Executive summary

Financing SMEs and Entrepreneurs 2016 monitors SMEs' and entrepreneurs' access to finance in 37 countries over the period 2007-14, with the pre-crisis year 2007 serving as a benchmark. Based on data collected for the country profiles and information from demand-side surveys, this report includes indicators of debt, equity, asset-based finance and framework conditions for SME and entrepreneurship finance, complemented by further sources of information and recent public and private initiatives to support SME finance. Taken together, these indicators form a comprehensive framework for policy makers and other stakeholders to evaluate the financing needs of SMEs and determine whether they are being met. This report also constitutes a valuable tool to support the design and evaluation of policy measures, and to monitor the implications of financial reforms on access to finance and financing conditions for SMEs.

In the current edition, detailed profiles are presented for Australia, Austria, Belgium, Canada, Chile, the People's Republic of China, Colombia, the Czech Republic, Denmark, Estonia, Finland, France, Georgia, Greece, Hungary, Ireland, Israel, Italy, Japan, Korea, Malaysia, Mexico, 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 key findings of this report are:

- **In 2014, the ongoing economic recovery had a moderately positive effect on SME financing.** For most OECD countries, economic growth increased between 2012 and 2015, and is expected to recover further in 2016. Improvements in the macroeconomic environment, coupled with overall favourable financial conditions in the majority of participating countries, led to a general trend of rebound in credit lending in 2014. In 16 out of 27 countries with data on the outstanding stock of SME loans, lending volumes rose in 2014, although often modestly, and in many of the 11 countries where lending volumes were in decline, the observed drop was less pronounced than in previous years. Similarly, new lending in 2014 surpassed 2013 levels in most countries, with increases varying from country to country.
- **Credit conditions, although still challenging for many SMEs, have been easing across participating countries.** Thanks to an accommodative monetary policy in most regions of the world, SME interest rates declined in 2014, a continuation of a trend from previous years. Demand-side surveys suggest a continued easing of credit conditions in a number of participating countries, including a decline in loan rejection rates.
- **SME bankruptcies showed a clear downward trend in 2014, in contrast to previous years.** SME bankruptcies were down in 20 out of 25 participating countries where data was available for 2014. In 9 of these countries, 2014 numbers were below pre-crisis levels.

This general downward trend is novel: year-on year changes in bankruptcy data showed a much more diverse picture in the period 2011-13, following an across-the-board increase in the aftermath of the financial crisis.

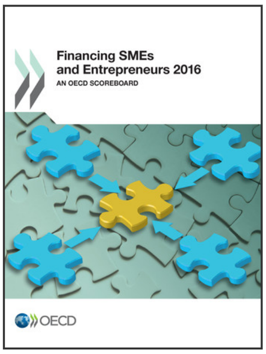
- **Notwithstanding these positive developments, high and rising non-performing loans (NPLs) in some participating countries continued to be associated with lower levels of business lending, particularly for SMEs.** Evidence on NPLs was mixed in 2014: In 12 out of 27 countries with data, NPLs have been in constant decline since 2009, whereas rates continued to rise between 2010 and 2014 in 6 other countries, where a sovereign debt crisis followed the financial crisis and where economic recovery has been slow and domestic demand weak in recent years.
- **The use of some alternative financial instruments continues to grow, albeit from a small base.** Factoring, crowdfunding and business angel activities have been on the rise in recent years, but still represent only a very small proportion of overall SME financing, particularly in emerging economies. Bank lending remains the predominant source of external finance. On the other hand, venture capital investments and leasing volumes continued a slow and uneven path to recovery after they plummeted in the wake of the financial crisis. With some notable exceptions, such as Chinese leasing volumes or venture capital investments in the United States, the use of these instruments has not recovered to pre-crisis levels.
- **Available evidence suggests that business angel investments can provide an important source of funding for young, innovative, and high-growth firms.** Angel investing, the focus of the thematic chapter of this report, addresses a clear financing gap by targeting firms at the seed and early stage with a high risk-return profile, often excluding them from traditional bank financing. Moreover, business angels provide services beyond financing, such as mentoring, business advice and access to networks, which contribute to the success of business ventures. In addition, angel finance may be less pro-cyclical than other forms of finance. To encourage this form of finance, many governments have introduced policy initiatives, such as co-investment schemes, tax incentives, the provision of financial support towards the development of angel networks, and financial literacy programmes for recipients of angel investments. However, significant improvements in data collection and coverage are needed to provide a reliable evidence base on business angel activities.
- **Tapping into a diverse range of financing instruments would enable SMEs to further benefit from the ongoing recovery.** While there appears to be a moderate recovery in SME lending, and economic growth is expected to pick up in 2016 across the OECD, it is important for SMEs to decrease their longstanding over-dependence on traditional bank finance. Tapping into a range of financing instruments across the risk-return spectrum would enable SMEs to obtain the forms of finance most suited to their needs at different stages of their life cycle. Implementation of the G20-OECD High-Level Principles on SME Financing can support the development of a healthy financial offer for SMEs and enhance their contribution to growth, employment, innovation and social cohesion.
- **Loan guarantees continue to rank first among policy instruments used by governments to facilitate SME access to finance.** In order to help viable business ventures overcome continuing difficulties in obtaining bank credit, a majority of participating countries provide loan guarantees. These guarantees have increased in importance in many countries in recent years. In addition, several countries have introduced novel features

in their guarantee schemes, such as complementing guarantees with advisory services and other non-financial support measures, the possibility of receiving an agreement for a guarantee prior to the loan request, and tailoring services to specific innovative products.

- **Government policies to promote alternative sources of finance are proliferating.** Many governments developed new policy initiatives in 2014 and the first half of 2015 to ease access to finance, in addition to the policy instruments already in place. As governments increasingly recognise that SMEs suffer from an overreliance on bank debt, there is a growing effort to stimulate the use of alternative (especially equity-type) instruments, such as public listings for SMEs or venture capital investments. Guarantees and direct lending schemes are increasingly targeting young innovative firms in an effort to boost employment and value added. Policies are also targeting SME financing needs to better enable their internationalisation and participation in global value chains.
- **SME access to finance will remain a concern in the years to come.** Despite recent improvements in SME lending, financial conditions often remain tight and many SMEs continue to face credit constraints. A number of factors persist which could jeopardise the economic recovery, with potential repercussions on SME lending. Furthermore, many financial institutions continue to deleverage and, due to tightened regulatory requirements, this will likely impact small businesses disproportionately. Governments should continue to monitor closely SME access to finance and take actions which enable them to access a broader range of financing instruments.

There are important methodological improvements in the 2016 edition of this report. Data has been adjusted for inflation when appropriate, information about median values of core indicators is systematically included, and additional information about the sources and definitions of core indicators is provided, allowing for more reliable inter-temporal and cross-country analysis. Moreover, further steps have been taken to incorporate additional information on financing instruments other than straight bank debt, such as asset-based financing, business angel investments and crowd-funding activities. In addition, more comprehensive information on government policies offers a clearer picture of emerging policy developments and trends.

Further efforts to improve data collection on SME finance should be pursued. Evidence-based policy making to support SME finance must be underpinned by reliable data and information. The methods used to collect data and the way core indicators are defined should be harmonised in order to improve the reliability of cross-country comparisons. This is especially the case for survey data on loan conditions, where the questions and the methodology should be standardised across countries and regions. It is also desirable to increase the granularity of available data, to obtain information by firm size, age, sector of operation and other relevant parameters. In addition, efforts to collect data on the take-up of non-bank sources of finance by SMEs should be pursued.



From:

Financing SMEs and Entrepreneurs 2016

An OECD Scoreboard

Access the complete publication at:

https://doi.org/10.1787/fin_sme_ent-2016-en

Please cite this chapter as:

OECD (2016), "Executive summary", in *Financing SMEs and Entrepreneurs 2016: An OECD Scoreboard*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/fin_sme_ent-2016-4-en