accurate and timely data. In the case of publicly owned credit guarantee schemes, these are often only part of a set of financing instruments for SMEs. The possibility to assess the individual scheme is limited if the responsible Ministry or government-related agency does not produce separate financial statements.

Adequate accounting practices are crucial for the management and assessment of CGSs. This is especially the case for public guarantees, as governments are often drawn to such schemes because of relatively small upfront cash commitment, against a possibly large volume of credit that may be supplied. However, the adequacy of the scheme may become evident only over time, as losses start to emerge. In particular, accounting provisions should be made for foreseeable losses in advance (Honohan, 2010). This accounting principle is embodied in the International Financial Reporting Standards (FRS37 and 39), which recommend that financial guarantees, as all financial liabilities, are recognized from the outset in the balance sheet of the guarantor at fair value plus transaction cost.[8]

5.2. Financial and economic additionality

Financial additionality captures the increase in the flow of funds towards viable SMEs that can be attributed to the existence of the scheme. It therefore relates directly to the rationale for developing or supporting guarantee schemes, that is, to mitigate failures in financial markets, which prevent viable firms from obtaining funds. Economic additionality describes the effect of increased access to finance on overall economic welfare, measured in terms of changes in sales, employment, investment and innovation performance of the small businesses supported, or, at the macro level, by the fostered competitiveness and economic growth.

A major challenge for CGSs' additionality comes from selection mechanisms, whose importance largely depends on the design of the scheme. The first selection mechanism concerns the type of firms which seek guaranteed loans. As financial conditions of guaranteed credits are generally more favourable than ordinary loan contracts, the scheme may attract borrowers with solid creditworthiness, which might be able to obtain funds without the guarantee support. At the other extreme, financial additionality may be absent if loan guarantees are attracting firms which seek finance for highly risky projects (adverse selection) or if the existence of the guarantee induces a riskier behaviour by borrowers and lenders (moral hazard).

A second selection mechanism that may reduce additionality takes place at the level of the lending institutions, as they may have an incentive to transfer regular credits to the program, to reduce the overall risk of their outstanding credits. Additionality may also be reduced by "inter-lender substitution", that is, by established borrowers shifting their demand towards lending institutions that are linked to guarantee schemes, whose observed uptake would thus not reflect services to other, credit constrained companies (Vogel and Adams, 1997).

The design of the scheme is crucial to govern the selection mechanisms and the incentives of borrowers and lenders. In particular the risk management tools described in Section 3 may have a distinct impact on additionality, as well as on sustainability:

- *Credit risk assessment.* Retail appraisal and close follow-up by the guarantor may reduce adverse selection and moral hazard, though at relatively high operational costs.
- *Coverage ratio.* A high coverage ratio is typically an attractive feature for borrowers and lenders, but may lower the incentive of the lender to properly screen borrowers. At the same time, low coverage ratios may limit the scheme's uptake by both firms and lenders.[9]
- *Eligibility of CGSs.* In an attempt to maximise additionality, some schemes restrict eligibility to those firms which have been denied credits on regular financial markets. In some cases, additionality is sought by narrowly defining the target of the programme, which may be a sector or specific categories of firms, for which severe market failures were identified. However, overly restrictive schemes bear the risk that credits are artificially modified to fit formal requirements (Vogel and Adams, 1997).
- *The price of guarantees.* CGSs need to strike a balance between financial returns and attraction of viable customers. While high fees may increase operating budget, they may also discourage creditworthy firms from applying for guarantees and reduce the overall uptake of the scheme, hence impact on its capacity to leverage the equity fund.

Evidence

Credit guarantee tools generally proved effective in restoring a sustainable level of financing for credit-constrained SMEs during the recent financial crisis (OECD, 2010). For example, the European Association of Mutual Guarantee Societies (AECM) estimates that, in 2009, the anti-crisis guarantee instruments delivered by its members had provided over 120 000 SMEs access to finance that was crucial to maintain operations (AECM, 2010). Based on a survey of nine large guarantee schemes in Europe and Asia, KPMG (2012) estimates that 80% to 90% of the borrowers would not have been able to access credit without the guarantee support.

Early studies on the impact of mutual schemes during the crisis also show that they have contributed to ease SME financial tensions. In the case of Italian *Confidi*, the most important effect of MGSs was to increase the credit line for borrowers (Bartoli et al., 2013). This was the case in particular for new affiliated firms, which suggests the affiliation to a mutual scheme was key in signalling to banks the creditworthiness of potential borrowers. On the other hand, Mistrulli et al. (2011) indicate that MGSs eased access to greater loan volumes at a lower cost, but also attracted a larger number of riskier firms.

Although a proxy for financial additionality, the increased uptake of schemes and their leverage ratio, defined as the ratio of outstanding guarantees to the size of the guarantee fund, suggests that, following changes in eligibility, terms and coverage, many schemes were effective in mobilising a larger amount of bank credit for a larger number of credit-constrained businesses. Indeed, the leverage effect is one of the most important arguments for the implementation of CGSs (Levitsky, 1997; Honohan, 2010). At the same time, the leverage ratio can be used to monitor the financial sustainability of CGSs. If the amount of outstanding guarantees is large compared to the capitalisation of the fund, the scheme becomes in fact more vulnerable to default events. Some schemes therefore specify an upper limit for the leverage ratio.[10]

The higher leverage ratio observed for many schemes in the aftermath of the crisis can also be related to the greater efforts by public authorities and guarantee schemes to increase SMEs' awareness about credit guarantee opportunities. In fact, the ratio directly depends on the popularity of the scheme among the target population. A high leverage ratio is typically observed in the case of long-established mutual schemes, which enjoy a solid reputation among lenders and borrowers. On the other hand, a low leverage ratio can be explained by lack of awareness or reputation. This is typically the case when users do not trust the scheme to respect its commitment to reimburse promised guarantees, or when rules and responsibilities governing the guarantee contract are not clearly stated.[11]

The sparse evidence on the crisis period suggests that policy measures strengthened a dimension of CGSs, financial additionality, which has long been recognised by the literature. Numerous studies show that this additionality largely takes the form of better conditions in accessing credit for SMEs, such as higher loan volumes, lower interest rates or longer loan maturity. On the other hand, the evidence is less conclusive with regard to the increase in the number of loan beneficiaries and, especially, to greater access to finance for new entrepreneurs or firms in innovative sectors, for which schemes' targeted mechanisms are most relevant (e.g. Riding et al., 2007; Lelarge et al., 2009; Zecchini and Ventura, 2009; Columba et al., 2010; Cowling, 2010; D'Ignazio and Menon, 2012).

If most existing studies provide positive evidence of the *financial* additionality of guarantee schemes, measuring *economic* additionality has proven more difficult, due to methodological limitations and lack of data, especially at the micro level. The main challenge is typically related to the identification of an appropriate control group, so that firms which have accessed guaranteed loans can be analysed against other firms, with similar characteristics and/or behaviour, which have not benefited from guarantees. In this regard, financial statements would be often required from both treated and untreated SMEs. In many cases, however, this information is not available or disclosed for assessment purposes.

6. Conclusions and policy considerations

In many countries, CGSs represent an established credit risk transfer mechanism and policy tool, which has experienced unprecedented growth over the last several decades. In some OECD countries, CGSs have been an instrument of choice for policy makers to improve access to finance by SMEs and entrepreneurs during the recent global financial crisis. In several non-OECD countries, CGSs have also developed rapidly as a mechanism to expand credit markets and improve financial inclusion.

The countercyclical use of CGSs to offset SME financial distress, through direct funding or counter-guarantees, has implied, in many instances, an important change in their scale and scope. Evidence shows that CGSs have been effective in mobilising large amounts of credit and easing access to finance for a larger population of enterprises. This however has substantially increased their exposure to risk, which may threaten their soundness over the medium to long term. These changes are taking place in conjunction with the on-going transformation of guarantee systems induced by regulatory reforms, including mergers and consolidation, intended to reduce the costs of the service and broaden the offer of guarantee instruments.

The expansion of CGSs as a policy instrument has triggered greater demand for monitoring and evaluation. As the present chapter illustrates, there exists a large variety of schemes, which differ along several dimensions, such as the ownership structure and funding, the legal and regulatory framework, and the operational characteristics, including types of services, eligibility criteria, guarantee assignment process and credit risk management. This heterogeneity and the lack of data limit the scope for comparative evaluation. Nevertheless, some general issues and policy considerations can be highlighted:

- As financial intermediaries, CGSs are highly sensitive to the legal and regulatory environment. This, combined with the schemes' characteristics, affects the incentives of lenders and borrowers and the incidence of moral hazard in the financing relation. Supervision, transparency and certainty about contract enforcement are crucial for the development and sustainability of guarantee systems. Furthermore, the effect of regulatory reforms on their activities and the implications of differentiated tax regimes should be thoroughly assessed, taking into account the specific nature and working mechanisms of different types of schemes.
- Often, several CGSs exist in a country, with direct or indirect government participation, which are part of a broader set of government measures to assist SMEs. It is important that the goals and the population targeted by each scheme be clearly specified, to avoid duplication, and that guarantee instruments are co-ordinated with other SME finance support measures.
- The design of CGSs is crucial for their effectiveness and sustainability. Target population, coverage ratio, credit risk management and fee structure should ensure additionality,

that is, support access to finance of viable enterprises that face limitations in financial markets. An appropriate design is also crucial to ensure financial sustainability, taking into account on the one hand the need to limit default rates and cover the operating costs, and, on the other hand, the implications that coverage ratio and fees have on the type of applicants.

- CGSs can be an effective instrument to reduce the information gap that exists between lenders and borrowers, especially in the case of SMEs. The experience of mutual institutions suggests that guarantee schemes can be particularly effective in this when they benefit from in-depth knowledge about the market and industry framework of the target SME population. In this regard, public-private partnerships, also including intermediate institutions such as business associations, professional groups and chambers of commerce, can bring highly valuable information to the risk assessment process and guarantee decision. The retail approach and the engagement of a broader set of shareholders should however be considered only when the information advantage outweighs the higher operational costs.
- Public support to the credit guarantee system is common and possibly essential for its long-term sustainability and for the engagement of private investors, at conditions that also meet government objectives, such as the service to a large number of viable but credit-constrained SMEs. A system of public counter-guarantees is especially relevant for private or public-private schemes, as it enhances the guaranteed credit volume that can be made available to SMEs, as well as the schemes' credibility and reputation. During the recent financial crisis, the public counter guarantee function was important to ensure continued effectiveness of these schemes. This suggests counter-guarantee funds can result into important leverage effect of private funds, even at difficult times. However, the ordinary support of government should be clearly distinguished from temporarily extraordinary measures and be designed as to ensure additionality and avoid excessive transfer of risk from the private to the public sector. As a general principle, all parties concerned in addition to the government (SMEs, banks, guarantee schemes) should retain a sufficient share of the risk and responsibility to ensure proper functioning of the system and avoid moral hazard.
- The greater exposure to risk and the transformation induced by regulatory reforms make operational efficiency increasingly important for CGSs. There is a need to upgrade skills and procedures, to navigate a more complex environment, but also to adapt long-established mechanisms to a different scale of operation and to new functions, including the provision of guarantees for non-debt financing (e.g. equity, hybrid instruments), support to SMEs' expansion, innovation and internationalisation.
- In countries characterised by a well-established system of Mutual Guarantee Schemes (MGSs), a trade-off is emerging between efficient scale of the schemes and proximity to borrowers, which historically has been a competitive advantage of mutual systems. In some cases, this has been addressed by accelerating the rationalisation of guarantee provision into a strong credit guarantee *filière*, with a public counter-guarantee fund that acts as a guarantor of last resort. The experience of each individual system is rather unique and difficult to replicate in other areas. However, the principles underlying these systems can offer insights to other countries on the regulatory conditions and incentives that can facilitate bottom up initiatives or private sector engagement.

- Assessment evidence on CGSs is rather scarce. There is a need for more in-depth evaluation, particularly on their financial sustainability and on their financial and economic additionality. There are number of areas where further action is needed for better evaluation:

  a. It is necessary to improve the availability of firm level data and SME credit statistics, in order to properly address the various forms of self-selection inherent in the provision of credit guarantees and assess additionality of guarantee schemes.

  b. In order to produce the data necessary for the evaluation of financial sustainability, an accounting approach which accurately records expenditures and incomes of the schemes on a regular basis is required. This is particularly important in the case of public schemes, which are run by a public agency that has several support measures in place.

  c. Case studies are important to take into account specific contextual elements. These are all the more relevant in the light of the large heterogeneity of schemes, within and across countries.

  d. More investigation is required on the multi-dimensional aspects of credit guarantee systems, which take into account direct and indirect costs and benefits. Full-fledged assessment demands that financial sustainability and additionality are jointly taken into account, and that CGSs are evaluated against alternative policy instruments. In this regard, substantial improvement is needed to assess the overall welfare implications of guarantee systems.

Notes

1. This is the case of partial credit guarantees, which leave the lender with some of the risk. Variants to partial guarantees include the pari passu, where lender and guarantor each absorb a fixed fraction of any loss, and the first-loss, where the guarantor pays out on all the loss up to some fixed fraction of the total loan obligation (Honohan, 2010).
2. The EU Competitiveness and Innovation Framework Programme (CIP 2007-2013) provides capped guarantees to financial intermediaries partially covering portfolios of financing to SMEs. These are known as EU Guarantees and are operated, on behalf of the European Commission, by the European Investment Fund (EIF), under the "SME Guarantee Facility". The Facility includes four product windows. The "Loan Guarantee Window" consists of guarantees aiming at the general support of SMEs via lending and guarantee institutions, with partial coverage of underlying portfolios of loans, lease agreements or other types of debt finance. The "Micro-Credit Window" supports micro enterprises with a maximum loan amount of EUR 25,000. The "Equity Guarantee Window" supports subordinated or convertible loans to SMEs. Under the "Securitisation Window", the Facility guarantees mezzanine tranches of SME securitisations subject to the financial intermediary increases its volume of new SME lending in the future.
3. ACCION International is a non-profit organisation founded in 1961, and a pioneer in micro-finance activities, started in 1973. See *www.accion.org.*
4. Women's World Banking is a microfinance network, composed of 39 financial organisations from 27 countries, which focuses exclusively on lending to women. See *www.swwb.org.*
5. At the same time, CSBFP limits the maximum interest rate that the bank can charge at the prime rate plus 3% (including the 1.25% fee).
6. See Table 2.8 in Chapter 2 on "Recent Trends in SME and Entrepreneurship Finance".
7. The study by KPMG (2012) covers OSEO (France), Garantiqa (Hungary), Perum Jamkrindo (Indonesia), Eurofidi (Italy), CGC Tokyo (Japan), KODIT (Korea), SGR Valenciana (Spain), SBCGC (Thailand) and KGF (Turkey).
8. See *www.ifrs.org*.
9. Uesugi et al. (2010) show that an excessively high coverage ratio can lead to moral hazard type behaviour. In order to mitigate the credit crunch during the Asian financial crisis in the late 1990s,

the coverage ratio of the Japanese credit guarantee scheme was lifted to 100%. As a consequence, those firms which obtained guarantees displayed lower profitability and a higher probability of falling into distress as compared to firms which did not obtain guarantees.

10. For example, the amount of outstanding guarantees issued by Thailand's Small Business Credit Guarantee fund (SBCG) must not exceed 10 times the fund's capital endowment. In the case of Korea's KODIT, the maximum leverage ratio is fixed at 20.

11. Changes in the leverage ratio can be the outcome of a varied degree of diffusion of the scheme in the target population, but can also result from changes in the scheme's capital endowment. When new capital is injected into the scheme, the leverage ratio tends to decrease. Reversely, an equity drain can boost the ratio. This was recently observed for Korea's KODIT, whose capital endowment increased by more than 70% between 2008 and 2009 as a mean to offset the adverse effect of the economic and financial crisis. Although the measure led to an increase by almost 50% in the amount of guarantees, the leverage ratio decreased from 8.5 to 7.4.

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Financing SMEs and Entrepreneurs 2013
An OECD Scoreboard

Chapter 4

Country Profiles of SME Financing 2007-11

This chapter presents data for debt and equity financing in 25 countries: Canada, Chile, the Czech Republic, Denmark, Finland, France, Hungary, Ireland, Italy, Korea, the Netherlands, New Zealand, Norway, Portugal, the Russian Federation, Serbia, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States. The chapter is structured around individual country profiles, which analyse the core indicators that monitor SMEs' access to finance, and their definitions which are specific for each country. The statistical information is complemented by a description of government policies which respond to the current financing constraints facing SMEs.

Canada

Small businesses in the national economy

In 2011 Canadian small businesses (1-99 employees) constituted 98.1% of all businesses and employed 48.3% of the private sector labour force. Among those employees, 76.3% were employed in the services sector and 23.7% in the goods sector.

Table 4.1. **Distribution of firms in Canada, 2011**

By firm size

Firm size (employees)	Number of firms	% of employer firms
1-4	615 599	54.9
5-9	225 829	20.1
10-19	139 946	12.5
20-49	90 604	8.1
50-99	28 801	2.6
100-199	13 025	1.2
200-499	5 974	0.5
500 +	2 528	0.2
Total	**1 122 306**	**100.0**

Source: Statistics Canada, Business Register, December 2011. Non-employer firms are not included.

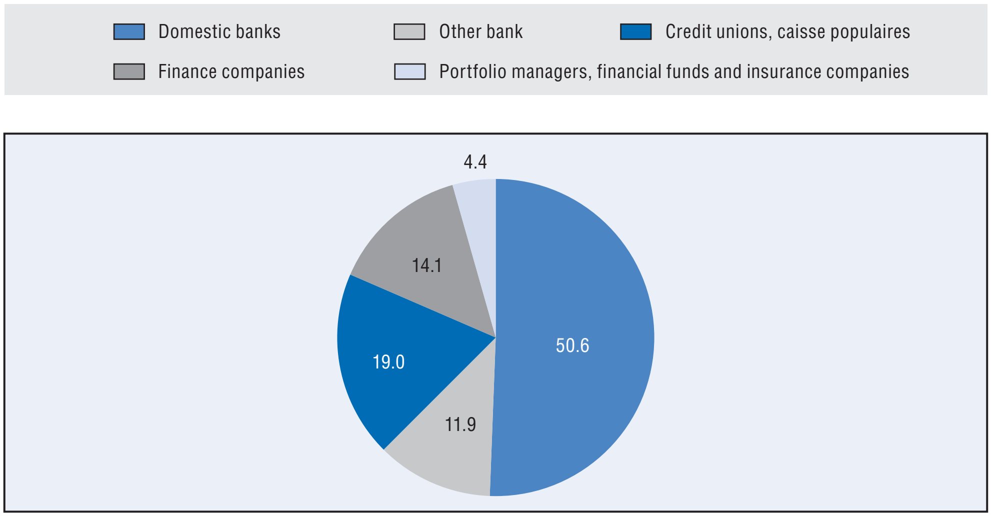
StatLink http://dx.doi.org/10.1787/888932794953

Small business lending

Figure 4.1 shows the major suppliers of small business financing in 2011. Most small business financing (82%) was provided by banks (domestic and foreign), credit unions and caisses populaires. The remainder came from finance companies, financial funds and insurance companies.

Data from supply-side surveys show that debt outstanding to all businesses increased 5.1% in 2011 to CAD 514 billion, lending to small businesses also increased by 5.1% to CAD 89.9 billion. As a result, the share of outstanding loans to small businesses remained at 17.5% for a second year. This represented a 1.9 per cent increase since 2008. When looking at the longer period 2000-2011, debt financing for large businesses grew while it remained relatively flat for small businesses as seen in Figure 4.2. Consequently, the SME share of business loans has declined over time.

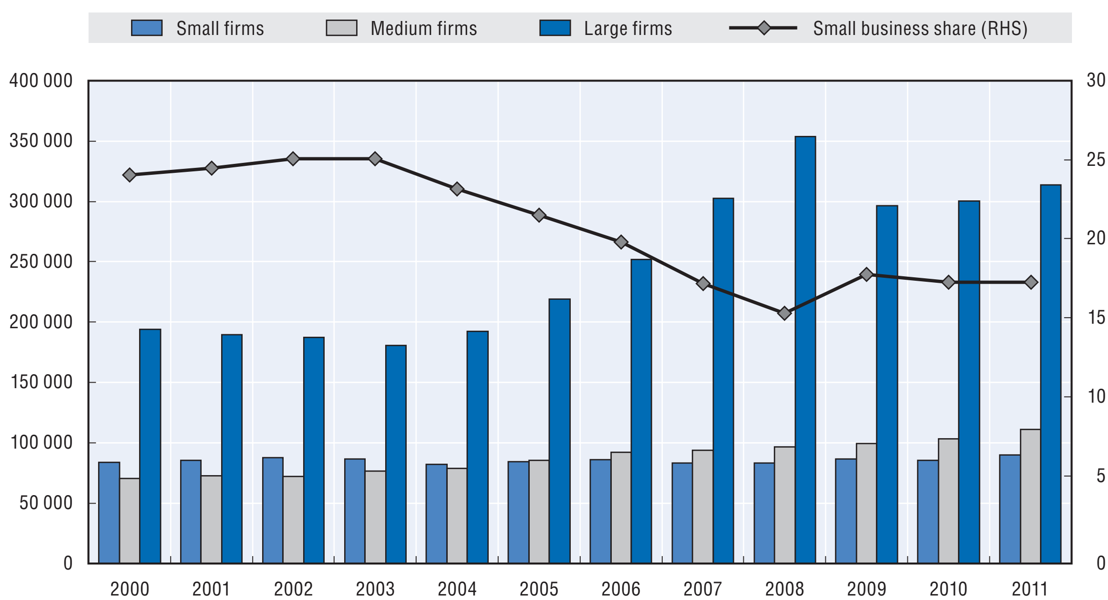
Figure 4.1. **Debt financing by source of financing, 2011**
As a percentage



Source: Statistics Canada, Survey of Suppliers of Business Financing 2011.

StatLink http://dx.doi.org/10.1787/888932793661

Figure 4.2. **Business debt outstanding in Canada, 2000-11**
CAD million (LHS) and percentage (RHS)



Note: Firm size is proxied by loan size. Small firms are proxied by loans with an authorisation level below CAD 1 million, medium firms are proxied by loans with an authorisation level between CAD 1 million and less than CAD 5 million; large firms by loans greater than CAD 5 million.

Source: Statistics Canada, Survey of Suppliers of Business Financing, 2000–2011; and Industry Canada.

StatLink http://dx.doi.org/10.1787/888932793680

Supply-side survey results show an overall increase of 5.1% in business lending activity in the second half of 2011 compared with the first half of 2011. Lenders disbursed approximately CAD 65 billion in new loans to Canadian businesses in the second half of the year. Lending activity increased for businesses of all sizes, the most notably among large businesses which saw loans increase by 5.9%. Over the same period, small businesses saw a 4.2% increase in disbursals. The share of small business disbursals to total enterprise disbursals was 15.9% in the second half of the year.

Table 4.2. **Value of disbursements 2011 (term credit)**
CAD million

Business size	Half 1 2011	Half 2 2011	% change
Large (authorisation levels of CAD 5 million or more)	39 051	41 353	5.9
Medium (authorisation levels between CAD 1 million and CAD 5 million)	1 286	13 088	3.2
Small (authorisation levels below CAD 1 million)	9 797	10 201	4.2
Total	**61 534**	**64 647**	**5.1**

Source: Statistics Canada, Survey of Suppliers of Business Financing, 2011; and Industry Canada.
StatLink http://dx.doi.org/10.1787/888932794972

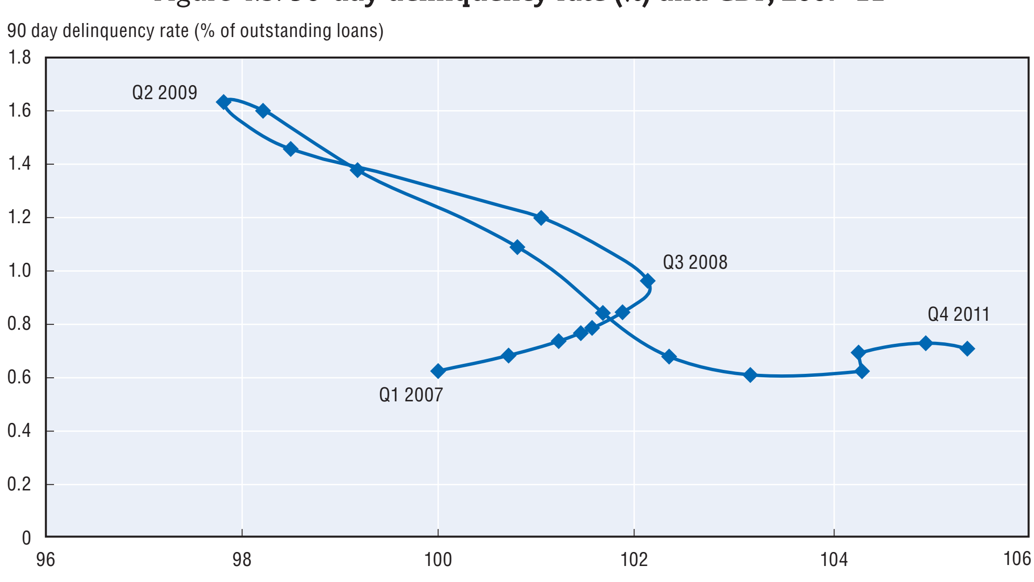
Small business loans authorised vs. requested

Industry Canada's 2010 Credit Conditions Survey was supplemented by the 2011 Statistics Canada's Survey on Financing and Growth of Small and Medium Enterprises. Results showed that credit conditions remained stable in 2011 after having recovered from the 2009 recession. Request rates for debt financing, for instance, increased from 18% in 2010 to 25.3% in 2011. Also, the 2011 ratio of amounts authorised to those requested remained fairly level at 89.9% in 2011 compared to 87.9% in 2010.

Small business credit conditions

Indicators show that small businesses experienced a slight loosening in credit conditions in 2011. Specifically, the average interest rate for SMEs declined by 0.5 percentage points to 5.3%. Also, despite an increase in the average business prime rate, which is

Figure 4.3. **90-day delinquency rate (%) and GDP, 2007-11**



Source: PayNet inc, Statistics Canada and Industry Canada calculation.
StatLink http://dx.doi.org/10.1787/888932793699

typically the rate charged to the most creditworthy borrowers, from 2.6% in 2010 to 3.0% in 2011, the business risk premium (the difference between the average small business interest rate and the business prime rate) decreased from 3.2% in 2010 to 2.3% in 2011. The percentage of small businesses that were asked for collateral also decreased over the period from 66.7% to 64.8%.

The SME 90-day delinquency rate (amount of loan interest and principle payments more than 90 days past due divided by the total loan balance outstanding) has returned to pre-recession levels. For instance, the 90-day delinquency rate rose from 0.7% in the first quarter of 2007 to 1.0% in the third quarter of 2008, then as the economy contracted it reached a high of 1.6% in the second quarter of 2009. This declined to 0.7% in the third quarter of 2010 as the economy recovered and has since remained around this level.

Equity financing

Equity provided in the form of venture capital increased 23% in 2011 to reach CAD 1.3 billion. The figures for Canada contain early stage and expansion stage capital. Between 2010 and 2011, seed and expansion/ later stage capital increased 36% and 45% respectively. Start-up venture capital and other early stage capital decreased 3% and 11% respectively.

Table 4.3. **Venture and growth capital in Canada, 2007-11**

In CAD million

Stage	2007	2008	2009	2010	2011
Seed	62.3	50.9	18.0	18.9	25.7
Start up	201.6	151.4	211.9	119.6	116.1
Other early stage	500.2	383.6	225.5	323.9	287.9
Expansion/later stage	1 067.7	755.5	510.0	631.0	915.9
Total	**1 831.9**	**1 341.5**	**965.4**	**1 093.5**	**1 345.7**

Source: Thomson Reuters, VC Reporter, 2012.

StatLink http://dx.doi.org/10.1787/888932794991

Other indicators

In 2011, the declining trend in the incidence of business insolvencies has continued. Specifically, the incidence of insolvencies per thousand businesses fell from 2.2 in 2010 to 2.0 in 2011 This can be partially explained by the fact that domestic demand in Canada has remained relatively strong since the end of the recession, growing at an average annual rate of 3.7% between the third quarter of 2009 and the fourth quarter of 2011. This strength in domestic demand benefited SMEs.

Government policy response

The government of Canada declared 2011 the Year of the Entrepreneur, in order to increase public awareness of the important role played by small businesses. A number of measures were introduced in the 2011 budget to support SME financing.

A temporary hiring credit for small business was introduced, which provided a one-time credit of up to CAD 1 000 against a small firm's increase in its 2011 Employment Insurance (EI) premiums over those paid in 2010. This new credit was forecast to benefit some 525 000 employers, whose total EI premiums were at or below CAD 10 000 in 2010, reducing their 2011 payroll costs by about CAD 165 million.

The government also committed to providing CAD 20 million over two years (2011-2012 and 2012-2013) to enable the Canadian Youth Business Foundation (CYBF) to continue its important support for young entrepreneurs. The Canadian Youth Business Foundation works with young entrepreneurs across the country to help them become the business leaders of tomorrow through start-up financing, mentorship programmes and learning resources. Since its creation in 1996, the CYBF has invested in more than 5260 young Canadians who have established successful businesses that have created more than 20 800 new jobs.

As part of Canada's Economic Action Plan in 2009, the government provided its export agency, Export Development Canada (EDC), with temporary flexibilities to fill gaps in the availability of domestic business credit for a two-year period ending March 2011. These powers were extended to March 2012 and extended by an additional year under the 2011 budget to March 2013. This extension helps meet the financing needs of Canadian exporters amidst continuing uncertainty in credit markets. Around 9% of Canadian SMEs are export-oriented. The extension also enables the government to complete a comprehensive assessment of the on-going role of EDC in the domestic market.

Some of the SME financing measures that were introduced by the government as short-term stimulus to respond to the financial crisis, came to a close in 2011.The Business Credit Availability Program (BCAP) ended in October 2011. BCAP was introduced during in Budget 2009 and allowed the Business Development Bank of Canada (BDC) and (EDC), alongside private sector lenders, to provide financing support to businesses with viable business models whose access to financing would otherwise be restricted. From its inception in 2009 to October 2011, EDC and BDC reported CAD 14.4 billion in total activity under BCAP. Nearly all BCAP transactions, 22 440 out of 22 783 total transactions, supported SMEs with less than CAD 25 million in revenues. By value, BCAP credit worth CAD 4.69 billion was provided to SMEs with less than CAD 25 million in revenues.

In addition, as a sign of the decreasing need for extraordinary measures, in 2011 EDC paid a CAD 350 million dividend to the government, an amount equivalent to the capital injection provided to EDC in early 2009 at the onset of the financial crisis. EDC's dividend payment was consistent with the goal of the Economic Action Plan, which was to provide short-term stimulus to the Canadian economy until credit conditions improved. In this case, stimulus was provided in the form of an investment, which was fully repaid by EDC.

Box 4.1. **Definition of Small Businesses used in Canada's SME and entrepreneur scoreboard**

Country definition

The national definition is used for certain indicators in the OECD Scoreboard for Canada. It is based on the number of employees: 1-99 employees for small enterprises; 100-499 for medium-sized enterprises; 500 and greater for large enterprises. All data from the demand side are defined based on the number of employees, less than 100.

The SME definition used by financial institutions

The financial definition used in Statistics Canada's *Survey of Suppliers of Business Financing* is based on loan size of less than CAD 1 000 000 for small businesses, between CAD 1 000 000 and CAD 5 000 000 for medium size businesses, and more than CAD 5 000 000 for large businesses. This definition is used for the authorised outstanding business loans, total and for SMEs.

SME definition used in the Canadian profile

The Canadian statistics are based on SMEs when possible, but in many instances, due to data limitations, the country profile reports on small businesses with 1-99 employees which represent 98.1% of businesses. As medium-sized enterprises, those with 100-499 employees, only represent 1.7% of Canadian businesses, their exclusion does not have a significant impact on the data or results.

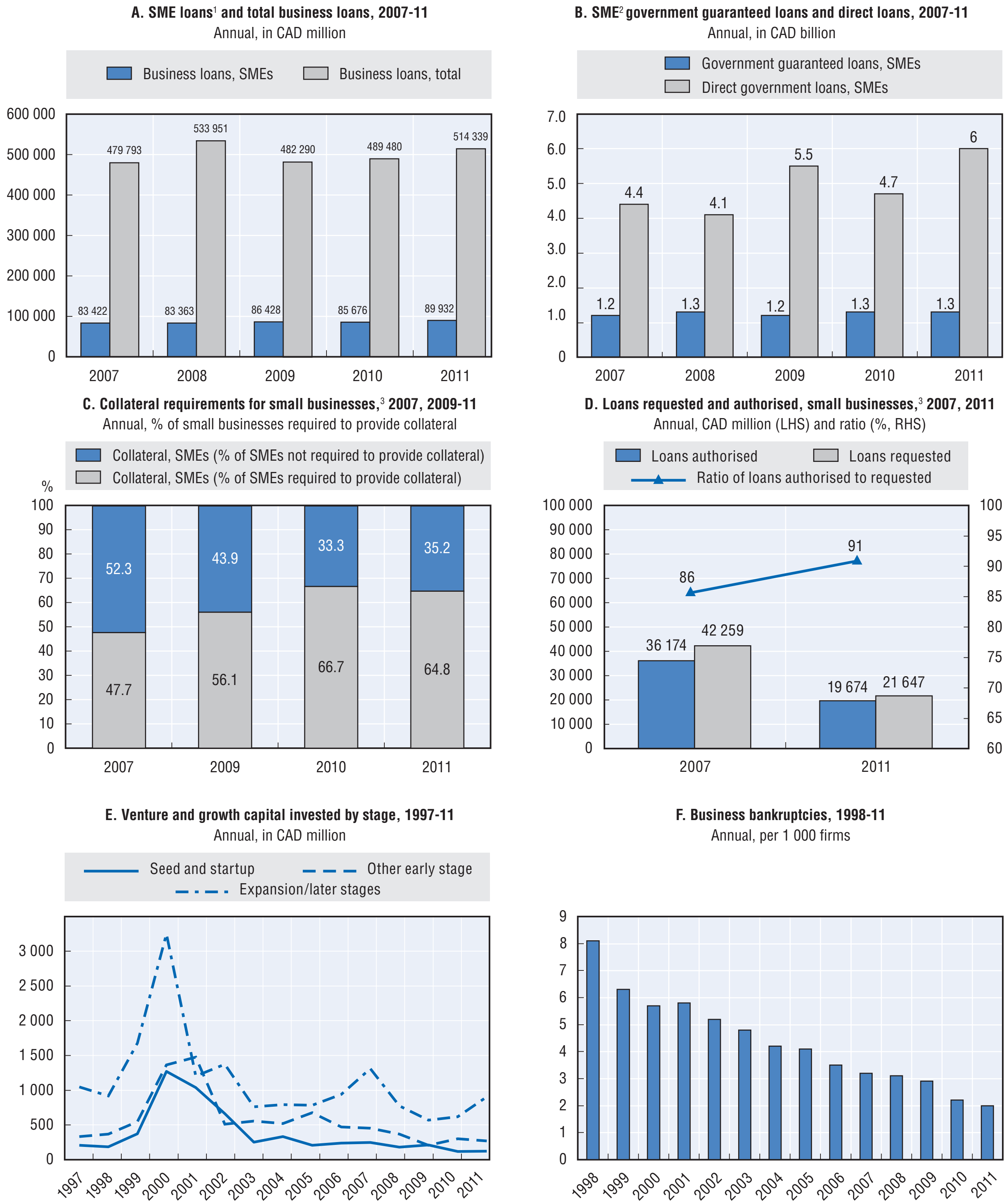
Table 4.4. **SME and entrepreneur scoreboard for Canada, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	CAD million	83 422	83 363	86 428	85 676	89 932
Business loans, total	CAD million	479 793	533 951	482 290	489 480	514 339
Business loans, SMEs	% of total business loans	17.4	15.6	17.9	17.5	17.5
Short-term loans, small businesses	CAD million	15 056	..	..	..	6 911
Long-term loans, small businesses	CAD million	21 118	..	..	..	12 763
Total short and long-term loans, small businesses	CAD million	36 174	..	..	..	19 674
Short-term loans, small businesses	% of total authorised loans	41.6	..	43.4	36.3	35.1
Government guaranteed loans, SMEs	CAD billion	1.2	1.3	1.2	1.3	1.3
Direct government loans, SMEs	CAD billion	4.4	4.1	5.5	4.7	6
Loans authorised, small businesses	CAD million	36 174	..	..	..	19 674
Loans requested, small businesses	CAD million	42 259	..	..	..	21 647
Ratio of loans authorised to requested, small businesses	%	85.6	..	72.1	87.9	90.9
Interest rate, average	%	7.50	..	6.20	5.80	5.30
Interest rate, business prime	%	6.10	..	3.10	2.60	3.00
Risk premium for small businesses	%	1.40	..	3.10	3.20	2.30
Collateral, small businesses	% of SMEs required to provide collateral on last loan	47.7	..	56.1	66.7	64.8
Equity						
Venture and growth capital, Investments	CAD billion	1.8	1.3	0.9	1.0	1.3
Venture and growth capital, Investments	Year-on-year growth rate, %	..	−27.8	−30.8	11.1	30.0
Other						
90-day delinquency rate small business	% of loans outstanding	0.69	1.02	1.47	0.79	0.71
90-day delinquency rate medium business	% of loans outstanding	0.37	0.43	0.69	0.33	0.08
Bankruptcies, total	Per 1 000 firms	3.1	3.1	2.9	2.2	2.0

Source: Refer to Table 4.5.

StatLink http://dx.doi.org/10.1787/888932795010

Figure 4.4. **Trends in SME and entrepreneurship finance in Canada**



1. SME loans defined as loans authorised up to CAD 1 million.
2. SMEs are defined as firms with annual sales less than CAD 25 million.
3. Small businesses are defined as firms with 1-99 employees.

Sources: Charts A, C, D: Statistics Canada. Chart B: Export Development Canada, Business Development Bank of Canada, Canada Small Business Financing Program. Chart E: Thompson Reuters Canada, Industry Canada VC Monitor. Chart F: Office of the Superintendent of Bankruptcy Canada.

StatLink http://dx.doi.org/10.1787/888932793718

Table 4.5. **SME and entrepreneur definitions and sources of indicators for Canada's scoreboard**

Indicators	Definitions	Sources
Debt		
Business loans, SMEs	Commercial loans to SMEs (defined as the value of amounts authorised up to CAD 1 million), amount outstanding (stocks)	Statistics Canada, 2007-2011 Survey of Suppliers of Business Financing
Business loans, total	Commercial loans to all enterprises, amounts outstanding (stocks)	Statistics Canada, 2007-2011 Survey of Suppliers of Business Financing
Value of disbursements (term credit)	Large (authorisation levels of $C 5 million or more), Medium (authorisation between $C 1 and $C 5 million) and Small (authorisation lower than $C 1 million).	Statistics Canada, 2011 Survey of Suppliers of Business Financing
Short-term loans, Small businesses	Operating line (short-terms loans, 12 months or less, lines of credit, credit cards), flows. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009 and 2010 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Long-term loans, Small businesses	Term loan (more than 12 months) or mortgage, flows. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009 and 2010 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Government guaranteed loans, SMEs	Guaranteed loans for SMEs, flows from central government.	Administrative data from Export Development Canada, Business Development Bank of Canada and the Canada Small Business Financing Program
Direct government loans, SMEs	Direct loans to SMEs, flows from central government.	Administrative data from Export Development Canada and Business Development Bank of Canada
Loans authorised, Small businesses	Flows – all small business loans. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009 and 2010 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Loans requested, Small businesses	Flows – all small business loans. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009 and 2010 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Interest rate, average	Average annual interest rate for all new small business loans, base rate plus risk premium; includes credit card.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009 and 2010 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Interest rate, business prime	The chartered banks' rates on prime business loans are the interest rates charged to the most creditworthy borrowers.	Bank of Canada, Banking and Financial Statistics
Risk premium for Small businesses	Difference between interest rate paid by small business and business prime.	Bank of Canada, Banking and Financial Statistics
Collateral, Small businesses	Percentage of small businesses that were required to provide collateral to secure their latest loan. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009 and 2010 Supplementary Survey on Credit Conditions
Equity		
Venture and growth capital	Actual amounts of venture and growth capital invested. Includes seed, start up, early stage and expansion. All enterprises.	Thompson Reuters Canada, Industry Canada VC Monitor
Other		
90-day Delinquency Rate	Business size is defined according to high-credit (that is, the maximum amount of credit a business once had outstanding, as reported in the PayNet database). Small borrowers are those with a high credit of less than $500 000 and Medium-sized borrowers are those with high credit of more than $500 000 but less than $2 million. Delinquency rate calculation: 90+ day delinquency rates are calculated by dividing the amount of loan interest and principle payments more than 90 days overdue by the total balance of loans outstanding.	PayNet Inc.
Bankruptcies, total	Business insolvency is defined as the number of bankruptcy and proposal cases. All enterprises.	Office of the Superintendent of Bankruptcy Canada

References

SME Financing Data Initiative, "Credit Condition Survey", available at *www.ic.gc.ca/eic/site/061.nsf/eng/h_02192.html*.

SME Financing Data Initiative, "Survey on Financing of Small and Medium Enterprises", available at *www.ic.gc.ca/eic/site/061.nsf/eng/h_01570.html*.

SME Financing Data Initiative, "Biannual Survey of Suppliers of Business Financing", available at *www.ic.gc.ca/eic/site/061.nsf/eng/h_01569.html*.

Chile

SMEs in the national economy

In Chile, 99 % of all enterprises are SMEs and they employ 57 % of the business sector labour force. 77 % of SMEs are microenterprises, 19 % are small and 3 % are medium-sized. Although the usual definition of an SME is based on the annual sales of the enterprise, the financial sector uses a definition based on the loan amount, as indicated in Box 4.2.

Table 4.6. **Distribution of firms in Chile, 2010**

By firm size

Firm size (annual sales)	Number	%
All enterprises	798 073	100.0
SMEs (up to UF 100 000)	786 940	98.6
Micro (up to UF 2 400)	*616 702*	*77.3*
Small (UF 2 400 to UF 25 000)	*148 194*	*18.6*
Medium (UF 25 000 to UF 100 000)	*22 044*	*2.8*
Large (UF 100 000+)	**11 133**	**1.4**

Note: Data include non-employer enterprises and all industries, except the fishing industry and the education and health and social work sectors (ISIC Rev. 3: B M and N). UF (Unidad de Fomento) is a unit of account that is adjusted to inflation. Thus, its real value remains constant. The UF of 31 August 2012 is CLP 22 549.68.

Source: Ministerio de Economía de Chile, 2012.

StatLink http://dx.doi.org/10.1787/888932795029

SME lending

Over the entire period both business loans and SME loans increased. The share of SME loans in total business loans also increased during the years 2007-2011, from 16.7 % to 17.4 %. The share of SME short-term loans in total SME loans was 63 % (2011), indicating that loans were mainly being used to resolve cash flow problems in the production cycle or during the course of business. There was a noticeable decrease in the proportion of SME non-performing loans in total SME loans, from 7.1 % (2009) to 6.0 % (2011).

Loans authorised compared to loans requested

The indicator "loans authorised compared to loans requested" is calculated with the information from the *Longitudinal Survey of Enterprises* and it provides data on the number of enterprises that received and requested one or more loans during the years 2006-2008.[1] The ratio of loans authorised to loans requested for SMEs was 61.1%, and for large firms 98.8%, indicating the existence of a gap between SMEs' and large firms' access to credit. SMEs faced credit rationing because they could not meet the credit requirements of financial institutions.

Credit conditions

In October 2008, banks tightened lending conditions (higher spreads on loans, higher collateral requirements and smaller loans) due to the international financial crisis, and they gradually normalised them by mid-2009 (Cowan and Marfan, 2011). According to the last supply-side survey on *General Conditions and Standards in the Credit Market*, conducted by the Central Bank of Chile in June 2011, business loans for all enterprises had more flexible conditions. Of the banks surveyed, 23% reported better credit conditions for SMEs: lower spreads and an increase in the credit lines for these clients. However, for large firms, 18% of the banks increased their collateral requirements. Also, 70% of the banks surveyed said that there was an increase in the demand for new business loans due to the greater need for working capital and higher fixed asset investments, both for SMEs and large enterprises.

There were no data on interest rates for the years 2007-2009, and the only data available were for 2010 and 2011, when the nominal interest rate spread between SMEs and large enterprises in 2010 was 6.7% for short-term loans, and 8.4% for long-term loans.[2] The spread in 2011 was 7.2% for short-term loans and 8.3% for long-term loans. There were no data available on collateral requirements for the period.

Equity financing

Total venture capital investment fell drastically between 2008 and 2009 due to the negative effects of the global financial crisis. Most of this decrease was in later stage investment. In Chile, the private equity market has different sources of funding for the different stages of investment. Seed capital, angel investment (currently there are six networks of angel investors in Chile), and expansion capital receive support from CORFO (the Corporation for the Development of Production which is the government economic development agency), through different support programmes of CORFO-Innova. The maturity stage is financed by the private sector, and it was most affected by the financial crisis. In 2010, the government launched a new programme to provide USD 40 000 in start-up equity to entrepreneurs with new business ideas.

Other indicators

Payment delays are low in Chile, and they improved between 2009 and 2011 for both SMEs and large firms. The average number of days of payment delays decreased for SMEs from 5.8 to 5.0 days, and for large firms delays remained very low at 0.8 days. Bankruptcies were also low in Chile but that could be explained by the fact that the process is very slow and expensive and a great stigma is attached to being declared bankrupt.

Table 4.7. **Formal flows of venture and growth capital investment in Chile, 2007-09**

By stage of investment, in CLP billion

Stages	2007	2008	2009
Seed capital	3.4	3.9	2.8
Angel investors	1.8	1.9	1.8
Expansion	24.7	23.6	21.0
Subtotal for venture capital	*29.8*	*29.4*	*25.5*
Maturity	24.3	51.7	9.5
Total	**54.2**	**81.1**	**35.1**

Source: Innova Chile, Corporación de Fomento Productivo (CORFO), Superintendencia de Valores y Seguros (SVS). Extracted from Echecopar and Rogers (2011).

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Government policy response

SME government loan guarantees and government guaranteed loans

Government loan guarantees are offered by two institutions: BancoEstado, a commercially-oriented government bank, and CORFO, which depends on the Ministry of Economy. BancoEstado provides a public guarantee fund named FOGAPE (guarantee fund for small business) for micro and small enterprises. CORFO also provides different lines of financing for SMEs through its microcredit and loan guarantee programmes: FOGAIN (a guarantee fund for investment loans), COBEX (guarantee for exports) and SME debt restructuring.[3] These loan guarantees partially guarantee credits issued by commercial banks. Credit evaluation is fully delegated to the banks by BancoEstado and CORFO.

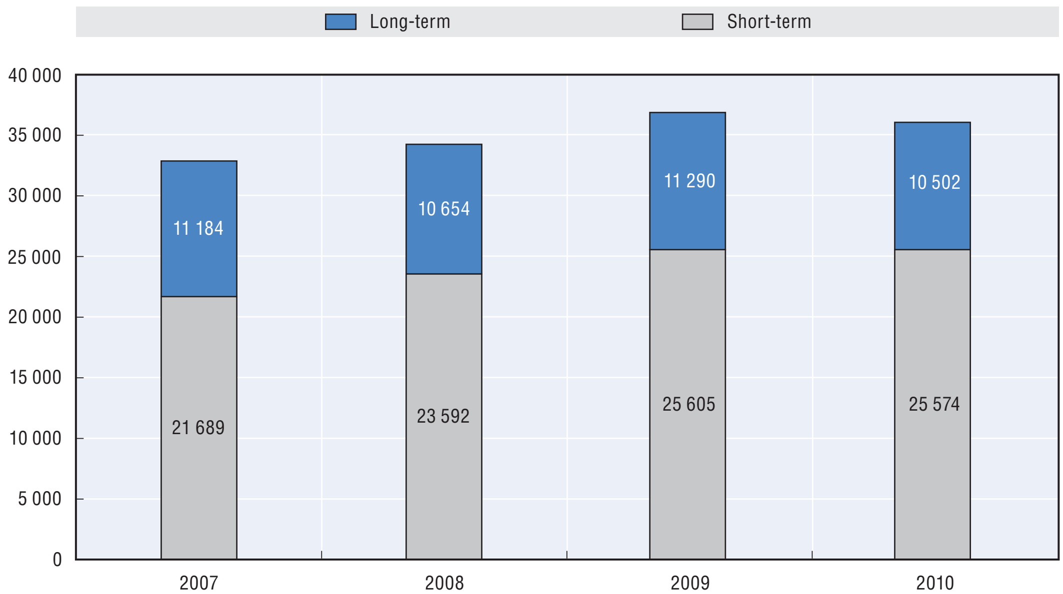
Between 2010 and 2011 guaranteed loans increased 36%. This was largely due to a tenfold increase in Corfo's guarantee activity. During 2011 Corfo provided 49 372 loan guarantees to SMEs worth CLP 1 trillion. The guaranteed loans had an average duration of 26 months. Most of these loans (83%) were for investment and working capital. While over the period 2007-2011 there was an important increase in government guarantees and in guaranteed loans, the average coverage decreased from 71% (2007) to 64% (2010), probably due to the increase in the amount of the loans. The intensity of use of the guarantee programme can be measured by dividing the loans outstanding by the loan guarantees. In the Chilean case the intensity of use ratio was 2.

SME government direct lending

Government direct lending for SMEs is provided through INDAP (*Institute for the Development of Agriculture and Livestock*) and is focused on micro and small enterprises in the agricultural sector. Most of the loans are short-term loans, and the share of the long-term loans in total loans decreased between 2007-2010 from 34% to 29%.

Figure 4.5. **Value of direct government loans from INDAP, 2007-10**

In CLP million



Source: Innova Chile, Corporación de Fomento Productivo (CORFO), Superintendencia de Valores y Seguros (SVS). Extracted from Echecopar and Rogers (2011).

StatLink http://dx.doi.org/10.1787/888932793737

The number of new loans increased during this period, from 47 720 (2007) to 59 735 (2011). Finally, it is interesting to note that the average interest rates of these direct

Table 4.8. **Number of new direct government loans in Chile, 2007-11**

Number of new SME loans

	Short-term	Long-term	Total
2007	32 809	14 911	47 720
2008	30 566	12 583	43 149
2009	33 775	12 449	46 224
2010	31 741	12 066	43 807
2011	42 733	17 002	59 735

Source: Instituto de Desarrollo Agropecuario (INDAP).

StatLink http://dx.doi.org/10.1787/888932795067

government loans were lower than the average interest rates in the financial market. In 2010, the average annual interest rate for short-term loans of INDAP was 5.87% vs. 7.5%; and for long-term loans INDAP's average interest rate was 6.99% vs. 13.1%.[4]

Box 4.2. **Definition of SMEs used in Chile's SME and entrepreneur scoreboard**

Country definition

In Chile, the Law No. 20.416 establishes the criteria to define the size of a firm. These refer to the annual sales of the firm:

Size	Annual sales (in UF)
Micro-enterprise	Less than UF 2 400
Small	From UF 2 400 to UF 25 000
Medium	From UF 25 000 to UF 100 000
Large	More than UF 100 000

Note: UF (*Unidad de Fomento*) is a unit of account that is adjusted to inflation. Thus, its real value remains constant. The UF of 31 August 2012 is CLP 22 549.68. SMEs in Chile are firms with annual sales up to UF 100 000.

Definition of SMEs used by financial institutions

Financial institutions define SMEs by the loan size. This definition is related to the debt that the firm has in the financial system. The amount of the loan (debt) used for this categorisation is the maximum historic value available for each firm.

Size	Loan (Debt) size (in UF)
Micro loan	Less than UF 500
Small loan	From UF 500 to UF 4 000
Medium loan	From UF 4 000 to UF 18 000
Large loan	From UF 18 000 to UF 200 000
Mega loan	More than UF 200 000

Note: UF (Unidad de Fomento) is a unit of account that is adjusted to inflation. Thus, its real value remains constant. The UF of 31 August 2012 is CLP 22 549.68. SMEs in Chile are firms with annual sales up to UF 100 000.
Source: Superintendency of Banks and Financial Institutions (SBIF).

Table 4.9. **SME and entrepreneur scoreboard for Chile, 2007-11**

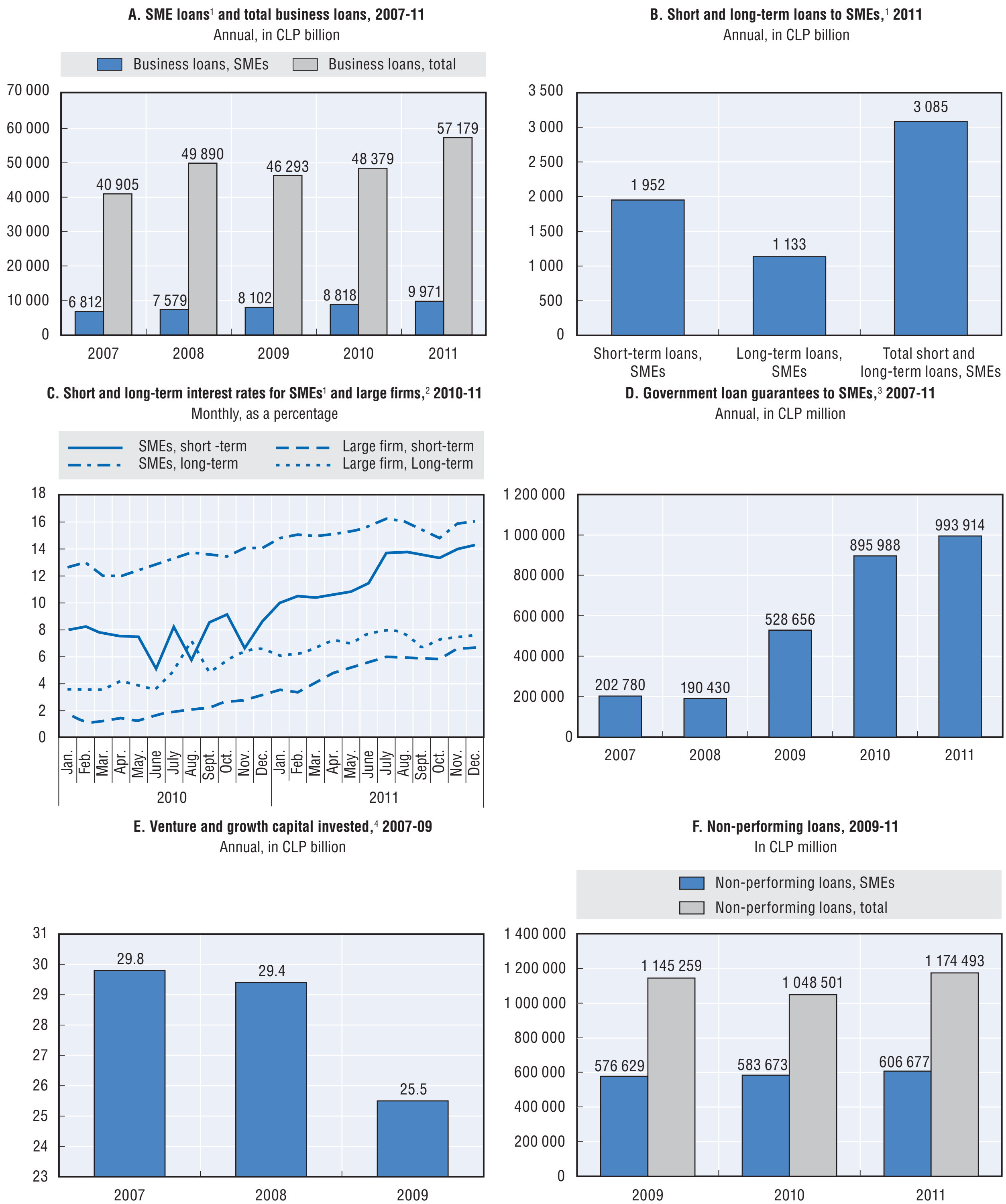
Indicator	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	CLP billion	6 812	7 579	8 102	8 818	9 971
Business loans, total	CLP billion	40 905	49 890	46 293	48 379	57 179
Business loans, SMEs	% of total business loans	16.7	15.2	17.5	18.2	17.4
Short-term loans, SMEs	CLP million	..	..	..	1 676	1 952
Long-term loans, SMEs	CLP million	..	..	..	1 116	1 133
Total short and long-term loans, SMEs	CLP million	..	..	..	2 791	3 085
Short-term loans, SMEs	% of total short and long-term SME loans	..	..	..	60.0	63.0
Government loan guarantees, SMEs	CLP million	202 780	190 430	528 656	895 988	993 914
Government guaranteed loans, SMEs	CLP million	284 405	263 610	799 310	1 441 186	1 964 176
Direct government loans, SMEs	CLP million	32 873	34 246	36 895	36 076	..
Loans authorised, SMEs[1]	Number of firms	..	147 655	..	..	..
Loans requested, SMEs[1]	Number of firms	..	241 733	..	..	..
Ratio of loans authorised to requested, SMEs[1]	%	..	61.1	..	..	..
Loans authorised, large firms[1]	Number of firms	..	4 204	..	..	..
Loans requested, large firms[1]	Number of firms	..	4 256	..	..	..
Ratio of loans authorised to requested, large firms[1]	%	..	98.8	..	..	..
Non-performing loans, total	CLP million	..	..	1 145 259	1 048 501	1 174 493
Non-performing loans, SMEs	CLP million	..	..	576 629	583 673	606 677
Share of non-performing loans in total business loans	%	..	..	2.5	2.5	2.0
Share of non-performing SME loans in total SME business loans	%	..	..	7.1	6.6	6.0
Short-term interest rate, SMEs	%	..	..	..	9.10	12.37
Short-term interest rate, large firms	%	..	..	..	2.39	5.15
Short-term interest rate spread	%	..	..	..	6.71	7.23
Long-term interest rate, SMEs	%	..	..	..	13.12	15.47
Long-term interest rate, large firms	%	..	..	..	4.68	7.15
Long-term interest rate spread	%	..	..	..	8.44	8.32
Equity						
Venture and growth capital	CLP billion	29.8	29.4	25.5	..	..
Venture and growth capital	Year on year growth rate, %	..	–1.3	–13.3	..	..
Other						
Payment delays, total enterprises	Weighted average number of days	..	..	1.8	1.7	1.6
Payment delays, SMEs	Weighted average number of days	..	..	5.8	5.5	5.0
Payment delays, large enterprises	Weighted average number of days	..	..	0.9	0.8	0.8
Bankruptcies, total		143	150	173	134	133
Bankruptcies, total	Year-on-year growth rate, %	..	4.9	15.3	–22.5	–0.7

1. Displayed value is the average of the period 2006-2008.

Source: Refer to Table 4.10.

StatLink http://dx.doi.org/10.1787/888932795086

Figure 4.6. **Trends in SME and entrepreneurship finance in Chile**



1. Loans up to UF 18 000.
2. For loans over UF 18 000.
3. SMEs are defined as enterprises with annual sales up to UF 100 000 or annual exports up to UF 400 000.
4. Includes seed capital, angel financing and expansion capital.

Sources: Charts A, B, C and F: Superintendency of Banks and Financial Institutions (SBIF). Chart D: CORFO (Corporación de Fomento Productivo) and Banco Estado. Chart E: Innova Chile, CORFO and Superintendencia de Valores y Seguros-SVS.

StatLink http://dx.doi.org/10.1787/888932793756

Table 4.10. **SME and entrepreneur definitions and sources of indicators for Chile's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Business loans to SMEs (defined as loans up to UF 18 000) from banks and co-operative financial institutions under the supervision of SBIF (amount outstanding, stocks).[1]	Superintendency of Banks and Financial Institutions (SBIF)
Business loans, total	Business loans to all non-financial enterprises, amount outstanding, stocks. (Banks and co-operative financial institutions under the supervision of SBIF).	Superintendency of Banks and Financial Institutions (SBIF)
Short-term loans, SMEs	Loans to SMEs (defined as loans up to UF 18 000) equal to or less than one year (new loans).	Superintendency of Banks and Financial Institutions (SBIF)
Long-term loans, SMEs	Loans to SMEs (defined as loans up to UF 18 000) for more than one year (new loans).	Superintendency of Banks and Financial Institutions (SBIF)
Government loan guarantees, SMEs	Guarantees available to banks and financial institutions (new loan guarantees). FOGAIN and COBEX are provided by CORFO and FOGAPE through BancoEstado. SMEs are defined as enterprises with annual sales up to UF 100 000 or annual exports up to UF 400 000.	CORFO (Production Promotion Corporation) and Banco Estado
Government guaranteed loans, SMEs	Loans guaranteed by government (flows). These loans are guaranteed by different types of guarantees, provided by CORFO (Production Promotion Corporation) and BancoEstado. SMEs are defined as enterprises with annual sales up to UF 100 000 or annual exports up to UF 400 000.	CORFO (Corporación de Fomento Productivo) and Banco Estado
Direct government loans, SMEs	Direct loans from the Institute of Agricultural Development (INDAP), to micro and small agribusinesses (flows). INDAP's definition of an SME is an enterprise with less than 12 hectares and capital up to UF 3 500.	INDAP (Instituto de Desarrollo Agropecuario), Ministry of Agriculture.
Loans authorised, SMEs	Number of SMEs (defined as enterprises with annual sales up to UF 100 000) that received one or more loans during the years 2006-2008. Does not include the fishing industry and education and health and social work sectors.	First Longitudinal Survey of Enterprises (Ministry of Economy)
Loans requested, SMEs	Number of SMEs (defined as enterprises with annual sales up to UF 100 000) that requested one or more loans during the years 2006-2008. Does not include the fishing industry and education and health and social work sectors.	First Longitudinal Survey of Enterprises (Ministry of Economy)
Non-performing loans, total	Includes all loans that are in default (one day or more), from banks and financial institutions under supervision of SBIF.	Superintendency of Banks and Financial Institutions (SBIF)
Non-performing loans, SMEs	Includes all SMEs loans (defined as loan amounts up to UF 18 000) that are in default (one day or more), from banks and financial institutions under supervision of SBIF.	Superintendency of Banks and Financial Institutions (SBIF)
Short-term interest rate, SMEs	Average annual nominal rate for new loans, for maturity up to 1 year and amounts up to UF 18 000. (This is a weighted average by amount of the loan.)	Superintendency of Banks and Financial Institutions (SBIF)
Short-term interest rate, large firms	Average annual nominal rate for new loans, for maturity up to 1 year and amounts more than UF 18 000. (This is a weighted average by amount of the loan).	Superintendency of Banks and Financial Institutions (SBIF)
Short-term interest rate spread	Between small and large enterprises; for maturity up to 1 year.	Superintendency of Banks and Financial Institutions (SBIF)
Long-term interest rate, SMEs	Average annual nominal rate for new loans, for maturity more than 1 year and amounts less than UF 18 000. (This is a weighted average by amount of the loan).	Superintendency of Banks and Financial Institutions (SBIF)
Long-term interest rate, large firms	Average annual nominal rate for new loans, for maturity more than 1 year and amounts more than UF 18 000. (This is a weighted average by amount of the loan).	Superintendency of Banks and Financial Institutions (SBIF)
Long-term interest rate spread	Between small and large enterprises; for maturity more than 1 year.	Superintendency of Banks and Financial Institutions (SBIF)
Equity		
Venture and growth capital	Annual amounts invested in the country (includes seed capital, angel financing, expansion). All enterprises.	Innova Chile, CORFO and Superintendencia de Valores y Seguros-SVS (the Chilean securities and insurance supervisor)
Other		
Payment delays, total enterprises	Weighted average of the unpaid amount of the loan and the number of days of delay. Three ranges of delay are considered: 1) Less than 30 days, 2) 30 days and less than 90 days, and 3) 90 days and more; the final result, for each year, is the sum of the weighted average of each range. $\sum Xi * NDD$, where i = range: 1, 2, and 3; X = share of the unpaid amount in total loans, and NDD = number of days of delay.	Superintendency of Banks and Financial Institutions (SBIF)

Table 4.10. **SME and entrepreneur definitions and sources of indicators for Chile's scoreboard** *(cont.)*

Indicator	Definition	Source
Payment delays, SMEs	Weighted average of the unpaid amount of the loan and the number of days of delay. SME loans are defined as loan amounts up to UF 18 000. Three ranges of delay are considered: 1) Less than 30 days, 2) 30 days and less than 90 days, and 3) 90 days and more; the final result, for each year, is the sum of the weighted average of each range. $\sum Xi * NDD$, where i = range: 1, 2, and 3; X = share of the unpaid amount in total loans, and NDD = number of days of delay.	Superintendency of Banks and Financial Institutions (SBIF)
Payment delays, large enterprises	Weighted average of the unpaid amount of the loan and the number of days of delay. Large enterprise loans are defined as loan amounts over UF 18 000. Three ranges of delay are considered: 1) Less than 30 days, 2) 30 days and less than 90 days, and 3) 90 days and more; the final result, for each year, is the sum of the weighted average of each range. $\sum Xi * NDD$, where i = range: 1, 2, and 3; X = share of the unpaid amount in total loans, and NDD = number of days of delay.	Superintendency of Banks and Financial Institutions (SBIF)
Bankruptcies	After an enterprise is listed in the *Diario Oficial*, the bankruptcy process begins and usually lasts an average of 3.2 years.	Superintendencia of Bankruptcies

1. The UF of 31 August 2012 is CLP 22 549.68. See Box 4.2 for the definition of SMEs used by financial institutions.

Notes

1. It is important to note that the information is for the whole period and not only for one year.
2. This is for nominal interest rates. The spread for real interest rates is: 1.6% for short-term loans and 0.8% for long-term loans.
3. In 2011 CORFO introduced some changes in their guarantee programmes: FOGAIN, which was oriented to guarantee loans for investment, now includes guarantees for working capital; COBEX, which was oriented to exports, now includes imports.
4. Nominal interest rates.

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Czech Republic

SMEs in the national economy

In 2011, 99.9% of all enterprises were SMEs. 96% of SMEs were micro firms and 4% small and medium-sized enterprises.

Table 4.11. **Distribution of firms in the Czech Republic, 2011**
By firm size

Firm size (employees)	Number	%
All firms	**1 067 273**	**100.0**
SMEs (0-249)	**1 065 815**	**99.9**
Micro (0-9)	*1 023 811*	*95.9*
Small (10-49)	*35 076*	*3.3*
Medium (50-249)	*6 928*	*0.6*
Large (250+)	**1 458**	**0.1**

Note: Non-employer firms are included.
Source: Ministry of Industry and Trade, 2012.

StatLink http://dx.doi.org/10.1787/888932795105

SME lending

SME loans declined continuously between 2007 and 2010. By 2010 they had declined 38%. In 2011 they were significantly below their 2007 level. In contrast total business loans declined 10% between 2007 and 2010. Consequently, the share of SME loans in total business loans declined from 25% (2007) to 18% (2011). Lack of access to finance caused employment and investment in SMEs to decrease even during the supposed recovery period.

Credit conditions

Interest rates for SMEs and total business loans declined over time. However, the interest rate spread almost doubled over the period.

Equity financing

Venture capital began to decline during the recession although in 2010 it was still well above the 2007 level.

Bankruptcies

Bankruptcies increased dramatically over the period. In 2011, they were more than three times greater than in 2008.

Government policy response

The Czech-Moravian Guarantee and Development Bank (CMGDB) and the Export Guarantee and Insurance Corporation are state-owned institutions. Given the decline in SME lending with its impact on employment and investment, guarantee activities were stepped up. In the framework of anti-crisis measures, the Ministry of Industry and Trade provided assistance in 2010 under the national GUARANTEE programme to 1 435 small and medium-sized enterprises, allowing them to obtain loans of more than CZK 9 billion for their operational and investment activities. Consequently, government loan guarantees tripled between 2007 and 2010. However, in 2011 they fell below their 2007 level.

The GUARANTEE programme

The GUARANTEE programme for preferential loans was created in February 2009 and went into implementation at the end of 2010. As a part of the National Anti-Crisis Plan (Government Resolution No. 204 of 16 February 2009), the programme was originally targeted at manufacturing, construction and information and communications. On 16 November 2009, the programme was expanded to include support for internal trade, tourism and education. A further expansion of the programme took place on 15 March 2010, adding the provision of guarantees for investment loans. The acceptance of applications for all the types of guarantees provided under the programme was suspended with effect from 15 June 2010. The reasons for this were the large number of applications and the exhaustion of the available funds allocated to the programme.

Table 4.12. **Guarantees issued and loans guaranteed, 2007-11**

Indicator	Unit	2007	2008	2009	2010	2011
Guarantees issued	Number	482	1 043	878	1 224	111
Guarantees issued	CZK million	1 925	3 529	6 369	6 593	472
Loans guaranteed	CZK million	2 959	5 094	9 550	10 070	630
% guaranteed	%	65	69	67	65	75

Source: Czech-Moravian Guarantee and Development Bank (CMGDB).

StatLink http://dx.doi.org/10.1787/888932795124

The Czech Export Bank and the Export Guarantee and Insurance Company

In connection with the anti-crisis measures, the Czech Export Bank (CEB) and the Export Guarantee and Insurance Company (EGIC) received state support during 2009 and 2010 to increase export finance and insurance. The capital of the CEB was increased in 2010 by CZK 1 050 billion to a total of CZK 4 billion. The CEB began providing direct guarantees to commercial banks for SME loans. Another successful SME product of the CEB was the re-financing of factoring companies from CEB resources, which has allowed the number of financed enterprises to be increased dramatically.

The insurance capacity of the EGIC was increased by CZK 50 billion in 2010 compared to the previous year to a total of CZK 200 billion, creating an adequate framework to cover the increase in its exposure resulting from newly insured export activities, including those of small and medium-sized enterprises. In view of the increase in demand for insurance of export credits, bank guarantees and investments, the EGIC was given a grant from the state budget of CZK 1 billion.

The EGIC introduced a differentiated system for insurance coverage depending on the political and commercial risks, and raised the deductible to 5% only for commercial risks and new risks covered. These changes allowed SMEs to become more engaged in the system of state support for export insurance.

By means of these measures, combined with an overall administrative streamlining of the products already offered, in 2010 the CEB and EGIC contributed to meeting the high level of demand from exporters for export financing with state support. An exceptionally large number of new insurance policies and export financing agreements were concluded, a significant share of which were for small and medium-sized enterprises.

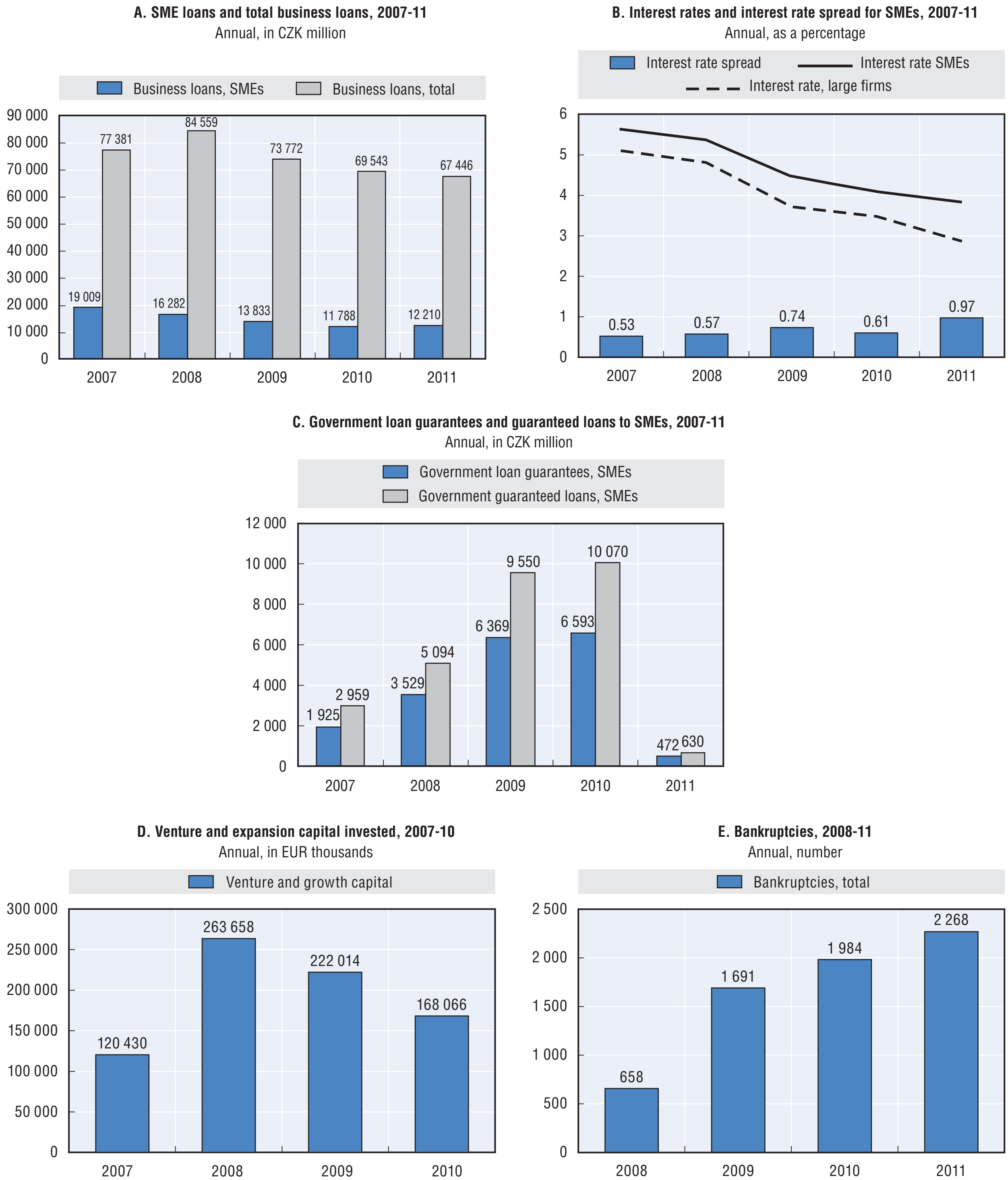
Table 4.13. **SME and entrepreneur scoreboard for the Czech Republic, 2007-11**

Indicator	Unit	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	CZK million	19 009	16 282	13 833	11 788	12 210
Business loans, total	CZK million	77 381	84 559	73 772	69 543	67 446
Business loans, SMEs	% of total business loans	24.6	19.3	18.8	17.0	18.1
Government loan guarantees, SMEs	CZK million	1 925	3 529	6 369	6 593	472
Government guaranteed loans	CZK million	2 959	5 094	9 550	10 070	630
Interest rate, SMEs	%	5.63	5.37	4.46	4.08	3.83
Interest rate, large firms	%	5.10	4.80	3.72	3.47	2.86
Interest rate spread	%	0.53	0.57	0.74	0.61	0.97
Equity						
Venture and growth capital	EUR thousands	120 430	263 658	222 014	168 066	..
Venture and growth capital	Year-on-year growth rate, %	..	118.9	−15.8	−24.3	..
Other						
Bankruptcies, total	Number	..	658	1 691	1 984	2 268
Bankruptcies, total	Year-on-year growth rate, %	..	..	157.0	17.3	14.3

Source: Refer to Table 4.14.

StatLink http://dx.doi.org/10.1787/888932795143

Figure 4.7. **Trends in SME and entrepreneurship finance in the Czech Republic**



Sources: Charts A and B: Czech National Bank. Chart C: The Export Guarantee and Insurance Corporation (EGAP); Czech-Moravian Guarantee and Development Bank (CMGDB). Chart D: European Private Equity and Venture Capital Association (EVCA). Chart E: Ministry of Justice.

StatLink http://dx.doi.org/10.1787/888932795048

Table 4.14. **SME and entrepreneur definitions and sources of indicators for the Czech Republic's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Bank loans up to CZK 30 million to non-financial enterprises; new loans only	Czech National Bank
Business loans, total	Total bank loans to non-financial enterprises; new loans only	Czech National Bank
Government loan guarantees	Value of guarantee funds	Czech Export Bank (CEB) and the Export Guarantee and Insurance Company (EGIC)
Government guaranteed loans, SMEs	Value of guaranteed loans	Export Guarantee and Insurance Corp.; Czech-Moravian Guarantee and Development Bank (both state-owned)
Interest rate, SMEs	Average annual rates for new loans; amounts up to CZK 30 million; non-financial enterprises only	Czech National Bank
Interest rate, large firms	Average annual rates for new loans; total business loans without credit card debts and revolving loans; non-financial enterprises only	Czech National Bank
Interest rate spread	Between interest rate for new loans up to CZK 30 million and average annual rate for new loans	Czech National Bank
Equity		
Venture and growth capital	Seed, start-up, later-stage and growth capital	European Private Equity and Venture Capital Association (EVCA)
Other		
Bankruptcies	Number of cases in bankruptcy and reorganisation based on Act No. 182/2006 Coll. On Insolvency	Ministry of Justice

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Denmark

SMEs in the national economy

SMEs accounted for 99.7% of all enterprises in Denmark according to OECD statistics.

Table 4.15. **Distribution of firms in Denmark, 2007**
By firm size

Firm size (employees)	Number	%
All firms	**212 129**	**100.0**
SMEs (1-249)	**211 406**	**99.7**
Micro (1-9)	*184 556*	*87.0*
Small (10-49)	*22 823*	*10.8*
Medium (50-249)	*4 027*	*1.9*
Large (250+)	**723**	**0.3**

Note: Non-employer enterprises are not included.

Source: OECD Structural and Demographic Business Statistics Database.

StatLink http://dx.doi.org/10.1787/888932795162

SME lending

Financial institutions lending to SMEs, approximated by loans which amount to less than EUR 1 million, declined by around 30% between 2007 and 2009. However, SME lending recovered in 2010 registering a 23% increase but stagnated in 2011 and thus the total value of SME lending was still well below pre-crisis levels. Total business loans also declined over the period 2009-2011. The share of SME loans in total business loans was small (12%) in Denmark and it declined even further over the period. As could be expected, the share of SME short-term loans in total SME loans increased as SMEs sought financing to remedy liquidity problems.

The latest assessment of the availability of credit found that it continued to be tight in the first half of 2012. The financial and economic crisis in Europe and the resulting tighter credit policy among financial institutions continues to make it difficult for SMEs to obtain financing. The debt crisis and the continued volatility on financial markets as well as the more stringent capital adequacy requirements (Basel III and EU directives) will affect the availability of funding for Danish banks and in turn the availability for SMEs. This tightened credit policy contributed to the decrease in nominal business lending in 2011. Despite a small reduction in interest rates in the first and second quarter of 2012, nominal business lending continued to decrease in the first half of 2012, in part triggered by a fall in credit demand.

Statistics Denmark undertook a survey on SMEs' access to financing as part of a Eurostat survey. It indicated that the smallest businesses applied for financing to a larger extent in 2010 than in 2007, but that significantly fewer obtained the full loan amount applied for. Other surveys by the Confederation of Danish Industry and the Danish Federation of Small and Medium-Sized Enterprises indicated that SMEs still considered it difficult to obtain financing in 2010 and that this restrained output. For example, in December 2010, the Confederation of Danish Industry stated that 37% of SMEs reported that the financing situation had become more difficult or much more difficult compared with the pre-crisis period. In the second half of 2012, more than 40% of their members stated that the current financing situation is good or very good, while less than 28% stated that it is bad or very bad. According to the bank lending survey conducted by the Danish Central Bank, credit institutions have maintained tight credit policies which were introduced at the end of 2008 and the beginning of 2009. Banks also stated that they reduced their large exposures in 2010 compared with 2009 and they wished to reduce them further. This reflects a need for an adjustment of credit policy in financial institutions after a period of massive growth in lending. Looking forward, international financial reforms and increased capital requirements for credit institutions are expected to be passed on to enterprises, which will have to comply with strict solvency requirements in order to obtain financing.

The percentage of SMEs applying for finance increased from 35% to 44% between 2007 and 2010.

Table 4.16. **Share of firms that applied for financing, 2007 and 2010**

As a percentage

	% of SMEs applying	High-growth start ups	High-growth firms	Other firms
2007	35	47	44	34
2010	44	57	54	42

Source: Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888932795181

Of the 44% of SMEs that applied for finance in 2010, 23% were rejected. The chances of rejection were higher for smaller businesses. The Ministry of Economic and Business Affairs analysed the relation between SMEs' ability to obtain a loan and a number of financial ratios derived from their financial statements. It found that SMEs which obtain loans have higher EBIT margins, a higher return on equity and lower gearing than SMEs which only partly obtained loans or were rejected.

Table 4.17. **Result of loan applications by size of firm, 2010**

As a percentage

Result	% of SMEs that applied	5-9 workers	10-49 workers	50-99 workers	100-249 workers
Fully obtained	69	63	69	69	75
Partly obtained	24	25	23	28	22
Rejected	23	21	24	24	13

Source: Statistics Denmark.

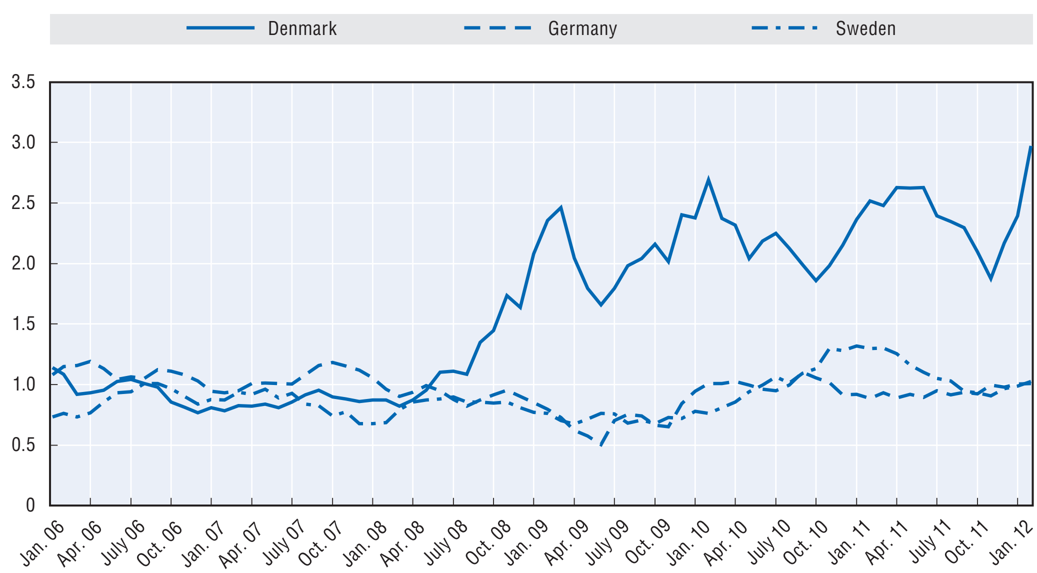
StatLink http://dx.doi.org/10.1787/888932795200

Credit conditions

Interest rates declined from a high of over 7% in 2008 to 5.6% in 2011. The interest rate spread increased continually over the period and was 3.43 in 2011. According to the Danish Central Bank's bank lending survey, financial institutions have imposed higher prices and increased collateral requirements in late 2008 and the beginning of 2009. This is also reflected in bank reports from 2009 and 2010, which stated that in performing a credit assessment of enterprises focus has been enhanced on the security provided for the loans and the development in the value of the security. They also stated they have increased their monitoring of SMEs' financial statements and their ability to generate the cash required to continue their operations. In addition, SMEs' clients demanded extended credit during the year. Thus, SMEs' liquidity was squeezed, on the one hand, by their clients and, on the other hand, by the financial institutions which offered poorer loan terms on renegotiation of loans. The Danish Chamber of Commerce surveyed its members during the second half of 2011 and 46% said they were paying higher interest on new or existing loans. The interest rate spread was growing and was relatively larger in Denmark than in other countries. The lower interest rates for large loans and the higher interest rates for small loans explained the increased interest spread.

Figure 4.8. **The development in interest rate spread between large and small loans in Denmark, Germany and Sweden, 2006-12**

In percentages



Note: Interest rates on new loans excluding overdrafts with a fixed rate of interest up to one year; three month moving average.

Source: Danish Central Bank and European Central Bank (ECB), Report on the Development in the availability of credit.

StatLink http://dx.doi.org/10.1787/888932793794

Equity financing

According to the European Venture Capital Association data base, venture capital financing more than halved in 2009 and continued to decline in 2010. In 2011 there was a striking recovery but not to 2007-2008 levels.

Other indicators

The fact that SMEs were under stress is shown in the statistics for payment delays and bankruptcies. Payment delays increased from a low of 6.1 days to a high of 12 days. At the same time bankruptcies increased two and a half times between 2007 and 2010. Bankruptcies remained high in 2011.

Government policy response

SMEs' access to finance is managed by Vaekstfonden (Growth Fund), a government investment fund created in 1992. Vaekstfonden offers guarantees and loans to established SMEs, invests equity in young companies with growth potential and has a fund of funds activity focusing on both venture and the SME segment. In September 2009 the government introduced a package which improved SME financing and export opportunities by strengthening loan guarantees, get-started loans, export guarantees and improving access to risk capital for new businesses. In late 2012 another policy package was introduced by the government with the purpose of further improving SMEs' access to financing. According to this new initiative, from 2013, Vaekstfonden will introduce new direct loans for SMEs. In addition, the former scheme for get-started loans and the credit guarantee programme are merged into a single scheme.

All in all the available data for 2010-2011 indicated the financing situation remained tight for SMEs. This is the reason why schemes such as direct loans and growth guarantees have been introduced and strengthened to give SMEs improved access to funding. Without state guarantees and capital injections, banks would have had to reduce their lending to a considerably larger extent.

Growth loans "Vaekstlån"

Growth loans are issued by Vaekstfonden directly to SMEs seeking capital for business development or change of ownership. The financial assessment is based on the company's current and past performance, its potential for growth and profitability as well as the capabilities of management. All loans are granted as part of a funding package including other financial partners such as banks or mortgage institutions. Only loans above DKK 2 million are issued and the interest rate is set higher than the interest rate on bank loans because, in case of default, all collateral accrues to banks and other secured creditors before Vaekstfonden.

The get-started loans combine loan guarantees and consultancy schemes for new businesses. Loans of up to DKK 1 million may be granted with 75% guaranteed by the government. The scheme is intended to provide entrepreneurs with easier access to loans and credits with banks. At the same time, entrepreneurs are offered consultancy services before and after financing has been granted to make them better equipped to run their businesses. By 2010 the financial institutions could grant start-up loans for a total of approximately DKK 200 million. In 2011 the total amount committed was DKK 92 million (EUR 12.33 million).

Growth loan guarantee "Vaekstkaution"

Vaekstkaution is given to SMEs and covers 75% of the bank's loss if a company cannot pay back its loan. Capped at DKK 2 million, growth loan guarantees can be granted to finance business development, for example change of ownership, capital investments, or the development of new and improved products.

The number of growth loan guarantees issued has increased from a total commitment of DKK 131million (EUR 17 million) in 2007 to DKK 825 million (EUR 110 million) in 2011. The development can partly be attributed to increased knowledge of the scheme and partly to the fact that the scheme is attractive to banks, as it will not only reduce the risk of lending, but also release parts of the tied-up capital for the banks. Another explanation is that it has become more difficult for businesses to get access to loans on normal terms.

Risk capital

VF Venture, part of Vaekstfonden, invests in young companies in IT, medical technologies, cleantech and industrial technology and other high growth industries. Its individual investments range from DKK 5 million to DKK 25 million. The total amount committed in 2011 was DKK 228 million.

In January 2011 an agreement was made with the trade organisation, Forsikring & Pension, the Danish Labour Market Supplementary Pension Fund and the Employees Capital Pension Fund to provide risk capital for entrepreneurs and SMEs through Dansk Vækstkapital. This was established in June 2011 and closed its second capital round with almost DKK 5 billion in December 2011.

Table 4.18 **Investments of Dansk Vaekstkapital, 2011**

	Government commitments	Size of fund	Ownership %
Major Invest Equity 4	DKK 300 million	DKK 800 million	37.5
Capidea Kapital II	DKK 362 million	DKK 724 million	50.0
Sunstone Technology Ventures Fund III	DKK 175 million	DKK 626 million	27.9
Sunstone Life Science Ventures Fund III	DKK 200 million	DKK 662 million	30.2
SEED Capital	DKK 150 million	DKK 682 million	22.0

Source: Dansk Vaekstkapital.

StatLink http://dx.doi.org/10.1787/888932795219

Export guarantee

Export guarantee was first established as a temporary guarantee scheme to provide the operating and development credit for Danish export firms with a limit of DKK 2 billion. As a result the Export Credit Fund can guarantee up to 80% of operating and development credit extended by banks to export firms and their sub-suppliers. As of 1 January 2012, the scheme was made permanent.

The export credit facility

The export credit facility was established to support the international competitiveness of Danish enterprises and to benefit Danish exports in connection with the financial and economic crisis. Originally it was possible to apply for an export credit until the end of 2011, but a political agreement has been concluded to extend the export credit scheme by four years until the end of 2015. Moreover, the credit limit was increased by DKK 15 billion to DKK 35 billion. The credit scheme supports Danish exports with long credit periods, i.e. more than two years.

The export credit facility has been supplemented by two agreements concluded by the Export Credit Fund with PensionDanmark and PFA Pension, respectively, to the effect that they will each provide up to DKK 10 billion for export financing. The Export Credit Fund guarantees the loans granted by the pension companies. Under the agreements the Export Credit Fund presents relevant projects to the pension companies. The pension companies will then assess whether the investment is attractive and prepare an offer. The buyer is free to accept or reject the offer.

Other

Denmark's central bank also undertook the unusual step of introducing negative interest rates for bank deposits at the central bank in an effort to pressure the banks to increase lending to the real economy. Denmark placed a limit on how much money banks could hold in their current accounts in the central bank. Once the banking system as a whole has more than DKK 70 billion at the central bank, any additional cash is automatically swept into the negative interest facility.

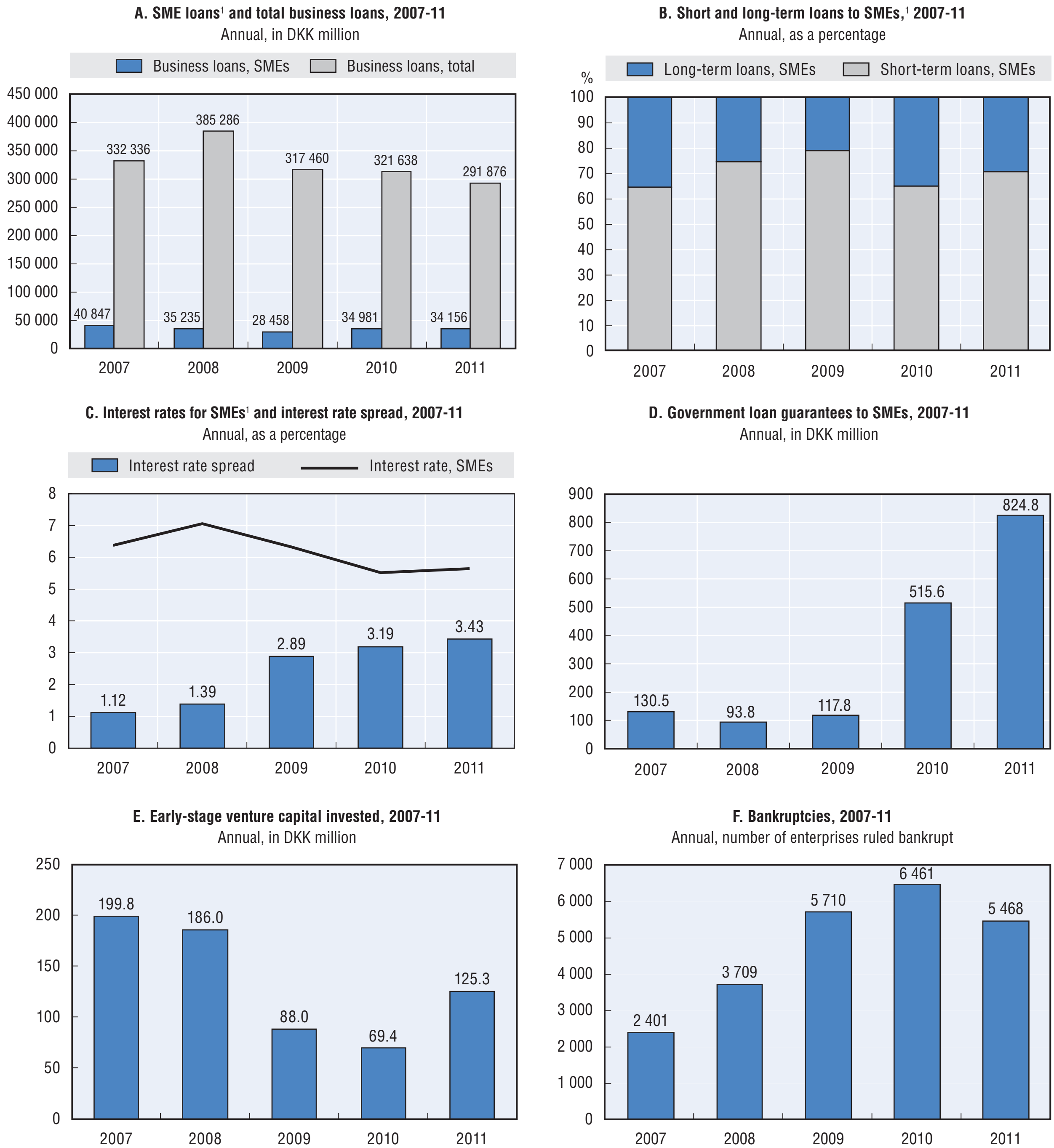
Table 4.19. **SME and entrepreneur scoreboard for Denmark, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	DKK million	40 847	35 235	28 458	34 981	34 156
Business loans, total	DKK million	332 336	385 286	317 460	312 638	291 876
Business loans, SMEs	% of total business loans	12.3	9.1	9.0	11.2	11.7
Short-term loans, SMEs	DKK million	26 426	26 274	22 423	22 668	24 093
Long-term loans, SMEs	DKK million	14 421	8 961	6 035	12 313	10 063
Total short and long-term loans, SMEs	DKK million	40 847	35 235	28 458	34 981	34 156
Short-term loans, SMEs	% of total short and long-term SME loans	64.7	74.6	78.8	64.8	70.5
Government loan guarantees, SMEs	DKK million	130.5	93.8	117.8	515.6	824.8
Interest rate, SMEs	%	6.37	7.06	6.33	5.52	5.64
Interest rate spread	%	1.12	1.39	2.89	3.19	3.43
Equity						
Venture capital	EUR million	199.8	186.0	88.0	69.4	125.3
Venture capital	Year-on-year growth rate, %	..	–6.9	–52.7	–21.1	80.5
Other						
Payment delays	Average number of days	7.2	6.1	12.0	12.0	..
Bankruptcies, total	Number	2 401	3 709	5 710	6 461	5 468
Bankruptcies	Year-on-year growth rate, %	..	54.5	53.9	13.2	–15.4
Bankruptcies	per 10 000 firms	24	46	55	..	..

Source: Refer to Table 4.20.

StatLink http://dx.doi.org/10.1787/888932795238

Figure 4.9. **Trends in SME and entrepreneurship finance in Denmark**



1. For loans up to EUR 1 million.

Sources: Charts A, B and C: Nationalbanken. Chart D: Vækstfonden. Chart E: EVCA. Chart F: Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888932793813

Table 4.20. **SME and entrepreneur definitions and sources of indicators for Denmark's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	New loans (flows), loan amounts up to EUR 1 million.	Nationalbanken
Business loans, total	New loans (flows).	Nationalbanken
Short-term loans, SMEs	New lending amount up to EUR 1 million, interest rate fixation up to and including 1 year.	Nationalbanken
Long-term loans, SMEs	New lending amount up to EUR 1 million, interest rate fixation above 1 year.	Nationalbanken
Government loan guarantees	Loans guaranteed by government, stocks or flows for firms with up to 250 employees.	Vækstfonden
Interest rate, SMEs	Average annual rates for new loans, base rate plus risk premium; for maturity less than 1 year; and amounts up to EUR 1 million.	Nationalbanken
Interest rate spread	Between small & large enterprises; for maturity less than 1 year; amounts up to EUR 1 million and equal to or greater than EUR 1 million.	Nationalbanken
Equity		
Venture capital	Actual amounts invested in Denmark in early stage development.	European Private Equity and Venture Capital Association (EVCA)
Other		
Payment delays	Average number of days for business-to-business in 2008, 2009 and 2010. For 2007, average number of days for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia, European Payment Index 2008, 2009 and 2010
Bankruptcies, total	Number of enterprises ruled bankrupt.	Statistics Denmark
Bankruptcies (per 10 000 enterprises)	Number of bankrupt enterprises per 10 000 enterprises.	Statistics Denmark

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Finland

SMEs in the national economy

In Finland, 99.5% of all firms were SMEs (113 368 SMEs), and they employed approximately 60% of the labour force in 2011. Almost 85% of them were micro-enterprises with less than 10 employees.

Table 4.21. **Distribution of firms in Finland, 2011**

By firm size

Firm size (employees)	Number	%
All firms	**113 988**	**100.0**
SMEs (1-249)	**113 368**	**99.5**
Micro (1-9)	96 518	84.7
Small (10-49)	14 542	12.8
Medium (50-249)	2 308	2.0
Large (250+)	**620**	**0.5**

Notes: Rough estimation calculated from the statistics describing the distribution of firms in previous years and changes in different firm size categories. Data include all industries (excluding primary production sectors) and exclude non-employer firms.

Source: Statistics Finland (Finnish enterprises [e-publication] and Labour force survey [e-publication]).

StatLink *http://dx.doi.org/10.1787/888932795257*

SME lending

Total business loans increased between 2007-2010 but declined to less than the pre-crisis level in 2011.[1] On the other hand SME loans have declined yearly in the reference period 2007-2011. The SME share of business loans plummeted from 27.1% (2007) to 15.3% (2010). In 2011, the share of SME loans in all business loans increased mainly because of the drop in bank loans to large firms. As would be expected during a recession, there was a larger drop-off in SME long-term loans than in short-term loans. The share of SME long-term loans declined from 78.9% (2007) to 76% (2010).

SME authorised loans compared to requested loans

The amount of SME loans authorised declined over the 2009-2011 period. The total amount of new SME loans authorised was EUR 8.3 billion in 2010 and EUR 7.9 billion in 2011. During the same reference period, the percentage of SMEs requesting loans has remained relatively stagnant. Based on the statistics provided by Bank of Finland, it is clear that SMEs were being denied financing while larger firms had easier access to bank financing in 2007-2011. However, the drop in the SME share of new business bank loans could also be explained by tightened credit conditions as well as by the strong government response to the crisis which increased the availability of public finance. This led to many SMEs applying for public financing instead of traditional bank loans.

Credit conditions

In reviewing interest rates, the base rate on small loans of up to EUR 1 million increased from 2.66% to 3.23% in 2011. At the same time, the interest rate spreads between small and large loans declined. It appears that the collateral requirement was one of the biggest obstacles SMEs faced when seeking new loans. The percentage of SMEs reporting less favourable terms in accessing new loans increased from 5% to a high of 28% in 2009 but declined to 24% in 2010 and stayed at that level in 2011. During the reference period SMEs have faced tougher credit conditions than larger enterprises causing some of these SMEs to seek government assistance.

Equity financing

Venture capital investments declined radically in 2008-2009. Investments for growth and expansion of firms experienced a major drop from EUR 168 million in 2007 to only EUR 30 million in 2009. In 2010, venture capital investments started to recover but declined again in 2011 and ended at EUR 152 million.

Table 4.22. **Venture and growth capital investment, 2007-11**

By stage of investment, EUR million

Type	2007	2008	2009	2010	2011
Seed	19	11	11	5	4
Start-up	20	51	46	54	45
Other early stage	33	52	27	37	32
Expansion/growth	168	69	30	87	71
Total	**240**	**183**	**114**	**183**	**152**

Note: Total excludes buyout, turnaround and replacement capital.

Source: Finnish Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888932795276

Other indicators

Average payment delays in Finland were historically low compared to some other countries before the crisis. Finnish firms have a strong payment discipline, which they maintained during the crisis. Their behaviour was reinforced by a law which requires late paying companies or public institutions to pay a debtor fee and interest on the unpaid amount. Bankruptcy proceedings for all enterprises increased slightly from 1.0% to 1.1% in 2011.

During the years 2009-2011, the Confederation of Finnish Industries EK has investigated the prevalence of financing difficulties and solvency problems among SMEs in different phases of the crisis. The findings revealed that a peak in the crisis was reached in September 2009 when 10% of SMEs reported major financing difficulties and 21% had solvency problems. The prevalence of financing difficulties was five times higher than before the crisis. In addition, the incidence of solvency problems increased dramatically compared to that of 2008, being around 6-8%. Due to these changes, the demand for short-term financing increased rapidly whereas long-term investments were postponed by many SMEs.

According to the newest Confederation survey conducted in May 2012, the situation has improved with only 5% of all SMEs suffering from financing difficulties. Based on their longitudinal surveys, it was originally estimated that in the near future the share of SMEs having major problems in obtaining finance might become permanently higher than at the end of 2008 when only 2-3% of firms were not able to get the finance they applied for, and would stabilize around 4-6%. Moreover, the high incidence of solvency problems (17% of all SMEs) restrained the recovery. Solvency problems in the case of Finnish SMEs are the most common among firms with 1-4 employees and less frequent in firms with at least 50 employees. This was another indication that larger firms experienced fewer liquidity problems. Although the number of bankruptcies has not increased dramatically, the data provided by Statistics Finland revealed that the number of businesses in restructuring proceedings has increased from 341 in 2007 to 546 in 2010.

Table 4.23. **Incidence of solvency problems in Finland, June 2009-May 2012**

By size of firm, as a percentage of firms within size class

Size of firm, employees	June 2009	September 2009	January 2010	August 2010	January 2011	November 2011	May 2012
1-4	33	39	31	36	27	22	21
5-9	23	21	16	16	14	14	17
10-49	19	19	20	17	14	19	21
50-249	13	12	10	8	10	12	11
Average	21	21	20	17	15	17	17

Source: Confederation of Finnish Industries.

StatLink http://dx.doi.org/10.1787/888932795295

Government policy responses

SME counter-cyclical loans and guarantees

Finnvera is a financing company owned by the Government of Finland and it is the official export credit agency of Finland. Finnvera provides financing for the start-up, growth and internationalisation of enterprises and guarantees against risks arising from exports. The company acquires its funds mainly from the capital market. Total government loan guarantees increased from EUR 1 491 million (2007) to over EUR 4 000 million annually (2008-2011). The financial crisis increased the SME demand for public financing, and SME direct loans and guarantees granted by Finnvera increased from EUR 801 million (2007) to EUR 1 067 million (2009). Since then, the amount of SME financing authorised by Finnvera has declined to almost pre-crisis levels (EUR 844 million in 2010 and EUR 866 million in 2011). Despite this, the demand for counter-cyclical loans and guarantees has remained high. Finnvera's counter-cyclical loans were intended for enterprises with less than 1 000 employees whose profitability or liquidity declined because of the crisis.[2] These loans will continue until the end of 2012. In 2011, the amount of counter-cyclical financing increased 64% and EUR 173 million was granted to 410 enterprises (EUR 105 million to 303 enterprises in 2010). Such public financing has played an important role in maintaining employment in SMEs during the financial crisis. According to the Confederation's rough estimation, without public financing the number of job losses could have been twice as high as the actual realised job losses in 2009. In practice, this means that over 20 000 positions were maintained with the help of finance granted by public organisations such as Finnvera and Centre for Economic Development, Transport and the Environment.[3]

Table 4.24. **SME loans and guarantees granted by Finnvera, 2007-11**

In EUR million

Instrument	2007	2008	2009	2010	2011
Loans	385	468	593	397	369
Guarantees	416	438	474	447	497
Subtotal	*801*	*906*	*1 067*	*844*	*866*
Export guarantees	96	122	127	71	111
Total	**897**	**1 028**	**1 194**	**915**	**977**

Source: Finnvera, Annual Reports 2009, 2010, 2011.

StatLink http://dx.doi.org/10.1787/888932795314

Finnvera offers both export guarantees and export credit guarantees. An export guarantee allows exporters to acquire pre- or post-delivery financing from a bank for working capital. An export credit guarantee covers the risks related to buyers' defaults. Finnvera's export credit guarantee programme dwarfs its other forms of assistance to enterprises. Export credit guarantees offered amounted to 80% (EUR 3 796 million) of total assistance compared to 20% (EUR 977 million) for loans, domestic guarantees and export guarantees offered. Export credit guarantees cover 7% of Finland's total exports. Of the total export credit guarantees offered (EUR 3 796 million), SMEs accounted for EUR 100.3 million.

Table 4.25. **SME export credit guarantees in Finland, 2007-11**

In EUR million

	2007	2008	2009	2010	2011
Offered	38.3	76.8	79.6	100.3	79.1
In effect	43.3	43.0	73.8	79.7	42.8

Source: Finnvera, *Annual Reports* 2010 and 2011.

StatLink http://dx.doi.org/10.1787/888932795333

The temporary arrangement for providing funding for export credits came to an end in June 2011 and the new permanent model for financing export credits was launched in the beginning of 2012. In the new model, credits are granted by Finnish Export Credit Ltd (Finnvera's subsidiary) whereas Finnvera is responsible for the liquidity management and gathering of funds by issuing debt instruments and commercial paper guaranteed by the government.

The Ministry of Employment and Economy started the Vigo Business Acceleration programme in 2009. The purpose was to motivate the best business developers to help the most promising start-ups grow into successful companies through proper incentives and leveraged by public financing. Six accelerator teams consisting of 2-4 full-time managers launched the programme. Accelerator team members invested their own money into their target companies and filled the gaps in executive management roles. The target companies are eligible to apply for public funding from government agencies such as the Technology and Innovation Development Center which gives either a grant or equity from Finnvera. During the acceleration period of 18-24 months, the Vigo team can charge the target company a monthly fee of up to EUR 9 000. The Vigo programme is an example of how the government's venture capital policy has moved from supply side measures to demand side and where public financing to enterprises is channelled through top-level business people committed to the growth of those enterprises.

Other policy measures

In the beginning of 2012, the corporate tax rate was lowered by 1.5 percentages to 24.5%. At the same time, the tax rate for capital income rose to 30% (previously 28%) and to 32% for capital income exceeding EUR 50 000. In addition, the Finnish government is planning to implement the R&D tax incentive system where SMEs will be offered tax breaks when recruiting new R&D employees. In addition, business angels and investors will get tax reductions on capital gains when the money is invested back into an unlisted growth company. Both of these tax incentive systems will be implemented in the beginning of 2013.

Box 4.3. **Definition of SMEs used in Finland's SME and entrepreneur scoreboard**

Country definition

SMEs in Finland are firms with less than 250 employees. In 2011 there were 113 368 SMEs in Finland. This was 99.5% of all enterprises. Moreover, more than 84.7% of all firms were micro-firms employing less than 10 persons.

The SME definition used by financial institutions

Bank of Finland statistics report SME loans by the size of loan up to EUR 1 million. However, when dividing SME loans to short-term and long-term loans, the size of firm is used for the estimations made based on the annual joint survey undertaken by the Confederation of Finnish Industries, the Bank of Finland and the Ministry of Employment and the Economy. The table below shows for each indicator whether the size of firm or size of loan was used.

Definition of SMEs used for Finland's SME and entrepreneurship finance Scoreboard

Indicator	SME definitions
Business loans, SMEs	Size of loan (up to EUR 1 million)
Short-term loans, SMEs	Size of firm (with less than 250 employees)
Long-term loans, SMEs	Size of firm (with less than 250 employees)
Value of government guaranteed loans, SMEs	Size of firm (with less than 250 employees)
Loans authorised, SMEs	Size of loan (up to EUR 1 million)
Loans requested, SMEs	Size of firm (with less than 250 employees)
Interest rate, loans	Size of loan (up to EUR 1 million)
Interest rate spread	Size of loan (up to EUR 1 million vs. EUR > 1 million)
Collateral, SMEs	Size of firm (with less than 250 employees)

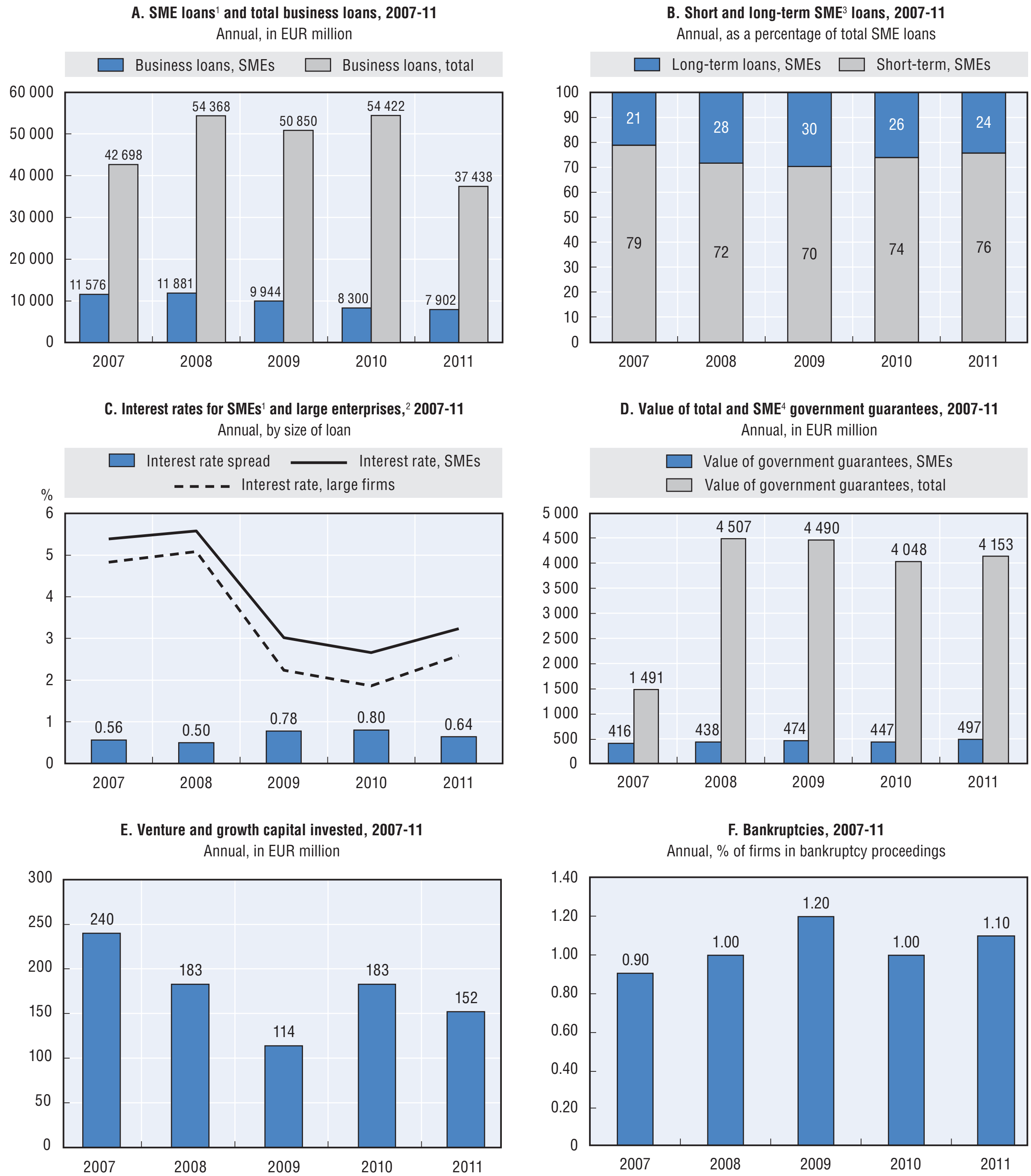
Table 4.26. **SME and entrepreneur scoreboard for Finland, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	EUR million	11 576	11 881	9 944	8 300	7 902
Business loans, total	EUR million	42 698	54 368	50 850	54 422	37 438
Business loans, SMEs	% of total business loans	27.1	21.9	19.6	15.3	21.1
Short-term loans, SMEs	EUR million	1 500	2 000	2 100	1 612	1 416
Long-term loans, SMEs	EUR million	5 600	5 100	5 000	4 588	4 484
Total short and long-term loans, SMEs	EUR million	7 100	7 100	7 100	6 200	5 900
Short-term loans, SMEs	% of total loans	78.9	71.8	70.4	74	76
Value of government guarantees, total	EUR million	1 491	4 507	4 490	4 048	4 153
Value of government guarantees, SMEs	EUR million	416	438	474	447	497
SME government guarantees	% of SME business loans	3.6	3.7	4.8	5.4	6.3
Direct government loans, SMEs	EUR million	385	468	593	397	369
Loans authorised, SMEs	EUR million	11 576	11 881	9 944	8 300	7 902
Loans requested, SMEs	% of SMEs requesting loans during last 12 months	23	26-31	29-30	29	26-29
Non-performing loans, total	EUR million	132	210	341	339	359
Interest rate, loans < 1 million	%	5.39	5.58	3.02	2.66	3.23
Interest rate, loans > 1 million	%	4.83	5.08	2.24	1.86	2.59
Interest rate spread (between loans < 1 million and > 1 million)	%	0.56	0.50	0.78	0.80	0.64
Collateral, SMEs	% of SMEs required to provide increased collateral	5	16	28	24	24
Equity						
Venture and growth capital	EUR million	240	183	114	183	152
Venture and growth capital	Year-on-year growth rate, %	..	−23.8	−37.7	60.5	−16.9
Other						
Payment delays, SMEs	Average number of days	6	5	7	7	7
Bankruptcies, total	% of firms in bankruptcy proceedings	0.9	1.0	1.2	1.0	1.1

Source: Refer to Table 4.27.

StatLink http://dx.doi.org/10.1787/888932795352

Figure 4.10. **Trends in SME and entrepreneurship finance in Finland**



1. For loans up to EUR 1 million.
2. For loans greater than EUR 1 million.
3. Based on estimates for firms with less than 250 employees.
4. Value of guarantees granted by Finnvera to firms with less than 250 employees.

Sources: Charts A and C: Bank of Finland. Chart B: Estimate by the Confederation of Finnish Industries EK based on the joint survey undertaken by EK, Bank of Finland & Ministry of Employment and the Economy, Annual Business Financing Survey. Chart D: Statistics Finland and Finnvera. Chart E: Finnish Venture Capital Association. Chart F: Statistics Finland.

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Table 4.27. **SME and entrepreneur definitions and sources of indicators for Finland's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	New business loans up to EUR 1 million; including renegotiated loans and loans to housing corporations. Lines of credit are excluded.	Bank of Finland (demand and supply-side surveys)
Business loans, total	New business loans from all financial institutions.	Bank of Finland (supply-side survey)
Short-term loans, SMEs	Working capital loans for up to one year. Estimate of SME loans, which are defined as loans to firms with less than 250 employees. Excludes loans to housing corporations.	Estimate by Confederation of Finnish Industries EK based on the joint survey undertaken by EK, Bank of Finland and Ministry of Employment and the Economy, Annual Business Financing Survey
Long-term loans, SMEs	Loans for over one year. Estimate of SME loans, which are defined as loans to firms with less than 250 employees. Excludes loans to housing corporations.	Estimate by Confederation of Finnish Industries (see above)
Value of government guarantees, total	All new guarantees to SMEs and large firms for which the state is ultimately liable. Includes guarantees granted by Finnvera.	Statistics Finland
Value of government guarantees, SMEs	Value of guarantees granted to SMEs (defined as firms with less than 250 employees) by Finnvera.	Finnvera
Direct government loans, SMEs	Loans granted to SMEs (defined as firms with less than 250 employees) by Finnvera.	Finnvera
Loans authorised, SMEs	New loans granted to SMEs (defined as loans up to EUR 1 million).	Bank of Finland, Finnish MFI new business on euro-denominated loans to euro area non-financial corporations by loan amount
Loans requested, SMEs	Percentage of SMEs (defined as firms with less than 250 employees) that requested loans during the last 12 months.	Confederation of Finnish Industries, Bank of Finland and Ministry of Employment and the Economy; SME-Barometer by Federation of Finnish Enterprises and Finnvera
Non-performing loans, total	All non-performing business loans, including housing corporations. A loan is non-performing if principal and/or interest have remained unpaid for 3 months or longer.	The Financial Supervisory Authority
Interest rate, loans < 1 million	Average interest rates for SMEs (defined as loans up to EUR 1 million), initial rate fixation of up to and over 1 year, base rate plus risk premium.	Bank of Finland
Interest rate, loans > 1 million	Average interest rates on loans over EUR 1 million, initial rate fixation of up to and over 1 year, base rate plus risk premium.	Bank of Finland
Interest rate spread (between loans < 1 million and > 1 million)	Interest rate spread between new, euro-denominated business loans less than and more than EUR 1 million to euro area non-financial corporations by Finnish MFIs with an initial fixation rate up to and over one year.	Bank of Finland
Collateral, SMEs	Percentage of SMEs (defined as firms with less than 250 employees) which reported increased collateral requirements.	Confederation of Finnish Industries, Bank of Finland and Ministry of Employment and the Economy
Equity		
Venture and growth capital	Invested capital; seed, start-up, other early stage, expansion by private investment companies. All enterprises.	The Finnish Venture Capital Association
Other		
Payment delays, SMEs	Average number of days for business-to-business in 2008 and 2009. For 2007, average number of days for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia, European Payment Index 2008, 2009 and 2010
Bankruptcies, total	Percentage of firms which are in bankruptcy proceedings.	Statistics Finland

Notes

1. According to the Bank of Finland, the MFI data collection scheme was revised as of June 2010, and hence the figures published are not totally comparable with earlier observations. The differences may be due to improved data collection accuracy, revised statistical definitions (e.g. extending the definition of overdrafts and credit card credit to include revolving credits) and the collection of detailed data from all MFIs.
2. For special reasons loans can also be granted for companies with more than 1 000 employees.
3. Estimation is based on EK's financing surveys and the answers given by the managers and the owners of firms with 10-249 employees. When formulating the estimation, a weighting coefficient was used to ensure the generalisation of the results for the total population of SMEs.

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France

SMEs in the national economy

There are roughly 2.5 million SMEs (legal units) in France. They account for 99.8% of all enterprises and employ 60.5% of the labour force.

Table 4.28. **Distribution of firms in France, 2009**

By firm size

Firm size (employees)	Number	%
All firms	**2 691 049**	**100.0**
SMEs (1-249)	**2 686 256**	**99.8**
Micro (1-9)	*2 555 003*	*94.9*
Small and medium (10-249)	131 253	4.9
Mid cap firms (250-4999)	**4 576**	**0.2**
Large (all others)	**217**	**0.01**

Note: Data include total industry and market services including NACE categories D, E, F, G, H, I and K. Non-employer enterprises are not included.

Source: Institut national de la statistique et des études économiques (INSEE), ESANE, Enquête Liaisons financières (Lifi).

StatLink http://dx.doi.org/10.1787/888932795371

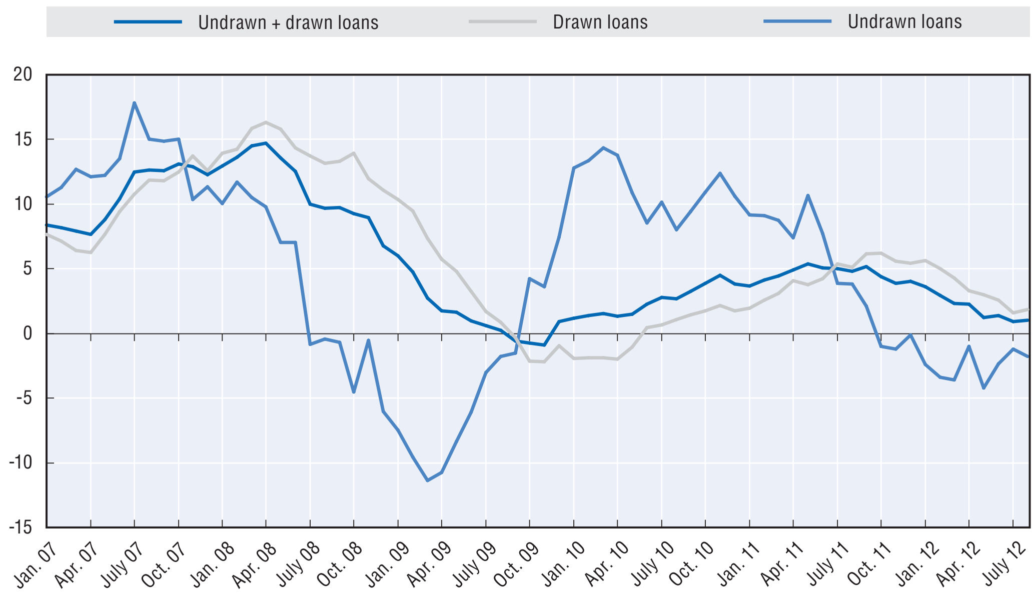
SME lending

The Central Credit Register of the Banque de France collects monthly data on loans over EUR 25 000 granted to enterprises (legal units). The data include both loans drawn (utilised) and undrawn (not utilised) for enterprises resident in France, except for individual entrepreneurs (EI). Both total business loans and SME loans increased over the period 2007-2011. This includes both drawn (utilised) and undrawn (not utilised) loans. However, the year-on-year growth rate declined during the recession. The share of SME loans in total business loans stood at 20.8% in 2011 about the same level as in 2010. The share of SME drawn short-term loans in total SME drawn loans decreased from 27.1% (2007) to 22.0% (2011).

The Banque de France has broken business loans into various categories including: microenterprises and independent SMEs, SMEs belonging to a group, large enterprises and holdings. When analysing SME lending by type of SME, lending to independent SMEs better resisted the crisis than lending to SMEs in a group.

Figure 4.11. **Growth rates of bank loans to all firms in France, 2007-12**

Year-on-year growth rate, as a percentage



Source: Banque de France, Companies Directorate, Central credit register, data available in October 2012.

StatLink http://dx.doi.org/10.1787/888932793851

SME loans utilised compared to authorised

SME loans drawn compared to authorised remained at 87% over the period 2007-2011. This indicated a high degree of utilisation and a tight credit market. Other supplementary information can be gathered from periodic supply-side surveys such as the *Enquête trimestrielle auprès des banques sur la distribution du crédit en France* from the Banque de France. The majority of the bank respondents (77.1%) thought there was a more severe tightening in the credit criteria for all enterprises and an even larger balance of respondents (82.6%) thought it more severe for SMEs than for large enterprises in 3Q08. After that the credit conditions were normalised. During 2009-2010 respondents thought the conditions were less restrictive in France than in the euro area. However, by the fourth quarter of 2011 the balance of respondents, 35.3% thought that credit conditions were again tightening in France as well as in the euro area.

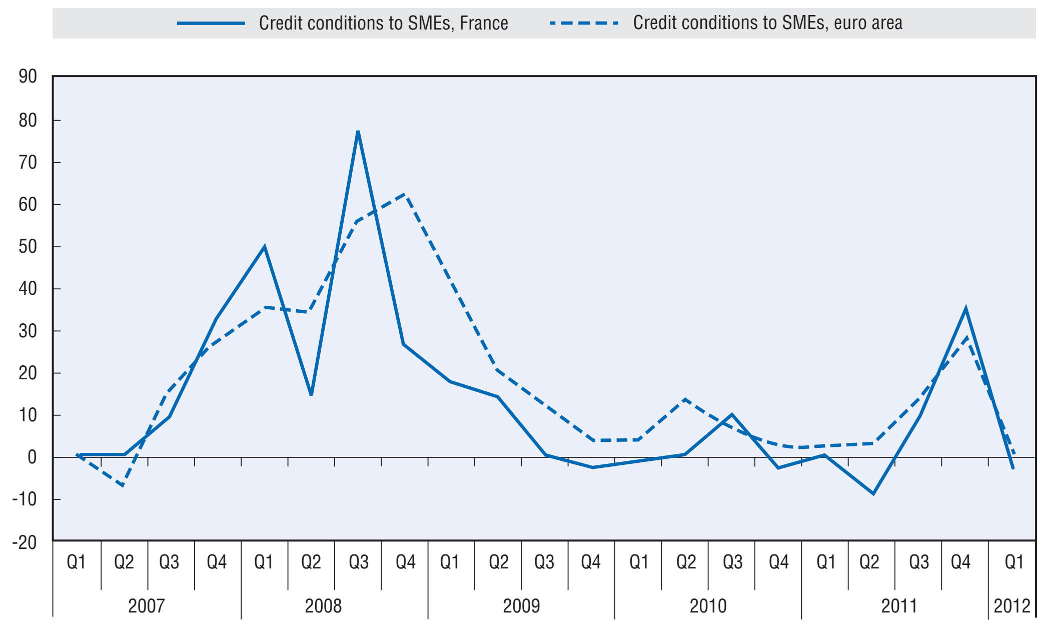
Credit conditions

The above opinions were borne out by the comparison of interest rates charged for large loans vs. small. Not only did small borrowers pay more, but Figure 4.14 shows that the spread increased between July 2008 and July 2009, even as rates were declining. The spread diminished between July 2009 and April 2011 and stabilised after that but the spread remained larger for independent SMEs than for SMEs in a group.

The European Central Bank/European Commission demand-side survey on SME credit conditions revealed that bank rejection rates in France declined from 12% in the first half of 2009 to 10% in the second half of 2010. This could be evidence that the French credit mediation scheme was bearing positive results.

Figure 4.12. **Credit conditions for SMEs in France and the euro area (supply side survey), 2007-12**

Change in credit conditions to SMEs (balance of opinion), as a percentage



Source: Banque de France (DGS-DSMF) and European Central Bank (ECB) (BLS Survey).

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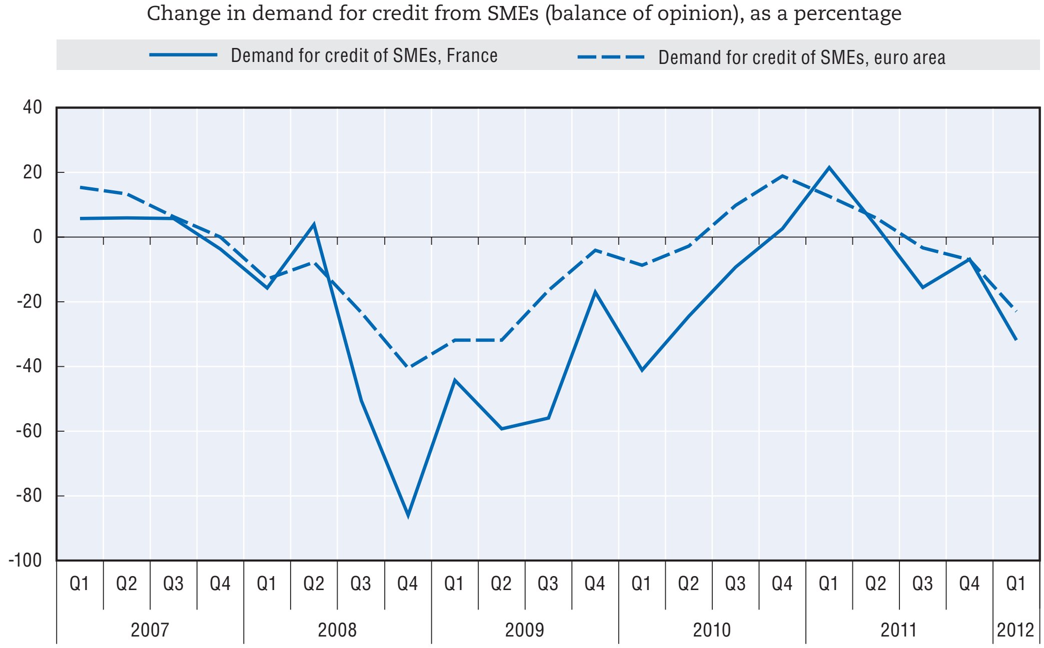
Figure 4.13. **Credit demand for SMEs in France and the euro area (supply side survey), 2001-12**

Change in demand for credit from SMEs (balance of opinion), as a percentage



Source: Banque de France (DGS-DSMF) and European Central Bank (ECB) (BLS Survey).

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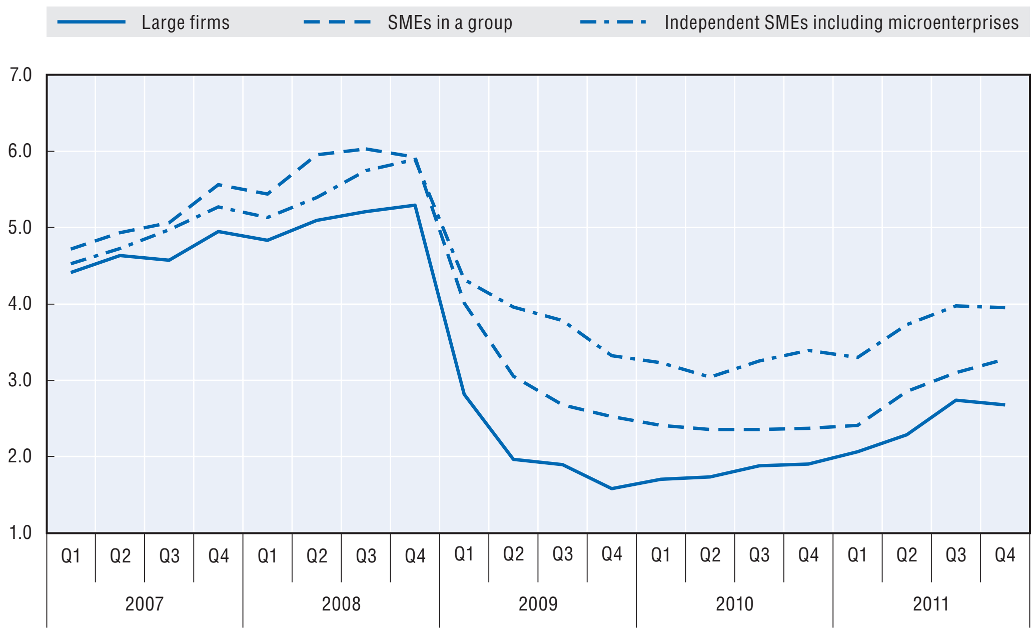
Figure 4.14. **Interest rates in France, 2007-11**

By firm size as a percentage



Source: Banque de France, Companies Directorate.

StatLink http://dx.doi.org/10.1787/888932793908

Equity financing

The value of venture and expansion capital invested appears to have recovered from its low in 2002 and reached EUR 3 537 million in 2011. However, this was a mere fraction of SME debt financing.

Table 4.29. **Private equity investment in France, 2005-11**

By stage of investment, in EUR million

Stage	2005	2006	2007	2008[1]	2009	2010	2011
Venture capital	481	536	677	758	587	605	597
Expansion capital	895	1 057	1 310	1 653	1 798	2 310	2 940
Sub-total	*1 376*	*1 593*	*1 987*	*2 411*	*2 385*	*2 915*	*3 537*
LBO	6 287	8 075	10 340	7 399	1 605	3 512	6 015
Turnaround capital	59	95	84	99	84	90	118
Others	349	401	143	100	26	80	80
Total investment	**8 071**	**10 164**	**12 554**	**10 009**	**4 100**	**6 597**	**9 750**

1. Investment in the enterprises of the CAC40 since 2008.

Source: Association française des investisseurs en capital (AFIC)/Grant Thornton.

StatLink http://dx.doi.org/10.1787/888932795390

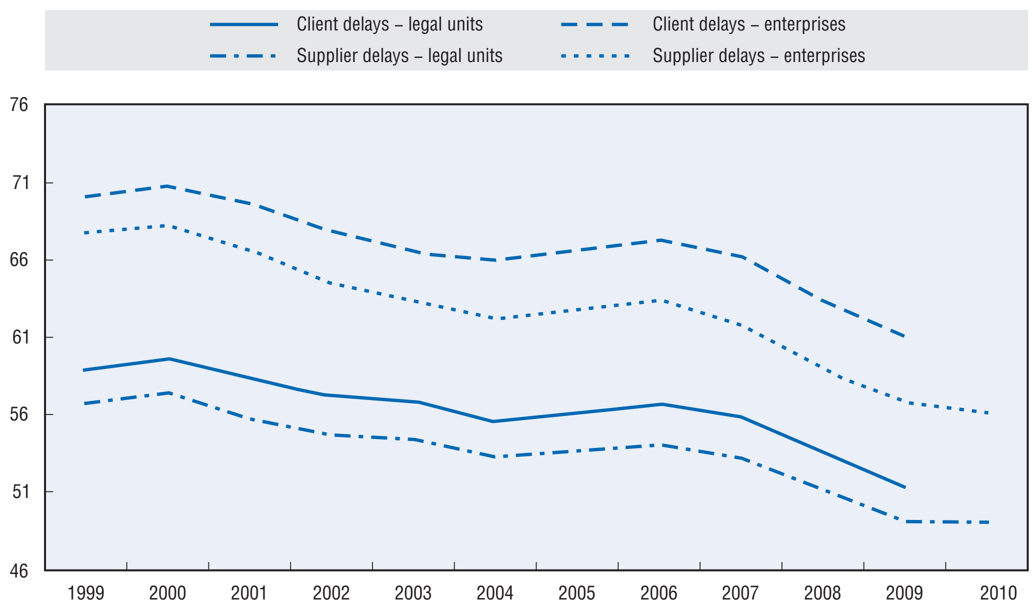
Other indicators

Payment delays measured in terms of the duration of the suppliers' payment period decreased by 6.1% between 2007 and 2009. It appears that the *Modernisation of the Economy Act of 2008*, which required the reduction of payment periods, was having an effect which benefited SMEs. However, this decrease was interrupted in 2010. At that time, a third of enterprises did not settle their accounts within 60 days (fixed by law). If the large enterprises had paid on time there would have been a transfer to SMEs of about EUR 10 billion.

Bankruptcies for SMEs *other than microenterprises* grew by 40%. A comparable increase could be observed during the recessions of 1993 and 2002-2003. While SMEs represented 94% of all bankruptcies in 2011, the SME bankruptcies were on the decline.

Figure 4.15. **Changes to supplier and client payment delays for SMEs in France, 1999-2010**

Average delay, client delays expressed in days of sales and supplier delays expressed in days of purchasing



Source: Banque de France, *FIBEN Database*, December 2010.

StatLink http://dx.doi.org/10.1787/888932793927

Government policy response

As bankruptcies for all enterprises were on the rise in 2008 and 2009, the government adopted specific measures to finance SMEs and created a credit mediation service to promote SMEs' access to credit.

The most significant measure by far was the injection of funds into OSEO Garantie, which is funded by the government (58.3%) and the private sector (41.3%). It provides guarantees, co-financing, direct loans, and support for innovation and services. It also guarantees risk capital funds. Among OSEO's traditional beneficiaries were micro-businesses (46.5%), small (31%) and medium-sized (17.5%) enterprises. OSEO is known for its tough selection procedures and technical support, which underpin its financing activities. Between October and December 2009, the government strengthened the measures taken by OSEO to support enterprises during the height of the crisis.

As a result, OSEO's capacity for intervention increased by EUR 10 billion and guaranteed loans increased 64%. OSEO estimated that 50% of the enterprises they had supported were saved from bankruptcy and 30 000 jobs had been saved throughout France (OSEO, 2009a, 2009b). The OSEO guarantees allowed more than 73 000 enterprises to obtain EUR 11.5 billion in financing in 2010 (Observatoire du financement des enterprises, 2011). After 2010, the exceptional effort directed toward enterprises was gradually reduced. The guarantee activity of OSEO during 2011 permitted 74 000 enterprises to obtain EUR 8.9 billion in financing.

Table 4.30. **Measures to finance SMEs in France, as a response to the crisis of 2008-09**

Measure	Amount
Reimbursement of the tax to finance research	EUR 3.8 billion
Reimbursements of fines or overpayments	EUR 1.8 billion
Monthly reimbursement of VAT	EUR 3.6 billion
Accelerated depreciation	EUR 0.7 billion
Faster payment for public procurement	EUR 1 billion
Payment of debts to suppliers of Min. of Defence	EUR 0.5 billion
Injection of funds to OSEO for supplementary loans and guarantees to SMEs	EUR 10 billion for co-financing, guarantees, conversion of short-term loans to long term, equity financing

StatLink http://dx.doi.org/10.1787/888932795409

Credit mediation was set up in November 2008 to assist SMEs to resolve their liquidity problems by maintaining or obtaining bank credit. To start the process, the enterprise must establish a "mediation file" on the website of the Credit Mediator who has been appointed at the national level to co-ordinate and act as a final "referee". He is assisted by departmental mediators from the Banque de France. After the file is received, the banks are notified by

Box 4.4. **Definition of SMEs in the EU and France**

Definition of SMEs used in the EU

The EU definition of the size of a firm is based on four associated criteria:

- number of employees;
- turnover;
- total assets of legal units;
- independence (the firm is delimited according to the financial links between legal units).

Definition of SMEs used in France

In France, the implementing decree of the Law on the Modernisation of the Economy (LME) of 4 August 2008 established categories of companies consistent with the European Commission's definition of size.

To define the firms' size, and thus SMEs, the Banque de France complies as much as possible with the LME definition.

When calculating the firms' size for which private banks declare "credit risks" to the French Central Credit Register the independence criteria is not yet taken into account. Therefore, the classification currently applies to legal units.

As for classifying business failures by firm size, the relevant level remains the legal unit because it is the reference for judging bankruptcy.

Furthermore, when both the profit and loss account and the balance sheet are unavailable, the magnitude of the risks declared to the Central Credit Register is taken as a proxy to estimate the total assets.

Source: Banque de France (2010).

mail and they have five business days to reply to the enterprise. After this, the departmental mediator has five business days to review the file and indicate how the file should be treated. When the mediator has identified solutions, the enterprise is notified by mail. If the enterprise is not satisfied, it may appeal to the national mediator. As of June 2012:

- 35 548 enterprises had sought mediation (there might be some double counting as some firms opened more than one file);
- 28 974 enterprises had been accepted for mediation;
- the rate of successful mediation was 62 %.

To date, the credit mediation scheme has reinforced 27 248 firms of all sizes; unblocked EUR 3.7 billion in credit; and preserved 258 871 jobs (Médiateur du Crédit, 2011).

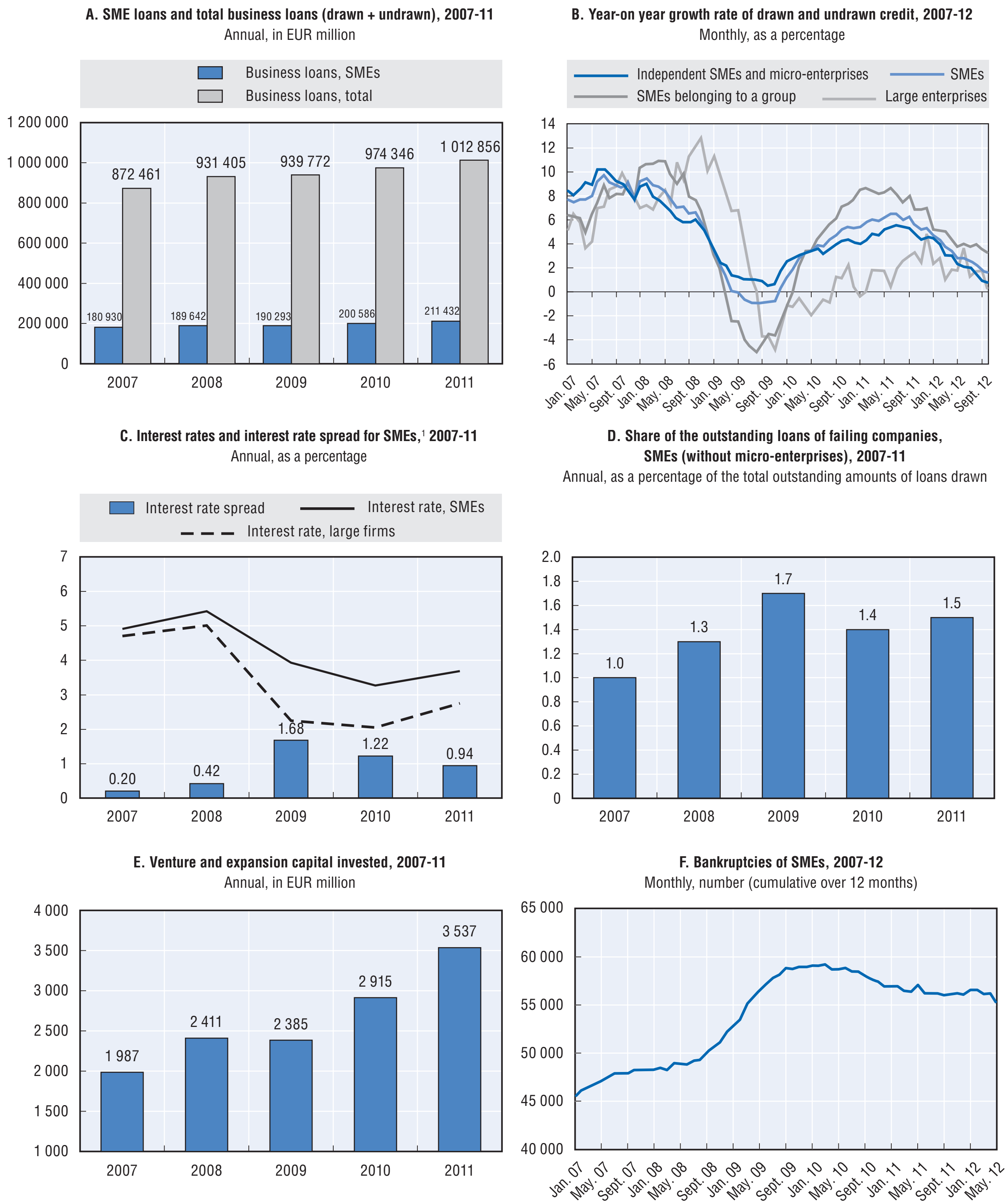
Table 4.31. **SME and entrepreneur scoreboard for France, 2007-11**

Indicator	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs (drawn + undrawn)	EUR million	180 930	189 642	190 293	200 586	211 432
Business loans, total (drawn + undrawn)	EUR million	872 461	931 405	939 772	974 346	1 012 856
Share of SME business loans in total business loans	%	20.7	20.4	20.2	20.6	20.9
Share of SMEs drawn business loans in total SMEs business loans	% of total drawn and undrawn SMEs business loans	87.7	87.8	87.2	86.4	87.0
Short-term loans, SMEs (drawn)	EUR million	43 121	42 742	37 619	38 211	40 524
Medium and long-term loans, finance leases and securitised loans, SMEs (drawn)	EUR million	115 491	123 715	128 257	135 022	143 525
Total loans, SMEs (drawn)	EUR million	158 612	166 457	165 875	173 233	184 049
Share of SMEs short-term loans in total drawn loans	% of total short and long-term drawn loans	27.2	25.7	22.7	22.1	22.0
OSEO guaranteed loans	EUR million	5 850	6 861	11 267	10 883	8 826
Value of OSEO loan guarantees	EUR million	2 707	3 219	5 752	5 326	4 231
Share of the outstanding loans of failing companies, SMEs without micro-enterprises	% of the total outstanding amounts of loans drawn	1.0	1.3	1.7	1.4	1.5
Interest rate, loans < 1 million (new loans)	%	4.91	5.43	3.93	3.27	3.69
Interest rate, loans > 1 million (new loans)	%	4.71	5.01	2.25	2.05	2.75
Interest rate spread (between loans < 1 million and > 1 million)	%	0.20	0.42	1.68	1.22	0.94
Equity						
Venture and expansion capital	EUR million	1 987	2 411	2 385	2 915	3 537
Venture and expansion capital	Year-on-year growth rate, %	29.9	21.2	−1.1	22.2	21.3
Other						
Payment delays	Average number of days past due date	14.3	16.0	18.0	18.0	18.0
Bankruptcies, total	Number	51 343	55 562	63 205	60 385	59 774
Bankruptcies, total	Year-on-year growth rate, %	7.1	8.2	13.8	−4.5	−1.0
Bankruptcies, SMEs	Number	48 109	52 104	58 910	56 706	56 130
Bankruptcies, SMEs	Year-on-year growth rate, %	6.6	8.3	13.1	−3.7	−1.0

Sources: Refer to Table 4.32.

StatLink http://dx.doi.org/10.1787/888932795428

Figure 4.16. **Trends in SME and entrepreneurship finance in France**



Sources: Charts A, B, C, D and F: Banque de France. Chart E: Association française des investisseurs en capital.

StatLink http://dx.doi.org/10.1787/888932793946

Table 4.32. SME and entrepreneur definitions and sources of indicators for France's scoreboard

Indicator	Definition	Source
Debt		
Business loans, SMEs (drawn + undrawn)	Total drawn and undrawn credit (credits mobilisés et mobilisables) for SMEs (both independent and belonging to a group), comprised of short-term, medium-term, long-term, finance leases and securitised loans. A bank must inform the Banque de France Central credit register whenever one of its branch offices has granted more than EUR 25 000 to a firm (total outstanding loan).	Banque de France, les encours de crédits aux entreprises résidentes par catégorie et taille
Business loans, total (drawn + undrawn)	Total drawn and undrawn credit (credits mobilisés et mobilisables) comprised of short-term, medium-term, long-term, finance leases and securitised loans. A bank must inform the Banque de France Central credit register whenever one of its branch offices has granted more than EUR 25 000 to a firm (total outstanding loan).	Banque de France, les encours de crédits aux entreprises résidentes par catégorie et taille
Short-term loans, SMEs (drawn)	Short-term credit drawn by SMEs, i.e. loans with a maturity less than or equal to one year. A bank must inform the Banque de France Central credit register whenever one of its branch offices has granted more than EUR 25 000 to a firm (total outstanding loan).	Banque de France, le financement des PME en France
Medium and long-term loans, finance leases and securitised loans SMEs (drawn)	Medium and long-term loans, finance leases and securitised loans drawn by SMEs. 'Medium and long-term' refers to loans with a maturity of more than one year.	Banque de France, le financement des PME – France
OSEO guaranteed loans	Government guaranteed loans to SMEs are proxied by the amount of loans guaranteed by OSEO.	OSEO, *Annual Report* 2008 and 2009
Value of OSEO loan guarantees	Value of government loan guarantees to SMEs are the net amount of risk covered by OSEO for guarantees to all firms.	OSEO, *Annual Report* 2008 and 2009
Share of the outstanding loans of failing companies, SMEs except micro-enterprises	Outstanding loans of failing SMEs (except microenterprises), expressed as a percentage of total outstanding amounts of SMEs drawn loans (except microenterprises).	Banque de France, le financement des PME en France
Interest rate, loans < 1 million (new loans)	Interest rate for new loans to SMEs (defined as loans of up to EUR 1 million). Interest rate prevailing in December of each relevant year, all PFIT's.	Banque de France, Montant des crédits nouveaux à la clientèle résidente – France
Interest rate, loans > 1 million (new loans)	Interest rate for new loans to large firms (defined as new loans over EUR 1 million). Interest rate prevailing in December of each relevant year, all PFIT's.	Banque de France, Montant des crédits nouveaux à la clientèle résidente – France
Interest rate spread (between loans < 1 million and > 1 million)	Interest rate spread between interest rate for new loans less than EUR 1 million and interest rate for new loans more than EUR 1 million (all PFIT's). Interest rate prevailing in December of each relevant year.	Banque de France, Montant des crédits nouveaux à la clientèle résidente – France
Equity		
Venture and expansion capital	Amount of funds invested in venture capital and expansion capital stages in France. All enterprises.	Association française des investisseurs en capital (AFIC)
Other		
Payment delays	Average number of days beyond the agreed date for business-to-business in 2008 and 2009. For 2007, average number of days beyond the agreed date for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia, European Payment Index 2008, 2009 and 2010
Bankruptcies, total	Total bankruptcies of all enterprises. Bankruptcies of legal units over the year. The statistics are established on the date of judgement.	Banque de France, Les défaillances d'entreprises
Bankruptcies, SMEs	Bankruptcies of SMEs. Bankruptcies of legal units over the year. The statistics are established on the date of judgment.	Banque de France, Les défaillances d'entreprises

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Hungary

SMEs in the national economy

In 2010, 99.8% of all employer enterprises in Hungary were SMEs and 94.2% were micro enterprises.

Table 4.33. **Distribution of firms in Hungary, 2010**
By firm size

Firm size (employees)	Number	%
All firms	**547 700**	**100.0**
SMEs (1-249)	**546 894**	**99.9**
Micro (1-9)	516 092	94.2
Small (10-49)	26 370	4.8
Medium (50-249)	4 432	0.8
Large (250+)	**806**	**0.2**

Note: The data cover the "business economy" which includes industry, construction, trade, and services (NACE Rev. 1.1, Sections C to I, K). The data does not cover the enterprises in agriculture, forestry, fishing or the largely non-market services such as education and health. Non-employer enterprises are not included.

Source: Eurostat, estimates for 2010, based on 2002-2007 figures from the *Structural Business Statistics Database* – Revised.

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SME lending

The contraction of total business loans started during the recession but they stabilised by 2011 and exceeded their 2007 level. Around 50-60% of business loans are denominated in foreign currency so that the change in the exchange rate in itself caused significant changes in the national currency (HUF) terms of total business loans. Figure 4.17 shows business loans adjusted by the exchange rate.

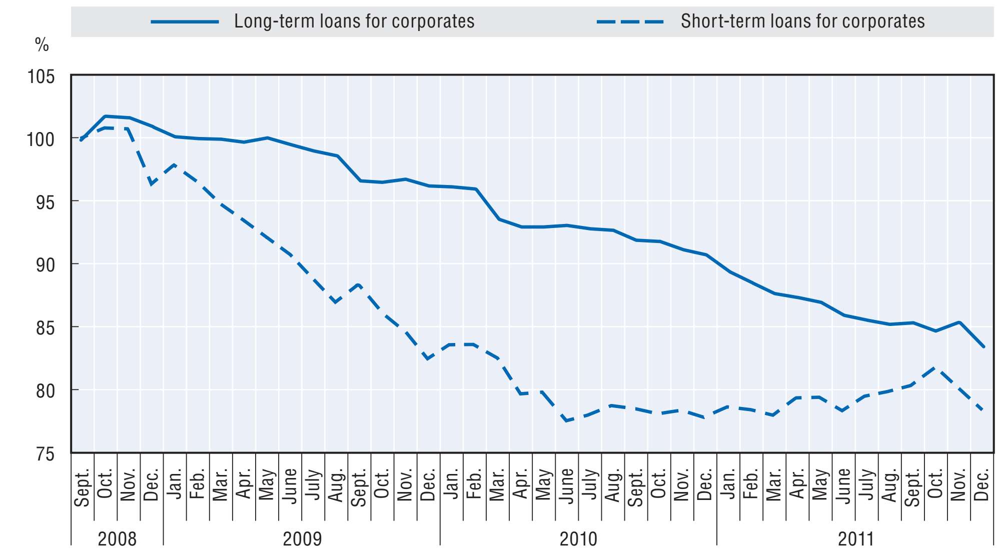
In *net terms*, adjusted by exchange rate, domestic business loans outstanding shrank by 6.6 per cent in 2011. The strongest decline was observed in long-term loans, while short-term loans decreased to a lesser extent, mainly as a result of an increase in the third quarter offsetting the decline.

The SMEs' gross loan portfolio also decreased in real terms in 2010 and 2011. As regards new lending, contrary to the continuous decline in the total business loan portfolio since 2008, SME long-term (investment) loans increased in 2011, although lending remains subdued compared to 2008.

In 2011, on the supply side of the business lending activity, the weakening of the banking sector's lending capacity became more serious. Due to a lower willingness to take

Figure 4.17. **Short and long-term loans, 2008-11**

September 2008 = 100%



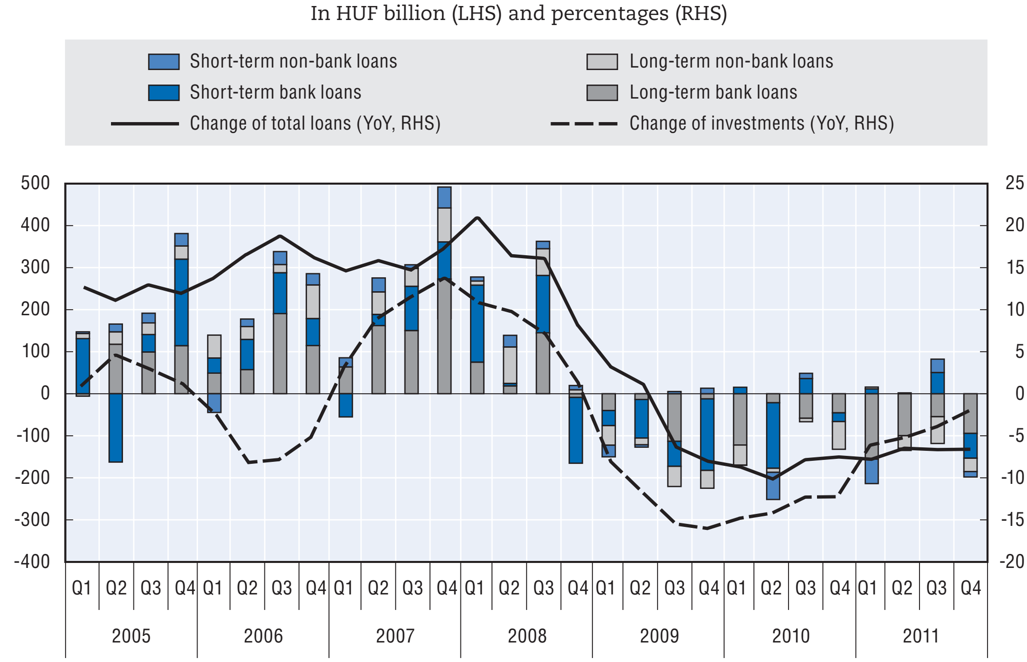
Source: Hungarian National Bank (MNB), *Report on Financial Stability* (April 2012).

StatLink http://dx.doi.org/10.1787/888932793965

risks and the substantial outflows of external liabilities, enterprises faced tighter credit conditions. Demand for credit also decreased as a result of deteriorating economic prospects. Some investments were postponed or cancelled due to the weaker credit supply.

Figure 4.18. **Domestic investments and net quarterly changes in corporate domestic loans, 2005-11**

In HUF billion (LHS) and percentages (RHS)



Source: Hungarian National Bank (MNB), *Report on Financial Stability* (April 2012).

StatLink http://dx.doi.org/10.1787/888932793984

Credit conditions

Interest rates have been traditionally high in Hungary. In 2002 the government started to subsidise interest rates with a scheme for SMEs called the Szechenyi card. The government issued about 150 000 cards with a credit line of more than EUR 3.5 billion by 2010. This scheme has been very successful in helping SMEs to access credit.

MNB launched an ad-hoc survey on interest rate conditions for SME lending. The responses showed that micro and small-sized businesses had access to credit at significantly higher costs than the average spread of around 2.5 percentage points above the reference rate observed in statistics on lending rates to non-financial corporations.

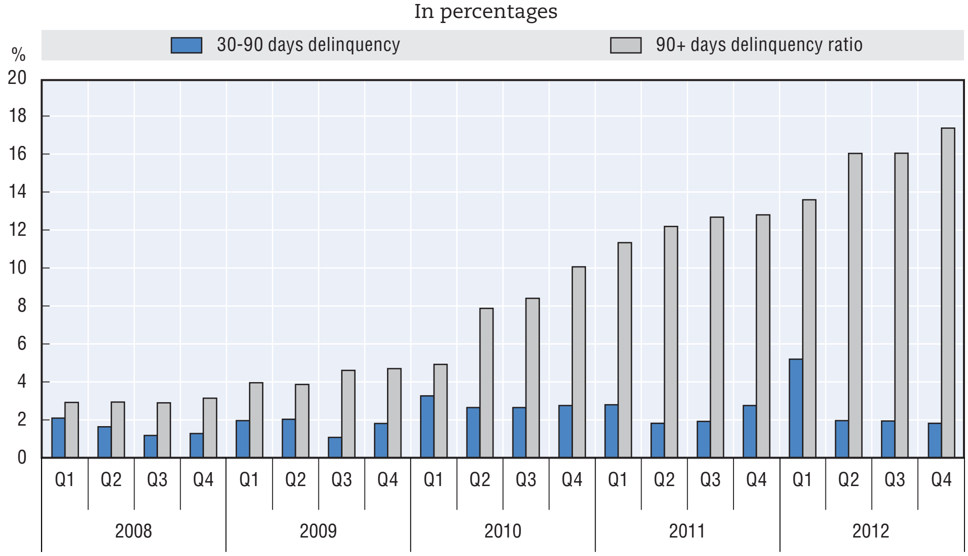
According to the MNB survey banks were tightening their collateral requirements for micro- and small enterprises in every quarter since 2007 with the exception of the second quarter of 2010. According to GfK Corporate Banking Monitor survey, fewer enterprises believed that their application for credit was judged positively by domestic banks. The study found that, while in 2007 7.5% of managers believed that their company's loan application would be rejected by any bank; in 2010 this proportion was 17.1% and 19% in 2012.

Non-performing loans

As a result of the worsening economic outlook, the ratio of non-performing business loans within the portfolio accelerated again in 1H2011. The ratio of loans overdue more than 90 days reached 17.37% by the end of 2011. Re-default of previously restructured loans played a central role in the increase.

Figure 4.19. **Ratio of non-performing business loans within total loan portfolio, 2007-11**

In percentages



Source: Hungarian National Bank (MNB).

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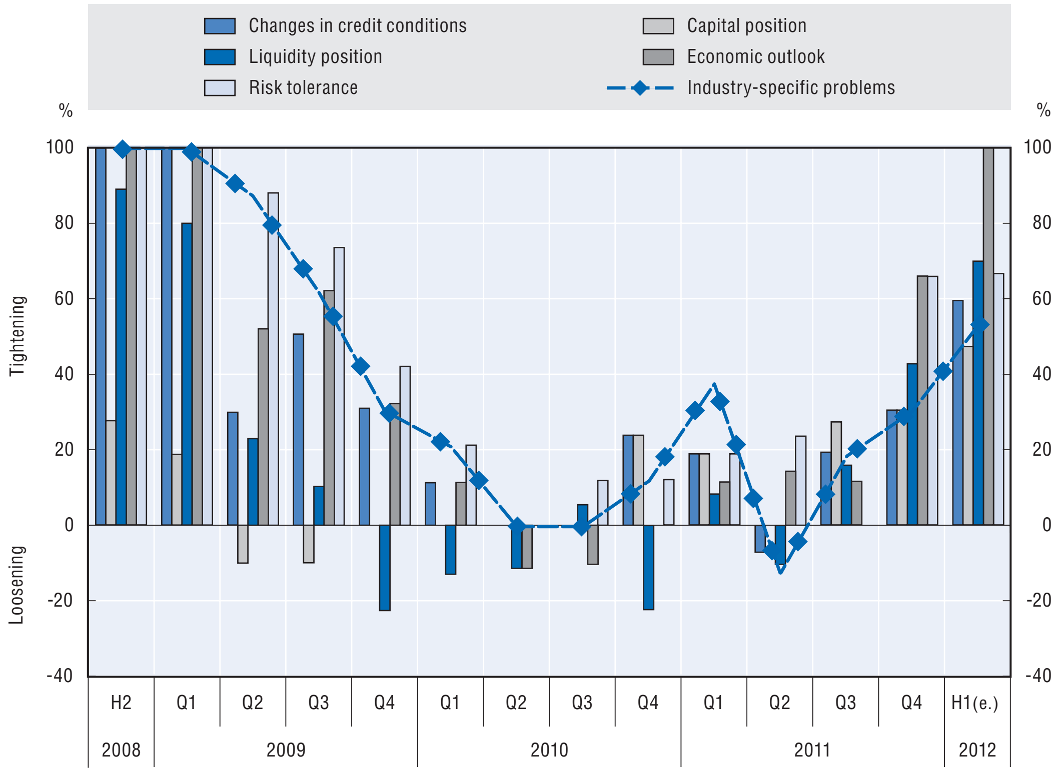
Credit supply constraints can be attributed to the deterioration in lending capacity. Demand constraints may have played a smaller role than supply constraints in the decline of business lending. More recently, due to a decline in their risk tolerance, banks typically tended to finance only more creditworthy companies. In 2011 the capital and especially the liquidity position played a more significant role in tightening credit conditions, due to rising loan losses and early repayments. Funding was impaired by rising credit costs and the withdrawal of external funds from banks.

Figure 4.20. **Credit conditions, 2008-12**

In percentages



Source: Hungarian National Bank (MNB), *Report on Financial Stability* (April 2012).

StatLink http://dx.doi.org/10.1787/888932794022

Equity financing

In 2011, the amount of Hungarian venture capital investments recovered to earlier levels. This was mainly due to the activities of EU-JEREMIE venture capital funds. The eight JEREMIE funds established in 2010 invested into early stage enterprises. The JEREMIE funds combined EU and private financing sources. In 2011, the Hungarian venture capital market ranked 6th within the EU regarding the value of early -stage venture capital investments compared to the GDP. In 2011, as a result of the EU-JEREMIE funds' portfolio decisions, nearly half of the value of early stage venture capital investments belonged to the high-tech category.

Table 4.34. **Venture and growth capital financing in Hungary, 2007-11**

In HUF million

	Seed, start-up, early stage	Later stage expansion	Total[1]
2007	494	3 455	3 949
2008	479	13 303	13 782
2009	420	300	720
2010	5 013	1 969	6 982
2011	11 168	140	11 308

1. The total excludes buy-outs.

Source: Hungarian Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888932795466

Other indicators

Payment delays increased from 15 days in 2010 to 19 days in 2011. Bankruptcies in Hungary increased by 17% between 2010 and 2011.

Government policy responses

Hungary has a loan guarantee programme, as well as direct loans for SMEs. The guarantee programme is run by partly-owned state institutions (Garantiqa Hitelgarancia, Agrár-vállalkozási Hitelgarancia Alapítvány). They provide guarantees for 50-80% of the loan. Their guarantees are counter-guaranteed by the state budget. The amount of guaranteed loans increased between 2008 and 2009. Approximately 11.1% of SME loans had a government guarantee.

The Szechenyi Card Programme was launched in 2002. The Programme allows banks to provide standardised loans to SMEs with subsidised interest rates. The main facility in the Programme is an overdraft loan that requires no tangible collateral. There is evidence that both businesses and banks prefer this standardised, simplified and state sponsored product compared to the pure banking products on the market. At the end of 2011 the Szechenyi Card Programme had supported more than 18 148 loans worth HUF 137 billion.

The Hungarian Development Bank provides direct loans and loans to refinance banks. The value of SMEs direct loans increased by 49% over the 2007 and 2010 period. There are also micro-loans disbursed by microcredit institutions financed from the state or EU budget.

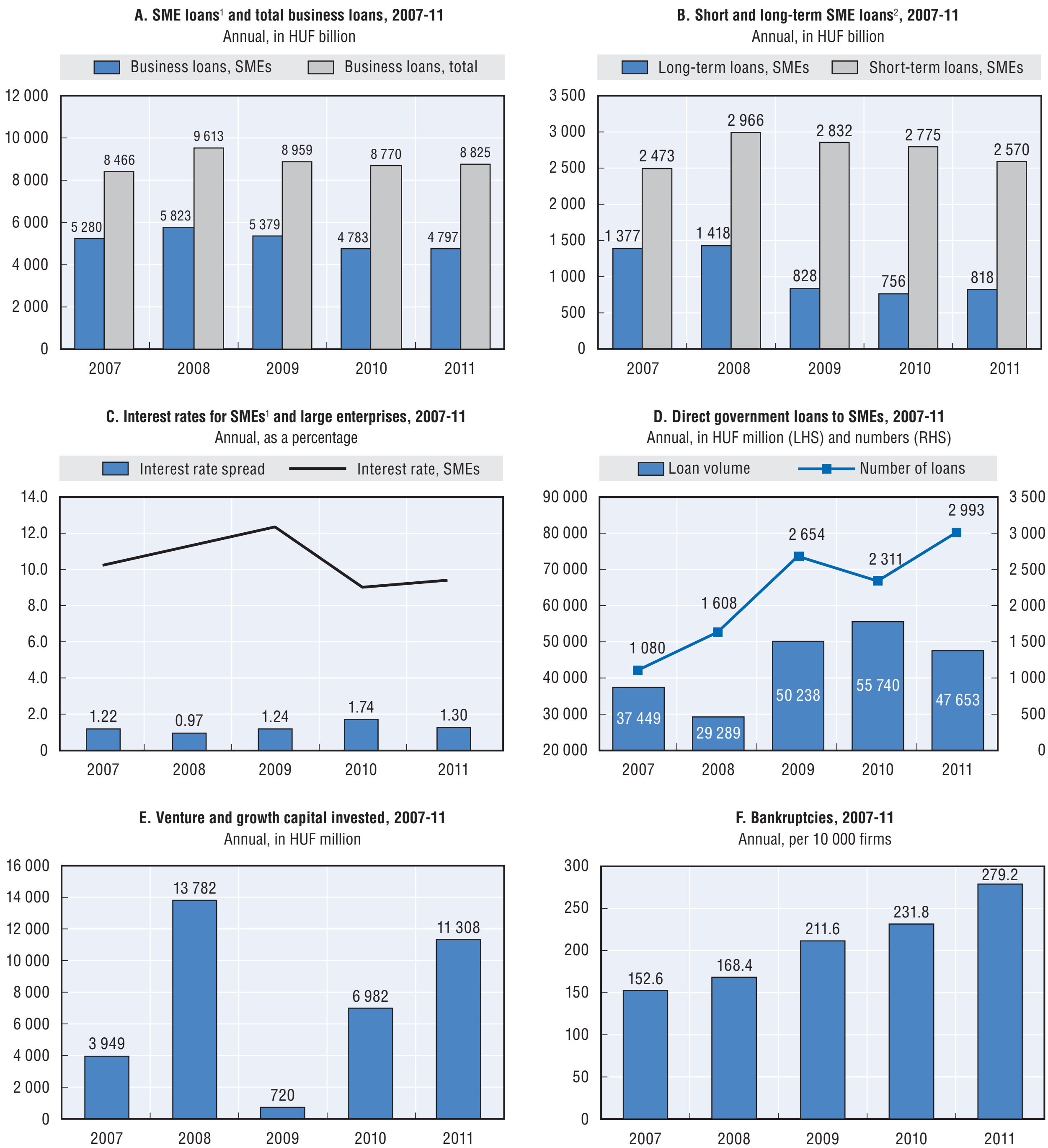
Table 4.35. **SME and entrepreneur scoreboard for Hungary, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	HUF million	5 279 722	5 823 289	5 379 295	4 782 676	4 796 982
Business loans, total	HUF million	8 466 015	9 612 649	8 958 573	8 769 596	8 825 160
Business loans, SMEs	% of total business loans	62.4	60.6	60.0	54.5	54.4
Short-term loans, SMEs	HUF million	2 473 389	2 965 962	2 832 008	2 774 744	2 570 061
Long-term loans, SMEs	HUF million	1 377 444	1 417 538	828 430	756 021	817 982
Total short and long-term loans, SMEs	HUF million	3 850 833	4 383 500	3 660 438	3 530 765	3 388 043
Short-term loans, SMEs	% of total short and long-term SME loans	64.2	67.7	77.4	78.6	75.9
Government loan guarantees, SMEs	HUF million	308 800	352 100	409 200	377 100	343 400
Government guaranteed loans, SMEs	HUF million	381 400	436 400	600 300	472 019	437 200
Direct government loans, SMEs	HUF million	37 449	29 289	50 238	55 740	47 653
Direct government loans, SMEs	Number	1 080	1 608	2 654	2 311	2 993
Bank loans with subsidised interest rates	HUF million	129 391	124 049	128 366	130 935	137 425
Bank loans with subsidised interest rates	Number	19 411	17 789	17 517	17 405	18 148
Ratio of non-performing business loans within total business loan portfolio	%	3.1	4.7	10.1	12.8	17.4
Ratio of SME non-performing loans within total SME loan portfolio	%	..	5.4	8.9	12.8	15.9
Average interest rate, SMEs	%	10.19	11.25	12.31	8.99	9.38
Interest rate spread	%	1.22	0.97	1.24	1.74	1.3
Equity						
Venture and growth capital	HUF million	3 949	13 782	720	6 982	11 308
Venture and growth capital	Year-on-year growth rate, %	..	249.0	–94.8	869.7	62.0
Other						
Payment delays	Days	16.3	19.0	19.0	15.0	19
Bankruptcies, total	Per 10 000 firms	152.6	168.4	211.6	231.8	279.2
Bankruptcies, total	Year-on-year growth rate, %	..	10.3	25.6	9.5	20.4

Source: Refer to Table 4.36.

StatLink http://dx.doi.org/10.1787/888932795485

Figure 4.21. **Trends in SME and entrepreneurship finance in Hungary**



1. For loans up to EUR 1 million.
2. Short (long) term loans have a maturity equal to or less than (more than) one year. The data don't include the loans of financial institutions. In 2007-2009 the data contain loans to all SMEs including financial ones, in 2010-2011 only non-financial SMEs.

Sources: Chart A and B: Hungarian Financial Supervisory Authority. Chart C: Hungarian National Bank. Chart D: Administrative data from Hungarian Development Bank and the Economic Development Programme. Chart E: Hungarian Venture Capital Association. Chart F: National Tax and Customs Administration.

StatLink http://dx.doi.org/10.1787/888932794041

Table 4.36. **SME and entrepreneur definitions and sources of indicators for Hungary's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Amount of outstanding loans at the end of period (stocks). Gross bank and financial institution business loans to nonfinancial enterprises. In 2007-2009 the data contains loans to all SMEs including financial ones, in 2010-2011 only non-financial SMEs.	Hungarian Financial Supervisory Authority
Business loans, total	Amount of outstanding loans at the end of period (stocks). Gross bank and financial institution business loans to all nonfinancial enterprises.	Hungarian Financial Supervisory Authority
Short-term loans, SMEs	New loans (flow) equal to or less than one year. The data doesn't include the loans of financial institutions. In 2007-2009 the data contains loans to all SMEs including financial ones, in 2010-2011 only non-financial SMEs.	Hungarian Financial Supervisory Authority
Long-term loans, SMEs	New loans (flow) longer than one year. The data doesn't include the loans of financial institutions. In 2007-2009 the data contains loans to all SMEs including financial ones, in 2010-2011 only non-financial SMEs.	Hungarian Financial Supervisory Authority
Government loan guarantees, SMEs	New guarantees (flow) available to banks and financial institutions, guaranteed (partly) by government.	Administrative data from Hungarian Development Bank, Garantiqa Hitelgarancia Zrt, AFGHA (Agrárvállalkozási Hitelgarancia Alapítvány), and the EU SA financed Economic Development Programme
Government guaranteed loans, SMEs	New loans (flows) guaranteed (partly) by government.	
Direct government loans, SMEs	Sum and number of new direct loans (flow) to SMEs from Hungarian Development Bank, microfinance programmes financed from state resources.	Administrative data from Hungarian Development Bank, Garantiqa Hitelgarancia Zrt, AFGHA, and the Economic Development Programme
Bank loans with subsidised int. rates	Sum and number of new bank loans with subsidised int. rates (Szechenyi Card Program).	KA-VOSZ Co. (Intermediary corporation of the Program.)
Ratio of non-performing business loans	% of non-performing business loans within total business loan portfolio (90+ days delinquency ratio) to total business loans at the end of the year.	Hungarian Financial Supervisory Authority
Ratio of SME non-performing loans	% of SME non-performing loans within total SME loan portfolio at the end of the year (90+ days delinquency ratio) to total SME loans at the end of the year.	Hungarian National Bank
Interest rate, SMEs	Average annual interest rate for all new SME loans.	Hungarian National Bank
Interest rate spread	Between small and large enterprises; for maturity less than 1 year; amounts less than EUR 1 million and equal to or greater than EUR 1 million.	Hungarian National Bank
Equity		
Venture capital	Venture and growth capital, total amount invested. Includes seed, start-up, early and later stage expansion capital (excludes buyouts, turnarounds, replacements).	Hungarian Venture Capital Association
Other		
Payment delays	Average number of days beyond the agreed date for business-to-business in 2008 and 2009. For 2007, average number of days beyond the agreed date for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia, European Payment Index
Bankruptcy	Number of officially published bankruptcies and liquidations per 10 000 taxpayer enterprises.	National Tax and Customs Administration

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Ireland

SMEs in the national economy

SMEs comprised 99.6% of all employer firms in 2010 and employed over 69% of the labour force, whereas large enterprises comprised just 0.4% but accounted for over 30% of the employment.

Table 4.37. **Distribution of firms in Ireland, 2010**

Firm size (employees)	Number of enterprises	% of total	Number of employees	% of employees
All active enterprises	**190 149**			
Non-employer firms	93 812			
All active enterprises *(excluding non-employer firms)*	**96 337**	**100.0**	**1 033 365**	**100.0**
SMEs	**95 940**	**99.6**		
Micro (1-9)	*79 120*	*82.1*	*223 669*	*21.6*
Small (10-49)	*14 474*	*15.0*	*271 866*	*26.3*
Medium (50-249)	*2 346*	*2.4*	*221 708*	*21.5*
Large (250+)	**397**	**0.4**	**316 122**	**30.6**

Note: Does not include NACE Code 64.20 Activities of Holding Companies.

Source: Central Statistics Office.

StatLink http://dx.doi.org/10.1787/888932795504

SME lending

The financial and economic crisis in Ireland can be largely attributed to a decade of unsustainable construction-led growth. Irish banks concentrated significantly on the construction and property sectors and these sectors differ considerably from the "core" SME sector. Therefore, for the purposes of reflecting more accurately the credit situation of SMEs in the real economy, these sectors have been removed from the Irish scoreboard data. As is the usual case in the OECD Scoreboard, the data pertain only to non-financial enterprises.

Total business lending (outstanding loan balances) declined during the crisis and even more during the recovery period. Business loans were down from EUR 56 billion in 2007 to EUR 40 billion in 2011. However, the rate of decline eased considerably in the recovery period. Unfortunately, SME loan data are available only for 2010 and 2011. SME loans showed minimal growth between these years. Nevertheless, the SME loan share in total business loans increased from 63.9% in 2010 to 67.8% in 2011.

Data for SME short and long -term loans are not available by firm size but by loan size. According to that data set, new short- term loans composed almost 90% of total new SME loans over the period but these loan volumes plummeted 77% between 2007 and 2011 from EUR 19.4 billion to EUR 4.4 billion.

Credit conditions

A number of surveys of credit conditions have been conducted by the consultancy company Mazars at the request of the Irish Government. They covered the period from June 2008 to September 2011. Loan approval rates declined from 76% to 70%. These included applications which were both fully approved and those which were partially approved. Between April 2011 and September 2011, 65% of applications were fully approved and 5% were partially approved. Between October 2011 and March 2012, approval rates rose to 72%.

Data for interest rates are available by loan size. SME interest rates declined over time while the spread between large and small loans increased. The Mazars' survey also covered collateral requirements. About 32% of the SMEs were asked for specific security for their loans during the period 2008-2011.

Equity financing

The data for venture capital was provided by the Irish Venture Capital Association and included both funding by business angels as well as venture capital funds. Total venture capital increased over most of the period but declined in 2011. Contrary to trends in other countries, seed capital rose and was even larger than early stage and growth capital in 2011. Growth capital fell drastically between 2008 and 2009 and never recovered to its 2007 level.

Table 4.38. **Venture capital raised by Irish SMEs, 2007-11**

EUR million

Stage	2007	2008	2009	2010	2011
Seed	20.4	51.1	71.2	53.6	104.9
Early	119.8	116.5	185.4	175.9	99.2
Growth	85.7	75.3	31.5	80.7	70.3
Total	**225.9**	**242.9**	**288.1**	**310.2**	**274.4**

Note: Figures are reported by the SMEs not by the investors.

Source: Irish Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888932795523

Other indicators

The Mazar's survey asked about the average number of days in which enterprises received payments from customers but only in respect to the direction of movement rather than the number of days. Between April and September 2011 the number of days increased for 34% of the SMEs surveyed while 13% of the SMEs reported a decrease.

Corporate "bankruptcies" in Ireland are dealt with fewer than three different processes: liquidation, examinership and receivership. In Ireland a company may be liquidated by:

- a resolution of the members of the company following a declaration of solvency,
- a resolution of the members ratified by the creditors,
- an order of the court.

Table 4.39. **Bankruptcies, 2007-11**

	2007	2008	2009	2010	2011
Examinership	19	49	84	28	31
Receivership	14	59	205	388	533
Liquidation	1 389	1 664	2 403	2 285	2 464
All processes	1 422	1 772	2 692	2 701	3 028

Source: Department of Jobs, Enterprise and Innovation.

StatLink http://dx.doi.org/10.1787/888932795542

Bankruptcies increased continually over the entire period. Liquidations in 2011 exceeded their 2009 level. The collapse in world demand, together with the loss in domestic competitiveness had a detrimental impact on the export sector and more importantly on the domestic economy. Indeed, GDP contracted by over 12% from its peak. This confluence of factors resulted in a massive increase in unemployment (from about 4% to 15%) which has further exacerbated the weak domestic demand environment. In this situation, it is not unexpected that the number of bankruptcies rose over the 2007-2011 period.

Government policy response

The banking system restructuring plan created capacity for the two Pillar Banks, Bank of Ireland and the Allied Irish Bank, to provide loan funds in excess of EUR 30 billion from 2011 to 2013. Furthermore, the Irish Government has imposed lending targets on the two Pillar Banks of EUR 3 billion each in 2011, EUR 3.5 billion in 2012 and EUR 4 billion in 2013. These targets were based on the likely demand for loans. Both banks met their targets in 2011. SME lending is monitored on an on-going basis.

The Irish Government has set up a number of credit mediation measures. The Credit Review Office (CRO) was established in 2010 to review cases where credit facilities up to EUR 500 000 were refused, withdrawn or offered to SMEs on unreasonable terms. Firms have the right to request in the first instance a review by the bank itself. If this does not yield positive results it can ask the CRO for a review. The reviews have had a demonstration effect in that when the CRO overturns a bank's decision, then the bank tends to react positively on similar cases, thus avoiding another formal review. While the CRO cannot force a bank to change its decision, the bank must either comply or explain. The CRO ruled that credit be granted in over 60% of the cases it reviewed and the banks have complied. It is estimated that about 700 jobs have been saved. The costs of the review are charged to the banks. A common credit application form has been developed to reduce the administrative burden in applying for credit from more than one bank.

The Central Bank published a statutory Code of Conduct for Business Lending to Small and Medium Enterprises in 2009. It was revised in 2011 setting out new requirements for lenders dealing with SMEs facing financial difficulties. The Code requires that lenders have and implement policies and procedures for dealing with customers in financial difficulties to insure access and fairness. Lenders must give borrowers reasonable time to resolve financial difficulties and endeavour to agree an approach with the borrower to address the difficulties. Communications with such borrowers must be proportionate and not excessive. The Code also details information to be provided to these borrowers and imposes requirements regarding alternative repayment arrangements on lenders including appeals procedures.*

The National Pension Reserve Fund under the Strategic Investment Fund Programme is serving as a cornerstone investor in a new SME Equity Fund targeted at investing in larger SMEs. It is a traditional 10 year term private equity fund with a capital target of EUR 250-350 million. It provides both credit and mezzanine finance. It is also a cornerstone investor in a new SME Credit Fund with a capital target of EUR 1 billion and managed by a leading global credit manager.

During the crisis and recovery periods there was no credit guarantee programme and no direct loan programme. The Government is in the process of creating a loan guarantee programme. The target groups will be commercially viable SMEs which have a good performance, solid business plan and a defined market for their goods and services. The Government is also planning on introducing a microenterprise loan scheme. The programme is designed to stimulate lending for start-ups, newly established or growing microenterprises with not more than 10 employees. It will provide loans up to EUR 25 000 for proposals that do not meet the conventional risk criteria of banks. Thus, the scheme will provide "additionality" in terms of greater SMEs' access.

The Government also expanded taxation incentive schemes aimed at start-up and expanding businesses and schemes which provide employment incentives for such businesses.

Table 4.40. **SME and entrepreneur scoreboard for Ireland, 2007-11**

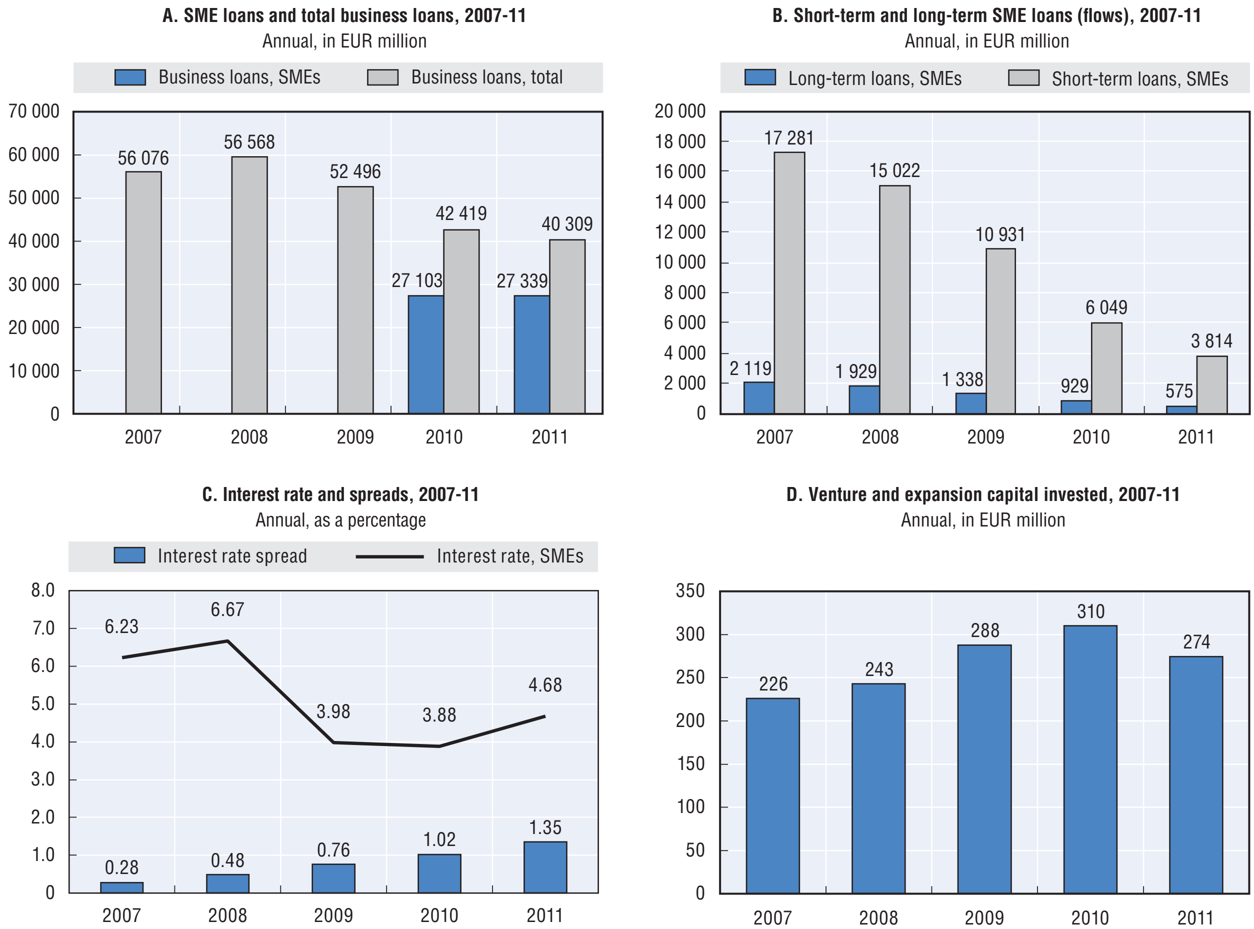
Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	EUR million	..	..	..	27 103	27 339
Business loans, total	EUR million	56 076	59 568	52 496	42 419	40 309
Business loans, SMEs	% of total business loans	..	..	..	63.9	67.8
Short-term loans, SMEs	EUR million	17 281	15 022	10 931	6 049	3 814
Long-term loans, SMEs	EUR million	2 119	1 929	1 338	929	575
Total short and long-term loans, SMEs	EUR million	19 400	16 951	12 269	6 978	4 389
Short-term loans, SMEs	% of total SME loans	89.1	88.6	89.1	86.7	86.9
SME loans approved	%	..	76	72	..	70-72
Interest rate, SMEs	%	6.23	6.67	3.98	3.88	4.68
Interest rate spread	%	0.28	0.48	0.76	1.02	1.35
Equity						
Venture and growth capital	EUR million	226	243	288	310	274
Venture and growth capital	Year-on-year growth rate, %	..	7.5	18.6	7.7	−11.5
Other						
Bankruptcies	Number	1 422	1 772	2 692	2 701	3 028
Bankruptcies	Year on year growth rate %	..	24.6	51.9	0.3	12.1

Source: Refer to Table 4.41.

StatLink http://dx.doi.org/10.1787/888932795561

* The Code is available at *www.centralbank.ie/regulation/Pages/Codes.aspx*.

Figure 4.22. **Trends in SME and entrepreneurship finance in Ireland**



Sources: Charts A, B, and C: Central Bank of Ireland. Chart D: Irish Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888932794060

Table 4.41. **SME and entrepreneur definitions and sources of indicators for Ireland's scoreboard**

Indicator	Definition	Source
Debt		
SME loans	SME outstanding balances; disaggregated to remove financial intermediation and property related SME sectors. Only available from March 2010.	Central Bank
Total business loans	Outstanding balances; disaggregated to remove financial intermediation and property related sectors.	Central Bank
Short-term loans, SMEs	New loans less than one year at the floating rate and up to EUR 1 million.	Central Bank
Long-term loans, SMEs	New loans for more than one year; and up to EUR 1 million.	Central Bank
SME loans approved	Survey figures for % of applications approved.	Mazars survey
Interest rate, SME	Average annual rates for new loans, base rate plus risk premium; for maturity less than 1 year; and amounts less than EUR 1 million.	Central Bank
Interest rate spread	Between small & large enterprises; for maturity less than 1 year; amounts less than EUR 1 million and equal to or greater than EUR 1 million.	Central Bank
Collateral	% of SMEs asked for specific security.	Mazars survey
Equity		
Venture and growth capital	Actual amounts invested in SMEs in the country in early stage development (excludes buyouts, turnarounds, replacements).	Irish Venture Capital Association
Other		
Bankruptcies	Examinership, receivership, liquidation.	Department of Jobs, Enterprise and Innovation

Italy

SMEs in the national economy

SMEs comprise 99.9% of enterprises in Italy and account for 80% of the industrial and service labour force. The sector has a relatively small-scale structure: the share of micro-enterprises is higher than the EU average, while the percentage of small and medium-sized firms is below average (Eurostat, 2011). Data collected from the debt side were mainly available for most of the firms with less than 20 employees, which represents nearly the entire universe.

Table 4.42. **Distribution of firms in Italy, 2010**

By firm size

Firm size (employees)	Total active enterprises		of which according to the SBS Regulation (No. 295/2008)[1]	
	Number	%	Number	%
All firms	**4 460 891**	**100.0**	**3 839 390**	**100.0**
SMEs (up to 249)	**4 457 205**	**99.9**	**3 836 191**	**99.9**
Micro (up to 9)	4 279 176	95.9	3 671 303	95.6
Small (10-49)	156 996	3.5	146 191	3.8
Medium (50-249)	21 033	0.5	18 697	0.5
Large (250+)	**3 686**	**0.1**	**3 199**	**0.1**

1. Data include all market activities in Sections B, C, D, E, F, G, H, I, J, L, M, N of the common statistical classification of economic activities in the European Community as established by Regulation (EC) No. 1893/2006 (Nace Rev. 2). Data include firms with and without employees.

Source: Italian National Institute of Statistics (Istat), *Statistical Business Register.*

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SME lending

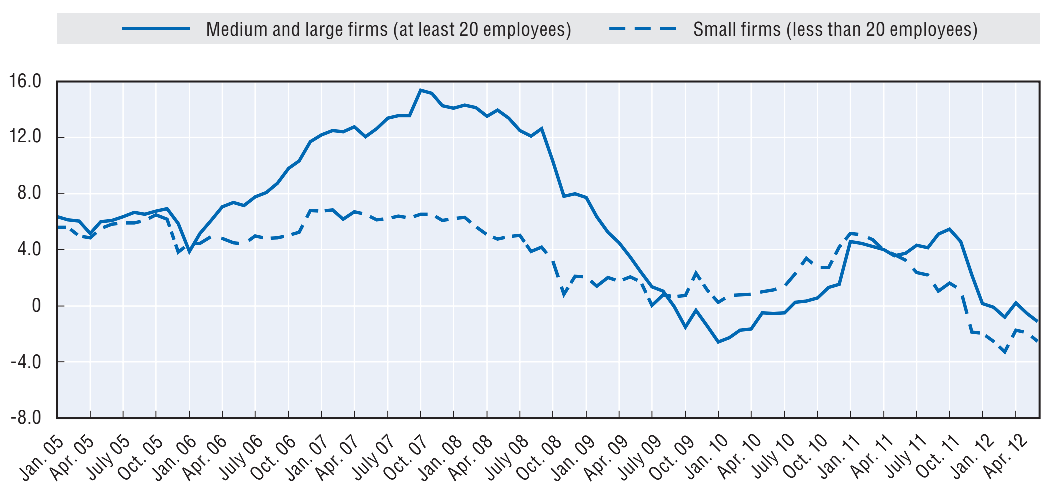
In Italy, the impact of the crisis on the national banking system was cushioned by a sound model of intermediation, more oriented towards direct lending than to transactions on capital markets. This meant that there was less exposure to toxic assets arising from collateralised debt obligations. Initially, the consequences of the crisis were felt in particular by the largest banking groups, more reliant on wholesale funding. Although their capital ratios were lower than those of other large international financial institutions, major Italian banks could rely on better quality tier one capital owing to stringent regulation, and thus they were more able to absorb losses. Also, Italian banks had a lower level of leverage compared to non-Italian ones.

In the second half of 2011 the country entered a new recession. Sovereign debt market strains flared up in the summer and impaired banks' capacity to raise funds on wholesale markets. Nevertheless, domestic financial institutions further strengthened their highest-quality capital resources through substantial equity increases and, to a lesser extent, self-financing.

Total business loans declined in absolute terms in 2009 but recovered in the subsequent two years. After mid-2008, SME loan growth rates decelerated sharply, recovering somewhat until the second half of 2011.* During the new downturn that hit the economy in the summer, the credit slowdown was stronger for SMEs than for larger enterprises resulting, at the end of the year, in negative growth rates for SME loans for the first time since the beginning of the crisis. Unlike the previous recession, the outright decline in SME lending involved large and small banks alike. The share of SME loans in total business loans was lower in 2011 than in 2007. SME short-term loans showed a marked slowdown as the financial crisis intensified, lending conditions tightened and credit demand from firms shrank. The share of short-term SME loans in total short and long-term SME loans declined from 33.9% in 2007 to 26.3% in 2011.

Figure 4.23. **Lending to firms in Italy, 2005-12**

Monthly data, 12 month percentage changes



Note: The percentage changes are adjusted for the effects of reclassifications.

Source: Bank of Italy.

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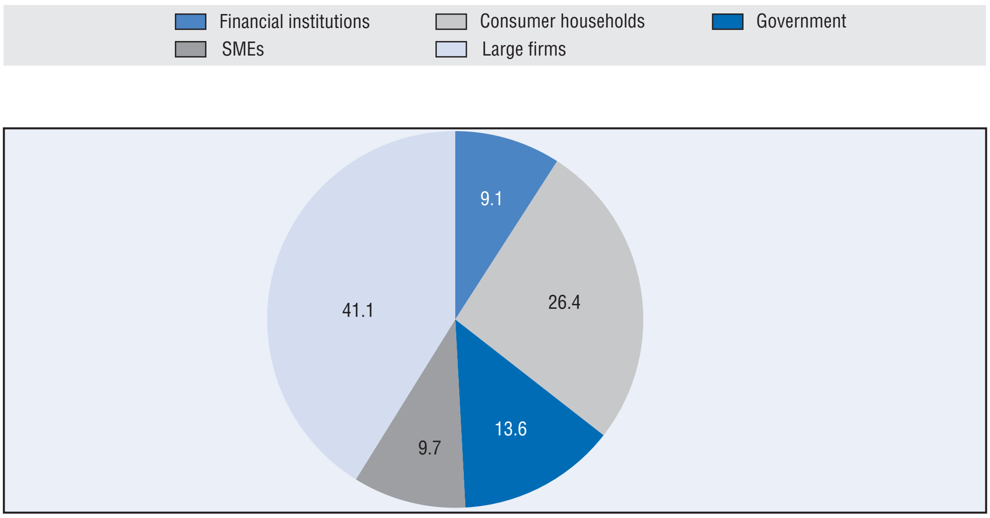
Figure 4.24 shows the distribution of bank lending among various sectors. Half of the total stock was absorbed by firms; the SME share reached nearly 10%. The remainder went to consumer households (26.4%), government (13.6%) and financial institutions (9.1%).

* See Box 4.5 for the SME definition used in the text.

Figure 4.24. **Bank lending to various sectors in Italy, 2011**

As a percentage



Note: SMEs include producer households; consumer households include non-profit institutions serving households; financial institutions other than banks (i.e. it does not include interbank lending).

Source: Bank of Italy.

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SME loans used vs. authorised

The ratio of loans used to authorised rose from 79.7% in 2007 to 83.6% in 2011, revealing the increased need for liquidity. A more in-depth analysis – disaggregating data by type of loan – showed that the used/granted ratio declined for matched loans (such as advances backed by discounted invoices), mirroring the general economic downturn. In contrast, credit use intensified significantly for overdrafts; the upward trend was confirmed in 2011, suggesting that firms met their liquidity needs through greater recourse to short-term credit lines.

Credit conditions

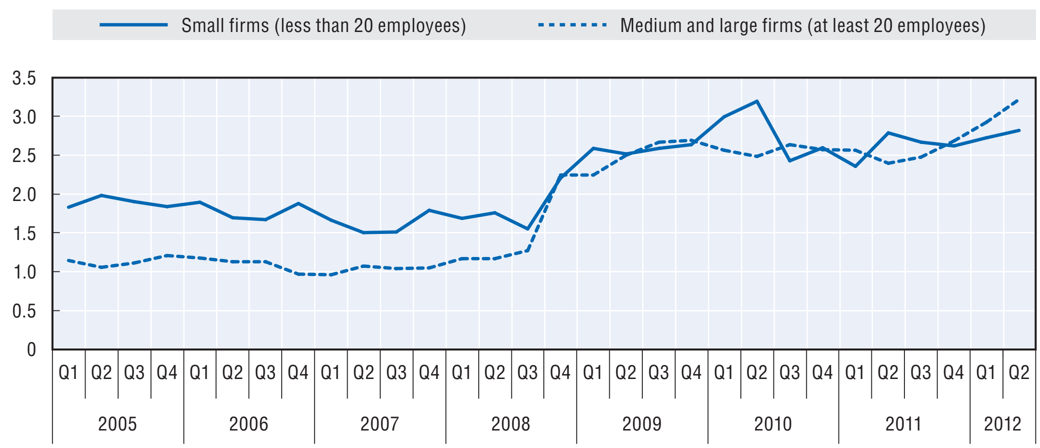
Following the turmoil in the financial markets in mid-2007, the results of the quarterly euro area Bank Lending Survey (BLS) highlighted a tightening of the criteria applied by the largest Italian banks for loan approvals and the opening of credit lines to enterprises. In 2008 this greater strictness continued and gradually increased in the autumn as the crisis intensified after the failure of Lehman Brothers. During 2011, the BLS pointed at a progressive stiffening of lending standards, due to banks' fund-raising difficulties and worsened liquidity position, as well as to a bleaker economic outlook.

By Autumn 2008 reductions in official interest rates were gradually being passed on to bank customers. SME interest rates declined from 6.3% in 2008 to 3.6% in 2009. During the recent sovereign debt crisis, the rise in interest rates was by far stronger for SMEs than for large firms: at the end of 2011, the average SME rate was 5.0%, 1.7 percentage points higher than that applied to large firms.

The decrease in collateral requirements between 2008 and 2009 followed the lowering of the Central Credit Register reporting threshold and the inclusion of small, less secured loans. However, by the end of 2010, the collateral requirements were on the rise. They recorded a further increase in 2011. The worsening of SME credit conditions was also confirmed by the rise in rejection rates of bank loan applications. According to the ECB's *Survey on the access to finance of SMEs in the euro area*, in the second half of 2011 SMEs reported higher rejection rates (19%) than those referred to the second half of 2010 (8%). The tightening of lending may also be explained by the worsened credit quality. In the aftermath of the financial crisis, the ratio of new bad loans to outstanding loans increased significantly. Initially, the deterioration in credit quality was stronger for medium and large firms than for SMEs; more recently, this difference faded (see Figure 4.25).

Figure 4.25. **Ratio of new bad loans to outstanding loans, 2005-12**

Quarterly flows of bad loans as a percentage of the stock of loans at the end of the previous quarter



Source: Bank of Italy.

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Equity financing

Total venture and growth capital fell drastically between 2008 and 2009. It rose in 2010, but not for small and medium-sized firms. Venture and expansion capital investment in SMEs increased by 65% in 2011 compared to 12.5% rise for total investment of this kind. Provisions introduced by the Government included the establishment of a private equity fund with an endowment of EUR 1.2 billion – to be used both in direct investments and in third party managed funds – to boost capitalisation and consolidation among small and medium-sized firms. Promoted by the Italian Ministry of Finance in co-operation with the main financial and industrial institutions, the fund became operational at the end of 2010. Through December 2011, it had approved direct and indirect investments amounting to EUR 417 million.

Table 4.43. **Early stage and expansion capital in Italy, 2006-11**

EUR thousands

Number of employees	2006	2007	2008	2009	2010	2011
0-9	36 445	110 472	111 349	98 746	141 424	95 247
10-19	8 310	39 433	120 667	29 592	23 626	34 585
20-99	82 048	79 615	243 437	136 044	113 223	181 820
100-199	49 173	113 513	56 684	65 459	72 644	211 564
200-249	6 466	17 554	23 602	28 089	1 500	58 674
SMEs sub-total	**182 442**	**360 587**	**555 739**	**357 930**	**352 417**	**581 890**
250-499	16 525	52 353	98 015	18 524	26 960	23 879
500-999	62 260	113 900	65 411	25 787	11 533	48 286
1 000-4 999	283 488	180 468	27 050	66 419	267 710	99 574
> 5 000	496 866	0	164 853	0	13 600	2 560
Total	**1 041 581**	**707 308**	**911 068**	**468 660**	**672 220**	**756 189**

Source: Italian Private Equity and Venture Capital Association (AIFI) – Pricewaterhouse Coopers (PwC).

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Other indicators

The slump in sales and the tightening of credit conditions contributed to SME cash flow problems, which in turn were partly reflected in the increase in payment delays. Moreover, after the outbreak of the crisis, suppliers began to demand faster payment: for SMEs, payment delays rose from 15 days in 2008 to 17 days in 2009. They dropped to 14.8 days in 2010, mainly as a consequence of the extension of agreed payment terms between suppliers and customers at the first signs of economic recovery. This trend was common to all firm sizes; however, compared to SMEs, large firms alleviated their liquidity constraints by delaying payments to a larger extent, exploiting their stronger bargaining power. Payment delays recorded a slight, further drop in 2011, reflecting mainly the trend observed in the first six months; however, the new economic downturn resulted in a significant increase of the indicator, which became more evident in the last part of the year.

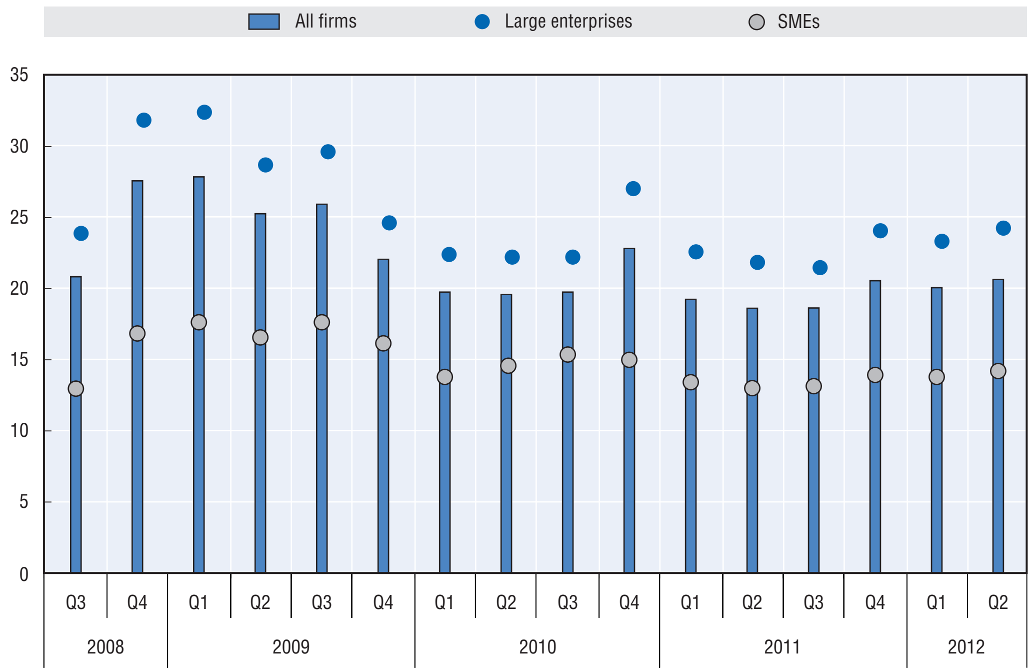
Bankruptcies rose from 11.2 per 10 000 enterprises in 2007 to 17.1 in 2009. The weak economic recovery in 2010 did not allow a significant improvement in the financial condition of firms, as witnessed by the still rapid rise in the indicator (20.3 per 10 000 enterprises). The incidence of insolvency increased to 21.9 in 2011.

Government policy response

During the crisis, the government undertook several measures to ensure SMEs' access to finance, particularly in the area of loan guarantees. Public support was provided through the Central Guarantee Fund (CGF) and regional financial institutions, besides assigning financial resources to a system of mutual guarantee schemes (Confidi).

Figure 4.26. **Payment delays in Italy, 2008-12**

Average number of days



Source: Cerved Group, *Payline Database*.

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The Central Guarantee Fund facilitates SMEs' access to credit by providing public guarantees and counter-guarantees. The guarantee can be requested by banks or financial companies entered in a special register. The 'counter guarantee' and 'joint guarantee' can be requested by Confidi and other guarantee funds. The CGF provides, in its own right, loan guarantees for SMEs with less than 250 employees. From 2000 to 2007 it provided EUR 4.2 billion in guarantees for EUR 8.7 billion worth of loans. During the financial crisis, the government announced further allocations to the Fund. In 2010, the CGF exhibited an unprecedented growth: it helped 50 000 firms to cope with the general economic downturn, providing more than EUR 5.2 billion in guarantees for EUR 9.1 billion worth of loans. In 2011, a further EUR 8.4 billion in guaranteed loans was supported; micro and small enterprises absorbed 73 % of the amount.

Further actions undertaken to overcome liquidity problems included the one-year debt moratorium for SMEs that allowed firms (with no bad debts, restructured loans or on-going foreclosures) to suspend repayment of the loan principal and to obtain an extension of the duration of loans for credit advances. The measure applied to enterprises which employed fewer than 250 persons, with an annual turnover not exceeding EUR 50 million and/or an annual balance sheet total not exceeding EUR 43 million.

By September 2011 more than 225 000 applications had been accepted, and EUR 15 billion worth of debts rolled over.

Another measure enhancing SMEs' access to credit was the use of the Deposits and Loans Fund (Cassa Depositi e Prestiti, CDP). The agreement, signed by the Italian Banking Association and CDP, made available EUR 8 billion – drawn from the postal deposits – to the banking system, which was committed to lend to SMEs. By the end of 2011 banks had allocated EUR 6.1 billion to SMEs.

The impact of the initiatives was not negligible: it has been estimated that the additional resources made available through the Central Guarantee Fund, the debt moratorium and the Deposits and Loans Fund accounted for more than 8% of the loans (other than overdrafts) up to EUR 1 million granted by banks from 2009 to 2011.

Box 4.5. **Definition of SMEs used in Italy's SME and entrepreneur scoreboard**

Country definition

In accordance with Eurostat standards, the Italian National Institute of Statistics defines small and medium enterprises as firms with fewer than 250 employees. In detail, micro-enterprises and small firms have, respectively, less than 10 and 10-49 employees, while medium-sized enterprises are defined as those with 50-249 employees.

The SME definition used by financial institutions

The Bank of Italy classifies data on business lending by firm size: small firms are defined as limited partnerships, general partnerships, informal partnerships, *de facto* companies and sole proprietorships with fewer than 20 workers. This data disaggregation has been used for most indicators on the debt side.

Table 4.44. **SME and entrepreneur scoreboard for Italy, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	EUR million	186 699	190 628	192 856	205 637	201 682
Business loans, total	EUR million	994 469	1 063 053	1 052 639	1 083 758	1 099 721
Business loans, SMEs	% of total business loans	18.8	17.9	18.3	19.0	18.3
Short-term loans, SMEs	EUR million	59 026	56 335	51 607	49 984	47 532
Long-term loans, SMEs	EUR million	114 912	120 437	124 801	136 284	132 867
Short-term loans, SMEs	% of total short and long-term SME loans	33.9	31.9	29.3	26.8	26.3
Government guaranteed loans, CGF	EUR billion, flows	2.3	2.3	4.9	9.1	8.4
Direct government loans, SMEs	EUR million, flows	354	373	255	276	272
Ratio of loans used to authorised, SMEs	%	79.7	80.7	80.7	82.8	83.6
Non-performing loans, total	EUR million	44 546	50 122	65 744	80 238	93 700
Non-performing loans, SMEs	EUR million	12 760	13 857	16 449	19 368	21 283
Non-performing loans, large firms	EUR million	31 786	36 265	49 295	60 870	72 417
Interest rate, average SME rate	%	6.28	6.34	3.59	3.66	5.00
Interest rate spread (between average SME and large firm rate)	%	0.64	1.36	1.39	1.46	1.70
Collateral, SMEs	% of collateralised loans	54.4	54.3	51.9	53.0	54.4
Equity						
Venture and expansion capital, total	EUR million	707	911	469	672	756.0
Venture and expansion capital, SMEs	EUR million	361	556	358	352	582.0
Venture and expansion capital, SMEs	Year-on-year growth rate, %	97.6	54.1	–35.6	–1.5	65.30
Other						
Payment delays, all firms	Average number of days	..	24.4	25.2	20.7	19.3
Payment delays, SMEs	Average number of days	..	15.0	17.0	14.8	13.4
Payment delays, large firms	Average number of days	..	28.3	29.2	23.9	22.9
Bankruptcies, total	Number	6 165	7 521	9 429	11 289	12 17
Incidence of insolvency, total	per 10 000 enterprises	11.2	13.8	17.1	20.3	21.9

Source: Refer to Table 4.45.

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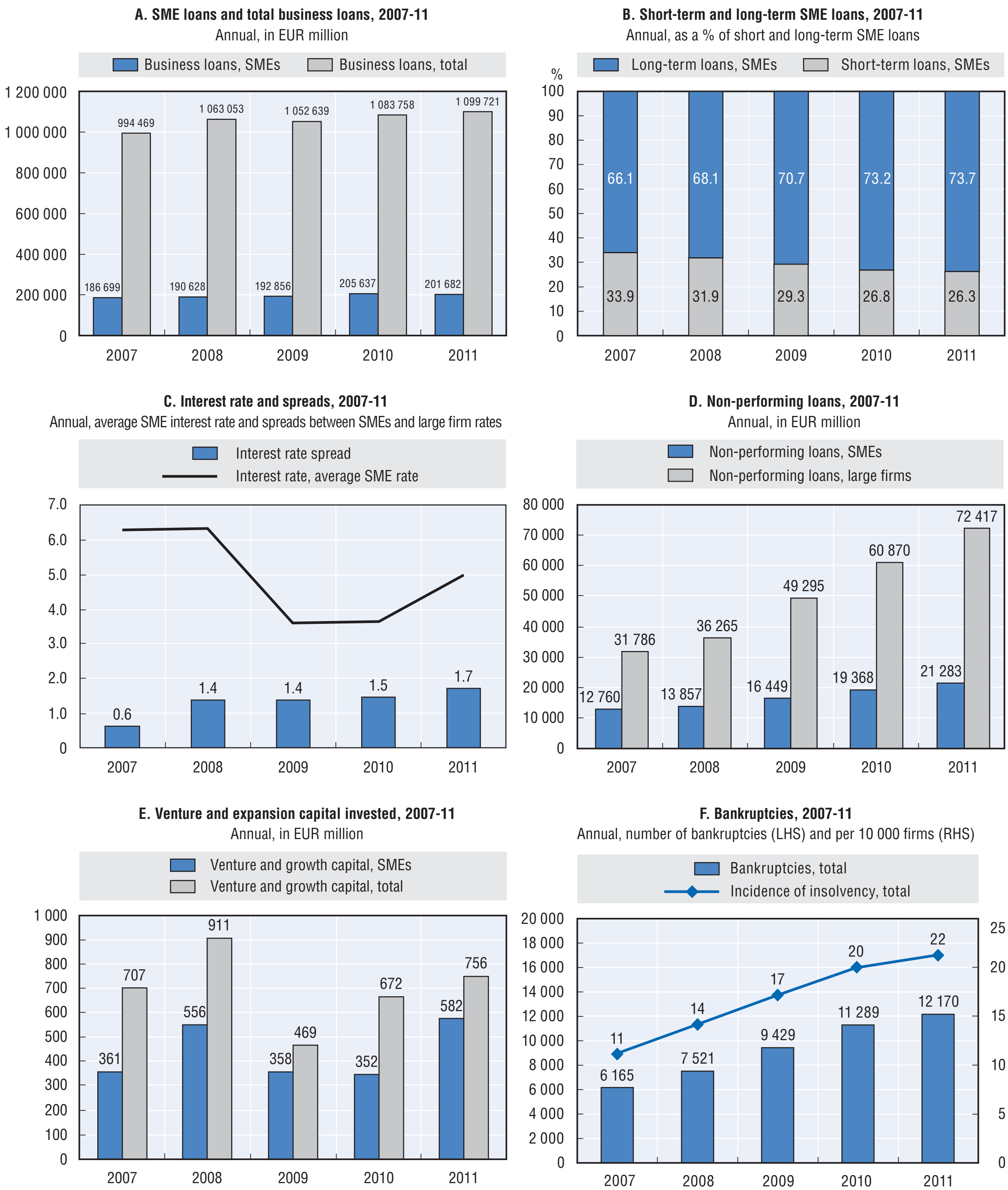
Figure 4.27. **Trends in SME and entrepreneurship finance in Italy**



Sources: Charts A, B, C and D: Bank of Italy. Chart E: AIFI – Italian Private Equity and Venture Capital Association. Chart F: Cerved Group.

StatLink http://dx.doi.org/10.1787/888932794155

Table 4.45. **SME and entrepreneur definitions and sources of indicators for Italy's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Performing and non-performing loans (bad debts) outstanding (stocks) by banks and other financial institutions. For bank loans: performing loans (including repos) and excluding factoring; bad debts excluding factoring from Q408 only. For other financial intermediaries loans: performing loans (including repos) excluding factoring; bad debts including factoring. As of June 2010, loans include securitised, or otherwise transferred, loans which do not satisfy the criteria for derecognition as established in the international accounting standard IAS 39.	Bank of Italy, *Supervisory returns* (for bank loans) and Central Credit Register (for other financial intermediaries loans; subject to reporting threshold: as of January 2009, the reporting threshold for loans and guarantees, which was previously set to EUR 75 000, has been lowered to EUR 30 000; no threshold applies for reporting bad debts); supply side data sets
Business loans, total	Performing and non-performing loans (bad debts) outstanding (stocks) by banks and other financial institutions. For bank loans: performing loans (including repos) and excluding factoring; bad debts excluding factoring from Q408 only. For other financial intermediaries loans: performing loans (including repos) excluding factoring; bad debts including factoring. As of June 2010, loans include securitised, or otherwise transferred, loans which do not satisfy the criteria for derecognition as established in the international accounting standard IAS 39.	Bank of Italy, *Supervisory returns* (for bank loans) and Central Credit Register (for other financial intermediaries loans; subject to reporting threshold)
Short-term loans, SMEs	Performing loans (including repos) excluding factoring; maturity up to 12 months (up to 18 months until Q308 for data drawn from supervisory returns and until Q109 for data drawn from the Central Credit Register), stock.	Bank of Italy, *Supervisory returns* (for bank loans) and Central Credit Register (for other financial intermediaries loans; subject to reporting threshold)
Long-term loans, SMEs	Performing loans (including repos) excluding factoring; maturity more than 12 months (more than 18 months until Q308 for data drawn from supervisory returns and until Q109 for data drawn from the Central Credit Register), stock.	Bank of Italy, *Supervisory returns* (for bank loans) and Central Credit Register (for other financial intermediaries loans; subject to reporting threshold)
Government guaranteed loans, CGF	Government guaranteed loans to SMEs (firms with less than 250 employees) by the Central Guarantee Fund (flows).	Central Guarantee Fund – MedioCredito Centrale (MCC)
Direct government loans, SMEs	Sum of direct loans granted to SMEs (firms with less than 250 employees) by the Italian government (flows).	Ministry of Economic Development
Loans authorised, SMEs	Sum of the loan facilities granted to each borrower by all the intermediaries reporting to the Central Credit Register (stocks).	Bank of Italy, Central Credit Register (subject to reporting threshold)
Loans used, SMEs	Sum of the loan facilities disbursed to each borrower by all the intermediaries reporting to the Central Credit Register (stocks).	Bank of Italy, Central Credit Register (subject to reporting threshold)
Non-performing loans, total	Bank and other intermediaries' bad debts. For bank bad debts: including factoring up to Q308; excluding factoring from Q408. For other financial intermediaries bad debts including factoring. Bad debts are defined as the total loans outstanding to borrowers who have been declared insolvent or who are in a basically comparable situation (stocks).	Bank of Italy, *Supervisory returns* (for bank bad debts) and Central Credit Register (for other financial intermediaries bad debts)
Non-performing loans, SMEs	Bank and other intermediaries' bad debts. For bank bad debts: including factoring up to Q308; excluding factoring from Q408. For other financial intermediaries bad debts including factoring (stocks).	Bank of Italy, *Supervisory returns* (for bank bad debts) and Central Credit Register (for other financial intermediaries bad debts)
Non-performing loans, large firms	Bank and other intermediaries' bad debts. For bank bad debts: including factoring up to Q308, excluding factoring from Q408. For other financial intermediaries bad debts including factoring (stocks).	Bank of Italy, *Supervisory returns* (for bank bad debts) and Central Credit Register (for other financial intermediaries bad debts)
Interest rate, average SME rate	Annual percentage rate of charge (i.e. including fees and commissions) on new business.	Bank of Italy, *Survey of lending rates*. The survey refers to the rates charged to non-bank customers for the following transactions: matched loans, term loans and revocable loans, provided the sum of the amounts of the above forms of financing granted or used reported to the Central Credit Register equals or exceeds EUR 75 000

Table 4.45. **SME and entrepreneur definitions and sources of indicators for Italy's scoreboard** *(cont.)*

Indicators	Definition	Source
Interest rate spread (between average SME and large firm rate)	Spread between average interest rate charged to SMEs and large firms. Annual figures taken from fourth quarter of the respective year.	Bank of Italy, *Survey of lending rates*
Collateral, SMEs	Percentage of SME bank and other financial intermediaries loans backed by real guarantees.	Central Credit Register, subject to reporting threshold
Equity		
Venture and expansion capital, total	Investment in all enterprises. Data include early stage and expansion phases, not turnaround or buyout/replacement.	A I F I – Italian Private Equity and Venture Capital Association; (supply-side survey)
Venture and expansion capital, SMEs	Amounts invested in SMEs (defined as firms with less than 250 employees). Data include early stage and expansion phases, not turnaround or buyout/replacement stages.	A I F I – Italian Private Equity and Venture Capital Association; (supply-side survey)
Other		
Payment delays, all firms	Average payment delay in days for business-to-business, all firms.	Cerved Group, *Payline database*
Payment delays, SMEs	Average payment delay in days for business-to-business, SMEs (defined as firms with turnover of up to EUR 50 million).	Cerved Group, *Payline database*
Payment delays, large firms	Average payment delays in days for business-to-business, large firms (with turnover exceeding EUR 50 million).	Cerved Group, *Payline database*
Bankruptcies, total	The judicial procedure through which the property of an insolvent entrepreneur is removed and destined to the equal satisfaction of the creditors. The bankruptcy closing is declared by the court with a justified decree, on the request of the trustee, the creditor or also officially. The closing decree could be claimed within 15 days, in front of the Court of Appeal, from every admitted creditor. All enterprises.	Cerved Group

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Korea

SMEs in the national economy

SMEs constituted 99.9% of industrial enterprises and employed 86.8% of the industrial labour force in 2010.

Table 4.46. **Distribution of firms in Korea, 2007-10**

	Number of firms (thousands)				Number of employees (thousands)			
	Total	Large firms	SMEs	SMEs (%)	Total	Large firms	SMEs	SMEs (%)
2007	3 050	3	3 047	99.9	12 819	1 475	11 344	88.5
2008	3 047	3	3 044	99.9	13 071	1 603	11 468	87.7
2009	3 069	3	3 066	99.9	13 398	1 647	11 751	87.7
2010	3 125	3	3 122	99.9	14 136	1 873	12 263	86.8

Note: Data on for profit businesses (individual, company, and corporation) on the basis of national businesses survey according to SME basic law. Includes non-employer firms and excludes financial firms.

Source: Korea Small and Medium Business Administration.

StatLink http://dx.doi.org/10.1787/888932795637

Microenterprises while comprising more than 93.5% of all enterprises contained non-employer firms. Small and medium sized firms were 6.4% of the total.

Table 4.47. **Distribution of firms in Korea, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**3 125 457**	**100.0**
SMEs (1-299)	**3 123 284**	**99.9**
Micro (1-9)	*2 921 868*	*93.5*
Small (10-49)	*175 028*	*5.6*
Medium (50-299)	*26 388*	*0.8*
Large (299+)	**2 173**	**0.1**

Note: Non-employer firms are counted as firms with one employee.

StatLink http://dx.doi.org/10.1787/888932795656

SME lending

Korea's definition of an SME varies by sector (see Box 4.6). SME and total business loans increased over the period under study. SME loan shares were calculated on the basis of total business loans outstanding (i.e., stocks). The SME share of business loans declined from 86.8% (2007) to 77.7% (2011). This was probably due to the more conservative attitude of the banks at the end of the period. At the beginning of the crisis SMEs had access to credit despite the rather alarming rates of increase in non-performing SME loans: 124% between 2007 and 2008 and 46% between 2009 and 2010. In 2011, non-performing loans declined to nearly their 2008 level. Data for non-performing loans include domestic and foreign currency loans.

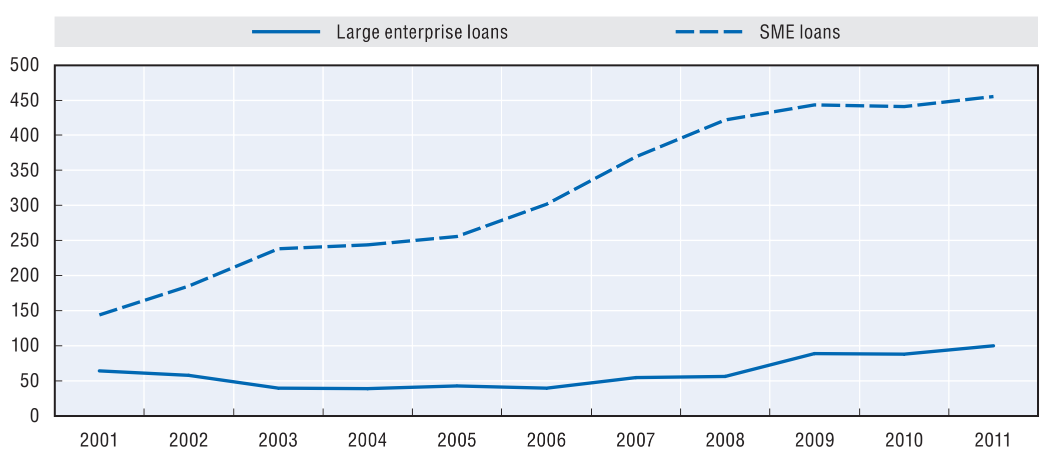
Credit conditions

The average interest rates charged on outstanding SME loans continued to increase between 2007 and 2011. In addition, they were higher than rates charged in western economies, which had assumed loose monetary stances. The higher rates probably reflected the greater risks faced by Korean banks and inflation. Interest rate spreads declined over the period. Banks eased lending conditions for SMEs not because of their willingness to absorb SMEs' credit risks, which were high, but because of the government's advice to banks to automatically roll over loans to SMEs. Roll-over rates reached 90%. The government justified this approach on the grounds that banks were not capable of making an accurate assessment of the viability of borrowers during the crisis. Additionally, government guarantee programmes, discussed below, contributed to the banks' lending behaviour to SMEs despite their own liquidity shortages and difficulty in meeting regulatory standards. By the end of 2011, domestic banks carried KRW 455 billion in SME loans or an increase of 23% over 2007.

After the Korean currency crisis in 1997, the large corporations accessed financing in the form of corporate bonds and equity. Meanwhile, the banking sector focused on SME loans, which had government guarantees. Therefore, SME loans increased dramatically over 15 years.

Figure 4.28. **Large enterprise and SME loans in Korea, 2001-11**

KRW trillions



Source: Financial Supervisory Service (FSS), Small and Medium Business Administration (SMBA).

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Equity financing

Venture and growth capital declined between 2007 and 2008 as in other countries but rebounded in 2009, 2010 and in 2011 so that it exceeded its 2007 level.

Table 4.48. **Venture and growth capital, 2007-11**

KRW billion

Stage	2007	2008	2009	2010	2011
Early	365.0	290.8	247.6	319.2	372.2
Expansion	377.4	255.3	260.1	290.4	329.6
Later	249.3	178.6	359.4	481.4	559.0
Total	**991.7**	**724.7**	**867.1**	**1 091.0**	**1 260.8**

Source: Small and Medium Business Administration (SMBA).

StatLink http://dx.doi.org/10.1787/888932795675

Venture capital was concentrated in the early and expansion stages in 2007. By 2011 venture capital investment was concentrated in the later-stage firms (44.3%) whereas the early and expansion stages were 29.6% and 26.1%, respectively.

Other indicators

Data on payment delays were for loans overdue rather than for the average payment delays of customers, suppliers or government. Overdue loans declined in 2009 but rose again in 2011. Although many SMEs in Korea were financially pinched after the outbreak of the global financial crisis, they avoided bankruptcy, thanks to the financial support from the government. Bankruptcies actually decreased steadily from 2009 to 2011 because firms missing payments were not declared insolvent. Bankruptcies in 2011 decreased 13.4%. It could be said that while SMEs avoided bankruptcy because of the policies of the central and regional governments, they still were financially stressed.

Government policy response

There was a 42% increase in the amount of government guaranteed loans during the crisis (2007-2009). Also, the guarantee coverage ratio was raised temporarily from 85% to 95%, or even 100% in the case of export credit guarantees. While the Small Business Corporation (SBC) increased its direct lending by only 6.2% between 2007 and 2008; there was a dramatic jump in 2009 (83%). During the recovery, direct loans declined indicating this type of government assistance was easing off. But at the same time, the SBC loan authorisation rate remained well above 50%.

In 2011, the outstanding government guaranteed loans were KRW 69.9 trillion which included loans that were backed by both national and regional funds. Policy loans (direct and indirect loans) provided by the SBC totalled KRW 15.1 trillion. They supported 85 000 SMEs and remedied market failures and enhanced the competitiveness of SMEs. The Korean Government is now actively looking for other cost effective ways to support SME lending. It is considering targeted support for high-performing SMEs versus the general support it has been giving to the SME sector as a whole.

Box 4.6. **Definition of SMEs used in Korea's SME and entrepreneur scoreboard**

BOK (Bank of Korea) and FSS (Financial Supervisory Service) have the same definition of small and medium-sized enterprises (SMEs).

SMEs denotes an establishment that has less than 300 regular employees or paid-in-capital less than or equal to KRW 8 billion (about USD 8 million). This definition of SMEs is based on the Article 2 of the Framework Act on Small and Medium Enterprises and Article 3 of its enforcement decree. SMEs can also be defined as follows:

Definition of SMEs used by BOK and FSS

Sector[1]	SMEs		Small business	Micro-enterprises
	No of workers	Capital and sales	No. of workers	
Manufacturing	Less than 300	Capital worth USD 8 m or less	Less than 50	Less than 10
Mining, construction and transportation	Less than 300	Capital worth USD 3 m or less	Less than 50	Less than 10
Large general retail stores, hotel, recreational condominium operation, communications, information processing and other computer-related industries, engineering service, hospital and broadcasting	Less than 300	Sales worth USD 30 m or less	Less than 10	Less than 5
Seed and seedling production, fishing, electrical, gas and waterworks, medical and orthopaedic products, wholesales, fuel and related products wholesales, mail order sale, door-to-door sale, tour agency, warehouses and transportation-related service, professional, science and technology service, business support service, movie, amusement and theme park operation	Less than 200	Sales worth USD 20 m or less	Less than 10	Less than 5
Wholesale and product intermediation, machinery equipment rent for industrial use, R&D for natural science, public performance, news provision, botanical garden, zoo and natural parks, waste water treatment, waste disposal and cleaning related service	Less than 100	Sales worth USD 10 m or less	Less than 10	Less than 5
Other sectors	Less than 50	Sales worth USD 5 m or less	Less than 10	Less than 5

1. General Criteria (Article 2 of Framework Act on SMEs and Article 3 of Enforcement Decree of the Act). For micro-enterprises, Article 2 of the Act of Special Measures on Assisting Small Business and Micro-enterprises shall apply.

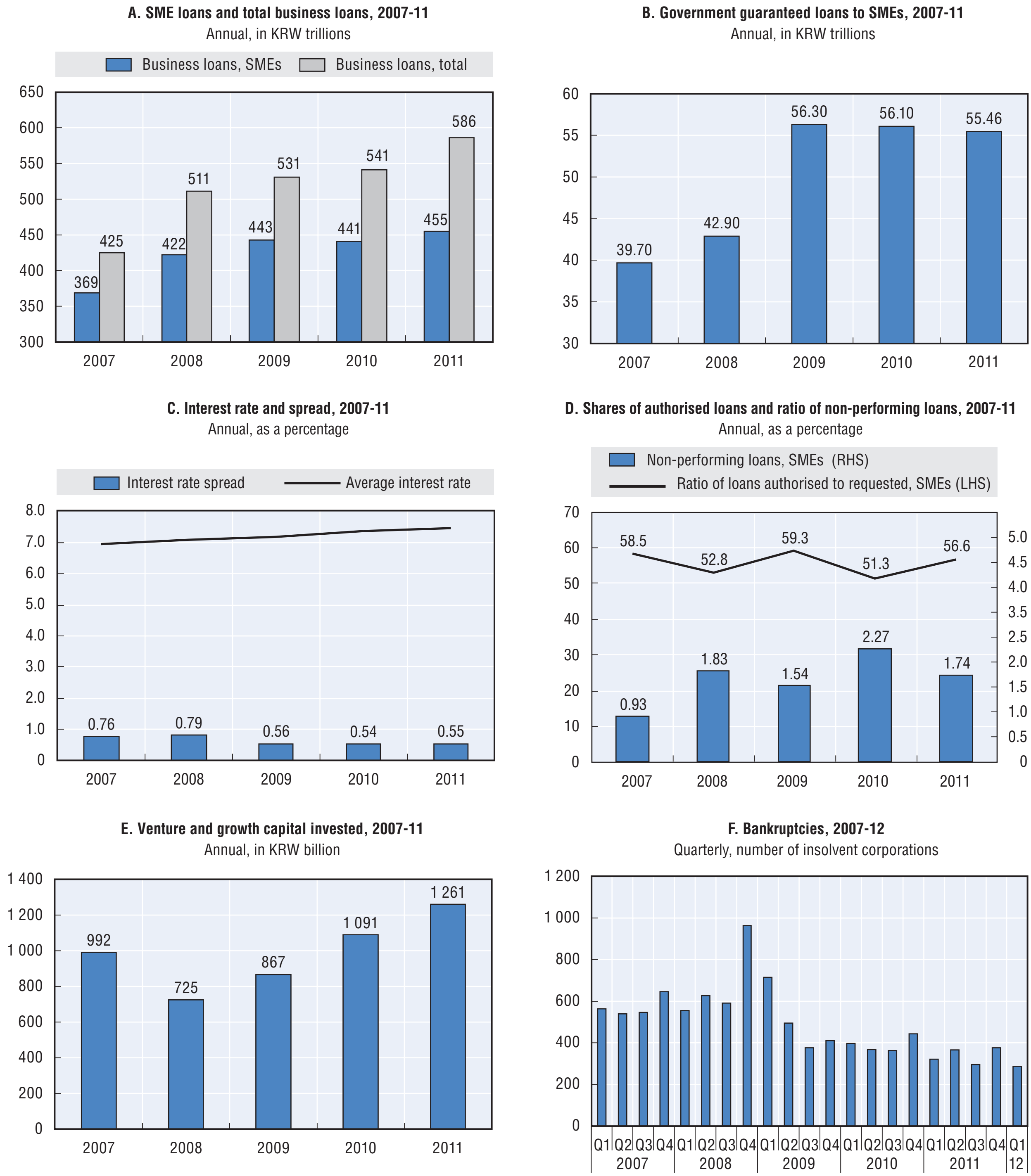
Table 4.49. **SME and entrepreneur scoreboard for Korea, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	KRW trillions	369	422	443	441	455
Business loans, total	KRW trillions	425	511	531	541	586
Business loans, SMEs	% of total business loans	86.8	82.6	83.5	81.5	77.7
Short-term loans, SMEs	KRW trillions	319	375	373	..	..
Long-term loans, SMEs	KRW trillions	106	136	158	..	..
Total short and long-term loans, SMEs	KRW trillions	425	511	531	..	..
Short-term loans, SMEs	% of total SME loans	86.4	88.8	84.2	..	..
Government guaranteed loans, SMEs	KRW trillions	39.70	42.90	56.30	56.10	55.46
Government guaranteed loans, SMEs	% of SME business loans	10.8	10.2	12.7	12.7	12.2
Direct government loans, SMEs	KRW trillions	2.5	2.6	4.8	3.1	3.0
Loans authorised, SMEs	KRW trillions	2.72	3.20	5.82	3.42	3.35
Loans requested, SMEs	KRW trillions	4.65	6.06	9.82	6.66	5.93
Ratio of loans authorised to requested, SMEs	%	58.5	52.8	59.3	51.3	56.6
Non-performing loans, SMEs	KRW trillions	3.45	7.71	6.85	10.0	7.9
Non-performing loans, SMEs	% of SME business loans	0.9	1.8	1.5	2.3	1.7
Average interest rate	%	6.95	7.08	7.20	7.37	7.49
Interest rate spread	%	0.76	0.79	0.56	0.54	0.55
Equity						
Venture and growth capital	KRW trillions	992	725	867	1091	1261
Venture and growth capital	Year-on-year growth rate, %	..	−26.9	19.7	25.8	15.6
Other						
Payment delays, SMEs	Number of days past due date	11.0	12.1	9.9	12.1	11.7
Bankruptcies, total	Number	2 294	2 735	1 998	1 570	1 359
Bankruptcies, total	Year-on-year growth rate, %	..	19.2	−26.9	−21.4	−13.4

Source: Refer to Table 4.50.

StatLink http://dx.doi.org/10.1787/888932795694

Figure 4.29. **Trends in SME and entrepreneurship finance in Korea**



Sources: Chart A: Financial Supervisory Service (FSS). Chart B: Financial Supervisory Service (FSS) & Small and Medium Business Administration (SMBA). Chart C: Bank of Korea (BOK). Chart D: Small and Medium Business Administration (SMBA). Chart E: Small Business Corporation (SBC). Chart F: Small Business Corporation (SBC).

StatLink http://dx.doi.org/10.1787/888932794193

Table 4.50. **SME and entrepreneur definitions and sources of indicators for Korea's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Bank (Commercial Bank + Specialised bank) loans to non-financial SMEs, amount outstanding, stocks.	Financial Supervisory Service (FSS)
Business loans, total	Business bank (Commercial Bank + Specialised bank) loans to all non-financial enterprises, amount outstanding, stocks.	Financial Supervisory Service (FSS)
Short-term loans, SMEs	Outstanding amounts, loans of less than one year.	Financial Supervisory Service (FSS)
Long-term loans, SMEs	Outstanding amounts, loans of greater than one year.	Financial Supervisory Service (FSS)
Government guaranteed loans, SMEs	Value of loans guaranteed by KODIT, KIBO; stocks.	Financial Supervisory Service (FSS) and Small and Medium Business Administration (SMBA)
Direct government loans, SMEs	Direct government loans supplied and executed by the SBC only.	Small Business Corporation (SBC)
Loans authorised, SMEs	Direct government loans from the SBC data base (not from commercial banks). Includes executed and non-executed loans which have been authorised.	Small Business Corporation (SBC)
Loans requested, SMEs	Direct government loans from the SBC database (not from commercial banks).	Small Business Corporation (SBC)
Non-performing loans, SMEs	Domestic Banks' SME non-performing loans out of total credit including Won-denominated loans, foreign currency-denominated loans, credit card receivables and others (outstanding amount).	Financial Supervisory Service (FSS)
Average interest rate	Average interest rates charged on new loans during the period.	Bank of Korea (BOK)
Interest rate spread (between average rate for SMEs and large firms)	SME loan rate - Large corporation loan rate.	Bank of Korea (BOK)
Equity		
Venture and growth capital	Annual amounts invested including early, expansion and later stages.	Small and Medium Business Administration (SMBA)
Other		
Payment delays, SMEs	Average days of delay past loan contract date.	Small and Medium Business Administration (SMBA)
Bankruptcies, total	Bankrupt firms in Small Business Corporation's portfolio.	Small Business Corporation (SBC)

The Netherlands

SMEs in the national economy

SMEs comprised 99.6% of enterprises and employed 68% of the labour force in 2010.

Table 4.51. **Distribution of firms in the Netherlands, 2010**
By firm size

Firm size (full time employees)	Number	%
All firms	**863 840**	**100.0**
SMEs (0-250)	**860 735**	**99.6**
Micro (0-10)	*791 630*	*91.6*
Small (10-49)	*57 340*	*6.6*
Medium (50-250)	*11 765*	*1.4*
Large (250+)	**3 100**	**0.4**

Note: Number of employees refers to full-time employees. All industries are included, as are non-employer enterprises.
Source: Centraal Bureau voor de Statistiek (Statistics Netherlands).
StatLink http://dx.doi.org/10.1787/888932795713

SME lending

The Dutch Central Bank uses loan size to define an SME loan. Furthermore, each bank uses its own reporting system, constituting a challenge to the aggregation of loan data. The economy was recovering in 2011 until the last months when the euro crisis resulted in a slowdown. Overall the lending picture was good but SMEs did not do as well as large companies. New SME loans were considered reasonably maintained and even showed an increase but did not reach their 2007 level. Some SMEs such as start-ups, high growth and innovative SMEs had particular difficulties in accessing finance. Total business loans increased over the entire period. The SME share in total business loans cannot be calculated because the figures for SME loans are flows and those for business loans are stocks. The share of SME short-term loans in total SME loans rose from 48% in 2010 to 52% in 2011. This can be explained by the fact that banks provided fewer long-term loans.

SME loans authorised vs. requested

The percentage of SMEs seeking loans fluctuated over the last couple of years (19% in 2008, 29% in 2009, 22% in 2010 and 18% in 2011). Of those SME seeking finance in 2011 only 55% obtained all they requested compared to 60% in 2010. The per cent of small businesses (less than 50 employees) that did get all the requested funding in 2011 was 54% compared to 84% for larger companies (more than 250 employees). Thus, more SMEs had difficulty in attracting the required funding. Rejections increased from 19% (2010) to 33% (2011). This situation was largely due to a number of factors such as early compliance with Basel III, decreased solvency and the general economic situation.

Credit conditions

Credit conditions were more difficult for SMEs in 2011 in that the interest rate for small firms (2-49 employees) was 6.4% compared to 3.5% for larger firms. However, collateral requirements declined slightly with 44% of SMEs required to provide it (compared to 45% in 2010 and 47% in 2009). This could have been the influence of the strengthening in the government guarantee programmes.

Equity financing

There was a turnaround in equity investments in that firms, both small and large, were seeking alternative sources of finance. Venture capital investment increased by 56% between 2010 and 2011 but did not quite reach its 2008 high.

Other indicators

Payment delays increased from 13.2 days (2007) to 18 days (2011). Bankruptcies in 2011 declined slightly from their 2010 level and were considerably lower than their 2009 high.

Government policy response

As a result of the Business Financing Expert Group commissioned by the Ministry of Economic Affairs, Agriculture and Innovation, the government continued the programmes which were created or strengthened during the financial crisis. Government loan guarantees increased from EUR 634 million (2007) to over EUR 1 161 million (2011).

The Guarantee Scheme for SMEs (BMKB) assists SMEs that have a shortage of collateral to obtain credit from banks. The state guarantees the loan segment for which collateral is lacking and in that way lowers the risk for banks. The banks were more willing to provide a loan if that loan was partially guaranteed. In November 2008, to facilitate access to finance, the government expanded the guarantee scheme to include up to 250 employees instead of just 100 employees. The guaranteed loan amount was increased from EUR 1 million to EUR 1.5 million per enterprise. The maximum guarantee was expanded from 50% to 80% for start-ups. It was later extended to existing enterprises. Participants in the guarantee scheme were offered the opportunity to postpone the repayment of their loans up to two additional years. In 2012 the maximum guarantee for small non-start-ups was reduced from 80% to 50% and the maximum for start-ups reduced from 80% to 67.5%. The Scheme increased from EUR 750 million in 2011 to over EUR 1 billion in 2012 in association with the European Investment Fund.

The Growth Facility (GFAC) offers banks and private equity enterprises a 50% guarantee on newly issued equity or mezzanine loans up to EUR 5 million. The GFAC has been extended during the crisis and now up to EUR 25 million in equity per enterprise can be guaranteed.

The Guarantee for Entrepreneurial Finance (GO) was launched in March 2009. It provides banks with a 50% guarantee on new bank loans ranging from EUR 1.5 million to EUR 50 million (the maximum was temporarily set at EUR 150 million but has been reduced to EUR 50 million). GO substantially lowers the bank risk when issuing credit to entrepreneurs applying for new bank loans.

In 2009, a successful microcredit institution, Qredits, was launched, supported by the government and the banks. For a pilot period of one year, the maximum loan amount increased from EUR 35 000 to EUR 50 000. A programme to support coaching and advice for micro-entrepreneurs was also recently funded by the government. In addition a credit desk has been established for entrepreneurs as a central information point for financial questions.

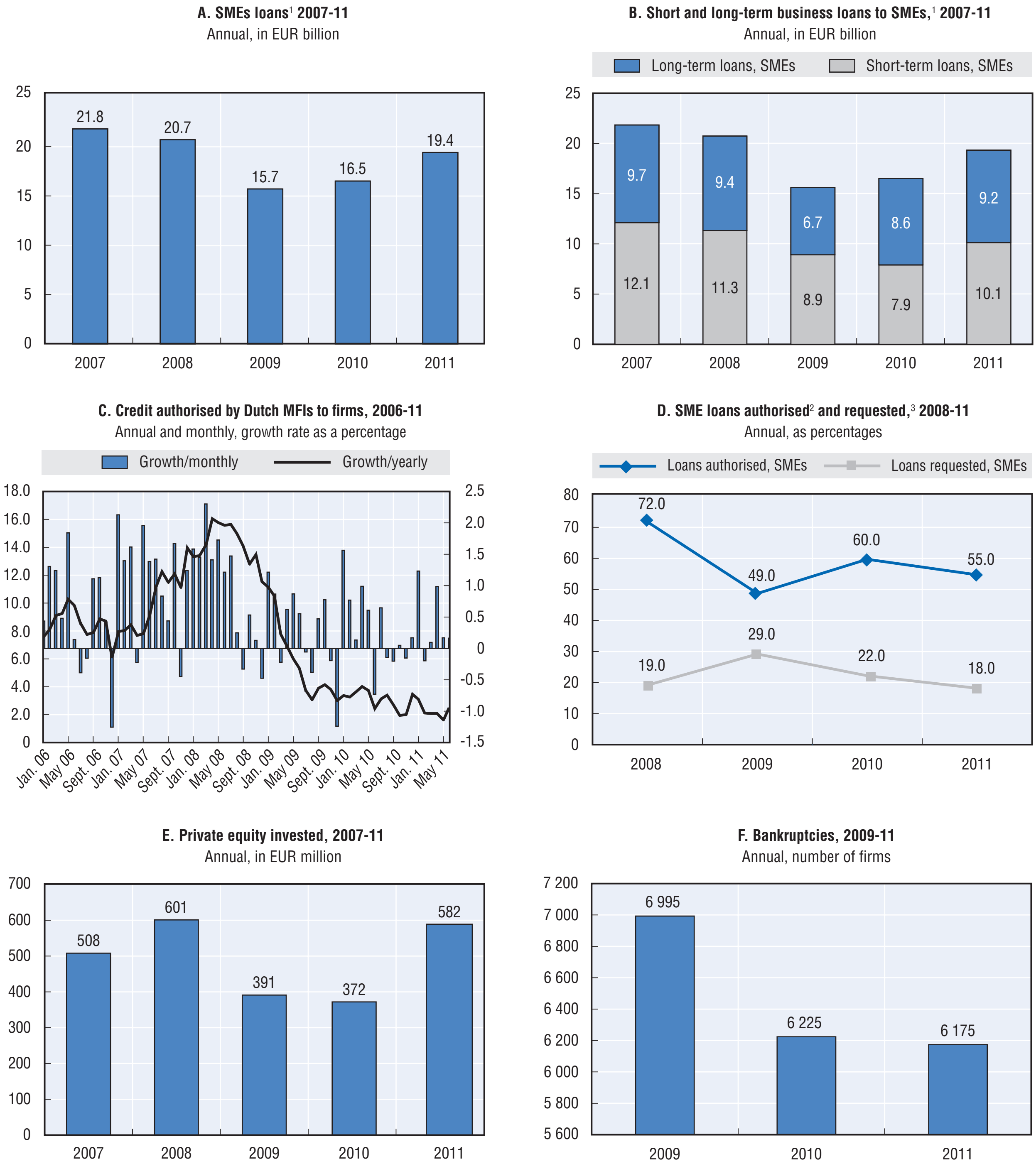
Table 4.52. **SME and entrepreneur scoreboard for the Netherlands, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs (new loans)	EUR billion	21.8	20.7	15.7	16.5	19.4
Business loans, total (outstanding amounts)	EUR billion	258.5	304.8	313.5	325.7	341.1
Short-term loans, SMEs	EUR billion	12.1	11.3	8.9	7.9	10.1
Long-term loans, SMEs	EUR billion	9.7	9.4	6.7	8.6	9.2
Short-term loans, SMEs	% of total SME business loans	55.5	54.6	56.6	47.8	52.0
Government guaranteed loans, total	EUR million	634	647	1 060	1 318	1 161
Government guaranteed loans, SMEs	EUR million	409	400	370	945	1 040
Loans authorised, SMEs	% of SMEs which requested a bank loan and received it in full	..	72	49	60	55
Loans requested, SMEs	% of SMEs requesting a bank loan	..	19	29	22	18
Interest rate, SMEs	%	5.40	5.70	4.50	6.00	6.40
Interest rate, large firms		..	..	..	..	3.50
Collateral, SMEs	% of SMEs required to provide collateral for last bank loan	..	..	47.0	45.0	44
Equity						
Venture capital	EUR million	508	601	391	372	582
Venture capital	Year-on-year growth rate, %	..	18.3	−34.9	−4.9	56.5
Other						
Payment delays	Average number of days	13.2	13.9	16.0	17.0	18.0
Bankruptcies, SMEs	Number	..	..	6 995	6 225	6 175
Bankruptcies, SMEs	Year-on-year growth rate, %	..	..	..	−11.0	−0.8
Bankruptcies, total	Per 10 000 firms	58	56	87	83.5	..

Source: Refer to Table 4.53.

StatLink http://dx.doi.org/10.1787/888932795732

Figure 4.30. **Trends in SME and entrepreneurship finance in the Netherlands**



1. For loans up to EUR 1 million.
2. SME loans authorised is defined as the % of SMEs which requested a bank loan and received it in full.
3. SME loans requested is defined as the % of SMEs requesting a bank loan.

Source: Chart A, B and C: De Nederlansche Bank. Chart D: EIM. Chart E: European Venture Capital Association/NVP. Chart F: Centraal Bureau voor de Statistiek (Statistics Netherlands).

StatLink http://dx.doi.org/10.1787/888932794212

Table 4.53. SME and entrepreneur definitions and sources of indicators for the Netherlands' scoreboard

Indicators	Definitions	Sources
Debt		
Business loans, SMEs (new loans)	Loans to "SMEs" are defined as the total amount of new loans of up to EUR 1 million.	De Nederlansche Bank
Business loans, total (outstanding amounts)	Total business loan amount outstanding for all firms.	De Nederlansche Bank
Short-term loans, SMEs	New loans to SMEs (loans up to EUR 1 million) with duration of up to one year.	De Nederlansche Bank
Long-term loans, SMEs	New loans to SMEs (loans up to EUR 1 million) with duration of more than one year.	De Nederlansche Bank
Government guaranteed loans, total	Government guaranteed loans to all firms by BMKB and GFAC and GO.	De Nederlansche Bank
Government guaranteed loans, SMEs	Government guaranteed loans to SMEs (defined as loans guaranteed under BMKB, GFAC and part of GO: companies under 250 employees).	De Nederlansche Bank
Loans authorised, SMEs	Loans authorised to SMEs (defined as firms with less than 250 employees).	EIM
Loans requested, SMEs	Loans requested by SMEs (defined as firms with less than 250 employees in 2008 and 2009 and defined as firms with less than 50 employees in 2010 and 2011).	EIM
Interest rate	Interest rate for loans to non-financial corporations for a duration of up to one year. SMEs defined as firms with less than 50 employees.	De Nederlansche Bank
Collateral, SMEs	The proportion of SMEs which were required to provide collateral on last bank loan. SMEs defined as enterprises with less than 50 employees.	EIM
Equity		
Venture Capital	Investments made by Dutch private equity investors in the private sector. All enterprises.	European Venture Capital Association/NVP
Other		
Payment delays	Average number of days for business-to-business in 2008 and 2009. For 2007, average number of days for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia European Payment Index 2008 and 2009
Bankruptcies, SMEs	Number of organisations (pronounced bankrupt) with more than 2 and less than 250 employees	Centraal Bureau voor de Statistiek (Statistics Netherlands)
Bankruptcies	Number of organisations (pronounced bankrupt) per 10 000 organisations.	Centraal Bureau voor de Statistiek (Statistics Netherlands)

New Zealand

SME in the national economy

As of February 2012, 99.5 % of New Zealand enterprises were classified as SMEs, counting enterprises with 0-99 employees. This proportion has stayed relatively stable since 2001.

Table 4.54. **Distribution of firms in New Zealand, 2012**

By firm size

Firm size (employees)	Number	%
All firms	**469 118**	**100.0**
SMEs (0-99)	**466 973**	**99.5**
Micro (0-9)	439 920	93.8
Small (10-49)	24 506	5.2
Medium (50-99)	2 547	0.5
Large (100+)	**2 145**	**0.5**

Note: Non-employer enterprises are included.

Source: Statistics New Zealand, Business Demography Statistics.

StatLink http://dx.doi.org/10.1787/888932795751

SME lending

Prior to the credit crunch, New Zealand's SMEs had access to a range of both debt and equity finance options, including bank overdrafts, finance companies, angel investors and venture capital. Bank lending to businesses declined by 1.5% in both 2009 and 2010. Bank lending has increased by 3% in the year to February 2012, but lending growth is far below the 14% increase in 2008, prior to the onset of the financial crisis. In response to the financial crisis, banks have tightened their lending standards while firms scaled back investment plans. The Reserve Bank of New Zealand's Financial Stability Report (May 2012) commented that firms had little appetite for borrowing and had generally reduced their expenditure plans. This might indicate some structural change with firms wanting to maintain lower levels of debt over the long term.

SME loans authorised vs. requested

Among SMEs with six or more employees, 28% requested debt finance in the years 2007-2009. Of those requesting finance in 2007, 94% obtained it. In subsequent years there was a continuous decline in the proportion of those SMEs requesting and obtaining debt finance, indicating the increasing reluctance of banks to lend. The percentage of those requesting financing and obtaining it declined steadily to a low of 78% in 2010, but has begun to rise again, reaching 87% in 2011. Since the percentage of those requesting finance was at its lowest, it could be assumed that these were the more creditworthy SMEs, hence the increase in SMEs obtaining the finance they requested. The decline from recent years is likely to reflect a change in lenders' appetite for risk and the terms they offered.

Table 4.55. **SME requesting and obtaining finance in New Zealand, 2007-11**

As a percentage of SMEs with more than 6 employees

SMEs	2007	2008	2009	2010	2011
Requesting debt finance	28	28	28	26	22
Of which obtaining debt finance	94	87	82	78	87

Source: Statistics New Zealand, Business Operations Survey.

StatLink http://dx.doi.org/10.1787/888932795770

Credit conditions

Banks have become increasingly risk averse since the beginning of the economic downturn. In November 2008 banks were perceived to be rationing credit and putting pressure on SMEs by increasing interest rates to reflect higher risk levels. In 2011 The Small Business Advisory Group (SBAG)* reported that SMEs were finding that investment capital was more difficult to secure, that credit was not being renewed and that cash flow was SMEs' biggest concern. These concerns continue to hold true in 2012, though the SBAG stated that pressure is easing somewhat in some sectors. Consistent with this, the Reserve Bank Financial Stability Report notes that while there has been some easing since 2010, it appears that certain borrowers face substantially greater constraints in obtaining capital than they would have five years ago, and that the tightening of credit since the crisis has been particularly notable for smaller firms. By December 2011, the banks' average interest rate for SMEs had declined from 12.15% in December 2008 to 10.04%.

The proportion of non-performing SME loans has increased from 2% in 2009 to 2.8% in 2011. With some stabilisation in the economy, there are signs that more firms were willing to invest and can meet bank lending criteria, which banks say are easing.

Equity financing

The global financial crisis has had an adverse effect on New Zealand's venture capital market, although there are signs that access to capital for early stage, high growth firms has started to improve. The NZ Venture Capital Monitor reports that venture capital and early stage investment activity grew from NZD 34 million in 2009 to NZD 94 million in 2010, but dropped again in 2011 to NZD 36.6 million. The peak in 2010 was in part accounted for by two international deals totalling NZD 45 million.

* The Small Business Advisory Group was established in 2003 to advise government on issues affecting SMEs and to help government agencies communicate more effectively with SMEs. The SBAG annual report is available at *www.med.govt.nz/sbag2012*

In August 2010 the government approved a NZD 40 million capital underwrite for its Venture Capital Fund. The Fund was established in 2001 to co-invest NZD 160 million with private sector venture capital funds in innovative young New Zealand firms and catalyse the evolution of a viable venture capital market in New Zealand. The underwriting has enabled the operator of the Fund to continue to engage with prospective co-investment partners. A NZD 40 million Seed Co-Investment Fund for early stage ventures was launched in 2006.

Other indicators

Payment delays have decreased significantly in 2011. According to Dun and Bradstreet, payment times began lengthening in late 2007, peaking at 51 days in the fourth quarter of 2008 at the height of the crisis, before largely trending downwards over the next few years. In particular, the last 12 months have seen businesses pay their bills significantly faster. The average payment time is now 42.2 days and small businesses (defined in the data as having fewer than 20 employees) are the fastest payers at 41.1 days, down 3.7 days year-on-year.

Bankruptcies continued to decline from their 2009 peak and were lower in 2011 than in 2007.

Government policy response

The government has no general loan guarantee facility or direct loan programme for SMEs, although there is a working capital guarantee for exporting SMEs. On 4 February 2009, the Prime Minister announced a small business relief package that included five major provisions:

- a series of tax reduction and tax payment deferments;
- an expansion of the working capital guarantee scheme to exporters with a turnover of up to NZD 50 million;
- an extended jurisdiction for the disputes tribunal allowing businesses to settle more claims without recourse to the courts;
- expansion of business advice services such as a hotline, health check, seminars and mentors;
- prompt payment requirements for government agencies.

In 2012 these measures were still in force. The Short Term Trade Credit Guarantee was extended in May 2009, bringing the total available to NZD 150 million.

The Financial Markets Conduct Bill, currently before Parliament, will help improve access to capital by raising investor confidence. It will also reduce compliance costs for some SMEs through clearer disclosure regulations, including exemptions from full disclosure requirements for some firms.

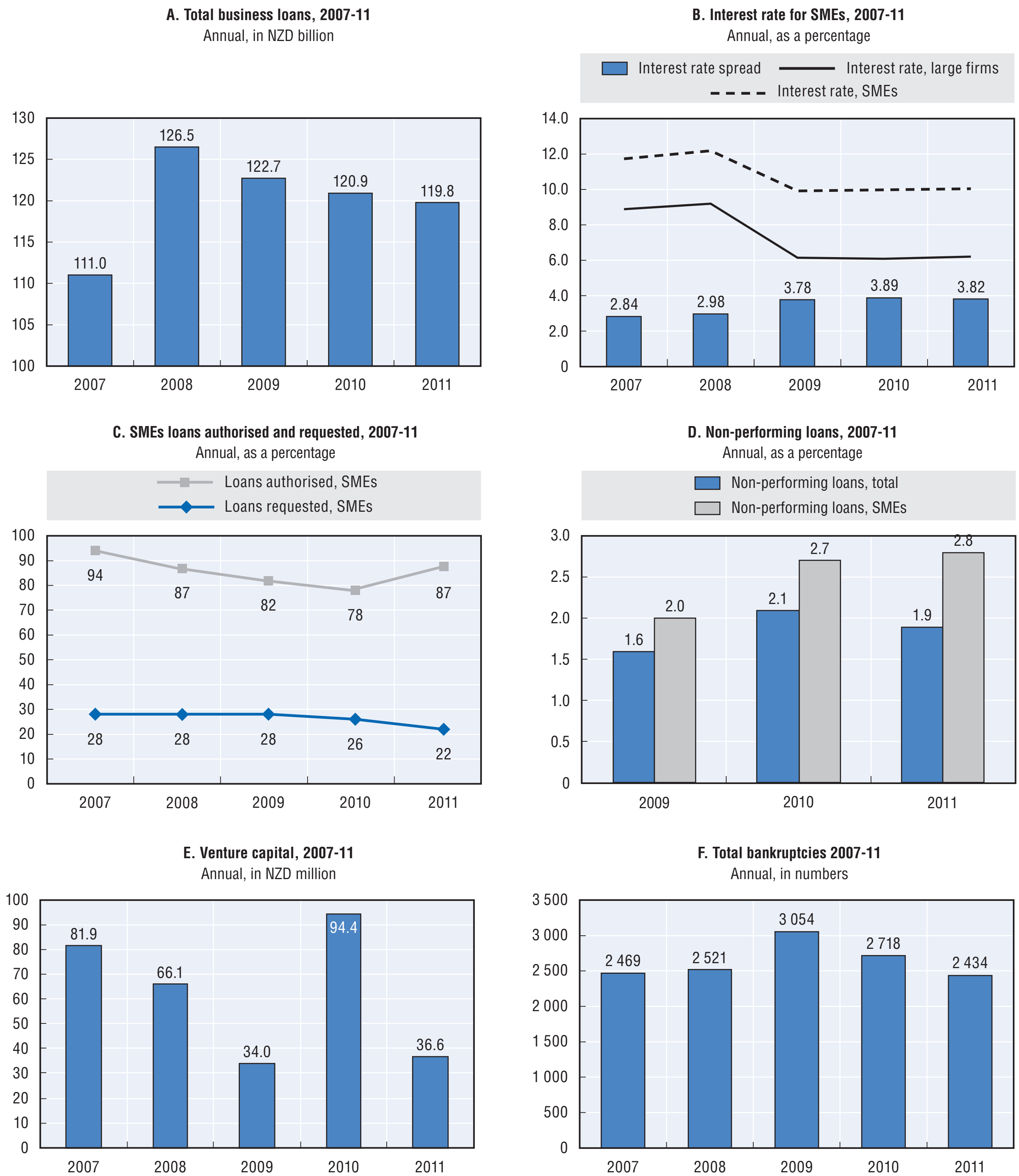
Table 4.56. **SME and entrepreneur scoreboard for New Zealand, 2007-11**

Indicator	Units	2007	2008	2009	2010	2011
Debt						
Business loans, total	NZD billion	111.0	126.5	122.7	120.9	119.8
Loans authorised, SMEs	%	94	87	82	78	87
Loans requested, SMEs	%	28	28	28	26	22
Non-performing loans, total	%	..	..	1.6	2.1	1.9
Non-performing loans, SMEs	%	..	..	2.0	2.7	2.8
Interest rate, SMEs (loans < NZD 1 million)	%	11.73	12.19	9.92	9.98	10.04
Interest rate, large firms (loans > NZD 1 million)	%	8.89	9.21	6.14	6.09	6.22
Interest rate spread (between loans < 1 million and > 1 million)	%	2.84	2.98	3.78	3.89	3.82
Equity						
Venture capital	NZD million	81.9	66.1	34.0	94.4	36.6
Venture capital	Year-on-year growth rate, %	..	−19.3	−48.6	177.6	−61.2
Other						
Payment delays	% of respondents waiting more than 60 days	..	5.3	22.8	..	..
Bankruptcies, total	Number	2 469	2 521	3 054	2 718	2 434
Bankruptcies, total	Year-on-year growth rate, %	..	2.1	21.1	−11.0	−10.4

Source: Refer to Table 4.57.

StatLink http://dx.doi.org/10.1787/888932795789

Figure 4.31. **Trends in SME and entrepreneurship finance in New Zealand**



Source: Charts A and B: Reserve Bank of New Zealand. Charts C, and D: Statistics New Zealand. Chart E: Private Equity and Venture Capital Association and Ernst & Young. Chart F: Ministry of Economic Development, Insolvency and Trustee Service.

StatLink http://dx.doi.org/10.1787/888932794231

Table 4.57. **SME and entrepreneur definitions and sources of indicators for New Zealand's scoreboard**

Indicators	Definitions	Source
Debt		
Business loans, total	Corporate firms (including financial firms, government administration and defence).	Reserve Bank of New Zealand
Loans authorised, SMEs	Percentage of SMEs (firms with 6-19 employees) requesting debt finance that received it on reasonable terms.	Statistics New Zealand, Business Operations Survey
Loans requested, SMEs	Percentage of SMEs (firms with 6-19 employees) requesting debt finance.	Statistics New Zealand, Business Operations Survey
Non-performing loans, total	Includes impaired and 90-day past due assets. Data are not standardised and definitions may vary across banks.	Statistics New Zealand
Non-performing loans, SMEs	Includes impaired and 90-day past due assets. Data are not standardised and definitions may vary across banks.	Statistics New Zealand
Interest rate, SMEs	Loans less than NZD 1 million, base interest rate for new overdraft loans for SMEs, non-farm enterprises.	Reserve Bank of New Zealand, Survey of Registered Banks
Equity		
Venture capital	Amount invested in early stage only (excludes buy outs). All enterprises.	NZ Private Equity and Venture Capital Association and Ernst & Young
Other		
Payment delays	Percentage of respondents waiting for more than 60 days for payment.	Dun and Bradstreet, Survey of 659 firms, February 2009
Bankruptcies, total	Bankruptcy adjudications, 12 month numbers for 30 June of each year	Ministry of Economic Development, Insolvency and Trustee Service

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Norway

SMEs in the national economy

There was a total of 402 220 enterprises in Norway in 2009 and 35.4% of these had between 1 and 249 employees. Of the enterprises with at least one employee, 81.1% were microenterprises.

Table 4.58. **Distribution of firms in Norway, 2009**

By firm size

Firm size (employees)	Number	%
Total firms with employees	**143 083**	**100.0**
SMEs (1-249)	**142 442**	**99.6**
Micro (1-9)	*116 010*	*81.1*
Small (10-49)	*23 107*	*16.1*
Medium (50-249)	*3 325*	*2.3*
Large (250+)	**641**	**0.4**

Note: Data do not include non-employer firms.

Source: Statistics Norway.

StatLink http://dx.doi.org/10.1787/888932795808

Using 250 employees as the cut off for an SME follows the definition used in many EU countries but it would be too high with respect to the structure of Norwegian business. In order to produce indicators relevant to Norway, Statistics Norway classified its data as firms with less than 250 as well as those with less than 50 employees (97.6%) to report on the indicators in the OECD Scoreboard.

SME lending

SME loan data are based on administrative data collected from non-financial limited companies and public limited companies. The data are sourced from the financial statements and compiled annually by Statistics Norway. Total business loans went up from NOK 837 193 million in 2007 to NOK 1 057 299 million in 2010. SME loans declined during 2009 but recovered in 2010. The share of SME loans in total business loans was 42.9% in 2007 and 41% in 2010. SME short-term loans declined from 19.3% (2007) to 16.8% (2010).

Equity financing

Venture capital and growth capital are defined as total invested equity in businesses established within the last two financial years. The data for invested equity in businesses was taken from the companies' questionnaires on accounting. Information about the date of establishment was taken from Statistics Norway's Central Register of Establishments and Enterprises. Invested equity was at an all-time low in 2009 but doubled in 2010.

Table 4.59. **SME equity financing in Norway 2007-10**

in NOK million

	2007	2008	2009	2010
Invested equity for enterprises with less than 250 employees	39 888	29 597	14 577	30 305

Source: Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises.

StatLink http://dx.doi.org/ 10.1787/888932795827

Other indicators

Payment delays declined in 2010 and 2011 and were almost equal to their pre-crisis level. Bankruptcy figures are for enterprises which are in actual bankruptcy proceedings. The statistics on bankruptcy proceedings are based on information reported to the Register of Bankruptcies by probate registries and administrators in bankruptcies. The statistics comprise bankruptcy proceedings for all enterprises, except sole proprietorships. Bankruptcies peaked in 2009 and were still above the 2007 level in 2010 and 2011.

Table 4.60. **Number of bankruptcy proceedings by firm size, 2007-11**

Firm size (employees)	2007	2008	2009	2010	2011
1-9	808	1 195	1 738	1 497	1 373
10-49	138	210	299	285	330
50-249	6	22	22	22	22
250+	0	0	1	2	0
Total	**952**	**1 427**	**2 060**	**1 806**	**1 725**
Total (including non-employer firms)	**1 844**	**2 600**	**3 813**	**3 161**	**3 174**

Note: The statistics on enterprises do not include public administration, agriculture, forestry, and fishing.

Source: Register of Bankruptcies.

StatLink http://dx.doi.org/10.1787/888932795846

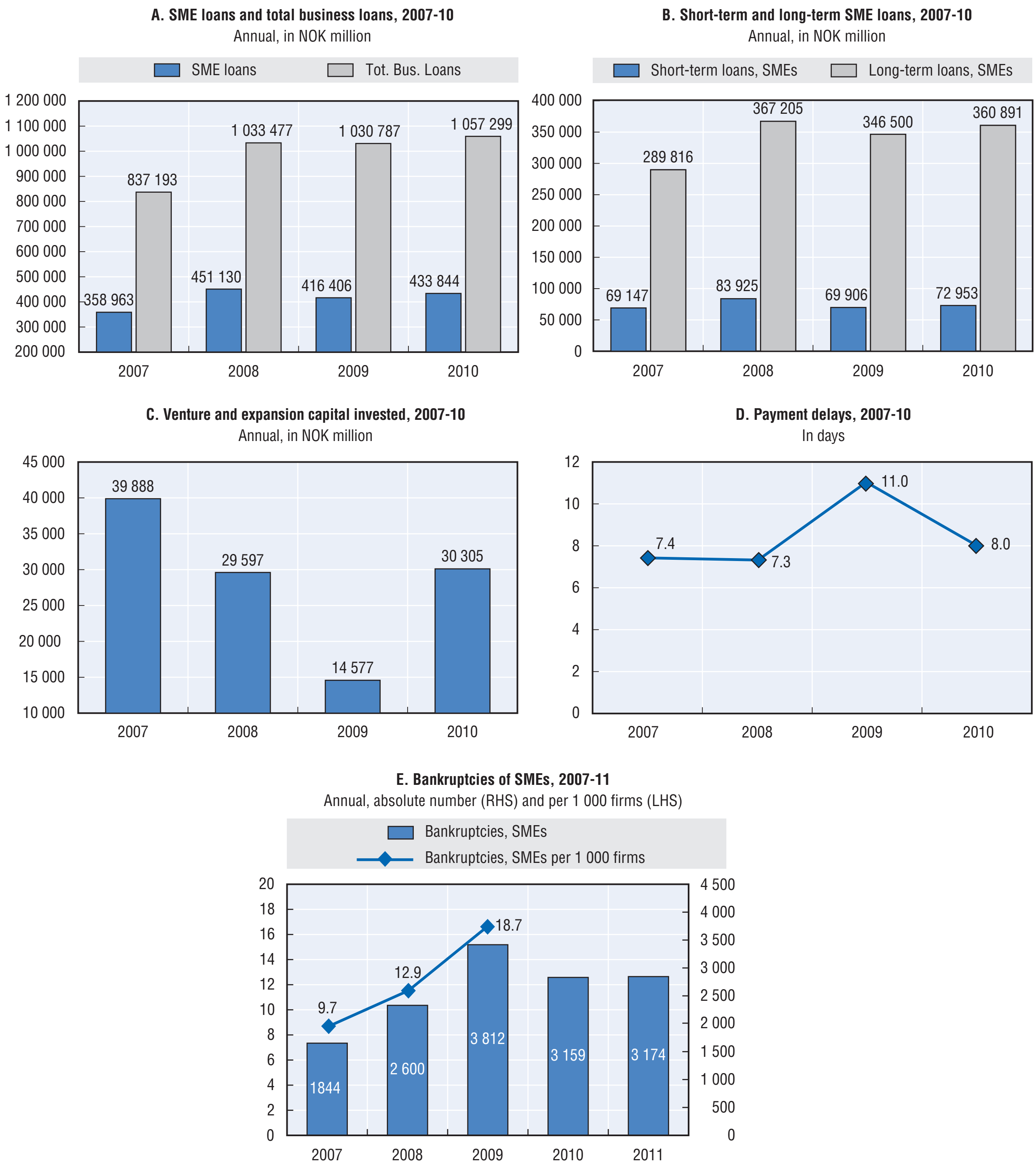
Table 4.61. **SME and entrepreneur scoreboard for Norway, 2007-11**

Indicator	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	NOK million	358 963	451 130	416 406	433 844	..
Business loans, total	NOK million	837 193	1 033 477	1 030 787	1 057 299	..
Share of SME business loans in total business loans	%	42.9	43.7	40.4	41.0	..
Short-term loans, SMEs	NOK million	69 147	83 925	69 906	72 953	..
Long-term loans, SMEs	NOK million	289 816	367 205	346 500	360 891	..
Short-term loans, SMEs	% of total SME loans	19.3	18.6	16.7	16.8	..
Equity						
Venture capital	NOK million	39 888	29 597	14 577	30 305	..
Venture capital	Year-on-year growth rate, %		−25.8	−50.7	107.9	..
Other						
Payment delays	Days	7.4	7.3	11.0	8.0	..
Bankruptcies, total	Number	1 844	2 600	3 813	3 161	3 174
Bankruptcies, SMEs	Number	1 844	2 600	3 812	3 159	3 174
Bankruptcies, SMEs	Year-on-year growth rate, %	..	41.0	46.6	−17.1	0.4
Bankruptcies, SMEs	per 1 000 firms	9.7	12.9	18.7	..	..

Source: Refer to Table 4.62.

StatLink http://dx.doi.org/ 10.1787/888932795865

Figure 4.32. **Trends in SME and entrepreneurship finance in Norway**



Sources: Charts A, B, C: Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises. Chart D: Intrum Justitia European Payment Index 2008, 2009, 2010 and 2011. Chart E: Register of Bankruptcies and the Central Register of Establishments and Enterprises.

StatLink http://dx.doi.org/10.1787/888932794250

Table 4.62. **SME and entrepreneur definitions and sources of indicators for Norway's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Debts owed to financial lending institutions, enterprises with less than 250 employees (stocks).	Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises
Total business loans	Debts owed to financial lending institutions (stocks).	Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises
Short-term loans, SMEs	Short-term debts owed to financial lending institutions, enterprises with less than 250 employees (stocks).	Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises
Long-term loans, SMEs	Long-term debts owed to financial lending institutions, enterprises with less than 250 employees (stocks).	Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises
Equity		
Venture capital	Venture and growth capital is defined as total invested equity in businesses established within the last two financial years.	Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises.
Other		
Payment delays	Average number of days for business-to-business in 2008 and 2009. For 2007, average number of days for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia European Payment Index 2008, 2009, 2010 and 2011
Bankruptcies, total	Bankruptcy proceedings for enterprises, includes non-employer firms but excludes sole proprietorships.	Register of Bankruptcies and the Central Register of Establishments and Enterprises
Bankruptcies, SMEs	Bankruptcy proceedings for SMEs (enterprises with less than 250 employees), includes non-employer firms but excludes sole proprietorships.	Register of Bankruptcies and the Central Register of Establishments and Enterprises
Bankruptcies, SMEs per 1 000 firms	Sole proprietorships are excluded from the number of enterprises used to calculate the number of bankruptcies per 1 000 enterprises. The most current number of enterprises broken down by number of persons employed is from 2009. The statistics on enterprises do not include public administration and agriculture, forestry and fishing.	Register of Bankruptcies and the Central Register of Establishments and Enterprises

Portugal

SMEs in the national economy

In 2008, SMEs comprised 99.7% of enterprises in Portugal and employed 72.5% of the business sector labour force. The vast majority of enterprises were SMEs, 86% were micro-enterprises, 12% were small and 2% were medium-sized.

Table 4.63. **Distribution of firms in Portugal, 2008**
By firm size

Firm size (employees)	Number	%
All enterprises	**350 871**	**100.0**
SMEs (2-249)	**349 756**	**99.7**
Micro (2-9)	*300 228*	*85.6*
Small (10-49)	*42 960*	*12.2*
Medium (50-249)	*6 568*	*1.9*
Large (250+)	**1 115**	**0.3**

Note: Companies with up to one employee were excluded (there were 431 092 companies with up to one employee). Includes the non-financial business economy (NACE Ver 2, B to J, L to N and 95).

Source: Statistics Portugal, IP.

StatLink http://dx.doi.org/10.1787/888932795884

SME lending

In 2011, the global stock of business loans decreased by around EUR 4.1 billion. EUR 3.7 billion or 90% was related to the decline in SME loans. The share of government guaranteed loans in total SME loans grew significantly from 1% in 2007 to 7% in 2011, demonstrating the sustained public efforts to maintain SMEs' access to finance. The share of SME loans in total business loans also declined from 78.3% (2007) to 76.8% (2011). The proportion of SME short-term loans in total SME loans ranged between 30%-33%, indicating that SME loans were mainly used to finance fixed asset investment.

Credit conditions

During 2009-2011, banks tightened lending conditions to SMEs. The average interest rate increased 169 basis points, from 5.7% to 7.4%, and the interest rate spread between SMEs and large firms also increased from 1.8% in 2007 to 2.0% in 2011, indicating less favourable conditions for SMEs. 81% of collateralised loans were SME loans in 2011.

Equity financing

The global amount of venture capital invested in SMEs fell significantly in 2011 to EUR 12.9 million, 87% less than in 2008, due to investors' extreme risk aversion as a consequence of the financial crisis.

Table 4.64. **Equity capital invested by stage in Portugal, 2007-2011**

EUR million

Stage	2007	2008	2009	2010	2011
Early stage	38.7	56.7	30.4	51.9	10.0
Seed	0.2	0.0	0.1	0.0	0.5
Start up	38.5	56.7	30.3	51.9	9.5
Later stage	71.6	40.1	12.7	12.2	2.9
Total	**110.4**	**96.8**	**43.1**	**64.1**	**12.9**

Source: Portuguese Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888932795903

Other indicators

The drop in sales and the difficulties in accessing finance had a negative impact on SME cash flow, causing an increase in payment delays, which rose from 33 days in 2008 to 41 days in 2011. The number of enterprise bankruptcies also increased from 3 815 (2009) to 4 746 (2011).

Government policy response

The global financial crisis has undoubtedly affected SME demand for credit. In addition financiers have adopted a more conservative position in credit decisions, particularly concerning financing conditions. Risk premiums have increased and credit maturities have been reduced.

In the framework of the Anti-Crisis Measures adopted by Portugal, SMEs' access to finance has been a major priority for the government. In this context, eight "SME Invest" credit lines to facilitate SMEs' access to credit were launched. These credit lines, with a total stock of bank credit of EUR 12.2 billion, have long-term maturities (up to 7 years) and preferential conditions, namely, partially subsidised interest rates and risk-sharing public guarantees, which cover between 50% and 75% of the loan. These credit lines aim to support fixed investment and also SME working capital.

As of 31 October 2012, about 86 200 projects were eligible for the SME Invest and SME Growth credit lines. EUR 9.2 billion in finance was provided to about 59 000 SMEs (17% of SMEs), supporting more than 812 000 jobs. As part of the global package of the SME Invest credit lines, the government proceeded to recapitalise the Mutual Counter-Guarantee Fund allowing SMEs to benefit from a higher level of public guarantees.

The government has created the "Leaders Programme" to improve relations between banks and SMEs. The Leaders Programme identifies the "best" SMEs and even the 'best of the best'. Such identification builds trust between SMEs and banks in terms of assessing credit worthiness.

Other initiatives were implemented to reinforce SMEs' recovery. The Revitalizar Programme, launched in February 2012, promotes "a new breath of life" into viable business projects which are in danger of insolvency. The Revitalizar Programme has several measures. One improves the legal framework by creating a Special Revitalisation Procedure within the scope of the Insolvency and Corporate Recovery Code, which is similar to Chapter 11 in the United States. Another measure is an out -of- court credit restructuring system between companies and their creditors. The Revitalizar Programme also strengthens other financial solutions through three Revitalizar Funds totalling EUR 220 million for venture capital investment in the expansion phase. The Investe Qren, which is a credit line, has been given a EUR 500 million by the European Investment Bank.

The Revitalizar Programme also supports new management teams which are undertaking turnaround strategies in enterprises as well as those who are engaged in operations for business succession or business concentration which improve efficiency/ productivity/scale which promote internationalisation.

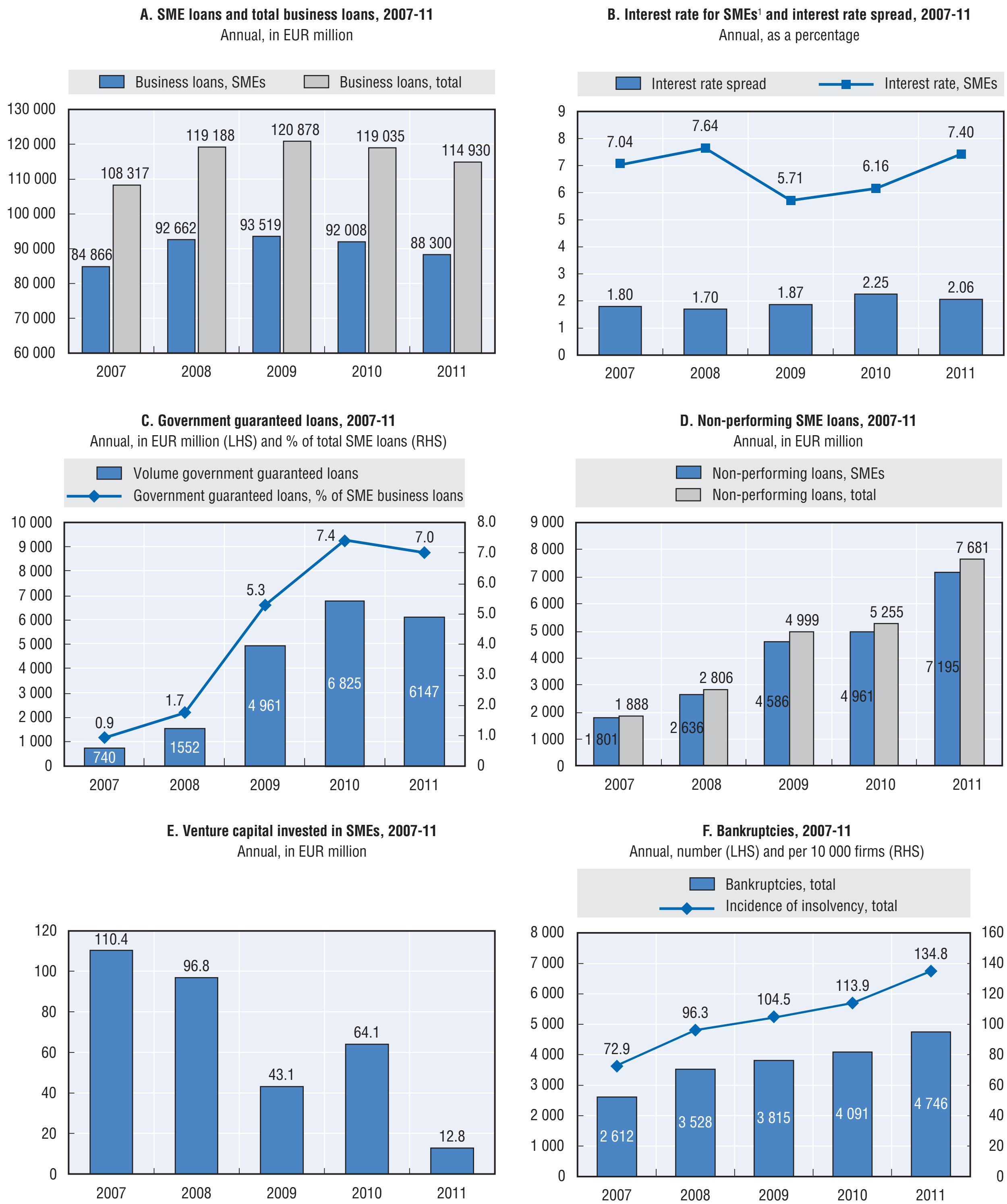
Table 4.65. **SME and entrepreneur scoreboard for Portugal, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	EUR million	84 866	92 662	93 519	92 008	88 300
Business loans, total	EUR million	108 317	119 188	120 878	119 035	114 930
Business loans, SMEs	% of total business loans	78.3	77.7	77.4	77.3	76.8
Short-term loans, SMEs	EUR million	26 758	27 928	29 178	27 165	24 227
Long-term loans, SMEs	EUR million	56 308	62 098	59 754	59 882	56 878
Total short and long-term loans, SMEs	EUR million	83 066	90 026	88 933	87 047	81 105
Short-term loans, SMEs	% of total SME loans	32.2	31.0	32.8	31.2	29.9
Government guaranteed loans, CGF	EUR million	740	1 552	4 961	6 825	6 147
Government guaranteed loans, CGF	% of SME business loans	1	2	5	7	7
Non-performing loans, total	EUR million	1 888	2 806	4 999	5 255	7 681
Non-performing loans, SMEs	EUR million	1 801	2 636	4 586	4 961	7 195
Non-performing loans, large	EUR million	87	170	412	294	486
Interest rate, average SME rate[1]	%	7.04	7.64	5.71	6.16	7.40
Interest rate spread (between average SME rate and large firm rate)	%	1.80	1.70	1.87	2.25	2.06
Collateral, SMEs	% of collateralised loans granted to SMEs in total collateralised loans	..	..	0.82	0.82	0.81
Equity						
Venture capital, SMEs	EUR million	110.4	96.8	43.1	64.1	12.9
Venture capital	Year-on-year growth rate, %	..	–12.3	–55.5	48.7	–80.0
Other						
Payment delays	Days	39.9	33.0	35.0	37.0	41.0
Bankruptcies, total	Number	2 612	3 528	3 815	4 091	4 746
Bankruptcies, total	Year-on-year growth rate, %	..	35.1	8.1	7.2	16.0
Incidence of insolvency, total	per 10 000 enterprises	72.9	96.3	104.5	113.9	134.8

1. No data on interest rates by size of firm are available. As a proxy, data on interest rates on new loans up to EUR 1 million (prior to 2010) and loans up to EUR 0.25 million (in 2010) are used. Data on interest rates cover only loans granted by banks.
Source: Refer to Table 4.66.

StatLink http://dx.doi.org/10.1787/888932795922

Figure 4.33. **Trends in SME and entrepreneurship finance in Portugal**



1. Interest rates on new loans up to EUR 1 million (prior to 2010) and loans up to EUR 0.25 million (in 2010) are used as proxy for SME loans. Data on interest rates cover only loans granted by banks.

Sources: Charts A, B and D: Bank of Portugal. Chart C: SPGM, SA. Chart E: Portuguese Venture Capital Association. Chart F: Statistics Portugal, IP and COSEC, SA.

StatLink http://dx.doi.org/10.1787/888932794269

Table 4.66. **SME and entrepreneur definitions and sources of indicators for Portugal's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Performing and non-performing loans outstanding granted by banks and other financial institutions. Performing loans do not include Factoring without recourse. Companies with less than one employee are included as they cannot be distinguished from other Micro companies. Small and medium sized companies are defined as companies with less than 250 employees and a turnover below 50 million euros, excluding holding companies.	Bank of Portugal
Business loans, total	Performing and non-performing loans outstanding granted by banks and other financial institutions. Performing loans do not include Factoring without recourse.	Bank of Portugal
Short-term loans, SMEs	Performing loans; maturity up to 12 months. Excluding holding companies and sole traders.	Bank of Portugal
Long-term loans, SMEs	Performing loans; maturity more than 12 months. Excluding holding companies and sole traders.	Bank of Portugal
Government guaranteed loans, CGF	Government guaranteed loans to SMEs by the public Mutual Counter-guarantee Fund.	SPGM, SA
Non-performing loans, total	Loans outstanding overdue for more than 30 days; in the case of factoring without recourse only amounts overdue for more than 90 days are included.	Bank of Portugal
Non-performing loans, SMEs	Loans outstanding overdue for more than 30 days; in the case of Factoring without recourse only amounts overdue for more than 90 days are included.	Bank of Portugal
Non-performing loans, large	Loans outstanding overdue for more than 30 days; in the case of factoring without recourse only amounts overdue for more than 90 days are included. Large companies include holding companies.	Bank of Portugal
Interest rate, average SME rate	No data on interest rates by size of the corporations is available. As a proxy to SME, we considered data on Interest rate on new loans up to EUR 1 million (prior to 2010) and loans up to EUR 0.25 million (onwards). Data on interest rates covers only loans granted by banks.	Bank of Portugal
Interest rate spread (between average SME rate and large firm rate)	No data on interest rates by size of the corporations is available. As a proxy to SME, we considered data on Interest rate on new loans up to EUR 1 million (prior to 2010) and loans up to EUR 0.25 million (in 2010). For large firms we considered data on Interest rate on new loans over EUR 1 million. Data on interest rates covers only loans granted by banks.	Bank of Portugal
Collateral, SMEs	The percentage of collateralised loans granted to SMEs in total collateralised loans. Information on collateral is only available from January 2009 onwards. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC). Excluding holding companies and sole traders.	Bank of Portugal
Collateral, SMEs	The percentage of collateralised loans granted to SMEs in total collateralised loans. Information on collateral is only available from January 2009 onwards. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC). Excluding holding companies and sole traders.	Bank of Portugal
Equity		
Venture capital, SMEs	Investment in SMEs. Data include early stage and expansion phases, turnaround and buyout/replacement is excluded.	Portuguese Venture Capital Association
Other		
Payment delays	Average payment delay in days for business-to-business in 2008, 2009, 2010 and 2011. For 2007, average delay in days for business-to-business, business-to-consumer and public entities. All enterprises.	Intrum Justitia, European Payment Index
Bankruptcies, total	Data include all dissolved companies.	Statistics Portugal, IP and COSEC, SA
Incidence of insolvency, total	Number of dissolved enterprises per 10 000 enterprises.	Statistics Portugal, IP and COSEC, SA

Russian Federation

SMEs in the national economy

The Russian Federation does not use the EU definition of an SME (see Box 4.7). The Russian State Statistics Service undertook a complete statistical census of actually operating SMEs in 2011. Included were individual entrepreneurs and those micro, small and medium enterprises which were legal entities or officially registered. If both legal and non-legal entities were included, there were 4.6 million SMEs in the Russian Federation in 2011 vs. 3.2 million legal operating entities. However, according to the State Tax Administration there were 5.9 million registered SMEs in 2011. The difference between the two figures 4.6 million and 5.9 million is explained by the fact that some SMEs register in one area and operate in another area and such SMEs were not counted in the survey undertaken by the Russian State Statistics Service. The State Tax Administration provided the following breakdown of registered firms.

Table 4.67. **Distribution of firms in the Russian Federation, 2011**

By firm size

Enterprise size (employees)	Number
SMEs (up to 250)	
Individual entrepreneurs	*4 104 059*
Micro enterprises (up to 15)	*1 595 125*
Small enterprises (16-100)	*231 562*
Medium Enterprises (101-250)	*17 703*
Total	**5 948 449**

Note: Individual entrepreneurs can be self-employed or they can have employees but almost all of the individual entrepreneurs are SMEs. Non-employer enterprises are included.

Source: State Tax Administration.

StatLink http://dx.doi.org/10.1787/888932795941

SME lending

An SME survey undertaken by the Russian Bank for Development revealed that 31% experienced difficulties in accessing finance. Outstanding SME loans grew over the period 2008-2011 as did total business loans. The SME loan share increased from 19.9% to 22.5%. The flow data or data on new loans contains very short-term loans which were repaid and then reissued. Although these short- term loans were probably functioning like a line of credit, they were probably counted multiple times so that the flow figures exceeded the stock data.

According to the flow data a different picture emerges. New SME loans decreased in 2009 but rebounded in 2010 and 2011. The SME share in total new business loans was 15.8% in 2009, 22.8% in 2010 and 21.3% in 2011. In 2008-2009 banks reduced SME lending because of perceived higher risks. In 2010 when the crisis was overcome, banks had the opportunity to give more credit to a wider range of SMEs. In 2011 banks continued to lend to creditworthy SMEs but the SME loan share dipped to 21.3%. Also in 2011, SMEs reacted to tax increases by decreasing their financial transparency and this had a negative impact on the ability of banks to finance SMEs. SME non-performing loans also increased from a low of 2.9% (2008) to 8.2% (2011). While the peak of the crisis in the financial sector was in 2009, its effects were still strong in 2010 when the SME default rate peaked at 8.8%.

Credit conditions

Those SMEs that were able to obtain loans from regional microfinance institutions paid 10-12% interest versus 27% which was the average interest rate in the country. Micro loans were usually given for periods of not more than 12 months and up to RUB 1 million (Ministry of Economic Development, 2012a). The volatility and short-term nature of deposits with Russian banks limited their ability to extend credit other than short-term credits. A European Union study found that it was not uncommon for banks to seek marketable collateral up to 200% of the loan amount. The high value of the collateral demanded was a response not only to risk adversity but also to the cost of actually recovering the asset offered as collateral. Court costs and taxes could amount to 40% of the asset cost (see Barrie, 2005). The situation improved in general from 2005 largely because of the state guarantees which absorbed some of the bank's risk. Some banks offered unsecured loans and other banks accepted government loan guarantees as part of the collateral. Almost all banks required a personal guarantee from the SMEs' owner.[1]

Equity financing

After the break-up of the former Soviet Union, international donors such as EBRD, IFC and USAID were active in starting the development of venture capital in Russia. The Russian Venture Capital Association was established in 1995. The venture capital sector initially experienced difficulties in attracting investors from the traditional sources such as insurance companies and pension funds due to legal restrictions. In 2006 the Ministry of Economic Development launched a programme for regional venture capital funds in 19 Russian regions. The Russian Venture Company (RVC) was also established in 2006 and was financed from the federal budget. RVC is a federal fund-of-funds stimulating venture capital investment in the hi-tech sector (OECD 2010).

Venture capital has grown steadily over the period from 2008 to 2011. At the end of 2011 outstanding direct and venture capital investment was approximately USD 20 090 million.

Table 4.68. **Venture capital investment 2008-11**

In USD million

	Amount
2008	*14 330*
2009	*15 200*
2010	*16 800*
2011	*20 090*

Source: Russian Venture Company, Vnesheconombank.

StatLink http://dx.doi.org/10.1787/888932795960

Other indicators

Recent SME surveys by the Chamber of Commerce and Industry (June 2011) revealed that 71.2 % of the respondents said that SME suppliers were affected by payment delays. Bankruptcies increased over the 2008-2010 period but declined below the 2008 level in 2011.

International and national policy response for promoting SME finance

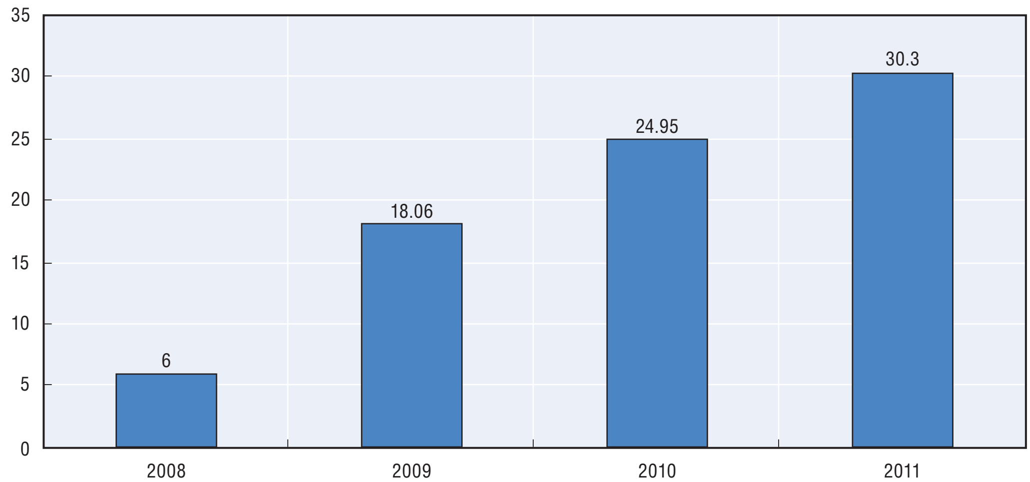
The EBRD launched SME financing in the Russian Federation. It provided training, technical assistance and funding to the most advanced banks in SME financing such as Sberbank, KMB and Vneshtorgbank (Barrie, 2005). Currently, a number of government ministries, banks and funds promote access to finance for SMEs by developing micro-finance, establishing guarantee funds and subsidising interest rates. The Federal Fund for the Support to Small Business was established in 1995. It was a network of 75 regional funds and 175 municipal funds. Its main purpose was to provide credit guarantees. It has been superseded by the Programme of Guarantee Fund Creation and Development which began operation in 2006. The Guarantee Fund is a joint creation of the federal and regional governments. 83 organisations were created in 79 regions. In general it is funded 30 % by the regions and 70 % by the Ministry of Economic Development. However, in some cases there is 50-50 co-financing by the regions and the state. The central government finances between 50 % and 80 % of the fund's budget. Its capitalisation has grown steadily.

Loan guarantees and guaranteed loans both increased between 2010 and 2011. The multiplier or leverage ratio was 4, that is, the value of loan guarantees backed twice the value of the loans in 2011. Nevertheless only 1.5 % of all SME loans were backed by government guarantees. The goal is to increase this to 10 %.

The Ministry of Economic Development subsidises interest rates and finances guarantee funds. The Russian Bank for Development, now the Russian Bank for Small and Medium Enterprises Support, was first established in 1999 and became a subsidiary of Vnesheconombank in 2008. It provides low interest rate financing for innovation and modernisation as well as leasing for start-ups and microfinance. According to the 2011 annual report of Vnesheconombank, it has 229 partners (mainly regional banks) through which it has assisted 34 000 SMEs. More than 40 % of SMEs loans were granted for a period of over 3 years. Their average lending rate was 12.3 % but for innovation and modernisation projects the lending rate was less, 10.6 %.

Figure 4.34. **Paid in capital of SME Guarantee Fund**

RUB billion



Source: Ministry of Economic Development.

StatLink http://dx.doi.org/10.1787/888932794288

The management of Vnesheconombank recognises that international co-operation has been instrumental in enhancing the scale and scope of SME support. Vnesheconombank has concluded agreements with various international financial institutions, including KfW, the European Bank for Reconstruction and Development (EBRD), Intesa Sanpaolo SPA, UBI Banca (Italy), Zuercher Kantonalbank (Switzerland) and the Export-Import Bank of India. These agreements provide for the extension of long-term credits amounting to EUR 1 billion to increase Vnesheconombank's guarantees to Russian commercial banks for subsequent financing of SMEs, including those engaged in export-import operations with counteragents from Europe and India. As of 1 June 2012, largely due to these agreements, the amount of guarantees extended by Vnesheconombank to Russian banks stood at EUR 49.7 million.[2]

The Chamber of Commerce and Industry and the Ministry of Economic Development have been monitoring the impact of the financial crisis on SMEs. In the June 2011 survey, 88% of SMEs interviewed said the socio-economic situation was still being affected. Their biggest problems were charges for social insurance payments which replaced the unified social tax, and other taxes. 96.9% said they faced a growing tax burden. 90.3% said that the most effective thing the government could do, would be to lower social insurance payments, whereas only 43.5% said that the most effective support would be to facilitate SMEs' access to credit.

Box 4.7. **Definition of Russian SMEs**

The 2007 Federal Law on "Development of Small and Medium Entrepreneurship in the Russian Federation" defines the sizes of SMEs as follows:

Definition of SMEs

Type	Employees	Sales (RUB million)
Micro	Up to 15	Not more than 60
Small	16-100	Not more than 400
Medium	101-250	Not more than 1 000

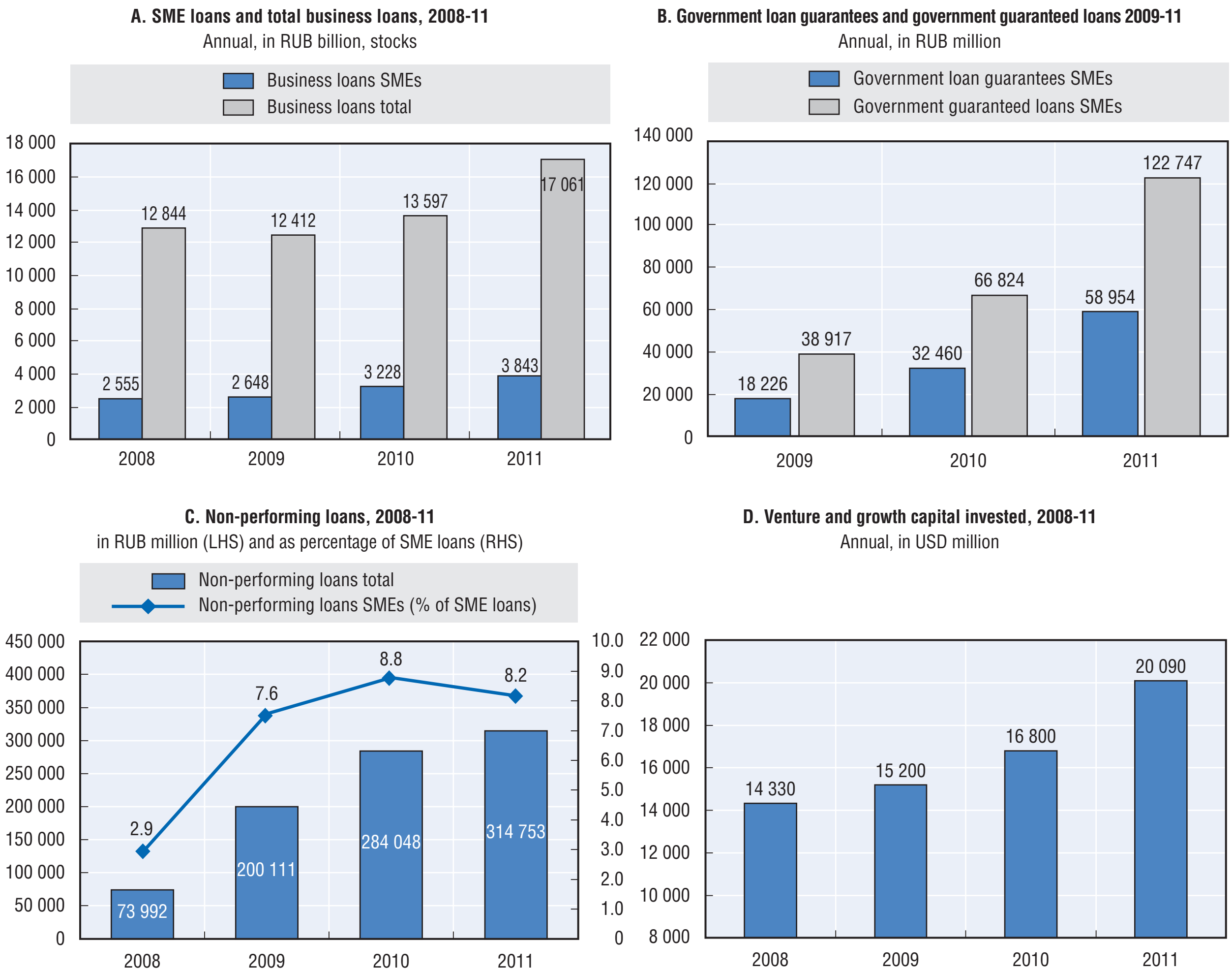
Table 4.69. **SME and entrepreneur scoreboard for the Russian Federation, 2008-11**

Indicators	Units	2008	2009	2010	2011
Debt					
Business loans, SMEs (stocks)	RUB million	2 554 534	2 647 973	3 227 570	3 843 458
Business loans, SMEs (flows)	RUB million	4 089 500	3 014 572	4 704 715	6 055 744
Business loans, total (stocks)	RUB million	12 843 519	12 412 406	13 596 593	17 061 389
Business loans, total (flows)	RUB million	..	19 091 541	20 662 219	28 412 267
Business loans, SMEs (stocks)	% of total business loans	19.9	21.3	23.7	22.5
Business loans, SMEs (flows)	% of total business loans	..	15.8	22.8	21.3
Government loan guarantees, SMEs	RUB million	..	18 226	32 460	58 954
Government guaranteed loans, SMEs	RUB million	..	38 917	66 824	122 747
Non-performing loans, total (stocks)	RUB million	..	723 700	738 416	807 889
Non-performing loans, SMEs (stocks)	RUB million	73 992	200 111	284 048	314 753
Non-performing loans, SMEs (% of SME loans)	%	2.9	7.6	8.8	8.2
Equity					
Venture capital	USD million	14 330	15 200	16 800	20 090
Venture capital	Year-on-year growth rate, %	..	6.1	10.5	19.6
Other					
Bankruptcies (all enterprises)	Number	13 916	15 473	16 009	12 794

Source: Refer to Table 4.70.

StatLink http://dx.doi.org/10.1787/888932795979

Figure 4.35. **Trends in SME and entrepreneurship finance in the Russian Federation**



Sources: Charts A and C: Bank of Russia. Chart B: Ministry of Economic Development and Vnesheconombank. Chart D: Russian Venture Company, Vnesheconombank.

StatLink http://dx.doi.org/10.1787/888932794307

Table 4.70. **SME and entrepreneur definitions and sources of indicators for the Russian Federation's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs (stocks)	Bank and other credit institution loans to SMEs outstanding, stock	Bank of Russia
Business loans, SMEs (flows)	Amount of new loans for SMEs are granted during the year. Lines of credit are included.	Bank of Russia
Business loans, total (stocks)	Bank and other credit institution loans to all enterprises outstanding.	Bank of Russia
Business loans, total (flows)	Amount of total business new loans are granted during the year. Lines of credit are included.	Bank of Russia
Government loan guarantees	Guarantees available to banks and financial institutions. Guarantees are provided by regional funds of SME assistance.	Ministry of Economic Development
Government guaranteed loans	Loans guaranteed by regional funds of SME assistance.	Ministry of Economic Development
Government direct loans	Direct loans from regional funds of SME assistance and Bank for Development programmes.	Ministry of Economic Development and Vnesheconombank
Non-performing loans, total	Non-performing loans out of total business loans.	Bank of Russia
Non-performing loans, SMEs	Non-performing loans out of total SME business loans.	Bank of Russia
Equity		
Venture capital	Financial support of SME by venture capital funds.	Russian Venture Company, Vnesheconombank
Other		
Bankruptcies	Number of enterprises ruled bankrupt. All enterprises.	Supreme Commercial Court of Russian Federation

Notes

1. For more information see *http://raexpert.ru/editions/bulletin/credit_msb.pdf* (in Russian).
2. See *http://veb.ru/common/upload/files/veb/reports/annual/VEB_Annual_2011_e.pdf*.

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Serbia

SMEs in the national economy

Serbia does not use the standard EU definition for an SME (see Box 4.8). 99.8% of all Serbian enterprises are SMEs and employ over 66% of the labour force.

Table 4.71. **Distribution of firms in Serbia, 2010**

By firm size

Firm size (employees)	No. firms	%	No. employees	%
All enterprises	**319 044**	**100.0**	**1 227 551**	**100.0**
SMEs (1-249)	**318 540**	**99.8**	**814 585**	**66.4**
Micro (1-9)	306 669	96.1	385 440	31.4
Small (10-49)	9 614	3.0	194 450	15.8
Medium (50-249)	2 257	0.7	234 695	19.1
Large (250+)	**504**	**0.2**	**412 966**	**33.6**

Note: Non-employer enterprises are not included.

Source: Ministry for Economy and Regional Development, Report on SMEs, 2010.

StatLink http://dx.doi.org/10.1787/888932795998

In examining the changes in the distribution of firms over time there has been a decrease in small and medium size enterprises from 4.2% (2007) to 3.7% (2010) whereas the percentage of microenterprises grew.

SME lending

In order to obtain the data necessary to calculate the core indicators on SMEs' access to finance, the National Bank of Serbia undertook a special survey of the 33 commercial banks residing in Serbia. Twenty-nine of the banks provided data for the period 2007-2011.

Total outstanding business loans increased 34% between 2007 and 2008 and then growth slowed. SME loans exhibited almost the same pattern but did marginally better so that the SME loan share increased from 21.3% to 26.1%. At the same time the value of SME non-performing loans increased by a factor of five.

Credit conditions

SME credit conditions reflected the banks' perception of risk. The average interest rate charged to an SME rose over the period to 16.3% in 2011 whereas the interest rate charged to a large enterprise in 2011 was 12.3% making the risk premium for SMEs 3.98%. The interest rate spread decreased over most of the period but then spiked in 2011. 49% of SMEs were required to provide collateral for their loans. At the same time SME loans authorised to SME loans requested declined from 84% (2007) to 77% (2011) as the banks became more selective.

Equity financing

Venture capital financing is rare in Serbia. There are legal problems because there is no legal process to create a venture capital fund. In 2010 venture capital investment was only EUR 13 million, largely from foreign investors.

Other indicator

Payment delays (B2C) declined over the period. Nevertheless, 31% of SMEs were waiting more than 60 days for payment. Around 10% of SMEs were delaying more than 60 days to pay their suppliers. Bankruptcies increased considerably from 18.3 per 1 000 firms (2007) to 25.9 per 1 000 firms (2011).

Government policy response

There is a government loan guarantee programme. The level of funds committed in 2007-08 was about EUR 10 million. However, the funds fell off dramatically in subsequent years. As a result guaranteed loans also declined steeply just as bank perceptions of risk were rising. Nevertheless, SME loans continued to grow. Undoubtedly, the high interest rate was compensating for the risk.

The Guarantee Fund of the Autonomous Province of Vojvodina had committed EUR 5.4 million to guarantee loans in 2010 but only EUR 2.2 million were disbursed. There were two approved programmes; the first provided guarantees for procuring agricultural equipment with an annual interest rate of 6.5% and the second was for promoting women entrepreneurs. For women entrepreneurs, two kinds of loans were available: one for procurement of equipment and the other for start-ups. According to the Development Fund of the Republic of Serbia the available guarantee fund was RSD* 3 000 million (equivalent to EUR 29 million) and RSD 4 000 million (equivalent to EUR 39 million) for 2010 and 2011, respectively.

The government also had a direct loan programme. The direct loan programme was larger than the guarantee programme. It increased by a multiple of 9 between 2008 and 2009. There was also a considerable rise between 2009 and 2010 (43%). These increases were considerably larger than the increase in SME bank loans. This could mean that the government intervened because interest rates had reached unacceptable levels.

* RSD = Serbian Dinar (national currency)

Box 4.8. **Definition of an SME**

The Serbian Accounting and Auditing Law (2006) defines an SME as an enterprise which fulfills at least two out of three conditions: employees up to 250, annual turnover up to EUR 10 million and total assets up to EUR 5 million.

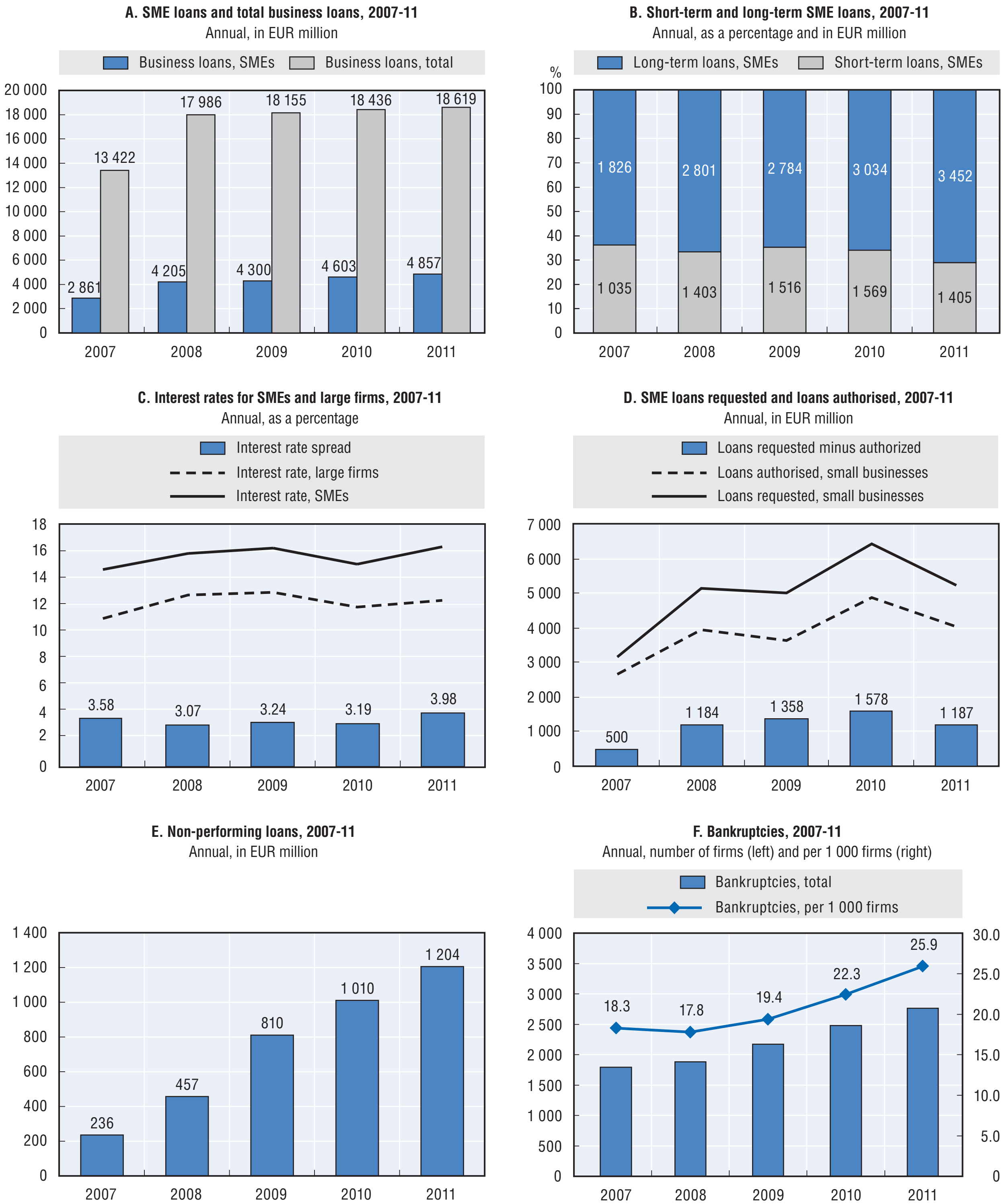
Table 4.72. **SME and entrepreneur scoreboard for Serbia, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	EUR million	2 861	4 205	4 300	4 603	4 857
Business loans, total	EUR million	13 422	17 986	18 155	18 436	18 619
Business loans, SMEs	% of total business loans	21.3	23.4	23.7	25	26.1
Short-term loans, SMEs	EUR million	1 035	1 403	1 516	1 569	1 405
Long-term loans, SMEs	EUR million	1 826	2 801	2 784	3 034	3 452
Short-term loans, SMEs	% of total SME loans	36.2	33.4	35.2	34.1	28.9
Government loan guarantees, SMEs	EUR million	10.6	9.5	2.6	1.7	..
Government guaranteed loans, SMEs	EUR million		10.5	2.6	2.2	..
Direct government loans, SMEs	EUR million	21.0	40.3	370.4	530.8	400.6
Loans requested, SMEs	EUR million	3 163	5 132	4 998	6 454	5 245
Loans authorised, SMEs	EUR million	2 663	3 948	3 641	4 877	4 058
Loans authorised to requested, SMEs	%	84.2	76.9	72.8	75.6	77.4
Non-performing loans, SMEs	EUR million	236	457	810	1 010	1 204
Interest rate, SMEs	%	14.56	15.76	16.18	14.99	16.31
Interest rate, large firms	%	10.97	12.69	12.93	11.79	12.33
Interest rate spread	%	3.58	3.07	3.24	3.19	3.98
Collateral, SMEs	% of SMEs required to provide collateral on last loan	38.7	42.9	45.2	47.0	48.5
Equity						
Venture and growth capital	EUR million	0.1	1.3	..	13.2	..
Other						
Payment delays	% of SMEs waiting more than 60 days for payment	..	..	34	31	31
Bankruptcies, total		1 792	1 884	2 173	2 483	2 763
Bankruptcies, total	Year-on-year growth rate, %	..	5.1	15.3	14.3	11.3
Bankruptcies, total	per 1 000 firms	18.3	17.8	19.4	22.3	25.9

Source: Refer to Table 4.73.

StatLink http://dx.doi.org/10.1787/888932796017

Figure 4.36. **Trends in SME and entrepreneurship finance in Serbia**



Sources: Chart A, B, C, D, and E: National Bank of Serbia. Chart F: Agency for Business Registry of Serbia.

StatLink http://dx.doi.org/10.1787/888932794326

Table 4.73. SME and entrepreneur definitions and sources of indicators for Serbia's scoreboard

Indicator	Definition	Source
Debt		
SME loans	Bank loans to SMEs, stocks, by firm size using national definition.	National Bank of Serbia
Total business loans	Bank loans to all non-financial enterprises, stocks.	National Bank of Serbia
Short-term loans, SMEs	Stock of loans equal to or less than one year to SMEs, stocks, by firm size using national definition.	National Bank of Serbia
Long-term loans, SMEs	Stock of loans with maturity over one year to SMEs, stocks, by firm size using national definition.	National Bank of Serbia
Government loan guarantees, SMEs	New guarantees available to banks.	National Bank of Serbia
Government guaranteed loans, SMEs	Loans guaranteed by government, flows.	Ministry of Finance and Guarantee Fund of the Autonomous Province of Vojvodina
SME government direct loans	Direct loans from government, flows.	Ministry of Finance and Guarantee Fund of the Autonomous Province of Vojvodina
SME loans requested	Flows	National Bank of Serbia
SME loans authorised	Flows	National Bank of Serbia
SME non-performing loans	SME non-performing loans out of total loans	National Bank of Serbia
Interest rate, SMEs	Average annual rates for new loans, base rate plus risk premium; for maturity less than 1 year; and amounts less than EUR 1 million	National Bank of Serbia
Interest rate, large enterprises	Average rate for loans with maturity over 1 year and amounts equal to or greater than EUR 1 million	National Bank of Serbia
Interest rate spreads	Difference between interest rate for SMEs and interest rate for large enterprises	National Bank of Serbia
Collateral	Percentage of SMEs that were required to provide collateral on latest bank loan	National Bank of Serbia
Equity		
Venture and growth capital	Seed, start-up, early stage and expansion capital (excludes buyouts, turnarounds, replacements)	European Private Equity and Venture Capital Association
Other		
Payment delays	Average number of days delay beyond the contract period for Business to Business (B2B) and Business to Customer (B2C)	Statistical Office of Republic of Serbia
Bankruptcy	Number of enterprises ruled bankrupt; enterprises of all size	Survey of the Agency for Business Registry of Serbia
Bankruptcy, per 1 000 firms	Number of enterprises ruled bankrupt per 1 000 firms; enterprises of all size	National Bank of Serbia's calculation based on survey of the Agency for Business Registry of Serbia

Slovak Republic

SMEs in the national economy

SMEs dominate the Slovak economy. In 2011 out of the total number of enterprises there were only 613 enterprises with a turnover of more than EUR 50 million. The number of enterprises in the small category declined as they shifted to the micro category. There were 556 401 supposed SMEs of which 133 728 had between 1 and 249 employees.

Table 4.74. **Distribution of firms in the Slovak Republic, 2012**
By firm size

Firm size (employees)	Number	%
All firms		
SMEs (0-249)	***556 401***	***99.9***
Enterprises without employee information	*168 503*	*30.3*
Non-employer firms	*254 170*	*45.6*
Micro (1-9)	*117 767*	*21.4*
Small (10-49)	*13 282*	*2.4*
Medium (50-249)	*2 679*	*0.5*
Large (250+)	***613***	***0.1***

Notes: Data include firms in all industries and non-employer firms. Enterprises without employee information lack information on employees. They are classified as SMEs.

Source: National Agency for Development of Small and Medium Enterprises based on data from the Statistical Office of the Slovak Republic.

StatLink http://dx.doi.org/10.1787/888932796036

In the beginning of 2012 the banking statistics methodology was amended in order to collect specific data on SME financing. These data will be available with a delay. Thus, the data in the current Scoreboard are based on the previous methodology. The data for the SME sector are collected from the database of financial statements (balance sheets) of enterprises. The data are taken from the financial statements available from the tax authorities. The data are processed according to the size of the firm (represented by number of employees) and the annual turnover. As this database excludes loan data for natural persons the figures for the SME sector are considered estimates. The current figures for SME loans were calculated by aggregating the subtotal for legal persons/enterprises from financial statements database with the subtotal for natural persons from the National Bank statistics. Based on the revision of the methodology used for collecting bank statistics it will be possible, starting from 2012, to obtain more detailed and accurate data on SME financing from banking sector.

Total business and SME lending increased in 2008 and stagnated in 2009-2010. There was a modest growth in total business lending in 2011. The SME share in total business loans in 2010 remained 79% as was the case in 2009. The investment activity of SMEs continued in 2010 that is evidenced by the share of SME long-term loans in total SME loans, which was the same as in the previous year (60%).

Credit conditions

SME interest rates declined from 6% (2007) to 3.7% (2009) but rose again in 2011 to 4.45%. According to commercial bank procedures SMEs were required to provide collateral for development and expansion loans. Operating loans do not usually require specific collateral as they are covered by the framework of the funding agreements which are usually collateralised or secured.

Equity financing

Venture capital investments in 2011 declined 20% from their peak in 2009. Total funding over the period was very marginal.

Table 4.75. **Venture capital investments in SMEs, by investment stage, 2007-11**

In EUR

	2007	2008	2009	2010	2011
Seed	215 760	3 845 847	2 099 247	61 988	872 467
Start-up	46 471	451 437	3 895 833	10 896 510	4 798 078
Development	6 771 559	3 693 587	8 370 533	459 500	5 800 000
Total	**7 033 791**	**7 990 872**	**14 365 613**	**11 417 998**	**11 470 545**

Source: National Agency for Development of Small and Medium Enterprises.

StatLink http://dx.doi.org/10.1787/888932796055

Other indicators

While payment delays of customers declined from 22 days (2007) to 13 days (2011), suppliers' payment delays remained high so that this allowed SMEs to retain cash and is evidence of liquidity problems. Bankruptcies continued to increase over the period. In 2011 they were 2.45 times the level of 2007.

Government policy response

There are government SME loan and guarantee programmes operated by specialized state banks and the National Agency for Development of Small and Medium Enterprise (NADSME). During the financial crisis government guaranteed loans increased 36% to EUR 157 million (2008), similarly SME government direct loans increased 37% between 2007 and 2008 to EUR 160 million. After a certain decline in 2009 and 2010 SME government guaranteed loans and SME government direct loans increased in 2011 beyond the levels of 2008.

The increase of government supported financing was related to the overall recovery of the economy. The situation of SMEs improved and they were consequently requesting more financing for expansion purposes. The new government (2012) is committed to increasing the basic capital of two state banks: the Slovak Guarantee and Development Bank and the

Eximbank which provide loans and guarantees. While the overall budget for SME support is declining, support for SME financing is not. Another government response, in co-operation with EIF, is the launch of a new guarantee scheme within EU-JEREMIE initiative that will provide EUR 283.3 million of loans with favourable conditions for a two year period.

Table 4.76. **SME and entrepreneur scoreboard for the Slovak Republic, 2007-11**

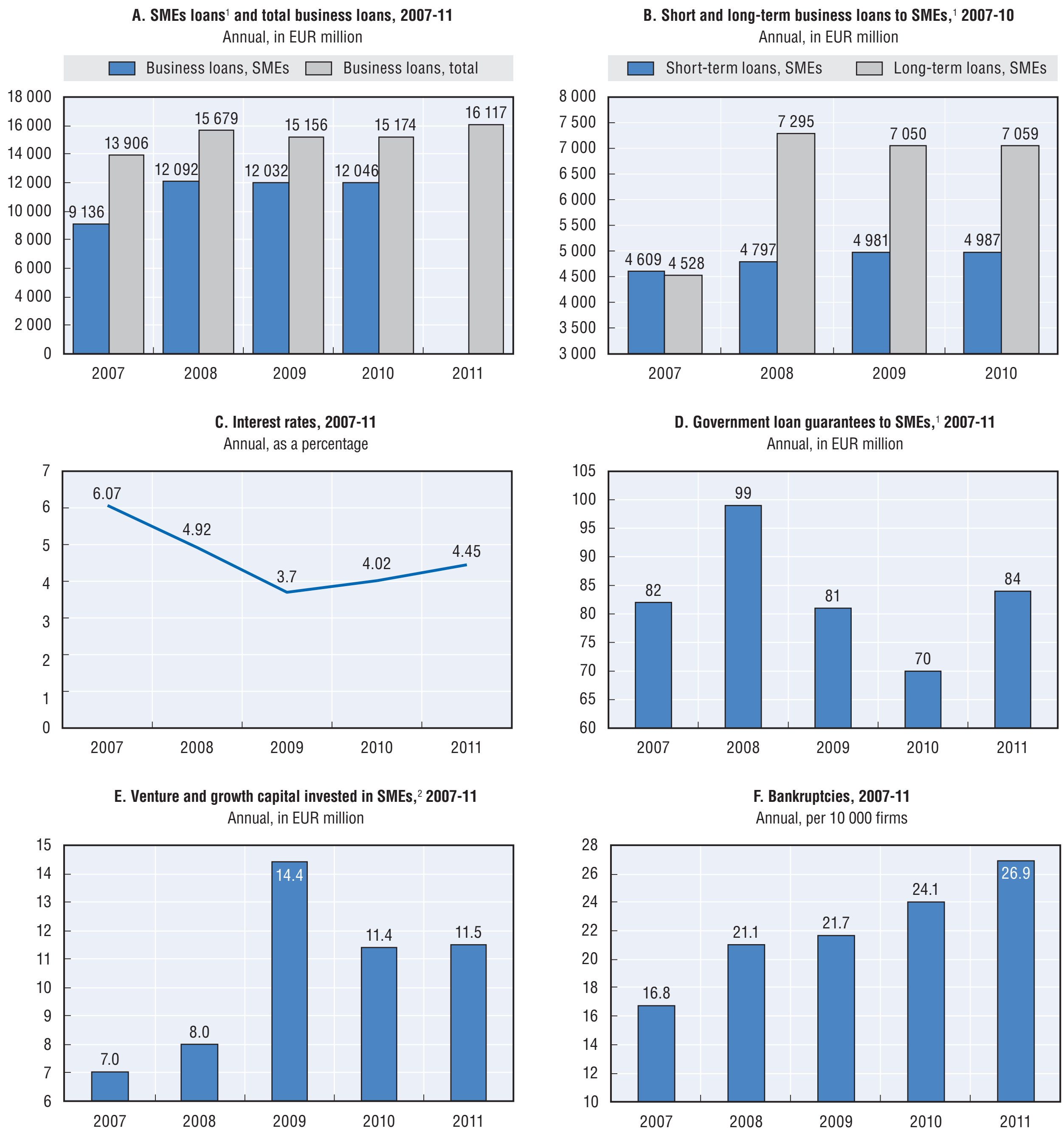
Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs[1]	EUR million	9 136	12 092	12 032	12 046	..
Business loans, total	EUR million	13 906	15 679	15 156	15 174	16 117
Business loans, SMEs	% of total business loans	65.70	77.12	79.39	79.39	..
Short-term loans, SMEs[1]	EUR million	4 609	4 797	4 981	4987	..
Long-term loans, SMEs[1]	EUR million	4 528	7 295	7 050	7 059	..
Short-term loans, SMEs	% of total loans	50.4	39.7	41.4	41.4	..
Government loan guarantees, SMEs	EUR million	82	99	81	70	84
Government guaranteed loans, SMEs	EUR million	115	157	143	139	167
Direct government loans, SMEs	EUR million	117	160	139	147	168
Interest rate[2]	%	6.1	4.9	3.7	4.0	4.5
Collateral, SMEs[3]	% of SMEs required to provide collateral on latest bank loan	100	100	100	100	100
Equity						
Venture capital, SMEs	EUR million	7	8	14.4	11.4	11.5
Venture capital, SMEs	Year-on-year growth rate, %	..	14.3	80.0	–20.8	0.9
Other						
Payment delays, SMEs	Days, B2B	19.7	8.0	13.0	17.0	20.0
Payment delays, SMEs	Days, B2C	21.8	8.0	10.0	15.0	13.0
Bankruptcies	Number	169	251	276	344	414
Bankruptcies	Year-on-year growth rate, %	..	48.5	10	24.6	20.4
Bankruptcies	Per 10 000 firms	16.8	21.1	21.7	24.1	26.9

1. Estimated Figure for 2010.
2. Figures represent the general interest rate for all business. Specific rates for SMEs are not available at this time.
3. Figures relate to development loans, for working capital loans collateral is usually not requested.

Source: Refer to Table 4.77.

StatLink http://dx.doi.org/10.1787/888932796074

Figure 4.37. **Trends in SME and entrepreneurship finance in the Slovak Republic**



1. Enterprises with less than 250 employees, including natural persons – entrepreneurs.
2. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).

Sources: Chart A, B and C: National Bank of Slovakia. Chart D: National Agency for Development of Small and Medium Enterprises, Slovak Guarantee and Development Bank, Export-Import Bank. Chart E: National Agency for Development of Small and Medium Enterprises. Chart F: Statistical Office of the Slovak Republic.

StatLink http://dx.doi.org/10.1787/888932794345

Table 4.77. SME and entrepreneur definitions and sources of indicators for the Slovak Republic's scoreboard

Indicators	Definition	Source
Debt		
Business loans, SMEs	Bank and financial institution loans to SMEs, amount outstanding at the end of period; by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – entrepreneurs).	Tax Authority/ financial statements (balance sheets) database. National Bank of Slovakia
Business loans, total	Bank and financial institution business loans to all non-financial enterprises, including natural persons – entrepreneurs, stocks.	National Bank of Slovakia
Short-term loans, SMEs	Loans equal to or less than one year by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – entrepreneurs).	Tax authority financial statements (balance sheets) database, National Bank of Slovakia
Long-term loans, SMEs	Loans for more than one year by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – entrepreneurs).	Tax authority financial statements (balance sheets) database, National Bank of Slovakia
Government loan guarantees, SMEs	Guarantees available to banks and financial institutions – new by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – entrepreneurs).	Annual reports on the state of SMEs in the Slovak Republic (National Agency for Development of Small and Medium Enterprises), Slovak Guarantee and Development Bank, Export-Import Bank
Government guaranteed loans, SMEs	Loans guaranteed by government – new. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).	Slovak Guarantee and Development Bank
Direct government loans, SMEs	New loans guaranteed by government, (state owned banks) by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – entrepreneurs).	Annual reports on the state of SMEs in the Slovak Republic (National Agency for Development of Small and Medium Enterprises), Slovak Guarantee and Development Bank, Export-Import Bank
Interest rate	Interest rate for all businesses.	National Bank of Slovakia
Collateral, SMEs	Percentage of SMEs that were required to provide collateral on latest development bank loan. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).	National Bank of Slovakia, National Agency for Development of Small and Medium Enterprises survey
Equity		
Venture capital, SMEs	Actual amounts invested in SMEs: seed and start-up phase. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).	Annual reports on the state of SMEs in the Slovak Republic (National Agency for Development of Small and Medium Enterprises)
Other		
Payment delays	Average number of days delay beyond the contract period for Business to Business (B2B) and Business to Customer (B2C).	European Payment Index reports (Intrum Justitia)
Bankruptcies, total (number)	Number of enterprises ruled bankrupt.	Statistics of the Ministry of Justice
Bankruptcies, total (per 10 000 firms)	Number of enterprises ruled bankrupt per 10 000 enterprises.	Conversion based on business database of the Statistical Office of the Slovak Republic

Slovenia

SMEs in the national economy

In 2011, 99.5% of all firms in Slovenia were SMEs.

Table 4.78. **Distribution of firms in Slovenia, 2011**
By firm size

Firm size (employees)	Number of firms	%
All firms	**54 707**	**100.0**
SMEs (0-249)	**54 459**	**99.5**
Micro (0-9)	*48 218*	*88.1*
Small (10-49)	*5 025*	*9.2*
Medium (50-249)	*1 216*	*2.2*
Large (250+)	***248***	***0.5***

Notes: Data include enterprises in all industries and excludes non-employer enterprises.
Source: Statistical Office of the Republic of Slovenia.

StatLink http://dx.doi.org/10.1787/888932796093

SME lending

Enterprises with more than EUR 2 million in assets have to report their debt, but sole proprietors are excluded. Data on business loans are collected by the Bank of Slovenia, but SME loans are not disaggregated by firm size or loan size. Information on SME loans comes from the balance sheets of enterprises (S11 enterprises) with assets between EUR 2 million and EUR 17.5 million. Thus, many smaller SMEs are omitted from the loan data. Total new business loans stagnated between 2008-2011while outstanding SME loans increased 32%. SME short-term loans remained at 32%. Large enterprises were hit hard by the recession and SMEs which were their suppliers suffered the knock-on effects.

Credit conditions

SME interest rates declined from 6.7% (2008) to 6.4% (2011), but the spread between interest rates for SMEs and large enterprises grew. Large enterprises enjoyed better credit terms.

Government policy response

Direct loans are mostly provided by public funds such as the Slovene Enterprise Fund (SEF), the Slovenian Regional Development Fund and the Housing Fund. Government direct loans to SMEs declined by almost half between 2007 and 2010. The Ministry of the Economy provides credit guarantees and interest rate subsidies through the Slovene Enterprise Fund. The programme for interest rate subsidies started in the beginning of 2009, but the guarantees for bank loans were provided prior to this by the SEF. The Ministry has two guarantee funds for SMEs. Guarantees are also provided by Slovenian Investment and Development Bank (SID) which is responsible for developing, providing and promoting innovative and long-term financial services which are designed to supplement financial markets for the sustainable development of Slovenia. SID Bank provides funds to banks to on-lend and it also provides direct loans to SMEs in case of market failure.

Box 4.9. **Definition of an SME**

The Statistical Office of the Republic of Slovenia defines SMEs as enterprises with less than 250 employees, although the official legal definition and the definition used by the Ministry of the Economy are wider and contain additional criteria, including asset value, revenue threshold and requirements from Commission Recommendation 2003/361/ES.

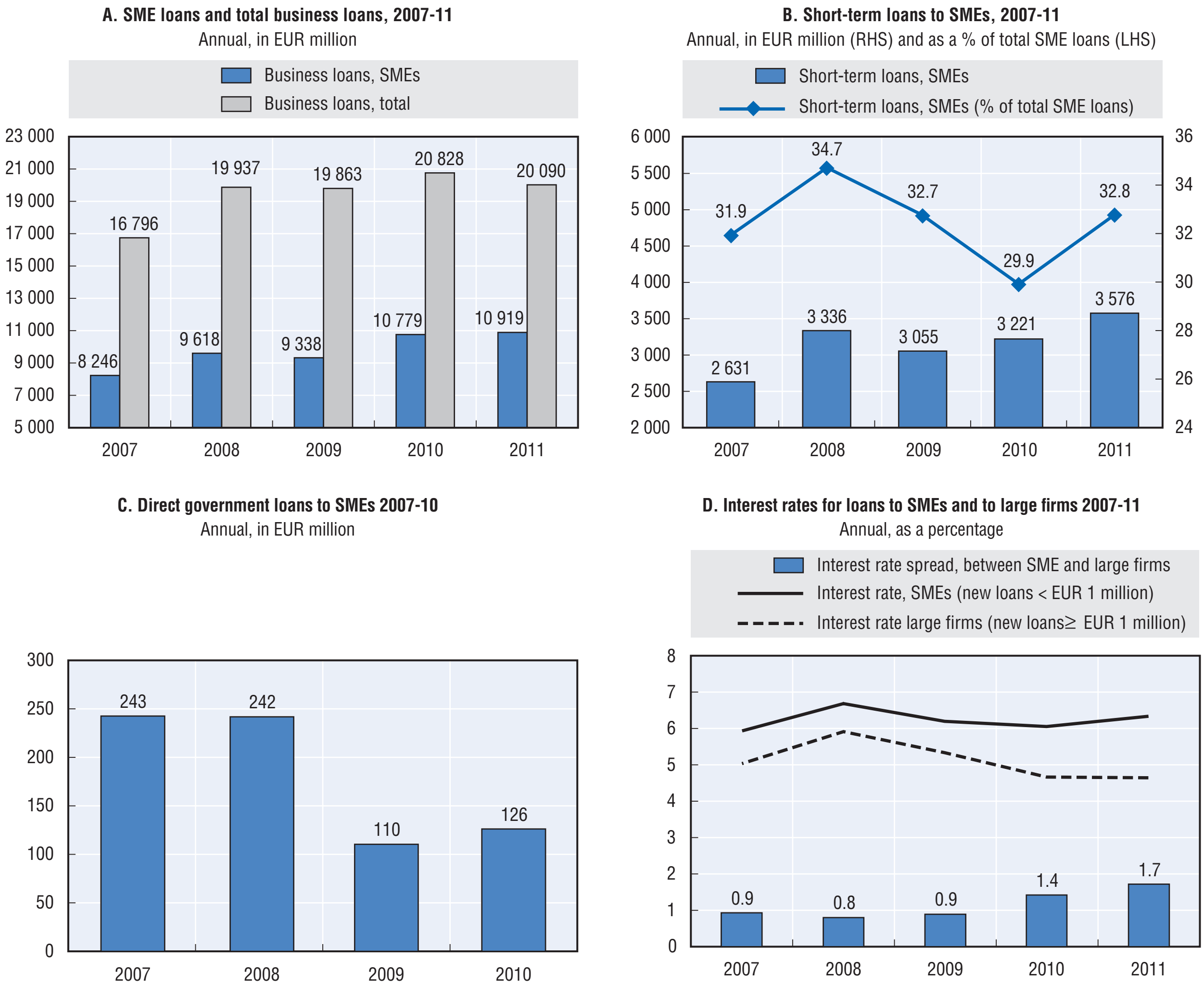
Table 4.79. **SME and entrepreneur scoreboard for Slovenia, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	EUR million	8 246	9618	9 338	10 779	10 919
Business loans total	EUR million	16 796	19 937	19 863	20 828	20 090
Business loans, SMEs	% of total business loans	49.1	48.2	47.0	51.8	54.3
Short-term loans, SMEs	EUR million	2 631	3 336	3 055	3 221	3 576
Long-term loans, SMEs	EUR million	5 615	6 282	6 283	7 558	7 343
Short-term loans, SMEs	% of total SME loans	31.9	34.7	32.7	29.9	32.8
Direct government loans SMEs, (stocks)	EUR million	243	242	110	126	..
Interest rate SMEs (new loans < EUR 1 million)	%	5.98	6.73	6.24	6.10	6.38
Interest rate large firms (new loans ≥ EUR 1 million)	%	5.05	5.93	5.35	4.68	4.66
Interest rate spread (between SME and large firms)	%	0.93	0.80	0.89	1.42	1.72

Source: Refer to Table 4.80.

StatLink http://dx.doi.org/10.1787/888932796112

Figure 4.38. **Trends in SME and entrepreneurship finance in Slovenia**



Source: Bank of Slovenia.

StatLink http://dx.doi.org/10.1787/888932794364

Table 4.80. **SME and entrepreneur definitions and sources of indicators for Slovenia's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Sum of short and long-term loans, stocks.	Bank of Slovenia
Business loans total	Business loans from bank and financial institutions, amount outstanding, stocks.	Bank of Slovenia
Short-term loans SMEs	Estimated from the balance sheets, amount outstanding, with a due date less than 12 months includes financial firms. SMEs are defined as enterprises with less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.	Bank of Slovenia
Long-term loans SMEs	Estimated from the balance sheets, amount outstanding with a due date more than 12 months includes financial firms. SMEs are defined as enterprises with less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.	Bank of Slovenia
Direct government loans SMEs	Direct loans from government to SMEs, stocks. SMEs are defined as enterprises with less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.	Bank of Slovenia
Interest rate, SMEs	Weighted average annual interest rates for new loans to enterprises with less than 250 employees; for maturity less than 1 year; and amounts less than EUR 1 million.	Bank of Slovenia
Interest rate, SMEs	Weighted average annual interest rates for new loans to enterprises with less than 250 employees; for maturity less than 1 year; and amounts more than or equal to EUR 1 million.	Bank of Slovenia
Interest rate, large firms	Weighted average annual interest rates for new loans to enterprises with more than or equal to 250 employees; for maturity less than 1 year; and amounts less than EUR 1 million.	Bank of Slovenia
Interest rate large firms	Weighted average annual interest rates for new loans to enterprises with more than or equal to 250 employees; for maturity less than 1 year; and amounts more than or equal to EUR 1 million.	Bank of Slovenia
Interest rate spread, SMEs	Interest rate spread between amounts less than EUR 1 million and equal to or greater than EUR 1 million; for enterprises with less than 250 employees.	Bank of Slovenia
Interest rate spread, between SME and large firms	Interest rate spread between amounts less than EUR 1 million and equal to or greater than EUR 1 million; for enterprises with more than or equal to 250 employees.	Bank of Slovenia

Spain

SMEs in the national economy

In Spain, 99.8% of all enterprises were SMEs in 2010. They employed 67% of the business labour force. 89% were microenterprises, 9.2% were small and 1.4% were medium sized.

Table 4.81. **Distribution of firms in Spain, 2010**

By firm size

Firm size (employees)	No. enterprises	%	No. employees	%
All firms	**1 231 711**	**100.0**	**8 890 776**	**100.0**
SMEs (0-249)	**1 228 638**	**99.8**	**5 955 697**	**67.0**
Micro (0-9)	1 097 269	89.1	2 011 281	22.6
Small (10-49)	113 735	9.2	2 205 153	24.8
Medium enterprises (50-249)	17 634	1.4	1 739 263	19.6
Large enterprises (250 +)	**3 073**	**0.2**	**2 935 079**	**33.0**

Note: Non-employer firms are included.

Source: Central Companies Directory (CCD), National Statistics Institute.

StatLink http://dx.doi.org/10.1787/888932796131

SME lending

Before the data on SME lending can be analysed, it is useful to review debt developments between 2007 and 2010. Changes in debt levels resulted, generally, in a gradual reduction of leverage ratios in the productive sectors that were most indebted at the beginning of the period.[1]

The Central Balance Sheet Data Office's (CBSO) databases (CBA and CBB) can be used to study the main characteristics of non-financial corporations' deleveraging process in Spain for firms of different sizes.[2] The size breakdown shows the differences in debt and leverage developments for smaller and larger companies from year 2007 onwards. As seen in the Scoreboard data, both SME and total new business loans declined between 2007 and 2011. There was no recovery in 2010-2011. SME loans were particularly affected and the SME loan share (proxied by the ratio of new loans less than EUR 1 million over total new business loans) declined from almost 40% (2007) to 33% (2011).

Credit conditions

Interest rates on loans to non-financial enterprises showed a downward trend between end-2008 and mid-2010. The interest rate spread between small and large loans increased over the period (2007-2011). According to the Bank Lending Survey, credit institutions tightened credit standards applied to business loans between mid-2007 and mid-2010, which affected both SMEs and large companies. According to this source, banks have not changed these standards from mid-2010, but, given the tightening accumulated in the early stages of the crisis, credit standards remained strict. In line with this trend, the evidence in the ECB/EC Survey on the access to finance of SMEs in the euro area (SAFE) showed that SMEs perceived a stronger tightening of credit standards than large firms during the crisis and, also, than SMEs in other countries. This is probably linked to their poor business performance during this period. The SAFE shows a larger contraction of sales and profits of SMEs during the crisis than that of larger companies in Spain and also than that of SMEs in other countries.

It should be noted that Spain has undertaken a banking reform which started with the creation of the Fund for the Orderly Restructuring of the Banking Sector (FROB). A consolidation process has resulted in a substantial reduction in the number of banking institutions. 45 savings banks have been transformed into 10 banking institutions. Various initiatives have been taken to improve the resilience of banks to adverse shocks. In February 2011, the minimum required capital was increased. In addition, the European Union adopted a recapitalisation plan for major banks which required an extraordinary capital buffer of a temporary nature until market confidence was re-established.

Equity financing

Venture capital is still underdeveloped in Spain. It was EUR 3.6 billion in 2010. According to the Spanish Association of Venture Capital (ASCRI), venture capital companies financed 886 companies in 2011. 95% of them were start- ups or those in early stage development. Venture capital companies in Spain are shareholders of 3530 companies and 91% are SMEs.

Fiscal incentives are used to promote venture capital investment. Venture capital companies registered with the CNMV only have to pay a 1% corporate income tax. In July 2011 a national tax incentive scheme to encourage direct investment by third parties in small, early stage companies was introduced. Third parties investing in shares of unlisted companies are exempt from capital gains. At the time of the investment the companies must be no more than three year old, with equity of no more than EUR 200 000. Investments eligible for relief may not exceed EUR 25 000 a year or EUR 75 000 in three consecutive years. Furthermore, individual investors may not hold over 40% of the company's share capital and must hold the shares for a period of between three and seven years.

Other indicators

Payment delays were reduced in the years previous to the crisis but rose again in 2009 (from 12 to 26 days). The modification in 2010 of the former Law against the delays (Law 15/2010, modifying Law 3/2004) has reduced delays of B2B from 26 to 14 days (2011). In any case, it should be stressed that the data obtained from accounting data are approximations. They are useful for analysing changes and trends but they cannot verify the degree of compliance with the legal limits set for payment periods.

SMEs ruled bankrupt in 2011 increased by a factor of 5 in comparison with 2007 figures. More than 30% of companies in construction and property development have gone bankrupt.

Government policy response

The government has undertaken several measures to ensure SMEs' access to finance. This set of measures includes financial measures to facilitate access to credit and fiscal measures to support businesses.

The Official Credit Institute (ICO) is a public company that has a dual role of a specialised credit institution and a state financial agency. The ICO's main objectives are to support and promote economic activities that contribute to the growth and improvement in the distribution of national wealth and in particular, to cultural, innovative or ecological priorities. In this regard it responded to the economic crisis and it extended and improved its traditional credit lines and direct loans to SMEs. It also created a number of new facilities. Among the most important were the:

- New ICO-Liquidity Facility for SMEs established in 2008 to finance working capital for SMEs.
- New ICO-SME Moratorium declared in 2009 which allowed the postponement of repayment of loans from the ICO-SME (traditional SME credit line).
- ICO-PROINMED is an intermediation line for financing investment projects of medium-sized enterprises.
- ICO-FTPYME for securitisation funds: in 2008 the Treasury introduced line FTPYME and extended it in 2009 and 2010. This line allows the state to provide guarantees to insure debt securities issued by the Asset Securitisation Fund. Specifically, it supports some of the debt securities issued by the Asset Securitisation Fund on behalf of the credit institutions which lend to SMEs.

Export subsidies

The financial measures to boost exports include the reform of the System of Contracts for Reciprocal Interest Adjustment (CARI) to encourage the granting of export credit and as well as promoting export credit insurance managed by the Spanish Insurance Company for Export Credit (CESCE). Several initiatives include the creation of the Fund for Aid to Development – SME line and the CESCE-SME line to facilitate access to export credit insurance at a lower cost.

Fiscal measures

The government has also undertaken the following fiscal measures:

- monthly VAT refund: from January 2009, taxpayers may apply for VAT refunds every month without having to wait for the end of the year;
- accelerated depreciation for new assets;
- new regime for instalment payments for income taxes.

Box 4.10. **Definition of an SMEs used in Spain's SME and entrepreneur scoreboard**

Country definition

In Spain, SMEs are classified according to the European Union standard definition (2003/361/EC), that is firms with less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million.

Definition of SMEs for financial indicators

For business loans, short- and long-term loans, interest rates and collateral indicators, the SME definition used is based on loan size: Amounts of new euro-denominated loans granted in the reference period to non-financial corporations resident in the euro area for amounts below EUR 1 million.

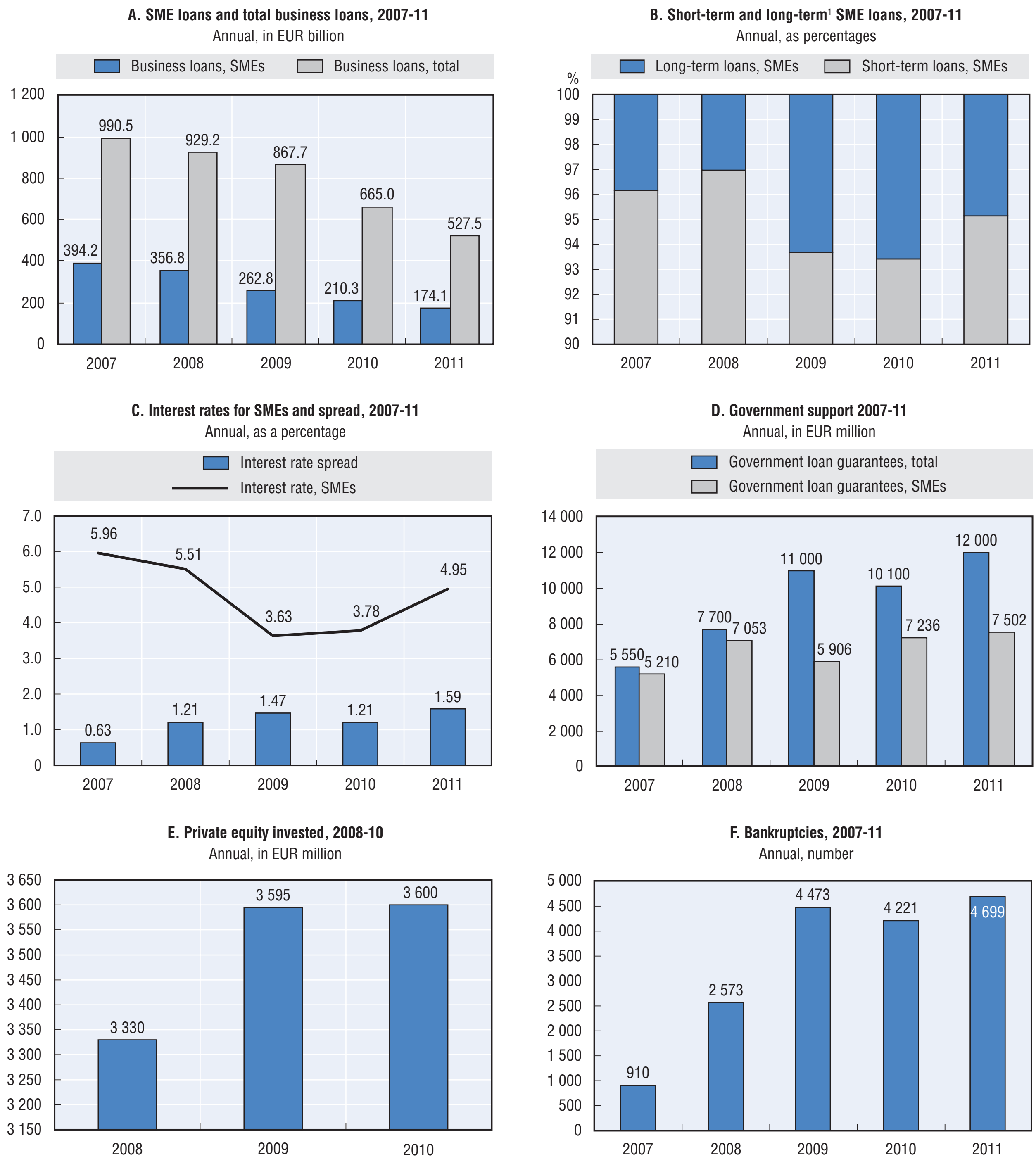
Table 4.82. **SME and entrepreneur scoreboard for Spain, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	EUR billion	394.2	356.8	262.8	210.3	174.1
Business loans, total	EUR billion	990.5	929.2	867.7	665.0	527.5
Business loans, SMEs	% of total business loans	39.8	38.4	30.3	31.6	33.0
Short-term loans, SMEs	EUR billion	379.0	346.0	246.2	196.5	165.6
Long-term loans, SMEs	EUR billion	15.1	10.8	16.6	13.8	8.5
Short-term loans, SMEs	% of total SME loans	96.2	97.0	93.7	93.4	95.1
Government loan guarantees, total	EUR million	5 550	7 700	11 000	10 100	12 000
Government guaranteed loans, SMEs.	EUR million	5 210	7 053	5 906	7 236	7 502
Direct government loans, total (stocks)	EUR million	15 929	17 630	24 470	26 323	26 557
Direct government loans	Year-on-year growth rate, %	..	10.7	38.8	7.6	0.9
Interest rate, SMEs	%	5.96	5.51	3.63	3.78	4.95
Interest rate, large firms	%	5.33	4.30	2.16	2.57	3.36
Interest rate spread	%	0.63	1.20	1.46	1.21	1.59
Collateral, total	% of collateralised loans	..	..	..	..	34.4
Equity						
Venture capital, SMEs	EUR million	..	3 330	3 595	3 600	..
Venture capital, SMEs	Year-on-year growth rate, %	..	..	8.0	0.1	..
Other						
Payment delays, SMEs	Days	27	12	26	23	14
Bankruptcies, SMEs	Number of enterprises	910	2 573	4 473	4 221	4 699

Source: Refer to Table 4.83.

StatLink http://dx.doi.org/10.1787/888932796150

Figure 4.39. **Trends in SME and entrepreneurship finance in Spain**



1. The term in this case refers to the initial rate fixation and not to the loan term.

Sources: Chart A, B, C and F: Banco de España. Chart D: Dirección General del Tesoro y Política Financiera. Chart E. Comisión Nacional del Mercado de Valores

StatLink http://dx.doi.org/10.1787/888932794383

Table 4.83. **SME and entrepreneur definitions and sources of indicators for Spain's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Amount of new euro-denominated loans granted in the reference period to non-financial corporations (NFCs) resident in the euro area for amounts below EUR 1 million. Overdrafts are excluded. From June 2010, credit lines and credit card are excluded.	Banco de España
Business loans, total	Amount of new euro-denominated loans granted in the reference period to non-financial corporations (NFCs) resident in the euro area. Overdrafts are excluded. From June 2010, credit lines and credit card are excluded.	Banco de España
Short-term loans, SMEs	Amounts of new euro-denominated loans granted in the reference period to NFCs resident in the euro area for amounts below EUR 1 million with terms of one year or less. The term in this case refers to the initial rate fixation and not to the loan term. Overdrafts are excluded. From June 2010, credit lines and credit cards are excluded.	Banco de España
Long-term loans, SMEs	Amounts of new euro-denominated loans granted in the reference period to NFCs resident in the euro area for amounts below EUR 1 million with terms exceeding one year. The term in this case refers to the initial rate fixation and not to the loan. Overdrafts are excluded. From June 2010, credit lines and credit cards are excluded.	Banco de España
Government loan guarantees, total	Ceiling on Central Government guarantees approved by Law includes only guarantees for the securitisation funds. Stocks.	Dirección General del Tesoro y Política Financiera
Government guaranteed loans, SMEs.	Proxy: Guarantees granted by general government for SME enterprises; includes only guarantees for the securitisation funds. Stocks.	Dirección General del Tesoro y Política Financiera
Direct government loans, total	Financial assets of general government in the Financial Accounts of the Spanish Economy: loans to NFCs. Stocks.	Dirección General del Tesoro y Política Financiera e Intervención General de la Administración del Estado
Interest rate, SMEs	Interest rates applied to new euro-denominated loans granted in the reference period to NFCs resident in the euro area for amounts below EUR 1 million with terms of one year or less. The term in this case refers to the initial rate fixation and not to the loan term.	Banco de España
Interest rate, large firms	Interest rates applied to new euro-denominated loans granted in the reference period to NFCs resident in the euro area for amounts over EUR 1 million with terms of one year or less. The term in this case refers to the initial rate fixation and not to the loan term.	Banco de España
Interest rate spread	Interest rates applied to new euro-denominated loans granted in the reference period to non-financial corporations (NFCs) resident in the euro area for amounts below and above EUR 1 million with terms of one year or less. The term in this case refers to the initial rate fixation and not to the loan term. Interest rates SME minus interest rate large firms.	Banco de España
Collateral, total	Proxy: percentage of loans backed by real state guarantees. Estimate based in outstanding amounts. Total firms.	Banco de España
Equity		
Venture capital, SMEs	Actual amounts invested in SMEs: seed, start up and expansion stage (excludes buyouts, turnarounds, replacements). SME defined as firms with less than 250 employees.	Comisión Nacional del Mercado de Valores
Other		
Payment delays	Average delay in days for B2B. SME enterprises. It has been calculated, subtracting the accounting payment period, to the legal maximum average payment period prescribed in the law.	Banco de España
Bankruptcy	Number of SMEs enterprises ruled bankrupt.	Banco de España obtained from Mercantile Register information

Notes

1. The only exception to this pattern was the construction sector, where the debt decline was insufficient to counteract the decline in their assets, hence resulting in some increase in the indebtedness ratio.
2. Changes in debt levels for this sample replicate quite well the developments derived from the Financial Accounts of the Spanish Economy for the business sector: they show an increase in non-financial corporations debt in 2008, a slight decline in 2009 and stabilisation in 2010.

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Sweden

SMEs in the national economy

SMEs with employees constituted 26% of all enterprises and employed 63.8% of the labour force in 2010. Thus, the vast majority of enterprises (73.9%) had no employees. Table 4.84 illustrates the distribution of employer firms. Of these, 99.6% had less than 250 employees.

Table 4.84. **Distribution of firms in Sweden, 2010**
By firm size

Firm size	Firms		Employees	
	Number	%	Number	%
All active firms	**1 000 891**		**2 477 196**	
Non-employer firms	739 870	73.9	0	0.0
All active firms (without non-employer firms)	**261 021**	**100.0**	**2 477 196**	**100.0**
1-19 employees	245 070	93.9	823 866	33.3
20-49 employees	10 337	4.0	308 148	12.4
50-99 employees	3 045	1.2	207 127	8.4
100-249 employees	1 596	0.6	240 426	9.7
250 + employees	**973**	**0.4**	**897 629**	**36.2**

Source: Statistics Sweden, *Structural Business Statistics 2010*.

StatLink http://dx.doi.org/10.1787/888932796169

SME lending

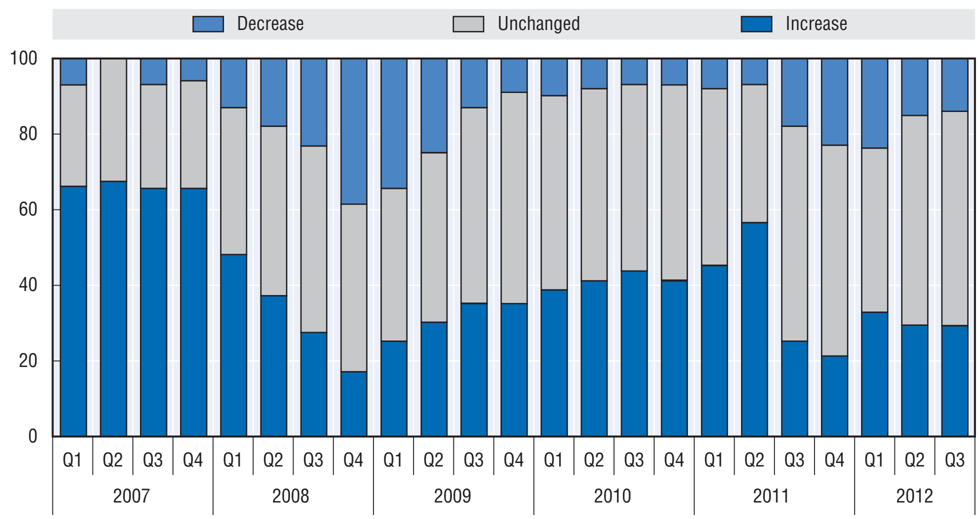
The majority of SMEs use the commercial banking sector when seeking external finance. Total business loans and SME loans increased over the period 2007 to 2009. Since no data were available through supply-side surveys, the loans were based on a proxy (financial balance sheet liabilities) obtained from tax record information. Using tax information creates a lag of 18 months in terms of its availability.

According to quarterly surveys conducted by the Swedish finance company, ALMI, the share of bank managers reporting increased loan volumes to businesses (compared to the previous quarter) reached a low point during the height of the crisis (Q4 2008). Subsequent data *indicated* a recovery of lending until the latter half of 2011, when another drop in banks' lending to businesses *seems* to have occurred due to the weakening of the prospects of enterprises.

The SME share in business loans was almost constant at 88% between 2007 and 2008 and increased to 92% in 2009, according to Statistics Sweden. The high share of SME loans in business loans could possibly be explained by the fact that intercompany loans, an important component of the debt of large companies, have been excluded. If one firm raises capital from the market and is acting as the "bank" within an enterprise group then these loans might not be included if the "bank" is classified as a financial company or if it is located abroad.

Figure 4.40. **Share of bank managers reporting increased loan volumes to businesses, 2007-12**

In percentages



Source: Almi Företagspartner AB (September 2012).

StatLink http://dx.doi.org/10.1787/888932794402

Credit conditions

As in most other euro area countries, interest rates peaked in 3Q08 and declined thereafter due to monetary easing. The average base interest rate for SME loans was 4.86% (2007), rising to 5.66% (2008) before declining in 2009 to 2.42%. In 2011, interest rates again rose significantly to 4.15% due to tightened monetary policy. The repo rate of the Swedish Riksbank affecting the rate at which banks loan money was 0.25% in early 2010, and reached a high of 2% by late 2011. The interest rate spreads between small and large enterprises (measured by loans below/above EUR 1 million) declined during the recession but rose again during the recovery.

Equity financing

There was a marked drop in venture capital financing in 2009 due to the recession. Venture capital financing decreased further during 2010 and 2011. Total venture capital investments in 2011 were about a third of the level in 2008. Seed venture capital was particularly hard hit and dropped 90%. Data includes investments from private and government financed venture capital organisations.

Table 4.85. **Capital invested by stage of development, 2005-11**

In SEK million

	2005	2006	2007	2008	2009	2010	2011
Seed	83	75	188	246	70	53	22
Start-up	810	1 241	1 266	2 086	1 462	1 319	858
Expansion	1 269	2 773	2 522	3 471	1 455	1 291	1 109
Total	**2 162**	**4 089**	**3 976**	**5 803**	**2 987**	**2 663**	**1 990**

Source: Swedish Venture Capital Association (SVCA), Annual Report for 2011.

StatLink http://dx.doi.org/10.1787/888932796188

In 2010 the Swedish government launched Inlandsinnovation AB (Inland Innovation), a state venture capital company with a total of SEK 2 billion available for investments strictly in the northern inland regions of Sweden. The initiation of the venture capital company was not motivated by the financial crisis but rather by a permanent deficit of venture capital in these sparsely populated regions.

Other indicators

A survey of SME managers by the Swedish Federation of Business Owners indicated that payment delays on the part of customers had a negative impact on SME cash flow and, in turn, caused problems of payment ability for these enterprises. The share of enterprises having difficulties caused by payment delays increased from 19% (4Q2008) to 24% (1Q2009). However, while payment delays increased during the recession, they remained among the lowest in Europe. The combined drop in sales, payment delays and the credit crunch caused a jump in the number of enterprise bankruptcies, from 5 791 (2007) to 7 638 (2009). They remained at a relatively high level (7 229) in 2011 although the bankruptcy rate per 10 000 businesses has declined to the 2008 level.

Government policy response

Throughout the financial crisis of 2008-2009 the Swedish government undertook a number of measures, such as supporting the banking sector (through measures to strengthen the capital base and secure bank lending), tax credits, export credit facilitation and business development programmes. The most targeted government measure taken to increase access to finance for SMEs was to increase the support to the Swedish development bank, ALMI. A capital injection by the government increased lending capacity in 2009 compared to 2008, combined with allowing a higher share of co-financing. As the crisis subsided, the lending volume of ALMI returned to a more normal level in 2010 and thereafter (the 2010 volume was about 65% of the 2009 level and 120% of the 2008 level). Most measures concerning SME financing continued to remain in place in 2011.

Other measures were also implemented, but did not directly target the financial system. To reduce the liquidity problems of enterprises during the financial crisis, the government introduced a temporary act to defer tax payments in March 2009. Employers were able to obtain a respite, for a maximum of one year, in paying employees' social security contributions and preliminary taxes for their employees for two months during 2009. This measure was later prolonged, and relief from tax payment was in effect until January 2011.

Loan guarantees and direct government loans

Government guaranteed lending in the traditional sense is marginal in Sweden. There were previously 14 regional guarantee funds (funded by the State and regions) associated with the Swedish Credit Guarantee Association (SKGF), which provided state guarantees for SME bank loans. In total, the value of the issued guarantees amounted to approximately EUR 3 million in 2008 and EUR 1.5 million in 2009. The SKGF guarantee funds were part of a government project running from 2003 to 2010. Since the end of the project, all funds have been dissolved.

The main government tool for strengthening SMEs' access to loans and credit was through a supplementary financing actor, ALMI, the Swedish finance company. During the second half of 2008, the government took steps to support SMEs' access to finance by enhancing the activities of ALMI. The main activity of ALMI is the provision of SME loans and credits, rather than providing guarantees for bank loans. To some extent, this can be seen as a type of guarantee, as ALMI loans are *co-financed* by private banks. Following the financial crisis, it was decided to increase the cap for the maximum ALMI share in a loan from 50% to 80%. ALMI financed 100% of micro credits, and increased the loan size from SEK 100 000 to SEK 250 000. ALMI added a "new" client segment – the upper-tier SMEs. ALMI does issue traditional loan guarantees, but for very small volumes. In 2010, ALMI issued guarantees for SME loans worth SEK 46.2 million; in 2011 ALMI issued guarantees worth SEK 42.1 million.

There was also increased co-operation with private banks in terms of co-financing, as ALMI requires private banks' co-participation and involvement in every deal. But co-financing is not the same as the government guarantee systems that are in place in other countries in the OECD Scoreboard. SME direct government loans increased from SEK 1 422 million (2007) to SEK 3 231 million (2009) but declined to SEK 2 023 million in 2011.

ALMI authorised loans

The number of ALMI authorised loans grew up to 2009 and then declined in both 2010 and 2011. To avoid undesired competition with private banks, the interest rate offered by ALMI was higher than the rate offered by private banks. The first choice for enterprises seeking external finance would have been to get the full loan from a private bank. This meant that most of those approaching ALMI had already approached banks, which had turned down their application or required co-financing from ALMI. There was evidence that the percentage of non-performing loans in relation to total loans peaked in 2009 and then declined. Thus, banks would have had an incentive to toughen the credit requirements for SME lending.

Export credit guarantees

In Sweden export credit guarantees are provided through The Swedish Export Credit Corporation (EKN), which offers guarantees up to 75 per cent of total transactions. In 2007 EKN created a particular business category for companies with a turnover of less than SEK *1 billion* and fewer than *500* employees. This business category was called "small and medium sized exporting companies" (although inconsistent with the normal Swedish SME definition). Efforts to support this set of companies were subsequently intensified and the volume of yearly guarantees given has almost doubled since 2007. During 2011 the volume of guarantees decreased somewhat to SEK 2.6 billion compared to SEK 2.9 billion in 2010. A contributing factor was the expiration of a temporary permit that EKN had received from the EU to guarantee short credit risks during 2010.*

Table 4.86. **SME export credit guarantees in Sweden, 2007-11**

In SEK million

	2007	2008	2009	2010	2011
In effect	1 495	2 081	2 722	2 906	2 615

Note. SMEs refer to firms with a turnover of less than SEK 1 billion and fewer than 500 employees.
Source: Swedish Export Credit Corporation.

StatLink *http://dx.doi.org/10.1787/888932796207*

Update on government response

In addition to the measures mentioned above, no new SME specific measures have been launched since 2009 to address the effects of the financial crisis on SMEs' access to finance. The recovery after the financial crisis is perceived to have been good in Sweden, which spilled over to the majority of SME. Nevertheless the drop in market demand forced many struggling businesses into default, illustrated by the increase in bankruptcies. In the face of the current euro crisis and the dip in SME lending, the Riksbank lowered its interest rate to both stimulate lending and weaken the Krona to help exports. There is also a discussion about a tax break for venture capital investors especially business angels. This tax break requires the approval of the European Commission and could not be implemented before the third or fourth quarter of 2013.

* For more information, see *www.ekn.se/sv/Sidor/Arsredovisningar/2011/Exportmojligheter/Stor-efterfragan-fran-sma-och-medelstora-foretag/*.

Table 4.87. **SME and entrepreneur scoreboard for Sweden, 2007-11**

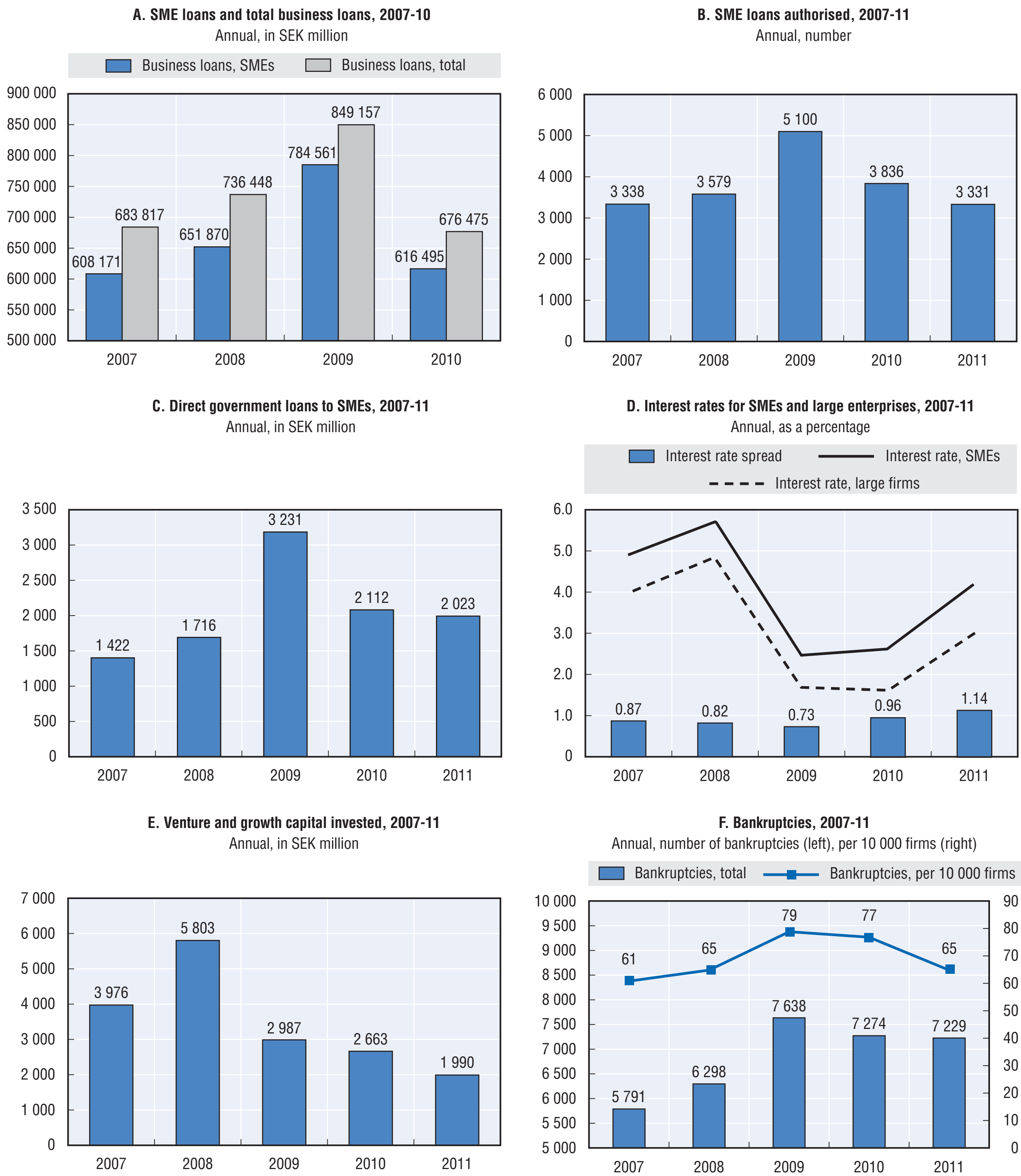
Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	SEK million	608 171	651 870	784 561	616 495	..
Business loans, total	SEK million	683 817	736 448	849 157	676 475	..
Business loans, SMEs	% of total business loans	88.9	88.8	92.4	91.1	..
Short-term loans, SMEs	SEK million	83 393	77 961	93 314	85 081	..
Long-term loans, SMEs	SEK million	524 778	753 909	691 247	531 414	..
Total short and long-term loans, SMEs	SEK million	608 171	651 870	784 651	616 495	..
Short-term loans, SMEs	% of total SME loans	13.7	12.0	11.9	13.8	..
Government guaranteed loans, SMEs[1]	SEK million	157	131	107	0	0
Government loan guarantees, SMEs[2]	SEK million	53	31	15	0	0
Direct government loans, SMEs	SEK million	1 422	1 716	3 231	2 112	2 023
Loans authorised, SMEs	Number	3 338	3 579	5 100	3 836	3 331
Non-performing loans, total	% of non-performing loans to total business loans	0.24	0.51	0.92	0.86	0.74
Interest rate, loans < EUR 1 million	%	4.86	5.66	2.42	2.58	4.15
Interest rate, loans > EUR 1 million	%	3.99	4.84	1.69	1.62	3.0
Interest rate spread (between loans < 1 million and > 1 million)	%	0.87	0.82	0.73	0.96	1.14
Relation between large firm and SME interest rates	%	82.1	85.5	69.8	62.8	72.6
Equity						
Venture and growth capital	SEK million	3 976	5 803	2 987	2 663	1 990
Venture and growth capital	Year-on-year growth rate, %	..	43.3	−47.6	−10.8	−25.3
Other						
Payment delays, SMEs	Average number of days	6.9	7.0	8.0	8.0	8.0
Bankruptcies, total	Number	5 791	6 298	7 638	7 274	7 229
Bankruptcies, total	Year-on-year growth rate, %	..	8.8	21.3	−4.8	−0.6
Bankruptcies, total	Per 10 000 firms	61.0	65.0	79.0	77.0	65

1. No new government guaranteed loans for SMEs were issued during 2010 by SKGF (Swedish Credit Guarantee Association). However, SKGF is and has not been the only provider of government guaranteed loans for SMEs.
2. Governmentally owned ALMI issued guarantees for SME loans to a value of SEK 46.2 million during 2010, and EKN issued governmentally backed loan guarantees for exporting businesses to a value of SEK 446 million.

Source: Refer to Table 4.88.

StatLink http://dx.doi.org/10.1787/888932796226

Figure 4.41. **Trends in SME and entrepreneurship finance in Sweden**



Source: Chart A: Statistics Sweden, Structural Business Statistics. Chart B and C: Almi Business Partner. Chart D: Statistics Sweden, Financial Market Statistics. Chart E: Swedish Venture Capital Association (SVCA). Chart F: Swedish Agency for Growth Policy Analysis, Statistics Sweden.

StatLink http://dx.doi.org/10.1787/888932794421

Table 4.88. **SME and entrepreneur definitions and sources of indicators for Sweden's scoreboard**

Indicators	Definitions	Sources
Debt		
Business loans, SMEs	Sum of SME short and long-term liabilities from credit institutions, excludes firms with 0 employees, stocks.	Statistics Sweden, Structural Business Statistics. Based on administrative data on liabilities collected from the reports of the National Tax Agency; a proxy since supply side data broken down by SMEs not available
Business loans, total	Total sum of business liabilities from credit institutions.	Statistics Sweden, Structural Business Statistics. Based on administrative data on liabilities collected from the National Tax Agency. Supply side data broken down by SMEs not available
Short-term loans, SMEs	Sum of SME debts (liabilities) with a due date less than 12 months from closing day (includes overdraft facilities and other loans from credit institutions).	Statistics Sweden, Structural Business Statistics. Based on administrative data on liabilities collected from the National Tax Agency. Supply side data broken down by SMEs not available
Long-term loans, SMEs	Sum of SME debts (liabilities) with a due date 12 months or longer from closing day (includes bond loans, overdraft facilities and other loans from credit institutions).	Statistics Sweden, Structural Business Statistics. Based on administrative data on liabilities collected from the National Tax Agency. Supply side data broken down by SMEs not available
Government guaranteed loans, SMEs	Total value of guaranteed loans. No new government guaranteed loans for SMEs were issued during 2010 by SKGF (Swedish Credit Guarantee Association). However, SKGF is and has not been the only provider of government guaranteed loans for SMEs.	Swedish Credit Guarantee Association (SKGF); reports on 14 regional and local associations. Supply side data
Government loan guarantees, SMEs	Value for all issued guarantees to SMEs by SKGF during the time period. No new government guaranteed loans for SMEs were issued during 2010 by SKGF (Swedish Credit Guarantee Association). However, SKGF is and has not been the only provider of government guaranteed loans for SMEs. Governmentally owned ALMI issued guarantees for SME loans to a value of SEK 46.2 million during 2010, and EKN issued governmentally backed loan guarantees for exporting businesses to a value of SEK 446 million.	Swedish Credit Guarantee Association (SKGF). Supply side data
Direct government loans, SMEs	Total sum of new lending by ALMI. Total lending refers to the ALMI share of lending not including the bank share of the loan when co-investments are made.	ALMI Business Partner
Loans authorised, SMEs	Number of new loan/credit applications approved by ALMI.	ALMI Business Partner. Supply side data
Non-performing loans, total	Swedish data on loans outstanding to all firms. Percentages of non-performing loans in relation to total business loans (Definition: Economic claims on loans overdue for at least 60 days).	Swedish Riksbank. Based on information from the Swedish major bank groups: SEB, Handelsbanken, Nordea, and Swedbank
Interest rate, loans < EUR 1 million	Average annual rates for new loans to SMEs (defined as loans up to EUR 1 million), base rate plus risk premium; for maturity less than 1 year, enterprises only.	Statistics Sweden, Financial Market Statistics. Produced on behalf of the Riksbank. Supply side information reported by Swedish Monetary Financial Institutions.
Interest rate, loans > EUR 1 million	Describes average interest rate for short-term (up to one year) loans up to and including EUR 1 million (as a proxy for SME loans).	Statistics Sweden, Financial Market Statistics. Produced on behalf of the Riksbank. Supply side information reported by Swedish Monetary Financial Institutions
Relation between large firm and SME interest rates	Calculated based on: interest rate for loans > EUR 1 million divided by interest rate for loans < EUR 1 million.	Statistics Sweden, Financial Market Statistics. Produced on behalf of the Riksbank. Supply side information reported by Swedish Monetary Financial Institutions

Table 4.88. **SME and entrepreneur definitions and sources of indicators for Sweden's scoreboard** *(cont.)*

Indicators	Definitions	Sources
Equity		
Venture and growth capital	Describes investment in Swedish companies from private equity companies. Includes early phases; seed, start-up and expansion – but not buyout. All enterprises.	Swedish Venture Capital Association (SVCA)
Other		
Payment delays, SMEs	Average number of days beyond the agreed date for business-to-business in 2008, 2009 and 2010. For 2007, average number of days beyond the agreed date for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia, European Payment Index 2008, 2009 and 2010
Bankruptcies, total (number)	Number of court ruled bankruptcies. All enterprises.	The Swedish Agency for Growth Policy Analysis
Bankruptcies, total (per 10 000 firms)	Incidence of insolvency. All enterprises.	The Swedish Agency for Growth Policy Analysis, Statistics Sweden

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Statistics Sweden, "Structural Business Statistics", available at *www.scb.se/Pages/Product____130402.* aspx

Statistics Sweden, "Financial Market Statistics", available at *www.scb.se/Pages/Product____37274.aspx*.

"Swedish Private Equity & Venture Capital Association", available at *www.svca.se/sv/Om-riskkapital/SVCAs-rapporter/Branschens-utveckling/*.

Switzerland

SMEs in the national economy

SMEs, defined as firms with up to 250 employees, constituted 99.6 % of Swiss enterprises and employed 66.6 % of the labour force in 2008.

Table 4.89. **Distribution of firms and employment in Switzerland, 2008**
By firm size, in percentages

Firm size by full time employment	Enterprises	Employed persons
SMEs (0-249)	**99.6**	**66.6**
Micro (0-9)	87.1	24.9
Small (10-49)	10.6	21.8
Medium (50-249)	2.0	20.0
Large enterprises (250 +)	**0.4**	**33.4**

Notes: Data include all industries and non-employer firms.
Source: Business Census 2008 of the Swiss Federal Statistical Office.
StatLink http://dx.doi.org/10.1787/888932796245

SME lending

Robust domestic economic activity and a relatively resistant export industry enabled the Swiss economy to perform better than had been anticipated in 2011 despite the strong Swiss franc and the economic recession in many EU countries. However, there were significant variations in various sectors and for many export companies the situation remained difficult, with strong downward pressure on margins. The remarkable resistance to the crisis was due in considerable part to the continuing robust economic activity on the domestic front. For example, investments in construction and domestic household demand were facilitated by the historically low interest rates, falling inflation and a growing population as a result of the continuous immigration.

The Swiss National Bank intervened in the foreign exchange markets to maintain a floor of CHF 1.20 to the euro but some thought that this was still too low for most SMEs who were hurt by a strong Swiss franc. The floor established for the exchange rate against the euro played a key role as this floor at least stabilised the currency situation and allowed companies to plan with greater certainty. This had a positive effect on the business situation.

Both total and SME business loans continued to grow both during the crisis and in the recovery period. The share of SME loans in total business loans was over 81% in 2007. It was not possible to compare the 2007 ratio with 2011 because of definitional changes at the national level. The share of SME credit used to credit authorised was about 77% over 2007-2011, indicating SMEs' need for credit.

Credit conditions

Banks reported a tightening of their lending standards for SME loans in 2011. However, the somewhat tighter lending standards hardly affected loan volumes as discussed above. There were no data on interest rates or collateral requirements for 2007 and 2008. Interest rates were historically low between 2009 and 2011. However, the interest rate spread between large and small enterprises grew over the period. The *Monthly Bulletin of Banking Statistics* showed that the percentage of SME loans requiring collateral increased from 76.3% to 80.4%.

Equity financing

In June 2012 the Swiss Federal Council published a report entitled "Venture Capital in Switzerland" (Swiss Federal Council, 2012). In its opinion, this market operates reasonably well. Nevertheless, it is planned to improve the venture capital environment in the area of tax and corporate law.

The report showed that seed financing, which is necessary for the creation of new enterprises, was difficult to obtain. There is potential for the commercialisation of research results but investors are reluctant to invest in such early stages because of the higher risk.

Table 4.90. **Private equity investments in Switzerland, 2007-11**

By phase of investment, in EUR thousand

	2007	2008	2009	2010	2011
Seed	9 326	19 733	5 784	5 237	6 503
Start-up	109 578	96 992	151 854	120 237	150 570
Later stage	154 941	60 751	66 551	48 637	33 466
Growth	58 316	165 463	76 735	196 649	43 373
Subtotal venture capital	*332 162*	*342 938*	*300 924*	*370 761*	*233 912*
Rescue/Turnaround	0	5 008	0	6 193	1 457
Replacement capital	0	4 626	6 250	5 091	483
Buyout	1 710 338	564 192	287 892	940 411	904 862
Total investments	**2 042 500**	**916 764**	**595 066**	**1 322 456**	**1 140 714**

Source: European Venture Capital Association (ECVA) Yearbook 2012.

StatLink http://dx.doi.org/10.1787/888932796264

As seen in the table above venture capital declined to its lowest level in 2011. Later stage and growth capital were responsible for this fall.

Other indicators

According to Intrum Justitia, payment delays remained steady or slightly decreased from 2007 through 2011. This indicated that SMEs' liquidity problems were not growing or as acute as elsewhere. However, insolvencies or bankruptcies rose 23% in 2009 and 20% in 2010 during the supposed recovery. However, the rise in 2011 was only 6.5%. The larger increases can be attributed in part to a new regulation which simplified the de-registration of inactive firms.

Government policy response

In Switzerland, there are four guarantee co-operatives that help promising SMEs obtain bank loans up to CHF 500 000. Three are regional co-operatives and a national one for women. The guarantee covers 65% of the loan. Loan guarantees increased steadily throughout the period 2007-2010 but declined slightly in 2011. The increase was largely due to a restructuring of the guarantee programmes. The guarantee programmes increased the amount of risk that they covered, and this in turn increased the demand for guarantees. The Swiss Export Risk Insurance (SERV) programme introduced new products: *a)* working capital insurance; *b)* counter guarantees; *c)* refinancing guarantees; and *d)* letter of credit confirmation insurance. It increased its cover ratio from 85% to 95% for private buyer risk under the supplier credit insurance. SERV also offered insurance for short- term exports to OECD/EU countries, if private insurance companies had rejected the exporter's application.

Table 4.91. **SME and entrepreneur scoreboard for Switzerland, 2007-11**

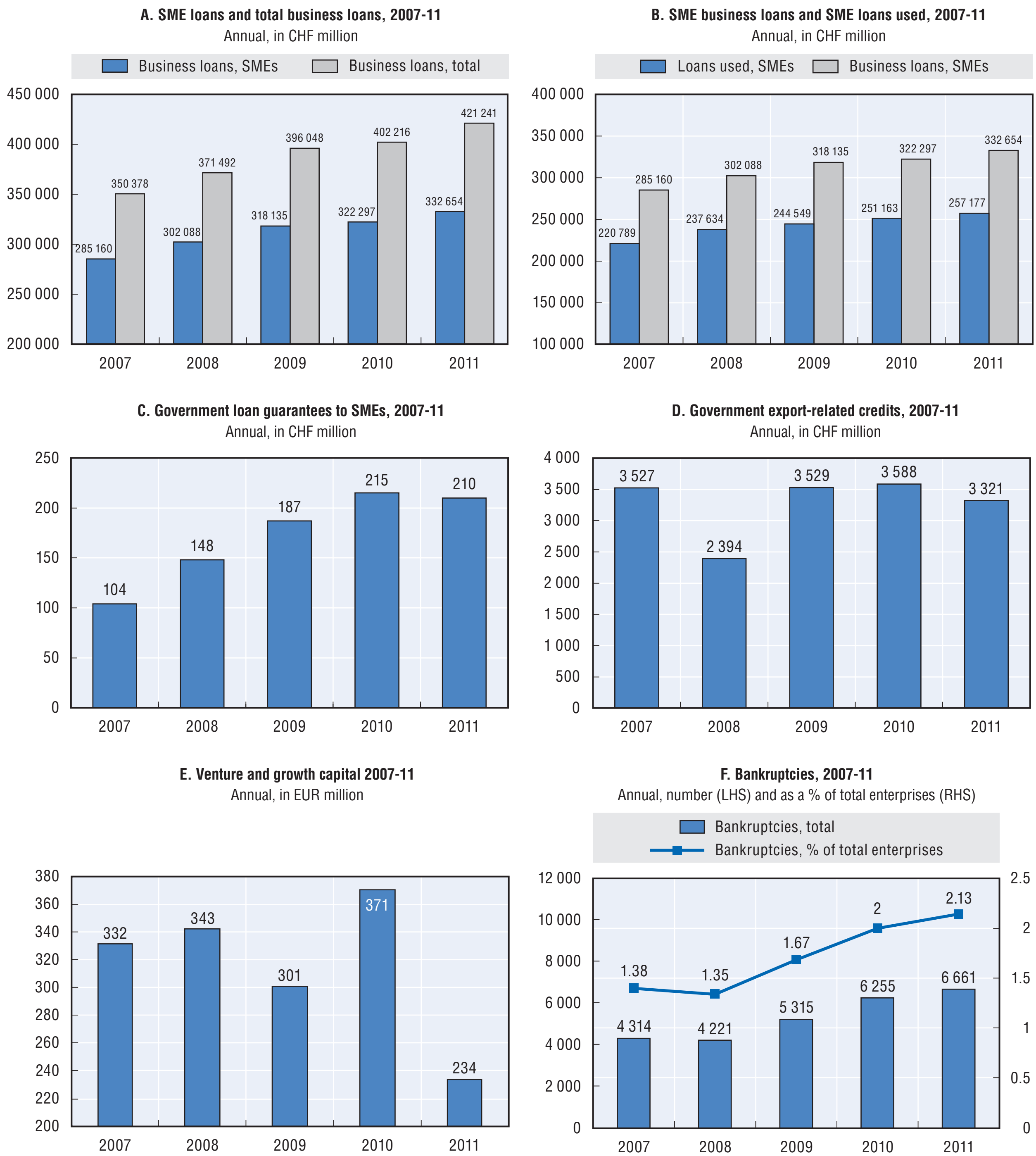
Indicators	Definitions	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	CHF million	285 160	302 088	318 135	322 297	332 654
Business loans, total	CHF million	350 378	371 492	396 048	402 216	421 241
Business loans, SMEs[1]	% of total business loans	81.4	..	..	..	..
Government export-related credits	CHF million	3 527	2 394	3 529	3 588	3 321
Government loan guarantees, SMEs	CHF million	104	148	187	215	210
Loans used, SMEs	CHF million	220 789	237 634	244 549	251 163	257 177
Interest rate	%	..	..	2.21	2.11	2.08
Interest rate spread	%	..	..	0.86	0.88	0.92
Collateral, SMEs	%	..	..	76	78	80
Equity						
Venture and growth capital	EUR million	332	343	301	371	234
Venture and growth capital	Year-on-year growth rate, %	..	3.2	–12.3	23.2	–36.9
Other						
Payment delays, SMEs	Days	13.7	12.0	13.0	13.0	11.0
Bankruptcies, total	Number	4 314	4 221	5 215	6 255	6 661
Bankruptcies	Year-on-year growth rate, %	..	–2.2	23.5	19.9	6.5
Bankruptcies	% of total enterprises	1.4	1.4	1.7	2.0	2.1

1. 2008, 2009, 2010 and 2011 not available due to definitional changes.

Source: Refer to Table 4.92.

StatLink http://dx.doi.org/10.1787/888932796283

Figure 4.42. **Trends in SME and entrepreneurship finance in Switzerland**



Sources: Charts A and B: Monthly Bulletin of Banking Statistics [www.snb.ch]. Chart C: Administrative data from the guarantee co-operatives. Chart D: SERV Annual Report. Chart E: EVCA Yearbook 2012. Chart F: Creditreform, Federal Statistical Office.

StatLink http://dx.doi.org/10.1787/888932794440

Table 4.92. **SME and entrepreneur definitions and sources of indicators for Switzerland's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Credit lines of all SMEs (firms with less than 250 employees, stocks).	*Monthly Bulletin of Banking Statistics*: 3Ca: Total credit lines (1) excl. total credit lines to companies with 250 or more employees (1) [*www.snb.ch*]
Business loans, total	Used credit of all enterprises (stocks).	Monthly Bulletin of Banking Statistics: 3Ca: Total credit lines (1) [*www.snb.ch*]
Short-term loans, all enterprises	Claims against banks, all enterprises.	*Monthly Bulletin of Banking Statistics*: 1G: Claims against banks with a residual maturity of up to 1 year (15)+(18)+(21) in relation to total claims against banks [www.snb.ch]
Long-term loans, all enterprises	Claims against banks, all enterprises.	*Monthly Bulletin of Banking Statistics*: 1G: Total claims against banks (11) excl. Claims against banks with a residual maturity of up to 1 year in relation to total claims against banks [*www.snb.ch*]
Government export-related credits	New commitments.	SERV Annual Report [*www.serv-ch.com*]
Government loan guarantees, SMEs	Four guarantee co-operatives offer loan guarantees for SME of up to CHF 500 000. The federal government covers 65 % of the exposure and shares in the administration costs. SMEs defined as firms with up to 250 employees.	Administrative data from the guarantee cooperatives.
Loans used, SMEs	Used credits of all SMEs (firms with up to 250 employees).	*Monthly Bulletin of Banking Statistics*: 3Ca: Total utilisation (2) excl. total utilisation of lending to companies with 250 or more employees (2) [*www.snb.ch*]
Interest rate	Interest rate at the end of the year for investment loans amounts less than CHF 1 million.	Monthly Statistical Bulletin: E3c: Average Investment loans with fixed interest rates for loan amount between CHF 50 000 and 1 million in December
Interest rate spread	Interest rate at the end of the year for investment loans amounts less than CHF 1 million and equal to greater than CHF 1 million.	*Monthly Statistical Bulletin*: E3c: Interest rates of investment loans between CHF 50 000 and 1 million (average) minus interest rates of investment loans between CHF 1 and 15 million (average) in December
Collateral, SMEs	Secured demands opposite customers in relation to total demands opposite customers.	*Monthly Bulletin of Banking Statistics*: 3Ca: secured demands opposite customers (5) in relation to total utilisation of demands opposite customers (4) for SMEs (up to 249 employees)
Equity		
Venture and growth capital	Seed, Start-up, late and growth stage venture capital invested.	EVCA Yearbook 2012
Other		
Payment delays	B2B.	Intrum Justitia, European Payment Index
Bankruptcies, total	Number of enterprises.	Creditreform
Bankruptcies	Bankruptcies as a percentage of total enterprises.	Number of enterprises in the Business Census 2008, Federal Statistical Office (FSO)

References

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Thailand

SME lending

There were 2.9 million SMEs (firms with less than 200 employees) in Thailand in 2010, constituting 99.6% of all enterprises and employed 78% of the labour force including agriculture. The economy of Thailand was hit by two major events during the period under study: political instability and the financial crisis originating in the West. In *Studies on SME and Entrepreneurship: Thailand. Key Issues and Policies* (2011), the OECD found that less than half of the 2.9 million SMEs can access formal finance. This problem was compounded in Thailand by systemic volatility in financial markets. The Asian financial crisis and the recent global financial crisis have made it difficult for Thai banks to accept risky loans, not least because they were often burdened with extremely high non-performing loan rates. The lesson learned from the Asian crisis in 1997 was that adequate capital alone cannot encourage bank lending. Banks will only lend when they are comfortable with the level of credit risk.

Table 4.93. **Distribution of firms in Thailand, 2010**
By firm size

Enterprise size (employees)	Number	%
All enterprises	**2 922 307**	**100.0**
SMEs (up to 200)	**2 913 167**	**99.6**
Small enterprises (up to 50)	*2 894 780*	*99.0*
Medium Enterprises (50-200)	*18 387*	*0.6*
Large (200+)	**9 140**	**0.3**

Note: Data include the manufacturing, services, wholesale and retail industries. Non-employer firms are included.
Source: Thai Office of SME Promotion.

StatLink http://dx.doi.org/10.1787/888932796302

Most banks do not use the national definition for an SME. Instead, they use the size of loan as a proxy, and definitions vary across banks. Total business loans decreased between 2007 and 2011, but SME loans increased gradually so that the share of SME loans increased from 28.1% (2007) to 37% (2011). Bank lending to businesses in general languished at two-thirds of the 1990s levels. SME short-term loans decreased in 2011 so that their share in total SME loans also declined from 58% (2010) to 47% (2011). The percentage of SME non-performing loans was high compared to western countries. 7.6% of SME loans were non-performing in 2009, but this declined to 3.6% in 2011.

SME loans authorised vs. requested

The ratio of loans authorised vs. requested rose from 71.54% (2007) to 73.1% (2010), indicating that banks were continuing to provide credit although the terms were tightening.

Credit conditions

Interest rates for SMEs continued to climb over the entire period since Thailand did not engage in monetary easing. Interest rate spreads between small and large enterprises increased from 1.2% (2007) to 2.7% (2011). More importantly, the value of collateral required increased to more than five times the value of SME loans in 2011 due to extreme risk aversion on the part of banks. However, this was not entirely unreasonable given the historic high rate of non-performing SME loans.

Equity financing

Scarce supplies of venture capital stifled the business momentum of innovative firms. The venture capital and private equity industry is small in Thailand and has focused on mergers and acquisitions and restructurings, rather than start-up and mezzanine finance. The Market for Alternative Investments was established in 1999. It provides a simpler and lower cost alternative to smaller firms than the Stock Exchange of Thailand (SET). As such, MAI provides an exit point for venture capital investors and facilitates capital raising by firms from institutional and sophisticated investors. As of 2010, the MAI had 62 companies listed; and the market capitalisation of MAI listings was THB 43 billion. In 2009, there were only 11 members of the Thai Venture Capital Association. In addition, the weak Thai legal system and the underdeveloped capital market made exits difficult (Scheela and Jittrapanum, 2008).

Government policy response

Thailand established a five-year Portfolio Guarantee Scheme for SMEs in February 2008. All local commercial banks signed a Memorandum of Understanding to participate. It was expected that this would assure participating banks an acceptable level of risk. This supplemented the activities of the state-owned banks such as the Small Business Credit Guarantee Corporation (SBCGC).

The SBCGC provides credit guarantees to viable small businesses which do not have sufficient collateral. The SBCGC provides a letter of guarantee for approved applications to the financial institutions after the SME has paid the guarantee fee. In 2009, it had a THB 30 billion loan guarantee facility. In 2007, 2 866 SMEs were accepted for credit guarantees. The total number of loans guaranteed was an average of 7 800. This is a relatively small number compared to the total number of SMEs, pointing to an unexploited potential to ease SMEs' access to credit. In 2011 the SBCGC had THB 89 billion in outstanding loan guarantees.

Box 4.11. **Definition of SMEs used in Thailand's SME and entrepreneur scoreboard**

Country definition

On 11 September 2002, the Ministry of Industry introduced the definition of Thai small and medium-sized enterprises (SME). This definition is based on the number of employees and fixed capital. An enterprise is categorised as an SME if it has less than 200 employees and fixed capital less than THB 200 million, excluding land and properties. SMEs in Thailand are classified in three sectors: production, service, and trading.

Definition of SMEs according to the Thai Ministry of Industry

Type	Small		Medium	
	Employees	Capital (THB million)	Employees	Capital (THB million)
Production	Not more than 50	Not more than 50	51-200	51-200
Service	Not more than 50	Not more than 50	51-200	51-200
Wholesale	Not more than 25	Not more than 50	26-50	51-100
Retail	Not more than 15	Not more than 30	16-30	31-60

The SME definition used by financial institutions

The official definition for SMEs is not used by financial institutions in Thailand. In fact, each financial institution in Thailand is permitted to use their own definition of SMEs, which typically follows criteria such as sales less than THB 400-500 million and/or credit line less than THB 200 million. Therefore, data presented in Thailand's profile does not reflect the above national definition.

Table 4.94. **SME and entrepreneur scoreboard for Thailand, 2007-11**

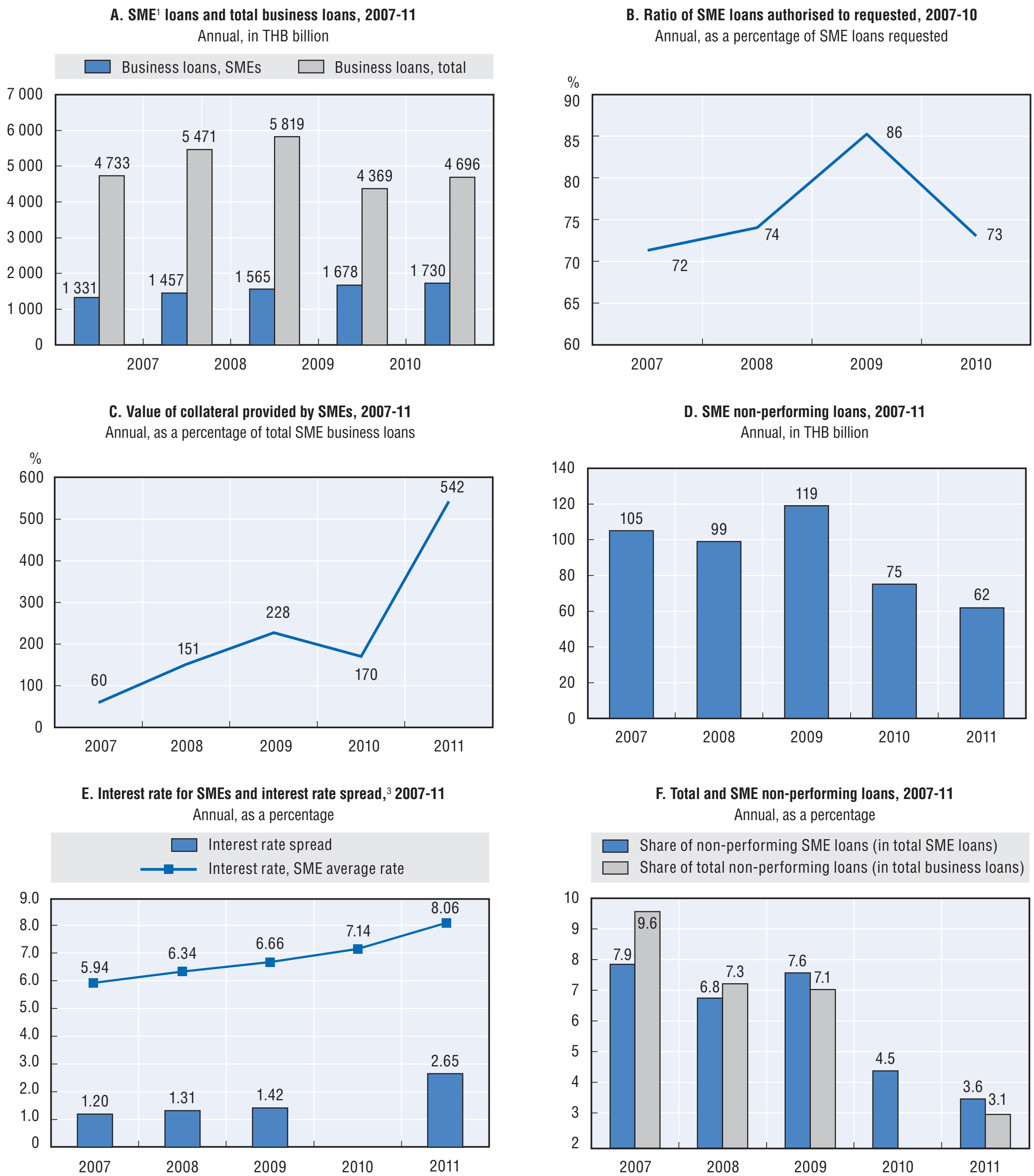
Indicators	Definitions	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	THB billion	1 331	1 457	1 565	1 678	1 729
Business loans, total	THB billion	4 733	5 471	5 819	4 369	4 695
Business loans, SMEs	% of total business loans	28.1	26.6	26.9	38.4	36.8
Short-term loans, SMEs	THB billion	578	647	692	973	783
Long-term loans, SMEs	THB billion	753	810	873	701	879
Total short and long-term loans, SMEs	THB billion	1 331	1 457	1 565	1 674	1 662
Short-term loans, SMEs	% of total SME loans	43.4	44.4	44.2	58.1	47
Loan guarantees outstanding, SBGC	THB billion	..	..	..	64.0	86.9
Government guaranteed loans, SMEs	THB billion	..	..	21	..	..
Loans authorised, SMEs	THB billion	217	312	245	392	..
Loans requested, SMEs	THB billion	304	421	218	536	..
Ratio of loans authorised to requested, SMEs	%	71.5	74.1	85.6	73.1	..
Non-performing loans, total	THB billion	453	397	412		145
Non-performing loans, SMEs	THB billion	105	99	119	75	62
Non-performing loans, SMEs	% of SME business loans	7.9	6.8	7.6	4.5	3.6
Non-performing loans, total	% of total business loans	9.6	7.3	7.1	..	3.1
Interest rate, SME average rate	%	5.94	6.34	6.6	7.14	8.1
Interest rate spread (between average interest rate for loans to SMEs and large firms)	%	1.20	1.30	1.42	..	2.7
Collateral, SMEs	THB billion	793	2 201	3 553	2 855	9 370
Collateral, SMEs	Value of collateral provided by SMEs over SME business loans, %	59.6	151.1	228.4	170.1	542.0
Other						
Payment delays, SMEs	Average number of days	33.0	..	..	..	..
Bankruptcies, total[1]	% of insolvencies over total number of SMEs	66.0	..	..	..	..

1. According to the Bank of Thailand, Thailand only has data for 2007 due to the financial statement reformat required by the Ministry of Commerce in 2009. Therefore, all financial statement data in 2008 are delayed for submission. In 2007, there were 370 118 insolvent companies in Thailand. In other words, Thailand had 6 600 insolvent companies per 10 000 enterprises. However, it should be noted that while companies shut down very frequently, it is also very easy for them to restart.

Source: Refer to Table 4.95.

StatLink http://dx.doi.org/10.1787/888932796321

Figure 4.43. **Trends in SME and entrepreneurship finance in Thailand**



1. Firms with sales less than THB 400 million (EUR 10 million).
2. Spread between average interest rate for loans to SMEs and large firms. Banks did not provide information for 2010.

Source: Bank of Thailand.

StatLink http://dx.doi.org/10.1787/888932794459

Table 4.95. **SME and entrepreneur definitions and sources of indicators for Thailand's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Outstanding amount of SME loans provided by bank at the end of period, stocks. Banks in Thailand define SMEs as enterprises with sales less than THB 400 million and/or a credit line less than THB 200 million.	Bank of Thailand
Business loans, total	Outstanding amount of all loans (excluding interbank loans) provided by bank at the end of period, stocks.	Bank of Thailand
Short-term loans, SMEs	Outstanding amount of SME loans provided by bank with the maturity less than 1 year, stocks.	Bank of Thailand
Long-term loans, SMEs	Outstanding amount of SME loans provided by bank with the maturity more than 1 year, stocks.	Bank of Thailand
Loan guarantees outstanding, SBGC	SME loans guaranteed by Credit Guarantee Corporation. SMEs are defined as an enterprise with less than 200 employees and/or has fixed assets (excluding land) of less than THB 200 million.	Bank of Thailand
Government guaranteed loans, SMEs	Guarantees outstanding at the end of the year. SMEs are defined as an enterprise with less than 200 employees and/or has fixed assets (excluding land) of less than THB 200 million.	Small Business Credit Guarantee Corporation, Annual Report
Loans authorised, SMEs	SME loans approved by the banks.	Bank of Thailand
Loans requested, SMEs	SME loans requested for approval.	Bank of Thailand
Non-performing loans, total	Figures cover all enterprises in the Thai banking system.	Bank of Thailand
Non-performing loans, SMEs	SME loans 90 days past due date. Figures cover all SMEs in the Thai banking system.	Bank of Thailand
Interest rate, SME average rate	Average interest rate charged to new SME loans, approved by the bank during a year.	Bank of Thailand
Interest rate spread (between average interest rate for loans to SMEs and large firms)	Average interest rate spread between SME loans and corporate loans.	Bank of Thailand
Collateral, SMEs	Appraisal value of collateral based on market valuation.	Bank of Thailand
Other		
Payment delays, SMEs	Average payment delay in days for trade credit, business-to-business (i.e. seller gives credit term to buyer for 30 days but the buyer makes a delayed payment after credit term 15 days. So, the payment delay is 15 days). SMEs are defined according to the national definition contained in Box 4.11.	Business online
Bankruptcies, SMEs	Insolvent SMEs divided by the total number of SMEs, presented as a percentage. SMEs are defined according to the national definition contained in Box 4.11.	Business online

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Turkey

SMEs in the national economy

In Turkey an enterprise is a legal unit or combination of legal units. The definition of an SME (see Box 4.12) does not completely correspond to the EU definition. As illustrated in Table 4.96, micro-enterprises accounted for more than 98% of all firms in 2009; they employed about 40% of the labour force and accounted for 60% of exports.

Table 4.96. **Distribution of firms in Turkey, 2009**

By firm size

Firm size (employees)	Number of firms	%	Number of employees	%
All firms	**2 483 300**	**100.0**	**6 921 035**	**100.0**
Micro (1-19)	*2 445 339*	*98.5*	*2 739 856*	*39.6*
Small (20-49)	*21 906*	*0.9*	*700 709*	*10.1*
Medium (50 -249)	*13 233*	*0.5*	*1 363 209*	*19.7*
Large (250+)	**2 822**	**0.1**	**2 117 261**	**30.6**

Note: Firms that have no employees are included in micro- enterprises.

Source: Turkish Statistical Institute (TurkStat 2009), Annual Industry and Service Statistics.

StatLink http://dx.doi.org/10.1787/888932796340

SME lending

Both business and SME loans increased over the period 2007-2011. The SME share was 35.5% in 2011 down from 40.1% in 2007. SME non-performing loans rose during the recession but have then declined to their 2007 rate.

Equity financing

Venture capital investments in SMEs increased between 2007 and 2011. After a drop in 2008 and 2009, venture capital investments rebounded in 2010-2011. Between 2009 and 2011, venture capital investments in SMEs increased almost fourfold. The data include only information from the venture capital trusts which report to the capital market board.

Other indicators

Bankruptcies are declared in a number of ways. A debtor firm or its creditors can directly apply to a commercial court to start bankruptcy procedures. When the liabilities exceed the assets, the authorised representatives or the managers of capitalized companies and co-operatives are *obliged* to inform a commercial court. A creditor can request the commercial court to begin proceedings if the creditor has been sent a payment order and it has not been paid. The court can then resend the payment order to the debtor and it should be paid within 5 days as well as court costs. If there are no objections, the payment order becomes final. However, the debtor can object and the proceedings are halted. The creditor can file a bankruptcy case with the commercial court. These legal proceedings can be lengthy and this results in a low number of bankruptcies.

Government policy response

The Small and Medium Enterprises Development Organisation of the Republic of Turkey (KOSGEB), aware of the difficulties SMEs have in accessing finance, developed an SME Finance Model in 2003. All enterprises registered in the enterprise data base of KOSGEB can benefit from its programmes. KOSGEB offers interest subsidies and loan guarantees to increase lending and assists firms in listing on the stock market.

Interest subsidies

KOSGEB created interest support programmes in 2003 to assist SMEs with interest payments. The banks make proposals to KOSGEB for minimum interest rates; they are evaluated and the selected banks enter a protocol with KOSGEB. Enterprises registered with KOSGEB apply directly to the bank for a subsidised loan. The bank decides on the credit-worthiness of the enterprise. Interest support programmes cover loans for:

- machinery and equipment;
- export promotion and finance;
- tradesmen support in manufacturing;
- emergency support after natural disasters.

Loan size and duration are determined according to the purpose of the loan. The credit interest support programmes can be divided into two: the Enterprise Development Credit Interest Programme and the Investment Support Credit Interest Programme.

Enterprise Development Credit Interest Programmes

The Enterprise Development Credit Interest Support Programmes provided special financial support to help SMEs cope with the global economic crisis. The objectives of the Programmes included improving competitiveness, helping firms to survive in difficult conditions, decreasing their financial constraints in terms of production costs, and in providing new investment, production and employment facilities. The upper limit of the credit is EUR 11 000. For the women- owned enterprises the upper limit is EUR 13 000.

KOSGEB also provided the Emergency Support Credits to help SMEs cope with the natural disasters such as floods, earthquakes, drought, storms, wars, general strikes, fire, terrorism and civil disturbances. Enterprises which officially document their natural disasters can benefit from credit support. For instance, following the devastating earthquake at Van, an emergency support loan with an upper limit of almost EUR 45 000 was provided to the local small and medium-sized enterprises in Van and neighbouring provinces. No repayment is required in the first six months and the interest is covered by the KOSGEB.

Investment Support Credit Interest Programmes

Under this programme KOSGEB supports the machinery and equipment purchases of medium-high and high technology sectors and medium-low and low technology sectors. This programme also supports the expansion of the enterprises work force The interest rate is paid by KOSGEB. The upper limit of the Programme 1 (for medium-high, high technology sectors) is EUR 271 000; Programme 2 (for medium-low, low technology sectors) is EUR 135 000. The enterprises are required to sign a contract which assures that the machinery and equipment they have purchased with this credit will be kept during the entire repayment period. The bank expert monitors whether the machine is in operation.

GAP-Machinery and Equipment Support Programme supports investment related equipment purchases of SMEs located in the South-eastern Anatolia Region of Turkey.*All registered SMEs can participate and the upper limit of the credit programme is EUR 135 000.

Table 4.97 shows the number of firms supported and the credit allocated under KOSGEB's interest support programmes over the years. Between 2003 and 2011 the value of allocated credit under various interest subsidies amounted to EUR 5 billion. During the global economic crisis, starting from 2008, KOSGEB increased its allocation for interest support programmes. In 2009, with the amendment of KOSGEB Establishment Law, KOSGEB supported both the service sector and the manufacturing sector.

Table 4.97. **Interest Support Programme of KOSGEB, 2003-11**

	Number of firms	Total amount of allocated credit (EUR)
2003	556	20 531 081
2004	2 840	133 097 046
2005	3 753	203 131 441
2006	2 787	145 221 090
2007	9 679	454 759 487
2008	23 886	806 053 828
2009	69 264	1 260 676 073
2010	43 310	861 543 593
2011	48 218	1 172 424 385
Total	**202 293**	**5 057 438 024**

Source: Small and Medium Industry Development Organisation of Turkey (KOSGEB).

StatLink http://dx.doi.org/10.1787/888932796359

Loan guarantee programmes

The Credit Guarantee Fund (KGF) provides SME loan guarantees. Its shareholders include KOSGEB, the Union of Chambers and Commodity Exchanges, the Confederation of Turkish Craftsmen and Tradesmen and many banks. KOSGEB holds 33.2% of the total capital of KGF. The Turkish Treasury provides counter-guarantees to KGF.

* The GAP is a regional development project which aims at improving the income level and quality of life of people living in the region by mobilising resources in South-eastern Anatolia, eliminating development disparities between this region and other regions of the country and thus contributing to the targets of economic growth and social stability at national level. The GAP is implemented in the South-eastern Anatolia Region which covers 9 provinces (Adıyaman, Batman, Diyarbakır, Gaziantep, Kilis, Mardin, Siirt, Şanlıurfa and Şırnak). In terms of both population size and surface area the region corresponds approximately to 10% of the country.

Table 4.98. **KGF guarantees and credit volume, 2007-11**

	No. enterprises	No. guarantees	Guaranteed amount (TRY million)	Credit volume (TRY million)
2007	249	305	52.9	75.4
2008	914	1 138	284.5	402.5
2009	1 905	2 605	565.3	790.6
2010	1 933	3 090	938.9	1 302
2011	2 256	3 207	1 123	1 622

Source: Credit Guarantee Fund (KGF) and Turkish Treasury (Hazine).

StatLink http://dx.doi.org/10.1787/888932796378

There has been a significant increase in guaranteed loans between 2007-2011. During the financial crisis the Treasury provided support to those SMEs whose collateral was considered inadequate due to their increasing level of debt. The Treasury support enabled them to restructure their debt.

In addition international financial organisations such as the World Bank, the European Investment Bank and the Council of Europe Development Bank provided direct loans to SMEs which were guaranteed by the Treasury.

Table 4.99. **International financial institutions direct loans with Treasury Guarantee, 2007-10**

In USD million

	2007	2008	2009	2010
Direct loans	552	842	997	1 321

Source: Turkish Treasury (Hazine).

StatLink http://dx.doi.org/10.1787/888932796397

Emerging Companies Market Support Programme

Starting in 2011 KOSGEB began to support equity investment in SMEs by assisting SMEs which wanted to list on the stock market. Under the programme KOSGEB pays the fees for going public and does not require their repayment. In addition the SME Development and Support Administration offers TRY 100 000 in the form of a non-recourse loan.

KOSGEB support to venture capital

Istanbul Venture Capital Initiative (iVCi), founded in 2007, is Turkey's first ever dedicated fund of funds and co-investment programme. The investors in iVCi are the Small and Medium Industry Development Organisation of Turkey (KOSGEB), the Technology Development Foundation of Turkey (TTGV), the Development Bank of Turkey (TKB), Garanti Bank, National Bank of Greece Group (NBG) and the European Investment Fund (EIF). The EIF is the adviser to iVCi.

iVCi leverages on the experience of EIF, the European Union's specialised financial body for Small and Medium Enterprises (SMEs) and the risk capital arm of the European Investment Bank Group (EIB Group). iVCi has signed eight commitments amounting to EUR 144 million. With the addition of a regional fund in 2012, iVCi will be fully committed bringing the total portfolio to nine funds.

Table 4.100 shows the capitalisation contributed by KOSGEB to iVCi.

Table 4.100. **Capitalisation of KOSGEB to iVCi, 2008-12**

	Amount (euro)
2008	1 500 000
2009	1 093 750
2010	1 406 250
2011	3 025 000
2012	8 750 000
Total	**15 775 000**

Source: Credit Guarantee Fund (KGF).

StatLink http://dx.doi.org/10.1787/888932796416

Box 4.12. **Definition of SMEs used in Turkey's SME and entrepreneur scoreboard**

The Law on the SME definition entered into force on 18 May 2006 and was amended on 4 November 2012. According to that law an SME is an economic entity which employs less than 250 persons and which has an annual turnover or an annual balance sheet not exceeding TRY 40 Million. The characteristics of micro, small and medium enterprises are illustrated below.

	Micro enterprise	Small enterprise	Medium enterprise
Employees	< 10	< 50	< 250
Annual turnover	≤ 1 TRY million	≤ 8 TRY million	≤ 40 TRY million
Annual balance sheet	≤ 1 TRY million	≤ 8 TRY million	≤ 40 TRY million

Source: Law on the SME definition, 4 November 2012.

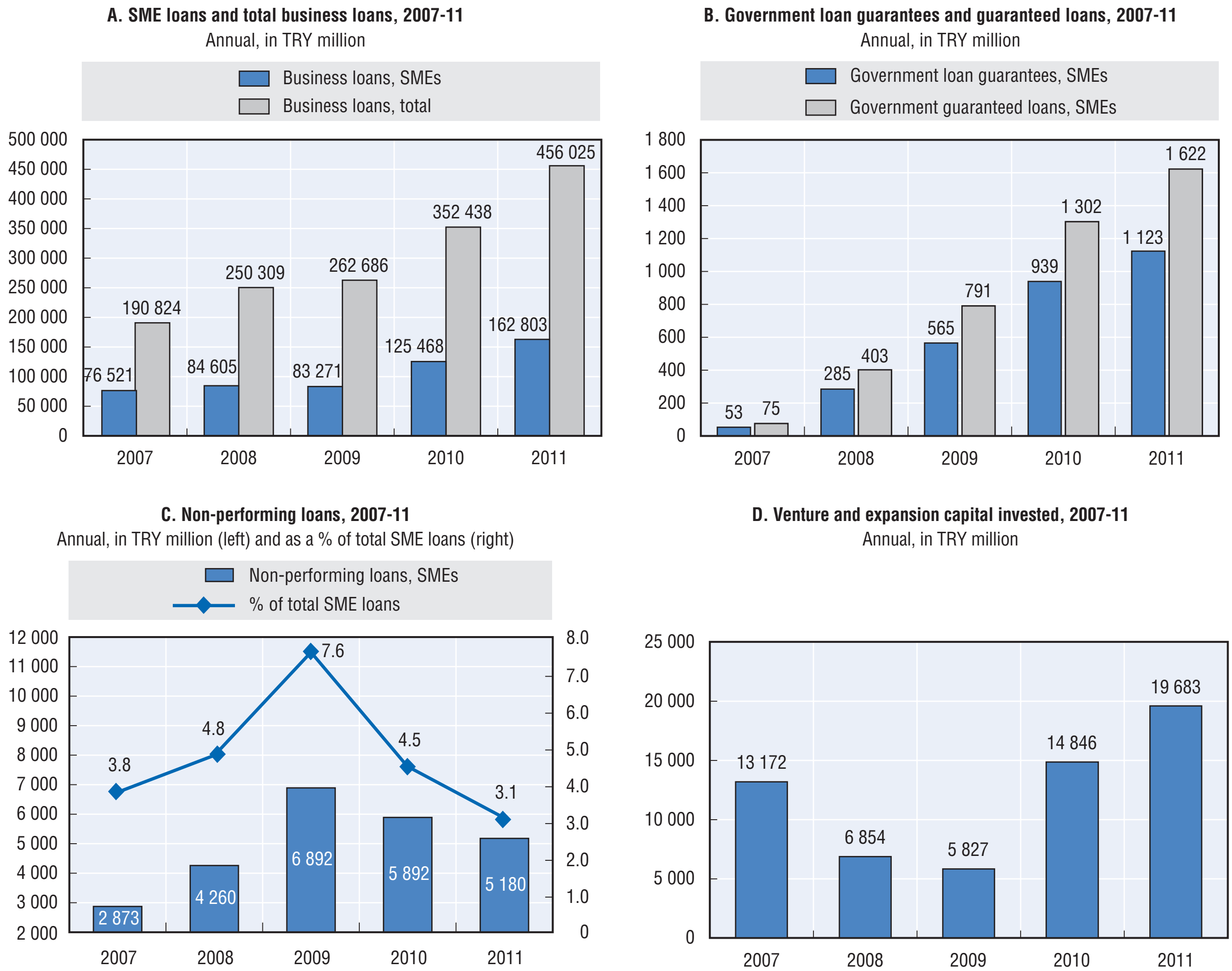
Table 4.101. **SME and entrepreneur scoreboard for Turkey, 2007-11**

Indicator	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	TRY million	76 521	84 605	83 271	125 468	162 803
Business loans, total	TRY million	190 824	250 309	262 686	352 438	456 025
Business loans, SMEs	% of total business loans	40.1	33.8	31.7	35.6	35.5
Government loan guarantees, SMEs	TRY million	52.9	284.5	565.3	938.9	1 123
Government guaranteed loans, SMEs	TRY million	75.4	402.5	790.6	1 302	1 622
Direct loans	USD million	552	842	997	1 321	
Non-performing loans, total	TRY million	10 345	14 053	21 853	19 993	18 973
Non-performing loans, SMEs	TRY million	2 873	4 260	6 892	5 892	5 180
Non-performing loans, SMEs	% of total SME loans	3.8	4.8	7.6	4.5	3.1
Equity						
Venture and growth capital	TRY thousand	13 172	6 854	5 827	14 846	19 683
Venture and growth capital	Year-on-year growth rate, %	..	−48.0	−15.0	154.8	32.6
Other						
Bankruptcies, total	Number	52	47	50	68	72

Source: Refer to Table 4.102.

StatLink http://dx.doi.org/10.1787/888932796435

Figure 4.44. **Trends in SME and entrepreneurship finance in Turkey**



Sources: Charts A and C: Turkish Banking Regulation and Supervision Agency (BDDK). Chart B: Credit Guarantee Fund (KGF) and Turkish Treasury. Chart D: Capital Markets Board of Turkey (SPK).

StatLink http://dx.doi.org/10.1787/888932794478

Table 4.102. **SME and entrepreneur definitions and sources of indicators for Turkey's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Bank and financial institution loans to SMEs, amount outstanding (stocks) at the end of period; by firm size using the national definition of SME.	Supply side data from financial institutions, consolidated data from Turkish Banking Regulation and Supervision Agency (BDDK)
Business loans, total	Bank and financial institution business loans to all non-financial enterprises, amount outstanding (stocks)	Supply side data, consolidated data from Turkish Banking Regulation and Supervision Agency (BDDK)
Government loan guarantees, SMEs	Guarantees available to banks and financial institutions, outstanding	Supply side data, consolidated data from Credit Guarantee Fund (KGF) and Turkish Treasury (Hazine)
Government guaranteed loans, SMEs	Credit volume supported by loan guarantees	Credit Guarantee Fund (KGF) and Turkish Treasury (Hazine)
Direct loans	The amount of loans acquired from international financial institutions (IFIs) under Treasury guarantee which are transferred by state banks to the SMEs for investment financing	Supply side data, consolidated data from Turkish Treasury and KGF.
Non-performing loans	Non-performing loans out of total business loans	Supply side data, consolidated data from Turkish Banking Regulation and Supervision Agency (BDDK)
SME non-performing loans	SME non-performing loans out of total SME loans	Supply side data, consolidated data from Turkish Banking Regulation and Supervision Agency (BDDK)
Equity		
Venture and growth capital	Seed, start up, early stage and expansion capital (including buy outs, turnarounds and replacements of venture capital trusts	Administrative data from Capital Markets Board of Turkey (SPK). Investment in SMEs only.
Other		
Bankruptcies, total	Number of enterprises ruled bankrupt.	The Union of Chambers and Commodity Exchanges of TURKEY (TOBB) and Turkish Trade Registry Gazette

United Kingdom

SMEs in the national economy

There were over 4.5 million enterprises in the United Kingdom in 2011. Of these 74.1% had no employees but only an owner/manager. The remaining SMEs with one employee or more were distributed as follows in Table 4.103. Of these enterprises, 82.6% were small enterprises and had less than 10 employees.

Table 4.103. **Distribution of firms in the United Kingdom, 2011**
By firm size

Firm size (employees)	Number	%
All firms	**1 178 746**	**100.0**
SMEs (1-249)	**1 172 426**	**99.5**
Micro (1-9)	*968 545*	82.2
Small (10-49)	*173 406*	14.7
Medium (50-249)	*30 475*	2.6
Large (250+)	**6 320**	**0.5**

Note: Non-employer firms are not included.

Source: Department for Business Innovation & Skills, available at www.bis.gov.uk/analysis/statistics/business-population-estimates.

StatLink http://dx.doi.org/10.1787/888932796454

SME lending

Outstanding SME loans grew continuously from 2007 to their peak in mid-2009. They have been in decline ever since and the drop was particularly sharp in the first half of 2011. Lending to large enterprises began to decline earlier than SME lending, and has fallen further from its peak in late 2008, although the expansion in lending before 2008 was larger. Thus, the SME share in total business lending has increased since 2007 and is more than one fifth of the stock of lending to all UK businesses. However, this should not be taken as a sign that SMEs enjoyed easier access to finance than did large enterprises.

SME loans authorised vs. requested

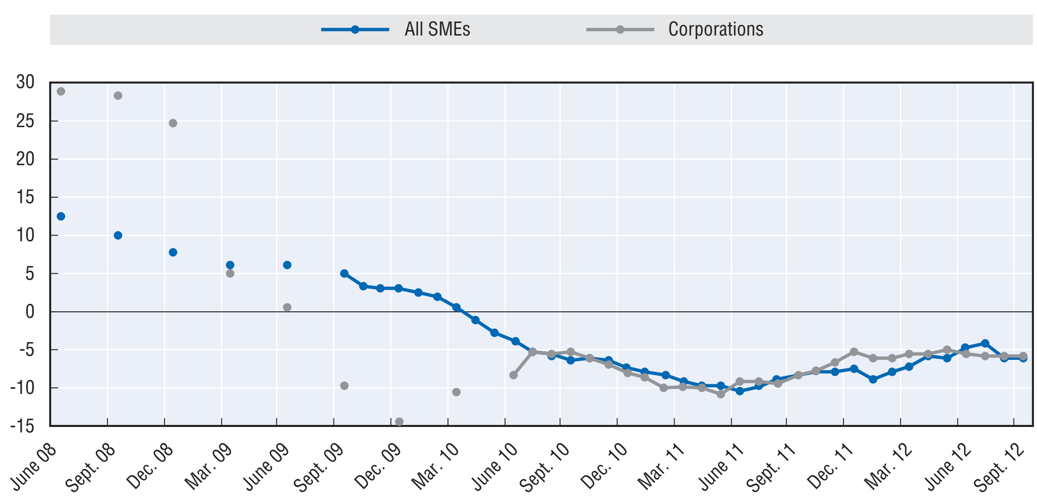
The Department for Business Innovation and Skills (BIS) conducts a demand survey among SME employers every two years. In its latest survey, it found that the percentage of SMEs seeking finance rose from 23% (2007-2008) to 26% (2010)[1] although there is other evidence to show a decline in the demand for bank finance.[2] Over half of SMEs were seeking finance for working capital, compared to 21% seeking it for investment purposes. The majority of those SMEs seeking finance were able to obtain the sum they required. Of those seeking finance, 68% obtained all the finance they needed and 6% obtained some of the finance they needed in 2010. Those SMEs that obtained no credit in 2010 (21%) increased almost threefold since 2007-2008 (from 8%). Surprisingly, a significant number of SMEs did not know why the bank rejected their application.

Credit conditions

Most SMEs paid less for finance overall in 2011 compared to 2008; the average interest rate on fixed-rate lending fell from 4.54% at the end of 2008 to 3.5% at the end of 2011. However, the spread over base rate increased over the same period by around 50 basis points. Interest rate spreads between large enterprises and SMEs increased through 2010 but declined slightly in 2011. Collateral requirements also declined between 2010 and 2011, with 34%[3] of loans (including commercial mortgages) requiring security in 2011, compared to 45% in 2010.[4] This runs contrary to a general perception that banks' requirements for collateral have increased, but it is possible, especially at the smaller end, that businesses are choosing unsecured products rather than secured loans and are willing to pay a higher price. There is also the belief that banks are already pricing in the cost of complying with Basel III and other incoming financial regulations.

Figure 4.45. **Lending to SMEs[1] and corporations in the United Kingdom, 2008-12**

Year-on-year percentage change



Note: Quarterly data for SMEs from June 2008 until September 2009 and for corporations from June 2008 until June 2010.

1. SMEs are defined as firms with an annual turnover of up to GBP 25 million.

Source: British Bankers Association (BBA), Bank of England and BIS calculations.

StatLink http://dx.doi.org/10.1787/888932794497

Equity financing

While only a minority of SMEs seek external equity financing, it is an important source of finance for innovative businesses with high-growth potential. The venture capital market suffered a sharp decline between 2008 and 2009, particularly for expansion-stage investments, but it was also the growth stage which caused an overall increase in 2010 (other categories continued to fall). 2011 saw a stabilisation in the market, with the value of investments increasing slightly.

Table 4.104. **Venture and growth capital investment in the United Kingdom, 2008-11**

By stage of development, GBP million

Stage of development	2008	2009	2010	2011
Seed	12	14	10	23
Start-up	160	125	46	47
Early stage VC	187	164	168	163
Later stage VC	..	151	89	115
Expansion	2 050	1 055	1 651	1 651
Total	**2 409**	**1 509**	**1 964**	**1 999**

Source: British Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888932796473

Other indicators

Survey evidence shows cash flow was a significant obstacle to the success of the business, just after the economy. Consequently, enterprise liquidations (bankruptcies) peaked in 2009 and declined by 12% in 2010 but were on the rise again in 2011. However, the current liquidation rate is low by historical standards. In the twelve months ending 4Q2011, 0.7% of all active registered companies went into liquidation,[5] which is substantially lower than the peak of 2.6% in 1993, and the average of 1.3% seen over the last 25 years.[6] Enterprise payment delays, or the average number of days beyond term, were more than 25 days in 2011.

Government policy response

The Enterprise Finance Guarantee (EFG) was launched in January 2009, replacing the Small Firm Loan Guarantee Scheme (SFLG). It is designed to facilitate additional lending to viable SMEs lacking adequate collateral or proven track record for a commercial loan, and supports countercyclical lending (including converting overdrafts into loans). The Government has committed funding until 2014-15, guaranteeing, subject to demand, up to GBP 2 billion in additional lending. EFG is subject to certain sector restrictions arising from the de minimis aid rules under which it operates, but the majority of business sectors are eligible. EFG is available to viable businesses with a turnover of up to GBP 41 million,[7] seeking facilities between GBP 1 000 and GBP 1 million, repayable over a period of 3 months to 10 years.

After the launch of EFG, there was a three-fold increase in the volume of guaranteed loans in 2009 compared to 2007-2008 under the previous scheme, but the level of guaranteed loans declined in both 2010 and 2011, as banks were reaching their limit in terms of what they could receive under the guarantee programmes, and so became less willing to lend. As a result of this, the government announced in March 2012 an increase in the limit on guarantee payments which can be made to lenders, to encourage further lending. The rationale for EFG remains strong since there has been a continuous uptake by SMEs in this type of support. For example, guaranteed loans utilised compared to those offered increased over the period from 83% to 90%.

Funding for Lending is a central bank scheme, which will provide banks with covered 4-year funding at below current market rates. The scale and price of funding which banks can access is connected with their change in net lending over a reference period. Each bank may borrow up to 5% of their current stock of outstanding loans, plus the value of any increase in lending between August 2012 and January 2014. Funds are available for lending to all non-financial corporations and households, not just SMEs. Since there is no specific SME target, banks can use the funds to lend to larger firms. The scheme is designed to enhance the effectiveness of the bank's monetary policy by incentivising banks to on-lend to the economy. It supersedes the National Loan Guarantee Scheme, which offers discounts specifically on SME loans and will be wound down over the autumn of 2012.

Enterprise Capital Funds (ECFs) address a market weakness in the provision of equity finance to SMEs by using government funding alongside private sector investment to establish funds that operate within the 'equity gap'. An equity gap arises where businesses with viable investment propositions are unable to attract investment from informal investors or venture capitalists. In bridging this gap, ECFs aim to alleviate what would otherwise present a significant barrier to enterprise and to productivity growth. ECFs typically make investments of up to GBP 2 million in potential high-growth SMEs. The Government contribution is capped at GBP 25 million per fund, and private investors typically contribute about one-third of the total funds, approximately GBP 12.5 million. Over GBP 300 million has been committed by all investors to date. Eleven ECFs have been launched since the start of the programme in 2006 and GBP 147 million has been invested in 130 companies.

The Enterprise Investment Scheme (EIS) encourages investment into small companies. An investor receives 30% tax relief on the amount invested in a qualifying company (unquoted trading companies with less than 250 employees). The annual investment limit for individuals is GBP 1 million, the gross asset limit of qualifying companies is GBP 15 million and the annual investment limit for qualifying companies is GBP 5 million.

The Seed Enterprise Investment Scheme (SEIS) was introduced in April 2012 to encourage investment into early stage companies. Eligible companies need to have 25 or fewer employees and assets of up to GBP 200,000 at the point of investment. The scheme provides a higher rate of income tax relief of 50% on the amount invested in qualifying seed companies, with an annual investment limit of GBP 100 000 per individual and a cumulative investment limit for companies of GBP150 000. To kick start the scheme the government is offering a capital gains tax exemption on any gains realised in the year 2012-2013 that are invested through SEIS in the same year.

Box 4.13. **Definition of SMEs used in United Kingdom's SME and entrepreneur scoreboard**

While the national statistical definition of an SME follows the EU in terms of the number of employees, SME loans are defined as those made to firms with a turnover of up to GBP 25 million. The source of the SME loan data is the British Bankers' Association. It has recently changed its SME loan data coverage to include all SMEs with a turnover of up to GBP 25 million. This remedies the previous deficiency in the first OECD Scoreboard for the United Kingdom, which based on available data, underestimated SME loans because it excluded lending to larger SMEs. However, the new data series started in the second half of 2011 and so is inconsistent with previous series. To remedy this, the data for previous series was back-casted to 2007 based on growth rates of the former data series.

Country definition

The national statistics definition is based on business size of less than 250 employees.

Financial institutions' definition

Financial institutions' definition is based on turnover of up to GBP 25 million.

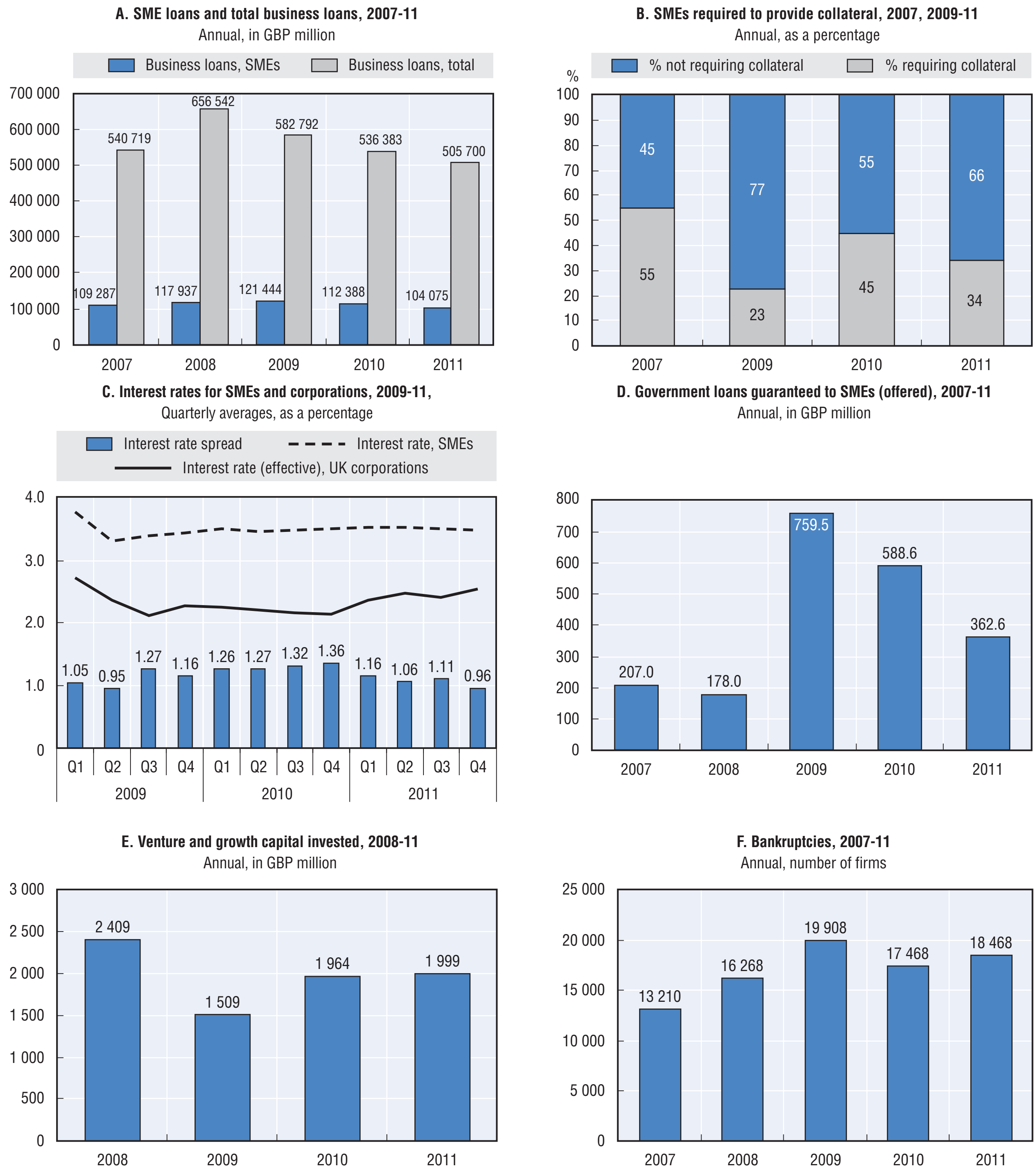
Table 4.105. **SME and entrepreneur scoreboard for the United Kingdom, 2007-11**

Indicator	Units	2007	2008	2009	2010	2011
Debt						
Business lending, SMEs	GBP million	109 287	117 937	121 444	112 388	104 075
Business lending, total	GBP million	540 719	656 542	582 792	536 383	505 700
Business lending, SMEs	% of total business loans	20.2	18.0	20.8	21.0	20.6
Government loans guaranteed (offered), SMEs	GBP million	207.0	178.0	759.5	588.3	362.6
Government loans guaranteed (drawn), SMEs	GBP million	..	..	626.5	529.4	325.9
Ratio of government loans guaranteed drawn to offered, SMEs	%	..	..	82.5	89.9	89.9
Interest rate, SMEs[1]	%	..	4.54	3.47	3.49	3.52
Interest rate, UK corporations[2]	%	..	3.71	2.36	2.19	2.45
Interest rate spread	%	..	0.83	1.11	1.30	1.07
Collateral, SMEs	% of loans requiring collateral	55.0	..	23.0	45.0	34.0
Equity						
Venture and growth capital	GBP million	..	2 409	1 509	1 964	1 999
Venture and growth capital	Year-on-year growth rate, %	..	..	−37.4	30.2	1.8
Other						
Payment delays	Average days beyond term (full year)	..	..	22.8	22.6	25.7
Bankruptcies, total (liquidations)	Number	13 210	16 268	19 908	17 468	18 468
Bankruptcies, total	Year-on-year growth rate, %		23.1	22.4	−12.3	5.7

Source: Refer to Table 4.106.

StatLink http://dx.doi.org/10.1787/888932796492

Figure 4.46. **Trends in SME and entrepreneurship finance in the United Kingdom**



Sources: Chart A: British Bankers Association (BBA). Chart B: Various surveys. Chart C: Bank of England (BOE). Chart D: BIS. Chart E: British Venture Capital Association (BVCA). Chart F: Insolvency Service.

StatLink http://dx.doi.org/10.1787/888932794516

Table 4.106. **SME and entrepreneur definitions and sources of indicators for the United Kingdom's scoreboard**

Indicator	Definition	Source
Debt		
Business lending, SMEs	Value of the stock of bank's term lending and overdrafts to SMEs. Both the BBA and the BIS define an SME as having an annual turnover of up to GBP 25 million.	British Bankers Association (BBA)
Business lending, total	Stock of outstanding monetary financial institutions' sterling lending to private non-financial corporations.	Bank of England (BOE)
Government guaranteed loans(offered), SMEs	The value of Enterprise Finance Guarantee (EFG) loans offered to SMEs. EFG covers SMEs up to GBP 25 million annual turnover. Figures for 2007 and 2008 are for the Small Firms Loan Guarantee scheme and relate to financial years.	BIS
Government guaranteed loans(drawn), SMEs	The value of Enterprise Finance Guarantee (EFG) loans drawn by SMEs. EFG covers SMEs up to GBP 25 million annual turnover. There are no figures for 2007 and 2008.	BIS
Interest rate, SMEs	The Median interest rate by value of new SME facilities by 4 major lenders (for SMEs up to GBP 25 million turnover). Quarterly figures are the prevailing rates in March, June, September and December of each respective year. Annual figures are the average of 12 monthly rates.	Bank of England (BOE)
Interest rate (effective), UK corporations	Effective interest rate on new lending to UK Corporations, non-seasonally adjusted. Quarterly figures are the prevailing rates in March, June, September and December of each respective year. Annual figures are the average of 12 monthly rates.	Bank of England (BOE)
Interest rate spread	Effective interest rate on new lending to Private Non-Financial Corporations – SME interest rate. Quarterly figures are the prevailing rates in March, June, September and December of each respective year.	Bank of England (BOE)
Collateral, SMEs	Percentage of SMEs that were required to provide collateral on bank loans drawn down. The 2009 figure is not comparable with other years due to differences in the way the question was asked between surveys. SMEs are defined as enterprises with less than 250 employees and include non-employer enterprises.	Various surveys
Equity		
Venture and growth capital	Amount of external equity invested in UK enterprises by BVCA members (includes seed, start-up, early stage and expansion capital).	British Venture Capital Association (BVCA)
Other		
Payment delays	Average number of days beyond term for all businesses.	Experian
Bankruptcies, total	Number of companies liquidated (voluntary and compulsory) in Great Britain and Northern Ireland.	Insolvency Service

Notes

1. BIS Small Business Survey 2010. Available at *www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010.pdf*.
2. Whilst the BIS survey shows an increase in SMEs seeking finance overall, the Bank of England shows the value ofapplications by SMEs for new term loans and overdraft facilities in the six months to February 2011 was 19% lower than in the same period a year earlier (*www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril11.pdf*). Lower demand for bank finance and deleveraging by SME is also impacting on the stock of lending.
3. By definition commercial mortgages are secured. Excluding commercial mortgages, 32% of loans required security.
4. In 2009 the proportion of loans requiring collateral fell but the figure is not comparable due to differences in the way the question was asked between surveys.
5. England and Wales only.
6. *www.insolvencydirect.bis.gov.uk/otherinformation/statistics/201205/table7.pdf*.
7. The turnover threshold for EFG was £25m until March 2012, so the figures presented here (up to the end of 2011) are based on this previous limit.

United States

Small businesses in the national economy

The United States Small Business Administration (USSBA) broadly classifies small businesses as any firm with 500 or fewer employees (see Box 4.14). These firms account for more than 26 million businesses, or 99 per cent of all firms. They employ slightly over half of the private sector's employees, pay about 44 per cent of the total private sector payroll, generate about 65 per cent of net new private sector jobs, and create more than half of the nonfarm private Gross Domestic Product.

Table 4.107. **Distribution of firms in the United States, 2010**

By size of firm

Firm size (employees)	Number	%
Total firms	**5 016 733**	**100.0**
SMEs (1-499)	**4 998 243**	**99.6**
Micro (1-9)	*3 803 985*	*75.8*
Small (10-99)	*1 108 945*	*22.1*
Medium (100-499)	*85 313*	*1.7*
Large (500+)	**18 490**	**0.4**

Notes: A firm is a business organisation consisting of one or more domestic establishments that were specified under common ownership or control. The firm and the establishment are the same for single-establishment firms. For more details, see: *www.census.gov/ces/dataproducts/bds/overview.html*.

Source: US Census Bureau, *Business Dynamics Statistics*.

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Macroeconomic environment

The US economy exited the most recent recession in June of 2009, and as of September 2012 it has been on a modest growth cycle for thirty nine months. Given that the average up-cycle during the post WWII is about 58 months, it is not unreasonable to hypothesise that firms, consumers and other economic agents have had enough time to consider this growth trajectory a new economic reality and accordantly adapted to it. There is evidence to support the argument that small firms have adapted to the most recent growth cycle by conservatively increasing their use of labour, capital and credit, all the while maintaining steady profit margins.

GDP growth

Actual and Potential Real GDP have, in the long-term, moved very closely together, growing 3.2% and 3.1% respectively. As a result, the level of Real GDP has averaged about 99% of Potential Real GDP. During the post 2009 recovery, the growth rate of Actual Real GDP has been insufficient to close a large gap with Potential Real GDP (see Figure 4.47). As a result, the level of Real GDP has averaged about 94 per cent of Potential Real GDP. This, gap between Potential and Actual Real GDP, is the fundamental factor that conditioned the adaptive behaviour of most economic agents, in the US; be they governments, firms, or consumers. This gap has persisted long enough to be considered permanent.

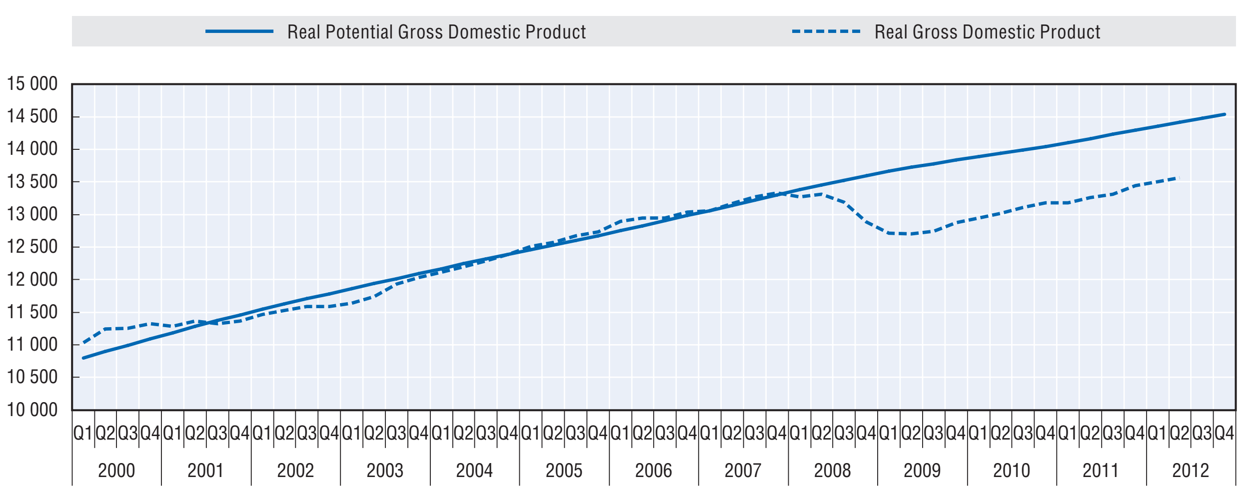
Employment by firm size

Data from the Bureau of Labour Statistics (BLS) provide a detailed and robust picture of employment by firm size (see Figure 4.48). This data lags about three quarters, with the fourth quarter of 2011 being the most current data available. More recent data is available from the private sector firm Automatic Data Processing Inc. (ADP) (see Figure 4.49).

The BLS data shows that small firm employment got hit hard during the most recent recession, with 63% of the contractions occurring at small firms. The same data also shows that during the recovery, small firms accounted for a strikingly similar 63% of the job gains. The more current ADP data shows a similar trend, and reports that small firm employment continued to grow into 2012, and grew by 4.0 million since early 2010.

Figure 4.47. **Actual and potential real GDP, 2000-12**

Billions of chained 2005 Dollars



Source: US Bureau of Economic Analysis, NIPA.

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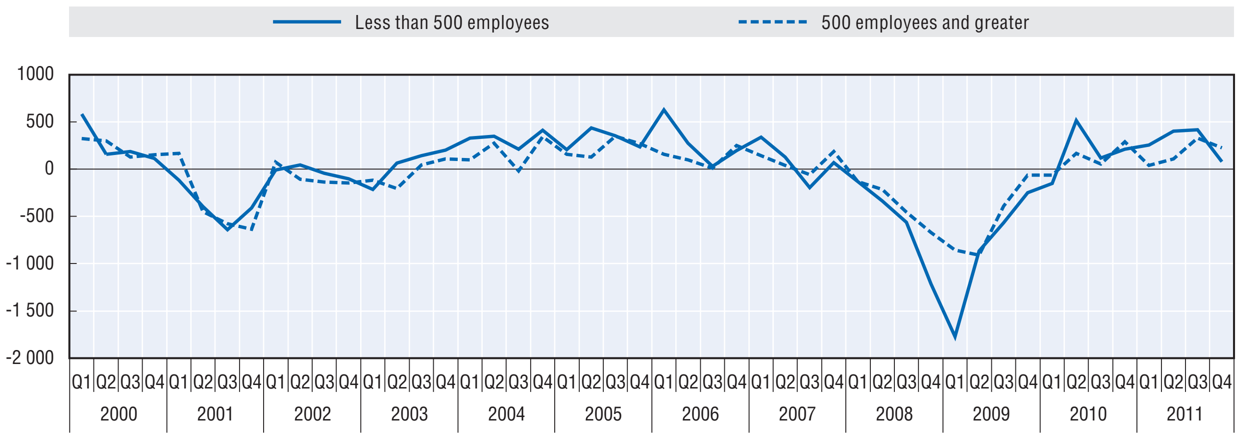
Figure 4.48. **Net employment change by firm size, 2000-11**

Quarterly, in thousands of jobs (seasonally adjusted)



Source: Bureau of Labor Statistics (BLS) – Business Employment Dynamics.

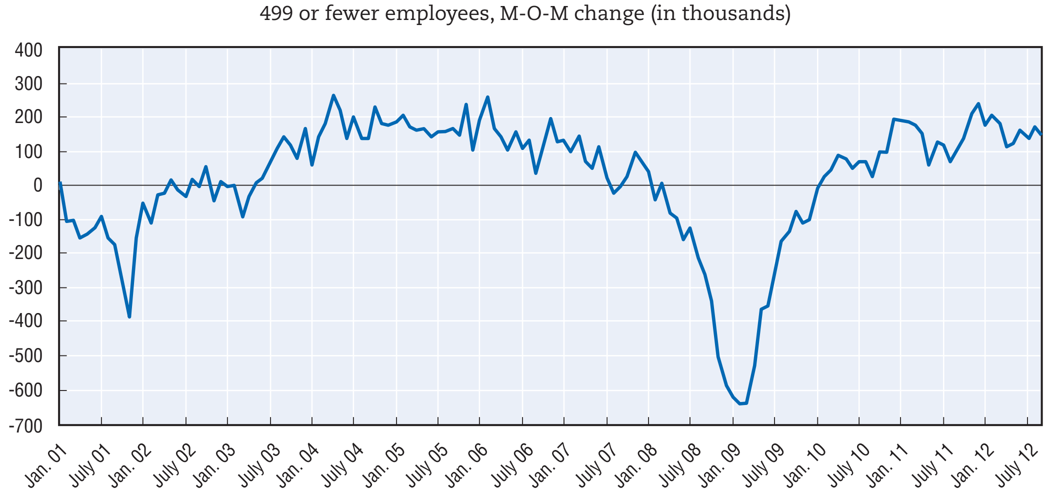
StatLink http://dx.doi.org/10.1787/888932794554

Capital expenditure by firm size

Just as in the labour market, capital expenditure plans by small firms posted modest gains during the most recent recovery. Previous to the 2008-2009 recession, about 32% of small firms planned some form of capital expenditure. This percentage declined to 17% right after the recession, and slowly rose during the recovery to 23% as of July 2012.

Figure 4.49. **Total good and service producing employees on private payrolls, 2001-12**

499 or fewer employees, M-O-M change (in thousands)

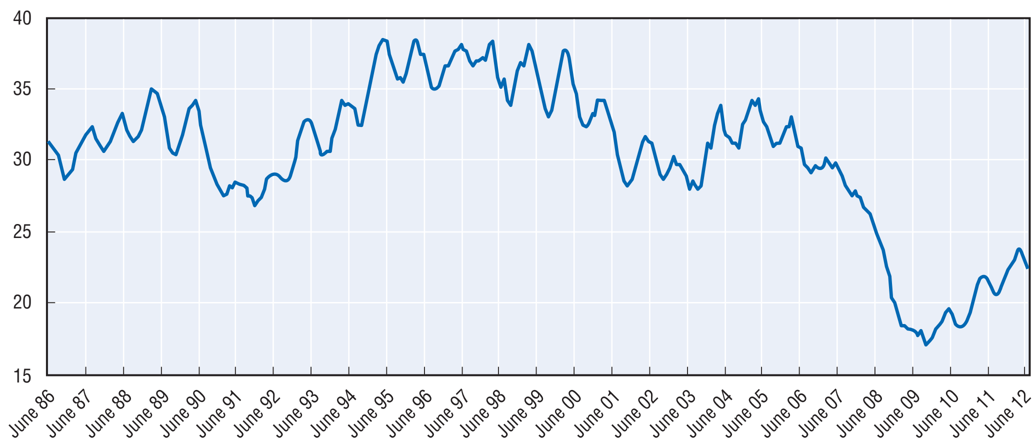


Source: Automatic Data Processing Inc (ADP), and SBA calculations.

StatLink http://dx.doi.org/10.1787/888932794573

Figure 4.50. **Per cent of small firms planning capital expenditures during the next 3 to 6 months, 1986-2012**

Monthly, in percentages (seasonally adjusted)



Source: National Federation of Independent Businesses.

StatLink http://dx.doi.org/10.1787/888932794592

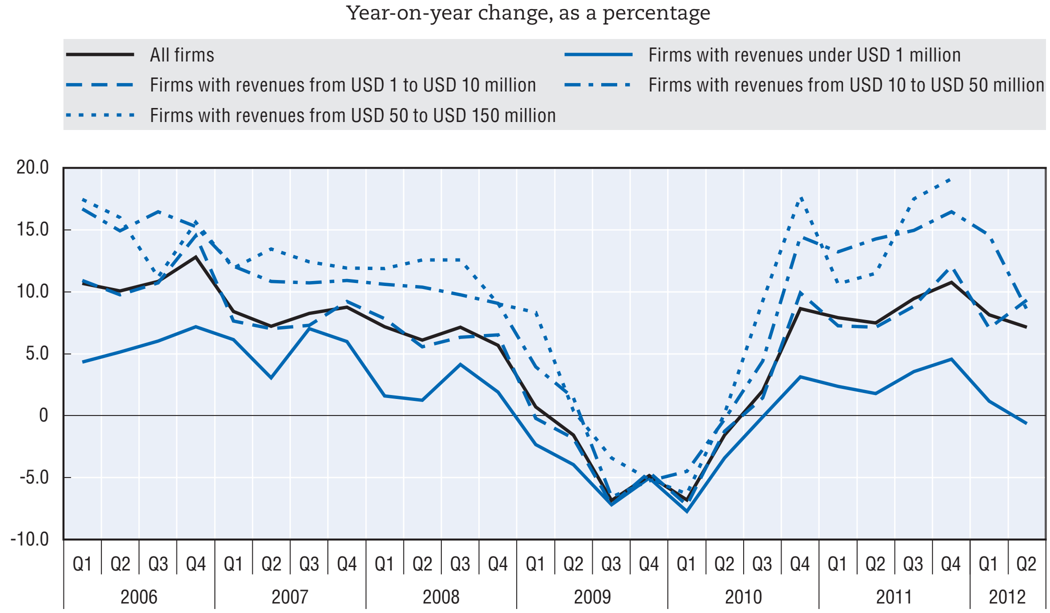
Small firms' sales and earnings

There is evidence that all the while small firms modestly increased their usage of labour and capital, they also maintained steady profit margins. Although, there is reason to suspect that these steady profit margins may under-represent profit margins at failing and ailing small firms.

Figure 4.51 shows sales growth by firm size. These data from Sageworks[1] show that average sales growth and its volatility increases with firm size (see range in Table 4.108). In essence, this data set shows that small firms' sales grow slower and are less volatile than large firms' sales.

Figure 4.51. **Sales by firm size (revenues), 2006–12**

Year-on-year change, as a percentage



Source: Sageworks.

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Table 4.108. **Sales by firm size, 2006-12**

Over the month changes

	All Firms	Firm Size by revenue (USD million)			
		Less than 1	1-10	10-50	50-150
Average	5.5%	1.5%	5.5%	9.1%	9.8%
Minimum	−6.8%	−7.7%	−7.2%	−6.6%	−6.3%
Maximum	12.8%	7.2%	14.6%	16.7%	19.1%
Range (max.-min.)	19.6%	14.9%	21.8%	23.3%	25.4%
Coefficient of variation	NA	NA	NA	NA	NA

Source: Sageworks, and SBA calculations.

StatLink http://dx.doi.org/10.1787/888932796530

Table 4.109. **Net profit margins by firm size, 2006–12**

Over the month changes

	All Firms	Firm Size by revenue (USD million)			
		Less than 1	1-10	10-50	50-150
Average	5.4%	6.7%	5.2%	4.4%	4.0%
Minimum	3.2%	2.5%	3.4%	2.8%	2.7%
Maximum	8.6%	11.6%	8.1%	5.8%	5.3%
Range (max.-min.)	5.4%	9.1%	4.7%	3.0%	2.6%
Coefficient of variation	20.1%	29.5%	18.7%	17.0%	15.8%

Source: Sageworks, and SBA calculations.

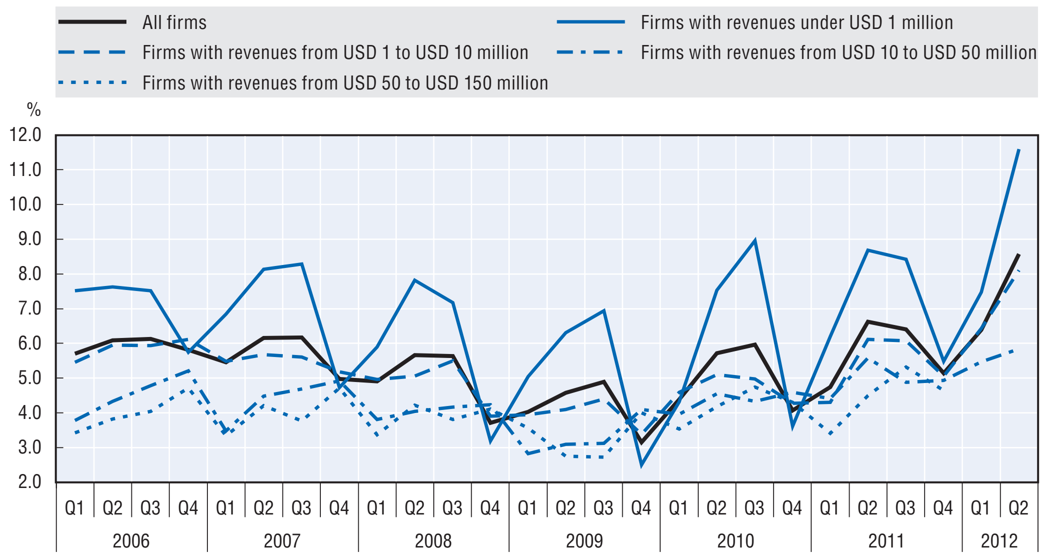
StatLink http://dx.doi.org/10.1787/888932796549

Figure 4.52 shows net profit margins by firm size. These data show that average net profit margins and its volatility decrease with firm size (see range and coefficient of variation in Table 4.109). Hence, small firms are better at adapting to economic swings, so as to better protect their average profit margins. Again, other research has supported the notion that small firms are quicker at adapting to volatile economic conditions. What appears new is data that show that small firms seem to experience higher average net profit margins than larger firms.

There is reason to suspect that this data set may under represent the population of failing and ailing firms, as these weaker firms may be less capable to use Sageworks' services. Even if this is the case, the adaptive behaviour argument still holds. It simply becomes more conditional. More specifically, if this data set under represents ailing and failing small firms, it then represents a robust picture of the strong, surviving small firms. In that case, it supports the notion during and after the Great Recession of 2008-2009 a tumultuous, Darwinian adaptive behaviour has been at play, where stronger firms got stronger and weaker firms either disappeared or became less relevant.

Figure 4.52. **Net profit margins by firm size (revenues), 2006–12**

Quaterly percentage change



Source: Sageworks.

StatLink http://dx.doi.org/10.1787/888932794630

SME lending

Credit demand

There is some evidence that small firms' higher usage of labour and capital during this period is also associated with a modest increase in credit usage, at least by some financially-strong small firms. Getting a clear and decisive sense of the credit conditions of small firms continues to be hampered by significant lack of data. There are indications, however, that additional data will be collected in the near future. For example, The Dodd-Frank Wall Street Reform and Consumer Protection Act signed into law by President Barack Obama on July 21 2010, directs the newly established Consumer Finance Protection Bureau to collect small business loan origination and application data and published it on an annual frequency.

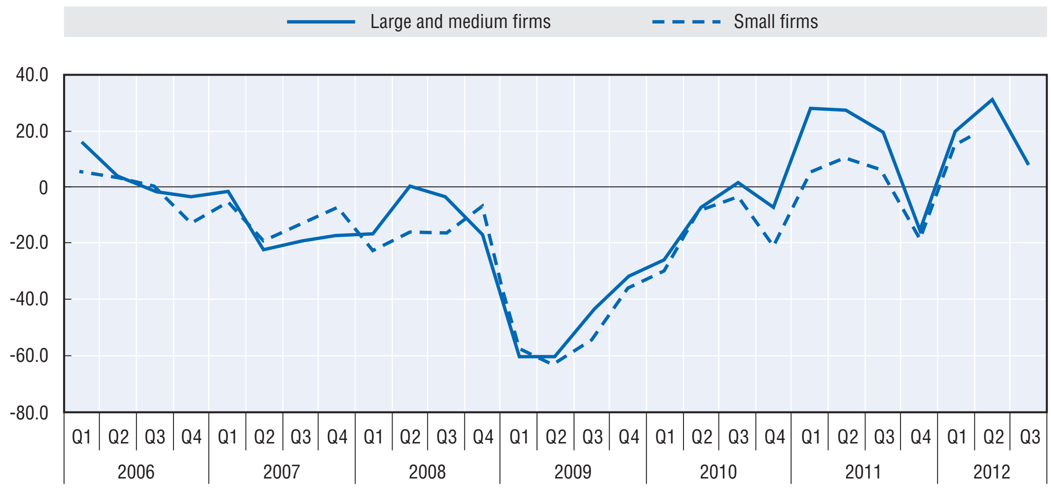
In addition, recent developments in data availability from the private sector has slightly alleviated this data deficiency, however, it has also increased the analytical complexity for arriving at a comprehensive understanding of small firms' credit conditions.

Data from the Federal Reserve *Senior Loan Officer Opinion Survey on Bank Lending Practices* indicates that the net per cent of bankers reporting stronger credit demand by small firms rose from the second half of 2009 and throughout 2010, but has moderated during 2011-12 (see Figure 4.53).

Data from the National Federation of Independent Business (NFIB) seem to indicate that small firms that are regular borrowers, the subgroup of small firms that has retained financial strength, are concurring with bankers that credit conditions have indeed been steadily improving (Figure 4.54).

Figure 4.53. **Demand for commercial and industrial loans, 2006-12**

By size of firm, net percentage of responders reporting stronger demand



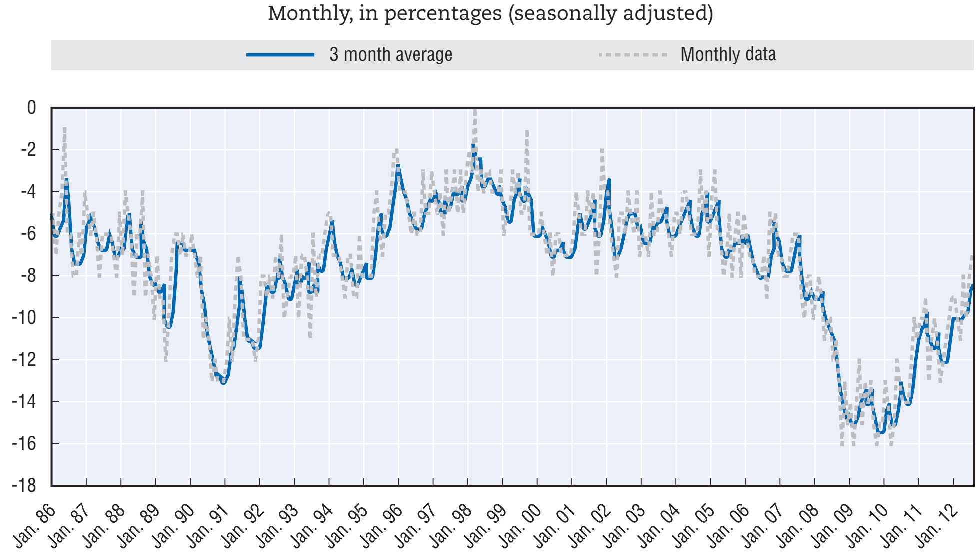
Source: Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices.

StatLink http://dx.doi.org/10.1787/888932794649

As a total group, small firms are reporting a lower percentage of them are borrowing, indicating that some small firms, presumably the financial weaker ones, have not re-entered the credit markets (see Figure 4.55). A close analysis of the National Federation of Independent Business data in Figures 4.54 and 4.55, like the earlier Sageworks data on SMEs' sales and profits, supports the Darwinian adaptive behaviour among small firms. Financially-strong small firms that wished to purchase credit have been able to take advantage of lower interest rates, while financially-weaker firms have not entered the credit markets.

Figure 4.54. **Net per cent of regular borrowers expecting credit conditions to get better during the next three months, 1986–2012**

Monthly, in percentages (seasonally adjusted)

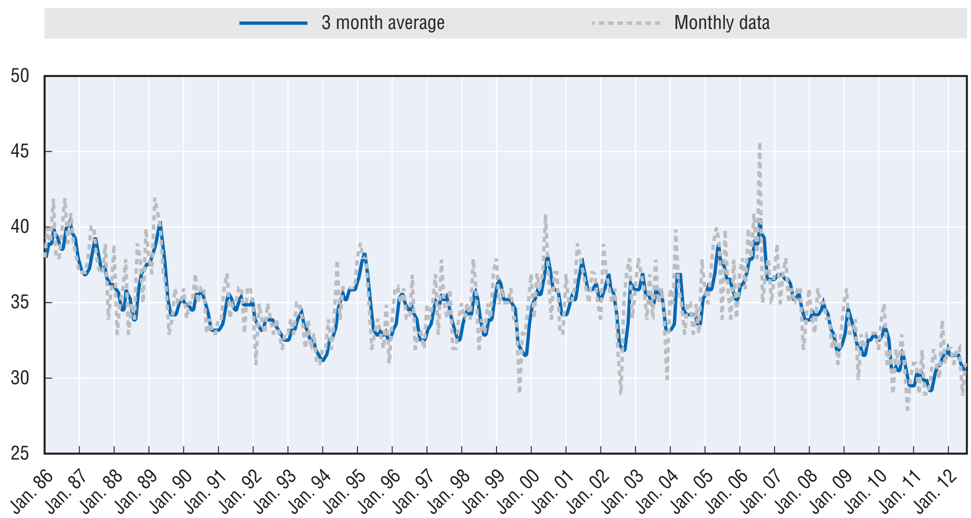


Source: National Federation of Independent Businesses.

StatLink http://dx.doi.org/10.1787/888932794668

Figure 4.55. **Percentage of firms borrowing at least once during the quarter, 1986-2012**

Monthly, as a percentage (seasonally adjusted)



Source: National Federation of Independent Business (NFIB), *Small Business Economic Trends*.

StatLink http://dx.doi.org/10.1787/888932794687

Credit supply

Traditionally, many analysts have used data from the Federal Deposit Insurance Corporation (FDIC) Call reports to assess the credit conditions of small firms.[2] This data shows that small loan balances (loans of USD 1 million or less) at FDIC insured institutions have continued to decline since peaking during the second quarter of 2008 (see Figure 4.56).

With the advent of financial innovation and financial deregulation, however, this data set's capacity to capture changes in the supply of credit has significantly diminished. More specifically, this data set shows *what banks hold at the end of the quarter*, but *not what they produced (originate) during the quarter*. With the development and expansion of the secondary markets, where financial institutions sell a portion of their origination, end of period positions may not reflect changes in origination over time. This is especially true with large volume swings in these secondary markets.

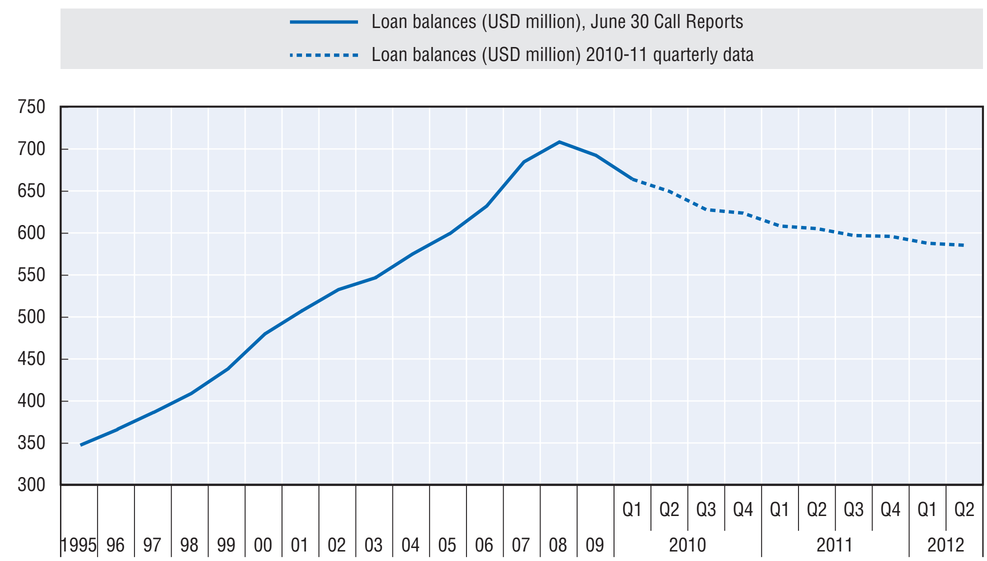
Second, this data does not capture activities of non-depository institutions, such as some finance companies, and providers of trade credit. Anecdotal evidence seems to indicate that non-deposit financial institutions have increased their market share of small firm credit. Finally, this data does not capture larger loans, in the USD 1 million to USD 5 million range, that often go to small businesses. Hence, if one were to simply look at this data set, one would arrive at the conclusion, perhaps erroneously, that financial institutions in general have continued to decrease their supply of small business loans.

Data recently made available by some private sector firms indicate that origination, or supply, of small firm credit may have been on the rise for several years now.

One such dataset is provided by PayNet, a private-sector firm that tracks credit supplied to small firms by the largest 200 financial institutions. This data indicates that the supply of credit to small firms has been steadily rebounding since the second half of 2009, although it has not reached the peak level recorded during the end of 2007 (see Figure 4.57). This data set classifies as a small business any firm with less than USD 1 million in total debt outstanding across its 200 members.

Figure 4.56. **Small business loans at Federal Deposit Insurance Corporation (FDIC) insured institutions, 1995-2012**

Yearly (1995-2009) and quarterly (2010-2012)



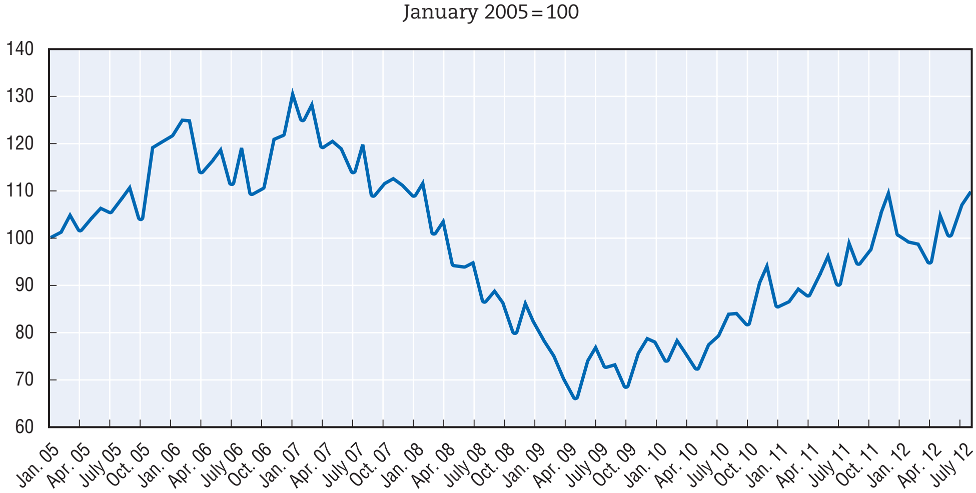
Source: Federal Deposit Insurance Corporation (FDIC), Call Reports.

StatLink http://dx.doi.org/10.1787/888932794706

Data by the Small Business Finance Exchange (SBFE), a private-sector data exchange of some of the top 400 small business lenders, also seems to indicate that credit to small businesses has been modestly rising since the latter part of 2009. This data set shows that origination of term loans and lines of credit to small firms have been on the rise since the latter part of 2009. The exception is small business credit card debt, which has been mostly flat to slight positive during the recovery. It should be noted that the SBFE data captures term loans and lines of credit up to USD 20 million, but is heavily weighted toward loans of USD 200 000 and under.

Figure 4.57. **Small Business Lending Index, 2005-12**

January 2005 = 100



Source: Thomson Reuters/PayNet.

StatLink http://dx.doi.org/10.1787/888932794725

Government policy response

The United States Small Business Administration (USSBA) works with approximately 5,000 banks and credit unions, some 250 Community Development Corporations (CDCs), over 170 non-profit financial intermediaries and Community Development Financial Institutions (CDFIs), and approximately 300 small business investment companies (SBICs). The USSBA Capital Access Program has several major sub-programmes that provide guarantees and co-funding for a wide range of products designed to meet the diverse financial needs of small firms throughout their life cycle, starting from small start-ups to established firms.[3]

The largest of these, the *7(a) Loan Program*, provides guarantees for working capital loans up to USD 5 million to new and existing small businesses. The second largest sub-program, the *Certified Development Corporation 504 Loan Program*, provides guarantees and co-funding for loans up to USD 5.0-5.5 million used for the purchases of fixed assets.

Table 4.110. **Loan guarantees, 2001-12**

	Loan guarantees			Amount supported		
	Number	YOY (in %)	USD million	YOY (in %)	USD million	YOY (in %)
2001	49 551	4.6	12 670	6.4	18 049	13.4
2002	60 841	22.8	14 571	15.0	20 503	13.6
2003	79 372	30.5	15 382	5.6	22 647	10.5
2004	94 069	18.5	18 147	18.0	27 463	21.3
2005	103 370	9.9	20 534	13.1	32 889	19.8
2006	109 941	6.4	20 236	−1.5	33 128	0.7
2007	107 567	−2.2	20 611	1.9	35 096	5.9
2008	65 519	−39.1	16 064	−22.1	26 605	−24.2
2009	57 013	−13.0	15 363	−4.4	24 697	−7.2
2010	66 050	15.9	22 444	46.1	32 857	33.0
2011	52 093	−21.1	18 705	−16.7	29 314	−10.8
August 2012 (year to date)	36 809	5.8	15 104	26.1	26 148	40.0

Source: US Small Business Administration (USSBA).

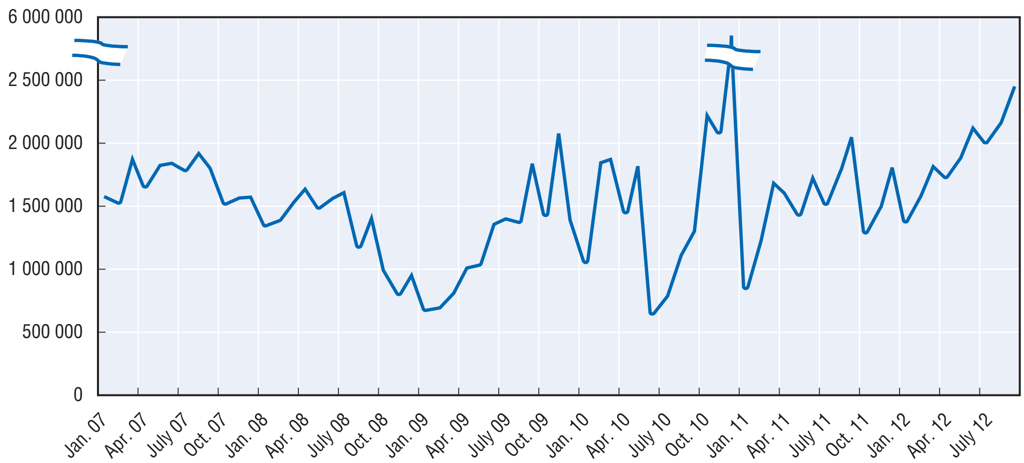
StatLink http://dx.doi.org/10.1787/888932796568

The financial and economic crisis of 2008-2009 had a pronounced impact on the USSBA's Capital Access Programs, however, the average dollar volume for these two programmes rebounded to USD 1.8 billion after major interventions by the federal government.[4] The bulk of these interventions were in the form of additional incentives to financial institutions, structural changes to its programmes, and assistance in the secondary markets for USSBA guaranteed loans.

More specifically, the USSBA employed additional funding received from Congress to temporarily increase its guarantees from around 75% to 90%. The USSBA also temporarily reduced or eliminated the fees it charges financial institutions participating in its loan guarantee programmes. The USSBA also increased its loan limits. Finally, the United States Department of Treasury would purchase USD 15 billion of USSBA loans on the secondary market.[5] Through this programme the government promised to be a buyer of last resort for these recent loans.

Figure 4.58. **Gross loan guarantees, total 7(a) and 504 programmes, 2007-12**

Monthly, in USD thousands



Source: USSBA.

StatLink http://dx.doi.org/10.1787/888932794744

Box 4.14. **Definition of small businesses used in the United States' SME and entrepreneur scoreboard**

Country definition

The US Small Business Administration (USSBA) has two different approaches for defining small firms. The first approach is to define any firm with less than 500 employees as "small". This practice was first established by the Small Business Act of 1953. However, the same Act required the SBA to establish a size standard that "should vary to account for differences among industries". Second, the Act called on the SBA to "assist small businesses as a means of encouraging and strengthening their competitiveness in the economy". These two considerations are the basis for the SBA current methodology for establishing small business size standards. For most manufacturing and mining industries, firms with less than 500 employees are classified as small businesses, while for enterprises in nonmanufacturing, the size threshold is USD 7 million in annual receipts. The USSBA's Table of Small Business Size Standards contains the detailed definition by industry.

SME definition used in the US profile

The US statistics on business loans, interest rates and collateral are based on the loan size. Loans up to USD 1 million are classified as SME loans. In the case of SME government guaranteed loans the above mentioned thresholds are used.

Source: US Small Business Administration (2009) SBA Size Standard Methodology; Table of Small Business Size Standards available at *www.sba.gov/content/table-small-business-size-standards*.

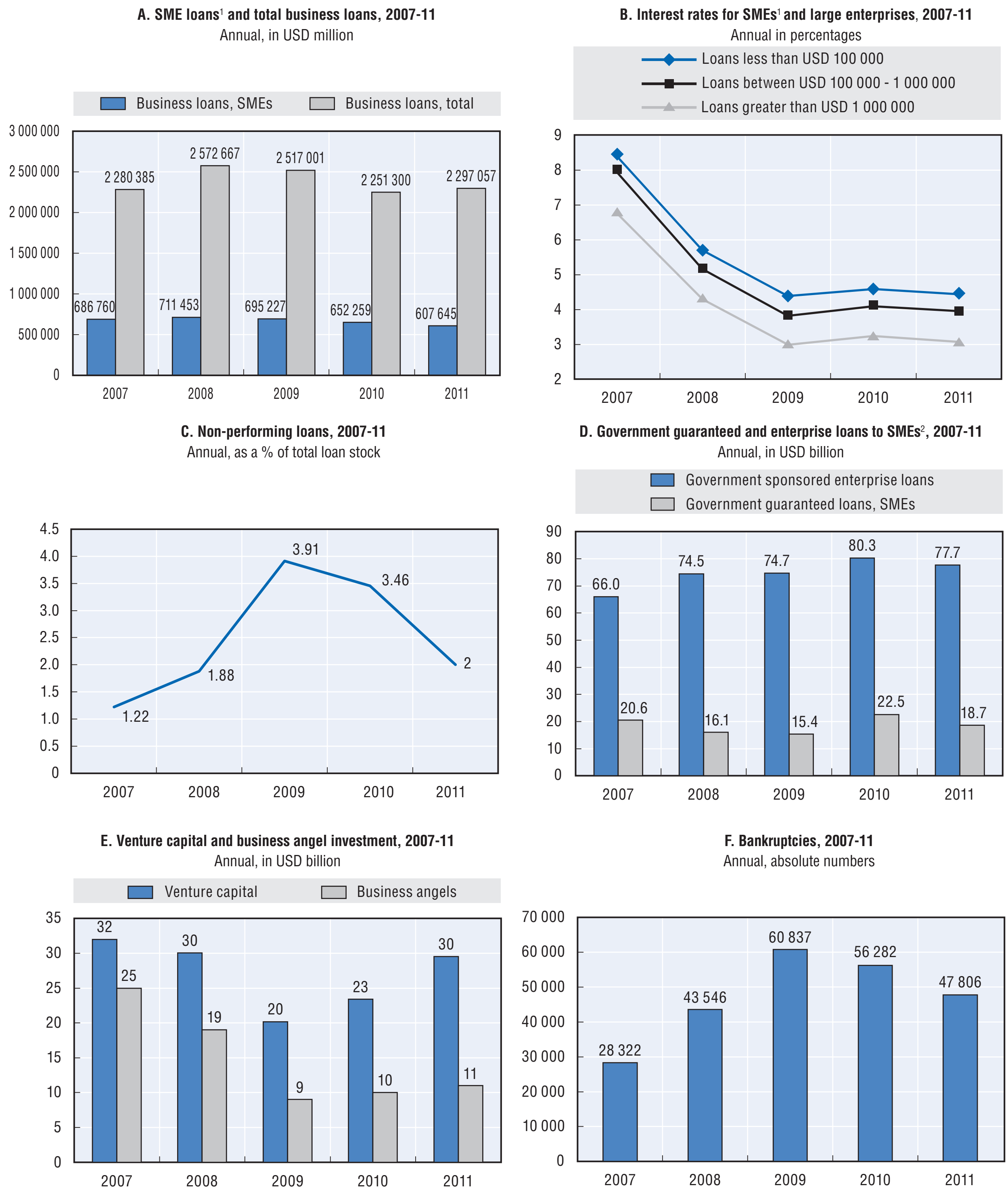
Table 4.111. **SME and entrepreneur scoreboard for the United States, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	USD million	686 760	711 453	695 227	652 259	607 645
Business loans, total	USD million	2 280 385	2 572 667	2 517 001	2 251 300	2 297 057
Business loans, SMEs	% of total business loans	30.1	27.7	27.6	29.0	26.5
Government sponsored Enterprise loans	USD billion	66.0	74.5	74.7	80.3	77.7
Government guaranteed loans, SMEs	USD billion	20.6	16.1	15.4	22.5	18.7
Ratio of loans authorised to requested, SMEs	%	71.8	66.6	..	..	..
Non-performing loans, total	% of loan stock	1.22	1.88	3.91	3.46	2.00
Interest rate, loans < USD 100 000	%	8.41	5.69	4.38	4.59	4.43
Interest rate, loans between USD 100 000-1 000 000	%	7.96	5.16	3.82	4.09	3.95
Interest rate, loans, greater than USD 1 000 000	%	6.75	4.29	2.99	3.23	3.07
Collateral, loans < USD 100 000	% of loans secured by collateral	84.2	84.7	89.2	..	..
Collateral, loans USD 100 000 –USD 999 999	% of loans secured by collateral	76.4	70.9	77.6	..	..
Collateral, loans USD 1 000 000–USD 999 999 999	% of loans secured by collateral	46.7	42	48.5	..	..
Equity						
Venture capital	USD billion	32	30	20	23	30
Venture capital	Year-on-year growth rate, %	..	−6.0	−32.9	16.0	26.3
Other						
Bankruptcies, total	Number	28 322	43 546	60 837	56 282	47 806
Bankruptcies, total	Year-on-year growth rate, %	..	53.8	39.7	−7.5	−15.1

Source: Refer to Table 4.112.

StatLink http://dx.doi.org/10.1787/888932796587

Figure 4.59. **Trends in SME and entrepreneurship finance in the United States**



1. For loans up to USD 1 million.
2. Proxied by loans sponsored by the Small Business 7(a) loan program.

Source: Chart A: FDIC, Consolidated Reports of Condition and Income for U.S. Banks and thrift institutions. Chart B: Federal Reserve, Survey of terms of business lending. Chart C: Federal Reserve Board. Chart D: Federal Reserve and USSBA. Chart E: PwC Money Tree Survey, Venture Capital Association. Chart F: Adm. Office of US Courts: Business Bankruptcy Filings.

StatLink http://dx.doi.org/10.1787/888932794763

Table 4.112. **SME and entrepreneur definitions and sources of indicators for the United States' scoreboard**

Indicators	Definitions	Sources
Debt		
Business loans, SMEs	Loan balances held at financial institutions, loans to non-financial firms, loans up to USD 1 million.	FDIC, Consolidated Reports of Condition and Income for U.S. Banks and thrift institutions, June 30 reports.
Business loans, total	Loan balances held at financial institutions, loans to "Commercial Real Estate", "Commercial and Industrial Loans", and "Commercial real estate loans not secured by real estate"	FDIC Call reports
Government sponsored Enterprise loans	Government sponsored enterprise loans to non-corporate partners.	Federal Reserve, Flow of funds reports.
Government guaranteed loans, SMEs	Full value of guaranteed loans outstanding for working capital &fixed assets. Government guaranteed loans to SMEs by the Small Business 7(a) loan program, which is the most basic and most commonly used type of loans.	USSBA, 7(a) and 504 loan guarantee programs.
Ratio of loans authorised to requested, SMEs	Approval rate.	Kauffman Foundation, Firm Survey Micro data
Non-performing loans, total	C&I bank loans, 30 days past due, all sizes, as a percentage of loan stock.	Federal Reserve Board
Interest rate, loans < USD 100 000	Annual average from quarterly data.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release
Interest rate, loans between USD 100 000 - 499 000	Annual average from quarterly data.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release
Interest rate, loans between USD 500 000 - 999 999	Annual average from quarterly data.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release
Collateral, SMEs	The percentage of loans secured by collateral.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release
Equity		
Venture capital	Investment in all enterprises.	PwC Money Tree Survey, Venture Capital Association
Other		
Bankruptcies, total	Bankruptcy data are 12 month numbers for 30 September of each year, all enterprises.	Adm. Office of US Courts: Business Bankruptcy Filings

Notes

1. Sageworks, a private sector company that analyses financial information for private firms at a rate of about 1 000 per day, reports financial data at the national level by firm size as measured by firms' sales. See Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-0203, H.R. 4173), Sec. 1071.
2. For data on balances held by depository institutions see FDIC, Call Reports. For data and discussion on the share of credit supplied to small businesses see US Small Business Administration (2009) Small Business in Focus: Finance.
3. For further details on the SBA's Capital Access Programs see *www.sba.gov*.
4. The SBA provides a range of guarantees through its various guarantee products. For a quick reference on the details of its loan guarantee programs see the US Small Business Administration, Quick Reference to SBA Loan Guarantee Programs.
5. The Federal Reserve had already started to purchase some SBA guaranteed loans under the Term Asset-Backed Securities Loan Facility (TALF). For more details see Board of Governors of the Federal Reserve System, Term Asset-Backed Securities Loan Facility (TALF) Terms and Conditions, *www.federalreserve.gov/newsevents/press/monetary/monetary20081125a1.pdf* and the White House Office of the Press Secretary (2009).

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Financing SMEs and Entrepreneurs 2013
An OECD Scoreboard

ANNEX A

Methodology for producing the national Scoreboards

1. Introduction

Financing SMEs and Entrepreneurs – An OECD Scoreboard provides a 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.

The country profiles present data for a number of core indicators, which measure trends in SMEs' debt and equity financing, solvency and policy measures by governments. The set of indicators and policy information provide policy makers and other stakeholders with a consistent framework to evaluate whether SME financing needs are being met, to support the design and evaluation of policy measures, and to monitor the implications of financial reforms on SMEs' access to finance. On the other hand, differences in definition and coverage between countries for many indicators limit cross country comparisons, which can nevertheless be carried out in relation to general trends across countries.

The present Annex describes the methodology for producing the national profiles, details the core indicators, discusses the use of proxies in case of data limitations or deviation from preferred definitions and addresses the limits in cross-country comparability. It also provides recommendations for improving the collection of data on SME finance.

2. Scoreboard indicators and their definitions

Core indicators

Trends in financing SMEs and entrepreneurs are monitored through 13 core indicators, which tackle specific questions related to access to finance (Table A.1). These core indicators were tested during a pilot period and were found to meet the criteria chosen for the exercise:

- *Usefulness:* The indicators must be an appropriate instrument to measure how easy or difficult it is for SMEs and entrepreneurs to access finance and to help policy makers formulate or adjust their policies and programmes.
- *Availability:* The data for constructing the indicators should be *readily available* in order not to impose new burdens on governments or firms.
- *Feasibility:* If the information for constructing the indicator is not publicly available, it should be *feasible* to make it available at a modest cost, or to collect it during routine data exercises or surveys.

- *Timeliness:* the information should be collected in a *timely* manner so that the evolving conditions of SMEs' access to finance can be monitored. Annual data may be more easily available, but should be complemented by quarterly data, when possible, to better capture variability in financing indicators and describe turning points.
- *Comparability*: the indicators should be relatively uniform across countries in terms of the population surveyed, content, method of data collection and periodicity or timeliness.

Table A.1. **Core indicators of the OECD Scoreboard on financing SMEs and entrepreneurs**

1.	SME loans/all business loans
2.	SME short- term loans/SME loans
3.	SME government loan guarantees
4.	SME government guaranteed loans
5.	SME direct government loans
6.	SME loans authorised/SME loans requested or SME loans used/SME loans authorised
7.	SME non-performing loans
8.	SME interest rates
9.	Interest rate spread between SMEs and large enterprises or the difference between the interest rate charge on loans and prime base
10.	SMEs (%) required to provide collateral
11.	Venture and growth capital
12.	Payment delays
13.	Bankruptcies

Share of SME loans in total business loans: This ratio captures the allocation of credit by firm size, that is, the relative importance of SME lending in the national credit market.

Share of short-term loans in SME loans: This ratio shows the debt structure of SMEs or whether loans are being used to fund current operations or investment and growth needs. However, caution has to be used in interpreting this indicator, because it is affected by the composition of short-term loans versus long-term loans in the SME loan portfolio of banks. Indeed, the share of long-term loans could actually increase during a financial crisis, because it is easier for the banks to shut off short-term credit.

SME government loan guarantees, SME government guaranteed loans, SME direct government loans: These indicators show the extent of public support for the financing of SMEs in the form of direct funding or credit guarantees. By comparing government loan guarantees with guaranteed loans, information can be drawn on the take up of government programmes and on their leverage effect.

SME authorised loans/SME requested loans: This indicator shows the degree to which SMEs' credit demand is met. A decrease in the ratio indicates a tightening in the credit market. It also provides information about the "rejection" rate for SME loans. A limitation in this indicator is that it omits the impact of "discouraged" borrowers. However, discouragement and rejection are closely correlated. During economic downturns, as SMEs' turnover declines and loans become riskier, loan authorisations decrease. At the same time, SME loan requests could also decrease because of the discouraged borrower effect. However, surveys seem to suggest that discouraged borrowers are only a small share of the SME population, so that in difficult times the ratio would still decline.

SME loans used/SME loans authorised: This ratio is used as a proxy by some countries for the above indicator. It shows the willingness of the banks to provide credit. However, in contrast with the above ratio, a decrease in this ratio indicates that credit conditions are loosening because not all credit authorised is being used.

SME non-performing loans/SME loans: This indicator provides information about the relative performance of SME loans in banks' portfolio, that is, the riskiness implied by exposure to SME loans. It can be compared with the overall ratio of non-performing loans to all business loans to determine whether SMEs are less creditworthy.

SME interest rates and interest rate spreads: These indicators describe the tightness of the market and the (positive or negative) correlation of interest rates with firm size.

Collateral required: This indicator shows tightness of credit conditions. It is based on demand-side surveys where SMEs report if they have been required to provide collateral for their last loan. It is not available from supply-side sources, as banks do not generally divulge this information.

Venture capital and growth capital: This indicator shows the ability to access external equity in the form of seed, start-up, early stage venture capital as well as expansion capital. It excludes buyouts, turnarounds and replacement capital, as these are directed at restructuring and generally concern larger enterprises.

Payment delays: This indicator contributes to assess SMEs' cash flow problems. If the delay is business-to-customer (B2C), it reveals difficulties in SMEs being paid by their clients; if it is business-to-business (B2B), it shows supplier credit delays and how SMEs are coping with cash flow problems by delaying their payments. The higher the B2B delay compared to B2C, the more relief to cash flow problems. At present, the countries report one or the other indicator, but in the future both indicators will be collected in order to allow this comparison.

SME bankruptcies or bankruptcies per 10 000 or 1 000 SMEs: This indicator is a proxy for SMEs' survival prospects. Abrupt changes in bankruptcy rates demonstrate how severely SMEs are affected by economic crises. However, the indicator likely underestimates the number of SMEs' exits, as some SMEs close their business before being in financial difficulties. Bankruptcies per 10 000 or 1 000 SMEs is a preferred measure, because the indicator is not affected by the increase or decrease in the number of enterprises in the economy.

Preferred definitions

In order to calculate these core indicators, data are collected for 16 variables. Each variable has a preferred definition (Table A.2), intended to facilitate time consistency and comparability. Most of the data come from supply side sources, that is, financial institutions, and usually central bank statistics. A few data are sourced from demand side surveys of either senior loan officers or SMEs themselves. In a number of cases it is not possible for countries to adhere to the "preferred definition" of an indicator, due to data limitation or reporting practices, and a proxy is used. For this reason, in each country profile the data are accompanied by a table of definitions and sources for each indicator.

Table A.2. **Preferred definitions for core indicators**

Indicator	Definition/Description	Sources
SME loans	Bank and financial institution loans to SMEs, amount outstanding (stocks) at the end of period OR new loans (flows); by firm size using the national definition of SME or, if necessary, loan amounts less than EUR 1 million.	Supply-side data from financial institutions
Total business loans	Bank and financial institution business loans to all non-financial enterprises, outstanding amounts (stocks) or new loans (flows).	Supply-side data
SME short-term loans	Loans equal to or less than one year; outstanding amounts or new loans.	Supply-side data
SME long-term loans	Loans for more than one year; outstanding amounts or new loans.	Supply-side data
SME government loan guarantees	Government guarantees available to banks and other financial institutions during the year.	Supply-side data
SME government guaranteed loans	Loans guaranteed by government, stocks or flows.	Supply-side data
SME government direct loans	Direct loans from government, stocks or flows.	Supply-side data
SME loans authorised	Stocks or flows.	Supply-side survey
SME loans requested	Stocks or flows.	Supply-side survey
SME non-performing loans	SME non-performing loans out of total SME loans.	Supply-side data
SME Interest rate	Average annual rates for new loans, base rate plus risk premium; for maturity less than 1 year; and amounts less than EUR 1 million.	Supply-side data
Interest rate spreads	Between small and large enterprises; for maturity less than 1 year; amounts less than EUR 1 million and equal to or greater than EUR 1 million.	Supply-side data
Collateral	Percentage of SMEs that were required to provide collateral on latest bank loan.	Demand-side survey
Venture and growth capital	Seed, start-up, early stage and expansion capital (excludes buyouts, turnarounds, replacements).	VC association (supply side)
Payment delays	Average number of days delay beyond the contract period for Business to Business (B2B) and Business to Customer (B2C).	Demand-side survey
Bankruptcy	Number of enterprises ruled bankrupt; and number bankrupt per 10 000 or 1 000 enterprises.	Administrative data

SME target population

The SME target population of the Scoreboard consists of non-financial "employer" firms, that is, firms with at least one employee besides the owner/manager, which operate a non-financial business. This is consistent with the methodology adopted by the OECD-Eurostat Entrepreneurship Indicators Programme. The target group excludes firms with no employees or self-employed individuals, which considerably reduces the number of firms that can be considered SMEs. For most of the countries in the report, data are available for this target population. However, not all countries collect data at the source and compile them in accordance with these criteria. Therefore, in a few cases data include financial firms and/or self-employed individuals.

Timeframe for the data collection

The data in the present report cover the period 2007 to 2011, which includes three distinct economic stages: pre-crisis (2007), crisis (2008-2009) and recovery (2010-2011). The year 2007 serves as the benchmark year from which changes in SMEs' access to finance are measured. Adopting as a benchmark an average of a number of years would allow for controlling for exceptional events or stage in the cycle of a given year. However, given that such an SME data series would be difficult to compile, it was decided to use just one data point as the benchmark.

Sources of the data

The data in the national Scoreboards are supplied by country experts with access to the information needed from a variety of supply-side and demand-side sources. Annex D provides references to surveys and statistical resources on financing SMEs and entrepreneurs in several countries.

Most of the Scoreboard indicators are built on supply-side data, that is, data which is provided by financial institutions and other government agencies. There are several indicators which are based on demand-side surveys of SMEs. However, not all countries undertake such surveys. Ideally, quantitative demand-side data, as collected by SME surveys, would complement the picture and improve the interpretative power of the OECD Scoreboard. However, whereas a plethora of *qualitative* SME surveys (i.e. opinion surveys) exist, *quantitative* demand-side surveys are rare. Experience shows that *qualitative* information based on opinion survey responses must be used cautiously. Furthermore, comparability of national surveys is limited, as survey methodologies differ from country to country. Annex E presents an example of a simplified quantitative survey by Industry Canada on Small Business Credit Conditions in 2010, which constitutes a good practice for demand-side surveys, yielding high quality data while limiting costs to administrators and burdens to respondents. Comparable demand-side surveys are also undertaken on a regular basis by the European Central Bank and the European Commission, which provide an example of the benefits that can come from standardised definitions and methodology across countries.

3. Deviations from preferred definitions of indicators

Data limitations and country-level specific reporting practices imply that the national Scoreboards may deviate from the "preferred definitions" of some core indicator. A table of definitions and sources is included in each profile, to allow correct interpretation of the Scoreboard evidence. This also implies that cross country comparisons are limited for some indicators. Some of the main deviations in definition of variables and data coverage are discussed below.

In addition, even when the indicators adopted correspond to the preferred definition, countries may be reporting flow variables or stock measures. Flows, which are measured over an accounting period (i.e. one year), are expected to reflect short-term events and are therefore more volatile than stocks, which measure the value of an asset at a given point in time, and thus reflect latest flows, as well as values that may have cumulated over time, net of depreciation. These differences require caution when making cross-country comparisons for a given indicator.

SME loans

The OECD Scoreboard aims to collect business loan data that include overdrafts, lines of credit, short-term loans, and long-term loans, regardless of whether they are performing or non-performing loans. Additionally, it aims to exclude personal credit card debt and residential mortgages. However, for some countries, significant deviations exist from this preferred SME loan definition.

In some countries, central banks do not require *any* reporting on SME lending. In these cases the SME loans are estimated from SME financial statements available from tax authorities. In other cases credit card debt is included in SME loans, and it cannot be determined which part corresponds to consumer credit card debt and which part is business credit card debt. In other cases, lines of credit and overdrafts are excluded.

The report includes data on government loan guarantees. Supply-side data is the best source of information on loan guarantees. There are many sources for such guarantees: local, regional or central governments. In some countries, an important volume of guarantees is also provided by mutual guarantee schemes (see Chapter 3). These are private schemes that typically benefit from public support, in the form of direct funding or counter-guarantees. However, the various loan guarantees schemes, public, private and mixed, are not always consolidated to obtain national figures. Therefore, the OECD Scoreboard reports mostly on government loan guarantees which are readily available. In some cases, lack of awareness and reporting make it difficult to collect data on guaranteed SME loans. In fact, SMEs are not always aware that their loan is backed by a government guarantee and banks do not usually report this information.

The indicators on SME loans authorised and SME loans requested are obtained from demand-side surveys. However, not all countries undertake such a survey, or, if they do, the results are not comparable. Several countries have information on SME loans *used*, rather than SME loans *requested*. In these cases, a proxy is used, which consists of SME loans used divided by SME loans authorised. While this does not provide the identical information as the preferred definition, a decline in the ratio suggests that the credit market is easing, or that banks have been providing more credit than has being used.

There is also a great deal of latitude in how banks define "non-performing" loans. Some use a cut-off of 90 days, and others a longer period. However, if the changes in this ratio are analysed, the indicator can be used for cross-country comparisons.

SME credit conditions

Significant differences exist across countries in the calculation for SME interest rates. While there is agreement that "fees" should be included in the "cost" of the SME loans, it appears to be particularly difficult to determine which "fees", among the various charges applied to firms, to include in the interest rates.

Central banks usually do not collect key pieces of information on SMEs' access to finance, such as the collateral required for SME loans. Banks consider this to be confidential information. A rough approximation can be obtained from demand-side information, that is, the percentage of SMEs required to provide collateral on new loans. This measure is currently used in the OECD Scoreboard, and more transparent reporting by banks on the terms of their SME lending is recommended to improve information on SME credit conditions.

Equity financing

The present report monitors external equity, that is, venture and growth capital. Venture capital is usually reported by stage of development: seed, start-up and early expansion capital. Later stage expansion capital, referred to as growth capital, is also reported. Buyouts, turnarounds and replacement capital are excluded from venture and growth capital. Country classification systems do not always break down private equity data into these categories. Most do not break it down by firm size. Venture capital data are collected by private venture capital associations, which rely on voluntary reporting and whose membership may be incomplete. There is also no standard method to value venture capital. There is a need for greater standardisation of venture capital data reporting, in terms of both the definition used for the different stages of investment, and the methodology employed to collect data.

Payment delays and bankruptcies

Payment delays and bankruptcy data are usually collected for all enterprises and not broken down by firm size. Since SMEs account for more than 97 % of the enterprises in the participating countries, the national figures for payment delays and bankruptcy rates were used in this report. However, bankruptcies are hard to compare across countries because of different bankruptcy costs, legislation and behaviour in the face of bankruptcy. In some cases, bankruptcy procedures take a long time and so bankruptcies only show up in later periods rather than during the crisis period.

4. Differences in definitions of an SME

The biggest challenge to comparability is represented by large differences in the statistical definition of an SME by banks and national organisations across countries. Greater harmonisation continues to prove difficult due to the different economic, social and political concerns of individual countries. In addition, within-country differences exist: some banks and financial institutions do not use their national statistical definitions for an SME but a different definition to collect data on SME financing.

The most commonly used statistical definition for an SME among participating countries is the one used in the European Union (Box A.1). In many cases, the national

Box A.1. **What is an SME?**

The EU definition of the size of firm is based on four associated criteria: number of employees, turnover, total assets of legal units and independence. While there is no universal definition of an SME and several criteria can be used in the definition, SMEs are generally considered to be non-subsidiary firms which employ less than a given number of employees. This number of employees varies across countries. The most frequent upper limit designation of an SME is 250 employees, as in the European Union. However, some countries set the limit at 200, while the United States considers SMEs to include firms with fewer than 500 employees. Small firms are mostly considered to be firms with fewer than 50 employees while micro-enterprises have less than 10. Medium-sized firms have between 50 and 249 employees. Turnover and financial assets are also used to define SMEs: in the EU, the turnover of an SME cannot exceed EUR 50 million and the annual balance sheet should not exceed EUR 43 million.

Source: OECD (2006), *The SME Financing Gap (Vol I): Theory and Evidence,* OECD Publishing, Paris.

authorities collect loan data using the national or EU definition for an SME, based on firm size, usually the number of employees or the annual turnover. In other cases, the SME loan data are based not on firm size but rather on a proxy, that is, loan size.* In the current edition of the Scoreboard, 17 countries reported SME loans based on firm size and eight countries reported by loan size. However, the size of the SME loan can differ among countries and sometimes even among banks within the same country.

* Recent studies by the World Bank provide evidence that loan size is an adequate proxy for size of the firm accessing the loan. See for instance Ardic, O.P., N. Mylenko and V. Saltane (2011), "Small and medium enterprises: A cross-country analysis with a new data set", *World Bank Policy Research Working Paper Series* 5538, Washington, DC.

Several reasons are advanced for not compiling financial statistics based on firm size including:

- banks do not collect data by firm size;
- it is too expensive to collect such data;
- breaking down loan data by firm size would jeopardise confidentiality.

Experience gained from the OECD Scoreboard suggests that loan data broken down by firm size are already in the financial system but are not extracted unless banks are under a regulatory obligation to provide them. Experience also suggests that the challenges mentioned above could be addressed quite easily. For instance, confidentiality requirements in theory could be met through the use of judicious sub-grouping. In this case, resolution of this issue could be found if national regulatory authorities were to make the provision of this information mandatory for banks.

Table A.3. **Difference between national statistical and financial definitions of SMEs**

	National statistical definition of SMEs	Indicator	Definition of SMEs used
Canada	Size of firm: 1-499 employees	Business loans, SMEs	Loan size: amounts up to CAD 1 million.
		Short- and long-term loans, small businesses	Firm size: enterprises with 1-99 employees.
		Government guaranteed loans, SMEs	Firm size: annual sales (turnover) lower than CAD 5 million.
		Direct government loans, SMEs	Firm size: annual sales (turnover) less than CAD 25 million.
		Risk premium for small businesses	Firm size: enterprises with 1-99 employees.
		Loans authorised and requested, small businesses	Firm size: enterprises with 1-99 employees.
		Collateral, small businesses	Firm size: enterprises with 1-99 employees.
Chile	Annual sales of firm: up to UF 100 000	Business loans, SMEs	Loan size: amounts up to UF 18 000.
		Short- and long-term loans, SMEs	Loan size: amounts up to UF 18 000.
		Government guaranteed loans, SMEs	Firm size: annual sales up to UF 100 000 or annual exports up to UF 400 000.
		Direct government loans, SMEs	Less than 12 hectares and capital up to UF 3 500.
		Loans authorised and requested, SMEs	Firm size: annual sales up to UF 100 000.
		Non-performing loans, SMEs	Loan size: amounts up to UF 18 000.
		Short-term interest rate, SMEs	Loan size: amounts up to UF 18 000.
		Payment delays, SMEs	Loan size: amounts up to UF 18 000.
Czech Rep.	Size of firm: less than 250 employees	Business loans, SMEs	Loan size: amount up to CZK 30 million.
Denmark	Size of firm: less than 250 employees	Business loans, SMEs	Loan size: amounts up to EUR 1 million.
		Short- and long-term loans, SMEs	Loan size: amounts up to EUR 1 million.
		Government loan guarantees, SMEs	Firm size: up to 250 employees.
		Interest rate, SMEs	Loan size: amounts up to EUR 1 million.
Finland	EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million)	Business loans, SMEs	Loan size: up to EUR 1 million.
		Short- and long-term loans, SMEs	Firm size: less than 250 employees.
		Value of government guaranteed loans, SMEs	Firm size: less than 250 employees.
		Loans authorised and requested, SMEs	Loan size: up to EUR 1 million.
		Interest rate, SMEs	Loan size: up to EUR 1 million.
		Collateral, SMEs	Firm size: less than 250 employees.

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

	National statistical definition of SMEs	Indicator	Definition of SMEs used
France	EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: number of employees (less than 250), turnover (less than EUR 50 million), total assets of legal units (less than EUR 43 million) and independent; bank must inform the Central Credit Register when it grants a loan of more than EUR 25 000.
		Short- medium- and long-term loans	Firm size: number of employees (less than 250), turnover (less than EUR 50 million), total assets of legal units (less than EUR 43 million) and independent; bank must inform the Central Credit Register when it grants a loan of more than EUR 25 000.
		Share of the outstanding loans of failing companies, SMEs except micro-enterprises	Firm size: number of employees (less than 250), turnover (less than EUR 50 million), total assets of legal units (less than EUR 43 million) and independent; bank must inform the Central Credit Register when it grants a loan of more than EUR 25 000.
		Interest rate, SMEs	Loan size: less than EUR 1 million.
		Bankruptcies, SMEs	Firm size: number of employees (less than 250), turnover (less than EUR 50 million), total assets of legal units (less than EUR 43 million) and independent.
Hungary	EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Overdraft loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Investment loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Direct government loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Government guaranteed loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Non-performing loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Average interest rate, SMEs	Loan size: amounts up to EUR 1 million.
Ireland	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size.
		Short- and long-term loans, SMEs	Loan size: less than EUR 1 million.
		Interest rates, SMEs	Loan size: less than EUR 1 million.
Italy	EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: less than 20 workers.
		Short- and long-term loans, SMEs	Firm size: less than 20 workers.
		Government guaranteed loans, SMEs	Firm size: less than 250 employees.
		Direct government loans, SMEs	Firm size: less than 250 employees.
		Loans authorised and used, SMEs	Firm size: less than 20 workers.
		Non-performing loans, SMEs	Firm size: less than 20 workers.
		Interest rate, average SME rate	Firm size: less than 20 workers.
		Collateral, SMEs	Firm size: less than 20 workers.
		Venture and expansion capital, SMEs	Firm size: less than 250 employees.
		Payment delays, SMEs	Firm size: turnover of up to EUR 50 million.
Korea	Varies by sector	Business loans, SMEs	The definition of SMEs differs according to sector.
		Short- and long-term loans, SMEs	The definition of SMEs differs according to sector.
		Government loan guarantees, SMEs	The definition of SMEs differs according to sector.
		Direct government loans, SMEs	The definition of SMEs differs according to sector.
		Loans authorised and requested, SMEs	The definition of SMEs differs according to sector.
		Non-performing loans, SMEs	The definition of SMEs differs according to sector.
		Interest rate spread, SME and large firm rates	The definition of SMEs differs according to sector.
		Payment delays, SMEs	The definition of SMEs differs according to sector.

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

	National statistical definition of SMEs	Indicator	Definition of SMEs used
The Netherlands	EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million)	Business loans, SMEs	Loan size: up to EUR 1 million.
		Short- and long-term loans, SMEs	Loan size: up to EUR 1 million.
		Government loan guarantees, SMEs	Firm size: up to 250 employees.
		Loans authorised and requested, SMEs	Firm size: up to 250 employees.
		Collateral, SMEs	Size of firm up to 250 employees.
New Zealand	No unique national definition.	Interest rates, SMEs	Loan size: up to NZD 1 million.
		Loan authorised, SMEs	Firm size: enterprises with 6-19 employees.
		Loan requested, SMEs	Firm size: enterprises with 6-19 employees.
Norway	EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: less than 250 employees.
Portugal	EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Short- and long-term loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Government guaranteed loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Loans authorised and requested, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Non-performing loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Interest rates, SMEs	Loan size: up to EUR 1 million (prior to 2010) and loans up to EUR 0.25 million (in 2010) .
		Collateral, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
Russian Federation	Less than 250 employees, not more than RUB 1 000 million	Business loans, SMEs	Firm size: Less than 250 employees, not more than RUB 1 000 million.
		Government loan guarantees, SMEs	Firm size: Less than 250 employees, not more than RUB 1 000 million.
		Government guaranteed loans, SMEs	Firm size: Less than 250 employees, not more than RUB 1 000 million.
		Non-performing loans, SMEs	Firm size: Less than 250 employees, not more than RUB 1 000 million.
Serbia	Up to 250 employees, turnover up to EUR 10 million, total assets up to EUR 5 million	Business loans, SMEs	Firm size, in accordance with national statistical definition.
		Interest rate, SMEs	Loan size: up to EUR 1 million.
Slovak Republic	EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: less than 250 employees (including natural persons).
		Short- and long-term loans, SMEs	Firm size: less than 250 employees (including natural persons).
		Government loan guarantees, SMEs	Firm size: less than 250 employees (including natural persons).
		Government guaranteed loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

	National statistical definition of SMEs	Indicator	Definition of SMEs used
		Direct government loans, SMEs	Firm size: less than 250 employees (including natural persons).
		Direct government loans, SMEs	Firm size: less than 250 employees (including natural persons).
		Collateral, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Venture capital, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
Slovenia	EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million)	Short- and long-term loans, SMEs	Firm size: less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.
		Direct government loans, SMEs	Firm size: less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.
		Interest rate, SMEs	Firm and loan size: enterprises with less than 250 employees and amounts less than EUR 1 million.
Spain	EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million)	Business loans, SMEs	Loan size: less than EUR 1 million.
		Short- and long-term loans, SMEs	Loan size: less than EUR 1 million.
		Government guaranteed loans, SMEs	Firm size: less than 250 employees.
		Interest rate, SMEs	Loan size: less than EUR 1 million.
		Venture capital, SMEs	Firm size: less than 250 employees.
		Payment delays, SMEs	Firm size: EU definition.
		Bankruptcies, SMEs	Firm size: EU definition.
Sweden	EU definition (less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: 1-249 employees.
		Short- and long-term loans, SMEs	Firm size: 1-249 employees.
		Government guaranteed loans, SMEs	Firm size: 0-249 employees.
		Government loan guarantees, SMEs	Firm size: 0-249 employees.
		Direct government loans, SMEs	Firm size: 0-249 employees.
		Loans authorised, SMEs	Firm size: 0-249 employees.
		Interest rates, SMEs	Loan size: up to EUR 1 million.
Switzerland	Size of firm: less than 250 employees	Business loans, SMEs	Firm size: less than 250 employees.
		Government guaranteed loans, SMEs	Firm size: less than 250 employees.
		Loans used, SMEs	Firm size: less than 250 employees.
		Collateral, SMEs	Firm size: up to 249 employees.
		Interest rates, SMEs	Loan size: less than CHF 1 million.
Thailand	Number of employees and fixed capital: less than 200 employees and fixed capital less than THB 200 million	Business loans, SMEs	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Short- and long-term loans, SMEs	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Government guaranteed loans, SMEs	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Loans authorised and requested, SMEs	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Non-performing loans, SMEs	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Interest rate, SME average rate	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Payment delays, SMEs	The National definition of SMEs differs according to sector.
		Bankruptcies, SMEs	The National definition of SMEs differs according to sector.
Turkey	Less than 250 employees and TRY 40 million in assets	Business loans, SMEs	Firm size.

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

	National statistical definition of SMEs	Indicator	Definition of SMEs used
United Kingdom	Size of firm: less than 250 employees	Business lending, SMEs	Firm size: turnover of up to GBP 25 million.
		Interest rates, SMEs	Firm size: turnover up to GBP 25 million.
		Collateral, SMEs	Firm size: less than 250 employees, including non-employer enterprises.
United States	Size of firm: less than 500 employees	Business loans, SMEs	Loan size: up to USD 1 million.
		Short-term loans, SMEs	Loan size: up to USD 1 million.
		Government guaranteed loans, SMEs	Varies by industry.
		Collateral, SMEs	Loan size: up to USD 1 million.

5. Impact of diversity in definitions

The many limitations in data collection above outlined limit the possibility to make cross-country comparisons using the raw data. However, it is possible to observe general trends for the indicators, both within and across countries, using growth rates. When analysing trends, the differences in the exact composition of the indicators are muted by the fact that the changes in the indicators over time are being examined instead of levels. Additionally, if the indicators are analysed as a set, it is possible to form an overview of the country trends in SME financing. It is precisely comparing trends that the Scoreboard sheds light on changing market conditions and policies for financing SMEs and entrepreneurs.

However, again, caution is required in cross-country comparisons, especially as concerns the use of flow variables and stock measures. Flows, which are measured over an accounting period (i.e. one year), capture *changes* of a given variables and are therefore more volatile than stocks, which measure *levels*, i.e. the value of an asset at a given point in time, and thus reflect latest flows, as well as values that may have cumulated over time, net of depreciation. The comparison of flows and stock measures can be particularly problematic when growth rates are considered. In fact, a negative growth rate of a flow variable can be compatible with a positive growth rate of the same variable measured in stocks. This would be the case if the stock variables increases over time but the absolute increase by which the stock variables grows becomes smaller.

6. Recommendations for data improvements

To enable more timely collection of data and better cross-country comparability in the future, it is necessary for countries to advance in the harmonisation of data content and in the standardisation of methods of data collection. The adoption of standardised formats for the collection of SME financing information across countries will enable improvements to the quality and time consistency of the monitoring framework, while allowing for some customisation at the country level. For this purpose, it is recommended that countries take immediate action in the following areas:

- use a standardised table for data collection and submission (see Annex B);
- use a standardised format for reporting on the creation of and changes in government policies and programmes for SME finance (see Annex C).

It is also necessary to fill the gaps in available data and work towards more comprehensive information in key areas. Progress can be made by:

- including additional information on the scope and coverage of public guarantee schemes, in particular information on the volume of outstanding guarantees, the public contribution to the fund's capitalisation, and the value of the loans supported by public guarantees;
- using demand-side survey information to compensate for lack of supply-side data on collateral.

Furthermore, in the medium to long term, it is necessary for countries to make progress in the harmonisation of definitions and to improve transparency and accounting practices by financial institutions. In this regard, the following steps should be considered by governments to improve the collection of data on SME and entrepreneurship finance:

- require financial institutions to use the national definition for an SME based on firm size;
- 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;
- 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 yearly surveys;
- promote the harmonisation of the definition of venture capital in terms of stages of development.

ANNEX B

Standardised Table for SME Finance Data Collection

Country Name									
Indicator	**Unit**	**2007**	**2008**	**2009**	**2010**	**2011**	**Notes/ revisions last year**	**Definition**	**Source**
Debt									
Business loans, SMEs									
Business loans, total									
Business loans, SMEs	% of total business loans								
Short-term loans, SMEs									
Long-term loans, SMEs									
Total short and long-term loans, SMEs									
Short-term loans, SMEs	% of total SME loans								
Government loan guarantees, SMEs									
Government guaranteed loans, SMEs									
Non-performing loans, total									
Non-performing loans, SMEs									
Non-performing loans, SMEs	% of total SME loans								
Interest rate, SMEs									
Interest rate, large firms									
Interest rate spread									
Collateral, SMEs									
Equity									
Venture and growth capital									
Venture and growth capital	%, Year-on-year growth rate								
Other									
Payment delays									
Bankruptcies, total									
Bankruptcies, total	%, Year-on-year growth rate								
Bankruptcies, SMEs									
Bankruptcies, SMEs	%, Year-on-year growth rate								

ANNEX C

Standardised Format for Reporting Government Policy Programmes

1. Introduction

The standardised format for reporting government policy programmes (Table C.1) aims to harmonise information and support policy makers to monitor change in programmes' terms, outcomes, and effectiveness. The consistency and continuity of reporting over time is crucial to the assessment. Often, changes in programmes' parameters influence outcomes, such as uptake and costs, with a time lag. The format allows for systematic and time-consistent reporting without increasing the reporting burden. Once the information on a specific programme is entered, it can be updated a on regular basis. When the programme changes, the information sheet would track the year of the change and the parameter(s) affected.

The focus of the reporting is on national programmes, rather than on regional ones, in order to reduce the complexity of reporting, but it would be useful to indicate if similar independent regional or local initiatives exist.

2. Programme parameters

The government policy programme parameters are grouped into the following categories:

- *Delivery agents and type*. Many different agents can deliver the programmes including: the private sector, the government or an NGO. Among the various types of programmes supporting SME finance are loan guarantee schemes, direct loans, co-financing of loans or equity, leasing, micro credit, venture capital and business angel incentives, credit mediation and credit review.
- *Eligibility*. The eligibility criteria for participation to the programme directly affect uptake and cost. The programme can be restricted, for instance, by firm size, by gender, by age of the owner, by type of activity (exporting, innovation, etc.), age of the business, location (rural/urban) and sector (industry/agriculture, etc.).
- *Financing terms*. Government programmes often have specific financing conditions and terms, such as:
  - maximum financing amount;
  - interest rate;
  - fees charged;

  - maturity/term/amortisation;
  - purpose of financing (e.g. working capital, expansion/investment, R&D);
  - collateral/security.
- *Programme terms*. Government programmes may have specific conditions and terms, including:
  - risk-sharing ratio (guaranteed percentage, investment matching, etc.);
  - total value of the fund/maximum liability/budget commitment;
  - complementary requirements, incrementality;
  - cost recovery/required return.

The reporting on the above parameters is generally easier than monitoring the costs and uptake. However, these other performance parameters are key to the policy assessment, and a specific effort should be made to report them in a timely and accurate fashion.

Among the *costs* of a programme are the total outstanding liability, the actual realised losses from defaults, and the administrative costs. Most interesting for policy makers is what has been the *uptake* of such programmes and the degree at which demand by target beneficiaries met the government supply. The *uptake* can be measured by looking at the number and value of outstanding transactions.

Table C.1. **Information sheet on national programmes promoting SMEs' access to finance**

Date completed/updated:	
Programme name:	
Start date:	End date:
Objectives:	
Source of funding:	
Delivery agents and type:	
Eligibility:	
Financing terms:	
Programme terms:	
Actual cost:	
Uptake by beneficiaries:	
Evaluations undertaken: No ( ), if Yes ( ) link to review:	
Similar local or regional programmes (if independent):	

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ANNEX D

Surveys and Statistical Resources on SME and Entrepreneurship Finance

Surveys represent an important source of information and data for monitoring the state of financing available and used by SMEs and entrepreneurs, as well as for assessing appropriateness and effectiveness of government policies in this area. A large number of supply-side and demand-side surveys are conducted at the national level by government agencies, national statistical offices, central banks and, in some cases, business associations and private organisations.

Survey-based evidence, on both the demand and the supply side, can complement the quantitative data collected from supply-side sources and improve the understanding of business financing needs. Survey data are particularly useful for assessing credit conditions when relevant data are not easily accessible or produced in a timely manner. This is the case, for instance, of information on collateral requirements for SME loans, which are treated as confidential by most banks.

However, harmonisation is urgently needed in the design and implementation of surveys. At present, there is little standardisation across countries in terms of the timing, the sample population, the sampling method, the interview method, and the questions asked. To address this issue, governments are encouraged to increase co-operative efforts between public and private institutions in order to increase coverage and comparability of results of different surveys covering the same phenomenon. The ECB/EC's survey on SME access to finance uses a standardised methodology and provides a good example of the benefits that can come from standardised definitions and methodology across countries.

The OECD can serve as a clearinghouse for national and multilateral efforts to improve the knowledge base on SME finance, by fostering international dialogue on this issue, and collecting and diffusing information on the statistical resources and survey practices and methodologies developed in OECD and non-OECD countries. The list below represents a first step in this direction, providing links to relevant sources for the countries in the Scoreboard on SME and entrepreneurship finance and at the international level.

Canada

PayNet Inc.
www.paynetonline.com

SME Financing Data Initiative – *Credit Conditions Survey*
www.ic.gc.ca/eic/site/061.nsf/eng/h_02192.html

SME Financing Data Initiative – *Survey on Financing of Small and Medium Enterprises*
www.ic.gc.ca/eic/site/061.nsf/eng/h_02774.html

SME Financing Data Initiative – *Biannual Survey of Suppliers of Business Financing*
www.ic.gc.ca/eic/site/061.nsf/eng/h_01569.html

Chile

Central Bank of Chile – *General Conditions and Standards in the Credit Market, June 2011*
www.bcentral.cl/estadisticas-economicas/credito-bancario/index.htm

Central Bank of Chile – *Working papers*
www.bcentral.cl/eng/studies/working-papers/

Denmark

Danmarks Nationalbank – *Lending Survey*
*http://nationalbanken.dk/DNUK/Statistics.nsf/side/Danmarks_Nationalbanks_lending_survey!OpenDocument_*

European Commission

DG Enterprise and Industry's Survey on the Access to Finance of SMEs
http://ec.europa.eu/enterprise/policies/finance/data/

European Central Bank

Euro Area Bank Lending Survey
www.ecb.int/stats/money/surveys/lend/html/index.en.html

Survey on the Access to Finance of SMEs in the Euro Area
www.ecb.int/stats/money/surveys/sme/html/index.en.html

European Investment Bank Group

European Investment Fund – *Working Papers*
www.eif.org/news_centre/research/index.htm

Finland

Bank of Finland – *Finnish MFI new business on euro-denominated loans to euro area non-financial corporations by loan amount*
www.suomenpankki.fi/en/tilastot/tase_ja_korko/Pages/tilastot_rahalaitosten_lainat_talletukset_ja_korot_lainat_lainat_uudet_sopimukset_yrityksille_en.aspx

Bank of Finland, *the Confederation of Finnish Industries and the Ministry of Employment and the Economy*, Business financing surveys.
www.suomenpankki.fi/en/julkaisut/selvitykset_ja_raportit/Pages/default.aspx

Confederation of Finnish Industries EK – *EK´s longitudinal financing surveys*
www.ek.fi/ek/en/news/eks_financial_surveys_provide_an_accurate_picture_of_economic_situation_among_smes-5367

Federation of Finnish Enterprises & Finnvera – *SME-Barometer (in Finnish)*
www.yrittajat.fi/fi-FI/uutisarkisto/a/uutisarkisto/pk-yritykset-varautuvat-uuteen-taantumaan-6

Financial Supervisory Authority – *Nonperforming assets and impairment losses by sector and industrial category*
www.finanssivalvonta.fi/en/Statistics/Credit_market/Nonperforming_assets_by_sector/Pages/Default.aspx

Finnish Venture Capital Association – *FVCA industry statistics*
www.fvca.fi/en/knowledge_centre/statistics

Finnvera – *Annual reviews*
www.finnvera.fi/eng/About-Finnvera/Publications

Huovinen, J. (2011). *Impacts of financial crisis on SME financing. The Finnish evidence*. Paper presented at the ECB workshop on "Access to finance of SMEs: what can we learn from survey data?", Frankfurt, Germany, 5-6 December 2011.
www.ecb.int/events/pdf/conferences/ws_surveydata/Session_2.2_paper_Huovinen.pdf?8214f7c29f4d4f17b02017385bd4ffa1

Statistics Finland – *StatFin online service*
www.stat.fi/tup/statfin/index_en.html

France

Banque de France (2011), « En 2010, les PME bénéficient de la reprise mais diffèrent leurs investissements »
www.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/Bulletin-de%20la-Banque-de-France/Bulletin-de-la-Banque-de-France-etude-185-1.pdf

Banque de France (2011), "Financement des PME en France – Parutions antérieures",
www.banque-france.fr/economie-et-statistiques/stats-infos-parutions-anterieures/financement-des-pme-en-france-parutions-anterieures.html

Banque de France – *Monthly Report on the Financing of SMEs in France*
(Le financement des PME en France)
www.banque-france.fr/economie-et-statistiques/stats-info/detail/financement-des-pme-en-france.html

Banque de France – *SME finance "Webstat"*
http://webstat.banque-france.fr/fr/browse.do?node=5384417

Banque de France – *Enterprise data home page*
www.banque-france.fr/en/economics-statistics/companies.html

Ministry of the Economy, Finance and Industry – *Report of the Firms Financing Observatory (in French)*
http://mediateurducredit.fr/site/content/download/444/2637/file/RapportObsfi%20.pdf

Hungary

Hungarian Financial Supervisory Authority – *Credit Institution data*
www.pszaf.hu/en/left_menu/pszafen_publication/creditdata.html

Hungarian National Bank (MNB) – *Report on Financial Stability* (2012)
http://english.mnb.hu/Root/ENMNB//Kiadvanyok/mnben_stabil

Hungarian National Bank (MNB) – *Lending survey*
http://english.mnb.hu/Kiadvanyok/hitelezesi_felmeres

Ireland

SME Lending Demand Survey – April to September 2011 (Department of Finance)
www.finance.gov.ie/documents/publications/reports/2011/mazarbanklend.pdf

Central Bank Quarterly Bulletins – contains regular SME research
www.centralbank.ie/publications/Pages/QuarterlyBulletinArticles.aspx

Central Statistics Office
www.cso.ie/en/index.html

Company Registration Office – publications
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ANNEX E

Example of a Simplified Quantitative Demand-side Survey

Survey on Small Business Credit Conditions 2010 by Industry Canada

Number of questions:	
Section A (Screening):	4
Section B (General financing):	4
Section C (Debt financing):	6
Section D (Lease financing):	2
Section E (Equity financing):	2
Section F (General business information):	5
Section G (Owner information):	4
Total:	**27**
Expected time: 15 minutes	
Target respondent: Owner, chief financial officer, accountant or person in charge of corporate finances	

Screening questions

The following are screening questions to determine if the business is in scope.

A.1. Just to confirm, are you: *(Note: Read all)*
a) The Business Owner?
b) The person in charge of finance in your business?
c) Other?

If A.1 = "c" → Go to A.2,
Else → Go to A.3

A.2. We are looking to speak with the person who is knowledgeable about the business characteristics finances. Are you the correct person?

Yes [Continue]
No [Ask to speak to the correct person]

A.3. Is your business classified as a non-profit organisation, a co-operative, a joint venture or a government agency?

Yes____ No____

If "yes" or "don't know/refused" → READ: Since this survey is for private for-profit businesses, we will not need to proceed with the survey. Thank you for your participation.

A.4. Excluding the owner(s) of the business, how many paid full-time and part-time employees did the business have in 2010?

Full-time ______Part-time______

[Do not include contractors or sub-contractors, e.g. in construction industry builders use sub-contractors, plumbers, etc. who have their own business they are not employees and should not be counted.]

If 0 < A.4 ≤ 100, continue to B.1

If A.4 = "0" or A.4 > "99" → READ: Since this survey is for small businesses with 1 to 99 employees, we will not need to proceed with this survey. Thank you for your participation.

Note: This question is used as a screening question and is also a key question of the survey.

General financing

B.1. What types external financing did your business seek in the 2010 calendar year?

Note: MARK ALL THAT APPLY. The respondent is to reply with YES/NO/Refused/Don't Know after hearing each option.)

a) Did not seek any external financing
b) New mortgage or refinancing of an existing mortgage
c) New term loans
d) New line of credit or increase in existing line of credit
e) New credit card or increase in existing credit limit
f) Leasing
g) Trade Credit
h) Equity
i) Other, please specify:____________

If B.1 = "a" → Go to B.2

Else → Go to B.3

B.2. What was the main reason why your business did not seek external financing in the 2010 calendar year?

[Read list and mark only one main reason]

a) Financing not needed
b) Investment project postponed
c) Thought the request would be turned down
d) Applying for financing is too difficult
e) Cost of financing is too high
f) Other, (Please specify)________________ [*Do not read*]

→ Go to F.1

B.3. What was the main intended use for the financing requested that was requested in the 2010 calendar year? Was it for:
(Note: Read list and mark only one main intended use)

a) Fixed asset?
(**Prompt:** Fixed assets are assets that the business expects to use for an extended period, such as land, buildings, vehicles, machinery and equipment)
b) Working capital/operating capital such as inventory or paying suppliers?
(**Prompt:** Funds used to finance the day-to-day operations of the business such as the purchase of inventory or paying suppliers)
c) Research and development?
(**Prompt:** R&D expenditures refers to expenditures meant to bring a new product to market or to improve an existing product)
d) Debt consolidations?
e) Enter a new domestic market?
f) Enter a new global market?
g) Other? (Please specify): ____[Do not read Probe for other reason if nothing provided above]

B.4. What is your main supplier of finance?
(Note: Read list and mark only one main supplier of finance)

a) Domestic chartered bank (specify): _______________
b) Foreign bank or subsidiary of a foreign bank (specify): _______________
c) Credit union/Caisses populaires (specify): _______________
d) Leasing company
e) Government institution, for example BDC, EDC, FCC (specify):_______________
f) Other (specify):_________________[Do not read]
(Note: Alberta Treasury Branches (ATB) should be considered a domestic chartered bank)

Debt financing

If B.1b, B.1c, B.1d or B.1e = "YES" → Go to C.1

Else → Go to Section D

C.1. In the most recent debt financing request in the 2010 calendar year, what was the dollar amount requested?
(**Prompt:** Please provide your best estimate)

a) $__________
b) Don't know
c) Refused

C.2. What was the amount that was authorised as a result of your 2010 request?

a) $________
Note: Write $0 if the loan was rejected

b) Request is still under review
c) Don't know
d) Refused

If C.2a = "$0", → Go to C.3
If $0 < C.2a → Go to C.4
If C.2 = b → Go to Section D

C.3. Which of the following reasons were given as to why the loan was rejected?
[*Read list and mark all that apply*]

a) No reason given by credit supplier
b) Insufficient sales or cash-flow
c) Insufficient collateral or security
d) Poor credit history or lack of credit history
e) Project was considered too risky
f) Other reason
→ **Go to Section D**

C.4. What was the annual interest rate on the loan?

a) ____________%
b) Don't know
c) Refused

C.5. What was the length of term of the loan?

a) ______months
b) Not applicable
c) Don't know
d) Refused

C.6. What collateral were you asked to provide to obtain the loan?
(Note: MARK ALL THAT APPLY. The respondent is to reply with YES/NO/Refused/Don't Know after hearing each option.)
(**Prompt:** Collateral are any assets pledged as security for the payment of a debt)

a) None
b) Business Asset (including land, buildings, materials and equipment, inventories, accounts receivable, financial assets)
c) Personal Assets
d) Intellectual Property
(**Prompt:** Intellectual Property is intangible property that is the result of intellectual activity and includes patents, trademarks or copyrights)
e) Other (Please specify: _______) [Do not read]

Lease financing

If B.1f = "YES", → Go to D.1
Else → Go to Section E

D.1. In the most recent lease financing request in the 2010 calendar year, what was the dollar amount requested?
(**Prompt:** Please provide your best estimate)

a) $______

b) Don't know

c) Refused

D.2. What was the amount that was authorised?

a) $_____

b) Don't know

c) Refused

Equity financing

If B.1h = "YES", → Go to E.1
Else → Go to Section F

E.1. In the most recent equity financing request in the 2010 calendar year, how much financing was requested?

(**Prompt:** Please provide your best estimate)

a) $______

b) Don't know

c) Refused

E.2. What was the amount that was authorised?

a) $_____

b) Don't know

c) Refused

General business information

F.1. In which sector does your business primarily operate?

Goods-Producing Sector:

a) Agriculture, Forestry, Fishing and Hunting (NAICS 11)

b) Mining and Oil and Gas Extraction (NAICS 21)

c) Construction (NAICS 23)

d) Manufacturing (NAICS 31-33) Please specify:______

Services-Producing Sector:

e) Wholesale Trade (NAICS 41)

f) Retail Trade (NAICS 44-45)

g) Transportation and Warehousing (NAICS 48-49)

h) Professional, Scientific and Technical Services (NAICS 54)

i) Accommodation and Food Services (NAICS 72)

j) Other Services Please specify: __________

k) Other, (Please specify:______)

F.2. How many years has the company been in existence?

_______year(s)

F.3. What was the value of the following business financial figures for your 2010 fiscal year?

(**Prompt:** Please provide your best estimate)

a) Total business revenues $__________
b) Profit/net income, before taxes $_________
c) Total Assets $_________

(**Prompt:** What is the approximate total amount of all financial and non-financial assets that the business owns?)

d) Total Liabilities $__________

(**Prompt:** What is the approximate total amount of all short-term and long-term debt that the business owes to its creditors?)

F.4. In 2011, estimate the percentage of the total sales that came from the following geographic market regions:

(**Prompt:** Please provide your best estimate)

(Note: Should add up to 100%, but if it does not, do NOT correct this with the respondent as it can easily become too time consuming)

a) Your market (same municipality or region) ____%
b) Rest of your province/territory _____%
c) Rest of Canada ______ %
d) United States ______ %
e) Rest of the World ______ %

F.5. In the 2010 calendar year has the business developed or introduced:

(Note: Read every option and mark all that apply. The respondent is to reply with YES/NO/Refused/Don't Know after hearing each option)

a) Product innovation: [Prompt if necessary a new or significantly improved good or service to the market?]
b) Process innovation: [Prompt if necessary a new or significantly improved production process or method?]
c) Organisational innovation: [Prompt if necessary a new organisational method in your business practices, workplace organisation or external relations?]

(**Prompt:** It must be a result of strategic decision taken by management)

d) Marketing innovation:[Prompt if necessary A new way of selling your goods or services?]

(**Prompt:** this requires significant changes in product design or packaging, product placement, product promoting or pricing)

Owner information

G.1. What is the age of the majority owner?

(**Prompt:** In the case of equal partnership, please report the average age of the partners)

_________years

G.2. How many years of experience does the majority owner have in owning or managing a business?

________years

G.3. What is the gender of the majority business owner?

a) Male
b) Female
c) Equal ownership (50-50 ownership)

G.4. What is the highest level of education attained by the majority owner?

a) Less than high school diploma
b) High school diploma
c) College/cegep/trade school diploma
d) Bachelor degree
e) Master degree or above

Questionnaire conclusion

H.1. In the event that we conduct a short follow-up questionnaire in the next two years, would you be willing to complete it?

Yes_____ No______

If H.1 = yes → Go to H.2
If H.1 = no → Go conclusion text

H.2. As the follow-up survey will be electronic, could you please provide us with your email address?

____

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