2 Financing growth

SMEs face a number of barriers in accessing finance, which hamper their scale up and growth potential. While public support for scale up has long focused on start-ups and highly innovative firms at the technology frontier for their exceptional potential, recent evidence has shown the existence of a long tail of scalers in different segments of the SME population, with different profiles and trajectories that may slip through the cracks. This chapter aims to understand how governments can unleash finance for innovation, investment and network expansion as drivers of SME scale up. Based on an analysis of 709 policies and 210 institutions across OECD countries, it provides an overview of the policy mixes that governments have put in place to improve SME access to scale up finance, as well as of the institutional and governance arrangements to support these policies.

In Brief

Scale up finance policies aim to leverage different channels of growth, thereby reflecting the diversity of scalers' profiles and trajectories.

The diversity in scaling up profiles suggests that different types of scalers may need different types of support to access appropriate financing. Depending on their scale up trajectory, and whether it is driven by innovation, investment and/or network expansion, their specific financing needs will also differ. Filling existing financing gaps – and addressing related barriers in leveraging internal and accessing external finance – for a diverse set of firms across all sectors that have the potential to scale up is therefore key for fully exploiting their potential for job creation and the deployment of more sustainable and resilient business models among SMEs.

In this pilot work, **scale up finance policies are understood as all initiatives that can unleash finance to support SME scale up activities, i.e. innovation, investment or network expansion**. These policies can be directed at SMEs themselves to unleash internal resources, or at a number of institutional actors to unleash external finance. **A cross-country mapping of 709 national policies and 210 institutions identifies the intensity of public efforts in this area**. An analytical framework allows policy initiatives to be structured according to whether they pursue specific scale up finance objective(s), and according to the scaling up drivers they leverage to this end. It also seeks to identify the key institutions involved at national level, as well as the various policy instruments they mobilise.

Public action to improve SME access to scale up finance often falls beyond the SME and entrepreneurship (SME&E) policy domain, with about half of institutions having "peripheral" mandates with sometimes less explicit links to the SME&E policy agenda. The scale up finance policy landscape is also characterised by a high degree of fragmentation (i.e., many institutions with many initiatives in place) and, in some countries, a high degree of decentralisation which overall reflects significant efforts towards targeting specific populations of potential scalers.

Public measures to improve scale up finance are primarily targeted at SMEs, and to a lesser extent, at the finance market or institutional actors. Most policies aim to reduce the financing costs for SMEs through a combination of grants and subsidies, tax incentives, loans, and improved credit conditions. The finance market can also play an important complementary role by acting as an intermediary through which SMEs can access a broad range of scale up finance solutions. Interestingly, **equity is key for financing SME scale up through innovation, both at national and European level, but plays a less important role in the funding mix of network expansion and investment for SMEs to grow**.

Financing SME innovation is on average the primary objective of OECD countries, with 40.2% of mapped policy initiatives aiming to unlock funding for this scale up channel, mainly research & development (R&D) and disruptive innovation. In terms of investment and network expansion, policy efforts focus on investment in physical capital and global expansion. Current **scale up finance policies thus seem to reflect a persistent techno-centred view of scalers and capital-intensive forms of innovation**, with less emphasis on skills, intangible assets, or incremental – even digital – innovation.

Future research could provide a better understanding of how governments aim to improve access to scale up financing for SME network expansion beyond **international trade, such as through supply chains, cooperation partnerships (for instance with multinationals), or the use of digital**

platforms. More policy information and data is also needed, notably on budgets earmarked to get a better perspective on the relative weight of government efforts across different areas, as well as on the effectiveness and efficiency of public intervention, e.g. through impact evaluation. Finally, there is also scope to explore more systematically the extent of **sub-national policy efforts to support the financing of potential scalers**.

Infographic 2.1. Key aspects of SME access to scale up finance

Note: Word cloud based on the description of the relevant 709 national policy initiatives mapped in this area. Descriptions and more detailed information are available in the OECD Data Lake on SMEs and Entrepreneurship.
Source: Authors' own elaboration.

Introduction

For many years, policy makers have paid close attention to scalers due to their large contribution to job creation, or their potential to drive innovation, especially in technology-intensive sectors or frontier areas (see Chapter 1) (OECD, 2021[1]). For instance, while scalers represent only 13-15% of SMEs in Finland, Italy, Portugal, the Slovak Republic and Spain, they contributed 47% to 69% of all new jobs generated by non-micro SMEs between 2015 and 2017. In this context, **many government efforts have focused on start-ups and firms conducting disruptive innovation**, as a high potential population for achieving exceptional performance and socio-economic benefits. Public action in support of SME scaling up has therefore mainly aimed to influence firm entry conditions (e.g. through taxation, competition or regulation), or early business growth and technology development (e.g. through R&D tax incentives, university spin-offs, equity capital etc.) (OECD, 2016[2]).

However, the typical scaler is neither a knowledge-intensive nor a high-tech firm, nor a start-up. In fact, most of them are mature firms operating in low-tech sectors (see Chapter 1). New OECD microdata work shows that about three-quarters of employment scalers have been established at least six years before the beginning of their high-growth phase (Box 1.1) (OECD, 2021[1]). While, overall, the propensity to scale up remains highest in knowledge-intensive services, more than one-third of employment scalers in Portugal (38%) and close to half (46%) of employment scalers in Spain operate in other sectors[1].

At the same time, there is still a lack of certainty – and broad evidence – on which firms could effectively become a scaler, making policy design more difficult, if not too random, and ex ante policy targeting highly hazardous. Many start-ups, for example, fail within the first few years of life. Cross-country data suggests that survival rates are on average equal to just above 60% after three years from entry, to about 50% after five years, and to just over 40% after seven years, with the probability of exiting being highest when businesses are two years old (Calvino, Criscuolo and Menon, 2015[3]). However, there are important differences across countries and sectors, with survival rates being typically higher in industry than in services or construction, and for enterprises born with five employees or more (OECD, 2017[4]).

Box 2.1. Unleashing SME Potential to Scale Up: a multi-year research project

The OECD project on *Unleashing SME Potential to Scale Up* is carried out in close consultation and with support of the European Commission. Its pilot phase (2019-21) is articulated across two pillars:

- **A measurement pillar** to better understand the internal drivers and barriers to SME high growth, through empirical work based on business microdata, and
- **A policy pillar** to analyse national policy mixes and approaches to unleash the potential of scalers through a mapping of relevant initiatives and institutions across the 38 OECD countries.

Leveraging firm-level data sources from five OECD pilot countries (Finland, Italy, Portugal, Slovak Republic and Spain), the measurement pillar aimed to capture the heterogeneity of scalers, the changes these firms undertake before, during, and after the high-growth phase, and the sustainability of their new scale. The work assesses in an internationally comparable way the factors that accompany growth, i.e., the dimensions through which the firm reached new scales or growth milestones, taking into consideration its capacity to operate in a sustained manner at a larger scale.

To identify the features that distinguish scalers from other firms, the analysis compares them with their "peers", i.e., firms in the same sector, founded around the same time and of similar size before the scaler enters its high-growth phase. "Scalers" are identified through employment- or turnover-based (high) growth. High-growth enterprises are defined as firms with at least 10 employees that grow 10% per year on average in employment and/ or turnover over 3 years.

Findings of the measurement work that have informed the policy work were published in a summary report "*Understanding Firm Growth. Helping SMEs scale up*" (OECD, 2021[1]).

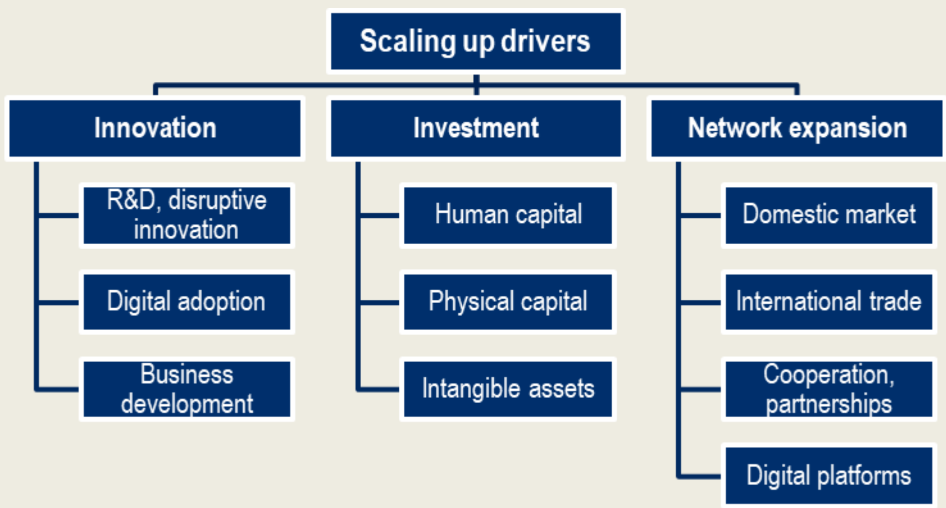
Source: https://www.oecd.org/cfe/smes/sme-scale-up.htm; (OECD, 2021[1]).

Taken together, these new results call for a rethinking of scale up policies, starting with a better understanding of what drives SME scaling up, the potential failures in scaling up dynamics that require policy intervention, and the form(s) of action governments could implement. Importantly, **scaling appears to be a strategic choice made by the firm, with related transformation(s) beginning before scaling actually materialises** (OECD, 2021[1]). These transformations are associated with a number of internal performance drivers, herein referred to as scale up drivers, which can operate in isolation or in combination. They include 1) innovation (including research and development – R&D – and digital uptake), 2) investments in financial, human and knowledge-based capital, and 3) market and network expansion (including abroad – see Chapter 1 for a more detailed discussion). Therefore, the scope for scaling up will result from the complex interaction of intertwined systems that can affect SME business conditions and incentives to grow (e.g. national versus regional innovation system, local entrepreneurship ecosystem, institutional and regulatory framework, integration into regional and international trade, and regional and global value chains, etc.). In addition, the growth ambitions of business owners also enter the scale up equation.

Box 2.2. Scaling up drivers: lessons from microdata work and literature

Scaling up drivers have been identified as part of the measurement work (OECD, 2021[1]) and through a literature review, as innovation (including research and development –R&D- and disruptive innovation, digital adoption, or business development), investment (including in physical capital, skills or intangible assets), and network expansion (e.g. in the domestic market, through internationalisation, or cooperation and strategic partnerships) (see Chapter 1). External growth drivers, e.g. through mergers and acquisitions, are not discussed in this project.

Figure 2.1. SME scaling up drivers and their components



Note: In this pilot phase, the analysis of network expansion and the policy mapping do not cover indirect engagement in GVCs (e.g. through supply chains and linkages with multinationals (EC/OECD, 2022[5]), nor the use of digital platforms.
Source: Author's own elaboration.

In this context, the current range of policies that support the financing of scaling up may not sufficiently reflect the diverse financing needs that the heterogeneous population of scalers face. In particular, the specific policy attention placed on start-ups and highly innovative (most often tech-oriented) firms following both the 2007-08 global financial crisis and the COVID-19 pandemic (Box 2.3), suggests that a rather limited image of scalers has prevailed. This is likely to leave a broad range of potential scalers behind, thus missing the benefits they could bring in terms of job creation, increased resource efficiency and improved productivity. Such considerations are all the more important at a time when countries aim to build back better after the COVID-19 crisis, and shift towards more resilient, sustainable and inclusive growth models.

Box 2.3. Trends in SME and entrepreneurship financing policy, from 2007 onwards

While improving SME access to finance represents today a well-established field of public intervention, the scope and focus of measures in this area has evolved significantly over the past decade and a half. In the aftermath of the 2007-08 global crisis, many governments expanded direct lending and guarantee schemes, as well as credit mediation and other measures to ease SME access to credit. These measures were accompanied by financial reforms to strengthen banks' resilience, such as the Basel III framework, which introduced new minimal capital requirements and designed new rules for liquidity management.

As the recovery took hold, policy emphasis shifted from counter-cyclical to more structural issues in SME and entrepreneurship (SME&E) financing. Equity instruments gained attention and credit measures (credit guarantees, direct loans) were increasingly targeted to specific subgroups of the SME population (innovative firms, women entrepreneurs, start-ups, etc.).

Table 2.1. Overview of the evolution in SME finance policies

Characteristic	2009-2012	2013-2019	2020	2021 -
	Global financial crisis	Interim period	Covid-19 crisis	Recovery phase
Target beneficiaries	Broad SME population	Subgroups of the SME population: innovative firms, start-ups, lagging regions, women-led	Broad SME population, with special emphasis on SMEs in distressed sectors. In the second half of 2020, special emphasis on self-employed and start-ups.	Viable SMEs and subgroups of SME population: innovative firms, start-ups, lagging regions, women-led, minority-owned businesses, self-employed
Support for debt financing	Strong increase in credit guarantee volumes Direct lending Credit mediation	More focus on the delivery and eligibility criteria of support measures Creation of SME banks	Respond to acute liquidity needs via credit guarantees, payment deferrals, direct lending, grants and subsidies	Need to balance the continuation of liquidity support and avoid a premature withdrawal
Support for alternative/ equity financing	Equity instruments were kept largely in place	Tax incentives Establishment of funds/funds of funds SME bank activities	Used to a lesser extent than more traditional support channels in the first phase of the pandemic, but support was enhanced as of H2 2020	Changes in the structural support to SMEs, with significant new financing support linked to investment in digitalisation, sustainability, skills and innovation
Regulatory measures	Stringent regulatory changes to increase stability of financial sector (Basel III)	Continuation of stringent regulation for private banks. Innovation in regulations to enable emergence of new actors (e.g., sandboxes and innovation hubs to enable Fintech)	Loosened regulation to allow for swift provision of liquidity. Strong banking system thanks to Basel III	Higher innovation in regulations (Regtech) to facilitate SME access to finance

The response to the **COVID-19 pandemic represented a return to primarily counter-cyclical support**, but due to the nature and scale of the crisis, a significant range of new and short-term policy instruments were introduced to ease liquidity pressures on crisis-stricken SMEs. While the outlook for recovery remains uncertain, government policy was marked by changes in the structural support to SMEs as of 2021. Support is once again not only aimed at addressing traditional market failures that impact SMEs, with more emphasis being put also on financing SMEs' contribution to "build back better", including a greater focus on issues like investment in digitalisation, sustainability, skills and innovation.

Source: adapted from (OECD, 2020[6]) and (OECD, 2022[7]).

Identifying scale up finance instruments therefore requires understanding both the characteristics of scalers, as well as the drivers of their transformation for which specific sources of finance could be needed, as well as the specific market and system failures that may require a public intervention. In this pilot work, scale up finance refers to the financing sources that firms can access to leverage innovation, investment and/or network expansion as scaling up drivers - before, during and after their transformation phase(s).

This chapter aims to better understand how governments address the financing gap for scalers. It seeks to identify country approaches in supporting SMEs (by acting on the demand-side), or the financing system of SMEs (by strengthening the diversification of finance). The chapter starts by exploring the financing strategy of scalers and the different forms that scale up finance can take, as well as key opportunities and barriers for SMEs in this context. Importantly, the type of finance that will be most appropriate for scale up will largely depend on the scale up driver a firm leverages, and will likely include a range of both traditional and alternative financing instruments.

The chapter then proposes an analytical framework for mapping relevant national policies and institutions in this area. Based on a **cross-country analysis of 709 policies and 210 institutions across the OECD**, the chapter then provides an overview of the character and intensity of public efforts to improve SME access to scale up finance, as well as on the institutional and governance arrangements underpinning the implementation of national policy mixes.

Identifying the diverse sources of finance to scale up (all sorts of) business

SMEs need appropriate sources of finance that can differ over the course of their life cycle and across all stages of their transformation. As a result, they combine different forms of funding, both internal and external, to support their activities and growth operations (OECD, 2019[8]) (OECD, 2020[6]). At the same time, and despite an extensive evidence base on financing gaps for certain firm segments (e.g. start-ups, young firms), research to date about the scale up financing gap faced by the broader SME population, including in the context of later stages of growth, is still scarce.

This particular section aims to **understand the funding mix of scalers, as well as the financing options different profiles of scalers can have, depending on their scaling up trajectory**. It builds upon a review of the literature in the field and the results of the microdata work conducted as part of this pilot project (OECD, 2021[1]).

Most future high growth firms resort to bank loans to prepare for scaling up

Firms that (plan to) grow have different financing needs and make different financing choices than companies with no growth ambition (OECD, 2021[1]). This project's microdata work shows that scalers turn to bank loans before growing, suggesting that bank finance is an enabling factor for exceptional growth and constitutes a key aspect of an anticipatory scaling up strategy. In Italy, Spain and Portugal, the loan to turnover ratio of future fast-growing enterprises is higher by 10% to 70% compared to peers. The decrease in the debt ratio at the end of this transformation phase shows that the funding needs are then less important or that the new size enable scalers to better self-finance operations (OECD, 2021[1]). Scalers also tend to be more leveraged than peers, i.e. they display a higher debt-to-asset ratio and they pay higher interest per unit of sales – indicating a higher risk rating (Bianchini, Bottazzi and Tamagni, 2016[9]). The average scaler in Spain, for instance, increases its debt ratio, i.e. bank loans as a percentage of turnover, by 50%, which corresponds to a 35% higher share than in non-scaling peers, i.e. firms in the same sector, founded around the same time and of similar size.

The role of bank credit as a major external source of finance for most SMEs is well documented (OECD, 2019[8]) (OECD, 2022[7]). The 25th round of the Survey on the Access to Finance of Enterprises

(SAFE), carried out between April and September 2021, shows that 48% of European SMEs considered bank loans as an important source of finance over the past six months, more than any other finance instrument. Interestingly, this figure has remained similar to pre-COVID levels, suggesting that increased demand for liquidity and other financial support has not played a significant role. At the same time, debt is still more used by large and medium-sized firms (31% and 23% respectively), and somewhat less by small and micro firms (16% and 10% respectively) (see Figure 2.2).

Figure 2.2. The funding mix of micro, small and medium-sized enterprises differs from that of large firms

Use of internal and external funds among euro area enterprises, percentage of respondents, by firm size (2021)

Note: All enterprises. The data included in the chart refer to Question 4 ("*Are the following sources of financing relevant to your enterprise, that is, have you used them in the past or considered using them in the future? If "yes", have you obtained new financing of this type in the past six months?*") of the round 25 of the survey (April 2021-September 2021).
Source: Authors' own elaboration, based on data from (European Central Bank and European Commission, 2021[10]).

StatLink https://stat.link/waglbc

The internal financing capacity of SMEs remains critical for scaling up

As they grow, scalers widen the difference with peers, **notably by building financial buffers.** In this phase, the share of current assets[2] in total assets of scalers can increase by 2 to 3 percentage points (OECD, 2021[1]), providing new opportunities for growth-oriented SMEs to sell assets and create a buffer to accumulate funds for future investments. At the same time, the increase in current assets among scalers may also reflect a choice stemming from a greater need for liquidity or the expected volatility of future profits.

While research has largely focused on the availability and importance of external financing sources, **SMEs of all sizes tend to display a strong reliance on internal funds** (OECD, 2019[8]). Their importance varies across countries, firm size and age, as well as by business type, but tends generally to be more pronounced in emerging economies, where there are overall fewer incentives in the private sector to generate new credit evaluation and scoring instruments or specialised ventures. In Colombia, for example, studies show that around 70% of entrepreneurs in the country start their activity with their own resources, coming mainly from own savings or in the form of family loans (Gómez Núñez et al., 2019[11]) (Vesga et al., 2017[12]).

On average, start-ups are for instance more likely to rely on internal funds than more mature companies, given their higher levels of human capital-specific assets, lower levels of traditional tangible assets, and less established reputation and historical performance (OECD, 2019[13]). In addition, they are often perceived as riskier by investors, thus compounding their difficulty in accessing external finance. Overall one-third of SMEs in EU28 countries reported not using any source of external financing, relying instead on internally generated revenues for their growth - or ultimately renouncing to grow at all (OECD, 2019[8]).

At the same time, SMEs are generally more financially constrained and display smaller financial buffers than large firms, which may hinder their ability in leveraging scale up drivers "from within" to grow their business. Yet, research suggests that there is **a positive relationship between SMEs' level of investment and their level of internal funds** (Bridges and Guariglia, 2008[14]). The added value of liquidity seems therefore higher for SMEs, as greater cash reserves are positively associated with their level of investment (Denis and Sibilkov, 2010[15]).

Internal funding is also more important for innovation in smaller firms than for larger companies (Ughetto, 2008[16]). Considering the role of internal financing on R&D expenditure, for example, (Riding and et al.[17]) and (Shaver[18]) identify positive relationships between cash flow, liquidity and R&D investment. Similar findings are evident for exporting, as financial constraints can act as a barrier to smaller firms engaging in exporting (Bellone and et al., 2010[19]), suggests there may be a need to help SMEs overcome initial (sunk) entry/ R&D costs related to innovation and exporting activities (Love and Roper, 2015[20]).

There is a great diversity of financing sources available for a long tail of diverse scalers

Bank loans and self-funding are not the sole – and sometimes not the most appropriate – form of financing for all types of scalers. In particular, firms that may have limited collateral and uncertain revenues in the short term (or no financial buffer at all) are likely to face difficulties in both obtaining traditional finance as well as in leveraging internal sources to fund growth operations.

By broadening the range of instruments and sources they can access, potential scalers can better respond to the diverse set of financing needs they may face, as well as increase their resilience to changing conditions in credit markets (OECD, 2015[21]). At the same time, developing alternative financing instruments also requires specific regulatory mechanisms, for example in terms of tax treatment or accounting, for which international standards are often missing and which can sometimes be complex and diffuse. Based on the OECD report *New Approaches to SME and Entrepreneurship Financing: Broadening the Range of* Instruments, Table 2.2 provides a structured overview of the different financing instruments for potential scalers (OECD, 2015[21]).

At the lower end of the risk/return spectrum are **asset-based finance instruments** (e.g. asset-based lending, factoring, leasing), allowing a firm to obtain cash, based not on its own credit rating or collateral, but rather on the value of specific assets (such as accounts receivables, inventory, machinery, equipment or real estate etc.). This can also include intangible assets, which have come to represent an increasing share of enterprise value in recent years. Intangible Asset–Based Lending (IABL), for instance, can leverages a portfolio of intangible assets such as R&D, patents, designs, databases and software, as well as managerial skills, organisation and business networks, to secure a loan (OECD, 2015[21]) (WIPO, 2021[22]).

Alternative debt is another way for SMEs to access financing with a low risk/return ratio for investors. However, the use of instruments such as corporate bonds, securitised debt or private placements, is still limited among SMEs wishing to seize growth opportunities. Corporate bonds, for instance, typically require the issuer to have a certain size, an established credit history, and limited volatility on revenues and earnings.

Within the medium risk/return category, **hybrid instruments** (e.g. subordinated loans, silent participations, mezzanine finance, convertible bonds) combine debt and equity features into a single financing vehicle, and are increasingly available to lower-tier SMEs. Hybrid instruments represent an appealing form of finance for firms that are approaching a turning point in their life cycle. This may e.g. be the case when risks and opportunities for the business are increasing or a capital injection is needed, but access to debt financing or equity is still limited, or the owners simply do not want the dilution of control that would accompany equity finance.

Table 2.2. What sort of financing instruments for what sort of scalers?

	Scalers by degree of investment risk and intrinsic characteristics		
	Lower risk and lower return	**Medium risk and medium return**	**Higher risk and higher return**
Internal funding	SMEs preserving their financial autonomy and controlling production costs, technology and quality		
Bank loans	Larger SMEs with collateral and financial records		
Asset-based lending (e.g., factoring, leasing)	SMEs with a minimum asset portfolio		
Alternative debt (e.g., corporate bonds)	SMEs of minimum size and scale, with established records and limited volatility		
Hybrid instruments (e.g., subordinated loans, mezzanine finance)		SMEs at a turning point in their life cycle, with limited access to debt/equity finance; More mature firms undergoing transformations and restructuring	High-growth firms beyond early stages of development
Equity instruments			Start-ups, new innovative SMEs; SMEs in high-tech or knowledge-based sectors; SMEs engaged in R&D requiring large funding
Trade credit	SMEs exporting directly or participating in GVCs with needs for short-term liquidity or guarantees	SMEs engaged in GVCs with needs for financing working capital and longer-term capital investments	
Fintech solutions (P2P lending, crowdfunding)	SMES lacking collateral for creditworthiness; SMEs with small funding needs		

Note: Based on an SME-centred approach of scalers (Raes, 2021[23]). Typologies of SMEs according to their (high) growth and potential is the largest and most varied set of typologies presented in the literature, which includes the typologies on high-growth firms per se, but also the different typologies that try to capture firms or entrepreneurs attributes according to their growth (potential). The types of financing instruments are drawn from former OECD work on Financing SMEs and Entrepreneurs (OECD, 2021[24]) (OECD, 2019[8]) (OECD, 2021[24]) (OECD, 2015[21]).
Source: Authors' own elaboration, based on (OECD, 2015[21]).

Short-term **trade finance instruments** that enable deferred payment come in numerous forms, e.g. intra-firm or inter-firm financing, as well as more dedicated tools such as letters of credit, advance payment guarantees, performance bonds, and export credit insurance or guarantees. These traditional forms of trade finance are decreasing in relevance for global trade (OECD, 2021[24]) (OECD, 2021[25]).

At the same time, medium- and long-term **export financing instruments** are increasingly used as supply chain solutions for financing capital equipment, which typically require longer repayment periods. These consist primarily of buyer credits that allow foreign buyers to purchase exporters' products and services and to manage working capital in open account transactions, i.e. when goods are shipped in advance of payment. These supply chain finance solutions are gaining traction as global value chains (GVCs) expand, also pushed forward by digital platforms or block chain. If all forms of trade finance can enable greater SME engagement in direct export and GVCs, these medium- and long-term financing products may have greater impact on SME scale up potential, as they enable investment in productive capital and network expansion.

Table 2.3. An overview of trade finance instruments

Traditional Trade Finance Instruments	Supply Chain Finance Instruments	
Short-term loans and working capital financing	*Receivables purchase mechanisms*	*Advance-based mechanisms*
Letter of credit (L/C)	Factoring	Loan against receivables
Documentary Collection	Receivables discounting	Pre-shipment finance
Guarantees	Forfaiting	Distributor finance
	Payables finance	Loan or advance against inventory financing

Source: (OECD, 2021[24]).

Equity financing is relevant for companies with a high risk-return profile, such as new, innovative and high growth firms (Coad et al., 2022[26]). Seed and early stage equity finance can boost firm creation and development, whereas other equity instruments, such as specialised platforms for SME public listing, can provide financial resources for growth-oriented start-ups. In particular, **private equity investments, such as venture capital and angel investing**, have expanded substantially to provide new financing opportunities for innovative and high growth start-ups, as well as strategic advice. Equity can also be an important tool for firms that do not yet have a revenue stream and therefore cannot take on debt ("patient capital"). **Public listing of SME equity** also has the potential to provide funding for a company's growth and support subsequent debt financing. This way, existing SME owners can realise their capital gains and tap a wider investor universe, including retail investors and sophisticated long-term institutional investors (Boschmans and Pissareva, 2018[27]).

Across many of these instruments, digitalisation allows for innovative financial services to be offered to SMEs (see Box 2.4). This includes new approaches to credit risk assessment and new digital tools for SME financing (OECD, 2020[6]). Peer-to-peer lending and equity crowdfunding for instance have experienced rapid growth, as they enable investment projects that are too small or too risky for traditional banks (Robano, 2015[28]) (Reza-Gharehbagh et al., 2020[29]) (Estrin, Khavul and Wright, 2022[30]). In turn, non-investment-based models allow firms to raise capital without being obliged to provide a monetary return to the individuals or institutions that funded the project, as in the case reward-based and donation-based crowdfunding (Cambridge Centre for Alternative Finance, 2021[31]). Such financial services still represent a minor share of financing for businesses; however, they are rapidly expanding starting from the non-profit and small-scale entertainment niche, to for-profit activities and businesses (OECD, 2017[32]). In France, for example, funds raised by crowdfunding platforms soared in the 2018-20 period, from EUR 402 million to EUR 1 020 million (OECD, 2022[7]).

Box 2.4. The Advent of Fintech: Risks and opportunities

Fintech – combining technology and innovative business models in financial services – has gained considerable momentum in recent years, with global investments rising at exponential rates.

Fintech offers solutions to deal effectively with information asymmetries and collateral shortage on SME finance markets (OECD, 2017[33]). One application is credit scoring, i.e. the statistical analysis of creditworthiness, on which the decision to grant credit is often based. Another one is the broadening of evidence base for credit risk assessment by using “alternative data sources”, i.e. non-credit data (transactional, behavioural or social media data) (International Committee on Credit Reporting, 2018[34]). Moreover, Fintech instruments such as mobile payment have greatly facilitated daily payment needs for firms, or decrease transaction costs for lenders wishing to reach out to underserved segments of the SME population, such as micro-enterprises and informal ventures (OECD, 2018[35]).

While promising, Fintech also poses challenges for policy makers. First, they need to design a regulatory framework that is accommodative of novel developments and facilitates SMEs’ access to a broad range of financing instruments, without compromising privacy restrictions, financial stability, investor protection, and returns on investment. Second, expanding access to financial services at a very rapid pace with low controls may create systemic risks for financial stability and over-indebtedness for SMEs (Weidmann J., 2017[36]) (OECD, 2022[37]). These risks can be addressed by fostering SME financial literacy and awareness. Raising awareness of borrowers about digital risks and enhancing their digital skills are also essential, because remote access implies cyber risks that can extend to personal devices, or larger attacks with pervasive data breaches.

Finally, SMEs’ green transition depends strongly on the availability and accessibility of green finance over the near and long term. Whether they are eco-adopters, eco-entrepreneurs or eco-innovators, SMEs and entrepreneurs will rely on green financing instruments to green their operations or to develop and market green products and services. Against this backdrop, **sustainable finance for SMEs can unlock significant investments in climate-aligned products, processes and technologies and contribute to the broader structural transformation of economies in line with net zero**. When financing instruments are accompanied with well-targeted incentives and non-financial support, they can also stimulate SME demand for net zero investments (Kuzmanovic and Koreen, 2022[38]).

A number of internal and external barriers limit SME access to scale up finance

The funding of scale up drivers can raise specific concerns that compound with SME financing issues. R&D and innovation are high cost and highly uncertain activities that require long time before returns on investment can be achieved. Their non-rival and non-excludable nature enables knowledge spillovers, which in turn can limit the scope for appropriating benefits and the incentives for investing (OECD, 2016[39]). Studies based on large-scale data for euro zone countries establish a link between financial constraints and productivity at the firm level, with the most pronounced impact in R&D and innovative sectors (Altomonte et al., 2015[40]; Ferrando and Ruggieri, 2018[41]). Lack of finance is also seen as a barrier to digital uptake and the related skills and organisational adjustments needed (OECD, 2021[42]). Likewise, with the rise of the knowledge economy, corporate investments have increasingly been targeting intangible assets, such as data, software, trademarks etc., that are more difficult to collateralise – and finance – than traditional tangible assets (Brassell and Boschmans, 2019[43]) (OECD, 2021[44]). Finance for expansion abroad could be problematic as well. Trading abroad implies exposure to counterparty risks, in particular on new markets or when dealing with new customers and suppliers, and significant working capital for covering payment delays and risks (OECD, 2021[24]).

In addition, (potential) scalers may face a number of more general supply- and demand-side barriers that may lead to a host of missed opportunities for firms to embark on a growth journey or undergo broader transformation (OECD, 2019[45]) (OECD, 2018[46]; OECD, 2015[21]).

This section looks at the difficulties SMEs and potential scalers face in accessing different sources of finance more generally, as well as for leveraging the scale up driver(s) relevant to their transformation at a given time in particular.

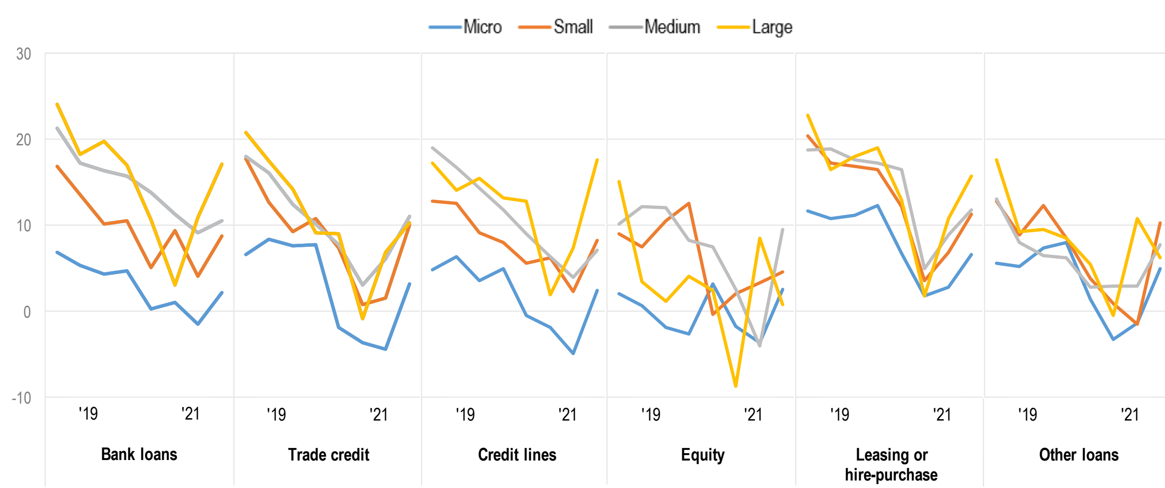
There is a persistent gap for SMEs in leveraging internal and accessing external finance, across all scaler profiles and trajectories

SMEs have small liquidity reserves, as exemplified most recently during the COVID-19 crisis (OECD, 2021[47]). Under favourable economic conditions, they are more likely to resort to self-funding and leverage own profits and revenues to finance scale up activities, but in more challenging circumstances, the smallest ones in particular can quickly lack internal financial capacity.

There is a persistent external financing gap, especially among the smallest firms, and across all financing instruments. According to the EU SAFE survey, the external financing gap – i.e. the difference between the change in demand for and the change in the availability of external financing – was positive in 2021, both at the euro area level and across almost all euro area countries (European Central Bank and European Commission, 2021[10]). While firms across all size groups reported a return to pre-COVID 19 levels of bank loan availability, micro firms reported a much smaller improvement in the availability of bank loans (2%), credit lines (2%), and trade credit (3%) compared to large companies (see Figure 2.3).

Figure 2.3. SMEs systematically perceive a more limited access to external financing

Changes in the share of euro area firms indicating that the availability of external financing has improved (net percentage of respondents, 2017-20)



Note: Enterprises for which the instrument in question is relevant. The figures refer to rounds 18-25 of the survey (October 2017-March 2018 to April 2021-September 2021). The data included in the chart refer to Question 9 of the survey which is "*For each of the following types of financing, would you say that their availability has improved, remained unchanged or deteriorated for your enterprise over the past six months?*"
Source: Authors' own elaboration, based on data from (European Central Bank and European Commission, 2021[10]).

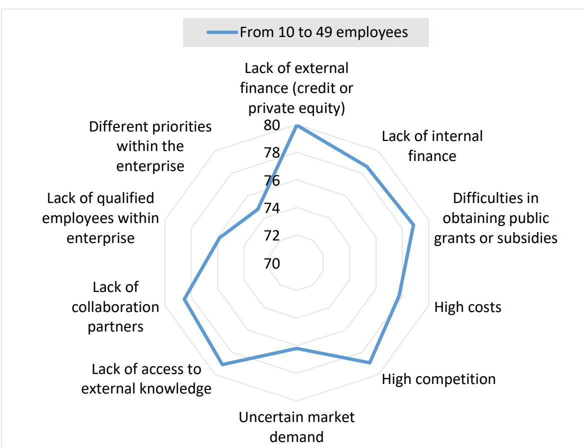
StatLink https://stat.link/w85nvs

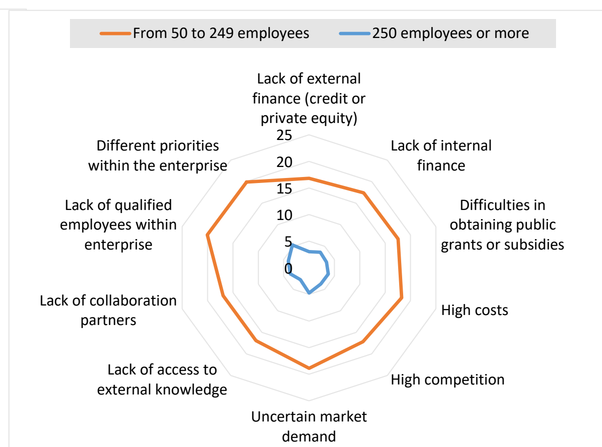
Such disparities across firm size have an impact on the extent to which firms are able to mobilise financing to undertake specific activities related to scaling up such as innovation, investment and network expansion. Figure 2.3, for instance, suggests that the external financing gap is particularly pronounced with regard to debt instruments (i.e. bank loans, trade credit and credit lines). In light of recent evidence documenting that most future high growth firms resorting to bank loans to prepare for scaling up, existing barriers in this area might in turn be preventing a very large and diverse cohort of SMEs in reaching their full scale up potential.

Lack of external finance remains, for instance, the main barrier to innovation among smaller firms, especially combined with a general perception of high costs related to innovation activities (Figure 2.4). Business surveys show that 80% of innovative firms with 10-49 employees in the EU-OECD countries report a lack of credit or private equity, as hampering factors to their innovation activities. The situation is likely to be even worse for micro firms, and for SMEs in emerging economies, where current seed capital instruments are often not suited to the needs of highly risky, R&D intensive ventures, and government aid remains underdeveloped (Kantis and Angelelli, 2020[48]). At the same time, and even though i**nsufficient internal finance represents "only" the fifth most common barrier to innovation**, a significant share (78.6%) of small firms reports the lack of internal cash reserves as a major hampering factor to their innovation activities.

Figure 2.4. Access to finance remains the primary barrier to innovation among small firms

Percentage of innovative firms by type of barriers hampering innovation activities and firm size class, total EU OECD countries, 2018





Note: Percentage of firms by size class, all sampled firms in EU-OECD countries. Micro firms with less than 10 employees are not included.
Source: Author's own calculations, based on (Eurostat, 2021[49]) data.

StatLink https://stat.link/k5trhs

On the other hand, access to both internal and external finance is less often reported as an obstacle to innovation among medium-sized or large firms, where skills gaps and internal transaction costs seem more of an issue. 20.1% of medium-sized firms and 4.1% of large firms cite the lack of qualified employees as among the top barriers to innovation, along with different priorities within the enterprise (19.9% of medium and 5.3% of large firms). In addition, external factors including notably uncertain market demand play a greater role among them, compared to small firms.

Financing constraints, including high levels of debt, can also weigh on SMEs' capacity for productive investment (OECD, 2021[47]). While such trends were certainly disrupted by the COVID-19 pandemic, the past decade was overall marked by an increasing demand for long-term loans as opposed to short-term loans, possibly signalling an increased capacity of SMEs to finance short-term liquidity needs with internal resources, as well as an overall improved investment climate (OECD, 2020[6]). Latest survey evidence suggests indeed that firms' investment and hiring decisions have benefited from the recent recovery in economic activity. In 2021, a net percentage of euro-area SMEs reported increases in fixed investment, inventories and working capital and the number of employees, with similar dynamics seen for firms of all sizes, although large firms seemed to experience a faster recovery and micro SMEs a much slower one (European Central Bank and European Commission, 2021[10]).

Against this backdrop, both internal and external sources of finance play a role in determining incidence and scope of business investment – albeit with differences across firm size. Evidence from Portugal and Ireland, for instance, suggests that cash flow levels are important determinants of investment, especially among smaller and younger firms, while greater levels of profitability are positively correlated with increased levels of investment expenditure (Farinha and Prego, 2013[50]); (Lawless, O'Toole and Slaymaker, 2018[51]) . At the same time, external financing remains vital for investment across all firms, but especially so for SMEs, who struggle more to fund investments purely through internal resources compared to large firms. The 2014 European Competitiveness Report shows that long-term credit flows have positive and significant effects on investment in intangible assets, in particular among young firms and micro firms. In addition, the report suggests that investment patterns differ across sectors, with external finance representing a more important driver of new investment in manufacturing and construction than in services (European Commission, 2014[52]).

SME access to finance for export and internationalisation likewise remains an issue, even though recent evidence confirms the link between exporting and scale up (OECD, 2021[1]). Yet, prior to the pandemic, over half of trade finance applications from SMEs were rejected, compared to only 7% for multinational companies (International Chamber of Commerce, 2020[53]). Evidence also shows that uneven access to trade finance persists among SMEs and women entrepreneurs in particular – and often despite a strong, long-standing relationship with their bank (Auboin and DiCaprio, 2017[54]).

Moreover, firms tend to face different types of export costs across their trade journey. New entrants typically face a number of fixed entry costs such as administrative burdens, the adjustments of product designs to local preferences or regulations, as well as various information requirements, whereas incumbent exporters primarily face maintenance cost, related for instance to running a distribution network abroad (Auboin and DiCaprio, 2017[54]) (Greenaway, Guariglia and Kneller, 2005[55]). Against this backdrop, recent firm-level analysis from China finds that internal financing capacity is positively associated with export market participation rates of both new entrants and incumbents, while external financing matters only for new entrants. In addition, a firm's internal financing capacity is positively associated with its export volume, whereas external financing is not (Meng et al., 2021[56]). This suggests that firms may often require external finance to kick-start exporting activities and cover the relatively high fixed entry cost associated with them, while once trade is up and running, maintenance costs related to trade can often be absorbed internally more easily.

In addition, common SME financing barriers can arise and compound both on the supply and demand-side of the scale up finance market

The availability and access to scale up finance is held back by a combination of different (more general) supply and demand-side barriers that often affect the SME population as a whole, but that may also prevent (potential) scalers from effectively leveraging one or several scale up drivers (see Table 2.4).

On the supply side, potential investors and financial institutions are often confronted with large information asymmetries on SMEs' financial situation, lack of business track record and transparent credit data, or lack of collateral to reduce financial risk (OECD, 2021[24]) (OECD, 2019[8]) (OECD, 2017[32]) (Law, Lee and Singh, 2018[57]). This may even be the case for more mature firms, depending on their business model and scale up trajectory. In addition, these information asymmetries also limit investors and lenders potential to perform assessments of the credit risk of SMEs reducing SMEs capacity to raise funds (Vesga et al., 2017[12]). Access to debt finance is for instance more difficult for firms with a higher risk-return profile, such as innovative and growth-oriented enterprises, whose business model may rely on intangibles and whose profit patterns are often difficult to forecast (OECD, 2015[21]). In fact, banks may not consider the intangible assets produced by an SME R&D process as reliable collaterals (Lee, Sameen and Cowling, 2015[58]). In addition, the lack of exit options and regulatory impediments on the equity market, or currency risks and resource-intensive monitoring of due diligence processes in trade finance add to the complexity of financing SME scale up.

Supply-side barriers lead to higher transaction and agency costs for banks and financial actors in serving certain segments of the SME population (OECD, 2021[24]) (OECD, 2019[8]) (OECD, 2017[32]). Kantis, Federico and Ibarra (2015[59]) corroborate such issues also in the context of emerging economies (with a focus on the Latin American countries), where the nature of ventures, and their risk profile in particular, does not suit the requirements of traditional banking, i.e. firms are highly risky, lack initial capital and their risk assessment is difficult. This is particularly an issue when put into perspective with the insufficient investment opportunities and the low transaction volumes SMEs can generate. Therefore, many (institutional) investors are still reluctant to invest in small businesses despite numerous government initiatives to support SME financing across OECD countries (OECD, 2017[33]).

As a consequence, financial instruments for SMEs often operate in thin, illiquid markets, with a low number of participants, which, in turn drives down demand from SMEs and discourages potential suppliers of finance (OECD, 2017[33]) (Kaousar Nassr and Wehinger, 2016[60]).

Table 2.4. Market failures in the scale up finance market

Market failures / Scale up drivers	Innovation	Investments	Network expansion through internationalisation
Supply-side			
Information asymmetry/ opacity that leads to high transaction and agency costs for financial institutions	x	x	x
Lack of scalers' track record and history to forecast revenues	x	x	x
Lack of collaterals (e.g., IA), especially in comparison with higher transaction costs	x	x	x
Lack of exit options	x		
Currency risk			x
Monitoring costs, due diligence, performance	x		x
Regulatory and tax barriers	x	x	x
Demand-side			
Lack of financial literacy and strategic vision	x	x	x
High cost, complexity and staff investment needed to access proper sources of finance	x	x	x
Tax burden	x		

Note: Network expansion through other drivers than internationalisation is not covered in this pilot phase.
Source: Authors' own elaboration.

On the demand side, many entrepreneurs and business owners, including potential scalers, often lack financial knowledge, strategic vision, resources and sometimes even the willingness or awareness to attract finance other than straight debt. As a result, they are very often unable or unwilling to comply with the requirements of financial intermediaries and/or professional investors, and produce sophisticated financial statements. High costs, complexity and staff implications in requesting diverse forms of scale up finance can discourage SME demand. The lack of appetite by SMEs for alternative financial instruments, equity in particular, can also be attributed to their tax treatment vis-à-vis straight debt (OECD, 2017[33]) (OECD, 2017[61]).

Analysis at EU level suggests that the **demand for equity capital in particular could be restrained by four main demand-side factor**s: (1) ownership, (2) quality, (3) culture, and (4) knowledge (see Table 2.5).

Table 2.5. Demand-side barriers in equity capital markets, EU

Factors	Underlying reasons
Start-up owners are not willing to share or lose **ownership**	There are potentially investable businesses whose entrepreneurs are unwilling to take external equity because of their concerns about loss of control / dilution of ownership, and so choose not to raise venture capital, being willing to trade-off the potential adverse impact on their ability to scale and retain 100% ownership.
Lack of high-quality start-ups	Only a relatively low number of high-quality start-ups whose innovative ideas may be turned into viable business models require scale up funding, limiting in turn investment opportunities for late-stage VCs. European VC investors highlight an increasing competition among investors for investee companies (European Investment Fund, 2021[62]).
Weak entrepreneurial **culture**	A lower risk attitude and fewer people with entrepreneurial orientation, leading to a lower number of start-ups. This cultural difference is related to the aforementioned higher reluctance to share control of the business, which in turn limits the capital at disposal to scale up the business.
Weak financial **knowledge** and capabilities of SMEs	Financial literacy is relevant when it comes to attracting external finance for business growth. Innovative start-ups might specifically lack knowledge of the different financing opportunities they have, especially those that are relatively newer, such as peer-to-peer lending. Even if they know some of these opportunities, they might restrain from applying to those sources of finance if they feel they do not fully comprehend the implications of adopting them.

Source: Authors' own elaboration, based on (European Commission, 2021[63]).

Against this backdrop, a recent OECD study suggests that government venture capital has emerged as an important policy tool to complement private venture capital (VC) and help fund start-ups that do not fit the "classic VC profile", notably start-ups trying to commercialise the outcomes of academic research and generating large positive externalities. In particular, government VC tends to go to firms that have a riskier profile: they have stronger links with academia, are more innovative and produce innovations that are more radical than private VC-backed firms. In this respect, these findings suggest that government VC can serve as an important instrument to promote innovation, and therefore contribute to broader policy objectives, such as the green transition, where innovation is needed but impaired by important barriers such as technological and policy uncertainty (Dechezleprêtre and Fadic, 2022[64]).

Financing solutions for scalers could also be place-specific, or place-blind

Financing conditions change significantly not only across countries, but also across regions within the same country, as they tend to reflect local economic conditions. This is especially true for SMEs, which depend more than larger companies on local financing conditions, as they are less likely to have more than one establishment and, therefore, less likely to draw on the transfer of internal resources, or to be able to find better financing conditions in another location.

Local dynamics are likely at play when it comes to traditional bank finance. SMEs in lagging regions typically find it more difficult to receive a loan and, when they receive one, are charged higher interest rates than SMEs in more affluent regions. Different financing conditions can be the outcome of the poorer financial indicators of the borrower (internal factors), but also a higher perceived credit risk by the lenders due to a deteriorated local business environment (external factors), as shown for example by higher-than-average rates of nonperforming loans in lagging regions (European Commission, 2017[65]).

Access to funding also involves an element of trust that is often the result of a network or personal relationship, and implies some physical proximity. Relationship lending for instance, where lending decisions are also based on the personal knowledge of the business by the bank branch officer, is expected to favour SME lending, although it typically comes with higher costs due to the transactions involved in building and keeping up the relationship. Recent research from France and Italy showed however that relationship lenders charge higher rates in good times, but lower rates in bad times, when lending decisions based only on statistical models are more likely to lead to loan rejections or higher interest rates (Beatriz, Coffinet and Nicolas, 2018[66]) (Bolton et al., 2013[67]). This stream of research concludes that relationship lending can help extend credit to viable SMEs during downturns. Similarly, evidence show a close proximity between VC investors and the start-ups they invest in. The British Business Bank found that in 82% of equity investment stakes, investors had an office within two hours travel time of the company that they were backing. In 61% of stakes, the proximity was even closer: one hour or less (British Business Bank, 2021[68]).

Equity finance is also geographically concentrated, depriving growth-oriented SMEs and start-ups in more peripheral regions of needed growth capital. In the US, the VC industry is concentrated in California, New York and Massachusetts. These three states alone accounted for 92% of US VC investment in 2020. In Europe, investment flows are concentrated in a very small number of countries, with the UK and Ireland, France and Benelux accounting for more than half of total investment (Goncalves Raposo and Lehmann, 2019[69]). In the United Kingdom, London, the South East, the East of England and the North West absorb 86% of equity investment, although they host only 55% of the total business population, and, even more remarkably, only 55% of UK high-growth businesses, suggesting that growth capital may not be available in the right place (British Business Bank, 2021[68]). In Italy, companies in northern regions took in 83% of equity investment over the period 2015-20, with the only region of Lombardy receiving 41% of the total number of investment deals (Associazione Italiana del Private Equity, 2020[70]).

Mapping scale up finance institutions and policies: analytical framework, sources and methods

Improving SME access to finance for unleashing their potential to scale up requires a whole of government approach and a broad perspective to SME financing issues. As barriers to accessing finance for their transformation arise in multiple areas, public intervention is complex and can overlap across different policy domains. The chapter aims to identify emerging practices in this field, and how governments mix policy options to help SMEs access the appropriate sources of finance for scaling up operations.

This section defines the scope under review and presents the analytical framework used to identify and benchmark SME scale up finance policies and institutions across OECD countries. It builds on the G20/OECD High-Level Principles on SME Financing (OECD, 2015[71]) (see Box 2.5), the *OECD Scoreboard on Financing SMEs and Entrepreneurs*, which serves as the international reference for monitoring developments and trends in SME and entrepreneurship finance and financing conditions, as well as on a broader body of OECD work in this area.

More specifically, the mapping exercise aims to identify to which extent national policy initiatives pursue (one or several) specific objectives in relation to scale up finance and which scale up drivers (e.g. innovation, investment, network expansion) they leverage to this end. It also seeks to identify the key institutions involved at national level (and, where possible and relevant, at subnational and international levels), and analyse the diverse set of policy instruments they mobilise, as well as their policy targets. As such, the mapping helps benchmark national scale up finance policy mixes by exploring their composition and balance.

Box 2.5. G20/OECD High-Level Principles on SME Financing

The G20/OECD High-Level Principles on SME Financing[3] were developed by the OECD, together with other relevant international organisations, at the request of G20 Finance Ministers and Central Banks Governors. The Principles are addressed to G20 and OECD members and other interested economies, and can apply to diverse circumstances and different economic, social and regulatory environments. They provide broad guidelines for the development of crosscutting policy strategies to enhance access to a diverse range of financing instruments by SMEs and entrepreneurs. The Principles provide a coherent framework for government actions in this area, also taking into account the broader policy ecosystem in which SMEs operate. Such strategies are instrumental to define specific policy objectives; design, coordinate and implement policy measures; and to provide a framework for monitoring and evaluation (G20/OECD, 2018[72]).

G20/OECD High-Level Principles on SME Financing

1. Identify SME financing needs and gaps and improve the evidence base ;
2. Strengthen SME access to traditional bank financing ;
3. Enable SMEs to access diverse non-traditional bank financing instruments and channels ;
4. Promote financial inclusion for SMEs and ease access to formal financial services, including for informal firms ;
5. Design regulation that supports a range of financing instruments for SMEs, while ensuring financial stability and investor protection ;
6. Improve transparency in SME finance markets ;
7. Enhance SME financial skills and strategic vision ;
8. Adopt principles of risk sharing for publicly supported SME finance instruments ;
9. Encourage timely payments in commercial transactions and public procurement ;
10. Design public programmes for SME finance which ensure additionality, cost effectiveness and user-friendliness ;
11. Monitor and evaluate public programmes to enhance SME finance.

The Principles aim to encourage dialogue, exchange of experiences and coordination, including regulatory coordination, among stakeholders in SME finance, including policy makers, financial institutions, research institutions and SME management on how to enhance SME access to finance and increase their contribution to resilient and inclusive growth.

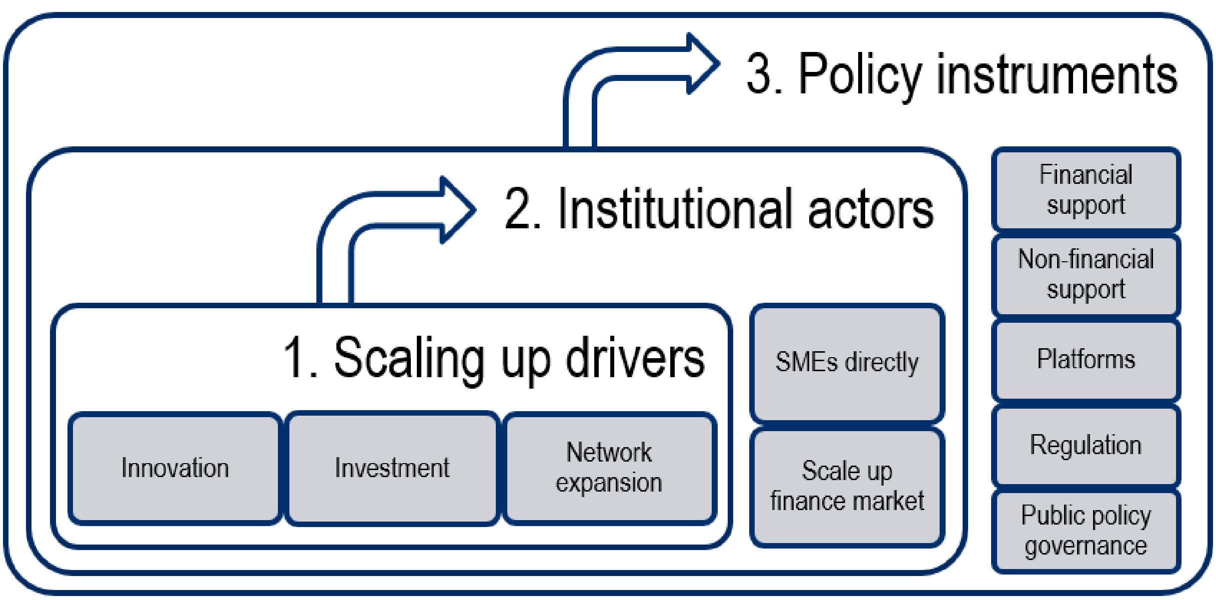
Source: G20/OECD High-Level Principles on SME Financing, https://www.oecd.org/finance/G20-OECD-High-Level-Principles-on-SME-Financing.pdf ; Financial Stability Board (2015), High-Level Principles on SME Financing. https://www.fsb.org/2015/11/high-level-principles-on-sme-financing

Main strategic objectives pursued

Scale up finance policies encompass all policies that can unleash internal or external sources of finance to support SME activities related to scaling up, i.e. innovation, investment and network expansion. The policy options that governments can implement are therefore defined by the type of transformation that scalers are going through, i.e. the scale up drivers they pull on to grow their business and capacity. Such policies can either be aimed at SMEs themselves (for unleashing internal resources, or for addressing demand-side barriers), or at the finance market and a number of institutional actors (for unleashing external finance). In both cases, policy instruments can take the form of financial support, non-financial support, platforms and networking infrastructure, regulation, or public policy governance (see Figure 2.5).

- **When demand-oriented and SME-targeted**, policy initiatives aim to reduce SME financing costs or needs, raise their awareness on existing financing solutions or their ability to access new funding sources. **When supply-oriented and SME-targeted**, initiatives aim to increase scalers' self-funding capacity or incentivise reinvestment of profits;
- **Scale up finance policies can also be directed towards institutional actors operating in the financing system or the business sector.** In this case, they are supply-oriented and aim to create new or a more diverse set of financing sources. Institutional actors can include banks or venture capital/ private equity funds, as well as individuals such as business angels or investors (i.e., the **financial sector**), large enterprises, multinationals or leading actors in sectors, value chains, ecosystems (i.e., the **private sector**), and public/ development banks or other administrations (i.e., the **public sector**). Finally, the **civil society** can also be a source of finance for scalers.

Figure 2.5. Financing SME scaling up: which policy instruments for which actors for which drivers?

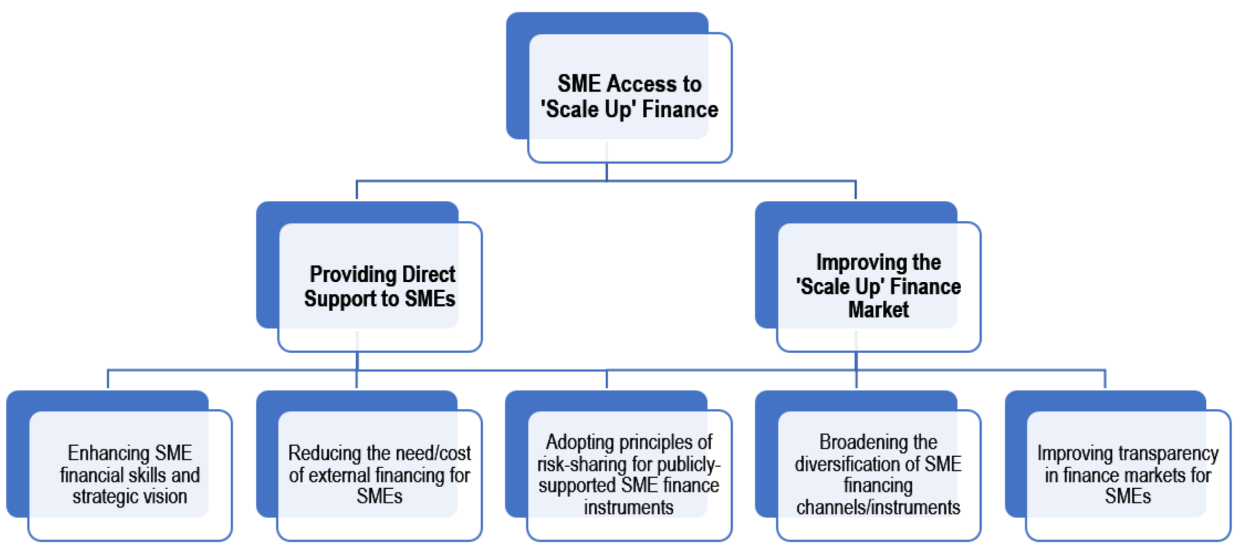


Note: Instrument typologies reflect the framework developed in the OECD SME and Entrepreneurship Outlook and will be used to structure the SME&E data lake knowledge infrastructure. The typology of instruments is drawn from Meissner and Kergroach (2019[73]).
Source: Authors' own elaboration.

The strategic objectives of scale up finance policy are aligned with in the G20/OECD High Level Principles on SME Financing (see Figure 2.6), and encompass:

1. Policies for reducing the need/cost of external financing for SMEs;
2. Policies for adopting principles of risk sharing for publicly-supported SME finance instruments to encourage the participation of private investors and develop appropriate risk mitigation mechanisms with private partners;
3. Policies for enhancing SME financial skills and strategic vision to enable them to develop a long-term approach to finance and improve their business prospects;
4. Policies for broadening the diversification of SME financing channels/instruments to enable SMEs access various non-traditional sources of finance in order to obtain the most suited scale up finance instruments according to their life cycle stage;
5. Policies for improving transparency in finance markets for SMEs to encourage greater investor participation and reduce financing costs for SMEs.

Figure 2.6. Strategic objectives of policies to promote SME access to scale up finance



Source: Authors' own elaboration.

Cutting across multiple policy domains

To account for the pervasive nature of scale up finance, the mapping of relevant institutions and policies cut across a number of policy domains that are relevant to finance innovation, investment and network expansion. Table 2.6 provides a schematic overview of what the exercise entailed.

Table 2.6. Schematic overview of what SME scale up finance policies are and are not

What it is	What it is not
• **Traditional financing instruments** designed to explicitly support firm growth • Bank loans, credit guarantees • **Alternative financing instruments** designed to explicitly support firm growth • Alternative debt (corporate bonds, securitised debt, private placements, (debt) crowdfunding, etc.) • Hybrid instruments (subordinated loans/bonds, silent participations, convertible bonds, etc.) • Equity instruments (private equity, venture capital, business angels, (equity) crowdfunding, etc.) • Financing instruments designed to explicitly support **scale up drivers** • Innovation: R&D&I tax incentives, technology funds, regulatory sandboxes, etc. • Investment: Funds to improve provisions of asset finance and leasing, public loans, grants, etc. • Network expansion : Export guarantees, trade credit insurance, trade finance, etc. • Finance for **long-term or structural corporate investments** • **Platforms**, networking infrastructures, facilities for crowdfunding or improving transparency on financial markets etc. • Initiatives to **raise SME financial literacy and investment readiness**, e.g., training vouchers**,** mentoring programmes, business acceleration services etc.	• Bank loans or credit guarantees that do not pursue growth objectives (to the extent it is made explicit) • Short-term loans and other financing instruments that cover cash flow or operating costs needs • COVID-19 emergency measures in support of liquidity shortages • Microloans, travel vouchers (e.g., to attend international fairs) • Business formalisation support, incubators, firm creation finance support • Support to SME public procurement

Note: Categories of financial support were aligned with the analytical framework developed as part of the G20 Study Group on Financing for Investment, and specifically on the "The Role of Banks, Equity Markets and Institutional Investors in Long-Term Financing for Growth and Development" report (OECD, 2013[74]).
Source: Authors' own elaboration.

Identifying typologies of policy instruments

Governments have a wide range of policy instruments at their disposal to address scale up finance-related challenges, with a great **diversity of tools when it comes to financial support for SMEs**. Table 2.7 provides an overview of typical policy initiatives and examples within OECD countries.

Table 2.7. Financial support for SME scale up: diversity of instruments and selected country examples

To SMEs directly	Policy initiatives	Country examples
Public loans	Direct loans, co-financing, direct guarantee, entrepreneurship fund, long-term buyer financing, growth line of credit	**The Green Fund (EST)** aims to lend to companies that create green technologies to solve environmental problems and achieve a climate-neutral and circular economy. Investments focus on companies in the seed stage (to generate deal flow), early stage (to deploy new technologies) or growth stage (to finance expansion). **Low Risk Loans (NOR)** are loans on competitive, market-based terms with a long repayment period and terms tailored to the companies' needs. The low-risk loan financing covers the companies' needs for long-term financing of fixed assets, but also capital strengthening, internationalisation and development activities.
Grants & Subsidies	Innovation vouchers, SME growth subsidies, investment funds, R&D&I grants, global acceleration programs	**Strategic Innovation Fund (CAN)** allocates repayable and non-repayable contributions to firms of all sizes across all industrial and technology sectors. **Innovation Voucher (AUT)** is designed to help SMEs in Austria start ongoing research and innovation activities.
SME tax incentives	R&D&I tax credit, corporate profit tax incentives, special tax regimes to support investment, training tax credit	**R&D Tax Incentive (CHL)** allows a reduction in income tax of 35% of the R&D investment, through a tax credit (maximum of US$1 million). It also allows the remaining 65% of the R&D investment to be considered as mandatory expenses for income tax deduction. **Development Tax Allowance (HUN)** is based on corporate income and applies in the form of a withholding tax in various cases, including SME investments exceeding HUF 500 million, if the company increases the number of its employees by five (for small companies) or ten (for medium-sized companies) in the following four years, or if it increases its labour costs by at least 10 times (for small companies) or 25 times (for medium-sized companies) the annual minimum wage.
Towards the scale up finance market	**Policy initiatives**	**Country examples**
Loans	Bank loans, credit guarantees, free interest rate loans	**Operating Credit Guarantee for SMEs (SWE)** helps banks share risk regarding loans, overdraft facilities, or invoice mortgages. **The Insurance of Bank Loans (LUX)** is a mechanism that allows banks to reduce their risk by covering part of their loans for their clients' international activities against the risk of non-repayment. This protection allows banks to grant larger credit lines to Luxembourg companies that wish to develop their activities abroad.
Alternative debt	Corporate bonds, securitized debt, covered bonds, private placements, (debt) crowdfunding	**Bond financing (FIN)** is designed for companies' general financing needs, such as investments, expansion and development of operations and the organisation of the financing structure. **Basket Bonds (ITA)** meets the medium-long term financing needs of companies to ensure the implementation of their development and investment plans. This mechanism is based on the issue of a security, guaranteed by a pool of bonds issues by Italian SMEs and Mid-Caps.
Hybrid instruments	Subordinated loans, silent participations, profit participation rights, convertible bonds, mezzanine finance	**Mezzanine Loans (LVA)** cover investment expenses related to the diversification of existing products, extension of the capacity or a fundamental change in the overall production process, setting-up of a new establishment, or extension of the capacity of an existing establishment. **ERP-EIF-Länder Mezzanine Fund of Funds (GER)** participates in private sector professional mezzanine funds (including venture-debt funds) which invest heavily in German SMEs and young fast-growing companies. The Mezzanine Fund of Funds was established with an initial volume of EUR 200 million.
Equity instruments	Private equity, venture capital, business angels, specialized platforms for public listing of SMEs, crowdfunding	**Italian Technology and Growth Fund (ITA)** is aimed at acquiring minority stakes with capital increase activities in Italian companies of a highly technological nature that intend to launch or consolidate expansion projects. It promotes their innovation processes and strengthens their competitive position. **French Tech Acceleration Fund FTA (FRA)** invests minority stakes of between EUR 1 million and EUR 20 million alongside other investors. It can participate in follow-on rounds of financing. The fund seeks to promote the creation and the support of start-ups to maximise their growth potential.

Trade finance	Export credit insurance, letter of credit	**Export Factoring (KOR)** is a trade finance facility whereby Korea Eximbank purchases exporters receivables arising from open-account export transactions, on a non-recourse basis. **Bank-Financed Short-Term Export Supplier Credit Insurance (CZE)** is proposed when a loan is provided by an exporter to an importer (foreign person) in the form of deferred payment for delivered goods or services (export receivable). It is subsequently repurchased by the bank from the exporter without the possibility of retroactive penalty.
Asset-based finance	Asset-based lending, purchase order finance, warehouse receipts, leasing	**Asset Based Lending (JPN)** uses current assets, such as inventory and accounts receivable held by businesses, to develop a method of lending that is not overly dependent on real estate collateral. It focuses on the "business life cycle" in which stocks are sold and become receivables, and receivables are collected and become liquid deposits. **Leasing of Machinery and Equipment (POL)** is aimed at SMEs that need support for the purchase of specialised equipment for further development.

Note: Instrument typologies only contain the category of financial support that is drawn from the framework developed in the OECD SME and Entrepreneurship Outlook and Meissner and Kergroach (2019[73]).
Source: Authors' own elaboration.

Aside from financial support, governments also have a number of other policy instruments at their disposal. **Non-financial support to help SMEs scale up can take the form of advisory services** (such as how to integrate or attract new sources of funding), **competence centres on financial literacy, or mentoring programmes**. In Ireland, the Funding Advisory Service is coordinated by *InterTradeIreland* and targets SMEs seeking new or alternative sources of finance to fund the growth of their business. It includes a series of free workshops on funding opportunities, alternative financing and practical advice on how to apply for and obtain funding for growth.

Platforms and networking infrastructures can include online resources for SMEs such as digital portals, as well as knowledge and cooperation hubs, where SMEs can get in touch with other firms, both large and small. In Canada, for instance, the Women Entrepreneurship Knowledge Hub helps women grow their businesses by providing access to finance, talent, networks and expertise, thus serving as a one-stop source of knowledge, data and best practices for women entrepreneurs.

Although there are comparatively fewer initiatives in this area, regulation can improve the financing conditions for growth-oriented SMEs, especially with regard to the expansion of alternative sources of finance. For instance, they can take the form of the Australian Securities and Investment Commission Regulatory Sandbox, which allows individuals and businesses to test certain innovative financial services or credit activities without first obtaining license, or the Finnish Crowdfunding Act, which eases the regulation of investment-based crowdfunding and clarifies the ground rules for loan-based crowdfunding.

Public policy governance initiatives can support access to scale up finance mainly through national strategies and strategic plans that coordinate policies in a specific area, sometimes also explicitly referring to SME access to scale up finance. The Hungarian SME Strategy (2019-30), for example, aims to create an SME-friendly business environment, develop e-governance solutions, strengthen innovation, provide appropriate financing facilities, and support internationalisation.

Finally, public procurement has not been included in the mapping as evidence of its ability to provide direct financial support to SME growth is mixed and access barriers remain for many SMEs (OECD, 2018[75]). While di Giovanni et al. (2022[76]) suggest that granting procurement contracts to small Spanish companies can help them overcome financial constraints, Sake (2017[77]) shows that the use of 'most economically advantageous' criteria in tenders has not contribute to increase SME participation and success rates. Glas and Essig (2018[78]) also argue that the effectiveness of splitting tenders into smaller lots does not significantly increase the success rate of SMEs in Germany.

Methodology and sources

Policy information is drawn from official sources (e.g. national strategies, action plans, websites of relevant Ministries and agencies, etc.), as well as OECD reports and publications, through desk research.

Information is collected at national and institutional level. The research work began by mapping the relevant institutions, such as Ministries, Public Investment Banks, SME specialised agencies, export credit agencies, etc., and then by identifying the relevant policy initiatives for scaling up finance, based on keywords, concepts search and text analysis. The information collected is structured and encoded, and made available through an online interface for the purposes of easing consultations and enabling re-use.

The policy work builds on similar exercises (EC/OECD, 2021[79]) (UNESCO, 2018[80]) (EC/OECD, 2016[81]) (OECD, 2012[82]) and follows the approach proposed by Meissner and Kergroach (2019[83]) to monitor and benchmark innovation policy mixes. Developments are also coordinated with the EC/OECD project on foreign direct investment (FDI) spillovers on SME productivity and innovation that follows similar approach for better understanding how public policies at national and regional levels can help strengthen FDI-SME linkages and increase productivity and innovation spillovers for local development and resilience (OECD forthcoming, 2022[84]).

Finally, the policy mapping and the experimental visualisation dashboard developed for the EC/OECD SME Scale Up project serve as a “proof of concept” for the OECD SME&E data lake (CFE/SME(2021)20). Going forward, the ambition is to build towards a broad-based rollout of policy indicators and a harmonised policy database across OECD countries and regions that increasingly leverages the breadth of information that is gathered throughout the thematic projects.

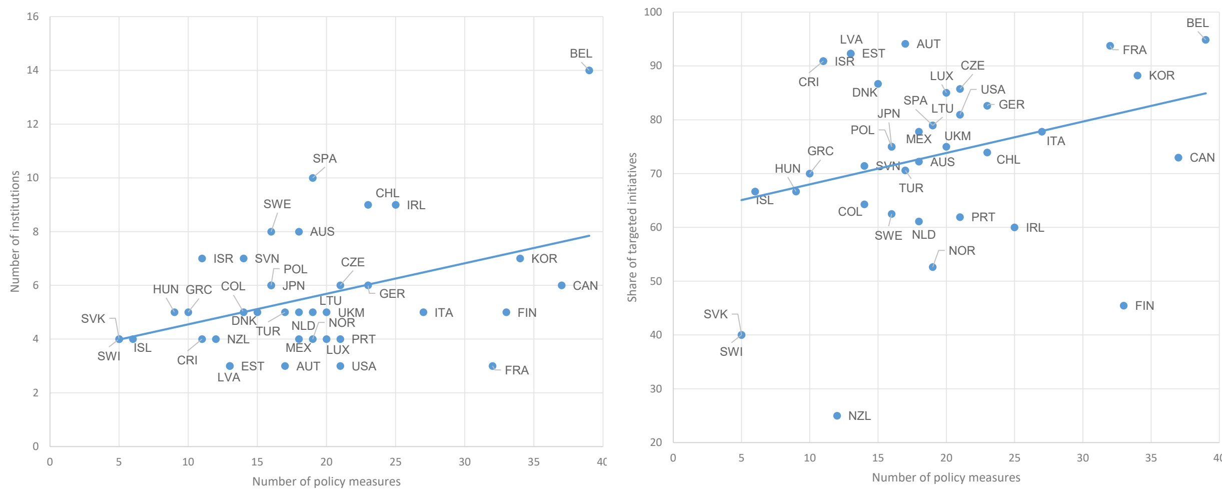
How are scale up finance policies shaping across OECD countries? Key findings of the pilot phase

Policy makers have long recognised that access to finance, in the form and quantity needed at each stage of their life cycle, is critical for SME creation and scale up (OECD, 2019[8]). Accordingly, governments worldwide have developed policy responses to the challenges SMEs in need of external finance could face, often adopting a two-pronged approach of strengthening bank financing as well as providing support to diversify the finance mix of SMEs (OECD, 2015[71]) (OECD, 2015[21]).

All OECD countries act to improve scale up finance, albeit at different intensities

Figure 2.7. The number of policy initiatives in place increases with the number of institutions involved and the intensity of targeting efforts

Number of scale up finance policy measures in place and number of institutions involved (left-hand) and share of measures that are targeted by design (right-hand)



Note: For countries with few initiatives (observations), interpretation of indicators should be done with caution. Targets include diverse populations of firms and individuals, including SMEs, and entrepreneurs and business owners, as well as sector(s) or supply chain(s), technology(ies) or region(s) and place(s).

Source: Authors' own elaboration, based on the policy mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

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This section looks at how national policy mixes have evolved in recent years to enhance SME access to scale up finance. More specifically, this section seeks to understand which priority is given to different aspects or mechanisms of scale up finance, the balance between targeted and generic approaches to improving scalers' financing options, as well as the institutional arrangements in place to support policy design and implementation. It also intends to identify commonalities and differences in policy intervention across countries, and assess the overall intensity of public efforts in this area. It builds upon a pilot mapping of **210 institutions and 709 policy initiatives (18.7 on average by country)** conducted between September 2021 and March 2022 across the 38 OECD countries.

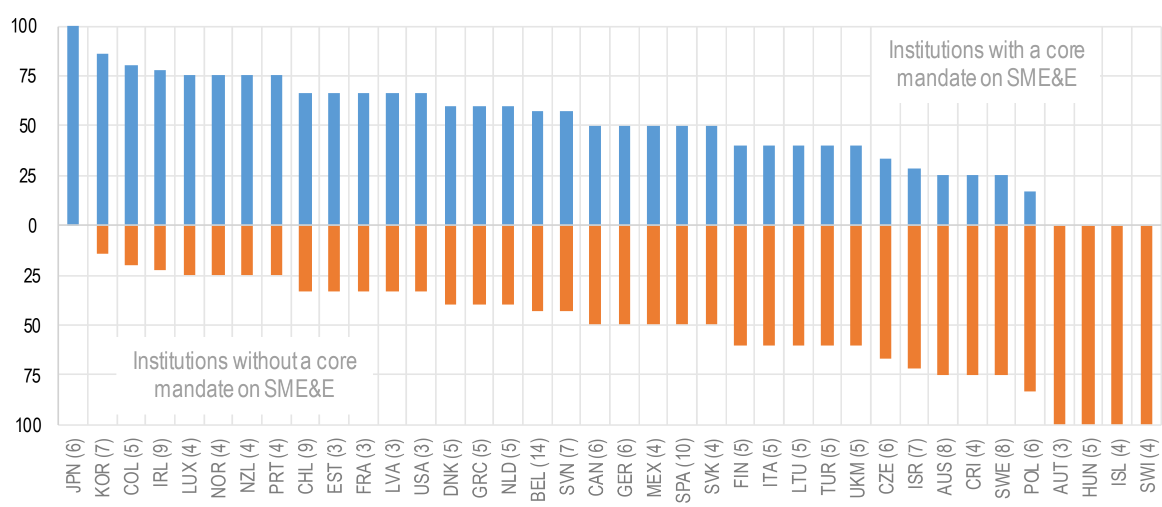
All OECD governments have initiatives in place to improve SME scale up finance, but with different degrees of intensity in the efforts deployed. The number of policy initiatives in place, used as a proxy for measuring governments' efforts in the field, varies markedly across countries, from less than five measures in Switzerland or the Slovak Republic, to more than six times as many in Korea, France, Finland, Belgium and Canada (Figure 2.7). The number of measures also tends to increase with the number of institutions involved, as well as the efforts made for targeting public intervention towards specific populations of firms or entrepreneurs, sectors or technologies.

Public action for scale up finance often falls beyond the SME and entrepreneurship policy domain

Not all institutions that design and implement scale up finance measures have SME and entrepreneurship (SME&E) as a core policy mandate. In most countries, only about half of institutions in charge of scale up finance initiatives deal explicitly with SME&E policy considerations (Figure 2.8). This can range from more than 75% in Colombia, Ireland, Japan or Korea, but can also not be the case at all, such as in Austria, Hungary, Iceland and Switzerland. Other domains of public intervention include innovation policy (28.2%), trade policy (23.3%) and investment promotion policy (17.3%), which is broadly consistent with the methodology developed for mapping institutions. The role of financial and monetary policy institutions appears to be less prominent, although the situation differs across countries. In Hungary, Portugal and the Republic of Türkiye, more institutions are implementing SME scale up finance policy as part of broader innovation policy measures, while the same stands for the Czech Republic, Poland and the US with regard to trade policy.

Figure 2.8. Not all institutions promoting scale up finance are responsible for SME&E policy

Percentage of institutions with/without SME and entrepreneurship as a core mandate, in total (%)



Note: Shares are computed as a percentage of total national institutions involved in promoting scale up finance based on unweighted count. Numbers into brackets are the number of institutions mapped in each country.
Source: Authors' own elaboration, based on the institution mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

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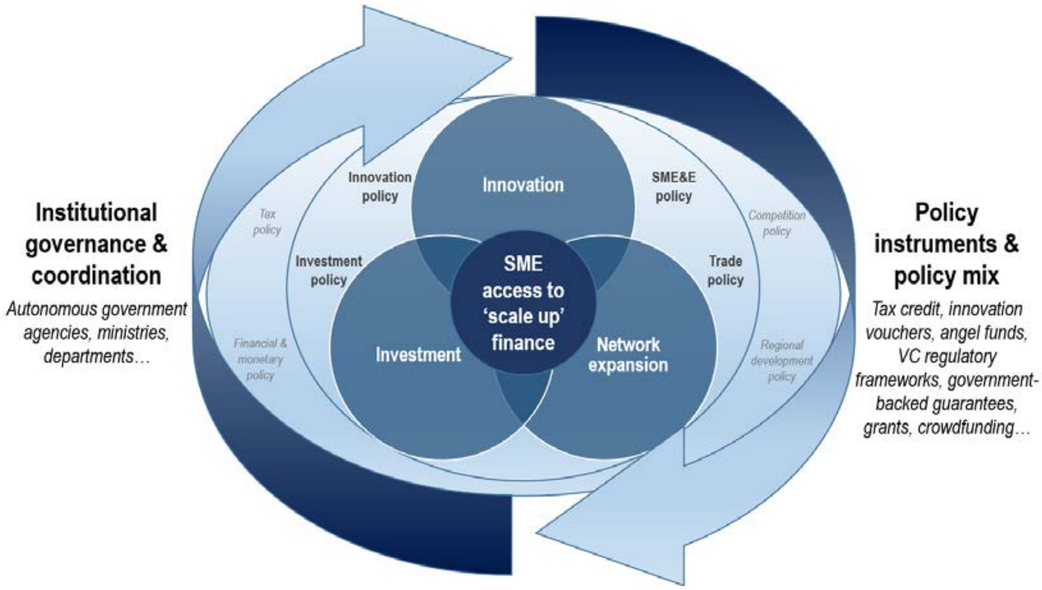
This heterogeneous institutional set up for the implementation of SME scale up finance polices might suggest different approaches to scale up policy more broadly, as well as a possible fragmentation of policy areas that intersect with scale up finance, such as investment, skills, trade and R&D policy. Figure 2.9 presents the scope of scale up finance policies, as identified in this project.

Figure 2.9. Scope of SME access to scale up finance policies



Source: Author's own elaboration.

There are signs of a general fragmentation of scale up finance policies…

There is often a high number of institutions involved in implementing SME scale up finance policies. In Spain, Ireland, Sweden or Australia, between 8 and 10 institutions are active in the field, for a country average of 5.5 institutions across the OECD area[4]. Public intervention is more concentrated in Austria, Estonia, France, Latvia and the US, with only three institutions involved.

There are also numerous initiatives deployed in countries, with over 30 measures in place in Canada (37), Korea (34), Finland (33), or France (32). The number of measures per institution is about 3.38 on average across OECD countries, but ranged from 10 in France to six in the United States and Finland. In France, two main institutions, Bpi France (in charge of 20 policies) and the Ministry of Economy and Finance (administrating 11 initiatives) operate in the field (Box 2.6). The United States relies mainly on the Small Business Administration (16 initiatives) and the US Export-Import Bank (4 initiatives). Finland acts through Finnvera, a state-owned financing company and the official export credit agency for Finland (18), and Business Finland, a public organisation under the Finnish Ministry of Employment and the Economy (11).

Box 2.6. France – the key role of Bpifrance and the Ministry of Economy and Finance

France is above OECD average in terms of the number of scale up finance policies per institution. This is mainly due to the large number of initiatives implemented by the Ministry of Economy, Finance and Relaunch and the Public investment bank Bpi France, who both list support for SME access to finance as a central element in their respective policy objectives.

The Ministry of Economy, Finance and Relaunch provides support to SME growth through several instruments, including direct financial support. In 2022, the EUR 2.3 billion "Industrial Start-ups and Deep Tech Strategy 2030" was launched to address the lack of financing solutions for risky projects carried out by French SMEs. The Strategy includes financial instruments such as industrial loans and two equity funds to accompany start-ups from innovation to industrialisation.

Bpifrance provides financial support for SME scale up through grants, guarantees, financing, export and trade finance, growth capital and transfer capital. It invests in businesses of all sizes through co-financing with banks as well as through equity investment, taking also minor stakes in growing companies, from the seed stage to the transfer. The French scale up "Botify", for example, which is specialised in connecting websites to major search engines, was able to raise USD 55 million in 2021 thanks to the "Large Venture" policy initiative implemented by Bpifrance.

Both institutions place a major focus on innovation as a driver for enterprise development. To this end, the Ministry offers an Innovation and R&D tax credit (CII) of up to 20% of the total amount of investment in new and innovative products, dedicated exclusively to SMEs. Bpi France, on the other hand, supports individual and collaborative innovation projects, leveraging a diverse set of instruments, including such R&D and innovation support, as well as equity finance. Its Innovation and Industry Fund, for example, finances disruptive innovation through individual R&D and innovation support for high-tech enterprises (BPI France, 2020[85]). Bpifrance also supports export projects and the internationalisation of companies through growth loans, equity, and loan guarantees for international expansion.

Source: Bpifrance, http://www.bpifrance.fr/ (accessed on 19 April 2022). Ministry of Economy and Finance, http://www.economie.gouv.fr/ (accessed on 19 April 2022).

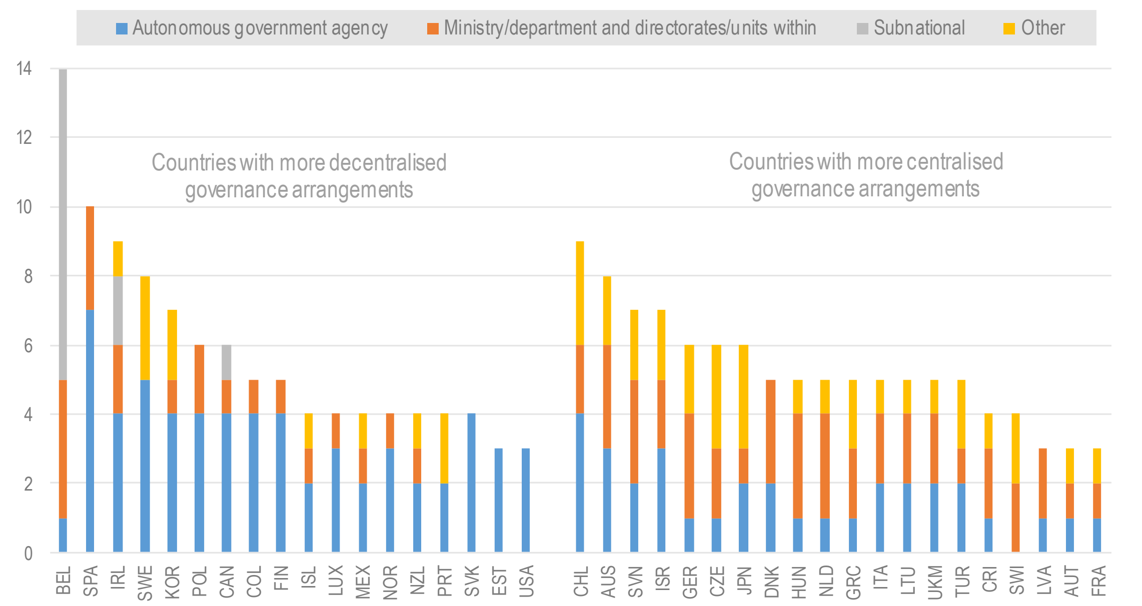
In addition, the scale up finance policy landscape may be characterised in some places by a high degree of decentralisation. Decentralisation refers to the extent to which policy implementation and evaluation are transferred to local or institutional level, e.g. through independent agencies with functions along the scale up finance policy cycle (Meissner and Kergroach, 2019[73]) (OECD, 2012[82])**.** Autonomous government agencies are common in a number of European countries, such as Spain or Sweden. For instance, in Spain 60% of implementing institutions are autonomous government agencies that have different core mandates including innovation, trade development and foreign direct investment policy. These six autonomous government agencies are in charge of implementing 10 out of the 19 SME scale up finance policies (see Figure 2.10).

In other countries, most of the governance arrangements take place at ministry/ department level, particularly within ministries in charge of economic and foreign affairs or science, technology and innovation. This is the case in Germany, with four out of the six implementing national-level institutions being Ministries, and the Federal Ministry for Economic Affairs and Climate Action being responsible for over half of relevant policies (see Figure 2.10). Similarly, the Italian Ministry of Economic Development is in charge of the implementation of 13 out of the 27 SME scale up finance policies, including initiatives that target different scale up drivers such as investment through the *Nuova Sabatini* programme and innovation through the *R&D tax credit* measure. In the Netherlands, the Dutch Venture Initiative is a fund of venture and growth capital funds launched by the European Investment Fund and supported by the Dutch Ministry of Economic Affairs, which aims to invest in fast-growing and/or innovative companies in sectors such as

ICT, clean technology, medical technology, renewable energy, and life sciences. It may be noted that more policy initiatives could also take place at subnational level which remains beyond the scope of this mapping and is not reflected in the current analysis.

Figure 2.10. There is a high number of institutions involved in scale up finance policies, with different degrees of decentralisation

Number of institutions implementing scale up finance policy initiatives by status



Note: Countries are counted among the more decentralised governance systems when more than half institutions involved are autonomous agencies or governance structures operating at subnational level.
Source: Authors' own elaboration, based on the institution mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

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Overall, in most countries, a multitude of governance arrangements co-exist, including autonomous agencies, public-private agencies as well as a set of other structures. In Portugal, for example, half of implementing institutions are public-private agencies. These include the *Portuguese Development Bank,* which addresses market failures in lending and capital markets, focusing specifically on improving access to finance for projects in research and innovation, sustainable infrastructure, social investment and skills, as well as projects increasing the competitiveness of Portuguese companies; and *Startup Portugal*, a non-profit organisation that promotes entrepreneurship and innovation through initiatives that contribute to the growth of the entrepreneurial ecosystem and culture in the country.

Adding to the policy fragmentation, institutions can also operate at subnational level. There is a growing awareness of the importance and benefits of a "place aware" policy approach as structural economic policies do not consider specific regional factors adequately (OECD, 2019[86]). While not a focus of the policy mapping in this pilot phase, subnational policies can complement structural economic policies, including SME scale up finance policies, by creating an environment that supports the growth of firms and in particular of SMEs and start-ups. Against this backdrop, SME scale up finance policies implemented by subnational institutions take into account that firms operating in certain areas may face greater challenges to access debt and non-debt instruments and that unlike larger firms that have wider range of options to finance their growth projects, locally operating SMEs often seek finance from local financial institutions.

The European Regional Development Fund (ERDF) is a key initiative supporting SME competitiveness through programmes involving shared responsibility between the European Commission and the national and regional authorities of the Member States, thus allowing for a better articulation of SME access to finance policies between supranational and sub-national levels (Box 2.7).

Box 2.7. The European Regional Development Fund (ERDF): linking supranational and sub-national initiatives to support SME access to finance

The European Union supports SME creation and development through a variety of policy instruments. As part of the Cohesion Policy, the European Regional Development Fund (ERDF) is an important source of SME finance, linking sub-national and national funding with EU budget investments. During the 2021-27 period, the ERDF Initiative has promoted the use of dedicated financial instruments for SMEs while strengthening coordination between EU, national and regional funds. These investments support SME competitiveness by:

- Fostering new businesses creation, start-ups/scale-ups growth, and accelerators;
- Encouraging the entrepreneurial ecosystem;
- Promoting SME participation in global value chains and in networks;
- Supporting SME internationalisation;
- Facilitating SME access to finance and advanced business services.

In Ireland, the "Southern & Eastern Regional Operational Programme" promotes SME competitiveness through targeted investment in high-growth and innovative micro-enterprises in the south and east of the country. The initiative focuses on specific growth opportunities and areas of innovation identified in Ireland's Smart Specialisation Strategy, which builds on the region's strengths.

Source: European Commission (2021), European Regional Development Fund, https://ec.europa.eu/regional_policy/en/funding/erdf.
European Commission (2020), Southern & Eastern Regional Operational Programmehttps://ec.europa.eu/regional_policy/en/atlas/programmes/2014-2020/ireland/2014ie16rfop002.
European Structural and Investment Funds (2019), An Economy that works for people: Cohesion Policy support for small and medium-sized enterprises.https://cohesiondata.ec.europa.eu/stories/s/n4ee-2h83

… raising the risk of governance failures and the need for sound coordination across-the-board

Dedicated agencies can play the role of policy coordinator by assuming a leadership on the national policy agenda in a particular policy domain (e.g. innovation) (see Box 2.8). However, challenges may arise when coordination should take place across numerous policy domains, especially in more decentralised governance systems, where over four and up to seven (Spain) autonomous agencies are involved in the scale up finance policy agenda.

Box 2.8. Policy coordination: principles and instruments

Policy coordination relies upon a mix of interactions, with both vertical and horizontal aspects, the former ones referring to co-ordination between a ministry and its delivery agencies, and the latter covering for instance inter-ministry relations (OECD, 2012[87]). It can be fostered at different points in the policy cycle, from policy design over implementation to evaluation.

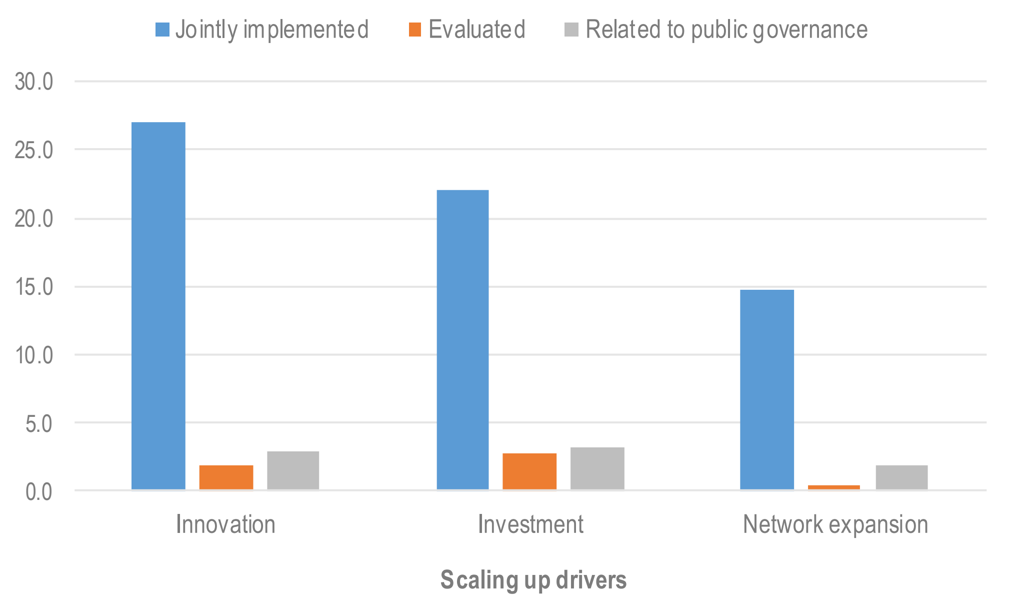
Coordination instruments can be based on regulation, incentives, norms and information sharing. They can be top-down, relying upon the authority of a lead actor or bottom-up and emergent (Peters, 2018[88]):

- ***National strategies and action plans*** typically involve wide consultation and deliberation, provide diagnostic overviews of what the strengths-weaknesses-opportunities-threats of an SME/innovation/local ecosystem could be, and set a shared vision of the goals pursued.
- Closely related, ***policy evaluations and reviews*** are a source of strategic intelligence, and a means for promoting greater co-ordination.
- ***Dedicated agencies/ ministries*** assume leadership of the national policy agenda in a policy domain (e.g. innovation or investment promotion), as well as the responsibility for coordination.
- At the same time, ***inter-agency joint programming*** can facilitate co-ordination and other aspects of governance as agencies share agenda and action.
- The ***Centre of government (CoG)***, e.g. the President's or Prime Minister's Office, can bridge interests and bureaucratic boundaries. High-level policy councils can also deal with aspects of policy coordination although they often have variable roles and composition across countries.
- Finally, ***informal channels of communication*** between officials or job grades (of civil servants, but also experts and stakeholders) can play a role and suggest a relatively well-developed culture of inter-agency trust and communication.

Joint programming of scale up finance policy initiatives remains rare. On average, only 27% of policy initiatives aiming to support innovation finance are jointly administrated by different agencies or institutions in the OECD area, compared to 22% of policies for financing investments and 14% of policies aiming to support network expansion (Figure 2.11). **Policy and programme evaluations that can contribute to multilevel coordination are even scarcer**, with barely 1.9%, 2.7% and 0.5% of initiatives evaluated under each of the scale up drivers[5]. **Few initiatives also relate directly to public governance** (3.0%, 3.2% and 1.9% of all initiatives for each scaling up driver respectively).

Figure 2.11. Few initiatives embed additional coordination mechanisms by design

Share of scale up finance policies that are jointly implemented, have been evaluated or involved public governance arrangements, by scaling up drivers



Note: Further research would be needed to identify if policy initiatives have been evaluated. The contribution of policy and programme evaluation to coordination may therefore be underestimated in this pilot phase.
Source: Authors' own elaboration, based on the policy mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

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Guiding documents on SME access to scale up finance mostly refer to the SME & entrepreneurship, innovation and finance policy domains (Table 2.8). National strategies are usually multi-annual plans that guide co-existing sets of policy initiatives in specific areas, and act as benchmarks in a country's institutional environment. Strategies that focus on SME & Entrepreneurship are generally oriented towards SME productivity or competitiveness, whether at national or international level, aiming to set out a favourable business environment for SMEs. Innovation-based strategies rely on a range of financial instruments to stimulate R&D&I in enterprises, while national plans towards the capital and finance market aim to increase the supply of finance for SME growth, and develop the financial literacy of SMEs. In this context, crowdfunding features among the key emerging issues that characterise the finance market policy domain.

The diversity in the way scale up finance issues are addressed within national strategies further highlights that policy coordination in the area is carried out in different ways from one country to another. In addition, some governments have several action plans in a single policy domain, as in the case of Estonia with both a "Strategic Activity Plan for Enterprise Estonia" and "Startup Estonia". Similarly, Norway combines an "SME Strategy" and the "National Entrepreneurship Plan". Other countries have dedicated national plans in several policy areas. The Czech Republic has built an "ecosystem of national strategies", including the "Strategy to Support SMEs (2021-27)", the "Innovation Strategy (2019-30)" and the "National Strategy for the Development of the Capital Market" that are all relevant for scale up finance (see Table 2.8).

Table 2.8. Some countries articulate the scale up finance policy agenda as part of broader national strategies

Strategic plans referring explicitly to SME access to scale up finance, selected examples in OECD countries

Main policy domain	Country	National strategy/ plan	In brief
SME & entrepreneurship	Czech Republic	Strategy to Support SMEs (2021-27)	Aims to increasing SME productivity and competitiveness. Key areas addressed in the strategy include access to finance, access to markets, skills, digitalisation and innovation.
	Estonia	Startup Estonia	Promotes the development of a start-up ecosystem and supports competitive scale ups by developing skills, improving funding diversity and addressing regulatory bottlenecks.
		Strategic Activity Plan of Enterprise Estonia	Aims to providing financial support to help enterprises enter foreign markets and strengthen their innovation capacity.
	Finland	Business Finland Strategy 2025	Addresses the needs of the Finnish economy, including helping domestic companies to be proactive about opportunities arising from important societal changes, such as financing green growth.
	Germany	The German SME Strategy	Supports SMEs in the areas of innovation and digitalisation, skills, access to finance and new market development locally and abroad.
	Greece	Growth Strategy for the Future	Aims to fostering the development of SME networks, helping companies grow, innovate and secure a larger share of international markets.
	Hungary	SME Strategy (2019-30)	Creates a favourable business environment for SMEs, enhancing innovation, providing appropriate financing facilities and supporting internationalisation.
	Ireland	SME and Entrepreneurship Growth Plan	Sets out a wide range of measures to help businesses start up, grow, strengthen their digital capabilities and increase their export activities.
Innovation	Czech Republic	Innovation Strategy (2019–30)	Introduces financial instruments to facilitate robotisation, automation and the promotion of innovation in enterprises, with a focus on SMEs in line with the standards set for Industry 4.0.
	Denmark	Digital Growth Strategy 2025	Contributes to the digital transformation, and the development of a pool of skilled professionals. The strategy consists of 6 pillars, one of which is dedicated to the digital enhancement of SMEs.
	France	France 2030 – Industrial Start-Ups and Deep Tech Strategy	Aims to (1) financing the industrialisation of innovative start-ups and SMEs, (2) strengthening support for the emergence of deep tech, and (3) creating a one-stop shop for industrial start-ups
	Israel	Plan for Encouragement of Institutional Investment in Hi-Tech	Provides a state guarantee for equity portfolios invested by institutional investors in high-tech companies with late-stage financing.
	Italy	4.0 Business National Plan	Improves the competitiveness of enterprises by supporting investments, digitalisation of industrial processes, development of new skills, products and processes.
Finance market	Canada	Venture Capital Action Plan	Increases the availability of finance for innovative firms, with the overall objective of helping high-potential SMEs to grow and innovate.
	Czech Republic	National Strategy for the Development of the Capital Market	Outlines 27 measures, including diversifying sources of finance for businesses, providing alternatives to bank financing and educating SMEs about market-based financing opportunities.
	Iceland	Fiscal Plan (2022-26)	Key priorities of the plan include increasing allocations to firm innovation, research and knowledge sectors
	Korea	Crowdfunding Development Plan	Aim to develop the crowdfunding market as an important growth path for unlisted start-ups and SMEs. Enables companies, investors and intermediaries to support innovative businesses.
	Mexico	National Financial Education Strategy	Promote the use of tech innovation in the financial sector to support financial education in the population; aim to generate data, information and measurements to improve financial education efforts.

Source: Authors' own elaboration, based on the institution mapping carried out as part of the EC/OECD SME Scale Up project and being part of the OECD Data Lake on SMEs and Entrepreneurship.

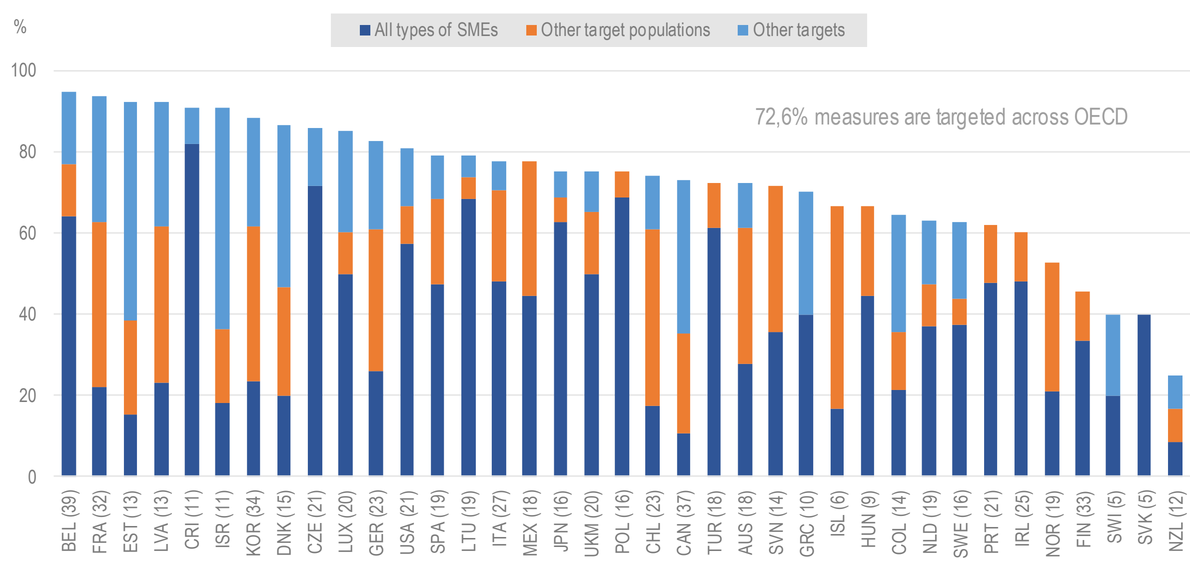
Scale up finance policy is in fact highly targeted…

Scale up finance policy is highly targeted and generic measures remain the exception more than the rule, which may explain the relative policy fragmentation described above. On average 72.6% of measures in place across OECD countries are targeted, in most cases, at SMEs without differentiation (38.6%), but also often at certain sub-populations of firms (18.8%) or certain sectors, technologies or places (15.2%) (Figure 2.12). It is however not possible to say if policy targeting is more frequent for one scaling up driver or another, as the situation varies significantly across countries.

The way scale up finance policies are designed is country-specific. In Costa Rica (81.8%), the Czech Republic (71.4%) or Poland (68.8%), a large majority of measures is provided for all types of SMEs (Figure 2.12). In Iceland (50%), Chile (43.5%) or France (40.6%), more is done for SMEs with age, size or performance criteria. In Israel (54.5%), Estonia (53.8%) or Denmark (40%), other target criteria prevail. In Israel, for instance, the Venture Capital Fund (Orbimed) and the Plan for Encouragement of Institutional Investment in High-Tech target the biotech industry and high-tech sectors, while the MOFET R&D programme promotes innovative products and processes, for increasing the competitiveness of businesses in the manufacturing industry.

Figure 2.12. Most scale up finance policies are targeted

Share of scale up finance policies that are targeted by broad type of targets



Note: Target populations include all SMEs, and subpopulations of SMEs with size or performance criteria, or individuals such as entrepreneurs and business owners. Other targets include sector(s) or supply chain(s), technology(ies) or region(s) and place(s).
Source: Authors' own elaboration, based on the institution mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

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Not all countries are giving the same focus to start-ups and high-growth firms in their policy mix. In France and Germany, over half of population-targeted initiatives are designed for SMEs with age criteria (see Figure 2.13). In France, a number of VC Funds aim to address the financing needs of start-ups at seed, early or mid-stage of development, with a strong technological component and often an industrial approach. Germany combines VC funds – as the "European Recovery Program-European Investment Fund (ERP-EIF) Facility", a joint initiative between the Federal Government and the European Investment Fund (Box 2.9) – and start-up loans. In addition, the KfW Corporate Loan has been established for companies that have been active on the market for more than 5 years. In Korea and Denmark, more initiatives use performance and growth potential criteria to allocate support. Korea stands as an exception in the OECD area, by combining more extensively both start-up and high-growth-firms programmes.

Box 2.9. The ERP-EIF Facility: A joint initiative of the German Federal Government and the European Investment Fund

The ERP-EIF Facility initiative was mandated in 2004 by the German Federal Ministry for Economic Affairs and Energy (BMWi) to provide venture and growth capital financing with a focus on early and later stage high-tech companies in Germany. The current volume of the Facility is up to EUR 4.6 billion and is financed by ERP Special Fund resources ("ERP Sondervermögen") which are managed and complemented by the European Investment Fund. It consists of the following sub-programmes:

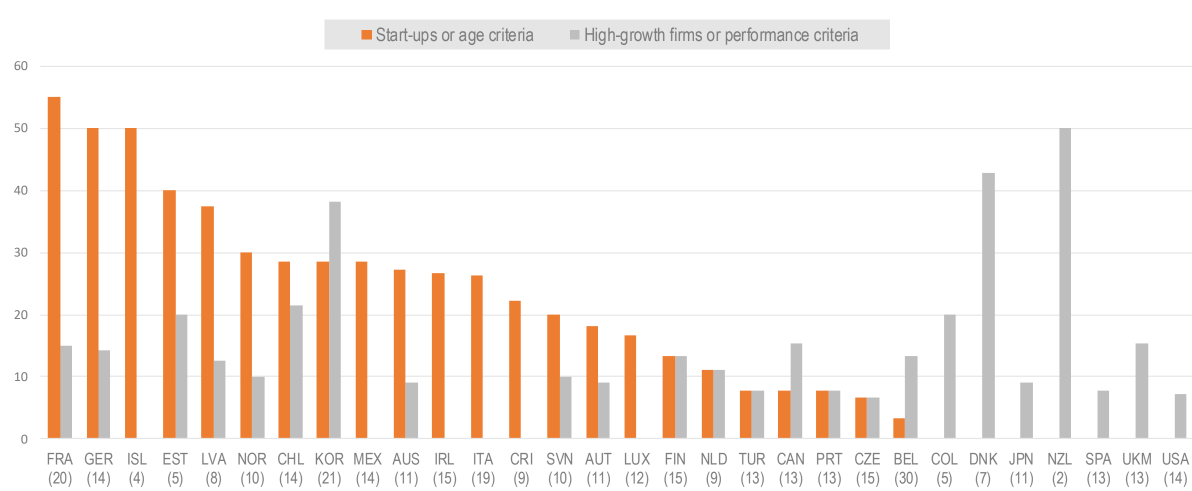
- The ERP-EIF VC Fund of Funds invests in VC funds (over 100 fund investments);
- The European Angels Fund Germany invests with experienced business angels in joint portfolios through more than 50 business angels and family offices;
- The ERP-EIF Growth Facility invests in VC-managed funds that provide expansion financing to high growth companies;
- The ERP co-investment in the German Future Fund-European Investment Fund Growth Facility expands the scope of the ERP-EIF Facility towards growth and later stages.

In total, intermediaries under the ERP-EIF Facility have invested in more than 2 000 SMEs in various technology areas, including ICT, life sciences as well as energy-related innovation.

Source: European Investment Fund (2022), The ERP-EIF Facility, https://www.eif.org/what_we_do/resources/erp/index.htm.

Figure 2.13. Some countries place a stronger focus on start-ups and high-growth firms, but not all

Share of population-targeted measures that are designed towards start-ups and high-growth firms



Note: SMEs with age criteria include young firms and start-ups but incumbents as well. SMEs with performance criteria include high-growth firms, scalers but also laggards.
Source: Authors' own elaboration, based on the institution mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

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… which can raise difficulties for potential scalers to navigate a broad and disperse range of public services

There is a risk that potential scalers may not be able to identify the most appropriate solutions for their needs, or even existing solutions, as public support schemes multiply, provided through a larger number of institutions, with a plethora of eligibility specificities. It is indeed widely acknowledged that smaller businesses tend to face disproportionate difficulties in navigating bureaucratic complexity and interacting with public administration, and therefore need to divert a relatively large share of resources to administrative functions (OECD, 2019[8]).

Digitalisation opens up opportunities to simplify administrative procedures and improve public service outreach, by reducing bureaucratic opacity and reducing transaction costs and delays in dealing and complying with administrative rules etc. (OECD, 2019[8]). The opportunities that e-government services open up for SMEs have become even more evident in the context of the COVID-19 crisis when public authorities aimed to reach out as quickly and to as many SMEs as possible (OECD, 2021[47]).

Dedicated platforms in particular are increasingly set up to help SMEs and entrepreneurs liaise with the public administration and cut red tape. Typically, digital “one-stop shops” serve as single entry points for accessing e-government services and reducing redundancy in public administration requests. The types of services offered through these platforms range from information provision and awareness raising, to assistance in procedures, to certification online, to simulation and diagnostic, etc.

In this sense, one-stop-shops can represent a mechanism for joined-up government services as they aim for user-centricity rather than government centricity (Askim, 2011[89]). In fact, as back-office and services are increasingly integrated, users may not even notice that different institutions deliver different services. In other words, one-stop-shops do not require users to understand how the government is structured or operated, to access the services it offers.

Incidentally, the most frequent service provided by OECD governments through their one-stop-shops remains easing access to finance, after assistance in value-added tax administration and business registration, as a recent OECD study shows (OECD, 2022 forthcoming[90]). Moreover, the same study stresses that more recent government-to-SME services have aimed to address SME difficulties in scaling up operations, through foreign trade assistance (e.g. import/ export assistance and e-customs), or assistance in dealing with legal requirements for product development (e.g. competition, product requirements, commercial and industrial norms, and environmentally-related permits), or in dealing with intellectual property rights (e.g. patents, trademarks, designs, etc.).

It appears therefore that governments’ one-stop-shops can serve to deliver dedicated services to scalers and operationalise scale up and growth policies and strategies. Canada has integrated its financing services in support of scalers and scaling up drivers into one single portal (Box 2.10).

Box 2.10. Canada – One-stop shop of integrated public services for scale up financing

Canada provides an integrated offer for supporting scale up financing through a one-stop-shop digital portal that is developed in cooperation with banks, financial institutions and the business community.

Start-Up Financing: https://www.bdc.ca/en/financing/starting-business-loan

The government collaborates with the Business Development Bank of Canada to provide funds of up to CAD 250 000 to assist Canadian businesses that have been in operation for at least 12 months to jumpstart their business ideas into reality. Extremely flexible and tailored financing solutions are offered for investment, e.g. purchasing assets or buying a franchise, and business development, e.g. investing in marketing, a website or advisory services. Funding can complement the company's line of credit or replenish working capital.

Small Business Loans: https://www.bdc.ca/en/financing/small-business-loan

The Small Business Loan scheme is designed to help successful SMEs access funds of up to CAD 100 000 at any time after 24 months of existence. Canadian businesses that generate revenues and have a good credit history are eligible. The loans cover a range of different financing needs, including investment in physical capital (e.g. commercial real estate, equipment purchase or hardware), human capital (e.g. hiring a consultant) or intangible assets (e.g. software), as well as innovation (e.g. for tech companies, technology financing) or business development (online selling through upgrade in websites, marketing campaigns).

Business Education: https://smallbusinessbc.ca/education

Small Business BC provides practical seminars and online education to develop business skills and strategy to run a successful business. Training packages include financial literacy, financial management, the financial impact of growing a business, early-stage financing, in addition to market research, privacy law, cybersecurity and IP-related threats etc.

Source: (OECD, 2022 forthcoming[90]).

Scale up finance policies are different depending on the scale up driver at play

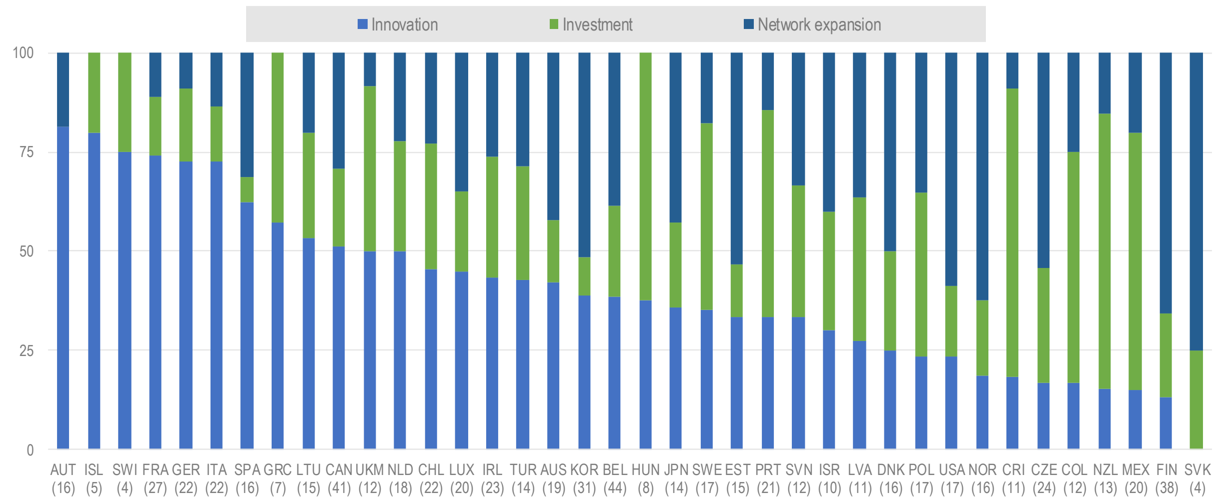
National policy mixes are not geared towards the same scaling up drivers

Innovation is the main scaling up driver for which governments have financing support schemes in place. On average, 39.9% of a country's initiatives aim to enable better SME access to finance for innovation purposes, compared to 30.3% for productive investment and 29.3% for network expansion. It should be noted that, in this pilot phase, not all aspects of network expansion have been covered, so the intensity of government's efforts for unleashing finance for networking is likely to be underestimated.

Yet, national policy mixes are not geared towards the same scale up drivers and average numbers hide a great heterogeneity across countries. Over 75% of the measures in Austria and Iceland and Switzerland, aim to improve innovation financing, compared to only 15% or less in New Zealand, Finland and Mexico. More than 60% of initiatives aim to enable the financing of productive investments in Costa Rica, Hungary, Mexico and New Zealand, but less than 10% do so in Korea and Spain. Finally, the same gaps stand for financing trading abroad and network expansion between Norway and Finland (over 60%), and Germany and the United Kingdom (less than 10%).

Figure 2.14. Scale up finance policy mixes are not geared towards the same drivers

Share of SME scale up finance policies, by scaling up drivers



Note: Shares are computed based on an unweighted count. “Innovation” includes R&D/disruptive innovation, Digital adoption and Business development. “Investment” includes investments in Skills, Physical capital and Intangible assets. “Network expansion” includes Domestic market/diversification, Direct trading (internationalisation), Cooperation/partnerships, and the use of digital platforms. The analysis of scale up through network expansion does not cover indirect engagement in international trade (e.g. through supply chains and other linkages between multinationals and domestic SMEs that are covered in the EC/OECD project on FDI-SME ecosystems (EC/OECD, 2022[5])), nor the use of digital platforms. For countries with few initiatives (observations), interpretation of indicators should be done with caution.
Source: Authors’ own elaboration, based on the policy mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

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Disruptive innovation, investment in physical capital and global expansion are first in the line of sight of governments

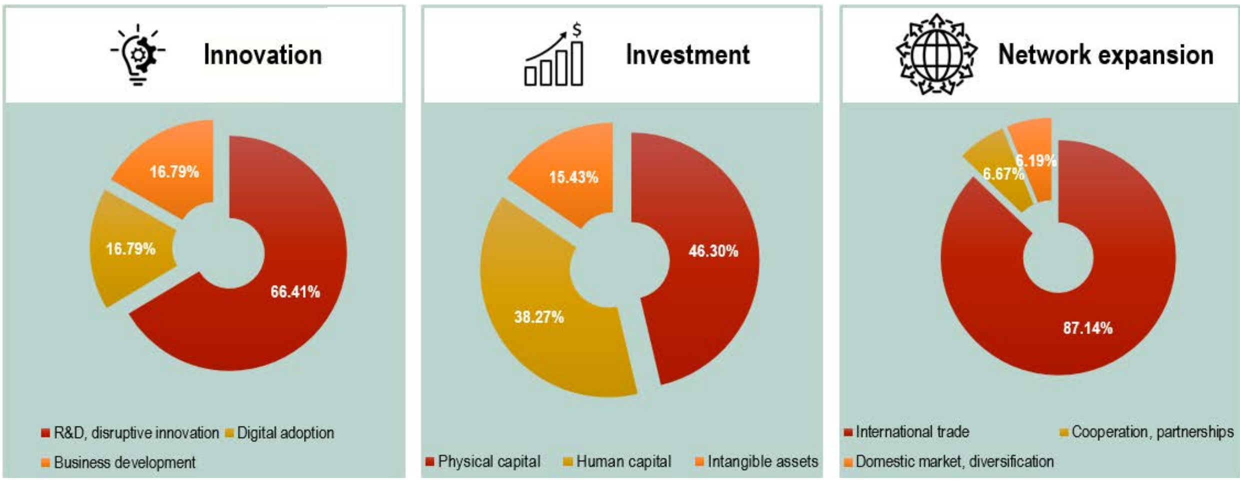
Most of innovation financing schemes support research and development (R&D) or disruptive innovation, which account for two-thirds (66.4%) of the OECD initiatives in this domain. Initiatives for digital adoption and business development are less common (see Figure 2.14).

Financing for investment essentially targets equipment and acquisitions of physical capital. 46.3% of OECD initiatives for investment funding, on average, promote the formation of physical capital (i.e. tangible man-made goods that help and support the production of goods and services) (Figure 2.15). Skills investments (i.e. knowledge, skills, experience and talents that influence the ability of a firm to produce) account for an additional 38.3%, and investment in intangible assets (e.g. goodwill, brand recognition or intellectual property, such as patents, trademarks, and copyrights) for the remaining 15.4%.

Due to the specificities of the present pilot, policies for financing network expansion are largely dominated by international trade support initiatives (87.1%) (Figure 2.15). This is because the analysis does not currently cover indirect engagement in international trade, such as supply chains and other linkages between multinationals and domestic SMEs that are explored in a parallel EC/OECD project on FDI-SME ecosystems (EC/OECD, 2022[5]), nor the use of digital platforms that will be covered as part of the follow-up of this pilot phase.

Figure 2.15. First in line of sight: disruptive innovation, investment in physical capital and global expansion

Share of policy initiatives addressing each scaling up driver, by sub-driver, OECD total



Note: Shares are computed based on an unweighted count. "Innovation" includes R&D/disruptive innovation, Digital adoption and Business development. "Investment" includes investments in Skills, Physical capital and Intangible assets. "Network expansion" includes Domestic market/diversification, Direct trading (internationalisation), Cooperation/partnerships, and the use of digital platforms. The analysis of scale up through network expansion does not cover indirect engagement in international trade (e.g. through supply chains and other linkages between multinationals and domestic SMEs that are covered in the EC/OECD project on FDI-SME ecosystems (EC/OECD, 2022[5])), nor the use of digital platforms. For countries with few initiatives (observations), interpretation of indicators should be done with caution.
Source: Authors' own elaboration, based on the policy mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

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Overall, these early findings seem to reflect a strong focus of scale up finance policies on technology-push mechanisms and capital-intensive forms of innovation. Policy attention has long been focused on the creation, dissemination and market application of scientific knowledge that was considered as a key driver of competitiveness and economic growth (Schumpeter, 1942[91]) (Nelson, 1959[92]); (OECD, 1963[93]) (Freeman, 1982[94]), (Freeman and Soete, 1997[95]) etc.). Evolutionary theories introduced the notion of feedback from the market (Nelson and Winter, 1982[96]) and the common understanding of innovation shifted away from a linear "technology-push" process to a "market pull" process, wherein knowledge interactions between institutions and actors within innovation systems were perceived as crucial for a broader diffusion ((Freeman, 1987[97]) (Lundvall, 1992[98]) (Nelson, 1993[99]).

The persistent orientation of scale up finance policies towards past objectives reveals a certain policy inertia that could arise from a lack of new evidence to support changes, especially regarding what scalers are, but also from a relative resistance in policy making. Sometimes some instruments, particularly the financial ones, dominate others for no other reason than they have been important in the past and have attracted around them vested interests that protect their position (Borras and Edquist, 2013[100]). In fact, policy arrangements reflect bargaining processes that take place in multi-actor arenas where policies are formulated and evaluated. Resistance to change could be particularly strong at earlier stages in the policy cycle because processes, there, are highly political and subject to bargaining (Rogge and Reichardt, 2016[101]).

At a time when the digital lag of SMEs is dragging down the future prospects of a sustainable growth (OECD, 2021[42]), skills shortages have emerged as the most pressing challenge for SMEs (ECB, 2021[102]). In addition, most of businesses' value today is made up of intangible assets, estimated at more than 70% of firms' value in the United States and United Kingdom, for example (Andrews and de Serres, 2012[103]).

Such developments suggest that more government efforts towards financing SME scaling up could have been expected on digital adoption, or skills or IA investments. The current balance in policy mixes across OECD countries would thus require further investigation to confirm a possible misalignment and identify the reasons for this misalignment.

Public measures for improving scale up finance often target SMEs directly, through various instruments

Public measures towards improving scale up finance are primarily targeted at SMEs, and to a lesser extent to the finance market or institutional actors. Policies intend to reduce the financing costs for SMEs first, with a mix of grants, subsidies, and tax incentives and loans, as well as improved credit conditions (e.g. interest rate caps or credit guarantees). This is a consistent feature of national policy mixes across the OECD area, for all scaling up drivers. Over half measures to finance innovation (52.43%) or network expansion (55.45%) are aimed at SMEs, with the remaining parts (47.57% and 44.55%, respectively) aiming to change the behaviour of actors in the scale up finance market. SMEs are even more central in the policy mixes for financing productive investments (72.11%) (see Figure 2.16). However, there are disparities between countries.

Grants and subsidies are the most frequent instruments for SME innovation financing, accounting for 52.8% of total OECD policy initiatives in the field (see Figure 2.17). In Austria, the "Small Scale Project" supports R&D in SMEs and start-ups, whether carried out as a single company project or in cooperation, with project costs funded by grants of up to 60% and up to EUR 150 000 maximum. In turn, the "Eurostars" policy in the Netherlands is a subsidy scheme for SMEs and entrepreneurs working with international partners in the field of high-tech R&D. Other instruments include public loans (27.2%) and tax incentives (20%).

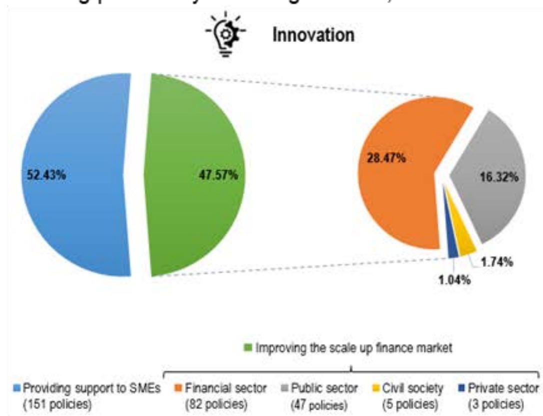
For financing scalers' investment, governments prefer direct support through public loans (62.7% of all measures compared to 30.1% for grants and 7.2% for tax relief). In Belgium, the "Co-Financing +" scheme allows the Flemish Participation Company – an investment company owned by the Flemish government – to grant subordinated loans to SMEs with a positive cash flow history to finance tangible, intangible and financial investments as well as working capital needs related to business expansion. The Slovene Enterprise Fund, a public financial fund owned by the Republic of Slovenia, also builds on the "P1 Plus 2021" initiative to ensure SME growth through new investments, upgrading of technological equipment and provision of working capital for development projects.

For financing network expansion, support is provided through a mix of public loans (57.4%) and grants-subsidies (41.6%), while the use of tax incentives remains marginal. The Polish International Development Fund, for instance, helps Polish SMEs to co-finance their investment projects abroad through public loans or the acquisition of minority interests with buyouts. In the Republic of Türkiye, the Small and Medium Enterprises Development Organization (KOSGEB) runs the International Market Support Programme which consists of a mix of grants and loans to support Turkish SMEs expansion in foreign markets.

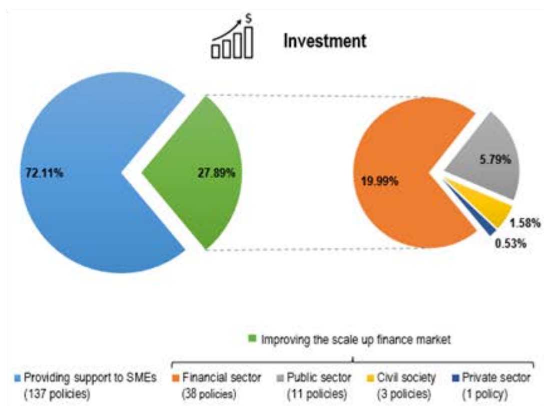
Governments combine these instruments across scale up drivers. In Chile for instance, the Production Development Corporation (CORFO) and Invest Chile provide the "Pro-Investment Guarantee" for covering the risk of long-term loans and the "R&D Tax Incentive" for reducing R&D costs.

Figure 2.16. Scale up finance support is targeted first and foremost to SMEs, and to a lesser extent to the finance market and institutional actors

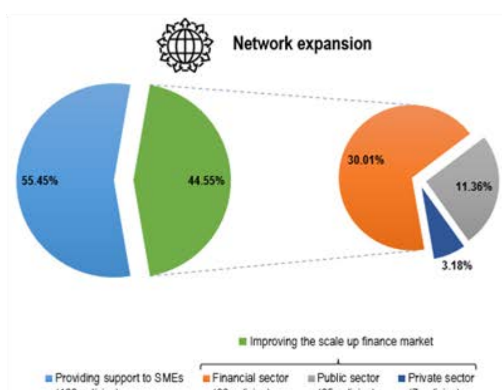
Panel a. Share of innovation financing policies by financing channel, OECD total



Panel b. Share of investment financing policies by financing channel, OECD total



Panel c. Share of network expansion financing policies by financing channel, OECD total



Note: Shares are computed based on an unweighted count. "Innovation" includes R&D/disruptive innovation, Digital adoption and Business development. "Investment" includes investments in Skills, Physical capital and Intangible assets. "Network expansion" includes Domestic market/diversification, Direct trading (internationalisation), Cooperation/partnerships, and the use of digital platforms. The analysis of network expansion does not cover indirect international trade (e.g. through supply chains and linkages between multinationals and domestic SMEs that are covered in the EC/OECD project on FDI-SME ecosystems (EC/OECD, 2022[5])), nor the use of digital platforms. For countries with few initiatives, interpretation should be done with caution. The "Financial sector" comprises Banks, Business angels, Investors and VC/PE firms. The "Public sector" includes Public/development banks; the "Private sector" includes businesses other than SMEs and start-ups.
Source: Authors' own elaboration, based on the policy mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

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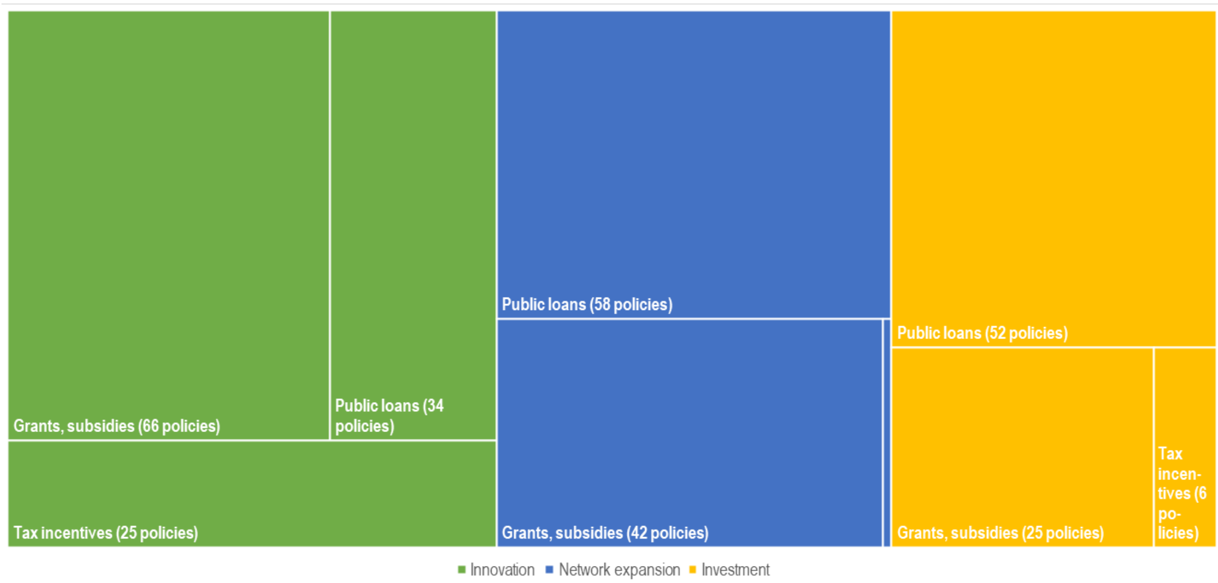
Figure 2.17. Policies directed at SMEs use mainly a mix of grants & subsidies and public loans

Total number of policy initiatives that support scalers financing, by policy instrument and scaling up driver, OECD total



Note: Information on the budget/ fiscal scope of individual measures have not been collected in a systematic manner in the pilot phase of this mapping exercise, which may distort the relative weight that specific policy instruments take in the overall policy mix. The "Innovation" driver includes funding solutions for R&D/ driver disruptive innovation, Digital adoption and Business development. The "Network expansion" driver includes funding solutions for Domestic market/diversification, Direct trading (internationalisation), and Cooperation/partnerships. The analysis of network expansion does not cover indirect engagement in international trade (e.g. through supply chains and linkages between multinationals and domestic SMEs that are covered in the EC/OECD project on FDI-SME ecosystems (EC/OECD, 2022[5])), nor the use of digital platforms The "Investment" driver includes funding solutions for investments in Skills, Physical capital and Intangible assets.
Source: Authors' own elaboration, based on the policy mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

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Most public initiatives aim to reduce the need for – or the cost of – external financing for SMEs, especially for innovation and investment (39.9% of all OECD initiatives, with respectively 137 and 109 policy measures for the two drivers, see Table 2.9). In addition, 14.8% of the measures attempt to enhance SME financial skills and strategic vision, often in relation with easing the financing of investment (55 policies). Mexico, New Zealand, and the United Kingdom are the countries with the highest percentage of measures dedicated to improving SME financial literacy (over 30%).

The finance market is an important intermediary for providing scale up finance, which could be further leveraged through government policies

If the finance market can play an important role as an intermediary where SMEs source scale up finance, it has a secondary place in governments' approaches. Policies tend to focus on the market for financing innovation and network expansion, but more on SMEs themselves for productive investment (see Table 2.9). Between only 19.8% (for investment) and 29.9% (for network expansion) of total OECD initiatives aim to address failures in the financial market. Over a third of OECD countries (36.8%) rely exclusively on the financial sector to support SME network expansion.

Table 2.9. Scale up finance policies mainly aim to reduce the need/cost of external financing for SMEs

Total number of policy initiatives across OECD countries, by scaling up driver and strategic objective

	Innovation	Investment	Network expansion	Share in total policies
Enhancing SME financial skills and strategic vision	20	55	30	**14.8%**
Reducing the need/cost of external financing for SMEs	137	109	37	**39.9%**
Adopting principles of risk-sharing for publicly supported SME finance instruments	96	37	87	**31.0%**
Broadening the diversification of SME financing channels/instruments	126	19	38	**25.8%**
Improving transparency in finance markets for SMEs	2	1	1	**0.01%**

Note: The analysis of network expansion does not cover indirect engagement in international trade (e.g. through supply chains and other linkages with multinationals that are covered in the EC/OECD project on FDI-SME ecosystems (EC/OECD, 2022[5])), nor the use of digital platforms. Some policies may target more than one scaling up driver and/or strategic objective, hence the total number of initiatives in the table (i.e. 795) is higher than the total mapping of this pilot (i.e. 709) and the sum of percentages in the last column is greater than 100%.
Source: Authors' own elaboration, based on the policy mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

In terms of strategic objectives, **fewer initiatives relate to risk-sharing** (31.0% of all measures), although those are comparatively more in use for financing network expansion. Related measures aim to develop appropriate risk-sharing and -mitigation mechanisms with private partners to encourage their participation. In this case, policies are designed to avoid moral hazard (i.e. excessive risk-taking against the public interest) and potential crowding-out effects. Multilateral development banks (MDBs), national development banks (NDBs) and other public funds are also key actors in this endeavour (OECD, 2015[71]).

While much policy attention has been given to broadening the diversification of SME financing sources in recent years (OECD, 2021[24])**, only a quarter of the scale up financing policies addresses this particular issue,** and more notably for financing innovation (with a total of 126 initiatives). Yet, certain countries are placing greater efforts on the diversification of the financing instruments for potential scalers. In France, Korea and Greece more than 70% – up to 87.5% in France – of all initiatives intend to broaden the range of scale up financing solutions, for an OECD average of 40.6%. In France, many policy instruments are coordinated by Bpi France and aim to give SMEs easier access to equity capital (Box 2.6). "Small Cap" is an equity or quasi-equity fund investing in SMEs and small intermediate-sized enterprises to help them grow and consolidate. "Large Venture" is a capital fund that focuses on fast-growing, capital-intensive and highly promising innovative companies with a view to financing their organic or external growth.

Efforts towards diversifying financing solutions for scalers can also take multiple forms: e.g. employee share schemes (to encourage employees of an SME to hold shares in the company), innovation funds (to improve the attractiveness of SMEs to venture capital, such as the Baltic Innovation Fund 2 which promotes the development of venture capital markets for innovative SMEs with high growth potential in Estonia, Latvia and Lithuania (Box 2.11), growth mezzanine initiatives (a mix of debt and equity financing for SMEs with sound business plans demonstrating their ambition to grow and ability to repay debt), or asset-based lending schemes (that use current assets to develop a method of lending that is not overly dependent on real estate collateral). In Korea, the "Forfaiting" initiative has been launched by the Export-Import Bank (Eximbank) as a trade finance facility to purchase from exporters letters of credit issued by (or export bills guaranteed by) foreign banks on behalf of buyers. It thus relieves the exporter of the risk of buyer default and lightens the liability side of its balance sheet.

Box 2.11. Baltic Innovation Fund 2: The “power of three” in North East Europe

Baltic Innovation Fund 2 is a EUR 156 million Fund-of-Funds launched in 2019 by the European Investment Fund (EIF) in co-operation with three Baltic national promotional institutions, namely KredEx (Estonia), Altum (Latvia) and Invega (Lithuania). The initiative supports investments in private equity and venture capital funds focused on the Baltic States over a 5-year period to boost equity investments in SMEs with high growth potential. Two types of investment opportunities are considered by the EIF acting as Fund manager:

- Investments in venture capital and private equity funds (including hybrid debt-equity funds) with proven experience and knowledge of the Baltic market ;
- Co-investments with investment funds, family offices, business angels or institutional investors in early stage or growth phase SMEs. The Fund co-invests with selected investors who are either domiciled in the Baltic States, connected to the Baltic ecosystem, or are considering investments in the Baltic States.

Source: European Investment Fund (2019), Baltic Innovation Fund 2 (BIF 2), http://www.eif.org/what_we_do/resources/BIF2/index.htm.

Initiatives to address information asymmetries and market opacity are rare, with only 0.01% of all policies tackling this issue. Such initiatives mainly include the development of infrastructure for credit risk assessment (e.g. credit bureaus, registries or data warehouses with loan-level granularity) that could reduce investors’ perceived risk and help them identify investment opportunities, and in turn reduce financing costs for SMEs (OECD, 2015[21]). While a multitude of initiatives (or agencies), may not be required to address issues in this area (typically, a single credit bureau with a comprehensive reporting mandate is recommended), the low prevalence of policies in this area suggests that far from all OECD countries have introduced measures to improve transparency in the debt market.

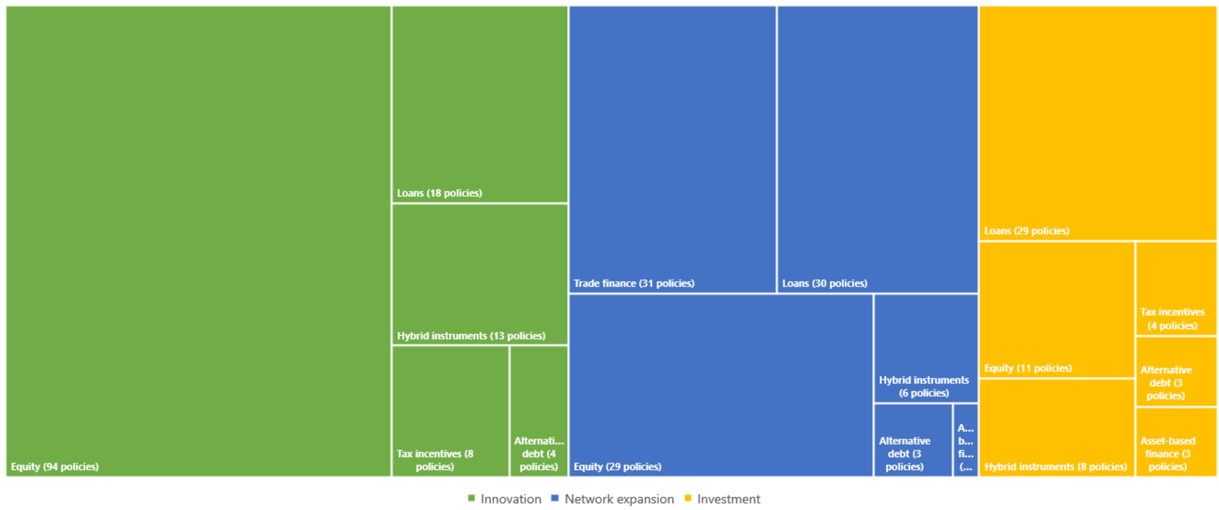
These early findings may suggest room for a greater role of the finance market in supplying scale up finance.

In practice, increasing the supply of scale up finance is not only about equity

Equity is key for financing SME scale up through innovation, both at national and European level, but plays a smaller role in the funding mix of network expansion and investment. OECD governments use a diverse set of policy instruments and combine them in different ways to improve the scale up finance supply and its accessibility for SMEs. 68.6% of total policy initiatives for improving the supply of innovation finance use equity (Figure 2.18). Other instruments include loans (13.1%), hybrid instruments (9.5%), tax incentives (5.8%) and alternative debt (2.9%). Some OECD countries (11/38) use however exclusively equity to stimulate the supply side.

Figure 2.18. Equity dominates the funding mix for SME innovation

Policy initiatives to increase the supply of scale up finance, by policy instrument and scaling up driver, OECD total



Note: Information on the budget/ fiscal scope of individual measures have not been collected in a systematic manner in the pilot phase of this mapping exercise, which may distort the relative weight that specific policy instruments take in the overall policy mix. The figure displays the total number of initiatives mapped in OECD countries that improve the scale up finance market, by policy instrument and by scaling up driver. The “Innovation” channel includes R&D/disruptive innovation, Digital adoption and Business development. The “Network expansion” channel includes Domestic market/diversification, Direct trading (internationalisation), and Cooperation/partnerships. The analysis of scale up through network expansion does not cover indirect engagement in international trade (e.g. through supply chains and other linkages between multinationals and domestic SMEs that are covered in the EC/OECD project on FDI-SME ecosystems (EC/OECD, 2022[5])), nor the use of digital platforms. The “Investment” channel groups Skills, Physical capital and Intangible assets.
Source: Authors’ own elaboration, based on the policy mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

StatLink https://stat.link/hgylki

Hybrid instruments dominate innovation finance supply in Italy, Austria, Estonia, Spain and Korea (accounting respectively for 33.3%, 22.2%, 20.0%, 20.0% and 18.2% of all measures in decreasing order). In Italy, the "Medium-Long Term Finance for Growth" are bond issues to support investment in R&D and innovation in new technologies and business growth, and "Basket Bonds" provide SMEs with medium and long-term financial resources to support their growth and innovation projects. These initiatives are managed by the *Cassa Depositi e Prestiti* (CDP). In addition, the "Technology Transfer Fund" that is coordinated by the Ministry of Economic Development is a programme for technology transfer and supports the entrepreneurial fabric for accelerating innovation processes.

Tax incentives have turned into important instruments to stimulate R&D and innovation expenditures (OECD, 2022[104])**, but they are more often designed towards SMEs as R&D and innovation performers**, rather than towards the finance market as investor potentially bearing the risks of innovation. Tax incentives account for only 5.9% of policies targeting finance market players, compared to 20.1% for initiatives towards SMEs. This is likely due to the fact that a more diverse set R&D or innovation tax breaks can be designed at firm level (e.g. targeting SMEs, specific technologies or sectors), whereas on the investor side possible tax measures are more limited.

Alternative debt is one of the least used instruments to stimulate supply for scale up finance. Across all countries, out of the 709 initiatives mapped, only ten have been identified as alternative debt solutions, four for innovation, three for network expansion and three for investment. Regarding innovation, examples include the "Win-Win Loan" initiative set up by the Flemish Participation Company in Belgium and the "Fond-ICO SME" managed by the Official Credit Institute in Spain. For the network expansion, the "Bond

Guarantee" managed by Denmark's Export Credit Agency is another example. As regards investment, the "Growth Loans for Entrepreneurs" from the Danish Growth Fund (Denmark) and the "Bond Financing" from Finnvera (Finland) should be highlighted.

To stimulate market finance for SME network expansion, OECD governments mix trade finance, loans and equity. Belgium, Canada, Finland and Korea use these three instruments with the following proportions: 20/40/20%, Canada 14/14/71%, 67/22/6% and Korea 29/35/29% respectively. However, results on network expansion should be interpreted with caution since part of the mapping is to be complemented in a next phase.

OECD countries' policy efforts to improve investment finance supply take essentially the form of loans, and equity and hybrid instruments. While Chile, Costa Rica, Czech Republic, Greece, Israel, Poland or the United Kingdom use exclusively loans for SME investment, Germany, Belgium and the Republic of Türkiye opt for a mix of loans, equity and hybrid instruments. Korea, Lithuania, New Zealand, Portugal and the Slovak Republic have the highest share of equity for SME investment across OECD countries, and Canada and Latvia the highest share of hybrid instruments.

Asset-based finance is mostly relevant for SME investment, but remain in low use among OECD countries, accounting for only 1% of initiatives for SME innovation and network expansion, and 5.2% for investment. Colombia, Italy and Latvia are the countries where policies in support of asset-based finance is the most widespread, in terms of number of initiatives in place. The "New Sabatini" policy, implemented by the Italian Ministry of Economic Development, the ALTUM and "Credit Guarantees" initiative in Latvia, and the National Guarantee Fund together with the "Colombia Export Guarantee" programme in Colombia are relevant examples.

Table 2.10 below provides examples and descriptions of policy initiatives designed to support SME access to scale up finance, differentiating examples by scaling up driver and whether they provide support to SMEs themselves or aim to act upon the finance market and institutional actors.

Table 2.10. Initiatives to support SME access to scale up finance through innovation, investment and network expansion

Policy examples across OECD countries by scaling up driver

	Innovation	Investment	Network expansion
Providing support to SMEs directly	R&D / Disruptive innovation **Innovation Aid for SMEs (LUX)** is a scheme designed to stimulate innovation and help SMEs finance their R&D-related costs, such as consultancy services or innovation advisory and support services.	Skills **Training Tax Credit 4.0 (ITA)** supports businesses in their technological and digital transformation process by creating or consolidating skills in the enabling technologies needed to achieve the 4.0 paradigm.	Domestic market / Diversification **SID Loan for SMEs & Midcaps III (SVN)** is a loan facility that aims to improve access to favorable long-term funding of SMEs and Midcaps in Slovenia, and to enhance the competitiveness of the local economy.
	Digital adoption **Pro-Innovative BEI Services for SMEs (POL)** finances services to support the implementation and development of technological process or product innovations in Polish SMEs.	Physical assets **The Corporate Vitality Enhancement Fund (JPN)** provides loans to SMEs seeking to modernise management and service providers, build new shops, expand or refurbish shops, introduce machinery and equipment, rationalise distribution systems and eliminate vacant shops.	Direct trading **International Trade (7(a) Loan Program) (USA)** is long-term financing for businesses that are expanding due to growing export sales, or that have been affected by imports and need to modernize to meet foreign competition.
	Business development **EasyUp Loan (BEL)** is aimed at any Walloon SME that is involved in an innovation process. It finances product, service, production process or marketing innovation with or without a technological component, including the improvement of an existing product, service or process.	Intangible assets **Patent Grant (ISL)** aims to support the preparation and submission of a priority patent application by SMEs, including in an international context.	Cooperation / Partnerships **Cooperation Support Programme (TUR)** is a set of financial support measures aimed at strengthening the culture of cooperation between SMEs, as cooperation gives them a mutual and competitive advantage.
Improving the finance market	R&D / Disruptive innovation **First Penguin Guarantee (KOR)** aims to address the lack of tangible collateral among innovative start-up companies that are 5-year-old or younger and are challenging new fields with creative ideas and skills.	Skills **Multipurpose Industrial Guarantee (COL)** supports all credits requested by micro, small and medium sized companies for projects aiming to increase their work capital and investment in skills.	Domestic market / Diversification **Private and Venture Capital Funds (EST)** provides venture capital through funds of funds to help Estonian start-ups and fast-growing companies expand into national markets and finance their growth.
	Digital adoption **Fond-ICO Next Tech (SPA)** promotes the development of innovative and high-impact digital projects in scale ups by supporting public financing instruments, attracting international funds and boosting the venture capital sector.	Physical assets **Mezzanine Loans (LVA)** cover investment expenses related to capacity expansion or a fundamental change in the overall production process, or the expansion of the capacity of an existing facility.	Direct trading **PyMEx Credit (MEX)** supports companies or individuals engaged in direct or indirect export or import business activities through financial intermediaries.
	Business development **FODEMIPYME (CRI)** strengthens the competitiveness of micro, small and medium-sized companies (especially in the social economy), through the effective provision of guarantees, financing of intangibles and business development services.	Intangible assets **Guarantee Programme (CZE)** enables SMEs to obtain a guarantee for a bank loan (investment and operational loans), using as a part of its funding resources former guarantees or repaid loans.	Cooperation / Partnerships **Women in Technology Venture Fund (CAN)** is a venture capital fund dedicated to investing in women-led technology companies and helping build a robust ecosystem to support women in tech today and in the future.

Building on the private sector	R&D / Disruptive innovation **Technology Transfer Fund (ITA)** aims to support and accelerate the processes of innovation, growth and sustainable recovery of the national productive system. It promotes links between innovative SMEs and the entrepreneurial fabric operating in the field of technological innovation.		Cooperation / Partnerships **One Single Hub (NLD)** is a government initiative that aims to strengthen the scale up ecosystem in the Netherlands, by encouraging cooperation between SMEs and other national companies.
Building on the public sector	R&D / Disruptive innovation **Grant for Research and Knowledge Creation (FIN)** is led by Business Finland – a government research funding agency – to support business R&D that generates new knowledge and skills.	Skills **Competence Center (NOR)** consists of online courses offered by Export Finance Norway, a government financial company, to enable SMEs to learn about export finance and take better advantage of the supply side in new and existing markets.	Domestic market / Diversification **FOGAPE (CHL)** is a state fund designed to guarantee a certain percentage of the capital of credits, leasing operations and other financing mechanisms that financial institutions grant to micro firms and SMEs that do not have sufficient guarantees to present.
	Digital adoption **Digitise Your Warehouse (CHL)** is a contribution from the National Technical Cooperation Service of the Ministry of Economy to support investments, technical assistance, training, marketing and digital technologies that enable new business opportunities for SMEs.	Physical assets **Enable Funding (UKM)** aims to improve the provision of asset finance and leasing to UK small businesses. It is managed by the British Business Bank, a state-owned economic development bank.	Direct trading **German Accelerator (GER)** helps the most promising start-ups break into international markets and expand their global activities. It is led by the Federal Ministry for Economic Affairs and Climate Action. Cooperation / Partnerships **200M Co-investment Fund (PRT)** is an initiative of the Development Bank of Portugal to promote entrepreneurial and innovative potential by investing in the best Portuguese start-ups through public-private co-investments, in partnership with more than 30 co-investors from around the world.
Building on civil society	R&D / Disruptive innovation **Kibo Venture CAMP (KOR)** seeks to help promising start-ups grow into Korean-style hidden champions and create quality jobs. Key supports include crowdfunding brokers.	Physical & intangibles assets **PEA-PME (FRA)** is an individual savings account for equity investments, designed to encourage share ownership by individuals by offering tax incentives on dividend income and capital gains. It targets specifically the SME sector.	Domestic market / Diversification **Employee Share Schemes (AUS)** provide an incentive for employees of small businesses to invest in the company as part of their remuneration. It helps start-ups to attract employees at a time when they are often cash poor.

Source: Authors' own elaboration, based on the policy mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

The public sector and the civil society play a more marginal role

Public intervention less often targets the public sector (5.8%) or civil society (1.6%) (see Figure 2.16) with regard to investment[6]. Canada, Denmark, Lithuania and the Slovak Republic are the only countries where public action mobilises the public sector exclusively for investment. These results certainly reflect the fact that peer lending and crowdfunding are not among the main sources of scale up finance. **France leads among OECD countries in terms of involving individuals and the civil society** (33.3% of all the country's initiatives). The "Madelin Tax Reductions" allow taxpayers who subscribe to the capital of an SME to benefit from an 18% reduction in their income tax. "Wealth Tax Reliefs" are offered to individuals as an alternative – mutually exclusive – to the "Madelin" scheme, and the "PEA-PME" initiatives ("Plan d'Epargne en Actions") are individual savings accounts that benefit from tax exemptions on dividend income and capital gains, specifically for investments in the SME sector. All these initiatives are coordinated by the Ministry of Economy and Finance.

For financing innovation, the public sector plays a key role, which reflects the non-excludable and non-rival nature of innovation. On average, 16.3% of innovation financing policies are delivered via public sector institutions such as public or development banks, which compares slightly higher than for network expansion (11.4%) or investment (5.8%). Colombia and Japan are countries that exclusively mobilise this type of actors to finance scalers innovation. Bancóldex, the Colombia's Business Development Bank, which provides financial and non-financial support to boost the competitiveness, productivity, growth and development of enterprises, both in the export and domestic markets – operate "Funds of Funds", i.e. an entrepreneurial capital fund that seeks to invest in high-impact, scalable and cross-sector companies in the commercial, industrial, tourism, service and creative industries. In Japan, Shoko Chukin Bank is a public financial institution engaged in facilitating the financing of cooperative SMEs, and it coordinates the "Private Placement Bon Trust" to raise long-term funds for SMEs by issuing guaranteed private placement bonds.

Conclusion

While many government efforts have focused on firms conducting disruptive innovation as a high-potential population to achieve exceptional growth, **recent evidence shows that the majority of scalers are neither knowledge-intensive firms nor high-tech companies or start-ups, but in fact mature firms operating in low-tech sectors** (OECD, 2021[1]). As a result, the range of policies that support the financing of scaling up may not sufficiently reflect the diverse financing needs faced by the heterogeneous population of scalers.

This chapter aims to better understand how governments are addressing the financing gap for scalers, and seeks to identify country approaches to supporting SMEs (by acting on the demand side) or the SME financing system (by strengthening the diversification of finance). It explores the financing strategy of scalers and the different forms that scale up finance can take, as well as key opportunities and barriers for SMEs in this context. Importantly, the most appropriate type of finance for scalers depends largely on the scale up driver a firm leverages (i.e., innovation, investment or network expansion) and includes a range of traditional and alternative financing instruments.

A mapping of relevant national policies and institutions to scale up finance allows identify **a total of 709 national policies and 210 institutions across the 38 OECD countries,** and explores the composition of national policy mixes in the field and institutional and governance arrangements that underpin their implementation.

In most OECD countries, only about half of institutions operating scale up finance initiatives deal explicitly with SME&E policy considerations. Most common domains of public intervention include instead innovation, trade or investment promotion policy, which is consistent with the methodology adopted. The heterogeneity in institutional set up, if it reflects country-specific governance arrangements, also suggests different country approaches to scale up policy, and possible overlaps across policy areas. In fact, not all national policy mixes are geared towards the same scaling up drivers. Disruptive innovation, investment in physical capital and global expansion are first in the line of sight of governments. The scale up finance policy landscape is characterised in some places by a high degree of decentralisation, most implementing institutions being autonomous government agencies, especially in European countries. In other countries, intervention takes place at the level of ministries/departments, particularly within ministries in charge of economic and foreign affairs or science, technology and innovation. But overall, joint programming of scale up finance policy initiatives remains rare across OECD countries.

The relative fragmentation of the scale up finance policy reflects governments' efforts to reach high potential firms first and above all. Action is indeed highly targeted and generic measures remain the exception rather than the rule. Public measures often target SMEs directly, most frequently in order to reduce the financing costs of scaling up activities, through a mix of grants and subsidies, tax incentives, and loans and improved credit conditions (e.g. through interest rate caps or credit guarantees). More than half of the measures to finance innovation or network expansion are aimed at SMEs directly, with the remaining parts intending to unlock financing solutions from the market. SMEs are even more central to national policy mixes for financing productive investments.

High targeting approaches however raise questions about support accessibility and policy efficiency. First, there is a risk that potential scalers may not be able to identify the most appropriate solutions for their financing needs, or even existing solutions, as public support schemes multiply, provided by a larger number of institutions, with a plethora of eligibility specificities. Second, the risk of governance failure is high without proper coordination mechanisms in place. Third, to ensure policy efficiency and impact of public spending, a sound evidence base on scalers is required. This is precisely a lack of certainty -— and evidence – on who are future scalers that motivated this work

Despite the important intermediary role it could play for SMEs seeking funding, the finance market has a secondary place in governments' approaches to scale up. Only a quarter of all policy initiatives mapped addresses the particular issue of diversifying SME financing sources for scaling up. These findings may suggest room for a greater role of the finance market in supplying scale up finance across the different scale up drivers, and enhanced attention to be given to broadening the diversification of scalers' finance solutions.

The scale up finance market mainly relies on equity to support SME innovation, but offers a wider range of instruments when it comes to support growth through other drivers. While equity is the most prevalent tool for financing scale up through innovation, it plays a smaller role in the funding mix of network expansion and investment. To stimulate market finance for SME network expansion, OECD governments combine trade finance, loans, and equity. In turn, policy efforts to improve investment finance supply take essentially the form of loans, equity and hybrid instruments.

As this work is still in the pilot stage, several improvements could be made to refine the existing results that would require additional research and information. First, the analysis of network expansion does not cover financing in support of **indirect engagement in international trade**, such as through supply chains and other linkages between multinationals and domestic SMEs, **nor the use of digital platforms**. The mapping is limited to tax incentives that clearly propose preferential conditions to SMEs, or identify SMEs as beneficiaries, to the exclusion of **generic schemes that could be nonetheless beneficial for SMEs**.

In addition, the work presents some methodological limits. The analysis is based on an unweighted count of initiatives that does not take into account the scope of national spending on initiatives (due to a lack of information or irrelevance, e.g. in case regulatory changes), nor the strategic importance of some policies as compared to others (e.g. a national strategy versus a business voucher). More policy information and data is therefore needed, e.g. on budgets earmarked to get a better perspective on the relative weight of government efforts across different areas, as well as on the effectiveness and efficiency of public intervention, notably through impact evaluation.

Finally, considerable heterogeneity in governance systems and funding mixes has been observed across OECD countries. This diversity calls for more **in-depth analysis of national contexts and better linking scalers' performance with the local specificities of policy mixes**, i.e. advancing on better linking the measurement and the policy pillars of this pilot project. The time lag between microdata on scalers and policy information on governments' measures (the former being anterior to the latter) will have to be addressed. In this context, the 2022 **update of the G20/OECD High-Level Principles on SME Financing could provide further guidance** regarding the inclusion of Fintech, sustainable finance for SMEs, and the strengthening of the resilience of SME finance in times of crisis.

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Notes

[1] The purpose of the OECD microdata work is to put internationally comparable evidence together. However complementary evidence may be available at country level. For example, in Colombia, regardless of the size with which a company is born, after 5 years, US companies are 24% larger than Colombian companies and this gap increases to 32% after 10 years, translating into greater difficulties among Colombian SMEs to innovate and increase productivity (Eslava, Haltiwanger and Pinzon G., 2018[105]).

[2] Current assets include cash, inventory and other assets.

[3] The CSMEE Programme of Work for 2021-22 and the work of the G20 Finance Track includes the development of an update to the Principles. It reflects recent developments in the landscape for SME finance, including the growing importance of Fintech; the role of sustainable finance to support the green transition of SMEs; the importance of strengthening the resilience of SME finance in times of crisis; and the need for more disaggregated data to design better and more tailored policies.

[4] Belgium tops the ranking for methodological reasons. Due to institutional specificities and a high number of subnational bodies, Belgium has a total 14 institutions and 39 policies mapped in this pilot.

[5] It should be noted that further research is needed to identify which policies and programmes have effectively been evaluated, as information is not always available in the implementing institution’s website or documentation. The contribution of policy and programme evaluation to coordination may therefore be underestimated in this pilot phase

[6] These figures should be taken with caution given the comparatively smaller number of policies mapped for this scaling up driver.

Annex 2.A. Standard instruments to promote conditions for scaling up in SMEs

Annex Table 2.A.1. Standard instruments to promote SME access to scale up finance, by scaling up driver and institutional actor

		Innovation			Investment			Network expansion		
		R&D; disruptive innovation	**Digital adoption**	**Business development**	**Skills**	**Physical capital**	**Intangible assets**	**Domestic market; diversification**	**Direct trading**	**Cooperation; partnerships**
Providing support to SMEs directly		Research tax credit; start-up law	Innovation vouchers; tax credit	Innovation tax credit; innovation vouchers	Business opportunity networks	Tax benefits; law on pledge over movable assets; legislation on collaterals		SME strategic plans	Business meetings	Cooperation programmes; community-oriented platforms
Improving the finance market	**Banks**	Regulatory sandboxes	Loan guarantees; risk sharing mechanisms; interest rate			Credits; loan guarantees; risk sharing mechanisms; zero interest rates		Government-backed guarantees; regulation on credit reporting	Export guarantees	
	Business angels	(B2B) Tech start-ups investments			Angel funds			VC regulatory framework; co-investments		Founders and investors networks; business angels matching service
	VC firms; PE firms	Funds of funds; technology funds; VC support programmes						Consolidation funds; funds of funds; VC support programmes; tax relief schemes; VC regulatory framework; legislation		
	Other	Regulatory sandboxes	Risk sharing mechanisms; FinTech	Guarantee processing platforms				Direct investments; government-backed guarantees; business promotion		

			legislation					services; securitisation funds		
Building on the private sector		Tax incentives						Entrepreneurship plans	Trade credit insurance; trade finance	Public-private (equity) co-investments; cooperation programmes
Building on the public sector	**Public banks; development banks**	Grants; (public) VC funds	(Public) VC funds; public loans	(Public) VC funds; public loans	Online courses; online guides/mentoring	Funds to improve provisions of asset finance and leasing; public loans		Private equity (or quasi-equity) funds; auctions; guarantee certificates	VC funds; (risk) guarantees; export credit; pre-export financing; mezzanine finance; trade finance	Public-private (equity) co-investments
	Other public administrations	Grants; (zero-interest) loans; bond issues; asset-backed securities; equity/mezzanine financing; consulting services on innovation financing	Grants; subsidies; business national plan		Grants; (online) training programmes; online guides; database on subsidies for SMEs	Lines of credit; leasing		Partially refundable aids; zero-interest loans; ABS; guarantees; grants; hybrid funding; silent participations; equity investments	Loans for development; support programmes; grants; ABS; trade credit; VC funds; export credit insurance; training programmes; minority holdings; trade subsidies	Grants; subsidies
Building on civil society		Crowdfunding; tax incentives		Tax credit	Tax incentives			Regulation; employee share schemes; tax credit		

Note: The upper part of the table (1) displays standard policy instruments to promote the conditions for scale up in SMEs, by scaling up drivers. The lower part of the table (2) displays standard scale up finance instruments to improve the functioning of the finance market, by institutional actors and scaling up drivers. The analysis of scale up through network expansion does not cover indirect engagement in international trade (e.g. through supply chains and other linkages between multinationals and domestic SMEs that are covered in the EC/OECD project on FDI-SME ecosystems (EC/OECD, 2022[5])), nor the use of digital platforms.
Source: Authors' own elaboration, based on the policy mapping carried out as part of the OECD/EC SME Scale Up project and forming a building block of the OECD Data Lake on SMEs and Entrepreneurship.

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