Financing SMEs and Entrepreneurs 2014

AN OECD SCOREBOARD

OECD

Financing SMEs and Entrepreneurs 2014

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OECD
BETTER POLICIES FOR BETTER LIVES

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Foreword

Small and medium-sized enterprises (SMEs) and entrepreneurs are critical to ensuring economic growth is sustainable and inclusive. However, start-ups and small firms continue to face significant obstacles to fulfilling their potential to innovate, grow and create jobs, particularly when it comes to obtaining access to finance.

With its 13 core indicators of debt, equity and general market conditions, complemented by a review of government policy measures, Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard documents these financing difficulties and monitors trends in 31 countries, along with government policy responses to deal with these challenges.

The data show an uncertain or weak recovery in SMEs' and entrepreneurs' access to finance in many countries since the Great Recession. In some cases, the situation further deteriorated or reversed in 2011-12, including in emerging economies that had experienced substantial business credit growth in 2010-11. The stock of existing SME loans decreased in 2012 in about one third of the countries covered, and problems were particularly acute in those experiencing severe economic difficulties and a sovereign debt crisis, such as Greece, Ireland and Portugal. Loan stocks also continued to decline in Italy, the United Kingdom and the United States, although the pace of the decline slowed toward the end of 2012.

According to the study, financing conditions for SMEs also remain a pressing concern. Although interest rates generally decreased, the interest rate spread between SMEs and large firms increased in most countries. SME non-performing loans, as well as bankruptcies, continued to increase over the period. To counter this phenomenon, temporary government policy measures were extended in all but one of the Scoreboard countries. The provision of credit guarantees continues to be the most widely used policy instrument. Public financial institutions have an important role in fostering co-participation of the private sector in the lending markets through managing guarantees and in encouraging new public-private collaboration in equity instruments.

The thematic chapter of this Third Edition of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard examines the limitations of debt financing and presents a range of non-bank financing instruments available to SMEs and entrepreneurs. It spotlights the technique of mezzanine finance, an instrument with both debt and equity characteristics, with the potential to decrease SMEs' dependence on the banking sector and helping entrepreneurs expand their businesses. The report also makes significant improvements over the previous edition, both in country coverage and data harmonisation.

By improving data collection on SME finance, this Scoreboard is a step forward in increasing our knowledge about the problems that SMEs and entrepreneurs encounter in real life, and helps governments and financial institutions design appropriate responses. Better finance can make all the difference in achieving a vibrant and dynamic business sector, for the benefit not only of entrepreneurs, but society more broadly.

Angel Gurría,
OECD Secretary-General

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Acronyms and abbreviations

AECM	European Association of Mutual Guarantee Societies
B2B	Business-to-Business
B2C	Business-to-Customer
BIS	Bank for International Settlements
BLS	Bank Lending Survey
C&I	Commercial and Industrial
CAD	Canadian dollar
CGS	Credit Guarantee Scheme
CHF	Swiss franc
CLP	Chilean peso
COP	Colombian peso
CZK	Czech koruna
DKK	Danish krone
EBIT	Earnings before interest and tax
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EU	European Union (EU27)
EUR	Euro
EVCA	European Venture Capital Association
FDI	Foreign direct investment
G8	Group of 8
G20	Group of 20
GBP	British pound
GDP	Gross domestic product
GPFI	Global Partnership for Financial Inclusion
HUF	Hungarian forint
IFC	International Finance Corporation
IMF	International Monetary Fund
IPO	Initial public offering
IRB	Internal ratings-based method
KRW	Korean won
LTRO	Long-term refinancing operation
MEX	Mexican peso
MFI	Monetary financial institution
NIS	Israeli new shekel
NOK	Norwegian krone
NPL	Non-performing loan
NZD	New Zealand dollar

PE	Private Equity
RSD	Serbian dinar
RUB	New Russian ruble
SEK	Swedish krona
SME	Small and medium-sized enterprise
SKK	Slovak koruna
THB	Thai baht
TRY	Turkish lira
UEAPME	European Association of Craft, Small and Medium-sized Enterprises
UF	Unidad de Fomento
USD	United States dollar
VAT	Value-added tax
VC	Venture capital
WPSMEE	Working Party on SMEs and Entrepreneurship

ISO Country Abbreviations

AUT	Austria	**ITA**	Italy
BEL	Belgium	**KOR**	Korea
CAN	Canada	**MEX**	Mexico
CHE	Switzerland	**NLD**	Netherlands
CHL	Chile	**NZL**	New Zealand
COL	Colombia	**NOR**	Norway
CZE	Czech Republic	**PRT**	Portugal
DNK	Denmark	**RUS**	Russian Federation
ESP	Spain	**SRB**	Serbia
FIN	Finland	**SVK**	Slovak Republic
FRA	France	**SLO**	Slovenia
GBR	United Kingdom	**SWE**	Sweden
GRC	Greece	**THA**	Thailand
HUN	Hungary	**TUR**	Turkey
IRE	Ireland	**USA**	United States of America
ISR	Israel		

Executive summary

Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard monitors SMEs' and entrepreneurs' access to finance in 31 countries over the period 2007-12, based on data from central banks and national statistical agencies. The Scoreboard includes core indicators of debt, equity and framework conditions for SME and entrepreneurship finance, along with information on public and private initiatives to support SME finance. Taken together, the set of indicators form a comprehensive framework for policy makers and other stakeholders to evaluate the financing needs of SMEs and determine whether they are being met. The Scoreboard also constitutes a valuable tool to support the design and evaluation of policy measures, and to monitor the implications of financial reforms on access to finance and financing conditions for SMEs.

In the current edition, detailed profiles are presented for Austria, Belgium, Canada, Chile, Colombia, the Czech Republic, Denmark, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Korea, Mexico, the Netherlands, New Zealand, Norway, Portugal, the Russian Federation, Serbia, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States.

The key findings of this Scoreboard are:

SMEs continued to face the dual challenges of an uneven recovery and bank deleveraging in 2012. The challenging macroeconomic environment, characterised by subdued growth and demand, translated into declining profits for SMEs and reduced availability of internal funding. At the same time, the financial sector continued the deleveraging process started in the aftermath of the crisis, with banks endeavouring to meet Basel III capital and leverage ratio requirements through a combination of asset reduction and capital raising. In some countries, the sovereign debt crisis increased the deficiencies in capital adequacy. This squeezed credit availability for the entire banking system, but impacted SMEs more than large firms. SMEs and entrepreneurs continued to face greater vulnerability to credit market conditions due to their heavy reliance on bank credit.

Despite monetary easing, credit availability was a constraint for SMEs in 2012. A significant degree of uncertainty characterised the financial environment in 2012, with non-negligible swings across quarters, and some improvements in late 2012 and early 2013. Monetary easing continued in 2012, as a response to the financial and economic crisis and financial market turbulence. However, in most countries, this did not result in an increased flow of credit from financial institutions to the private sector, especially SMEs. On the contrary, following a weak recovery in 2010-11, in 2012 the stock of outstanding loans decreased in some countries and expanded at a slower pace in others, including emerging economies that had experienced substantial business credit growth in 2010-11.

Furthermore, the perception of loan availability, which is often more important to SMEs than its cost, deteriorated in the second half of 2012.

Credit conditions remained tighter for SMEs in relation to large firms. In 2012, while 18 out of 31 countries experienced declining nominal interest rates, interest rate spreads between small and large enterprises increased in most cases. Moreover, in most Scoreboard countries, collateral requirements also increased during 2012. This reflected heightened risk aversion on the part of banks.

Payment delays and bankruptcies continued to increase in 2012 for most countries in the Scoreboard. This was attributable to cash flow constraints and insufficient availability of funds in companies; liquidity constraints among clients; and firms entering bankruptcy or going out of business. Significant increases in failing companies were observed in the countries hit by the sovereign debt crisis.

Alternative sources of finance for SMEs and entrepreneurs were limited and volatile, albeit with some recovery in levels of equity finance. Equity financing was severely affected by the financial crisis, in particular seed and early stage investment. In 2012, however, equity funding had recovered to its pre-crisis level in a significant number of countries, in part as a result of targeted policy measures. Nevertheless, bank lending continues to be the most common source of external finance for many SMEs and entrepreneurs, including innovative and high-growth enterprises. This report's thematic chapter focuses on non-debt financing instruments, in particular "mezzanine finance", which combines debt and equity features. It is especially relevant at the present juncture, since it enables companies to improve their capital structure, lessen their vulnerability in times of stress and decrease their dependence on the banking sector, helping them to move into the next phase of expansion. However, many SMEs are not well-suited for this form of finance, and most firms using mezzanine finance will continue to need traditional debt and equity finance.

Most governments extended SME finance support measures and adopted new instruments. The use of government guarantees to secure bank lending to SMEs continued to be the most widespread measure. Furthermore, new elements were added to some of these programmes, such as reduced red tape and more rapid provision (e.g. "express guarantees"), and new instruments were created outside traditional guarantee programmes. Other public instruments to enhance SME and entrepreneurship finance included direct loans; micro loans; export guarantees; and support for risk capital (equity), either in the form of co-financing, tax credits for investors or the promotion of crowd funding, and mezzanine finance.

In 2013-14, financing conditions are expected to remain challenging for SMEs and entrepreneurs in most countries. Globally, weak demand, the ongoing deleveraging by banks and the deterioration in asset quality may further constrain credit for SMEs, despite the recovery which is underway. On the other hand, a number of policies targeting SMEs could potentially boost SME lending and make it more viable. It will therefore be critical to continue monitoring the indicators contained in this Scoreboard, as well as policies and their effect on SME lending.

Improvements in data collection are needed to facilitate inter-temporal and cross-country analysis of trends in SME and entrepreneurship finance. Better data can improve the understanding of business financing needs and provide a sound basis for informed policy discussion. To enable more timely collection of data and better cross-country comparison in the future, it is necessary for countries to make progress in the harmonisation of data content and in the standardisation of methods of data collection. The recommended advancements include: the distinction between employer and non-employer firms; the reporting of both stocks and flows for loan variables; more information on loan composition; harmonisation of venture capital definitions in terms of stage of development.

The long-term objectives of timeliness, comparability, transparency and harmonisation of data should continue to be pursued actively, in particular by requiring financial institutions to report on a timely basis to their regulatory authorities on SME loans, interest rates, collateral requirements and SME loans receiving government support and adopting the national definition of an SME based on firm size. International, regional and national authorities as well as business associations should work together to undertake and harmonise quantitative demand-side surveys, to complement the supply-side information currently available.

Reader's Guide: Indicators and methodology

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

This third edition of the Scoreboard on SME and entrepreneurship finance contains profiles for 31 countries: Austria, Belgium, Canada, Chile, Colombia, the Czech Republic, Denmark, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Korea, Mexico, the Netherlands, New Zealand, Norway, Portugal, the Russian Federation, Serbia, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States.

Indicators

SME and entrepreneurship financing trends are monitored through 13 core indicators, listed in Table 1, selected on the criteria of usefulness, availability, feasibility and timeliness (see Annex A for detailed description). The core indicators address specific questions related to SMEs' access to finance. When considered as a set, they provide a consistent snapshot of a country's market for business finance and its changes over time. In detail, the core indicators describe and monitor the following key dimensions:

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

Table 1. **Core indicators in financing SMEs and entrepreneurs 2014**

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

Data collection

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

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

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

The data in the present edition cover the period 2007 to 2012, where 2007 serves as the benchmark year from which trends over the entire period are measured. The pre-crisis benchmark is used to assess trends over the crisis (2008-09) and the recovery (2010-12). Specific attention is placed on changes which occurred in SME financing conditions in 2011-12.

Government policy measures

The Scoreboard is not only a collection of data. It also provides key information on policy trends at the country and international level, and contains a thematic chapter, with analysis of the evolving international framework and policy priorities in the area of SME and entrepreneurship finance. This edition focuses on financing instruments alternative to traditional bank debt for SMEs and entrepreneurs, presenting the case of mezzanine finance. Mezzanine finance is a generic term for financing techniques that incorporate both elements of debt and equity. It generally combines several financing instruments of varying degrees of risk and return, such as subordinated debt, profit participation certificates and equity warrants and represents a claim on a company's assets which is senior only to that of common shares. The potential and challenges of this hybrid mechanism for addressing diverse financing needs are outlined, and recent government support measures in Scoreboard countries are highlighted.

Each country profile includes a section on government policy measures, which intends to monitor recent developments in policies to support the financing of SMEs and entrepreneurs. In most countries, anti-crisis measures were enacted by governments in 2008-09, and the 2014 edition of the Scoreboard looks at whether these policies and programmes were continued, phased out or altered in 2011-12. A number of new policy initiatives are also covered.

Cross-country comparability

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

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

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

Recommendations for data improvements

To enable more timely collection of data and better cross-country comparison in the future, it is necessary for countries to advance in the harmonisation of data content and in the standardisation of methods of data collection. The adoption of a standardised table for SME finance data collection (Annex B) has contributed to improve the process of data collection for the Scoreboard and should be further pursued, as country coverage increases. The adoption of a standardised format for reporting government policy programmes' parameters and changes (Annex C) is also recommended to improve time consistency in reporting and update/follow-up of policy measures implemented by countries. The use of both standardised formats will allow for better inter-temporal analysis, as well as for a greater level of detail in reported information.

A number of recommendations to improve data collection and reporting of core indicators are outlined in Box 1 (see Annex A for a more detailed discussion). These are deemed necessary for countries to progress in the harmonisation of definitions and facilitate inter-temporal and cross-country analysis of trends in SME and entrepreneurship finance.

Box 1. **Recommendations for improving the reporting of core indicators**

- Improve reporting of SME loan variables:
  - separate reporting of financial information for non-employer and employer-firms;
  - provision of both stock and flow data for SME loans;
  - detailing of the loans composition, with indication of the different underlying products (e.g. overdrafts / lines of credit / leases / business mortgages or credit cards / securitised loans) and disclosure of such elements in the loan definition.
- Provide comprehensive information about government guarantees at a central government level and corresponding guaranteed loans amount, as well as about the portion of the debt that is guaranteed.
- Provide data on non-performing loans for SMEs and for large firms, the latter to be used as a benchmark.
- Collect information on SME loan fees, in addition to interest applied on the loans.
- Detail the definition of collateral and improve reporting, using demand-side surveys to compensate for lack of supply-side data.

The long-term objectives of timeliness, comparability, transparency and harmonisation of data should continue to be pursued actively by national authorities. To that end, national authorities should work with financial institutions to improve the collection of data on SME and entrepreneurship finance, by:

- Requiring financial institutions to use the national definition for an SME based on firm size.
- Requiring financial institutions to report on a timely basis to their regulatory authorities SME loans, interest rates, collateral requirements, by firm size and broken down into the appropriate size subcategories, as well as those SME loans which have government support.
- Encouraging international, regional and national authorities as well as business associations to work together to harmonise quantitative demand-side surveys in terms of survey population, questions asked and timeframes; encourage the competent organisations to undertake yearly surveys.
- Promoting the harmonisation of the definition of venture capital in terms of stages of development.

PART I

The evolving international framework for SME and entrepreneurship finance

Chapter 1

Recent trends in SME and entrepreneurship finance

This chapter analyses trends in SME and entrepreneurship finance over 2007-12, based on data collected for the country scoreboards and information from demand-side surveys. A short overview of the global business environment sets the framework for the analysis of SME and entrepreneurship financing trends and conditions, focusing in particular on the changes which occurred in participating countries between 2011 and 2012. These recent developments are compared with trends over the crisis and early recovery stages. The pre-crisis year 2007 serves as a benchmark. The chapter concludes with an overview of government policy responses already taken to improve the access of SMEs and entrepreneurs to finance in light of recent developments.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

This chapter illustrates the emerging trends in SMEs' and entrepreneurs' access to finance for 31 countries over 2007-12, within the context of the larger global macroeconomic developments. This period comprises the most severe global financial and economic crisis in decades (2008-09) and a recovery trend (2010-11), which gradually lost momentum in almost all of the Scoreboard countries in 2012. 2007 serves as the benchmark year from which trends over the entire period are measured. The chapter focuses in particular on the changes which occurred in SME financing during 2011-12.

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

Consistent time series for country data permit an analysis of national trends in the participating countries. It is by comparing trends that insights are drawn from the varying conditions in SME financing across countries. The analysis on changes in variables, rather than on absolute levels, helps overcome the main limitations to cross-country comparability of the core indicators, due to differences in definitions and reporting practices. With regard to the comparison of indicators across countries, caution should be exercised because some country data is in the form of flow data (i.e., new loans), while other data is based on stocks (i.e., outstanding loans).

Business environment and the macroeconomic context

Following the most severe financial and economic crisis in decades, which contracted GDP across the OECD area in 2008-09, and an uneven recovery and increasingly divergent growth patterns in 2010-11, growth prospects deteriorated in most countries over the course of 2012. In the United States the growth performance improved, although at a lower rate than expected earlier in the year. In the EU13, the recovery pattern remained uneven, with some economies experiencing a slowdown and, in some cases, a double-dip recession. The pace of growth also decelerated significantly in emerging economies, partly reflecting the impact of the recession in Europe (OECD, 2012a).

As Table 1.1. illustrates, over 2010-12, the recovery lost considerable momentum in all but two of the Scoreboard countries. Twelve countries experienced zero or negative growth in 2012, while the rest experienced lower growth. The exceptions were New Zealand and Norway, where growth in 2012 exceeded that in 2010, a recovery year in those countries.

Inflationary pressures continued to be low and declining in 2012. The OECD countries experienced an average inflation of 2.3% in 2012 compared to 2.9% in 2011. In the United States, the rate was 2.1% in 2012, versus 3.1% in 2011; in the United Kingdom 2.8% in 2012 against 4.5% in 2011; and in the euro area, 2.8% compared to 3.2% (OECD, 2013a).

Table 1.1. **Real GDP growth in Scoreboard countries**

(%) 2007-12 and 2013-14 forecast

Country	2007	2008	2009	2010	2011	2012	*2013*	*2014*
Austria	3.7	1.1	-3.5	2.2	2.7	0.8	*0.5*	*1.7*
Belgium	2.9	1.0	-2.8	2.4	1.9	-0.3	*0.0*	*1.1*
Canada	2.1	1.1	-2.8	3.2	2.6	1.8	*1.4*	*2.3*
Chile	5.1	3.1	-0.9	5.8	5.9	5.5	*4.9*	*5.3*
Colombia*	6.9	3.5	1.7	4.0	6.6	4.0	..	..
Czech Republic	5.7	2.9	-4.4	2.3	1.8	-1.2	*-1.0*	*1.3*
Denmark	1.6	-0.8	-5.7	1.6	1.1	-0.5	*0.4*	*1.7*
Finland	5.3	0.3	-8.5	3.3	2.8	-0.2	*0.0*	*1.7*
France	2.2	-0.2	-3.1	1.6	1.7	0.0	*-0.3*	*0.8*
Greece	3.5	-0.2	-3.1	-4.9	-7.1	-6.4	*-4.8*	*-1.2*
Hungary	0.1	0.7	-6.7	1.3	1.6	-1.8	*0.5*	*1.3*
Ireland	5.4	-2.1	-5.5	-0.8	1.4	0.9	*1.0*	*1.9*
Israel	5.9	4.1	1.1	5.0	4.6	3.2	*3.9*	*3.4*
Italy	1.5	-1.2	-5.5	1.7	0.5	-2.4	*-1.8*	*0.4*
Korea	5.1	2.3	0.3	6.3	3.7	2.0	*2.6*	*4.0*
Mexico	3.2	1.2	-6.0	5.3	3.9	3.9	*3.4*	*3.7*
Netherlands	3.9	1.8	-3.7	1.6	1.1	-1.0	*-0.9*	*0.7*
New Zealand	3.3	-0.6	0.3	0.9	1.3	3.0	*2.6*	*3.1*
Norway	2.7	0.1	-1.6	0.5	1.2	3.2	*1.3*	*3.0*
Portugal	2.4	0.0	-2.9	1.9	-1.6	-3.2	*-2.7*	*0.2*
Russian Federation	8.5	5.2	-7.8	4.5	4.3	3.4	*2.3*	*3.6*
Serbia*	..	3.8	-3.5	1	1.6	-1.7	..	..
Slovak Republic	10.5	5.8	-4.9	4.4	3.2	2.0	*0.8*	*2.0*
Slovenia	7.0	3.4	-7.8	1.2	0.6	-2.3	*-2.3*	*0.1*
Spain	3.5	0.9	-3.7	-0.3	0.4	-1.4	*-1.7*	*0.4*
Sweden	3.4	-0.8	-5.0	6.3	3.8	1.2	*1.3*	*2.5*
Switzerland	3.8	2.2	-1.9	3.0	1.9	1.0	*1.4*	*2.0*
Thailand*	..	2.5	-2.3	7.8	0.1	6.5	..	..
Turkey	4.7	0.7	-4.8	9.2	8.8	2.2	*3.1*	*4.6*
United Kingdom	3.6	-1.0	-4.0	1.8	1.0	0.3	*0.8*	*1.5*
United States	1.9	-0.3	-3.1	2.4	1.8	2.2	*1.9*	*2.8*
euro area	**3.0**	**0.3**	**-4.3**	**1.9**	**1.5**	**-0.5**	***-0.6***	***1.1***
Total OECD	**2.8**	**0.2**	**-3.6**	**3.0**	**1.9**	**1.4**	***1.2***	***2.3***

Note: * World Bank, World Development Indicators 2013.

Source: OECD, Economic Outlook 2013.

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In general, demand remained weak in most countries, as households and businesses sought to improve balance sheets. Moreover, unemployment remained high in some countries and increased further in others. Consumer confidence deteriorated further in the euro area and remained low relative to historic norms in many other OECD countries (OECD, 2012a). Meanwhile, the stimulus provided by additional liquidity and funding to the banking sector ran its course in some countries, and in 2011-12 the stance of fiscal policy became less expansionary giving way to fiscal consolidation in most countries.

The emerging sovereign debt crisis was responsible in part for the dismal economic performance in 2012. As the sovereign debt crisis increased the deficiencies in capital adequacy, which also discouraged bank lending, its impact on the fragile banking sector intensified.

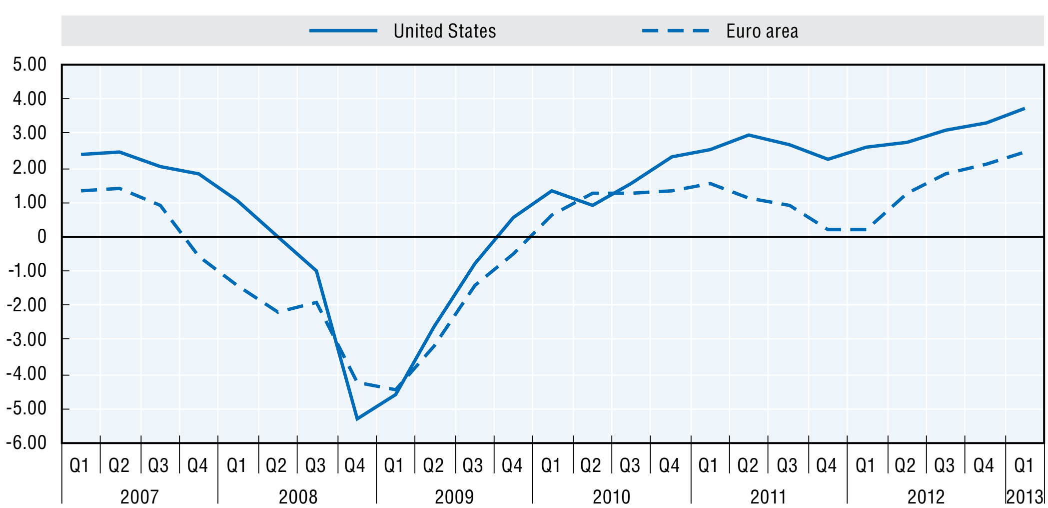
Financial conditions

Over 2010-12, developments in financial conditions displayed substantial cross-country variation. In some countries, concerns about public debt sustainability led to a rise in government bond yields during 2011-12, although they remained low. The possibility of exit from the European monetary union contributed to pushing up yields in the most vulnerable economies, adding to the pressure of the sovereign debt strains and reinforcing fears of a break-up of the euro area. A significant degree of uncertainty continued to characterise the financial environment in 2012, with non-negligible swings across quarters, and a recovery falling into recession in 2011 and early 2012. In late 2012 and early 2013, financial conditions improved in both the United States and the euro area (Figure 1.1). However, this aggregate trend masks large differences across member states, with financial strains in vulnerable euro area countries, affected by the negative interconnections between weakly capitalised banks, public debt financing requirements and exit risk, and easy conditions in others. Also, financial conditions became somewhat less accommodative in many emerging markets (OECD, 2013b).

Monetary easing continued in 2012, as a response to the financial and economic crisis and the turbulence on financial markets. However, this did not result in the increased flow of credit from financial institutions to the private sector. Banks that held sovereign bonds from high-debt countries in their portfolio faced wholesale refinancing difficulties. A further deterioration of balance sheet positions resulted from the recessionary environment and emerging credit losses, lowering these institutions' capacity to provide credit to the private sector.

Figure 1.1. **Financial conditions indices in the euro area and the United States**

2007-13



Note: A unit increase (decline) in the index implies an easing (tightening) in financial conditions sufficient to produce an average increase (reduction) in the level of GDP of ½ to 1% after four to six quarters. See details in Guichard et al. (2009). Estimation done with available information up to 16 May 2013.

Source: OECD, Economic Outlook (2013).

StatLink http://dx.doi.org/10.1787/888933015258

In 2012, demand for credit strengthened in the United States, as a result of improved trends in employment, production and housing construction, although at a slower rate than initially forecast. On the other hand, credit demand remained especially weak in vulnerable countries in the euro area (Bank of Canada, 2013; OECD, 2013b). In emerging economies, financial conditions have tightened since endNovember 2012 (OECD, 2013b).

Lending to SMEs

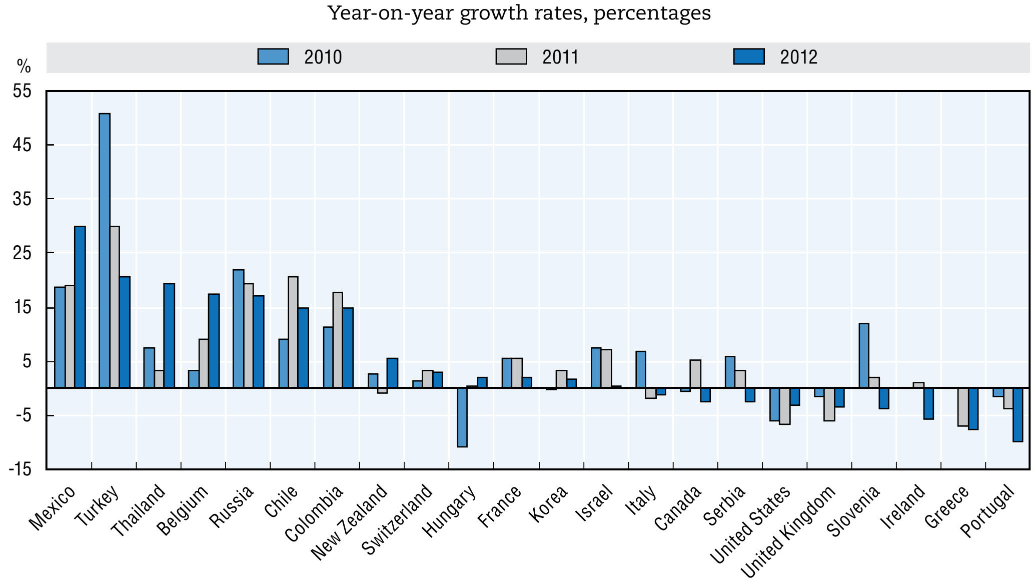
SME loans and SME loan shares

The Scoreboard data reflect the uncertain or weak recovery during 2010-11 and, in some cases, a reversal in 2011-12. The stock of outstanding SME loans decreased in 2012 in nine Scoreboard countries, especially those experiencing severe economic difficulties and a sovereign debt crisis, such as Greece, Ireland and Portugal. The stock of SME loans also continued to decline in Italy, the United Kingdom and the United States, although these countries managed to rebound with a slower decrease than in 2011. Canada, Serbia and Slovenia saw a reversal of the positive trend experienced in 2011, with sharp declines in SME loans in 2012 (Figure 1.2).

Between 2011 and 2012, an increase in SME loans was observed in the other countries for which data was available. Among these are also emerging economies, such as Chile, Colombia, Israel, Mexico, the Russian Federation, Thailand and Turkey. However, with the exception of Mexico and Thailand, the credit expansion decelerated with respect to the previous year. This trend is in line with the slow-down in their GDP growth rates. Belgium, Hungary, Mexico and Thailand were the only countries which recorded an accelerated growth in outstanding SME loans over 2011-12.

Figure 1.2. **Trends in outstanding SME loans 2010-12**

Year-on-year growth rates, percentages



Notes: 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Part II.
2. Countries with flow data are not included.

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard.

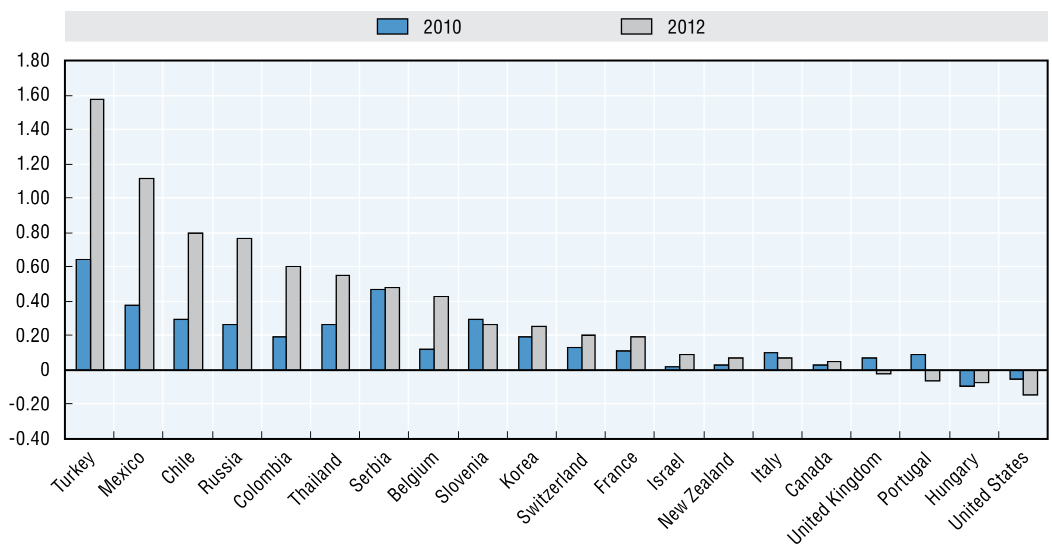
StatLink http://dx.doi.org/10.1787/888933015277

In most countries, in 2012 the stock of outstanding SME loans was higher than in the pre-crisis period (2007). The exceptions were Hungary, Portugal, United Kingdom and the United States (Figure 1.3).

In countries that report flow data for loans (Austria, Canada, Czech Republic, Denmark, Finland, the Netherlands, New Zealand and Spain), in 2012 a decline was observed in the flow of new SME loans, with the exception of Canada and New Zealand. The decline was more pronounced in the Czech Republic, the Netherlands and Spain, than in Austria and Finland, where, however, it followed the earlier trend of low or negative growth (Table 1.2).

Figure 1.3. **Trends in outstanding SME loans 2007-12**

Relative to 2007, percentages (2007=0)



Notes: 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Part II. 2. Base year for Russia is 2008; base year for New Zealand is 2009; base year for Greece and Ireland is 2010. 3. Countries with flow data are not included.

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard.

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Figure 1.4 monitors the consistency of growth patterns over 2007-12, by comparing the growth rate of outstanding SME loans from 2011 to 2012 with the growth trend recorded over 2007-11, measured by the ratio of SME loans in 2011 to the pre-crisis level in 2007. The graph suggests a certain degree of consistency in trends, with a positive correlation between the historical performance of the SME loan portfolio and the growth rate recorded in 2012. SME loan growth in 2012 was indeed stronger in countries which had not been affected as severely by the credit contraction of 2008-09, such as Belgium, Chile, Colombia, Mexico, the Russian Federation, Thailand and Turkey. On the other hand, countries which still struggled to recover to pre-crisis levels of SME lending, such as Greece, Ireland and Portugal, experienced negative growth rates in 2012. Notable exceptions to this positive relationship are Canada, Italy and Portugal, where the SME loan portfolio had indeed recovered to pre-crisis levels or had been maintained above that threshold over the entire period, but reverted to negative growth in 2012.

Table 1.2. **Growth of SME business loans, 2007-12**

Year-on-year growth rate, as a percentage

Country	2008	2009	2010	2011	2012
Outstanding SME business loans (stocks)					
Belgium	8.3	0.0	3.0	8.8	17.4
Canada	-0.1	3.7	-0.9	5.0	-2.5
Chile	11.3	6.9	8.8	20.4	14.7
Colombia	12.7	-5.2	11.3	17.5	14.5
France	4.8	0.3	5.3	5.3	1.8
Greece	n.a.	n.a.	n.a.	-7.1	-7.9
Hungary	10.3	-7.6	-11.1	0.3	1.9
Ireland	n.a.	n.a.	n.a.	0.9	-6.0
Israel	0.2	-5.1	7.3	7.0	0.3
Italy	2.1	1.2	6.6	-1.9	-1.5
Korea	14.4	5.0	-0.5	3.2	1.4
Mexico	16.9	-1.0	18.4	18.9	29.7
Norway	25.7	-7.7	4.2	4.7	n.a.
Portugal	9.2	0.9	-1.6	-3.9	-10.0
Russia	n.a.	3.7	21.9	19.1	16.9
Serbia	40.3	-0.8	5.6	3.1	-2.6
Slovak Republic	32.4	-0.5	0.1	-12.0	n.a.
Slovenia	15.5	-0.3	11.9	1.8	-4.0
Sweden	7.2	20.4	-21.4	n.a.	n.a.
Switzerland	5.9	5.3	1.3	3.2	2.8
Thailand	9.5	7.4	7.2	3.1	19.1
Turkey	10.6	-1.6	50.7	29.8	20.5
United Kingdom	11.1	-1.7	-1.7	-6.1	-3.5
United States	3.6	-2.3	-6.2	-6.8	-3.3
New SME business loans (flows)					
Austria	n.a.	n.a.	-6.4	0.7	-1.4
Czech Republic	-0.5	-28.6	-16.6	0.6	-3.7
Denmark	-13.7	-19.2	23.2	-2.6	14.5
Finland	2.6	-16.3	-16.5	-4.8	-0.5
Netherlands	-5.0	-24.2	5.1	17.6	-3.6
New Zealand	n.a.	n.a.	2.5	-0.9	5.3
Spain	-9.5	-26.3	-20.0	-17.2	-16.2

Notes: 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Part II. 2. 21 countries reported outstanding SME loans (stocks), 7 countries reported new SME loans (flows); 3 countries had no SME loan data for 2012.

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard.

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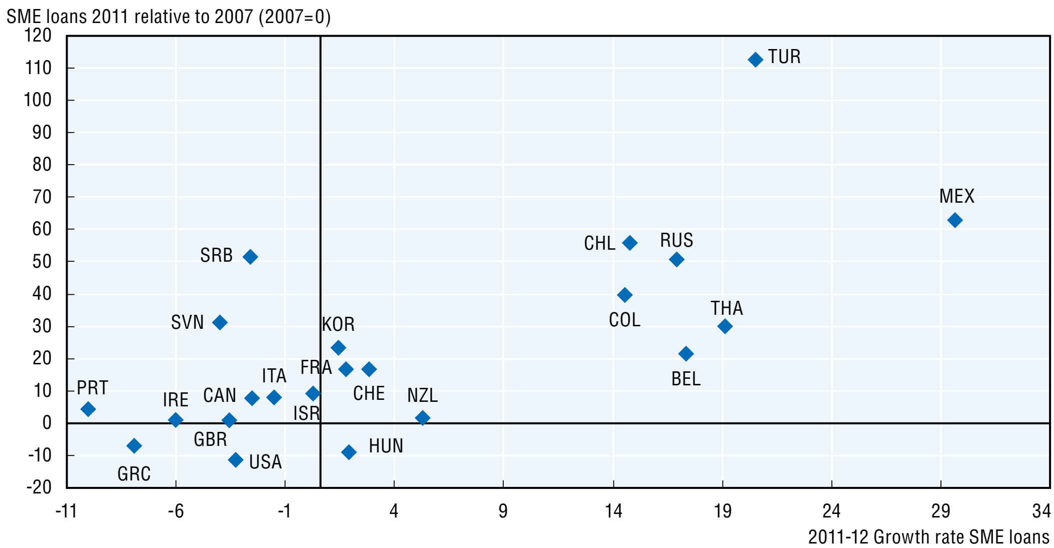
SME loan shares

The evidence on outstanding SME loan shares, defined as the shares of SME loans over total business loans, helps to set the above indicators on SME lending into the context of general business lending conditions in the Scoreboard countries. As Table 1.3 shows, over the entire period 2007-12, SME loan shares increased in only nine countries and declined in 18 countries.

Figure 1.4. **Growth patterns of outstanding SME loans, 2007-12**

Percentages



Notes: 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Part II. 2. Includes only countries reporting stock data. 2. Base year for Russia is 2008; base year for New Zealand is 2009; base year for Greece and Ireland is 2010.

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard.

StatLink http://dx.doi.org/10.1787/888933015315

Table 1.4 describes the recent changes in SME loan shares in terms of business credit scenarios and highlights the different dynamics in total business and SME lending that underlie similar trends.

It is recognised that SMEs are more dependent on debt financing than are larger enterprises which can launch public offerings for debt and equity. The narrow set of financing sources typically available to SMEs makes them more vulnerable to the changing conditions in credit markets. For this reason, a decline in SME loan shares in 18 countries suggests the credit market allocated a relatively smaller share of funding to SMEs. However, this specific indicator also reflects the trends in financing opportunities and strategies by large firms. Hence, an increase in SME loan shares can occur at a time of general lending contraction and might indicate that large enterprises are resorting to other forms of finance. This is the case observed in Denmark, France, Hungary and Israel, where the increase in SME loan shares over the period did not necessarily indicate a better access to debt, since the overall loan volume decreased.

Similarly, a decline in SME loan shares can occur in rather different financing environments. In the framework of expanding loan activity, as in the case of Korea, over 2011-12, SME loans grew but not as much as total business loans, with large enterprises getting a larger share of the expanding business credit market.

However, it should be noted that this indicator also reflects the maturity of outstanding debt, so that differences between SMEs and large firms in the portion of loans that get to maturity can also result in an increase or decline of the share. In this regard, collecting both flow and stock data and analysing them jointly can shed important light on the changes

Table 1.3. **Share of SME loans in total business loans, 2007-12**

As a percentage of total business loans

Country	2007	2008	2009	2010	2011	2012
SME business loans as stocks						
Belgium	58.9	60.5	61.0	60.8	63.0	65.1
Canada	17.4	15.6	17.9	17.5	17.5	15.7
Chile	16.7	15.2	17.5	18.2	18.2	18.5
Colombia	33.4	31.0	28.9	27.1	26.6	26.8
France	20.7	20.3	20.2	20.5	20.7	21.2
Greece	n.a.	n.a.	n.a.	38.5	36.8	38.1
Hungary	62.4	60.6	60.0	54.5	54.4	61.6
Ireland	n.a.	n.a.	n.a.	63.9	67.8	67.5
Israel	40.4	36.6	37.4	38.9	39.8	40.7
Italy	18.8	17.9	18.3	19.0	18.3	18.4
Korea	86.8	82.6	83.5	81.5	77.7	74.7
Mexico	13.0	12.3	12.0	13.0	13.4	16.1
Norway	42.9	43.7	40.4	41.0	40.4	n.a.
Portugal	78.3	77.7	77.4	77.3	77.1	74.7
Russia	n.a.	19.9	21.3	23.7	22.5	23.0
Serbia	21.6	22.0	21.5	22.1	22.4	21.2
Slovak Republic	65.7	77.1	79.4	79.4	65.8	n.a.
Slovenia	54.8	53.4	53.4	57.0	60.1	62.2
Sweden	88.9	88.5	92.4	91.1	n.a.	n.a.
Switzerland	81.2	81.1	80.1	79.9	78.8	78.8
Thailand	28.1	26.6	26.9	38.4	36.8	37.6
Turkey	40.1	33.8	31.7	35.6	35.7	37.5
United Kingdom	19.6	18.0	19.9	21.2	21.2	21.8
United States	30.1	27.7	27.6	29.0	26.5	23.7
SME business loans as flows						
Austria	n.a	n.a	11.8	12.6	13.0	11.6
Czech Republic	24.4	23.9	19.0	18.5	20.7	17.2
Denmark	12.3	9.1	9.0	11.2	11.7	16.3
Finland	27.1	21.9	19.6	15.3	21.1	22.4
New Zealand	n.a.	n.a.	40.9	42.8	41.7	43.0
Spain	39.8	38.4	30.3	31.6	33.0	30.1

Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Part II.

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard

StatLink *http://dx.doi.org/10.1787/888933012959*

in the degree to which the credit markets serve SMEs. The case of Canada illustrates the importance and the analytical complementarity of collecting and reporting on both stock and flow loan data. In 2012, outstanding loans in Canada decreased by 2.5% while loan flows increased by around 10%, suggesting an increased level of loans reaching maturity in 2012. The decrease in the SME loan share indicator is in this case explained by a larger increase in outstanding loans for large firms than for SMEs in Canada for 2012.

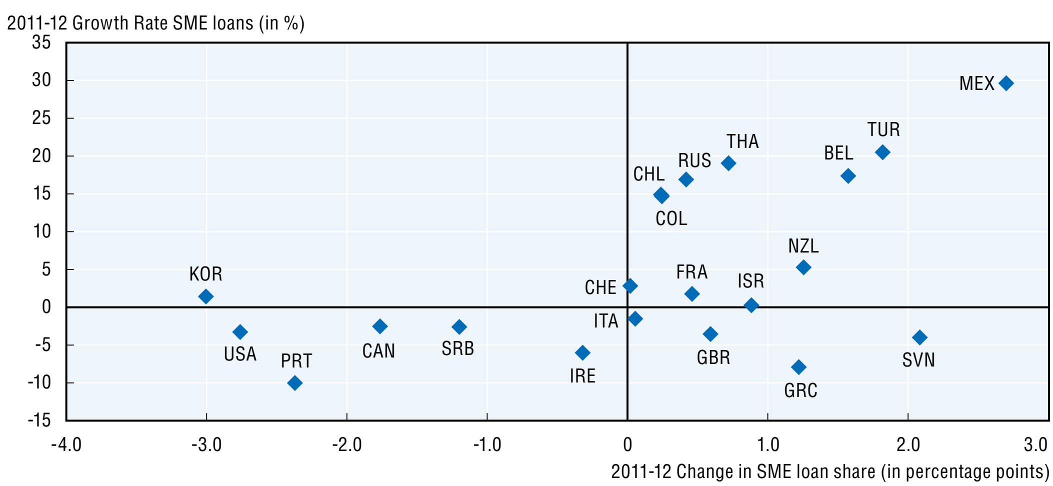
Figure 1.5 plots changes in SME loan shares against the growth rate in SME loans over 2011-12. In Austria, Canada, Ireland, Portugal, Serbia, Spain and the United States, the decrease in SME lending in 2012 also corresponded to a decrease in the share of SME loans.

Table 1.4. **Trends in SME loan shares and credit market scenarios, 2011-12**

SME loan share change	Countries	Trends in SME and total business loan stock	Credit market scenarios
SME loan shares increased	Belgium, Chile, Colombia, Mexico, New Zealand, Russia, Thailand and Turkey	SME loans increased more than total loans increased	Increased share of a growing business loan stock
SME loan shares increased	Denmark, France, Hungary and Israel	SME loans increased but total loans decreased	Larger share of a shrinking business loan stock
SME loan share increased	Finland, Greece, Italy, Slovenia and the United Kingdom	SME loans decreased slower than total loans decreased	Larger share of a shrinking business loan stock
SME loan shares decreased	Ireland, Portugal and Spain	SME loans decreased faster than total loans decreased	Smaller share of a shrinking business loan stock
SME loan shares decreased	Austria, the Czech Republic, Serbia and the United States	SME loans decreased while total loans increased	Smaller share of a growing business loan stock
SME loan shares decreased	Korea	SME loans increased but not as fast as total loans increased	Smaller share of a growing business loan stock

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard.

Figure 1.5. **Trends in SME loan shares, 2011-12**



Note: Countries with flow data are not included.

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard.

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Credit conditions for SMEs

Costs of credit

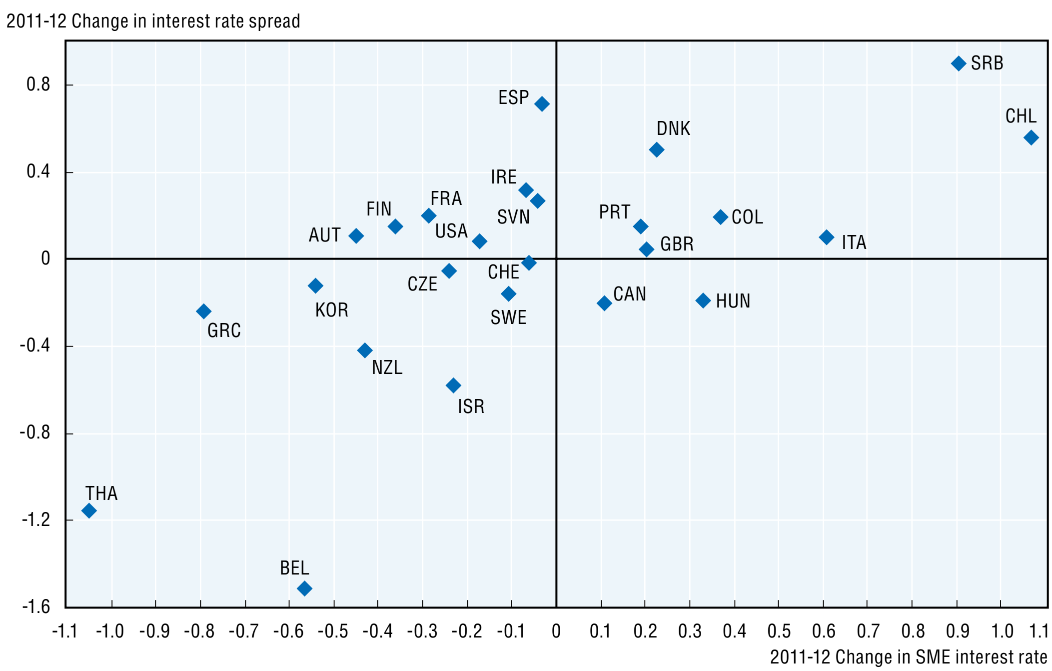
The overall conditions in 2012 were complex, in that many countries were in recession but there was a continued loosening of credit terms, at least in terms of interest rates. However, the availability of a loan is often more important to SMEs than its cost. Both actual SME lending and the perception of loan availability deteriorated in H2 2011 and H2 2012, which signalled cash flow constraints.

Over 2007-10, in most countries SMEs faced more severe credit conditions than did large enterprises, in the form of relatively higher interest rates, shortened maturities and increased requests for collateral (OECD, 2012a). This is despite the fact that there was a general downward trend in interest rates due to quantitative easing. Conditions to access finance remained tight for SMEs in 2011 for most countries, and even those experiencing improvement in SME lending suffered deterioration in credit conditions. In 2012, an easing of credit terms was observed in the majority of Scoreboard countries, with a decline in the interest rate charged on SME loans in 18 countries, against an increase in nine countries. Currently no data is available for Scoreboard countries on the associated costs of SME lending in addition to interest rates, such as loan application fees, other fees and commissions. It would be desirable to collect this information in the future, to provide a more complete picture of the total costs of borrowing for SMEs.

However, in the majority of countries, in 2011-12, the interest rate spreads between small and large enterprises increased and particularly in the cases where SME interest rates were also on the rise. This indicates that banks continued to view lending to SMEs as higher-risk, with stricter financing conditions applied to SMEs than to large firms.

Figure 1.6. **Trends in SME nominal interest rates and interest rate spreads, 2011-12**

In percentage points



Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard. Excludes the Netherlands (-2.00, -2.70) and Mexico (-2.62, -2.56).

StatLink http://dx.doi.org/10.1787/888933015353

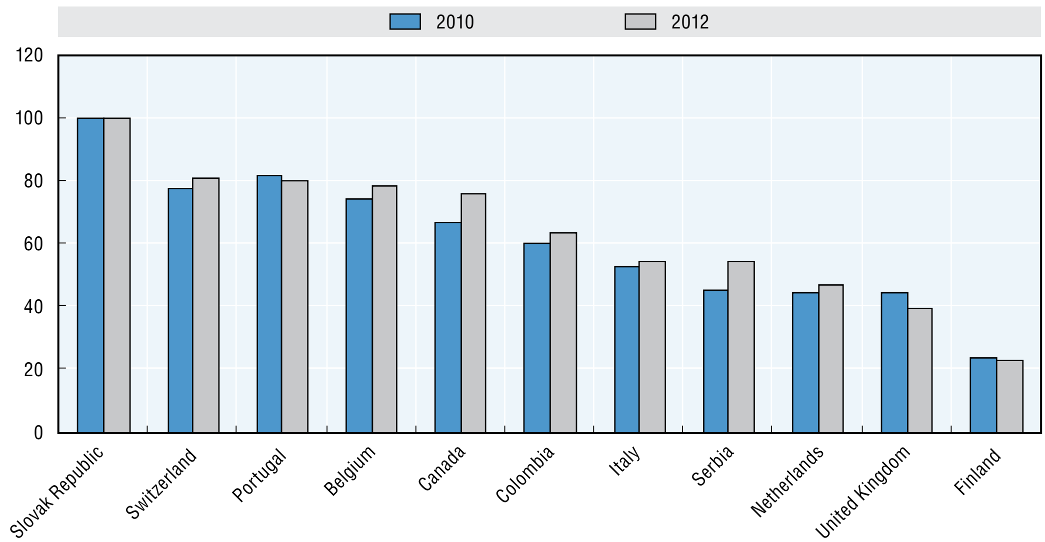
Collateral requirements

Data on collateral is difficult to obtain and represent an area where reporting improvements are needed to better assess the evolution in SME financing conditions. Twelve Scoreboard countries reported on collateral requirements for more than one year.

In most cases, the majority of SMEs were required to provide increased collateral to back their loans. Exceptions included the Netherlands, the United Kingdom and Finland (Fig. 1.7). The Slovak Republic has a default collateral requirement for 100% of SME loans. In Serbia SME loans are fully covered by bills of exchange, in addition to which almost 50% of SME loans are required to post collateral. Thailand is the outlier with an almost five-time multiple of the value of the loan being required.

Figure 1.7. **Trends in SME collateral requirements: 2010-12**

% SME loans requiring collateral



Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Part II.

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard.

StatLink http://dx.doi.org/10.1787/888933015372

It is interesting to note that an increasing trend in the level of collateral requested by banks on SME lending was recorded between 2010 and 2012 for all countries except Finland, Portugal and the United Kingdom. However, depressed valuations of the underlying assets posted as collateral could partially explain the increase in collateral required on new loans.

Evidence from demand-side surveys on credit conditions

Information on the demand side complements the evidence from the supply-side data reported in the Scoreboard. In particular, the ECB Survey on SME access to finance, undertaken every six months[2], shows that the net balance of SMEs stating that the availability of loans had deteriorated increased during most of the period 2011-12 and only declined in the later part of 2012 (October 2012 – March 2013) (Table 1.5). These survey results suggest further supply restrictions in the provision of loans. Of the SMEs which applied for loans, 15% had their request rejected, which is the highest since the peak of rejections in 2H2009. In contrast, the picture for the terms and conditions of loans was mixed with fewer SMEs reporting increased interest rates, but more SMEs reporting increased demand for collateral.

By the end of 2012, the number of SMEs reporting a deterioration in the availability of loans declined markedly to -10% vs. -22% in the first half of 2012. This development reflects the improvement in financial market confidence and in banks' funding conditions, helped by the ECB's non- monetary policy measures (ECB, 2013a). In addition, more SMEs reported receiving the full amount of credit requested, and fewer SMEs reported rejections. In the second half of 2012, SMEs also reported, on balance, less tightening in credit conditions in terms of interest rates and collateral requirements. However, it should be noted that responses were particularly heterogeneous across the sample. The uncertain outlook reflected into a low level of confidence by entrepreneurs in most euro countries,

Table 1.5. **ECB Survey on SME access to finance**

As a percentage of total SMEs surveyed

Category	H1 2011	H2 2011	H1 2012	H2 2012
Availability of loans				
Deteriorated (net)	-14	-20	-22	-10
Willingness to lend				
Deteriorated (net)	-20	-23	-27	-21
Applied for a loan	22	25	24	24
Granted in full	63	62	60	65
Rejected	10	13	15	11
Interest rate				
Increased (net)	54	42	27	17
Collateral				
Increased (net)	33	36	39	35

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

Source: ECB, Surveys on SME access to finance (2013).

StatLink http://dx.doi.org/10.1787/888933012978

according to the SME Business Climate Index by the European Association of Craft, Small and Medium-sized Enterprises (Kraemer-Eis, Lang and Gvetadze, 2013b).

In Europe, conditions remained difficult for a significant share of the SME sector throughout 2013. According to the 2013 EC/ECB "Access to finance" survey, about a third of European SMEs did not manage to get the full financing they had planned for during the year. In particular, SMEs reported that bank financing conditions worsened in 2013, with respect to interest rates, collateral and required guarantees (European Commission, 2013b).

In the euro area, for large firms, the situation appears to be consistently more favourable than for SMEs, with a smaller percentage reporting supply restrictions in the provision of bank loans, consistently higher rate of success and lower rejection rates and a considerably lower net percentage of firms reporting an increase in interest rates and collateral requirements.

On the other hand, in North American countries credit conditions appear to have steadily improved. In the Unites States, data from the National Federation of Independent Businesses indicate that small firms that are regular borrowers agree with bankers that credit conditions have been improving in the first half of 2013, although the share of firms that reports borrowing has decreased. This suggests that some small firms, presumably the financial weaker ones, have not re-entered the credit market.[3] In 2012 and the first half of 2013, SME confidence remained stable in Canada, with a net balance of positive expectations regarding business' performance, mostly in the professional and business services and the retail sector, according to the Business Barometer of the Canadian Federation of Small Businesses (Bank of Canada, 2013).

Equity financing

Equity financing was severely affected by the financial crisis. A sharp decline in venture capital and growth capital occurred in 17 Scoreboard countries between 2008 and 2009 (Table 1.6). In 2012, equity funding had recovered in 12 countries and was equal to or greater than its 2007 levels. Countries with high growth rates for venture capital in 2012

Table 1.6. **Venture and growth capital invested, 2007–12**

Relative to 2007 (2007=1) and percentages

	Relative to 2007 (2007=1)						2011/2012 Growth rate (in %)
	2007	2008	2009	2010	2011	2012	
Austria	1.00	0.79	1.13	0.70	1.96	0.57	-70.9
Belgium	1.00	0.90	1.17	0.75	0.58	0.74	27.4
Canada	1.00	0.78	0.56	0.61	0.83	0.83	0.0
Chile	1.00	0.88	0.86	1.05	1.39	1.39	0.0
Czech Republic	1.00	7.59	6.74	5.50	2.51	1.25	-50.3
Denmark	1.00	0.93	0.44	0.35	0.63	0.40	-36.9
Finland	1.00	0.73	0.48	0.97	0.52	0.60	14.4
France	1.00	1.21	1.20	1.47	1.78	1.20	-32.5
Hungary	1.00	3.49	0.18	1.77	2.86	4.90	71.2
Ireland*	1.00	1.08	1.28	1.37	1.21	1.19	-2.0
Israel	1.00	1.18	0.64	0.72	1.21	1.09	-9.9
Italy*	1.00	1.54	0.99	0.98	1.61	1.77	9.8
Korea	1.00	0.73	0.87	1.10	1.27	1.24	-2.2
Mexico	1.00	1.02	1.06	1.52	1.52	1.63	7.7
The Netherlands	1.00	1.18	0.77	0.73	1.15	0.70	-39.0
New Zealand	1.00	0.81	0.42	1.15	0.45	0.33	-26.8
Norway	1.00	0.74	0.37	0.76	0.98	n.a.	n.a.
Portugal*	1.00	0.67	0.31	0.48	0.09	0.12	28.9
Russia*[1]	..	1.00	1.06	1.17	1.40	1.84	31.5
Serbia	1.00	21.67	n.a.	220.13	n.a.	n.a.	n.a.
Slovak Republic*	1.00	1.14	2.06	1.63	1.64	1.00	-39.1
Slovenia	1.00	6.78	13.80	10.06	5.85	0.94	-84.0
Spain[1]	..	1.00	1.08	1.08	0.81	0.66	-19.2
Sweden	1.00	1.22	0.78	0.69	0.60	0.46	-22.8
Switzerland	1.00	1.03	0.91	1.19	0.74	0.79	6.5
Turkey	1.00	0.06	0.46	3.48	27.29	8.05	-70.5
United Kingdom	1.00	1.74	1.09	1.42	1.45	1.31	-9.5
United States	1.00	0.94	0.63	0.73	0.92	0.84	-8.6

Notes: 1. Base year is 2008. *SMEs only. Definitions differ across countries. Refer to table of definitions in each respective country profile in Part II.

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard.

StatLink http://dx.doi.org/10.1787/888933012997

included Belgium, Finland, Hungary, Portugal and the Russian Federation. Italy, Mexico and Switzerland also experienced some growth in equity funding in 2012, albeit more modest. In countries where a decline in total venture capital investment was observed, seed and other early stage investments seemed to have suffered the most.

It should be noted that trends in venture capital investment are difficult to analyse because of the extreme volatility in the data. In particular, just one large deal can cause volatility in countries where the market is not very well developed. However, measures intended to support venture capital investment seem to have produced a positive effect in a number of countries, with public and private co-investment in venture capital programmes being the prominent tool, besides direct government funding. Regulatory changes have also contributed to stimulating equity investment, as was the case in Turkey.

Payment delays and bankruptcies

Statistics on payment delays and bankruptcies reflect problems in maintaining cash flows under different economic conditions. It was difficult to maintain cash flows when the recovery stalled and credit terms tightened, as shown by the decline SME loan shares and the increase in interest rates and collateral requirements.

Nineteen countries were able to report on payment delays. Of those, 11 experienced an increase in payment delays and only five a decrease over 2011-12, with two reporting a flat trend. It is significant that, for almost half of the countries, including Austria, Belgium, Hungary, Ireland, the Netherlands, Portugal, the Slovak Republic and the United Kingdom, payment delays were higher than at the height of the financial and economic crisis in 2009. There are different possible explanations for such an increase, such as insufficient availability of funds and cash flow constraints in companies, liquidity constraints among clients, counterparties entering bankruptcy or going out of business.

Table 1.7. **Trends in payment delays 2007-12**

in days

	2007	2008	2009	2010	2011	2012	2009-12 Growth rate (in %)
Austria	8.0	8.0	11.0	12.0	11.0	12.0	9.1
Belgium	..	..	17.0	17.0	15.0	19.0	11.8
Chile	..	..	1.8	1.7	1.3	1.4	-24.5
Colombia	48.7	50.0	60.3	61.7	65.4	25.2	-58.2
Denmark	7.2	6.1	12.0	12.0	13.0	12.0	0.0
Finland	6.0	5.0	7.0	7.0	7.0	7.0	0.0
France	14.3	16.0	18.0	18.0	18.0	17.0	-5.6
Greece	4.6	4.3	6.7	8.7	14.1	23.4	248.1
Hungary	16.3	19.0	19.0	15.0	22.0	20.0	5.3
Ireland	n.a.	n.a.	22.0	25.0	30.0	31.0	40.9
Italy	n.a.	19.4	22.1	19.0	16.9	17.9	-19.0
Korea	11.0	12.1	9.9	12.1	11.7	9.1	-8.1
Netherlands	13.2	13.9	16.0	17.0	18.0	17.0	6.3
Norway	7.4	7.3	11.0	8.0	9.0	9.0	-18.2
Portugal	39.9	33.0	35.0	37.0	41.0	40.0	14.3
Slovak Republic	19.7	8.0	13.0	17.0	20.0	21.0	61.5
Slovenia	n.a.	n.a.	n.a.	n.a.	32.0	30.0	n.a.
Spain	27.0	12.0	26.0	23.0	14.0	11.0	-57.7
Sweden	6.9	7.0	8.0	8.0	8.0	7.0	-12.5
Switzerland	13.7	12.0	13.0	13.0	11.0	10.0	-23.1
United Kingdom	..	..	22.8	22.6	25.7	24.7	8.1

Note: Definitions differ across countries. Refer to table of definitions in each respective country profile in Part II.

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard.

StatLink http://dx.doi.org/10.1787/888933013016

Turning to bankruptcies, they continued to increase in 2012 in more than half of the Scoreboard countries. Austria, Canada, Chile, Greece and Korea were the only countries reporting in 2012 bankruptcy levels lower than in 2007. Important increases in failing companies are observed in the countries suffering the repercussions of the sovereign debt crisis, such as Ireland, Portugal and Spain, with the latter experiencing a sevenfold increase in bankruptcies throughout the 2007-12 period. In 2012, the bankruptcy rate exceeded that observed at the peak of the crisis (2009) for a number of countries, namely Belgium, the

Czech Republic, Denmark, Hungary, Ireland, Italy, the Netherlands, Portugal, the Slovak Republic, Spain, Switzerland and Turkey.

While bankruptcy data over time are broadly indicative of the cash flow situation of enterprises, it should be highlighted there are differences in the length of the bankruptcy procedures between countries, so that insolvent enterprises are not declared bankrupt at the same pace. Legal and regulatory reforms that were introduced over this period can also affect the numbers. This is the case in Turkey, whose threefold increase throughout the period can be partially attributed to the shortening of the length of the bankruptcy process.

Table 1.8. **Trends in bankruptcies 2007-12**

Relative to 2007 (2007=1) and percentages

		Relative to 2007 (2007=1)						2011/2012 Growth rate (in %)
		2007	2008	2009	2010	2011	2012	
Austria	all firms	1.00	1.00	1.10	1.01	0.93	0.96	2.9
Belgium	all firms	1.00	1.10	1.23	1.29	1.36	1.43	5.2
Canada	per 1 000 firms	1.00	1.00	0.94	0.71	0.65	0.58	-10.0
Chile	all firms	1.00	1.05	1.21	0.94	0.93	0.91	-2.3
Colombia[1]	all firms	..	1.00	1.57	1.67	1.87	1.22	-34.8
Czech Republic	all firms	1.00	1.04	1.53	1.55	1.51	1.60	6.5
Denmark	all firms	1.00	1.54	2.38	2.69	2.28	2.27	-0.2
Finland	% of firms[3]	1.00	1.11	1.33	1.11	1.22	1.22	0.0
France	all firms	1.00	1.08	1.22	1.18	1.16	1.19	2.4
Greece	all firms	1.00	0.70	0.69	0.69	0.87	0.81	-6.7
Hungary	per 10 000 firms	1.00	1.10	1.39	1.52	1.83	1.97	7.9
Ireland	all firms	1.00	1.25	1.89	1.90	2.13	2.05	-3.5
Italy	all firms	1.00	1.22	1.53	1.83	1.97	2.03	3.0
Korea	all firms	1.00	1.19	0.87	0.68	0.59	0.54	-9.6
Netherlands[2]	all firms	..	..	1.00	0.89	0.88	1.05	19.4
New Zealand	all firms	..	1.00	1.45	1.37	1.21	1.12	-7.45
Norway	only SMEs	1.00	1.50	2.16	1.89	1.81	1.60	-11.6
Portugal	all firms	1.00	1.35	1.46	1.57	1.82	2.56	40.9
Russia[1]	all firms	..	1.00	1.11	1.15	0.92	1.01	10.0
Serbia	all firms	1.00	1.05	1.21	1.39	1.54	n.a.	n.a.
Slovak Republic	all firms	1.00	1.49	1.63	2.04	2.22	2.13	-4.0
Spain	only SMEs	1.00	2.83	4.92	4.70	5.37	7.00	30.4
Sweden	only SMEs	1.00	1.09	1.32	1.26	1.20	1.29	7.3
Switzerland	all firms	1.00	0.98	1.21	1.45	1.54	1.59	2.7
Turkey	all firms	1.00	0.90	0.96	1.31	1.38	2.71	95.8
United Kingdom	all firms	1.00	1.23	1.51	1.32	1.40	1.34	-3.9
United States	all firms	1.00	1.54	2.15	1.99	1.69	1.41	-16.2

Notes: 1. Base year is 2008. 2. Base year is 2009. 3. % of firms in bankruptcy proceedings.

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard

StatLink *http://dx.doi.org/10.1787/888933013035*

Summing up and looking ahead

Following a severe crisis in 2008-09 and an uneven recovery in 2010, economic conditions in 201112 remained difficult. In 2012, recovery stalled at the global level, with most countries experiencing sluggish growth, and some entering a double dip recession. The growth pace also slowed in emerging economies.

The challenging macroeconomic environment and the subdued growth and demand translated into declining profits for SMEs and reduced availability of internal funding. This also contributed to heightened risk aversion from banks, especially with regard to less creditworthy borrowers.

The sovereign debt crisis that hit several European countries and the difficult economic conditions led to deterioration in the lending activities of banks in 2011-12, decreasing the availability of credit to small businesses. In addition, the financial sector continued the deleveraging process that had started in the aftermath of the crisis, with banks endeavouring to meet Basel III capital and leverage ratio requirements through a combination of asset reduction and capital raising. Mid-tier and smaller banks, vital for lending to SMEs, find it harder to tap the capital markets and are more likely to meet their deleveraging targets through asset reductions. The deleveraging needs of the banks, which are due to persist throughout 2013, have squeezed credit availability for the entire banking system. The impact has been more severe for SMEs than large firms, with the divergence in trends between the two apparent in 2012, when lending standards tightened for SMEs, relative to large companies.

In fact, credit costs declined for most SMEs in terms of interest rates, but not relative to large enterprises. On the other hand, collateral requirements increased. The decline in interest rates was the result of inexpensive central bank funding which pumped liquidity into the banking system, but it is expected that monetary authorities will increase interest rates in the future. However, the key obstacle to SME access to finance is the availability of credit and the willingness of banks to lend it. Cheaper funding to banks does not always translate into more lending. Thus government policy must focus on this issue as well as on interest rates.

Alternative sources of financing such as venture capital were limited and volatile. In many cases, equity growth was negative in 2011-12 and was not able to fill the financing gap caused by the decline in SME lending. To ease cash flow constraints, in more than half of the Scoreboard countries SMEs payment delays increased to above their crisis levels. The same is true for bankruptcies, which were higher in 2012 than during the crisis in a number of countries. Given these trends, governments continued to respond through dedicated policy measures, and in some cases, new initiatives.

Looking ahead, the growth forecasts for 2013-14 suggests a stabilisation of the growth rates observed since 2011, and a slight, but still uneven recovery among countries (see Table 1.1). Growth in OECD economies is expected to strengthen gradually in the second half of 2013 and throughout 2014, contributing to improving financial market conditions and gradually restoring confidence. In the United States, a stronger demand for SME credit is expected during 2013. Also, in the euro area, access to finance for SMEs shows some signs of improvement compared to the previous quarters. At the same time, slower growth rates in emerging economies are expected to supress demand, adding to the pressure on SMEs as well as on the banking sector (OECD, 2013b).

Overall, in 2013-14, financing conditions are expected to remain challenging for the SME sector in most countries, although the acute phase of the crisis has passed and recovery appears to be on track. Small firm employment continues to grow in North America, with stronger credit demand by small firms in 2013. In the UK, bank lending has continued to fall in 2013, however, as of Q2 2013, lending to SMEs fell less sharply than to large businesses, many of which returned to the capital markets to access finance. In the euro area, demand for lending was weak in Q2 2013 and credit conditions continued to tighten, albeit at a slower pace (ECB, 2013b). The ECB has kept the main refinancing rate at historic lows within a broader loose monetary policy, and restrictive financial policies have contributed to reducing the sovereign debt spreads in vulnerable economies. This, however, has not been translated into stronger SME lending or lower borrowing costs for

SMEs. Globally, weak demand, the on-going deleveraging by banks and the deterioration in asset quality may further constrain credit formation for SMEs. On the other hand, a number of policies targeting SMEs could potentially boost SME lending and make it more viable, such as loose monetary policy and a low interest rate environment.

In addition, in 2013, at the European level, efforts have been made to address restrictions in SME lending resulting from the implementation of Basel III, which could help to make SME lending more viable in the new regulatory environment. Indeed, the amendment of Capital Requirements Directive IV[4] stipulates that capital charges for exposures to SMEs are reduced through the application of a lower supporting factor. This is intended to allow credit institutions to increase SME lending, by using the capital relief produced for the exclusive purpose of providing an adequate flow of credit to SMEs established in the EU. However, regulatory scrutiny is likely to continue to have an impact on SME lending, particularly in light of the upcoming ECB stress tests.

However, while deleveraging seems to be the main issue for "too big to fail" banks, the financial system is also suffering from a traditional banking crisis, attributed to the deterioration in asset quality. Although the definition of non-performing loans (NPLs) differs across countries, the Scoreboard shows an increasing trend in NPLs, which have built up following several years of recession or sluggish growth. This rising pattern of bad debts not only depletes capital but affects banks' risk appetite. SMEs are more likely to suffer from the increase in banks' risk aversion, particularly in the light of a large share of SME NPLs compared to those of large firms.

The dynamics analysed above suggest that the environment for SME access to finance will continue to be challenging throughout 2013-14. Nevertheless, a number of important policy decisions are expected in 2013 and 2014, and it will therefore be critical to continue monitoring the Scoreboard indicators, as well as those policies and their effect on SME lending.

Government responses to the crisis

Governments responded to the global financial crisis and its effects on SME financing with a variety of instruments. The most popular measure remains loans guarantee programmes, which expanded substantially over 2007-11. As Table 1.9 shows, extensive government policy responses remained in place in 2012. The use of government guarantees to secure bank lending to SMEs continued to be the most widespread measure among countries participating in the Scoreboard. Furthermore, new elements were added to some of these programmes, such as "express guarantees" that could be granted in five days in Belgium, or the creation of new instruments outside the traditional guarantee programmes. Other public instruments to enhance SME finance included direct loans, micro loans, export guarantees, and support for risk capital (equity), either in the form of co-financing, tax credits for investors or the promotion of crowd funding.

Among the new measures announced or introduced in 2012 were the consolidation of existing public financial institutions addressing the financing needs of the SME sector, or the creation of new ones. France, for instance, consolidated its financial institutions that foster SME lending into one institution, the Banque Publique d'Investissement – Bpifrance (Public Investment Bank) that started operating in February 2013. Public financial institutions are expected to start operations in the second quarter of 2014 in Portugal and in the last quarter in the United Kingdom. These new institutions are expected to lend to SMEs through a network of private and public banks, and are expected to promote private participation in their lending products.

Table 1.9 reports the broad types of measures undertaken in the Scoreboard countries. These measures carry different costs for public budgets, including some with significant costs (e.g. government direct lending and loan guarantees); some that are cost neutral (e.g. bank targets for SME lending) and some with even negative costs (e.g. negative interest rates for bank deposits at the central bank). These measures also imply varying degrees of engagement by public agencies.

Table 1.9. **Government policy responses to improve access to finance, 2007-12**

Policy response	Countries
Government loan guarantees	Austria, Belgium, Canada, Chile, Colombia, Czech Republic Denmark, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Korea, Mexico, the Netherlands, Norway, Portugal, Russian Federation, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, United Kingdom, United States
Special guarantees and loans for start ups	Austria, Canada, Denmark, Mexico, the Netherlands, Serbia, United Kingdom
Government export guarantees, trade credit	Austria, Belgium, Canada, Colombia, Czech Republic, Denmark, Finland, Hungary, Korea, the Netherlands, New Zealand, Spain, Sweden
Direct lending to SMEs	Austria, Belgium, Canada, Chile, Colombia, Czech Republic, Finland, France, Greece, Hungary, Ireland, Israel, Korea, Norway, Portugal, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Turkey, United Kingdom
Subsidized interest rates	Austria, Greece, Hungary, Portugal, Russian Federation, Spain, Turkey, United Kingdom
Venture capital, equity funding, business angel support	Austria, Belgium, Canada, Chile, Denmark, Finland, France, Greece, Hungary, Ireland, Israel, Mexico, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Turkey, United Kingdom
SME banks	Czech Republic, France, Portugal, Russian Federation, United Kingdom
Business advice, consultancy	Austria, Colombia, Denmark, Finland, the Netherlands, New Zealand, Sweden
Tax exemptions, deferments	Belgium, Finland, Italy, New Zealand, Norway, Spain, Sweden, Turkey
Credit mediation/ review/code of conduct	Belgium, France, Ireland, New Zealand, Spain
Bank targets for SME lending, negative interest rates for deposits at central bank	Ireland, Denmark
Central Bank funding to banks dependent on net lending rate	United Kingdom

Source: Data compiled from the country profiles of Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard.

Some countries have adopted programmes based on models in place elsewhere, while others have established new forms of public support. Thus, countries are beginning to react differently to the crisis over time. For example, Canada introduced a temporary hiring credit. Ireland established voluntary lending targets for banks in 2011, as well as a Code of Conduct for Business Lending to SMEs, and has increased resources for its Credit Review Office in 2012 to ensure that bank rejections of SME credit requests receive a timely response. It also introduced its first credit guarantee programme in 2012. Norway is reducing the regulatory burden for SMEs and has created an electronic portal to improve their reporting to and communications with government. It has also introduced a new seed capital fund. Russia and Turkey both continue to subsidise interest rates, and Spain is granting interest-free loans. Both Spain and Italy have postponed the repayment of loans under certain conditions. The United Kingdom has created the Funding for Lending Scheme, which provides banks with funds at below market rates depending on their net lending rate, and increased income tax relief to 50% for investors buying shares in small, early stage companies. The Czech Republic has prepared a new programme targeting SMEs for the period 2014-20, the "REVIT" programme, which comprises guarantees and direct loans in regions with low or declining economic activity.

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

Notes

1. See the Reader's Guide and Annex A for a discussion of the core indicators and sources of data.
2. The ECB Survey on SME access to finance is undertaken every six months to assess the latest developments in the financing conditions for firms in the euro area. Among the most important questions are: was there a deterioration in the availability of bank loans, in the willingness of the banks to lend; what was the outcome of the loan application (granted in full or rejected) and did interest rates and collateral requirements increase or decrease. A joint ECB/EC survey round is conducted every two years for all the EU member states and some additional countries.
3. See United States country profile.
4. The Capital Requirement Directive IV package, which transposes – via a Regulation and a Directive – the new global standards on bank capital (commonly known as the Basel III agreement) into the EU legal framework, entered into force on 17 July 2013 (EU, 2013).

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Financing SMEs and Entrepreneurs 2014
An OECD Scoreboard

Chapter 2

Alternative financing instruments: The case of mezzanine finance

This chapter discusses the limitations of debt financing and introduces the range of non-bank financing instruments available to SMEs and entrepreneurs, with a focus on the technique of mezzanine finance. In the post-2007 environment of tight bank credit, governments are considering measures to promote the wider use of hybrid instruments, such as mezzanine finance, to supply "growth capital" to SMEs and entrepreneurs. This chapter illustrates the modalities of this finance provision and of recent government support, through evidence from Scoreboard countries.

Governments around the world have long assigned a high priority to improving conditions for access to finance for new, innovative and fast-growing SMEs and established firms pursuing expansion. The "financing gap" that affects these businesses is often a "growth capital gap". Substantial amounts of funds might be needed to finance projects with high growth prospects, while the associated profit patterns are often difficult to forecast. Traditional financing techniques, based mainly upon debt and guarantees, are not always the most appropriate form of financing for such dynamic firms. Yet, for most enterprises, there are a few alternatives to traditional debt. Bank lending continues to be the most common source of external finance for many SMEs and entrepreneurs, which are often heavily reliant on straight debt to fulfil their start-up, cash flow and investment needs.

Capital gaps also exist for companies seeking to effect important transitions in their activities, such as ownership and control changes, as well as for SMEs seeking to de-leverage and improve capital structures. The long-standing need to strengthen capital structures and to decrease dependence on borrowing has now become more urgent, as many firms were obliged to increase leverage in order to survive the crisis. Indeed, the problem of SME over-leveraging may have been exacerbated by the policy responses to the financial crisis, as the emergency stabilisation programmes tended to focus on mechanisms that enabled firms to increase their debt (e.g. direct lending, loan guarantees), as funding from other sources (e.g. business angels, venture capital) became more scarce (OECD, 2010a, 2012a).

In the aftermath of the 2008-09 global financial crisis, the bank credit constraints experienced by SMEs in many countries have further highlighted the vulnerability of the SME sector to changing conditions in bank lending. Banks in many OECD countries have been contracting their balance sheets in order to meet more rigorous prudential rules. As banks continue their deleveraging process, there is a broad concern that credit constraints will simply become "the new normal" for SMEs and entrepreneurs and that they could be disproportionately affected by the on-going financial reforms, and especially by the rapid pace of their implementation, as they are more dependent on bank finance than large firms and less able to adapt readily (OECD, 2012a).

It is therefore necessary to broaden the range of financing instruments available to SMEs and entrepreneurs, in order to enable them to continue to play their role in growth, innovation and employment. Financial stability, financial inclusion and financial deepening should be considered as mutually reinforcing objectives in the quest for sustainable recovery and long-term growth. While bank financing will continue to be crucial for the SME sector, more diversified options for SME financing could support long-term investments and reduce the vulnerability of the sector to changes in the credit market.

Indeed, an effective financial system is one that can supply financial resources to a broad range of companies in varying circumstances and channel financial wealth from different sources to business investments. As the banking sector remains weak and banks adjust to the new regulatory environment, institutional investors and other non-bank players, including wealthy private investors, have a potential role to play for filling the financing gap that may widen in the post-crisis environment. However, a lack of awareness and understanding on the part of SMEs, financial institutions and governments of these alternative instruments, their modalities and operations constitute a major barrier to their use.

This chapter discusses the limitations of debt financing and introduces the range of alternative financing instruments available to SMEs and entrepreneurs, with a focus on the technique of mezzanine finance, which incorporates elements of debt and equity in a single investment vehicle. A typical mezzanine facility combines several financing instruments of varying degrees of risk and return, such as subordinated debt, profit participation certificates and equity warrants. In the post-2007 environment of tight bank credit, governments are considering measures to promote the wider use of hybrid instruments, such as mezzanine finance, to supply "growth capital" to SMEs and entrepreneurs. This chapter illustrates the modalities of this finance provision and of recent government support, through evidence from Scoreboard countries.

The spectrum of financing instruments

Lending to SMEs and entrepreneurs: Market failures and mitigation techniques

The most common source of financing for most SMEs is banks or similar depositary institutions (e.g. savings banks or cooperative banks). Generally, this financing comes in the form of overdrafts, term loans or through the use of credit cards. Traditional debt financing represents an unconditional claim on the borrower, who must pay a specified amount of interest to creditors at fixed intervals, regardless of the financial condition of the borrower. The interest rate may be fixed or adjusted periodically according to a reference rate. Moreover, bank claims have high priority in cases of bankruptcy.

The popularity of traditional debt finance lies partly in the fact that it is one of the least expensive forms of external finance.[1] It generates moderate returns for the lender and is therefore appropriate for low risk businesses which generate stable cash flows. These are typically firms with modest growth, tested business models, and access to collateral or guarantees.

Furthermore, in OECD countries, since the 1980s, as large corporations and local authorities have been moving away from the banking system and borrowing on more favourable terms in the capital market, banks have been encouraged to enhance their capacity to reach potential borrowers. One of the responses of major banks has been to target the "middle market", i.e. retail banking and SME lending, a trend that the financial crisis has partly reversed (Griggs, 2012).

At the same time, specific constraints may limit lending to SMEs (Box 2.1.), which, in addition, generally involves small loan volumes (under EUR 1 million) and can imply relatively high unit costs for banks, as the administrative costs associated with the evaluation of the borrower's creditworthiness are typically fixed.

Financial institutions have developed several methods to mitigate the incidence of these challenges in SME lending. The main objective is to alter the risk-sharing mechanism in order to align incentives between lender and borrower. Commonly used methods to manage SME credit risk include:

- Requests for high equity contributions by prospective borrowers.
- Requirements for collateral. i.e. an asset of the borrower, the possessive right of which is provided to the lender in case of default.

Box 2.1. **Structural problems in SME lending**

In any financial system, prospective financiers must have some means to gauge the risk of a given entity and to balance that risk against the potential reward. The financier must also monitor the entity in order to determine whether it is acting in accord with the initial contract and to have some means to oblige the entity to respect the terms of the contract. For numerous reasons, assessment and monitoring are more problematic for SMEs than for larger firms.

First, asymmetric information is a more serious problem in SMEs than in larger firms. SMEs often do not produce audited financial statements that yield credible financial information and have no obligation to make public disclosure of their financial reports, although they are generally obliged to produce them and make them available to relevant authorities upon request. Furthermore, in smaller enterprises, the line of demarcation between the finances of the owner(s) and those of the business is usually blurred. Unlike established public companies, which are expected to observe standards of corporate governance with clearly defined roles for shareholders, managers and stakeholders, SMEs tend to reflect the idiosyncrasies of their owners and their informal relationships with stakeholders. Hence, the entrepreneur has better access than the financier to information concerning the operation of the business and has considerable leeway in sharing such information with outsiders. The implications of asymmetries in information are made more severe by the large heterogeneity in the SME sector. SMEs are characterized by wider variance of profitability and growth than larger enterprises, and exhibit greater year-to-year volatility in earnings.

Second, the principal/agent problem, which is inherent in all financing operations, is particularly acute in the case of SMEs. Once financing is received, the entrepreneur may use funds in ways other than those for which it was intended. An entrepreneur might undertake excessively risky projects since all of the "upside" of the project belongs to the entrepreneur while a banker would prefer a less risky operation, even if profitability is less than under the riskier alternative. A large firm wishing to undertake a comparatively risky activity could select a different technique with appropriate formulas for sharing risk and reward, such as equity issuance, but the range of choice available to small firms is usually narrower.

Source: Evans, *Tests of Alternative Theories of Firm Growth* (1987), Storey and Thompson, *"The Financing of New and Small Enterprises in OECD Countries"* (1995), OECD, *The SME Financing Gap. Theory and Evidence* (2006).

- Credit guarantees, whereby should the borrower default the guarantor compensates a pre-defined share of the outstanding loan.
- Loan covenants, i.e. a condition imposed by the lender with which the borrower must comply in order to adhere to the terms in the loan agreement. Common loan covenants include:
  - Hazard insurance/content insurance, under which the borrower is required to keep insurance coverage on the plant/equipment or inventory in order to safeguard against the catastrophic loss of collateral.
  - Key-man life insurance, which insures the life of the indispensable owner or manager without whom the company could not continue. The lender usually gets an assignment of the policy.
  - Requirements for payment of taxes / fees / licenses, whereby the borrower agrees to keep those expenses up to date. In fact, failure to pay would result in the assets of the company being encumbered by a lien (i.e. legal claim on property) from the government, which would take precedence to the one from the bank.

- Provision of financial information on the borrower and guarantor, whereby the borrower agrees to submit financial statements for the continuing assessment by the bank.
- Borrower prevented from taking specific actions without prior approval, such as: change in management or merger, demanding more loans, or distributing dividends.

Alternative financing techniques

Traditional debt finance generates moderate returns for lenders and is therefore appropriate for lowto-moderate risk profiles. It typically sustains the ordinary activity and short-term needs of SMEs, generally characterised by stable cash flow, modest growth, tested business models, and access to collateral or guarantees.

Financing instruments alternative to straight debt alter this traditional risk-sharing mechanism. Table 2.1 provides a list of financing techniques alternative to straight debt, categorised into four groups, characterised by differing degrees of risk and return. The following paragraphs briefly describe these groups. The remainder of the chapter focuses on hybrid techniques, particularly mezzanine finance, which lies in the middle of the risk-reward continuum.

Table 2.1. **Alternative financing techniques for SMEs and entrepreneurs**

Low risk / return	Low risk/ return	Medium risk/ return	High risk/ return
Asset-based finance	Alternative debt	"Hybrid" Instruments	Equity instruments
• asset-based lending • factoring • purchase order finance • warehouse receipts • leasing	• corporate bonds • securitised debt • covered bonds	• subordinated loans/bonds • silent participations • participating loans • profit participation rights • convertible bonds • bonds with warrants • mezzanine finance	• private equity • venture capital • business angels • specialised platforms for public listing of SMEs • equity derivatives

The first category of AFTs is asset-based finance. In this case, a firm obtains cash, based not on its own credit standing, but on the value of a particular asset generated in the course of its business. Two of the most commonly used techniques of asset-based finance are factoring and leasing.

In the case of factoring, a company sells a receivable from a party with a good credit rating to a factoring company at a discount. For instance, an SME might manufacture and sell goods to a recognised retailer with an established credit rating with payment due in specified time. As a result, the SME acquires a trade-related claim on the retailer that can be used to obtain working capital by selling the asset (the trade receivable) to a factoring company. The factoring company is not concerned with the credit standing of the SME. Rather, it will be willing to advance funds if it has confidence in the credit of the firm upon which it has a claim, in this case, the retailer.

Another common form of asset-based finance is leasing. In this case an SME may need capital equipment, but banks would not be willing to lend funds to purchase the equipment due to the company's credit rating. With leasing, the financial leasing company purchases the piece of equipment and retains ownership, but allows the SME to use the equipment under a leasing contract while receiving lease payments. The lease payments will be close to the leasing company's cost of borrowing the funds plus a credit risk spread. In case the company does not make the lease payments, the leasing company takes possession of the asset.

What all techniques of asset-based finance have in common is that they allow the SME to overcome problems of poor creditworthiness or financial opacity by offering the provider of funds an asset that is independent of its own credit standing. However, with the exception of leasing, most of these techniques are a close substitute for short-term working capital and thus have little capacity to narrow the "growth capital gap."

The next category of AFTs illustrated in Table 2.1 consists of alternative debt instruments, such as corporate bonds, when issued by SMEs, and securitised debt, in which investors in the capital markets, rather than banks, provide the financing for SMEs. Few SMEs have succeeded in issuing corporate bonds, because of difficulties that small privately held companies have in meeting investor protection regulations and the high relative cost of bond issuance for small companies.

Securitisation of SME debt takes place when cash flows from assets are transferred to a specialised company that uses these flows to support a fixed income security[2] that is sold to investors (Thompson, 1995). In the case of a SME loan securitisation, the originating bank or similar entity sells SME loans to a specialised company. The specialised company creates a new security backed by the payments of SMEs, which is sold to investors. The investor accepts the risk of non-payment by the SMEs in the portfolio and receives payments of interest and principal. Thus the financing of the SME is transferred from the banking system to the capital market.

One basic characteristic of these instruments is that, like bank loans, they represent an unconditional claim on the borrower, who must pay a specified amount of interest to creditors at fixed intervals, regardless of the financial condition of the company. They also have high priority in cases of bankruptcy. The interest rate may be fixed or adjusted periodically according to a reference rate.

However, neither corporate bonds nor securitisation is widely used by SMEs. In this sense, these techniques, which are on the border between traditional finance and AFTs, can only be described as 'innovative' since they are not widely used by SMEs. It will require effort by private entities and/or the public authorities to create an environment in which it is possible to develop instruments that are suitable for sale to investors and use such instruments on a sizeable scale.

Two further considerations that limit the applicability of these techniques for SMEs should be kept in mind. First, these techniques are likely to be accessible only to the best rated SMEs. Second, these instruments do not address the problem of excessive SME reliance on debt or provide an improved capital structure for the firm.

Despite the factors that limit the applicability of corporate bond issuance and securitisation by SMEs, there may still be some justification to consider public efforts to encourage their utilisation for SME financing. If these instruments are structured so as to make issuance possible by SMEs, they might enlarge the range of financing instruments available to them, offering alternatives to traditional bank-based finance. Furthermore, it is arguable that since the onset of financial crisis in 2007-08, banks in many OECD countries are retrenching their lending to reasonably creditworthy SMEs, in other words that the market in SME financing has not been functioning normally. In those circumstances, it would be justifiable to consider exploring the use of these techniques.[3]

The basic techniques above illustrated concern the financing of low-risk SMEs. The following paragraphs consider techniques that are better suited to higher risk / higher return activities. In Table 2.1, these techniques fall under two broad headings 1) hybrid techniques and 2) equity techniques.

A common feature of hybrid techniques and equity is that the investor accepts more risk and expects a higher return than with the other techniques outlined above. As mentioned above, the risk/reward characteristics of bank credits induce bankers to avoid risk even at the cost of forgoing high rewards. By providing an alternative risk-reward structure that enables an investor to accept more risk in exchange for a higher return, hybrid techniques and equity have the capacity to produce a better alignment of the interests of the SME and the provider of finance.

Equity instruments, which represent shares of the company, are found at the right end of the risk/return spectrum. Equity investors take the highest risk, in that they are paid only after senior creditors and investors in hybrid instruments have received all payments. However, equity investors are entitled to all residual profits of the company. This category also includes equity derivatives, such as futures, options and warrants. At the same time, it is the most expensive form of finance, and it usually obliges the owners of the firm to share control with outsiders.

Hybrid instruments

In the middle of the risk/return continuum, from "pure" debt to "pure" equity, there is a range of financing instruments that can be characterised as "hybrid instruments", in that they have some features of debt and equity. These techniques differ from straight debt finance, in so far as they imply greater sharing of risk and reward between the user of capital and the supplier of capital. The investor in a hybrid instrument accepts more risk than a provider of a senior loan and expects a higher return, which implies a higher financing cost for the firm. However, the risk and the expected return are lower than in the case of equity, which thus implies the cost of financing for the enterprise is lower. In the event of insolvency, where the firm is unable to meet all its contractual obligations, investors in mezzanine finance have lower rankings than other creditors, but higher ranking than investors in "pure" equity capital.

Because hybrid finance is better able to distribute risk and reward with investors than straight debt finance, it is often a suitable form of finance for SMEs seeking expansion, but also seeking lower financing costs and less loss of control than occurs in an equity transaction.

Some of the most commonly used hybrid instruments are:

- Subordinated debt (loans or bonds) in which the lender agrees that senior or secured creditors will be fully paid before any interest or principal is paid.
- Equity-related debt (convertible debt or bonds with warrants) in which the investor receives (in addition to interest) a payment linked to the share price of the company in which the investment is made. Holders of convertible bonds or bonds with warrants have the right to acquire shares or other equity instruments of the company instead of accepting repayment of the bond. This right is exercisable for a defined period and at a predetermined conversion or subscription rate. The effect of the exercise of the conversion right by bondholders is to convert debt into equity. The difference between

a convertible bond and a bond with warrants is that, in the latter case, the warrants (subscription rights) are separate from the bond and can therefore be traded separately.

- Profit or earnings participation mechanisms in which the investor is compensated by a share of future earnings of the company, subject to the risk that earnings may not reach the required threshold.

Some of these hybrid instruments can be used as "stand alone" investment instruments, and some may be offered in public capital markets. However, nearly all hybrid instruments that are publicly offered involve larger companies.

What is mezzanine finance?

Given its relevance as a source of growth capital for SMEs, this chapter focuses on one particular kind of hybrid instrument, mezzanine finance. "Mezzanine finance" is a generic term for financing techniques that incorporate elements of debt and equity in a single investment vehicle. A typical mezzanine facility combines several financing instruments of varying degrees of risk and return, such as subordinated debt, profit participation certificates and equity warrants. It differs from "straight debt" finance, in that it implies greater sharing of risk and reward between the user of capital and the investor. However, the risk and the expected return are lower than for "pure" equity. In the event of bankruptcy, mezzanine investors have lower rankings than other creditors, but higher rankings than "pure" equity investors (Table 2.2).

Inasmuch as recourse to mezzanine finance requires the firm to pay interest promptly and eventually to make additional payments linked to the performance of the company, mezzanine finance is most relevant in a later (expansion) phase of the firm, usually when a firm with positive cash flow is approaching a turning point in its development and requires an injection of capital to grow. The investor expects these payments to be made from the firm's cash flow.

In this regard, mezzanine finance can be contrasted to venture capital and business angel finance, where the investor is willing to provide financing to firms with negative cash flow while demanding higher rates of return in exchange. In addition, the providers of venture capital expect to play an active role in guiding the development of the company and conflicts between the founding entrepreneur and equity investors over control are fairly common.

With mezzanine financing, the financiers will try to ensure that debts are repaid, but seek to invest and to exit without acquiring control. Mezzanine investors generally do not wish to acquire more than 3-5% of the equity of any company in their portfolio and do not seek to participate in its management (Credit Suisse, 2006). However, in return for the lower ranking and unsecured nature of mezzanine capital, investors require detailed and prompt information on the economic progress of the business, and usually define specific financial indicators, or covenants, which the company must observe. For the investee companies – especially SMEs – this gives rise to increased requirements as regards accounting, oversight, and information policies. It also requires intensive monitoring on the part of mezzanine investors.

Mezzanine finance complements rather than replaces other forms of finance. As it is considered equivalent to an increase in equity by banks and other traditional lenders, it offers greater scope for additional straight debt. In addition, it can be used in conjunction

Table 2.2. **Comparison of mezzanine finance and other financing techniques**

	Senior debt	Mezzanine	Equity
Economic perspective	Debt	Equity	Equity
Legal perspective	Debt	Debt	Equity
Ranking	Senior	Contractually subordinated	Junior
Taxation	Debt interest deductible	Debt interest deductible	Tax on capital
Covenants	Comprehensive restrictions	Tracks senior, but looser	None
Security	Yes -1st ranking	Yes -2nd ranking	No
Investor's involvement in management	No direct involvement	Moderate involvement; board seats	Direct involvement
Purpose	Contractually specified	Not specified	Not specified
Term	4-5 years	5-10 years	Open ended
Interest Costs	Cost of funds + 255-350 basis points	150-300 basis points above senior	None
Repayment	Amortising from cash flow	Bullet* upon exit or at maturity	None
Warrants	None	Almost always	None
Total Expected Return	5-13%	13-25%	>25%

Note: * The payment for the principal is not made over the life of the loan, but rather as a lump-sum payment at exit or maturity.

Source: adapted from Credit Suisse, *Mezzanine Finance* (2006).

with various forms of equity finance, such as private equity, venture capital, business angels, or listing on an exchange or similar trading platform.

Instruments for mezzanine finance

A mezzanine facility typically includes several financing instruments (tranches) of varying degrees of risk and return. The exact mix of instruments in a specific facility can be tailored to suit the risk/reward preferences of the SME and the investors. To the extent that the facility has a large share of fixed rate current pay assets, it will tend to have a low but steady yield. Yield can be enhanced by increasing the proportion of higher risk assets in the facility or by delaying payments until later stages of the operation.

A simple mezzanine facility contains: i) one or more categories of subordinated debt; ii) a tranche in which the investor receives a "success fee," i.e. a share of the firm's earnings or profits and/or; iii) an equity-related tranche in which an investor receives a payment whose value is contingent upon a rise in the value of the company, usually reflected in the company's share price. The latter tranche is often called the "equity kicker". The following paragraphs illustrate in more detail the main components of mezzanine facilities.

- Subordinated loans (sometimes called junior debt) are unsecured loans, at a specific rate of interest, independent of the state of the company's finance, where the lender's claim for repayment in the event of bankruptcy ranks behind that of providers of senior debt but ahead of equity investors. Principal is usually repaid in "bullet" form, i.e. at the end of the loan. For a higher interest rate, the facility may provide for payment in kind (PIK) in which both interest and principal are paid at the loan's maturity.
- Sales or turnover participation rights provide the investor receives with a payment based upon the performance of the company, in terms of revenue, turnover, or earnings. Participating loans are loans whose remuneration, interest or capital repayment, is contingent upon the results of the business (e.g. profit, financial position, share price),

rather than being fixed. This participation can be confined to the purpose for which the loan was provided or pertain to the whole business of the company. Additionally, fixed interest payments can be included in the contract. On the other hand, participating loans do not share losses. In the event of bankruptcy, providers of participating loans share in the results of the liquidation in the same way as other loan creditors.

- Profit participation rights are equity investments that entitle the holder to rights over the company's assets (e.g. participation in profits or in the surplus on liquidation, subscription for new stock), but not ownership rights, such as participation to shareholders' meeting and voting. Profit participation rights are not defined by law and can therefore to a large extent be negotiated and designed to suit the parties, resembling borrowed capital, with minimum interest payments which are independent of the company's profits, or equity capital, with the right to participate in the company's profits and/or liquidation proceeds.
- "Silent" participation is closer in legal form to an equity investment than subordinated or participating loans. In this form of financing one or more persons take an equity stake in a company, but without assuming any liability to the company's creditors. The typical "silent" participation affects only the company's internal affairs and is not apparent to outside observers. The details of participation in profits or losses, involvement in the company's management, supervision and information rights, etc. can be structured flexibly.
- Equity "kickers" include a payment to the investor that reflects the increased value of the company enabled by mezzanine finance. The most common equity kickers are warrants which give the holder the right to purchase a specific number of shares at a predetermined price. The value of the warrant is the difference between the price at which a share of the company can be purchased by exercising the warrant (the strike price) and the market price. The value of this instrument can be determined by market process where the company is publicly traded or is sold to an outside investor through a merger or acquisition (M&A). In cases where no such basis for pricing the equity interest is available, the value of the equity warrant is determined using a valuation technique specified in the contract.

Types of firms suitable for mezzanine finance

Mezzanine capital is a suitable form of finance for SMEs with a strong cash position and a moderate growth profile. However, it is not intended to be a permanent feature of the capital structure of any firm. Rather, it is applied at certain defined points in the business life cycle, in order to assist the firm in effecting certain transitions in its development. In particular, mezzanine capital can serve SMEs when the risks and opportunities of the business are increasing, but they have insufficient equity backing, and, for this same reason, face difficulties in accessing debt capital (Credit Suisse, 2006).

The traditional market for mezzanine finance has been upper-tier SMEs, with high rating (BBB+ or above) and demand for funds above EUR 2 million. Thus, it is a form of finance that mainly supports growth plans of medium-sized companies, whereas it does not generally apply to the smaller segment of the SME sector. Nevertheless, in recent years, some financial institutions, particularly public financial institutions, have started to extend mezzanine finance to SMEs below the upper tier and with smaller funding needs. For SMEs in this segment, which normally have to rely on regular loans or equity to meet their funding requirements, the opening up of the mezzanine market to smaller and lower rated borrowers enables broader choice, more tailor-made financing and better conditions for negotiation on the terms for new senior debts and equity (EC, 2007).

In general, an important precondition for raising mezzanine capital is that the earning power and market position of the business should be well established and stable. A company must demonstrate an established track record in its industry, show a profit or at the very least post no loss, and have a strong business plan for the future. Qualitative factors, such as the track record and capabilities of the management, play important parts in the investment decision. The following paragraphs underline instances in which mezzanine finance can fit the SME financing needs.

Young high-growth companies

A young high growth company that has used venture capital in earlier phases of growth might decide that it is more advantageous to use mezzanine finance for expansion capital rather than to seek additional funding from venture capital. Since mezzanine finance is cheaper than equity finance, it results in lower financing costs and also diminishes the dilution of control for founding entrepreneurs that typically accompanies venture capital financing.

Established companies with emerging growth opportunities

A large share of high growth SMEs in OECD countries are not fast growing recent "start-ups" that advanced through the early phases of growth speedily, but established companies that discover new markets segments and thereby achieve substantial gains in output and employment. There is considerable evidence that growth opportunities can be exploited by firms of various ages, in various sectors of the economy and in various geographic regions (OECD, 2010b). Firms with these characteristics can be good candidates for mezzanine finance and obtain the funds necessary to go ahead with promising business projects (e.g. expansion) in cases where the funding requirement exceeds what can be obtained using traditional debt financing. Some of these firms may not have the right profile in terms of sector or region to attract venture capital finance, or the projected rate of return, though comparatively high, may not be sufficiently high to attract venture capital.

Companies undergoing transitions and restructuring

Mezzanine capital can be used in effecting a wide range of transitions, particularly given the fact that the purpose is not specified in the financing agreement. The transition may occur when the owner of a company no longer wishes to manage the business and cannot find a successor who will purchase the business in its current condition. Mezzanine finance can help to effect the transformation from a closely held family run business into a transparent company with professional management. The plan may ultimately call for sale to existing managers or to an outside management group. The plan may also envisage an increase in equity (and "cash-out" for the entrepreneur). Mezzanine finance can also support spinoffs of parts of the business.

Strengthening of capital structures

Mezzanine finance can address the financing constraints encountered by SMEs that are excessively leveraged, particularly closely owned and/ or family companies, and can enable companies to reduce leverage. In the past, thinly capitalised firms have been able to maintain access to debt financing based upon the entrepreneur's strong relationships with banks. Following the 2008-09 financial crisis, many companies were obliged to increase reliance on bank loans and /or official guarantees, and therefore will need to improve their capital structures (OECD, 2010a). At the same time, banks are becoming more wary about exposure to thinly capitalised companies and may demand higher equity as a precondition for continued lending. In the longer run mezzanine can be a bridge to equity finance, either because: i) the company increases equity through retained earnings or ii) at the end of the period for which mezzanine is utilised the company is recapitalised either through a sale to strategic investors or through an initial public offering (IPO).

Leveraged Buy-Outs (LBOs)

Mezzanine finance is often used in conjunction with leveraged buy-outs (LBOs). In fact in most countries, the bulk of mezzanine transactions occur in the buy-out market. However, these operations mostly involve larger companies.

Government support to mezzanine finance

The rationale for government intervention in the market for mezzanine finance relates to the existence of a financing gap (or market failure) in certain parts of the SME finance market, meaning that SMEs that are apparently creditworthy and have reasonable economic prospects cannot obtain funding in the market. The "growth capital" segment of the market is more problematic than the one concerning established SMEs with strong cash flows or those buttressed by guarantees and collateral. Substantial amounts of funds might be needed to finance projects with high growth prospects, while the associated profit patterns are often difficult to forecast (OECD, 2010b).

Policy makers in some countries and in international organisations have sought to encourage the use of mezzanine finance, due to its potential to provide finance efficiently to key categories of SMEs, and to extend it to SMEs with lower credit ratings and smaller funding needs than the companies most commonly served by commercial providers.

Table 2.3 illustrates the forms that government support may take in this market. These can be classified into three categories:

- Participation in the commercial mezzanine market, through the creation of investment funds that target certain categories of SMEs and award mandates to private investment specialists. In many OECD countries, governments have formed special investment funds that invest alongside private investors in SMEs. Some of these funds may only invest in mezzanine vehicles, while many have flexible investment mandates that permit them to invest in a broader range of assets. There are two main ways in which public entities invest in SMEs through funds:
  - A simple fund structure in which the public entity joins other public and private entities and provides resources (equity, debt or mezzanine) to SMEs.
  - A fund of funds structure, in which the public entity allocates funding to several funds that provide financing to SMEs.
- Direct funding to SMEs can be provided by a special agency, (e.g. an SME support agency or development bank) under a specific programme. Typically, these programmes contain some mix of subordinated loans with a mechanism for participation in the sales, earnings or profits of the company, when performance is good. Alternatively, the official agency may provide guarantees while private institutions offer the facility.

- Funding of private investment companies at highly attractive terms. This modality of government support to mezzanine finance development is observed specifically in the United States. Under the Small Business Investment Company (SBIC) mechanism, a government agency, the United States Small Business Administration (SBA), issues debt and makes funding available to SBICs. These are privately owned and managed investment companies that provide funding (in equity or mezzanine form) to SMEs. The SBA is a senior creditor of the SBIC and receives interest regardless of the performance of the companies in the SBIC's portfolio. The SBA does not sponsor a fund that makes investment in SMEs, nor does it provide direct funding to any. Instead, government support takes the form of funding at highly attractive terms.

All of these mechanisms require private funds to complement public funding, and all require SMEs to pass various tests of financial viability in order to qualify for official support.

Table 2.3. **Typology of public schemes to provide mezzanine finance to SMEs**

Indirect investment via funds	Direct provision of finance to companies	Funding of private investment companies at attractive terms (US SBIC model)
a) Fund of funds structure • public Investor ❖ establishes investment policy ❖ selects funds ❖ co-Invests in fund with other public and private investors ❖ provides funding to fund • fund ❖ selects SME for investment. b) Simple fund structure • public investor ❖ establishes investment policy ❖ joins other public and private investors to form fund • fund ❖ selects SME for investment	Government entity • designs product • sets criteria for eligibility • provides funding directly to SME via loans or guarantees	Government entity • sets criteria for eligibility • provides funding on favourable terms to private companies specialised in SME investment. Private investment company • selects SME for investment.

Investment through commercial mezzanine finance

Modalities

Commercial mezzanine finance means investments that are undertaken by private specialists in mezzanine finance operating as profit-making companies and using techniques that have evolved through market practice. As will be explained below, investors may be private or public.

Mezzanine finance takes place only in the private capital markets, which are characterised by fewer formal disclosure requirements and a smaller degree of official regulation and formalised investor protection than the public markets, which are open to the general investing public (institutional and retail investors). In most cases, private markets are restricted to professional, institutional or sophisticated investors.

A commercial mezzanine investment usually takes the legal form of a private investment partnership, a vehicle that is restricted to a limited number of sophisticated investors (Limited Partners – LPs) each of whom must commit a substantial sum.

The investment is organised by General Partners (GPs) who are professionals in management of mezzanine investments. The GPs contribute their skills in identifying good companies, guiding them through the mezzanine cycle, monitoring their performance, often participating in their boards, and liquidating the fund at the end of its mandate. Due to the need to monitor companies actively, mezzanine funds usually only hold a limited number of companies in their portfolios, with 20-30 companies on average. Furthermore, mezzanine finance usually has covenants restricting the activities of the companies, although they tend to be less rigorous than those of commercial banks.

The mezzanine fund has a pre-determined life (usually 7-10 years) and investors are expected to remain invested throughout this period. Normally, in its early years, the fund will have large shares of assets in cash as investible projects are sought. During the middle years of the fund life, assets are usually fully invested.

Mezzanine investors expect to realise value by exiting in the later stages of the investment. Most commercial mezzanine investments are taken out either through a change-of-control sale or recapitalisation of the company. Some mezzanine providers may look to invest in companies that represent strong IPO candidates. In some cases, the company may be sold to strategic investors. More frequently, the mezzanine capital provider is bought out by the initial owner through a recapitalisation with inexpensive senior debt, through the accumulated profits generated by the business or through an acquisition of the company by a competitor.

Toward the end of the fund's life, earnings will flow into the fund and investors will receive cash. At the end of its life, the fund is wound up and all investors receive a share of the earnings of the fund. In contrast to most bank loans, debt normally is in "bullet" form with all repayment of principal at the end of the loan. The GPs receive fees for all assets under management (usually about 2%), as well as a share of the profits of the investment.

Investors

Private investors

When investment in mezzanine funds began in the United States in the 1980s, the main investors (LPs) were insurance companies and savings and loan associations. At present, the investor base has widened to include investors such as high net worth individuals, family offices, pension funds, hedge funds, leveraged public funds, as well as banks that have established specialised mezzanine subsidiaries.

Traditionally, mezzanine lenders are "buy-and-hold" investors, i.e. they tend to hold positions for relatively long periods as opposed to investors who trade frequently. These investors usually try to obtain high rates of return for an extended period of time, while using various profit or turnover participation rights as well as equity participation to enhance total return. Unlike assets such as traded equity, high-yield debt, and interest rates which exhibit volatility in the face of changing economic and financial conditions, commercial mezzanine finance tends to have consistent and stable yields. Even as rates on traditional credits have tended to decline with the fall of interest rates since 2007, the coupon rate on mezzanine notes and expected returns of mezzanine investments have remained relatively steady (Silbernagel and Vaitkunas, 2010).

There is only limited possibility for smaller (i.e. retail) investors to invest in SMEs in any form, including mezzanine. This is the case of specialised collective investment schemes Commonwealth of Independent States (CIS), which receive the savings of smaller investors and purchase assets that are traded in private markets. Some OECD countries have authorised the creation of special investment vehicles in which retail investors can purchase shares of special CIS that invest in SMEs through instruments such mezzanine finance, venture capital funds and unlisted equities. Indeed, in some countries the authorities have decided to grant preferential tax treatment to these specialised CIS. For example, in France a special investment vehicle, the Fonds Commun de Placement en Innovation (FCPI), has been created to facilitate investment in companies that are certified as innovative under criteria established by OSEO, the state-owned financial institution that facilitates SMEs' access to long-term capital. Investment in FCPIs is tax deductible and capital gains on investment on FCPIs held for a specified period are tax free.

Public investors

In addition to the funds provided by private investors, who are mainly interested in profit, funds may also be provided by official entities. These may award investment mandates to commercial mezzanine specialists under the assumption that private investment specialists are better able than government officials to identify promising candidates for mezzanine finance and to interact with such companies at varying stages of their growth cycle.

The public investor often has motivations other than profit when investing, such as to make financing available to companies for which a financing gap has been identified, and/or to familiarise market participants with new financing techniques. Public investors receive the same treatment as other limited partners. However, if public investors are the dominant investors, they may accept lower returns in exchange for the selection of companies that meet other criteria

Public suppliers of mezzanine capital include supra-national, national and sub-national governments as well as regional institutions. Public investors usually operate through investment funds, simple funds or fund of funds, in which a sum of money is assigned to general partners, who invest in portfolios of qualifying companies as they would invest funds obtained from private sources. Usually, public money is invested under general guidelines such as a requirement that a stipulated share of instruments must be invested in companies producing alternative energy or those with sales of a comparatively small amount.

For many public funds, mandates are flexible enough to permit investment in mezzanine finance, as well as in other instruments such as loans, venture capital or other forms of equity. For example, in Denmark, Dansk Vækstkapital, established in 2011 through an agreement between the Danish government, the pension industry association Forsikring & Pension (F&P), the Federation of Danish Investment Associations, LD and ATP, operates as a fund of funds. According to its investment mandate, it would be permitted to invest in funds which supply mezzanine capital to small and medium-sized companies. However, Dansk Vækstkapital has not yet invested in mezzanine. In the United Kingdom, the Capital for Enterprise Fund (CfEF), fully owned by the United Kingdom government, supports viable businesses that have exhausted their borrowing capacity with banks in amounts ranging from GBP 200 000 to GBP 2 million. The fund is authorised to invest in mezzanine or equity. In Sweden, Industrifonden and Fouriertransform are public early stage venture capital providers that also deal with mezzanine finance. Ireland has a number of public investment funds which may invest in mezzanine finance along with other forms of financing such as venture capital. These include the Innovation Fund Ireland Scheme and the domestic Seed and Venture Capital Schemes. In the United States, there are no funds of this kind on the federal level, but some states have development funds that invest in mezzanine and equity.

In addition, amongst the funds for investment in small companies provided by international organisations, such as the EU, the EIB Group, the ADB, the EBRD and the IFC, some are dedicated mezzanine funds. The EIB Group's Mezzanine Facility for Growth is especially dedicated to place funds in mezzanine products (Box 2.2.).

Box 2.2. **EIB group – Mezzanine facility for growth**

The EIF is the European Invest.2.ment Bank (EIB) Group's specialist provider of SME risk finance across Europe. It plays a crucial role throughout the value chain of enterprise creation, from the firm's earliest stages to mid and later-stages. As a pioneering investor in European venture and growth capital, EIF has built a strong track record. Its equity activity is based on the experience it has developed through its diversified portfolio of fund investments, being a reference investor with measurable catalytic effect. A key priority is to help the establishment of a well-functioning, liquid venture and growth capital market that attracts a wide range of private sector investors, and to contribute to the sustainability of investments.

In 2009, the EIF began to offer mezzanine finance, by launching a fund with a dedicated mezzanine mandate, the Mezzanine Facility for Growth (MFG). This is a EUR 1 billion fund of funds mandate granted by the EIB to the EIF to be invested in hybrid debt /equity funds throughout Europe, with a view to playing a catalytic role in this market segment.

This tailor-made solution is meeting a new but real market demand and provides financing to support entrepreneurs who are endeavouring to keep control of their companies as the company expands or to companies which need complex reorganisation of their capital structures. Mezzanine also caters for later stage technology companies which have reached breakeven but do not yet have access to standard funding. It can be tailored to meet the specific financing requirements of these companies and in the current market situation, where bank lending remains limited, it is well adapted to long-term financing. EIF is usually involved early in the launch process of mezzanine funds, taking a significant participation at first closing.

In 2012 EIF substantially increased the total volume invested under MFG, with a total of EUR 320 million committed to eight hybrid debt/equity funds, a 50% increase over the volumes achieved in 2011. EIF's investments catalysed over EUR 1.3 billion of commitments and in most cases EIF's investment was vital for the successful closing of these mezzanine funds. Projects were supported for the first time in countries such as Italy and Spain, where new funding possibilities are much needed by SMEs. In 2013, EIF continued to play a critical role in stimulating the development of this market.

Under the umbrella of the MFG mandate, which covers EU 27, in 2012, the "Mezzanine Dachfonds für Deutschland" (Mezzanine fund-of fund for Germany, MDD) has been established. MDD is a EUR 200 million fund-of-fund, targeting hybrid debt/equity fund investments in Germany. MDD is funded by EIF (under the MFG mandate), the BMWi (German Federal Ministry of Economics and Technology), LfA Förderbank (the development bank of Bavaria) and NRW.BANK (the development bank of North Rhine-Westphalia).

Source: Kraemer-Eis, H., Lang, F., and Gvetadze, S., *"SME Loan Securitisation: An important tool to support European SME lending"* (2013). EIF, *"European Small Business Finance Outlook"* (2013).

At European level, the financial instruments of the Competitiveness and Innovation Framework Programme (2007-13) offer the possibility of mezzanine type financing through one of the windows of its SME Guarantee Facility (the 'Equity Guarantee Window'), and the European Regional Development Fund provides the opportunity for Member States/ Regions to finance similar instruments.

Public programmes to provide direct mezzanine finance

The preceding section described the situation of commercial mezzanine finance as it has evolved among private market participants, including those cases in which a public body supplies capital but delegates responsibility for the actual investment of that capital to private asset managers. Funds of this kind are most likely to be used by larger SMEs and by those with relatively high credit ratings.

However, even if official programmes to provide financing through investment funds are successful, they would still leave substantial numbers of economically and financially viable SMEs with a financing gap. At the Fifth Round Table between bankers and SMEs, organised by the European Commission in 2006-07, it was estimated that the commercial mezzanine market can accommodate operations of EUR 2 million or higher with ratings of BBB+ or better, whereas medium sized operations (EUR 1- 2 million) or smaller operations (less than EUR 1 million) require more direct participation by an official body (EU, 2007).

As a result, many governments have decided to take additional steps to expand access to finance by developing programmes under which financing can be made available to other SMEs, using risk sharing and compensation techniques that are similar to those used in commercial market mezzanine. Scoreboard countries with government programmes of direct provision of mezzanine finance to SMEs include Austria, Canada, the Czech Republic, Denmark, France and Spain.[4] Regionally operating and promotional banks had been also trying to introduce this product in a number of countries. In Belgium, there are three regional programmes for Flanders, Wallonia and the Brussels region.

Unlike commercial mezzanine finance, which has tended to converge toward a uniform global pattern, in the case of public participation, the specific pattern of mezzanine finance has tended to be guided by the laws, institutions and policies of the jurisdiction in which it operates. These operations are less standardised than fully private market operations and depend upon the decisions that each country has made regarding the best way to structure its own programmes.

Rather than investing in a portfolio of companies as it is the case with funds, these schemes usually involve one particular company, which receives direct funding from the official financing agency. This will usually insist that a private financier participate in the mezzanine operation, either through a bank loan or an equity investment. In fact, these mezzanine facilities typically contain "straight" or senior debt tranches, where subordinated loans will only be granted where the company raises a significant amount of funding from banks. Subordinated loans are usually at fixed rate over a base rate, with the premium rising along with the credit risk of the company. The rate is higher than those provided by official agencies on senior credits or guarantees but is usually less than rates charged by commercial mezzanine finance. In addition, these facilities often provide for guarantees both on the debt and equity portions of the funding. Also, they usually enable the official agency to obtain additional compensation of the company is successful. The

Box 2.3. **Contrat de développement participatif, OSEO, France**

In October 2009, OSEO, the French publicly-owned entity responsible for facilitating access of SMEs to long-term capital (since 2013 grouped into the Banque Publique d'Investissement), launched the Development Contract (Contrat de Développement Participatif), in response to growing difficulties of French medium-sized firms in obtaining market based financing.

The main component in the DC is a subordinated loan of seven-year maturity with two-year grace (i.e. no principal repayments are made for the first two years). The interest rate may be fixed or variable and is set according to the risk rating assigned by the Banque de France. OSEO receives additional compensation in the form of a share (usually about 5%) of the increase in firm turnover following the loan, and its risk is limited by a public guarantee fund, which covers 80% of the risk, plus a 5% deposit by the company.

In order to qualify for a DC, the firm must be more than three year old with less than 5 000 employees and undertake an investment program. The amount that OSEO will contribute is limited by the capital contribution of the shareholders. A further requirement is that the firm must obtain bank funding that is at least twice as large as the OSEO contribution loan or an increase in equity (from existing or new shareholders) of an amount at least equal to the OSEO contribution. In cases where the DC is accompanied by a bank loan, OSEO can provide a guarantee of up to 70% for the loan, from OSEO's own guarantee funds or from a regional guarantee fund. In any case, the size of the DC is limited as a multiple of the shareholders equity and can range from EUR 300 000 to EUR 3 million. Furthermore, the bank loan will cover capital goods and material purchases, while the DC can be used to cover intangible expenses such as outlays to meet environmental norms, for acquisition of other companies, IT expenses, training and recruitment of personnel, foreign expansion, advertising and marketing.

From December 2009 to December 2011, EUR 1.1 billion were granted under the scheme to 1 076 firms, allowing them to raise EUR 5.5 billion of investment funding from other sources. Although companies with up to 5 000 employees have taken advantage of the programme, some 76% of DCs have been to firms with 249 or fewer employees. DCs of EUR 1 million or less account for about 70% of the total, measured by the amount of the Contract. On balance, the firms that utilise DCs are mature and relatively concentrated in traditional activities rather than high technology sectors. However, about 44% of enterprises are characterised as being in a process of innovation. Also, some 36% of enterprises are characterised as significant exporters, with foreign sales accounting for at least 5% of total sales.

Source: www.oseo.fr

Development Contract (Contrat de Développement Participatif), introduced in France by OSEO in 2009 (Box 2.3.), represents an example of a mezzanine facility with these characteristics.

An alternative model is for the official agency to maintain a programme of guarantees where actual funding comes from a private institution (in most cases a bank), as in the case of AWS' Guarantees for Mezzanine Investments in Austria (Box 2.4.).

Most public mezzanine programmes avoid equity-like instruments such as convertible debt or debt with warrants and instead favour silent partnerships or "success fees" under which the agency receives a share of the profit or turnover of the company but does not acquire an active equity stake in the company. In fact, these facilities generally entitle the agency to receive information about the state of the company, but no right to take part in

Box 2.4. **Guarantees for mezzanine investments, AWS, Austria**

The Austria Wirtschaftsservice (aws) provides guarantees for mezzanine products within its Guarantees for Mezzanine Investments facility ("Garantien für beihilfenfreie Mezzaninfinanzierungen"). Eligibility is restricted to SMEs located in Austria, independent of their legal form and sector of activity. Similarly, the project to be financed with the mezzanine investment has to be realized within the country. Eligible investors include banks and individual investors.

The guaranteed mezzanine product can be used for either investment or acquisition purposes. Investment projects include those related to the modernisation or capacity expansion of the firm as well as plans to enhance research and development. As for acquisition purposes, only expenses related to the acquisition of firms in Austria, rather than the purchase of shares, are supported. On the other hand, the guarantee cannot be used to finance working capital needs. Only projects which have not yet started are eligible.

A maximum of 50% of the mezzanine investment volume can be guaranteed. The maturity of the mezzanine investment must be between five and ten years and the guaranteed amount cannot exceed 7.5 EUR million unless for justified exceptions. Administrative fees are structured as follows: 0.5% of the guarantee amount for the first EUR 2.5 million, and 0.3% for the remaining guarantee volume. The guarantee fee in turn depends on the credit rating of the SME; the minimum fee is 0.6% of the guarantee amount. Finally, 0.2% of the guarantee volume has to be paid for the guarantee commitment.

Source: AWS, Garantien für beihilfenfreie Mezzaninefinanzierung (2012).

decisions of the company. The Business Development Bank of Canada (BCD) would appear to be one exception, as it is rather flexible in its readiness to accept equity-like positions (Box 2.5.).

Mezzanine finance and the crisis

While the scarcity of reliable statistical data makes any analysis tentative, it appears that the commercial market for SME mezzanine finance, which has been functioning in the United States since the 1980s and grew steadily in Europe between the late 1990s and 2005, contracted considerably after the onset of the crisis in 2007. To some degree this reflects the fact that SMEs reacted to the crisis partly by postponing investments, which in turn led to diminished demand for mezzanine and other forms of long term financing. In 2012, this market had yet to recover its full pre-2007 dimensions, but it was still active.

In countries where private lenders were in retreat, recourse to officially supported mezzanine credit appears to have grown as governments stepped in to fill the void. In cases where programmes were well established before 2007 (e.g. Canada and the United States) some contraction was discernible immediately after the crisis, as SMEs retrenched in the face of declining demand and investors became visibly more cautious. There has, however, been a subsequent recovery and these programmes seem to be on track for further growth. In cases where measures were introduced in response to the crisis, utilisation has remained high as governments have stepped in to fill the gap at a time when private banks' credit offerings were contracted. Recent policy initiatives by several governments suggest that other OECD governments recognise the potential for this instrument to respond to a specific financing gap for SMEs.

Box 2.5. **Mezzanine finance by the Business Development Bank of Canada (BDC)**

The Business Development Bank of Canada (BDC) is a Crown corporation, with a mission of facilitating SME access to finance in areas where a market gap is present and private markets do not appear inclined to become active. The BDC has been active in mezzanine finance for about ten years and, although this represents a relatively small share of total BDC activity, it is nonetheless significant in certain sectors.

Three basic purposes for which the BDC provides mezzanine finance are: 1) acquisition; 2) growth; and 3) working capital. The BDC does not generally provide mezzanine finance to early stage companies, preferring to work with established companies with a strong market position. In order to be considered for mezzanine/subordinated debt financing, an applicant should provide the lender with a detailed business and strategic plan, including a comprehensive description of the company's market and the opportunities with which it is confronted. This should be supplemented by audited financial statements of historical results. In some instances, a technology assessment conducted by a qualified third party may be required.

The BDC enjoys large flexibility in structuring facilities to fit the situations of its clients. It can provide all of the financing on its own, but more frequently it partners with private financiers, especially the chartered banks. The programmes are operated by small teams, through regional offices across the country, which operate separately from those offering debt-based products.

The size of financing facilities range from CAD 250 000 to CAD 10 million. A typical BDC mezzanine facility contains a subordinated loan, which provides a stipulated rate of return, as well as other facilities that provide additional income linked to the performance of the company. Additional income can take the form of a) royalties on sales or EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization); b) interest based on enhanced value of the company; c) equity warrants; or d) other factors that can be negotiated with the client. The BDC's targeted rate of return for mezzanine (including interest and participation in "upside") is 15-17%.

The maturity of the subordinated loan can be from three to seven years. Grace periods are also subject to negotiations, and the BDC can negotiate contracts under which payments are all postponed until the end of the facility or under which the obligor makes regular monthly payments. An agreement that allows borrowers more flexibility in repayment to reflect their cash flow situation is possible.

Source: Financial statements and reports by the Business Development Bank of Canada.

Conclusions

Broadening the range of financing instruments available to SMEs and entrepreneurs is crucial to reduce the vulnerability of the sector to changes in the credit market and to address the "growth capital gap" that constraints the most dynamic enterprises. OECD work is underway to map the range of financing instruments available to SMEs and entrepreneurs and to assess the potential and challenges of these instruments in addressing different financing needs of SMEs.

The present chapter has focused on the functioning of the market in mezzanine finance and on policy programmes in this area. On balance, this form of finance has not received as much public attention as venture capital or specialised exchanges for SMEs, but it holds potential to respond to two critical problems in SME finance.

First, mezzanine finance can play an important role in widening the range of financing vehicles available to SMEs. The "expansion" phase of the firm financing cycle, where mezzanine is most commonly used, has been identified as one where market failure is common. This is not to say that mezzanine is the best solution to the scarcity of growth capital at all times, but that it is highly relevant when used by certain firms in specific situations. While mezzanine finance is less suited than venture capital to financing high technology start-ups and guiding them through successive phases of the growth cycle, it is more effective in meeting the needs of established companies seeking to grow and those seeking to effect major transformations.

Second, mezzanine finance may be especially relevant at the present juncture in global finance, since it enables companies to improve their capital structure and lessen their vulnerability in times of stress. This can be particularly useful when SMEs have been highly leveraged and dependent upon close relationships with banks. Given the present need in many countries to de-leverage, mezzanine may have the potential to help SMEs to improve the quality of their balance sheets and help them to move into the next phase of expansion.

Furthermore, in cases where the withdrawal of private funding has eased but private investors still hesitate to take new risks, mezzanine can be a highly relevant tool for exiting the crisis. Because it has characteristics that help investors recognise new growth opportunities, partly through innovative risk sharing techniques, mezzanine has the potential to encourage new private funding and to direct investment to those firms with the best growth prospects.

At the same time, mezzanine finance does not represent a definitive solution to the financing of SMEs. Many SMEs are not well-suited for this form of finance, and most firms using mezzanine finance will continue to need traditional debt and equity finance. Also, the use of mezzanine finance instruments requires a certain level of financial skills on the side of entrepreneurs and SME managers, who often lack awareness and capabilities to understand and access a wider range of financial options than traditional debt. Rather, the early evidence suggests that mezzanine finance can be an important part of the continuum of financing options that together constitute an efficient financial system.

One salient fact about the market in mezzanine finance is its uneven development across OECD countries. It seems difficult to ascribe differences in use of mezzanine to obvious factors such as the state of development of the economy or the institutional structure of the financial system. Even countries at similar levels of development and with similar financial structures appear to have vastly different levels of usage of mezzanine.

In some countries, a well-developed "commercial" market in mezzanine finance has functioned for more than two decades with minimal public involvement. However, the traditional market for commercial mezzanine finance has been upper-tier SMEs, with high credit ratings and demand for funds above EUR 2 million. Increasingly, governments in OECD countries have developed measures to offer mezzanine products to SMEs with lesser credit ratings and smaller funding needs. Public intervention has been taking two main forms: i) participation in the commercial mezzanine market by public entities (national or subnational development funds, international organisations, etc.), which create investment funds targeted to certain categories of SMEs and award mandates to private investment specialists, who in turn invest in targeted companies; and ii) direct public financing to SMEs under programmes managed by public financial institutions or development banks.

At present, the ability to assess the full potential of mezzanine finance for SMEs and entrepreneurs, and the effectiveness of public institutions in providing these facilities, is hampered by the lack of data on commercial mezzanine finance, in terms of financing volume, number and type of firms, as well as data on public investment funds in countries and international organisations. In this regard, progress is needed in terms of collection of statistical data on the amount of public funding provided through both commercial vehicles and public financial institutions, and on the performance of SMEs using this type of finance. To help fill these gaps more extensive analysis and policy dialogue involving key players, such as official agencies that actively provide mezzanine finance, industry associations, private financial institutions and international financial institutions, should be encouraged.

Notes

1. Additionally, debt payments are in many countries tax deductible.
2. An Asset-Backed Security (ABS).
3. For a discussion of the potential of securitisation to support SME access to finance see Kraemer-Eis¸ Schaber and Tappi (2010).
4. Based on replies by country officials to the *OECD Questionnaire on Seed, Early and Later Stage Finance,* conducted in 2012 (see OECD, 2013).

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PART II

Country profiles of SME and entrepreneurship financing 2007-12

This part presents data for debt and equity financing in 31 countries: Austria, Belgium, Canada, Chile, Colombia, the Czech Republic, Denmark, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Korea, Mexico, the Netherlands, New Zealand, Norway, Portugal, the Russian Federation, Serbia, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States. Individual country profiles are offered, which analyse the evolution of core indicators that monitor the access to finance of SMEs and entrepreneurs and their definitions, which are specific for each country. The statistical information is complemented by a description of government policies which respond to the current financing constraints facing SMEs.

Austria

SMEs in the national economy

In 2010, 99.7% of all firms in Austria were SMEs and they employed approximately 67% of the labour force.

Table 3.1. **Distribution of firms in Austria, 2010**

By firm size, as a percentage

Firm size (employees)	Number	%
All firms	**301 726**	**100.0**
SME (0-249)	**300 726**	**99.7**
Micro (0-9)	263 804	87.4
Small (10-49)	32 081	10.6
Medium (50-249)	4 841	1.6
Large (250 +)	**1 000**	**0.3**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance* (2013).

StatLink http://dx.doi.org/10.1787/888933013054

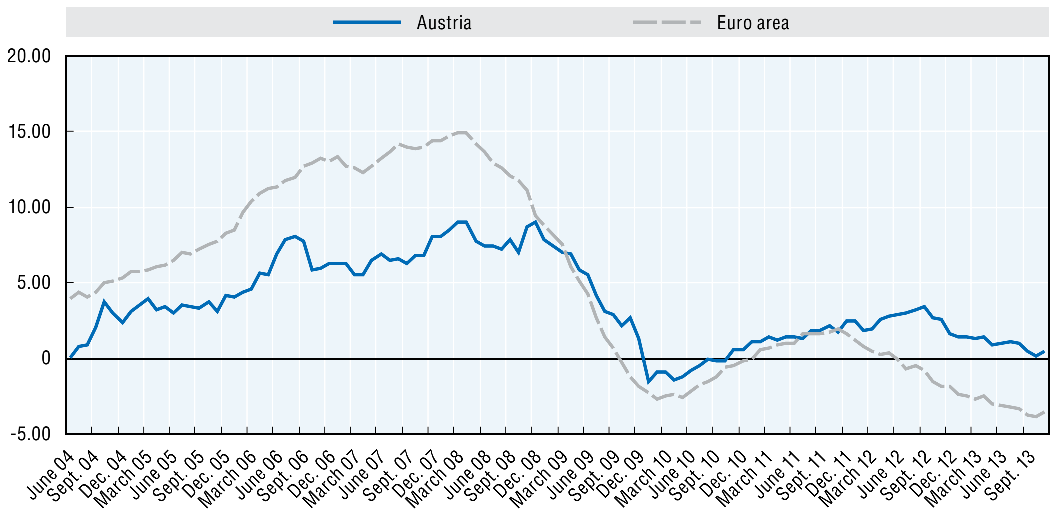
SME lending

SME loans are approximated by new business loans up to EUR 1 million granted from a sample of 103 banks (excluding loans granted to sole proprietors). The data for new business loans are provided by the Austrian National Bank for the period 2009-12. Data for previous years are not available. Table 3.6 indicates that new SME loans were lower after 2009 and new total business loans declined even more, thus the share of SME loans increased. However, 2012 saw a reversal of this trend with new total business loans rebounding by 10.7%, mainly driven by an increase in short term cash advances to large enterprises. As new SME loans slightly declined from 2011 to 2012, the share of SME loans also decreased by 1.4 percentage points to 11.6%.

As indicated by the growth rates of outstanding business loans to non-financial corporations, lending to business started deteriorating in the first half of 2008. Figure 3.1. reveals that the drop in growth rates of business loans was more pronounced in the euro area than in Austria. Growth rates turned negative in 2009 in both Austria and the euro area. However, in contrast to the euro area, Austria has sustained positive growth rates since the Q3 2010. While remaining positive, growth rates have been following a downward trend since Q3 2012.

Figure 3.1. **Growth rates of business loans to non-financial corporations in Austria, 2004-13**

Monthly data, percentage changes



Note: Annual change in stocks adjusted by exchange rate effects, write-offs and reclassification

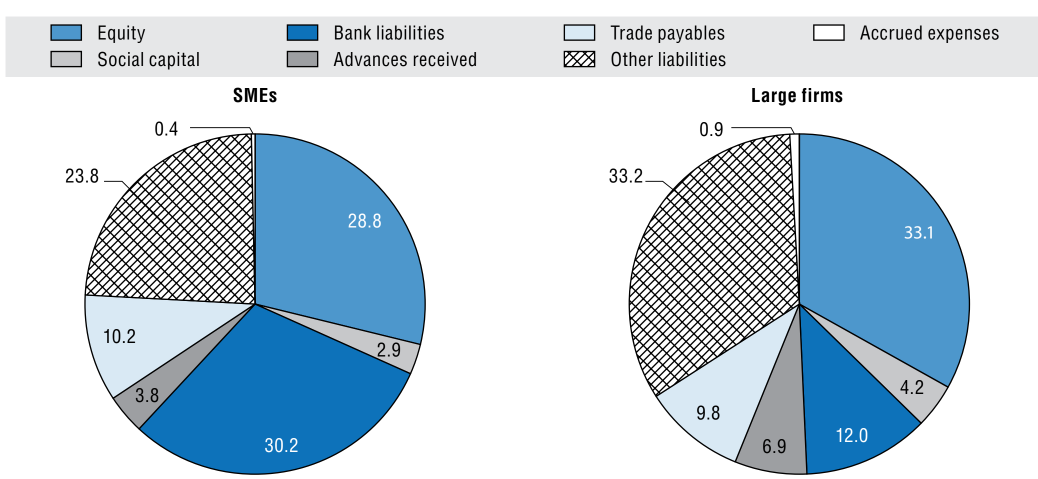
Source: Austrian National Bank.

StatLink http://dx.doi.org/10.1787/888933015391

According to the data collected by the Austrian Institute for SME Research from a sample of more than 80 000 SMEs (using the EU-definition) the equity base of SMEs has continued to increase in recent years. In the business year 2006-07, the share of equity in the composition of total capital of SMEs amounted to 23.8% and the share of bank liabilities totaled to 33.2%. In the business year 2011-12, the share of equity increased to 28.8%, whereas the share of bank liabilities totaled to 30.2%. Moreover, as indicated in Figure 3.2, large firms are less dependent on loans provided by the banking sector than SMEs.

Figure 3.2. **Financial structure of SMEs and large firms in Austria, 2011-12**

As a percentage



Source: Austrian Institute for SME Research.

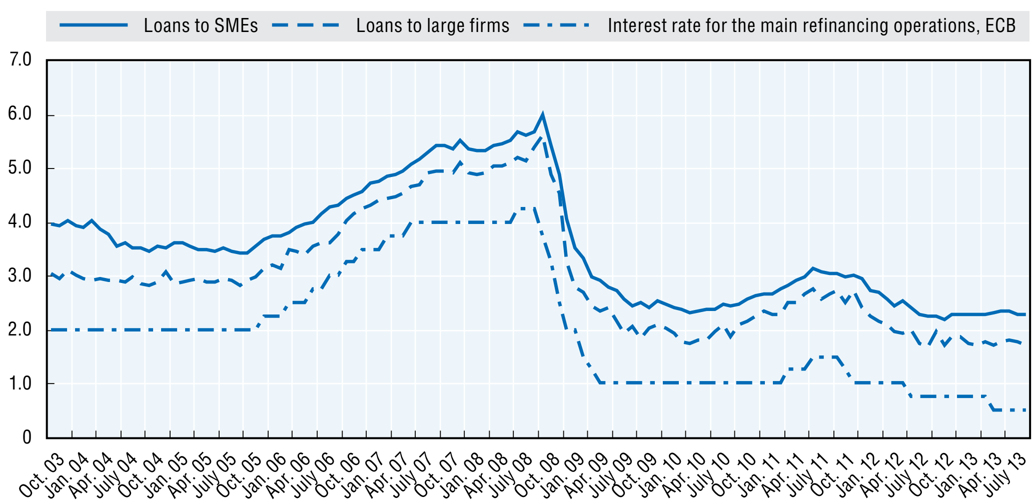
StatLink http://dx.doi.org/10.1787/888933015410

Credit conditions

As a result of the ECB's reduction in official lending rates in 2008, lower interest rates were passed on to the corporate sector. Average interest rates for SMEs declined from 5.5% in 2008 to 2.9% in 2009 and have remained below 3%. The drop in interest rates for large firms was even more pronounced, with interest rates declining by more than 50% from 2008 to 2009. However, during the economic upswing starting in autumn 2010, the increase in interest rates was stronger for large firms, as indicated by the decline in interest rate spreads in 2011. In 2012, the average interest rate for SMEs decreased by 15.75% compared to 2011. With interest rates for large firms decreasing by 22.35%, the interest rate spread increased in 2012.

Figure 3.3. **Interest rates for new business loans to non-financial corporations in Austria compared to the ECB interest rate for the main refinancing operations, 2003-13**

Monthly data, as a percentage



Note: Interest rates for SMEs are approximated by interest rates for new business loans up to EUR 1 million to non-financial corporations. Interest rates for large firms are approximated by interest rates for new business loans over EUR 1 million to non-financial corporations.

Source: Austrian National Bank.

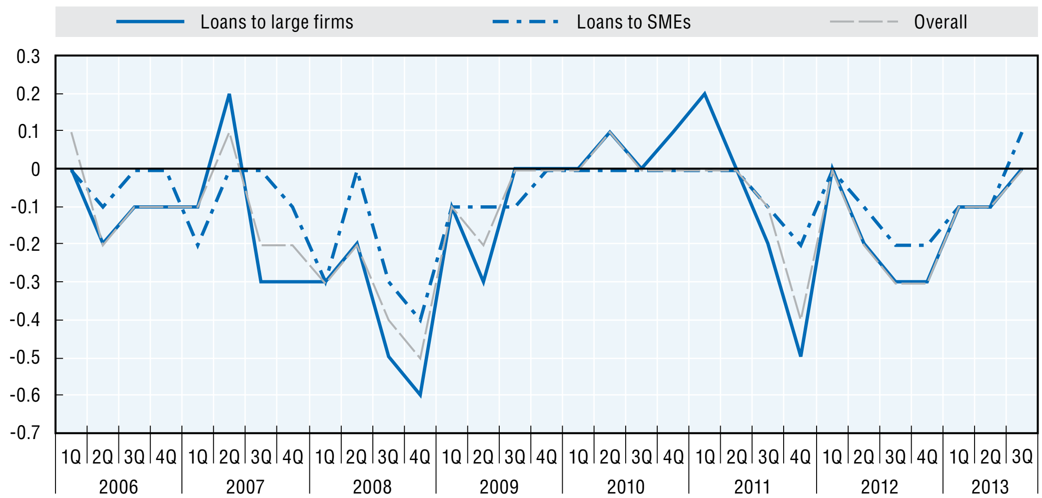
StatLink http://dx.doi.org/10.1787/888933015429

The turmoil in the financial markets following the bursting of the US housing bubble caused a tightening of the lending criteria applied by the Austrian banks in 2008. Results from the quarterly euro area Bank Lending Survey (BLS) indicate that the tightening of the conditions applied by Austrian banks for approving SME loans (determined by the bank's margin on loans, non-interest rate charges, collateral requirements, maturity, loan covenants and size of loans or credit lines) came to a halt in Q1 2010. Nevertheless, the latest survey results highlighted a renewed slight tightening in lending conditions since Q2 2011.

BLS results for credit standards (determined by costs of funds and balance sheet constraints, pressure from competition and the perception of risk) have been following a similar path. The progressive stiffening of lending standards relates to factors regarding refinancing costs and balance sheet restrictions such as equity capital costs and liquidity positions (in part due to Basel III), as well as a worsening in the perception of risk regarding the general economic outlook and the industry or firm specific expectations. Large firms were affected to a greater extent than SMEs, as indicated by the change in credit standards depicted in Figure 3.4.

Figure 3.4. **Credit standards for Austrian non-financial corporations, 2006-13**

Change in credit standards (balance of opinion)



Note: Diffusion index: considerable tightening of credit standards is assigned a value of -1 and a slight tightening a value of -0.5. Accordingly, a considerable easing of credit standards has the value of 1 and a slight easing the value of 0.5.

Source: Austrian National Bank.

StatLink http://dx.doi.org/10.1787/888933015448

In line with this trend, results from the European Central Bank/European Commission Survey on access to finance of SMEs in the euro area (SAFE) reveal that SMEs perceived a tightening of lending conditions in 2009. The latest survey indicates a renewed slight increase of credit costs and collateral requirements over the period October 2012 – September 2013. Nevertheless, the net percentage of SMEs reporting deterioration in the availability of bank loans decreased to 10% in the period April - September 2013 compared to 19% in the period April - September 2011.

Equity financing

Venture and growth capital investments in Austrian firms are characterized by a high volatility which is driven by single major investments. At the height of the crisis total investments amounted to EUR 119 million in 2009, followed by a marked decline to EUR 73 million in 2010. In 2011, venture and growth capital investments almost tripled to a total of EUR 206 million. However, in 2012 total investments marked their lowest level and amounted to EUR 60 million, mainly due to a drop in later stage venture and growth capital.

Other indicators

According to the data from the European Payment Index the average number of payment delays from business to business increased from eight days in 2007 to 12 days in 2012. On the other hand, the average number of payment delays from business to consumer decreased remarkably from 20 days in 2007 to six days in 2009. However, thereafter they increased to 11 days, followed by a decline to nine days in 2012. In March 2013, the Austrian Parliament introduced the late payment act, implementing the EU Directive on Combating Late Payment in Commercial Transactions. The act aims to improve the payment behaviour by introducing new due dates and increased interest rates.

Bankruptcies increased by 9.3% between 2008 and 2009. However, when bankruptcies are measured in terms of bankruptcies per 1 000 firms, they were not much affected by

Table 3.2. **Venture and growth capital investments in Austria, 2007-12**

By stage of investment, in EUR million

Stage	2007	2008	2009	2010	2011	2012
Seed	8	5	6	6	14	9
Start-up	29	26	44	14	39	20
Later stage venture	44	19	26	23	40	4
Growth	25	32	43	29	112	26
Total	**105**	**83**	**119**	**73**	**206**	**60**

Source: EVCA, PEREP Analytics.

StatLink http://dx.doi.org/10.1787/888933013073

the crisis. With GDP declining by 3.5% in 2009, the number of bankruptcies increased from 17 to 18 per 1 000 firms. The economic recovery allowed for a significant improvement, as indicated by the declining indicator. In 2012, total bankruptcies per 1 000 firms amounted to 14 and decreased by 22.2% compared to 2009.

Government policy response

Financial support for businesses is provided by several institutions. This section focuses on institutions providing loan guarantees and/or direct lending to SMEs at the federal level. The Austria Wirtschaftsservice GmbH (aws) serves as the federal business promotional bank and offers Austrian enterprises financial support in the form of loans, guarantees, grants and equity as well as consulting services. The Forschungsförderungsgesellschaft mbH (FFG) is the national funding institution for applied research and development and provides grants, loans, guarantees and consulting services. The Österreichische Hotel- und Tourismusbank GmbH (ÖHT) is owned by private banks and is specialised in financing and promoting investments in the field of tourism by means of loans, guarantees and grants which are supported by the government. Moreover, it provides information and consulting services. The Österreichische Kontrollbank AG (OeKB) is the main provider of financial and information services to the export industry.

As a result of government interventions in response to the crisis, support measures for SMEs' access to finance were created or strengthened in Austria. The most important measure in this regard was adopted in October 2008: the "economic stimulus package I" in the total amount of EUR 1 billion. It included far-ranging support measures for the Austrian economy and in particular for SMEs.

Direct lending

The ERP Fund[1] (European Recovery Programme Fund) was established in 1962 and provides soft loans (erp loans) with reduced interest rates via commercial banks to new and existing businesses in the areas of technology assistance, implementation of research and technological development initiatives, and establishment of pilot and demonstration facilities. It is organized as a separate legal entity and was organisationally integrated into the aws in 2002. Due to the high relevance of the Austrian tourism sector, the ÖHT serves as the trust bank of the ERP Fund in this field. In the framework of the economic stimulus package I the credit lines for erp loans were increased in 2009 and 2010 by EUR 200 million to a total of EUR 600 million and have been maintained on a higher level. Moreover, the ERP Fund introduced the erp micro-credit programme in 2008. The maximum loan amount of EUR 30 000 per micro-credit was increased in 2010 to a total of EUR 100 000 and interest rates for erp loans were lowered from 1.75% to 1.5%. In response, SME loans provided by the ERP Fund increased by 43.5% from 2008 to 2011 to a total of EUR 399 million, followed by a decline to EUR 324 million in 2012.

Moreover, the Federal Ministry of Labour, Social Affairs and Consumer Protection introduced the "Microcredit" programme in 2010 in cooperation with aws and private financial institutions, aiming to encourage self-employment through provision of micro loans. The loan amount is limited to EUR 12 500 for sole proprietors and EUR 25 000 for partnerships. In October 2012, the EIF signed a co-operation agreement with the Erste Bank (a private bank) in order to increase the micro lending activity to start ups. From 2010 to the end of 2012 loans in the amount of EUR 2.1 million were provided.

Besides erp loans, ÖHT also grants so called "Top-A loans" to SMEs seeking capital for investments in the tourism and leisure sector. For investments between EUR 1 million and EUR 3 million the government subsidises the interest rate on the loan with 2%. For investments ranging between EUR 3 million and EUR 5 million the interest rate subsidy of 2% is equally shared between the federal government and the respective state government (regional level). In 2012, the ÖHT granted Top-A loans in the total volume of EUR 134.5 million.

The FFG as well as several institutions at the regional level also engage in direct lending to SMEs. Taken together, new direct loans granted to SMEs increased by roughly 8% from 2007 to 2008 to EUR 579 million. Following a further increase after 2009 direct loans granted to SMEs returned to their 2007 level in 2012.

Loan guarantees

Aws guarantees up to 80% of the total loan amount. The guarantees are funded by the state budget and a counter-guarantee of the European Investment Bank and can be combined with erp-loans. The aws funds are channelled through existing aws guarantee products designed for SME loans, the promotion of SME innovation, micro credits and investments in Austria. Due to a change in the guidelines with a stronger focus on more innovative projects, SME loan guarantees provided by aws declined from 2007 to 2008. However, within the framework of the stimulus package I a number of measures had been implemented for the period 2009-10:

- The provided capacity for loan guarantees was increased during the financial crisis by EUR 400 million.
- The maximum individual guarantee amount for working capital loans for SMEs was increased from EUR 1 million to EUR 2 million (i.e. 80% of EUR 2.5 million) with a maximum term of five years.
- The maximum individual guarantee amount for working capital loans for young entrepreneurs and start-ups was increased from EUR 240 000 to EUR 480 000.

In December 2012, aws signed a CIP loan counter-guarantee agreement with the EIF. Under the terms of the agreement, aws will be able to provide guarantees to business start-ups and SMEs ranging from EUR 30 000 to EUR 2.5 million. The guarantee volume to be provided with a CIP counter-guarantee totals EUR 180 million until the end of 2014. In August 2013, aws introduced a guarantee programme for bridge financing which covers up to 80% of working capital loans. The maximum guarantee amount is capped at EUR 2 million with a maturity of five years.

Loan guarantees granted by ÖHT are counter-guaranteed by the government. The guarantees cover loans from commercial banks and can be combined with erp-loans and Top-A loans granted by ÖHT. Within the framework of the crisis measures, the guarantee capacity was doubled from EUR 250 million to EUR 500 million and the maximum individual guarantee amount was increased from EUR 2 million to EUR 4 million. SME loan guarantees more than tripled to over EUR 26 million from 2007 to 2009. As illustrated in Table 3.3, loan guarantees are also provided to a lesser extent by the FFG.

Table 3.3. **Government loan guarantees in Austria, 2007-12**

EUR million, flows

Institution	2007	2008	2009	2010	2011	2012
aws	330.0	149.0	184.0	152.0	127.0	139.0
ÖHT	7.5	13.9	26.4	20.4	14.1	18.3
FFG	3.4	0.7	3.5	0.6	1.5	0.5
Total	340.9	163.6	213.9	173.0	142.6	157.8

Source: Administrative data from aws, ÖHT, FFG.

StatLink http://dx.doi.org/10.1787/888933013092

Export financing

Österreichischer Exportfonds GmbH, which is owned by the OeKB (70%), provides export financing via commercial banks to SMEs. This financing covers up to 30% of the export turnover and is guaranteed by means of an aval (i.e. a guarantee instrument) by the Austrian Federal Ministry of Finance against adequate premia. The premia is included in the interest rate of the Exportfonds. In 2012, the Federal Ministry of Finance increased the underlying guarantee facility by EUR 200 million to a total of EUR 1.2 billion. At the end of 2012, a total volume of EUR 1 039 million was made available to 1 771 SMEs.

Table 3.4. **Financing for exporting Austrian SMEs by Österreichischer Exportfonds GmbH**

EUR million, stocks

	2007	2008	2009	2010	2011	2012
Financing for exporting SMEs	863	834	804	793	824	1 039
Number of SMEs	1 782	1 669	1 599	1 569	1 541	1 771

Source: Federal Ministry of Finance.

StatLink http://dx.doi.org/10.1787/888933013111

Other measures

In order to stimulate the development of a well-functioning market for risk capital, the Government has recently created innovative incentives. In the long run, existing "financial gaps" in traditional debt financing instruments (e.g. loans) should be removed and the actual "market failure" should be reduced. The basic concept of the initiatives is to guarantee a complete separation from regular state aid programmes. They are therefore carried out by subsidiaries of the aws. Table 3.5 lists the major initiatives of the Government.

As illustrated in Table 3.5, the 'Jungunternehmer-Offensive' started in January 2013 in order to facilitate access to alternative financial instruments for SMEs. Two complementary funds ('aws Gründerfonds' and 'aws Business Angel Fonds') provide equity financing (e.g. Venture Capital) to start-ups and young, growth-oriented SMEs.

Table 3.5. **Risk capital initiatives, Austria**

Instrument		Start	Target group	aws contribution in EUR million	share of private funds
aws Mittelstandsfonds		01.09.2009	companies in the growth stage	80	0-50%
Venture Capital Initiative	1. Tranche	25.01.2010	companies in the seed/start-up or initial growth stage	15	> 50%
	2. Tranche	05.07.2011		5	
	3. Tranche	08.11.2012		2.9	
	4. Tranche	Call		8.6	
Cleantech Initiative		01.01.2011	companies in the seed/start-up or growth stage with special focus on cleantech sector (energy and environment)	6	> 50%
Jungunternehmer-Offensive	aws Business Angel Fonds	02.01.2013	young entrepreneurs (via selected Business Angels)	15 (Share European Investment Fund (EIF): 7.5)	50%
	aws Gründerfonds		companies in the seed/start-up or initial growth stage	65	15-30%

Source: Austria Wirtschaftsservice GmbH.

Moreover, the national threshold for the obligation to publish a prospectus when securities and certain other investment products are offered to the public has been raised in July 2013 from EUR 100 000 to EUR 250 000 (calculated over a period of 12 months). This step aims at facilitating access to additional sources of alternative financing (e.g. crowdfunding). Further, the obligation to publish a prospectus when shares in a cooperative are offered to the public has been raised to EUR 750 000 (calculated over a period of 12 months).

In March 2009, the Government enacted a tax reform, reducing wage and income tax in order to boost consumption. Before 2010, individuals calculating their taxable income by cash basis accounting could claim a tax allowance of 10% of their annual profit capped with EUR 100 000 per individual and year. This benefit required the acquisition or production of depreciable tangible fixed assets or qualified securities. As from 2010, the tax allowance was extended to all kinds of business income (irrespective of the accounting method) and increased from 10% to 13%. Additionally, the tax allowance was modified in so far as the first EUR 30 000 of profit do not need to be invested in order to qualify for a tax deduction. In return, the tax relief for retained earnings, which applied to individuals under the regime of balance sheet accounting, was abolished. For the fiscal periods from 2013 to 2016, the allowance is reduced to 7% for the bracket of annual profits between EUR 175 000 and EUR 350 000 and to 4.5% for the bracket of annual profits between EUR 350 000 and EUR 580 000. There is no allowance for annual profits exceeding EUR 580 000.

Box 3.1. **Definition of Austrian SMEs**

In Austria, SMEs are classified according to the EU definition (2003/361/EC): firms with less than 250 employees and annual turnover below EUR 50 million and/or balance sheet total below EUR 43 million.

The National Bank of Austria does not classify data on business lending by firm size. SME loans and interest rates are approximated by loans up to EUR 1 million.

Source: National Bank of Austria

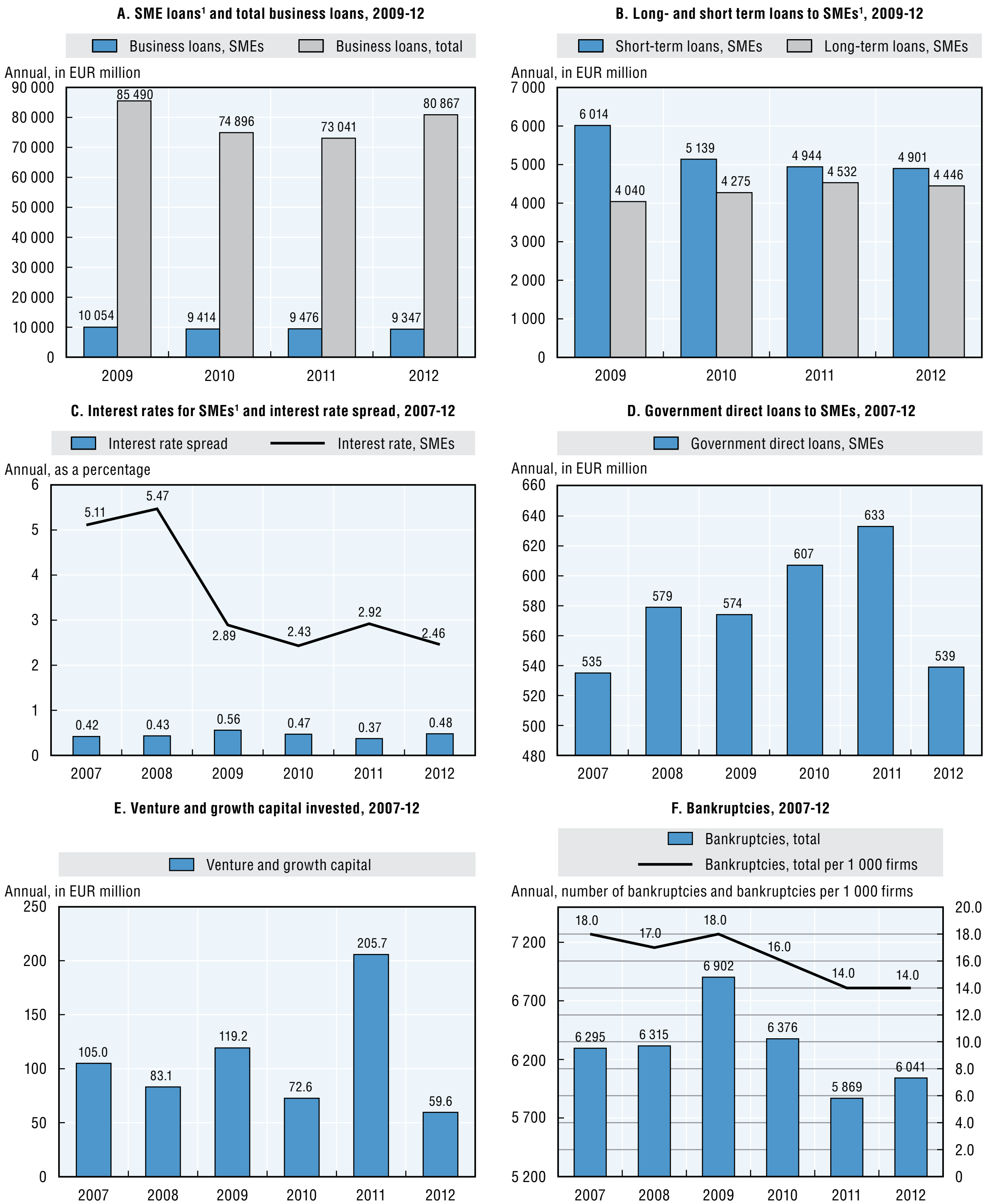
Table 3.6. **Scoreboard for Austria, 2007-12**

Indicator	Unit	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	EUR million	..	..	10 054	9 414	9 476	9 347
Business loans, total	EUR million	..	..	85 490	74 896	73 041	80 867
Business loans, SMEs	% of total business loans	..	..	11.8	12.6	13.0	11.6
Long-term loans, SMEs	EUR million	..	..	4 040	4 275	4 532	4 446
Short-term loans, SMEs	EUR million	..	..	6 014	5 139	4 944	4 901
Short-term loans, SMEs	% of total SME loans	..	..	59.8	54.6	52.2	52.4
Government loan guarantees, SMEs	EUR million, flows	341	164	214	173	143	158
Government guaranteed loans, SMEs	EUR million, flows	429	211	279	226	185	207
Government direct loans, SMEs	EUR million, flows	535	579	574	607	633	539
Government direct loans, SMEs	% of total SME loans	..	..	5.7	6.5	6.7	5.8
Rejected SME loans	Share of rejected SME loans, %	..	..	7.7		3.0	1.0
Interest rate, SMEs	%	5.11	5.47	2.89	2.43	2.92	2.46
Interest rate, large firms	%	4.69	5.04	2.33	1.96	2.55	1.98
Interest rate spread	%	0.42	0.43	0.56	0.47	0.37	0.48
Equity							
Venture and growth capital	EUR million	105	83	119	73	206	60
Venture and growth capital	Year-on-year growth rate, %	..	-21	43	-39	182	-71
Other							
Payment delays business to business	days	8	8	11	12	11	12
Payment delays business to consumer	days	20	16	6	11	11	9
Bankruptcies, total	number	6 295	6 315	6 902	6 376	5 869	6 041
Bankruptcies, total	Year-on-year growth rate, %	..	0.32	9.30	-7.62	-7.95	2.93
Bankruptcies, total	per 1 000 firms	18	17	18	16	14	14

Source: Refer to Table 3.7.

StatLink http://dx.doi.org/10.1787/888933013130

Figure 3.5. **Trends in SME and entrepreneurship finance in Austria**



Note: 1. Loans up to EUR 1 million

Source: Chart A, B, C: Austrian National Bank, Chart D: administrative data from various institutions. Chart E: European Venture Capital Association (EVCA). Chart F: Kreditschutzverband 1870

StatLink http://dx.doi.org/10.1787/888933015467

Table 3.7. **Definitions and sources of indicators for Austria's Scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	New business loans to non-financial corporations granted by a sample of 103 Banks (excluding loans to sole proprietors), loan size up to EUR 1 million	Austrian National Bank
Business loans, total	New business loans to non-financial corporations granted by a sample of 103 Banks (excluding loans to sole proprietors)	Austrian National Bank
Long-term loans, SME	New business loans to non-financial corporations granted by a sample of 103 Banks (excluding loans to sole proprietors), loan size up to EUR 1 million and original maturity over six months	Austrian National Bank
Short-term loans, SMEs	New business loans to non-financial corporations granted by a sample of 103 Banks (excluding loans to sole proprietors), loan size up to EUR 1 million and original maturity up to six months	Austrian National Bank
Government loan guarantees, SMEs	Loan guarantees granted to SMEs (defined as firms with less than 250 employees) proxied by loan guarantees from aws, ÖHT and FFG, excluding regional data, and including guarantees for erp-loans and TOP-A loans, flows	Administrative data from Austria Wirtschaftsservice GmbH, Österreichische Hotel- und Tourismusbank, Forschungsförderungsgesellschaft GmbH
Government guaranteed loans, SMEs	New loans to SMEs (defined as firms with less than 250 employees) covered by guarantees from aws, ÖHT, FFG, including erp-loans and TOP-A loans, excluding export loans, flows	Administrative data from Austria Wirtschaftsservice GmbH, Österreichische Hotel- und Tourismusbank GmbH, Forschungsförderungsgesellschaft GmbH
Government direct loans, SMEs	New loans to SMEs (defined as firms with less than 250 employees) provided by the ERP-Fund, ÖHT, FFG as well as regional institutions, flows	Administrative data from Austria Wirtschaftsservice GmbH, Österreichische Hotel- und Tourismusbank, Forschungsförderungsgesellschaft GmbH, five regional institutions
Rejected SME loans	Rejected loan applications and loan offers whose conditions were deemed unacceptable, as % of loan applications by SMEs (employees with less than 250 employees)	European Commission, SBA Factsheet
Interest rate, SMEs	Interest rate for new business loans to non-financial corporations (excluding loans to sole proprietors, including renegotiated loans), loan size up to EUR 1 million	Austrian National Bank
Interest rate, large firms	Interest rate for new business loans to non-financial corporations (excluding loans to sole proprietors, including renegotiated loans), loan size over EUR 1 million	Austrian National Bank
Interest rate spread	Difference between interest rates for new business loans to non-financial corporations (excluding loans to sole proprietors, including renegotiated loans), loan size up to EUR 1 million and over EUR 1 million	Austrian National Bank
Other		
Venture and growth capital	Venture and growth capital invested in Austrian firms, including seed, start-up, later-stage venture and growth capital (market statistics), all firms	European Venture Capital Association
Equity		
Payment delays business to business	Average number of days for business to business, all firms	Intrum Justitia, European Payment Index
Payment delays business to consumer	Average number of days for business to consumer, all firms	Intrum Justitia, European Payment Index
Bankruptcies, total	Number of enterprises bankrupt, total and per 1 000 enterprises, all firms (including all sections of ONACE 2008)	Kreditschutzverband 1870

Note

1. The ERP Fund is a government-run service organization which is funded by grants given to Austria under the Marshall Plan by the United States of America.

Reference

OECD (2013), *Entrepreneurship at a Glance 2013*, OECD Publishing, Paris. Doi: *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*

Belgium

SMEs in the national economy

In 2010, SMEs in Belgium constituted 99.8% of total firms, the majority of which were micro-enterprises (93.9%). Only 0.2% are large enterprises.

Table 4.1. **Distribution of firms in Belgium, 2010**

Firm size (employees)	No. of firms	%
Micro (0-9)	506 138	93.8
Small (10-49)	27 317	5.1
Medium (50-199)	4 222	0.8
Large (>200)	867	0.2
All firms	538 544	100.0

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD Entrepreneurship at a Glance (2013a).

StatLink http://dx.doi.org/10.1787/888933013149

SME lending

The National Bank of Belgium defines a small enterprise as one with an annual average headcount of less than 50 employees and a turnover of less than EUR 7.3 million. Prior to 2012 loans less than EUR 25 000 were not included in the SME loan data. However, loans to SMEs that were more than EUR 1 million are included. While SME loans slowed during the global recession, the outstanding stock of credits experienced positive growth throughout the entire period and very strong growth during the recovery (28% between 2010-12). Total business loans showed the same evolution except that they did not rebound as much during the recovery (18.4% between 2010-12). These increases were due in part to improved bank reporting. The SME share in business loans increased from 59.6% in 2007 to 65.4% in 2012. At the same time the share of total short term business loans declined over the period indicating that most of the lending was for long-term purposes. Meanwhile the share of SME loans used to SME loans authorized increased (2007-10), indicating that SMEs utilized more of the credit that was available. However, recently (2011-12) SMEs' use of credit was not as intense as formerly.

SME loan growth during Belgium's weak economic recovery, might be explained in part by the fact that banks were refocusing on the domestic market as the default rate on domestic loans was relatively low.[1] They were also given incentives to engage in SME lending by various government programmes which are described in the section on policy responses.

Credit conditions

SME interest rates were higher than those charged to larger firms throughout 2007-12. The difference between both interest rates varies between 0.5 and 1.0%. Interest rate spreads peaked in 2009 when SMEs were charged almost a full percentage point more than larger firms. The percentage of SMEs requested to provide collateral increased between 2011 and 2012.

Equity financing

Equity financing displayed the same volatility as in many other countries. By 2012 it was still off 26% from its 2007 level. While seed capital was very volatile, it was the large changes in later stage capital and growth capital which caused 80% of the decline in total venture capital.

Table 4.2. **Venture and growth capital in Belgium, 2007-12**

EUR thousand, percentage change

Indicator	Unit	2007	2008	2009	2010	2011	2012
Seed	EUR thousand	8 021	10 166	5 889	4 833	450	2 126
			26.74%	-42.07%	-17.93%	-90.69%	372.44%
Start-up	EUR thousand	73 953	53 202	90 983	62 801	74 510	58 570
			-28.06%	71.02%	-30.97%	18.64%	-21.39%
Later	EUR thousand	98 871	53 763	59 012	15 280	16 153	29 456
			-45.62%	9.76%	-74.11%	5.72%	82.35%
Growth	EUR thousand	199 279	223 474	290 415	202 229	130 396	192 054
			12.14%	29.95%	-30.37%	-35.52%	47.29%
Total	EUR thousand	380 123	340 604	446 298	285 143	221 509	282 205
			-10.40%	31.03%	-36.11%	-22.32%	27.40%

Source: EVCA, Yearbook 2013

StatLink http://dx.doi.org/10.1787/888933013168

Other indicators

Payment delays (B2B) increased from 17 to 19 days. Bankruptcies increased as well and were 43% higher in 2012 compared to 2007. However, the rate of growth of bankruptcies slowed during the recovery. Thus, while SME lending held up reasonably well, many SME did not survive the crisis.

Government policy responses

The governments responded with programmes at both the federal and the regional levels. Direct loans were available at both levels, while loan guarantees were available only at the regional level.

The following policy measures were adopted for the period 2009-12 in the Brussels-Capital Region:

- loan guarantees of 80%
- creation of a new product, "express guarantees" that could be confirmed within five working days, with a maximum limit of EUR 250 000

Table 4.3. **Direct loans, government guarantees and guaranteed loans in Belgium, 2007-12**

EUR million

Level	2007	2008	2009	2010	2011	2012
Federal						
Dir loans,LT	100 432.5	89 075.9	93 114.5	75 019.0	54 087.3	48 489.9
Dir loans,ST	0	0	5 430.8	5 005.0	2 644.7	4 095.0
Regions						
Brussels-Capital						
Dir loans	22 784.9	12 316.1	17 905.7	12 504.6	12 271.7	8 327.1
Guarantees	..	12 021.0	15 387.7	14 024.8	14 399.5	..
G.loans	..	17 997.4	23 786.4	20 955.9	21 967.4	..
Leverage	..	1.49	1.54	1.49	1.52	..
Coverage	..	67%	65%	67%	66%	..
Wallonia						
Dir loans	..	89 537.2	92 516.4	113 151.9	113 409.8	132 288.0
Guarantees	..	44 399.3	68 151.1	52 784.1	68 666.2	66 992.1
G.loans	..	114 901.7	157 182.9	138 385.8	179 661.6	163 235.1
Leverage	..	2.5	2.3	2.6	2.6	2.4
Equity	..	15 565.4	15 400.6	15 829.7	16 473.7	26 183.2
Flemish Region						
Dir loans	9 249	11 859	31 777	16 211	22 608	29 928
Guarantees	77 849.3	100 115.8	328 363.2	487 468.3	234 440.3	186 540.9
G. loans	128 165.9	179 774.3	651 685.2	729 719.3	360 098.3	295 291.7
Leverage	1.65	1.80	1.98	1.50	1.54	1.58
Total						
Dir loans	132 466.6	202 788.5	240 745.6	221 891.9	205 022.6	223 128.8
Guarantees	77 849.3	156 536.2	411 902.1	554 277.3	317 506.1	253 533.1
G. loans	128 165.9	312 673.6	832 654.5	889 061.1	561 727.5	458 526.9
Leverage	1.65	2.00	2.02	1.60	1.77	1.81

Source: Business Report of Participation Funds, Brussels Garanty Fund, Groupe Sowalfin, LRM, Participatie Maatschappij Vlaanderen.

At the regional level direct loans are complemented by loan guarantees. Total loan guarantees increased substantially during the crisis and continued to increase during recovery before declining in 2011. In 2012 total direct loans and guarantees were still higher than their pre-crisis levels. However, in Brussels-Capital Region the number of "dossiers" treated declined because of a tightening of credit terms which put the brakes on SME investments. An increase in the number of bankruptcies (6.8% between 2010-11) also caused the decline. For these reasons the Government of the Brussels-Capital Region decided to prolong their support measure until the end of 2012 in order to facilitate access to credit. In the Walloon Region direct loans, guarantees, and guaranteed loans remained at high levels.

StatLink http://dx.doi.org/10.1787/888933013187

- intention to increase in the size of the guarantee fund to EUR 80 million if necessary
- coverage of short term loans (2 years) with a maximum limit of EUR 250 000.

SMEs can apply directly to the guarantee fund for a loan guarantee. Banks, however, can automatically receive loan guarantees. They do not need to ask permission. After agreeing to give an SME loan, banks merely inform the regional investment fund and the loan guarantee will be granted automatically. The "express guarantees" have been sought after and appreciated by the banks because a confirmation can be obtained in five days. 67% of the enterprises applying for guarantees in 2011 were start-ups with less than four years of existence compared to 55% in 2010. Most of these guarantees were for investment which could explain why the SME short-term loan share fell relative to the SME long term loan share.

Since 2011 the regional Government of Wallonia has strengthened its SME programmes by implementing the European Small Business Act in the Walloon Region. It prioritises four of the ten EU themes of the Small Business Act, including entrepreneurship, access to finance, innovation and growth. The Walloon Region, together with the Society of Mutual Guarantees of Wallonia, has developed a new financial product which is a mixture of a loan guarantee and a subordinated loan. The loan is guaranteed up to 75% for a maximum of EUR 25 000 with the possibility of a subordinated loan. Over 550 very small enterprises and independent entrepreneurs have used this product.

The Government of Flanders (Flemish Region) supports SME access to finance through direct loans and loan guarantees. Direct loans increased by more than 3.4 times in 2009 compared to 2007. Loan guarantees peaked in 2010. It also stimulates venture capital investments through the Flemish investment body. The Flemish Government supports the Business Angels network which is a broker between business angels and enterprises needing venture capital. Anyone who grants a loan to a start-up enterprise as a friend, acquaintance or family member receives an annual tax discount of 2.5% of the value of the loan. If the enterprise is unable to repay the loan, the lender gets 30% of the amount owed back via a one-off tax credit in the context of the "win win-lending" scheme.

FINMIX provides entrepreneurs with the opportunity to present their project to a panel of financial experts who will advise on the optimal financing mix. Any enterprise can make use of FINMIX as long as venture capital is needed for a financing mix. Entrepreneurs need to register and submit a business plan. The Government of Flanders is researching other alternative financing approaches such as crowd funding which is in its infancy in Belgium.

In addition, in order to ensure adequate SME funding, four large banks have agreed to make EUR 1.1 billion available in 2013. These include BNP Paribas Fortis, KBC, Belfius and ING. Priority would be given to long-term credit (5-15 years) available to both SMEs and large enterprises. The banks would assume the risk on part of the funds while another portion would be counter-guaranteed. The banks are discussing with the Federal Government whether part of the funds could come from the general public or "Volksleningen".

Government support for SME venture capital also exists in the Brussels Capital Region and the Walloon Region. The Brussels Regional Investment Society and the Walloon Regional Investment Society use a number of techniques for equity finance such as minority shareholdings with a buyout undertaking, venture loans convertible into shares and subordinated loans.

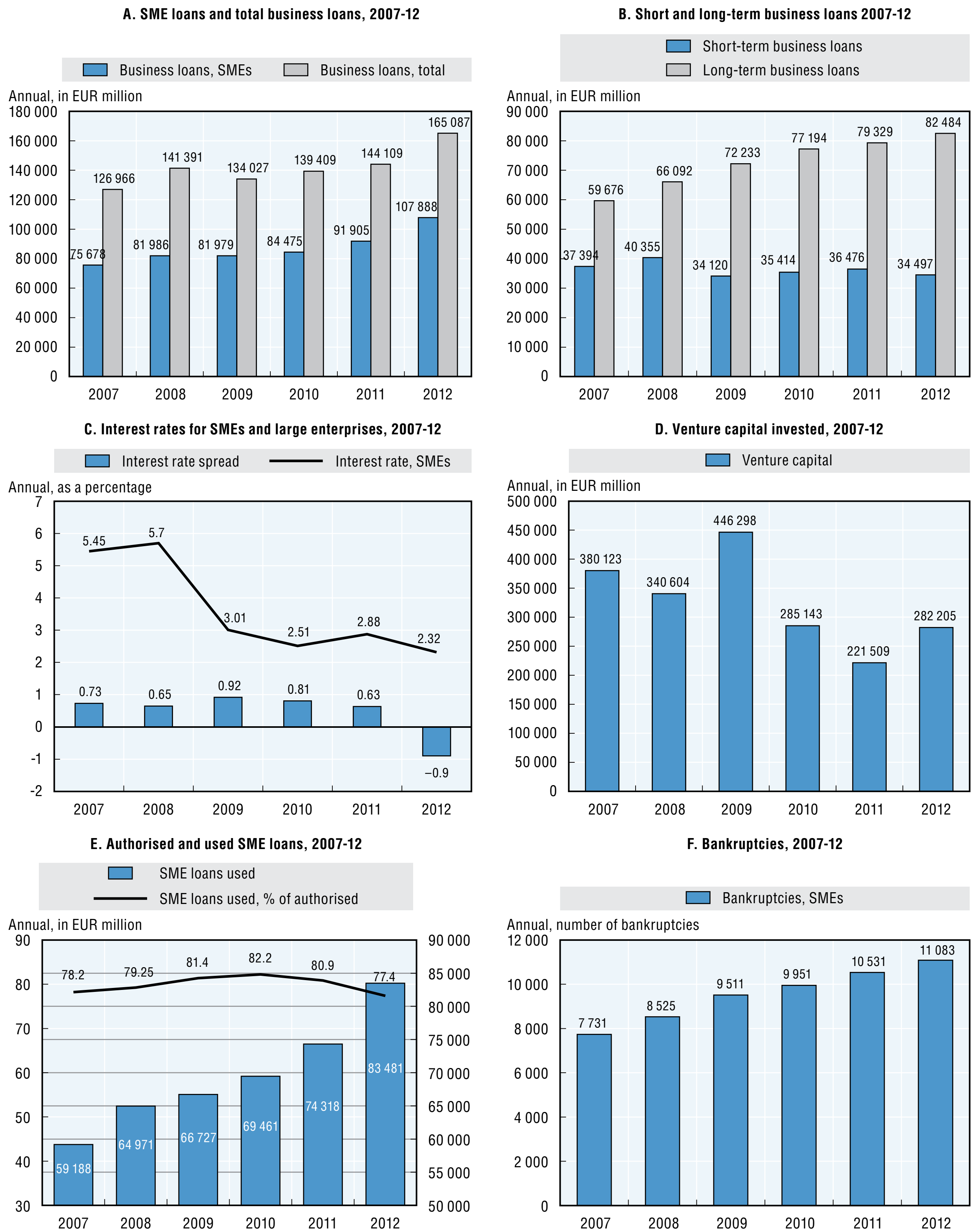
Table 4.4. **Scoreboard for Belgium, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	EUR million	75 678	81 986	81 979	84 475	91 905	107 888
Business loans, total	EUR million	126 966	141 391	134 027	139 409	144 109	165 087
Business loans, SMEs	% of total business loans	59.6	57.9	61.1	60.6	63.7	65.4
Short-term business loans	EUR million	37 394	40 355	34 120	35 414	36 476	34 497
Long-term business loans	EUR million	59 676	66 092	72 233	77 194	79 329	82 484
Short-term business loans	% of total business loans	38.5	37.9	32.1	31.4	31.5	29.5
SME loans used	EUR million	59 188	64 971	66 727	69 461	74 318	83 481
SME loans authorized	EUR million	75 678	81 986	81 979	84 475	91 905	107 888
SME loans used	% of authorized loans	78.2	79.2	81.4	82.2	80.9	77.4
Interest rate, SMEs	%	5.45	5.70	3.01	2.51	2.88	2.32
Interest rate, large firms	%	4.72	5.05	2.09	1.70	2.25	1.74
Interest rate spread	%	0.73	0.65	0.92	0.81	0.63	0.58
Collateral, SMEs	%	..	..	..	74.30	71.90	78.60
Equity							
Venture and growth capital	EUR thousand	380 123	340 604	446 298	285 143	221 509	282 205
Venture and growth capital	Year-on-year growth rate, %	..	-10.4	31.0	-36.1	-22.3	27.4
Other							
Payment delays	Days	..	..	17	17	15	19
Bankruptcies, total	Number	7 731	8 525	9 511	9 951	10 531	11 083
Bankruptcies, total	Year-on-year growth rate, %	0.5	10.3	11.6	4.6	5.8	5.2

Source: Refer to Table 4.5.

StatLink http://dx.doi.org/10.1787/888933013206

Figure 4.1. **Trends in SME and entrepreneurship finance in Belgium**



Source: Refer to Table 4.5.

StatLink http://dx.doi.org/10.1787/888933015486

Table 4.5. **Definitions and sources of indicators for Belgium's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Authorized credits to SME, outstanding amounts, end of December.	National Bank of Belgium (NBB): the Central Corporate Credit Register (CCCR)
Business loans, total	Authorized credits to SME and large companies, outstanding amounts, end of December	National Bank of Belgium (NBB): the Central Corporate Credit Register (CCCR)
Long-term loans, SMEs	Long term credits (more than one year), outstanding amounts, all enterprises, end of December	National Bank of Belgium: the Central Balance Sheet Office (CBSO)
SME loans used	Used credits by SMEs, outstanding	National Bank of Belgium (NBB): the Central Corporate Credit Register (CCCR)
SME loans authorized	Authorised credits to SMEs	National Bank of Belgium (NBB): the Central Corporate Credit Register (CCCR)
Interest rate, SMEs	Average interest rate on new loans less than EUR 1 million, for less than 1 year (floating rate and up to 1 year initial rate fixation)	National Bank of Belgium (NBB): MIR survey
Interest rate, large firms	Average interest rate on new loans more than EUR 1 million, for less than 1 year (floating rate and up to 1 year initial rate fixation)	National Bank of Belgium (NBB): MIR survey
Interest rate spread	Difference between interest rate to SMEs and interest rate to large firms	National Bank of Belgium (NBB): MIR survey
Collateral, SMEs	Percentage of SMEs that provided collateral related to outstanding credits	CeFiP, annual survey on SME financing
Equity		
Venture capital	Investment in venture and growth capital (market statistics, by country of portfolio company). Includes Seed, start-up, later stage venture and growth investment (replacement capital, turnaround and buyout investment were excluded).	EVCA, Yearbook 2013
Other		
Payment delays	Average payment delay in days	Intrum Justitia, European Payment Index 2012
Bankruptcies, total	Bankruptcies on annual basis	Graydon

Note

1. OECD Economic Surveys: Belgium, OECD, Paris, May 2013, p.15.

References

OECD (2013a), *Entrepreneurship at a Glance 2013*, OECD Publishing, Paris. Doi: *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*

OECD (2013b), *Economic Surveys: Belgium*, OECD Publishing, Paris. Doi: *http://dx.doi.org/10.1787/eco_surveys-bel-2013-en*

Canada

Small businesses in the national economy

In 2012 Canadian small businesses (1-99 employees) constituted 98.0% of all businesses and employed over 7.7 million individuals, which translates into 69.7% of the private sector labour force. Among those employees, 76.0% were employed in the services sector and 24.0% in the goods sector.

Table 5.1. **Distribution of firms in Canada, 2012**

By firm size

Firm size (employees)	Number of firms	% of employer firms
1-4	620 064	54.6
5-9	224 986	19.8
10-19	142 433	12.5
20-49	95 014	8.4
50-99	30 649	2.7
100-199	13 780	1.2
200-499	6 520	0.6
500 +	2 626	0.2
Total	**1 136 072**	**100.0**

Notes: Public and private firms are included and non-employer firms are excluded.

Source: Statistics Canada, Business Register, December 2012.

StatLink http://dx.doi.org/10.1787/888933013225

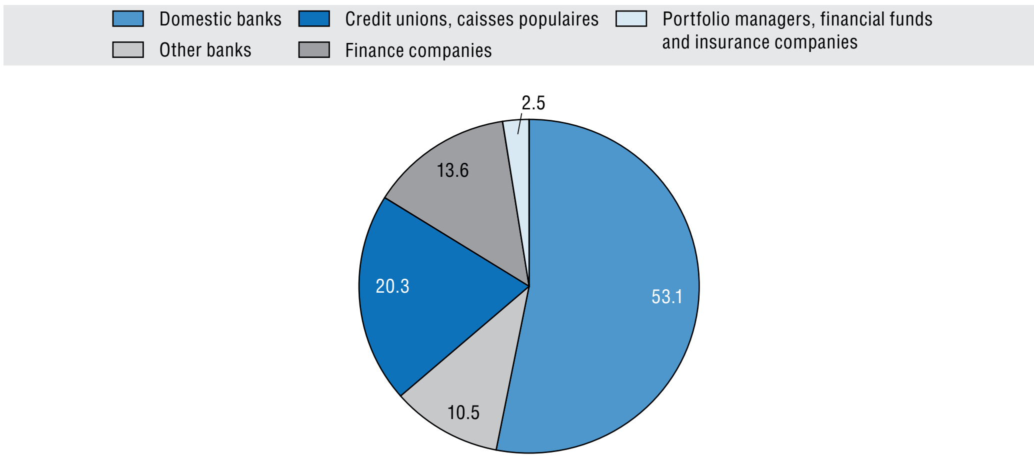
Small business lending

Figure 5.1. shows the major suppliers of small business financing in 2012. Most small business financing (83.9%) was provided by banks (domestic and foreign), credit unions and caisses populaires. The remainder came from finance companies, financial funds and insurance companies. The lenders' share remained relatively stable as compared with 2011.

Data from supply-side surveys show that debt outstanding to all businesses increased 8.4% in 2012 to CAD 557.4 billion, while lending to small businesses registered a 2.5% decline year-on-year, falling to CAD 87.7 billion. As a result, the share of outstanding loans to small businesses decreased by 1.8 percentage points to 15.7% in 2012, after having remained stable at close to 18.0% for the previous three years. It is now the same level recorded in 2008. Over the period 2007-12, both SME loans and loans to large firms increased by 5.2% and 16.2%, respectively. When looking at the longer period 2000-12, debt financing for large businesses grew while debt financing remained flat or declined slightly for small businesses as seen in Figure 5.2. Consequently, the SME share of business loans has declined over time.

Figure 5.1. **Debt financing by source of financing in Canada, 2012**

As a percentage

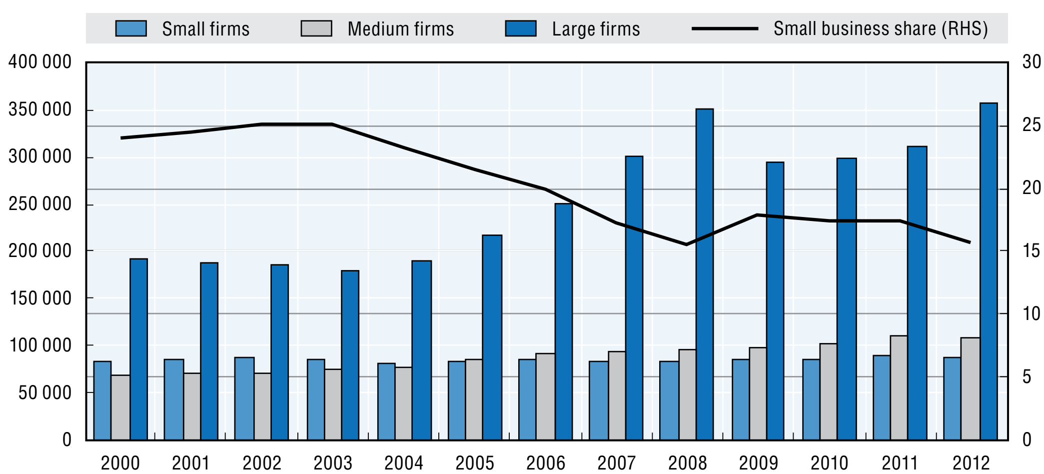


Source: SME Financing Data Initiative, *Survey of Suppliers of Business Financing* (2012).

StatLink http://dx.doi.org/10.1787/888933015505

Figure 5.2. **Business debt outstanding in Canada, 2000-12**

CAD million (LHS) and percentage (RHS)



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

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

StatLink http://dx.doi.org/10.1787/888933015524

Supply-side survey results show that lending activity for businesses of all sizes increased in the second half of 2012. The increase was significant among large businesses to which lenders disbursed approximately CAD 49 billion in new loans. This represented a 6.5% increase in disbursals compared with the first half of 2012. Similarly, lending activity increased for small businesses and medium-sized businesses, with loan disbursals rising by about 7.5% and 4.4% respectively. Total lending activity (H1+H2) in 2012 compared to 2011 increased by 10%, 9%, and 18% for small, medium-sized and large businesses respectively.

Small business loans authorised vs. requested

The 2012 Credit Conditions Survey results showed that credit conditions remained stable in 2012 after having recovered from the 2009 recession by 2010. Request rates for

Table 5.2. **Value of disbursements in Canada 2011-12, Canada**

Term credit, CAD million

Business Size	Half 1 2011	Half 2 2011	Half 1 2012	Half 2 2012
Large (authorisation levels of CAD 5 million or more)	38 945	41 345	45 994	49 032
Change %		6.2	11.2	6.6
Medium (authorisation levels between CAD 1 million and CAD 5 million)	12 649	13 064	13 676	14 321
Change %		3.3	4.7	4.7
Small (authorisation levels below CAD 1 million)	9 938	10 238	10 709	11 509
Change %		3.0	4.6	7.5
Total	61 533	64 648	70 379	74 862
Change %		5.1	8.9	6.4

Source: SME Financing Data Initiative, *Survey of Suppliers of Business Financing* (2012), and Industry Canada.

StatLink http://dx.doi.org/10.1787/888933013244

debt financing, for instance, increased slightly from 25.3% in 2011 to 25.7% in 2012. Also, the 2012 ratio of amounts authorised to those requested remained level at 91.0% in 2012 compared to 89.9% in 2011.

Small business credit conditions

Indicators show that small businesses experienced a slight loosening in credit conditions in 2011 which was stabilised in 2012 with a slight increase in the interest rate charged to small business. Specifically, the average interest rate for SMEs declined by 0.5 percentage points to 5.3% in 2011 and then increased by 0.1 percentage points in 2012, reaching 5.4%. However, despite an increase in the average business prime rate, the typical rate charged to the most creditworthy borrowers, from 3.0% in 2011 to 3.3% in 2012, the business risk premium (the difference between the average small business interest rate and the business prime rate) decreased from 2.3% in 2011 to 2.1% in 2012. Over the period 2007-12, the small business interest rate dropped by 2.1 percentage points, the business prime dropped by 2.8 percentages points and as a result the risk premium increased by nearly 0.7 percentage points. The percentage of small businesses that were asked for collateral registered an 11.2 percentage points increase since 2011, with 76.0% of small business loans being collaterised in 2012.

The small business 90-day delinquency rate (amount of loan interest and principle payments more than 90 days past due divided by the total loan balance outstanding) has returned to pre-recession levels. For instance, the 90-day delinquency rate rose from 0.8% in the first quarter of 2007 to 1.1% in the third quarter of 2008, then, as the economy contracted it reached a high of 1.6% in the second quarter of 2009. This declined to 0.7% in the third quarter of 2010 as the economy recovered and remained stable around this level until the end of 2012.

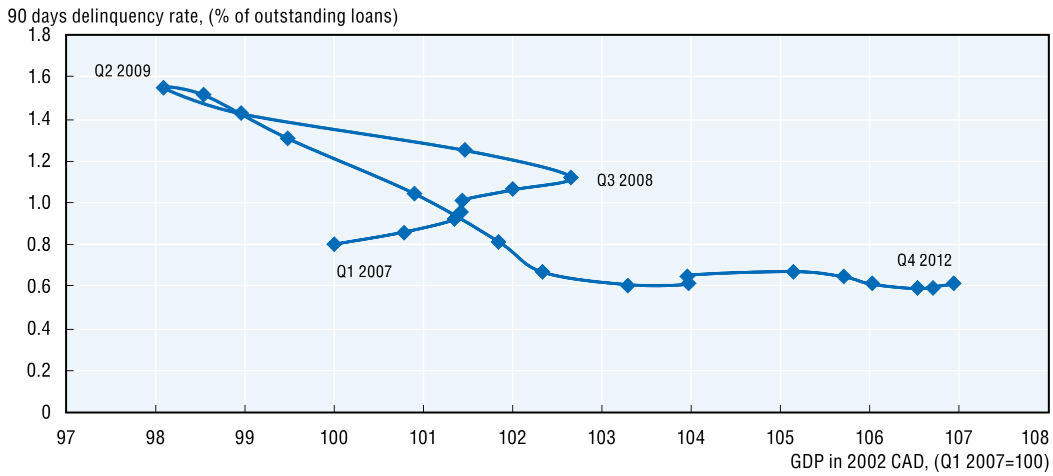
Equity financing

Equity provided in the form of venture capital increased by 36.4% in 2011 to reach CAD 1.5 billion and remained around the same level in 2012. The figures for Canada contain early stage and expansion stage capital. Between 2011 and 2012, seed and start-up capital increased by 37.4% and 53.4% respectively. Other early stage and expansion / later stage venture capital decreased by 38.7% and 0.9%, respectively.

Other indicators

The declining trend in business insolvencies continued in 2012. Specifically, the incidence of insolvencies per thousand businesses fell from 2.2 in 2010 to 2.0 in 2011, declining further to 1.8 in 2012. This can be partially explained by the fact that domestic demand in Canada has remained relatively strong since the end of the recession, growing at an average annual rate of 3.0% between the third quarter of 2009 and the fourth quarter of 2012.

Figure 5.3. **90-day delinquency rate (%) and GDP in Canada, 2007-12**



Sources: PayNet Inc., Statistics Canada and Industry Canada calculation.

StatLink http://dx.doi.org/10.1787/888933015543

Table 5.3. **Venture and growth capital in Canada, 2007-12**

In CAD million

Stage	2007	2008	2009	2010	2011	2012
Seed	62.3	51.0	18.1	18.9	25.1	34.5
Start up	201.7	151.5	212.0	127.1	123.7	189.8
Other early stage	500.2	391.1	225.4	323.9	290.5	178.1
Expansion/later stage	1067.7	796.2	575.4	670.0	1 072.3	1062.5
Total	**1 832.0**	**1 389.8**	**1 030.9**	**1 139.9**	**1 511.7**	**1 465.0**

Source: Thomson Reuters, VC Reporter, 2012.

StatLink http://dx.doi.org/10.1787/888933013263

Government policy response

In 2012, the government announced plans that will help further increase the potential of Canadian businesses and entrepreneurs to innovate and thrive in the modern economy. At the time of the announcement, economic output in Canada was well above pre-recession levels, and more than 610 000 jobs had been created since the recovery began in July 2009.

The government launched an Expert Panel in 2010 to review federal support for research and development. In late 2011, this panel submitted findings and recommendations to the government on how to improve support for innovative businesses to help them grow into larger, globally competitive companies. Informed by this report in 2011 (Innovation Canada: A Call to Action), the government took a new approach to supporting innovation in Canada and committed CAD 1.1 billion over five years to directly support research and development and CAD 500 million for venture capital. This includes:

- Increasing funding for research and development by SMEs by providing an additional CAD 110 million per year to double support for companies through the Industrial Research Assistance Program. This will allow the National Research Council (NRC) to support additional SMEs that create high-value jobs, and to expand the services provided to businesses through the program's Industrial Technology Advisors. The NRC will also create a concierge service that will provide information and assistance to SMEs to help them make effective use of federal innovation programs.

- Promoting linkages and collaborations, including funding internships and connecting private sector innovators to procurement opportunities in the federal government.
- Refocusing the National Research Council on research that helps Canadian businesses develop innovative products and services.
- Enhancing access to venture capital financing by high-growth companies so that they have the capital they need to create jobs and grow.
- Streamlining and improving the Scientific Research and Experimental Development (SR&ED) tax incentive program, including shifting from indirect tax incentives to more direct support for innovative private sector businesses.
- Supporting research, education and training with new funding for universities, granting councils and leading research institutions, such as Genome Canada.
- As part of the commitment to support innovation, the government made available CAD 400 million to help increase private sector investments in early-stage risk capital and to support the creation of large-scale venture capital funds led by the private sector.

The government also announced the launch of the Western Innovation Program which will provide financial support to innovative SMEs in Western Canada, and is consistent with the support offered in other regions.

The government also proposed new measures to reduce the tax compliance burden for small businesses and announced a number of administrative improvements by the

Box 5.1. **Definition of small businesses used in Canada's SME and entrepreneurship scoreboard**

Country definition

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

The business size definition used by financial institutions

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

SME business definition used in the Canadian profile

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

Source: Statistics Canada

Canada Revenue Agency. These measures included: the GST/HST (goods and services tax / harmonized sales tax) streamlined accounting methods to simplify compliance for small businesses, simplifying administration for partnerships, making improvements to the rules for paying eligible dividends and administrative improvements that enhance the predictability of the SR&ED Tax Incentive program.

The government also committed to providing CAD 20 million over two years (2011-12 and 2012-13) to enable the Canadian Youth Business Foundation (CYBF) to continue its important support for young entrepreneurs.

The Hiring Credit for Small Business was extended for one year. This credit provides relief of up to CAD 1,000 to small businesses by helping defray the costs of hiring new workers.

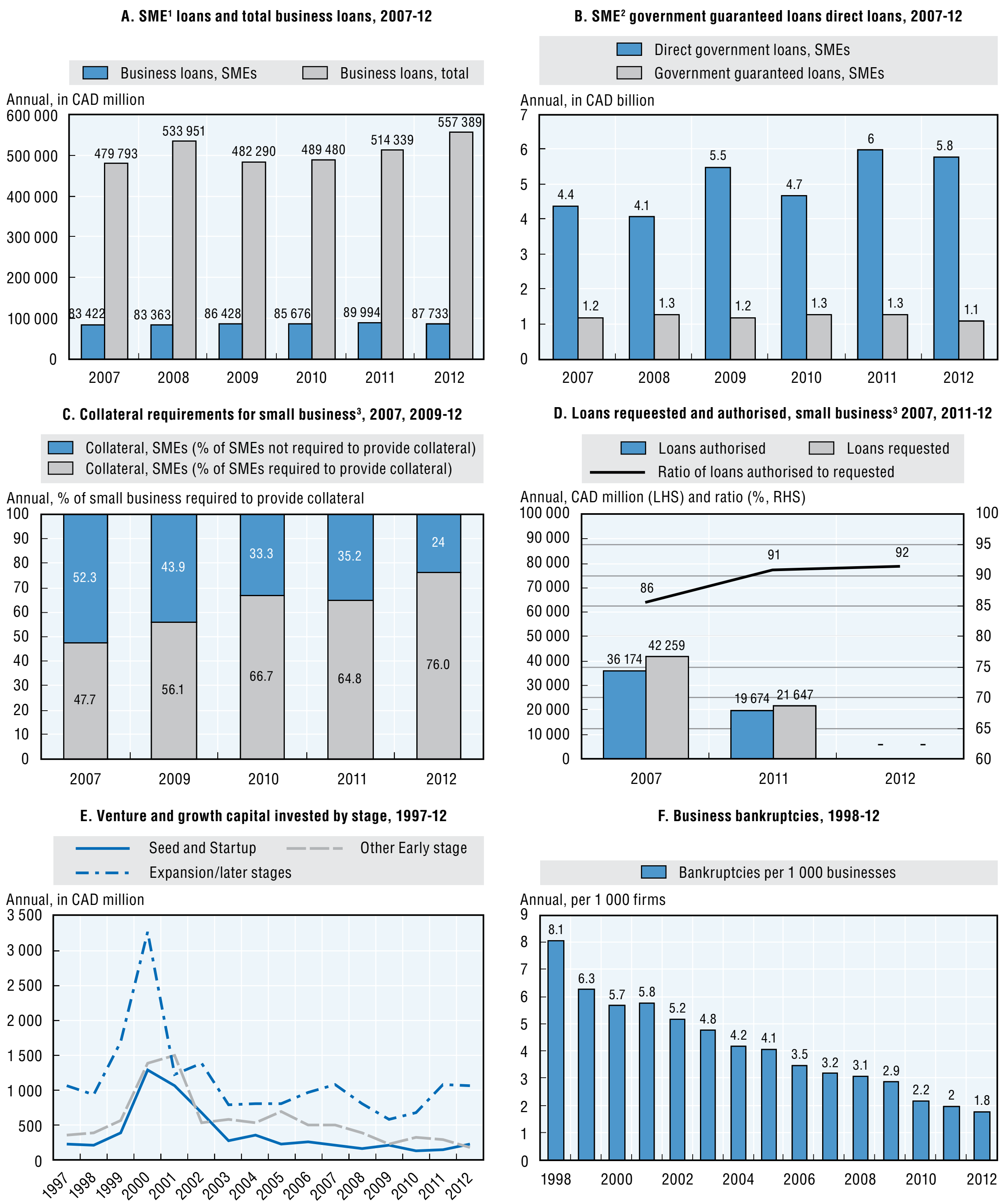
Table 5.4. **Scoreboard for Canada, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	CAD million	83 422	83 363	86 428	85 676	89 994	87 733
Business loans, total	CAD million	479 793	533 951	482 290	489 480	514 339	557 389
Business loans, SMEs	% of total business loans	17.4	15.6	17.9	17.5	17.5	15.7
Short-term loans, small businesses	CAD million	15 056	..	..	..	6 911	..
Long-term loans, small businesses	CAD million	21 118	..	..	..	12 763	..
Total short and long-term loans, small businesses	CAD million	36 174	..	..	..	19 674	..
Short-term loans, small businesses	% of total authorised loans	41.6	..	43.4	36.3	35.1	39.0
Government guaranteed loans, SMEs	CAD billion	1.2	1.3	1.2	1.3	1.3	1.1
Direct government loans, SMEs	CAD billion	4.4	4.1	5.5	4.7	6.0	5.8
Loans authorised, small businesses	CAD million	36 174	..	..	..	19 674	..
Loans requested, small businesses	CAD million	42 259	..	..	..	21 647	..
Ratio of loans authorised to requested, small businesses	%	85.6	..	72.1	87.9	90.9	91.5
Interest rate, average	%	7.50	..	6.20	5.80	5.30	5.40
Interest rate, business prime	%	6.10	..	3.10	2.60	3.00	3.30
Risk premium for small businesses	%	1.40	..	3.10	3.20	2.30	2.10
Collateral, small businesses	% of SMEs required to provide collateral on last loan	47.7	..	56.1	66.7	64.8	76.0
Equity							
Venture and growth capital, Investments	CAD billion	1.8	1.4	1.0	1.1	1.5	1.5
Venture and growth capital, Investments	Year-on-year growth rate, %	..	-22.2	-28.6	10.0	36.4	0.0
Other							
90-Day Delinquency Rate Small business	% of loans outstanding	0.69	1.01	1.47	0.79	0.71	0.60
90-Day Delinquency Rate Medium business	% of loans outstanding	0.37	0.43	0.69	0.33	0.08	0.01
Bankruptcies, total	per 1 000 firms	3.1	3.1	2.9	2.2	2.0	1.8

Source: Refer to Table 5.5.

StatLink http://dx.doi.org/10.1787/888933013282

Figure 5.4. **Trends in SME and entrepreneurship finance in Canada**



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

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

StatLink http://dx.doi.org/10.1787/888933015562

Table 5.5. **Definitions and sources of indicators for Canada's scoreboard**

Indicators	Definitions	Sources
Debt		
Business loans, SMEs	Commercial loans to SMEs (defined as the value of amounts authorised up to CAD 1 million), amount outstanding (stocks). Includes term loans, mortgage loans, lines of credit, credit cards. Excludes leases, credit provided to subsidiaries/affiliates, factoring. Excludes non-employer firms.	Statistics Canada, 2007-12 Survey of Suppliers of Business Financing
Business loans, total	Commercial loans to all enterprises, amounts outstanding (stocks). Includes term loans, mortgage loans, lines of credit, credit cards. Excludes leases, credit provided to subsidiaries/ affiliates, factoring. Excludes non-employer firms.	Statistics Canada, 2007-12 Survey of Suppliers of Business Financing
Value of disbursements (term credit)	Large (authorisation levels of CAD 5 million or more), Medium (authorisation between CAD 1 and CAD 5 million) and Small (authorisation lower than CAD 1 million).	Statistics Canada, 2011-12 Survey of Suppliers of Business Financing
Short-term loans, Small businesses	Operating line (short-terms loans, 12 months or less, lines of credit, credit cards), flows. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009, 2010 and 2012 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Long-term loans, small businesses	Term loan (more than 12 months) or mortgage, flows. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009, 2010 and 2012 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Government guaranteed loans, SMEs	Guaranteed loans for SMEs, flows from central government, guaranteed loans by the Canadian Small Business Financing Program (CSBFP), Export Development Canada (EDC) and Business Development Bank of Canada (BDC).	Administrative data from Export Development Canada, Business Development Bank of Canada and the Canada Small Business Financing Program
Direct government loans, SMEs	Direct loans to SMEs, flows from central government.	Administrative data from Export Development Canada and Business Development Bank of Canada
Loans authorised, small businesses	Flows—all small business loans. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009, 2010 and 2012 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Loans requested, small businesses	Flows—all small business loans. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009, 2010 and 2012 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Interest rate, average	Average annual interest rate for all new small business terms loans and non-residential mortgage, base rate plus risk premium; excludes credit card.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009, 2010 and 2012 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Interest rate, business prime	The chartered banks' rates on prime business loans are the interest rates charged to the most creditworthy borrowers.	Bank of Canada, Banking and Financial Statistics
Risk premium for small businesses	Difference between interest rate paid by small business and business prime.	Bank of Canada, Banking and Financial Statistics
Collateral, small businesses	Percentage of small businesses that were required to provide collateral to secure their latest loan. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009, 2010 and 2012 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Equity		
Venture and growth capital	Actual amounts of venture and growth capital invested. Includes seed, start up, early stage and expansion. All enterprises.	Thompson Reuters Canada, Industry Canada VC Monitor

Table 5.5. **Definitions and sources of indicators for Canada's scoreboard** *(cont.)*

Indicators	Definitions	Sources
Other		
90-day delinquency rate	Business size is defined according to high-credit (that is, the maximum amount of credit a business once had outstanding, as reported in the PayNet database). Small borrowers are those with a high credit of less than $500,000 and Medium-sized borrowers are those with high credit of more than $500,000 but less than $2 million. Delinquency rate calculation: 90+ day delinquency rates are calculated by dividing the amount of loan interest and principle payments more than 90 days overdue by the total balance of loans outstanding.	PayNet Inc.
Bankruptcies, total	Business insolvency is defined as the number of bankruptcy and proposal cases. All enterprises.	Office of the Superintendent of Bankruptcy Canada

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Chile

SMEs in the national economy

In Chile, the vast majority of national enterprises are SMEs, representing 99.0% of all enterprises and employing 63%[1] of the business sector labour force. As of 2011, 77.2% of SMEs were microenterprises, 19.8% small and 2.9% medium-sized enterprises. Although the usual definition of an SME is based on the annual sales of the enterprise, the financial sector uses a definition based on the loan amount, as indicated in Box 6.1.

Table 6.1. **Distribution of firms in Chile, 2011**

By firm size

Firm size (annual sales)	Number	%
All enterprises	**824 299**	**100.0**
SMEs (up to UF 100 000)	**812 193**	**98.5**
Micro (up to UF 2 400)	627 310	76.1
Small (UF 2 400 to UF 25 000)	160 944	19.5
Medium (UF 25 000 to UF 100 000)	23 939	2.9
Large (UF 100 000+)	**12 106**	**1.5**

Note: Data include non-employer enterprises and all industries,). UF (Unidad de Fomento) is a unit of account that is adjusted to inflation. Thus, its real value remains constant. The UF of August 31, 2013 is CLP 232073.71.

Source: Internal Revenue Office, 2012.

StatLink http://dx.doi.org/10.1787/888933013301

Over the period 2007-12 both business loans and SME loans increased by 61.4% and 78.9%, respectively. SME lending experienced continued growth, slowed down in 2012, registering a 14.7% year-on-year growth compared to a 20.4% for 2011. Total business loans followed the same pattern with 13.1% increase in 2012, against 20.7% increase in 2011.

The share of SME loans in total business loans increased over the period 2007-12, from 16.7% to 18.5%.[2] The share of SMEs' short-term loans in total SME loans stood at 60.3% in 2012, indicating that loans were mainly being used to resolve cash flow problems in the production cycle or during the course of business. There was a noticeable decrease in the proportion of SMEs' non-performing loans in total SME loans, from 7.1% (2009) to 6.0% (2012).

Loans authorised compared to loans requested

The indicator 'loans authorised compared to loans requested' is calculated with the information from the Longitudinal Survey of Enterprises and it provides data on the number of enterprises that received and requested one or more loans during the years

2006-08.[3] The ratio of loans authorised to loans requested for SMEs was 61.1%, and for large firms 98.8%. For the period 2009-10, the information is from the second Longitudinal Survey of Enterprises, survey which considers only businesses with sales over UF 800 per year.[4] In those years the ratio of SME loans authorised to loans requested was 79.1%, and for large firms 96.4%. These figures indicate the existence of a gap between SMEs' and large firms' access to credit. SMEs faced credit rationing because they could not meet the credit requirements of financial institutions.

Credit conditions

In October 2008, banks tightened lending conditions (higher spreads on loans, higher collateral requirements and smaller loans) due to the international financial crisis, and they gradually normalised them by mid-2009 (Cowan and Marfan, 2011). According to the last supply-side survey on General Conditions and Standards in the Credit Market, conducted by the Central Bank of Chile in early 2013, business loans for all enterprises had less flexible conditions. Of the banks surveyed, 21.4% reported more restrictive credit conditions for SMEs: higher spreads, a reduction in the credit lines for these clients and a rise in guarantees requested. In 2011, the corresponding figure reported was 14%, depicting looser credit conditions for SMEs in 2012. Also, while large firms increased their demand for new business loans by 6.3%, there was no change in the demand for new loans from SMEs.

There were no data on interest rates for the years 2007-09. Data became available in 2010, when the nominal interest rate spread between SMEs and large enterprises stood at 6.7% for short-term loans and 8.4% for long-term loans.[5] The spread in 2011 was 7.2% for short-term loans and 8.3% for long-term loans and it continued to increase in 2012, with respective spreads for short-term lending at 7.3% and 8.9% for long-term lending.

Equity financing

Flows of venture capital investment fell drastically between 2008 and 2009 due to the negative effects of the global financial crisis. Most of this decrease was in later stage investment. Flows rebounded throughout 2010-12. In Chile, the private equity market has different sources of funding for the different stages of investment. Seed capital, angel investment (currently there are six networks of angel investors in Chile), and expansion capital receive support from the Corporation for the Development of Production (CORFO) which is the government economic development agency). The maturity stage is financed by the private sector, and it was most affected by the financial crisis. In 2010, the government launched a new programme to provide USD 40 000 in start-up equity to entrepreneurs with new business ideas. At the end of 2012, 693 projects had been financed for a total of more than USD 12 million. The cumulative amount of venture capital investment for 2011 was CLP 215 148 million, rising to CLP 294 292 million in 2012, registering a 36.8% increase.

Other indicators

Payment delays are low in Chile, and they improved between 2009 and 2011 for both SMEs and large firms, but deteriorated for SMEs in 2012. The average number of days of payment delays decreased for SMEs from 5.8 in 2009 to 3.6 days in 2011, increasing to 3.9 days in 2012, while for large firms delays remained very low at 0.8 days throughout the period 2009-12.

Bankruptcies were low in Chile and have kept decreasing over the period 2009-12, but that could be explained by the fact that the process is very slow due the lack of an effective

Table 6.2. **Formal flows of venture and growth capital investment in Chile, 2007-09**

By stage of investment, in CLP billion

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

Notes: Amounts reported in UF and converted into CLP based on the value of UF as of 30 December of every year.

Source: Innova Chile, CORFO, SVS. Extracted from Echecopar and Rogers (2011).

StatLink http://dx.doi.org/10.1787/888933013320

bankrupt policy; bankruptcy is an expensive process to go through and a great stigma is attached to being declared bankrupt.

Government policy response

SME government loan guarantees and government guaranteed loans

Government loan guarantees are offered by two institutions: BancoEstado, a commercially-oriented government bank, and CORFO, which depends on the Ministry of Economy. BancoEstado provides a public guarantee fund named FOGAPE (guarantee fund for small business) for micro and small enterprises. CORFO also provides different lines of financing for SMEs through its microcredit and loan guarantee programmes: FOGAIN (a guarantee fund for investment and working capital loans), COBEX (guarantee for exports and imports) and SME debt restructuring.[6] In August 2013 this programme was temporarily suspended. These loan guarantees partially guarantee credits issued by commercial banks. Credit evaluation is fully delegated to the banks by BancoEstado and CORFO. According to information for the period 2012, the share of loans with CORFO guarantees and FOGAPE guarantees (with respect to loans in the banking system for micro, small and medium enterprises) reached 25.6%.

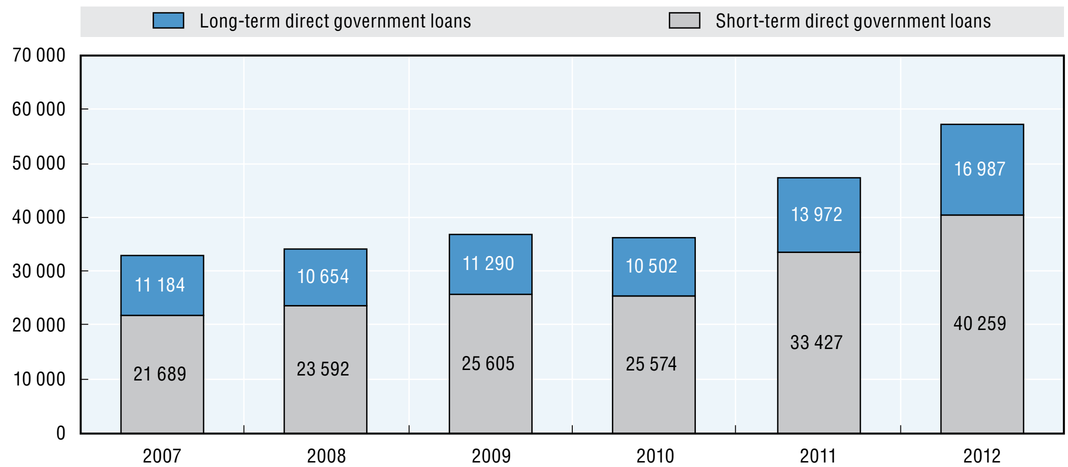
Between 2010 and 2012 guaranteed loans increased significantly. This was largely due to a tenfold increase in CORFO's guarantee activity. During 2012 CORFO provided 79 494 loan guarantees to SMEs worth CLP 1.7 trillion (USD 3.4 million).[7] The guaranteed loans had an average duration of 26 months. Most of these loans (83%) were for investment and working capital (FOGAIN). While over the period 2007-11 there was an important increase in government guarantees and in guaranteed loans, the average coverage decreased from 71% (2007) to 64% (2010), probably due to the increase in the amount of the loans. The intensity of use of the guarantee programme can be measured by dividing the loans outstanding by the loan guarantees. In the Chilean case the intensity of use ratio was 2.

SME government direct lending

Government direct lending for SMEs is provided through INDAP (Institute for the Development of Agriculture and Livestock) and is focused on micro and small enterprises in the agricultural sector. Most of the loans are short-term loans, and the share of the long-term loans in total loans decreased between 2007-10 from 34% to 29%.

Figure 6.1. **Value of direct government loans from INDAP in Chile, 2007-12**

In CLP million



Source: Innova Chile, CORFO, SVS. Extracted from Echecopar and Rogers (2011).

StatLink http://dx.doi.org/10.1787/888933015581

The number of new loans increased during this period, from 47 720 (2007) to 55 312 (2012). Finally, it is interesting to note that the average interest rates of these direct government loans were lower than the average interest rates in the financial market. In 2010, the average annual interest rate for short-term loans of INDAP was 5.87% vs. 7.5%; and for long-term loans INDAP's average interest rate was 6.99% vs. 13.1%.[8]

Table 6.3. **Number of new direct government loans in Chile, 2007-12**

Number of new SME loans

Year	Short-term	Long-term	Total
2007	32 809	14 911	47 720
2008	30 566	12 583	43 149
2009	33 775	12 449	46 224
2010	31 741	12 066	43 807
2011	42 733	17 002	59 735
2012	40 470	14 842	55 312

Source: INDAP.

StatLink http://dx.doi.org/10.1787/888933013339

Box 6.1. **Definition of SMEs used in Chile's SME and entrepreneurship finance scoreboard**

Country definition

In Chile, the Law N° 20.416 establishes the criteria to define the size of a firm. These refer to the annual sales of the firm:

Size	Annual Sales (in UF)
Micro-enterprise	< UF 2 400
Small	From UF 2 400 to UF 25 000
Medium	From UF 25 000 to UF 100 000
Large	> UF 100 000

Note: UF (Unidad de Fomento) is a unit of account that is adjusted to inflation. Thus, its real value remains constant. The UF of August 31, 2013 is CLP CLP 232073.71. SMEs in Chile are firms with annual sales up to UF 100 000.

Definition of SMEs using cuts debt

This classification was projecting a classification of sales, proposal by CORFO, to commercial debt volumes reported by SBIF. The amounts used to effects of classifications, is the result to maximum value of commercial historical debt available. To give a major stability to the debt segmentation scheme.

Size	**Loan (Debt) Size (in UF)**
Micro loan	< UF 500
Small loan	From UF 500 to UF 4 000
Medium loan	From UF 4 000 to UF 18 000
Large loan	From UF 18 000 to UF 200 000
Mega loan	> UF 200 000

Note: UF (Unidad de Fomento) is a unit of account that is adjusted to inflation. Thus, its real value remains constant. The UF of August 31, 2013 is CLP 232073.71.SMEs in Chile are firms with annual sales up to UF 100 000.

Source: Superintendence of Banks and Financial Institutions (SBIF).

Table 6.4. **Scoreboard for Chile, 2007-12**

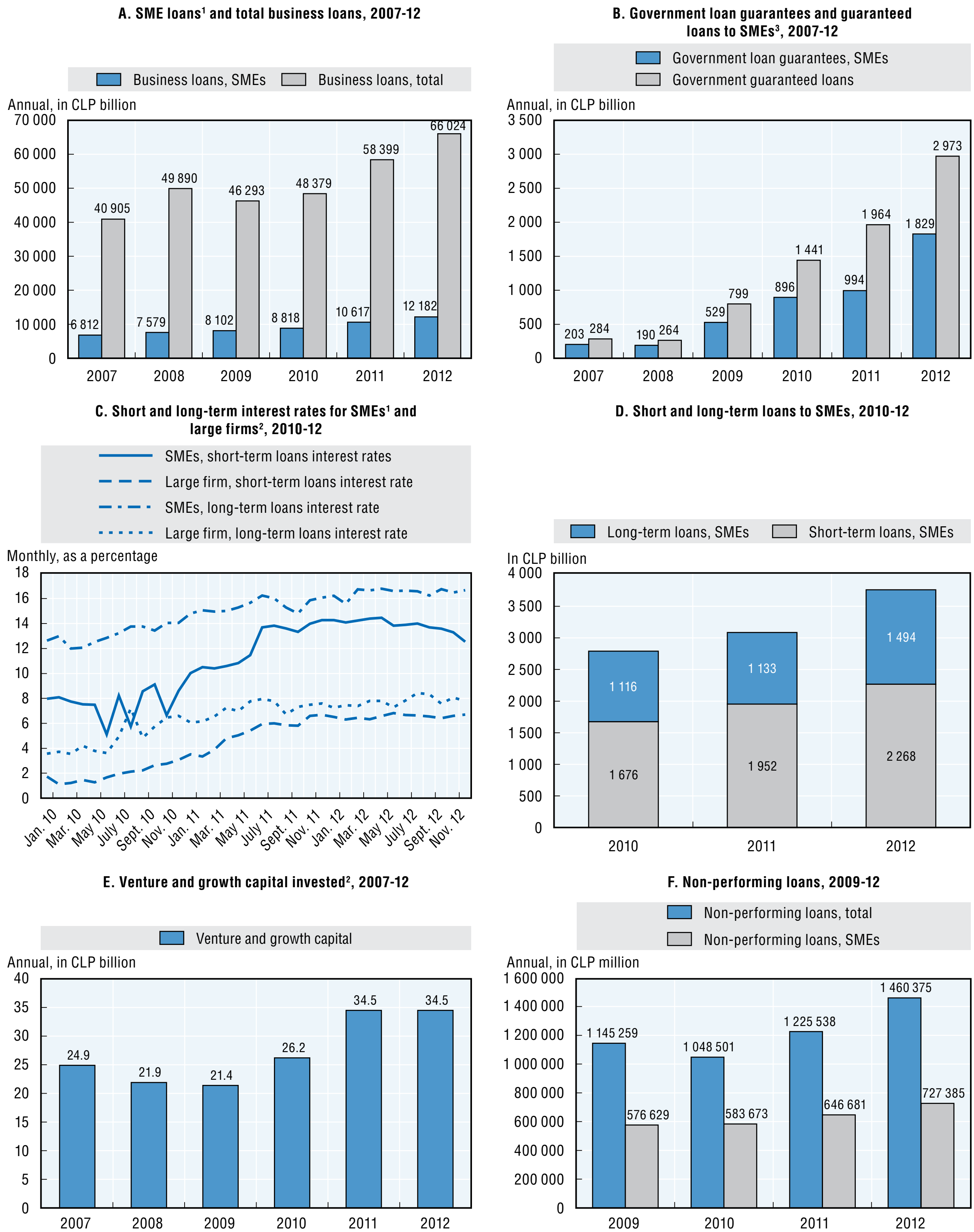
Indicator	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	CLP billion	6 812	7 579	8 102	8 818	10 617	12 182
Business loans, total	CLP billion	40 905	49 890	46 293	48 379	58 399	66 024
Business loans, SMEs	% of total business loans	16.7	15.2	17.5	18.2	18.2	18.5
Short-term loans, SMEs	CLP million	..	..	..	1 676	1 952	2 268
Long-term loans, SMEs	CLP million	..	..	..	1 116	1 133	1 494
Total short and long-term loans, SMEs	CLP million	..	..	..	2 791	3 085	3 762
Short-term loans, SMEs	% of total short and long-term SME loans	..	..	..	60.0	63.0	60.3
Government loan guarantees, SMEs	CLP million	202 780	190 430	528 656	895 988	993 914	1 829 365
Government guaranteed loans, SMEs	CLP million	284 405	263 610	799 310	1 441 186	1 964 176	2 973 193
Direct government loans, SMEs	CLP million	32 873	34 246	36 895	36 076	47 399	57 246
Non-performing loans, total	CLP million	..	..	1 145 259	1 048 501	1 225 538	1 460 375
Non-performing loans, SMEs	CLP million	..	..	576 629	583 673	646 681	727 385
Share of non-performing loans in total business loans	%	..	..	2.5	2.5	2.1	2.2
Share of non-performing SME loans in total SME business loans	%	..	..	7.1	6.6	6.1	6.0
Short-term interest rate, SMEs	%	..	..	..	9.10	12.37	13.81
Short-term interest rate, large firms	%	..	..	..	2.39	5.15	6.54
Short-term interest rate spread	%	..	..	..	6.71	7.23	7.26
Long-term interest rate, SMEs	%	..	..	..	13.12	15.47	16.53
Long-term interest rate, large firms	%	..	..	..	4.68	7.15	7.65
Long-term interest rate spread	%	..	..	..	8.44	8.32	8.88
Equity							
Venture and growth capital	CLP billion	24.9	21.9	21.4	26.2	34.5	34.5
Venture and growth capital	Year on year growth rate, %	..	-12.0	-2.3	22.4	31.7	0
Other							
Payment delays, total enterprises	Weighted average number of days	..	..	1.8	1.7	1.3	1.4
Payment delays, SMEs	Weighted average number of days	..	..	5.8	5.5	3.6	3.9
Payment delays, large enterprises	Weighted average number of days	..	..	0.9	0.8	0.8	0.8
Bankruptcies, total		143	150	173	134	133	130
Bankruptcies, total	Year-on-year growth rate, %	..	4.9	15.3	-22.5	-0.7	-2.3

Note: 1. Displayed value is the average of the period 2006-08.

Source: Refer to Table 6.5.

StatLink http://dx.doi.org/10.1787/888933013358

Figure 6.2. **Trends in SME and entrepreneurship finance in Chile**



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

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

StatLink http://dx.doi.org/10.1787/888933015600

Table 6.5. **Definitions and sources of indicators for Chile's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Business loans to SMEs (defined as loans up to UF 18 000) from banks and cooperative financial institutions under the supervision of SBIF (amount outstanding, stocks)[1].	Superintendency of Banks and Financial Institutions (SBIF)
Business loans, total	Business loans to all non-financial enterprises, amount outstanding, stocks. (Banks and cooperative financial institutions under the supervision of SBIF).	Superintendency of Banks and Financial Institutions (SBIF)
Short-term loans, SMEs	Loans to SMEs (defined as loans up to UF 18 000) equal to or less than one year (new loans).	Superintendency of Banks and Financial Institutions (SBIF)
Long-term loans, SMEs	Loans to SMEs (defined as loans up to UF 18 000) for more than one year (new loans).	Superintendency of Banks and Financial Institutions (SBIF)
Government loan guarantees, SMEs	Guarantees available to banks and financial institutions (new loan guarantees). FOGAIN and COBEX are provided by CORFO and FOGAPE through Banco Estado. SMEs are defined as enterprises with annual sales up to UF 100 000 or annual exports up to UF 400 000.	CORFO (Production Promotion Corporation) and Banco Estado
Government guaranteed loans, SMEs	Loans guaranteed by government (flows). These loans are guaranteed by different types of guarantees, provided by CORFO (Production Promotion Corporation) and Banco Estado. SMEs are defined as enterprises with annual sales up to UF 100 000 or annual exports up to UF 400 000.	CORFO (Corporación de Fomento Productivo) and Banco Estado
Direct government loans, SMEs	Direct loans from the Institute of Agricultural Development (INDAP), to micro and small agribusinesses (flows). INDAP's definition of an SME is an enterprise with less than 12 hectares and capital up to UF 3 500.	INDAP (Instituto de Desarrollo Agropecuario), Ministry of Agriculture.
Loans authorised, SMEs	Number of SMEs (defined as enterprises with annual sales up to UF 100 000) that received one or more loans during the years 2006-08. Does not include the fishing industry and education and health and social work sectors.	First Longitudinal Survey of Enterprises (Ministry of Economy)
Loans requested, SMEs	Number of SMEs (defined as enterprises with annual sales up to UF 100 000) that requested one or more loans during the years 2006-08. Does not include the fishing industry and education and health and social work sectors.	First Longitudinal Survey of Enterprises (Ministry of Economy)
Non-performing loans, total	Includes all loans that are in default (one day or more), from banks and financial institutions under supervision of SBIF.	Superintendency of Banks and Financial Institutions (SBIF)
Non-performing loans, SMEs	Includes all SMEs loans (defined as loan amounts up to UF 18 000) that are in default (one day or more), from banks and financial institutions under supervision of SBIF.	Superintendency of Banks and Financial Institutions (SBIF)
Short-term interest rate, SMEs	Average annual nominal rate for new loans, for maturity up to one year and amounts up to UF 18 000. (This is a weighted average by amount of the loan).	Superintendency of Banks and Financial Institutions (SBIF)
Short-term interest rate, large firms	Average annual nominal rate for new loans, for maturity up to one year and amounts more than UF 18 000. (This is a weighted average by amount of the loan).	Superintendency of Banks and Financial Institutions (SBIF)
Short-term interest rate spread	Between small and large enterprises; for maturity up to one year.	Superintendency of Banks and Financial Institutions (SBIF)
Long-term interest rate, SMEs	Average annual nominal rate for new loans, for maturity more than one year and amounts less than UF 18 000. (This is a weighted average by amount of the loan).	Superintendency of Banks and Financial Institutions (SBIF)
Long-term interest rate, large firms	Average annual nominal rate for new loans, for maturity more than one year and amounts more than UF 18 000. (This is a weighted average by amount of the loan).	Superintendency of Banks and Financial Institutions (SBIF)
Long-term interest rate spread	Between small and large enterprises; for maturity more than one year.	Superintendency of Banks and Financial Institutions (SBIF)
Equity		
Venture and growth capital	Annual amounts invested in the country (includes seed capital, angel financing, expansion). All enterprises.	Innova Chile, CORFO and Superintendencia de Valores y Seguros-SVS (the Chilean securities and insurance supervisor)

Table 6.5. **Definitions and sources of indicators for Chile's scoreboard** *(cont.)*

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

Note: 1. The UF of August 31, 2012 is CLP 22 549.68. See Box 6.1. for the definition of SMEs used by financial institutions.
Source: Federal Ministry of Finance.

Notes

1. Statistics of the Internal Revenue Office for business year 2012.
2. SBIF (2013), monthly report "Cartera Comercial Segregada por Tamaño de Deuda". Mayo, Santiago de Chile.
3. It is important to note that the information is for the whole period and not only flow for one year.
4. On an updating of the methodology of the survey, the second study reduces the sample population, excluding the smallest firms.
5. This is for nominal interest rates. The spread for real interest rates is: 1.6% for short-term loans and 0.8% for long-term loans.
6. In 2011 CORFO introduced some changes in their guarantee programmes: FOGAIN, which was oriented to guarantee loans for investment, now includes guarantees for working capital; COBEX, which was oriented to exports, now includes imports.
7. The USD, to December 31, 2011 is CLP 471.60.
8. Nominal interest rates.

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Colombia

SMEs in the national economy

In Colombia, microenterprises and SMEs (MSMEs) represent an important part of the economy, employing 80.8% of the country's workforce, contributing to 40% of GDP and representing 13% of total exports.[1] However, there exist large differences within the MSME sector, particularly between medium-sized firms, on the one hand, and micro and small enterprises on the other. These latter, which account for about 68% of the business population, tend to be more vulnerable and less affected by policy instruments. Also, informality is common and formalisation is constrained by the family nature of the businesses, which are typically limited in their managerial capacity and corporate governance.

Table 7.1. **Distribution of firms in Colombia, 2005**

By number of employees

Firm size (employees)	%
All enterprises	**100.0**
SMEs (up to 200)	**80.8**
Micro (up to 10)	50.3
Small (11-50)	17.6
Medium (51-200)	12.9
Large (more of 200)	**19.2**

Note: Classification of MSMEs according to the parameters contained in the Law 905 of 2004.

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Financial deepening and lending activity

According to the Banking Association of Colombia, in 2013 financial depth, measured as credit to the private sector as a percentage of GDP, is estimated at 35%- 37% of GDP, in line with the long-term average observed in the country. Banks are well-capitalised and solvent, and provisions are adequate. In addition, households and enterprises do not appear to be over-leveraged, which is reflected in good quality loan portfolios.

The growth of credit is supported by the increasing number of users and intermediaries. Over 2006-11 the number of adults with at least one financial product increased from 717 000 to 4 million, that is, 63% of the total adult population.

According to the Financial Superintendence, in H1 2013 the loan portfolio recorded a 13.35% annual growth rate. As of June 2013, the balance increased by USD 16.9 billion compared to December 2012,and reached USD 265.0 billion, mainly due to the increase in the commercial (61.1%) and consumption (28.0%) loan portfolios. Microcredit represented 2.9% of total lending.

SME lending

In Colombia, credit is the main financing source for SMEs: bank lending accounts on average for 45% of the total financing received, followed by suppliers' finance (41%) and own resources or internal funding (12%).[2] On the other hand, for SMEs, the stock market represents a marginal source of financing. According to the SME Survey by the National Association of Financial Institutions (ANIF), in H2 2012, on average, 47% of the SME population had sought credit and the approval rates for credit had been extremely high, reaching 95% of total requests.[3]

Credit to SMEs represented on average 29% of the total credit portfolio over 2007-12. In this period, the value of loans to the SME sector increased by 9.9% (average annual growth). However, total business loans grew at a higher rate, so that the SME loan share decreased from 33.4% in 2007 to 26.8% in 2012. In 2012, SME loans recorded a 14.5% annual increase, while the total loan portfolio grew by 13.4%, having doubled since 2007.

Over the period 2007-12, short-term loans for SMEs (i.e. credit less or equal to one year) represented on average 20% of total SME loans. However, short-term credit grew at a higher average rate (14.7%) than long-term ones (11.0%). As of 2012, short-term SME loans represented 19.7% of total SME lending, having rebounded from 14.8% in 2011.

Microcredit

Microcredit in Colombia is defined as credit given for productive purposes to micro-enterprises where the amount does not exceed the 120 current legal monthly minimum wages. Micro-enterprises have up to ten employees and have assets not greater than 501 current legal monthly minimum wages.

Although microcredit represented only 2.9% of total lending in H1 2013, a considerable increase was recorded over 2010-13, both in the number of operations and in the amount of micro-credit granted (Table 7.2).

The total number of microcredit operations increased by 13.1% over 2010-12, from 1.8 million to 2.3 million, mainly through bank transactions, which grew by 26.2% on average over this period. Banks also largely contributed to the growth in the volume of micro credit, which increased by 22.4% over this period, from USD 2 414 million in 2010 to USD 3 619 million in 2012.

In H1 2013, the microcredit portfolio experienced stable annual growth, amounting to 17.7% at the end of June, for a total balance of USD 7.7 billion, largely concentrated in the lower credit value range. The credit ranging from 25 to 120 legal monthly wages represented 29.3% of the total portfolio (14.5% average annual growth), and credit of less or equal to 25 legal monthly minimal wages represented 70.7% of the total portfolio (18.9% average annual growth).

Credit conditions

According to the SMEs–Anif survey, on average 50% of MSMEs do not apply for credit and for those who request it, the approval rate is high.[4] The obstacles, which may explain discouraged MSME credit seekers, are high credit costs (interest rates and overall cost of financial services), lengthy and bureaucratic processes, as well as the high requirements for formal financing for microenterprises with credit conditions not adjusted to the needs of the

Table 7.2. **Evolution of microcredit in Colombia, 2010-13**

Number of operations, amounts in USD million

Type of Entity	2010		2011		2012		2013 (July)	
	Number of operations	Amount (USD million)	Number of operations	Amount (USD million)	Number of operations	Amount (USD million)	Number of operations	Amount (USD million)
Banks and CF	648 141	1 362	967 343	2 091	1 031 661	2 388	630 544	1 538
Cooperatives	68 943	152	83 660	201	93 690	254	46 005	123
NGOs	1 077 393	900	1 085 551	849	1 170 308	976	687 373	606
Total	1 794 477	2 414	2 136 554	3 141	2 295 659	3 618	1 363 922	2 267

Source: Bancoldex – Banca de las Oportunidades

StatLink http://dx.doi.org/10.1787/888933013396

micro-entrepreneur. Factoring in the banks' commercial portfolio is very low (about 0.5%). For financing start-ups 72% of the micro-entrepreneurs use their personal or family savings, 16% use loans from friends and family and only 5% resort to financial credit institutions.

Credit conditions for SMEs loosened over the period 2007-12, with the average interest rate charged on SME loans decreasing from 16.23% in 2007 to 13.40% in 2012. When compared to large firms, however, SMEs faced stricter conditions throughout the period, as evidenced by the spread between interest rates charged on SME loans and those charged on large firms' loans, which stood around 400 basis points throughout the period. In 2012, both SME interest rates and the relative spread increased, by 2.8% and 5.2%, respectively.

Equity financing

Colombia has advanced in recent years in structuring financing instruments that address needs at the different stages of a company's life cycle. In the area of seed financing, the National Learning Service (SENA) manages the Emprender Fund, which, over the 2005-July 2013 period, supported 3 388 projects and allocated USD 112 811 974 in seed capital,[5] generating 10 317 jobs A number of new financing instruments is also being introduced, with the creation of networks of angels investors and capital funds. Currently, there are 24 closed funds of private capital. These funds have mobilized more than USD 2.6 billion over the period 2009-12

Other indicators

The average payment delay measured by the average number of days of delay in loan payments has dropped significantly in 2012 from 65.4 days to 25.2 days.

Bankruptcy figures, measured as the number of businesses that begin the process at the Superintendencia de Sociedades, have dropped by more than a third in 2012, on a year-to-year basis. Bankruptcies had peaked in 2009, when they nearly doubled, registering further smaller increases in 2010 and 2011. The drop recorded in 2012 was mainly due to heavy banking provisioning undertaken by the financial institutions, allowing for a lower number of bankruptcies.

Government policy response

Colombia has undertaken a number of measures to improve access to finance by MSMEs including:

- Reduction of the costs of financial services.

- Improved effectiveness and efficiency of the financial sector and improved credit availability. These include the Recommendations by the Private Council of Competitiveness such as:
  - Evaluation of the "norms and regulations that increase the intermediation cost of the Colombian financial system and which do not encourage the rivalry and competition between the different entities".
  - "Analysis of the potential effects on competitiveness and efficiency in the financial sector of forced investments; the legal framework for judicial deposits; limits on interest rates".
- Development of innovative solutions to support businesses that take into account size, sector, and age of the company; non-financial support (co-financing, business training) and innovative products (movable guarantees).
- Improving alternative mechanisms to finance companies in their early stages (seed capital, angel investors).
- Promoting SMEs' use of factoring and leasing mechanisms.
- Fostering the use and funding of TICs by SMEs, to improve their relation with financial entities.
- Continuous innovation to offer credit lines which foster the strengthening of the company in the medium and long term.
- Increased scope of the portfolio of financial products and services for SMEs.
- Business training to SME managers and owners, creation and strengthening of other mechanisms of support to the microenterprises, as well as expansion and strengthening of the entities oriented to micro- business credit.

Public financial institutions

Colombia's public financial institutions are working towards reducing the information asymmetry and the knowledge gap which affect small and medium entrepreneurs when seeking financing instruments. Public financial institutions play an important role in the provision of financing to SMEs, in particular ensuring the availability of medium and long term resources, the facilitation of direct and indirect credit programmes as well as the provision of guarantees for SMEs.

Bancóldex is the Colombian business development bank, under the Ministry of Commerce, Industry and Tourism, operating as a second tier bank. It designs and offers new financial and non-financial instruments to boost competitiveness, productivity, growth and development of MSMEs and large Colombian firms, whether they are exporters or focus on the national market. In 2012, Bancóldex disbursed credit to MSMEs through financial institutions, for a total amount of USD 848 005 596, through 90 269 credit operations, out of which 75% were granted to MSMEs.

Besides offering traditional credit, Bancóldex has special programmes, such as iNNpulsa Colombia, iNNpulsa Mipyme, the Bank of Opportunities and the Productive Transformation Program. In particular, the fund for the modernisation and innovation of the MSMEs, iNNpulsa Mipymes, provides financial and non-financial instruments, such as the non-refundable co-financing of programmes, projects and activities that target MSME innovation, development and promotion. In 2012, the Fund reported disbursements of non-refundable resources for the MSMEs close to USD 24 380 160.

With regard to the financing of innovation and dynamic entrepreneurship, the Unit for Development and Innovation – UDI – was created in Bancóldex by the National Development Plan, to provide non-refundable resources to projects focused on innovation. This Unit has the following co-financing lines: Innpulsa Emprendimiento Dinamico Innovador, MiPYME Cofinanciacion, Innovacion y Emprendimiento en Grandes Empresas, Innovacion y Fortalecimiento Regional.

Bancóldex has also been providing support for the development of factoring. In Colombia, the overall factoring portfolio represents on average 0.42% of the commercial portfolio, a percentage that has been rising. The introduction of Law 1231 of July 2008 and the Decree 2269 of 2012 have designated the invoice as a financing mechanism for SMEs. They set the legal basis for enlarging acceptance of invoices from suppliers with businesses of different sizes. Factoring offers clear advantages to SMEs to improve their cash flows and reduce the risk of credit exposure. To that end, Bancóldex has designed a financial product called Liquidex COP – USD. Through this, the enterprise can buy at a discount and without recourse[6] up to 80% of the value of the exchange bills originated in domestic or international transactions, protected by the credit insurance issued by two specific insurance companies identified by Bancóldex. Over the last two years, Bancóldex has mobilised resources up to USD 152 111 003 to develop the factoring industry. These funds are placed in financial institutions supervised by the Superfinanciera, through a short-term credit line with low interest rates for the industry (DTF + 1.75%). Bancóldex has also allocated directly close to USD 15 900 104 annually, by discounting bills directly to some businesses linked to the Liquidex programme, thus protected by an insurance, as Bancóldex cannot take the risk of giving direct credit.

FINAGRO is a public financial institution through which public programmes are executed in the agricultural and rural development sectors. It contributes to the integral, competitive and sustainable development of the rural sector, facilitating access to microcredit. It does so by managing the resources delivered through inter-administrative agreements with the Ministry of Agriculture and Rural Development, as well with specific programmes for the rural areas, such as PADEMER and Rural Opportunities. The resources are delivered in the form of loans to institutions that are specialised in the provision of rural microcredit and that finance the rural micro-entrepreneurs' need for working and investment capital.

Banco Agrario operates as a commercial bank, mainly, but not exclusively, through financing activities related to the rural, agricultural, cattle, fishery, forestry and agro-industrial sector.

Credit Guarantees

The National Fund of Guarantees provides guarantees for MSMEs financing. Financial intermediaries request guarantees for enterprises asking for loans. The guaranteed portion is on average 50% of the loan.

The new regulation on movable guarantees, i.e. collateral based on movable goods, represents a revolution for MSMEs' access to credit. Law 1676 of 20 August 2013, by which access to credit is promoted, regulates movable guarantees. This new instrument opens up possibilities of credit to the smaller businesses since they can support their obligations for an extended set of movable property. For example, guarantees can be established on current assets or goods derived from the initial good given in guarantee. As micro, small and medium entrepreneurs have mostly movable property; these regulatory changes broaden the range of goods that can be used as a guarantee and thus the possibilities to obtain credit at a lower cost. The law contemplates the creation of a single register of movable guarantees (administered by Confecámaras) in order to facilitate the advertising process, and has created a more expeditious judicial process for the implementation of movable guarantees.

Box 7.1. **Classification of MSMEs in Colombia according to the parameters contained in Law 905 of 2004**

Size	Occupied Personnel	Assets in SMMLV	Assets in COP (Millions)	Assets in USD (thousands)
Micro	≤ 10	≤ 500	≤ 295	≤ 167
Small	11 up to 50	501 up to 5 000	295 up to 2 947	167 up to 1 667
Medium	51 up to 200	5 001 up to 30 000	2 948 up to 17 685	1 668 up to 10 000
Large	≥ 200	≥ 30 000	≥ 17 685	≥ 10 001

Source: National Fund of Guarantees

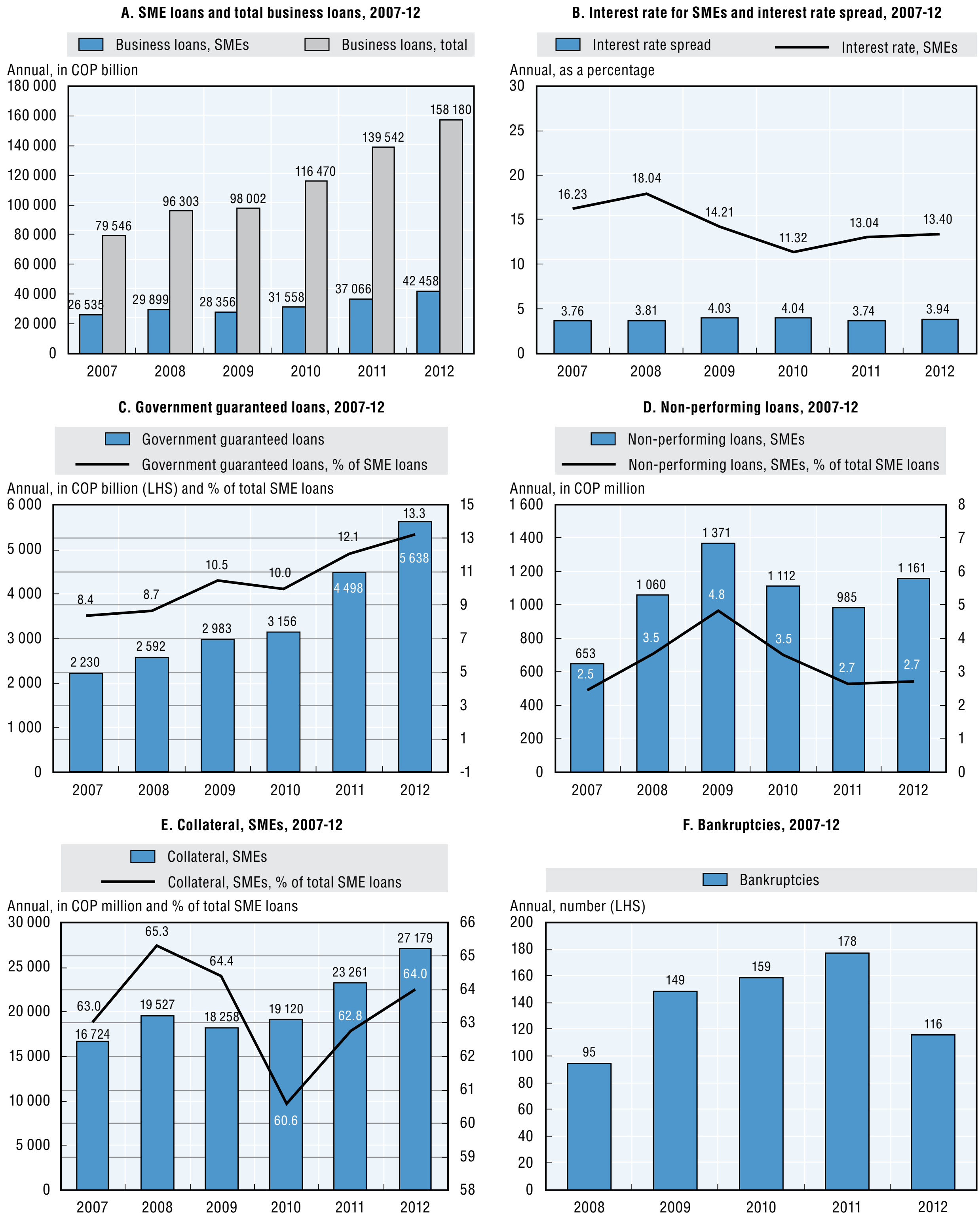
Table 7.3. **Scoreboard for Colombia, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	COP billion	26 535	29 899	28 356	31 558	37 066	42 458
Business loans, total	COP billion	79 546	96 303	98 002	116 470	139 542	158 180
Business loans, SMEs	% of total business loans	33.4	31.0	28.9	27.1	26.6	26.8
Short-term loans, SMEs	COP billion	4 980	7 521	6 144	6 416	5 472	8 376
Short-term loans, SMEs	% of total SME loans	18.8	25.2	21.7	20.3	14.8	19.7
Government loan guarantees, SMEs	COP billion	564	1,385	1,819	1,943	3,128	3,267
Government guaranteed loans, SMEs	COP billion	2,230	2,592	2,983	3,156	4,498	5,638
Government guaranteed loans, SMEs	% of total SME loans	8.4	8.7	10.5	10.0	12.1	13.3
SME loans authorised/ requested	%	97.8	95.7	91.0	95.0	97.0	96.0
Non-performing loans, SMEs	COP billion	653	1,060	1,371	1,112	985	1,161
Non-performing loans, SMEs	% of total SME loans	2.5	3.5	4.8	3.5	2.7	2.7
Interest rate, SMEs	%	16.23	18.04	14.21	11.32	13.04	13.40
Interest rate spread	%	3.76	3.81	4.03	4.04	3.74	3.94
Collateral, SMEs	COP million	16,724	19,527	18,258	19,120	23,261	27,179
Collateral, SMEs	% of total SME loans	63.0	65.3	64.4	60.6	62.8	64.0
Other							
Payment delays on credit overdue	Days	48.7	50.0	60.3	61.7	65.4	25.2
Bankruptcies	Number	..	95	149	159	178	116
Bankruptcies	Year-on-year growth rate, %	..		56.8	6.7	11.9	-34.8

Source: Refer to Table 7.4.

StatLink http://dx.doi.org/10.1787/888933013415

Figure 7.1. **Trends in SME and entrepreneurship finance in Colombia**



Sources: Charts A, B, C, D and E: Banco de la Republica, Superintendencia Financiera de Colombia. Chart F: Superintendencia de Sociedades.

StatLink http://dx.doi.org/10.1787/888933015619

Table 7.4. **Definitions and sources of indicators for Colombia's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Total stock value for active credit operations between Credit entities and SMEs.	Banco de la Republica, Superintendencia Financiera de Colombia.
Business loans, total	Commercial credits and micro loans (up to December 2012).	Banco de la Republica, Superintendencia Financiera de Colombia.
Short-term loans, SMEs	Commercial or micro loans to SMEs shorter or equal to one year.	Banco de la Republica, Superintendencia Financiera de Colombia.
Government loan guarantees, SMEs	Stock value of the guarantees tipo 5 = Garantía Soberana de la Nación (Ley 617 de 2000), 7 = Garantías otorgadas por el Fondo Nacional de Garantías S.A. y/o 10 = FAG (Fondo Agropecuario de Garantías) for SME's credits. Based on technical criteria for the total of guarantees reported under the parameters of Chapter II of External Circular 100 of 1995.	Banco de la Republica, Superintendencia Financiera de Colombia.
Government guaranteed loans, SMEs	Stock value of the SME credits which are backed by government loan guarantees.	Banco de la Republica, Superintendencia Financiera de Colombia.
SME loans authorised / requested	% of loans authorised to loans requested, based on demand-side surveys.	GRAN ENCUESTA PYME – ANIF
Non-performing loans, SMEs	Total capital value of current credit operations for which days in arrears> 90.	Banco de la Republica, Superintendencia Financiera de Colombia.
Interest rate, SMEs	Weighted average interest rate per trimester weighted exposure reported on annual effective figures. When variable rates apply, reports must calculate the addition on financial terms between the agreed rate and the variation. If a borrower has more than one credit with the reporting institution (and both credits are classified under the same category), the report takes the average weighted rate (excluding any credit with a 0% interest rate).	Banco de la Republica, Superintendencia Financiera de Colombia.
Interest rate spread	Difference between the SME interest rate and the rate charged on loans to large enterprises.	Banco de la Republica, Superintendencia Financiera de Colombia.
Collateral, SMEs	Percentage of total of SMEs loans that were required to provide collateral on latest bank loan. Value of SMEs Credits for which the reported guarantee is different from type 0= Without guarantee	Banco de la Republica, Superintendencia Financiera de Colombia.
Other		
Payment delays on credit overdue	Average number of days of delay after the date of payment. If a borrower has more than one credit with the reporting institutions (and both credits are classified under the same category), the report takes the higher delay.	Banco de la Republica, Superintendencia Financiera de Colombia.
Bankruptcies	Number of businesses that begin bargaining processes registered at the Superintendencia de Sociedades (Reorganisation Agreements or Judicial bankruptcies). To discriminate the sizes of the businesses, a calculation is made based on the assets value, as defined in Law 905 de 2004.	Superintendencia de Sociedades

Notes

1. The estimates about the employment contribution of MSMEs and their share in the total number of establishments are based on the Economic Census of 2005, the latest available in Colombia. The participation of MSMEs in the GDP is inferred from an estimate of the Association of Micro and Small Entrepreneurs (ACOPI). The estimates about MSMEs' contribution to exports are based on a 2003 study by FUNDES.
2. Source: Luis Alberto Zuleta J. (2011), "Política Pública e Instrumentos de Financiamiento a las Pymes en Colombia" in Carlos Ferraro (ed.), Eliminando Barreras: El Financiamiento a las Pymes en América Latina, Chapter II, ECLAC.
3. *http://anif.co/encuesta-pyme*
4. Source: Gran Encuesta Pyme ANIF – H2 2012
5. Throughout the document, the exchange rate used to converting COP to USD, is the representative market rate at October 6, 2013. TRM = 1 USD = 1 886 78 COP
6. Under "non-recourse" factoring, the factor assumes title of the receivable accounts and most of the default risk, because it does not have any claim (i.e. "recourse") against the supplier if the accounts default.

Czech Republic

SMEs in the national economy

There are roughly one million enterprises in the Czech Republic, most of them are SMEs with less than 250 employees (99.9% of all enterprises as of 2010), employing almost 2.5 million people (69.9% of Czech Republic's workforce). The bulk of them are micro firms (95.8% of SMEs). Sole-traders without employees (self-employed individuals) represent a significant segment of business entities.

Table 8.1. **Distribution of firms in the Czech Republic, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**968 121**	**100.0**
SMEs (0-249)	**966 757**	**99.9**
Micro (0-9)	926 751	95.7
Small (10-49)	33 393	3.4
Medium (50-249)	6 613	0.7
Large (250+)	**1 364**	**0.1**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933013434

SME lending

New SME loans declined over the period 2007-12; with only a slight increase in 2011. After a significant 28.6% decline in 2009 and a rather smaller 16.6% decline a year later, the volume of new SME loans decreased only by 3.7% in 2012. Comparing 2012 to 2007 (the last pre-crisis year) the volume of new business loans for SMEs decreased by 42.3%. Unlike SME loans, total business loans did not decline so rapidly. The largest decline was 14.5% in 2010 and growth resumed in 2012 with a 16.0% increase.

Consequently, the share of new SME loans in total new business loans declined from 24.4% (2007) to 17.2% (2012), which is the lowest share over the 2007–12 period. Surveys conducted in recent years have shown that Czech companies fear of large indebtedness and the inability to repay those debts. Therefore they still rely heavily on their own resources, created by their revenues. Many Czech entrepreneurs assume that external capital is not needed, and they develop their business as fast as their own resources allow.

Bank loans are a traditional source of financing business, with 45 banks, including branches of foreign banks, operating in the country. At present, when the interest rates are at very low levels, competition is observed in the banking market. Logically, large enterprises are more attractive for banks, while SMEs are often rejected, not due to lack of interest in this segment, but mainly because of increasingly stringent banking regulation. Bank activity in SME lending is limited, despite the fact that some banks use financial instruments of the European Commission, European Investment Bank and the European Investment Fund (e.g. soft loans, guarantees and risk-sharing instruments) which would facilitate loans to smaller enterprises. Although the capital adequacy of Czech banks is above the EU average, increasingly stringent regulatory measures prevent them from providing loans with a high degree of risk which is especially detrimental for start-ups.

Credit conditions

Interest rates for SMEs peaked in 2008 at 5.57% and gradually declined over time, reaching a record low of 3.48% in 2012 (25 basis points down from 2011). The interest component of credit conditions eased for large enterprises, too, with interest rates at 2.43% in 2012, having decreased by 20 basis points compared to 2011. Over the period 2007-12, SME interest rates declined by 209 basis points and the respective decrease for large firms were 242 basis points. However, the interest rate spread between SMEs and large enterprises ranged from a minimum of 68 basis points in 2010 and a maximum of 118 basis points in 2009. Nevertheless, some positive signs appeared in 2012, with the spread reduced to 106 basis points versus 111 basis points a year earlier.

According to the Bank Lending Survey undertaken by the Czech National Bank, overall credit conditions for non-financial enterprises tightened only slightly, however, the demand for loans moderately increased. Despite low interest rates and sufficient availability of bank loans, there has been relatively low credit growth in 2012, which can be therefore attributed to the lower demand for loans. The lower need for investment financing had an adverse effect on demand.

According to the Czech National Bank, banks have increased their collateral requirements for enterprise lending. In terms of asset quality, despite a decline in the performance of the enterprise sector, the evolution of credit risk was relatively favourable in 2012, with the non-performing loans declining. However, they remained above their pre-crisis level.

Equity financing

Venture capital performed well in the 2008-10 period. However, in 2011 venture capital investment registered a 54.34% decline and in 2012 a further 50.31% drop.

Equity financing (IPO, private equity and venture capital) are on the periphery of Czech entrepreneurs' interests so far. Conditions for this type of funding do exist in the Czech Republic. Two stock exchanges are operating, with 15 IPOs at the Prague Stock Exchange over the last ten years. This type of financing is unusual in the Czech Republic; as enterprises are worried about the complexity and cost of the IPO process. Similarly, private equity and venture capital investment play a marginal role in the Czech economy. The Czech Private Equity and Venture Capital Association has 13 members with capital of EUR 4.47 billion. However, these funds focus primarily on later stage investments. The bulk of their investments consist of transactions such as MBI, MBO, and mergers and acquisitions. Only a few venture capital funds focus on start-ups.

This situation will change with the establishment of a new state venture capital fund (Seed Fund project) financed partly by EU Structural Fund and partly by Czech state budget.

The project was in its final preparation period. Unfortunately the process was suspended in Q1 2013 due to complaints of a tenderer. The Office for the Protection of Competition (Antimonopoly Authority) is assessing the complaints and will issue a decision. The start of investment activity is planned for H1 2014, should the decision be positive, otherwise the project will have to be redesigned.

Bankruptcies

Bankruptcies increased dramatically over the period 2007-12. The biggest increase occurred in 2009, when total bankruptcies (sole traders excluded) grew by 46.6%. Over the 2010–12 period sole traders were more vulnerable to insolvency than larger enterprises. After a slight decline in 2011, the increase in bankruptcies continued in 2012.

Government policy response

The Czech-Moravian Guarantee and Development Bank (CMGDB/ČMZRB), the Export Guarantee Bank (CEB) and Export Guarantee and Insurance Corporation (EGIC/EGAP) are state-owned institutions. Given the decline in SME lending and its impact on employment, investment and export, guarantee activities have stepped up. In the framework of anti-crisis measures, the Ministry of Industry and Trade provided assistance under the following national programmes.

The GUARANTEE programme

The GUARANTEE programme (funded by the Czech state budget) for preferential loans that was created in February 2009 and has been implemented until the end of 2010. As a part of the National Anti-Crisis Plan (Government Resolution No. 204 of 16 February 2009), the programme originally targeted manufacturing, construction, information and communications. In November 2009, the programme was expanded to include support for internal trade, tourism and education. A further expansion of the programme took place in March 2010, adding guarantees for investment loans. The acceptance of applications for all the types of guarantees provided under the programme was suspended with effect from 15 June 2010. The large number of applications exhausted the available funds allocated to the programme.

As a government policy response in the beginning of 2012 the GUARANTEE programme was restarted. CZK 300 million was transferred to the loan and guarantee funds administered by ČMZRB. The Programme used resources released in connection with the termination of guarantees, loans and repayments of funds received under ČMZRB management. By the end of 2012, ČMZRB provided 761 guarantees valued at CZK 1 597 million, which enabled entrepreneurs to continue borrowing for their operating needs.

Apart from this national GUARANTEE programme, the Operational Programme Enterprise and Innovations (OPEI) Guarantee programme (funded partly by EU structural fund) was also in operation. However, in 2011 the programme was suspended due to objections from the European Commission over the ownership structure. This caused a sharp decline in total guarantees provided by CMZRB in 2011. In 2012 the shareholder structure was transformed and the OPEI Guarantee programme will soon be restarted.

CMZRB provided SMEs with partial guarantees (between 60-80% of the loan), preferential loans (up to CZK 1 500 000 with a six year maturity and 4% interest rate) and subordinated loans (up to CZK 20 000 000 with up to a nine-year maturity; 3% interest rate and up to a three year grace period).

In 2013, REVIT, a new programme, was prepared by the Ministry of Industry and Trade and CMZRB as a crisis-response measure. It assists SMEs in regions affected by the downturn of large enterprises' activities or regions affected by natural disasters). The REVIT programme offers preferential investment loans (up to CZK 10 000 000 with a seven-year maturity and a 1-2% interest rate), preferential operational loans (up to CZK 5 000 000 with a five year maturity and 2-3% interest rate), financial allowance for a preferential loan (up to 10% from preferential loan, maximum CZK 1 million), preferential guarantee (only in the case of natural disaster – with up to 80% of the guaranteed loan for a maximum of CZK 20 million, for a maximum of ten years) and financial allowance for guaranteed loans (only in case of a natural disaster – up to 10% of eligible project costs financed from a preferential loan).

Table 8.2. **Guarantees issued and loans guaranteed in the Czech Republic, 2007-12**

Indicator	Unit	2007	2008	2009	2010	2011	2012
Guarantees issued	Number	482	1 043	878	1 224	111	697
Guarantees issued	CZK million	1 925	3 529	6 369	6 593	472	1 534
Loans guaranteed	CZK million	2 959	5 094	9 550	10 070	630	2 215
% guaranteed	%	65	69	67	65	75	69

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

StatLink http://dx.doi.org/10.1787/888933013453

Czech Export Bank (CEB) and Export Guarantee and Insurance Corporation (EGIC)

In connection with the anti-crisis measures, CEB and EGIC received state support during 2009 and 2010 to increase export finance and insurance. The capital of CEB was increased in 2010 by CZK 1.050 billion to a total of CZK 4 billion. CEB began providing direct guarantees to commercial banks for export-oriented SMEs. Another successful SME product of CEB was the re-financing of factoring companies from CEB resources, which has allowed the number of enterprises financed to be increased dramatically.

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

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

In 2012, EGIC continued to provide its insurance coverage to export transactions of Czech banks and exporters, including SMEs, with the record amount of CZK 72 billion. The Parliament of the Czech Republic has increased the insurance capacity of EGIC up to CZK 250 billion and the Ministry of Finance has provided the EGIC further CZK 1 billion in order to enable EGIC to increase its support to Czech exporters. Insurance coverage of SMEs is supported through EGIC's subsidiary KUPEG, which provides short-term commercial insurance. EGIC continues to provide specific insurance to SMEs with an official support by making adjustments in its insurance products. It enables SMEs to benefit from a simplified and shortened insurance process for accessing bank guarantees and pre-export credits. SMEs were provided with CZK 10 billion in insurance. In SMEs also benefit from participation in large projects as sub-suppliers to EPC contractors (Engineering, Procurement and Construction).

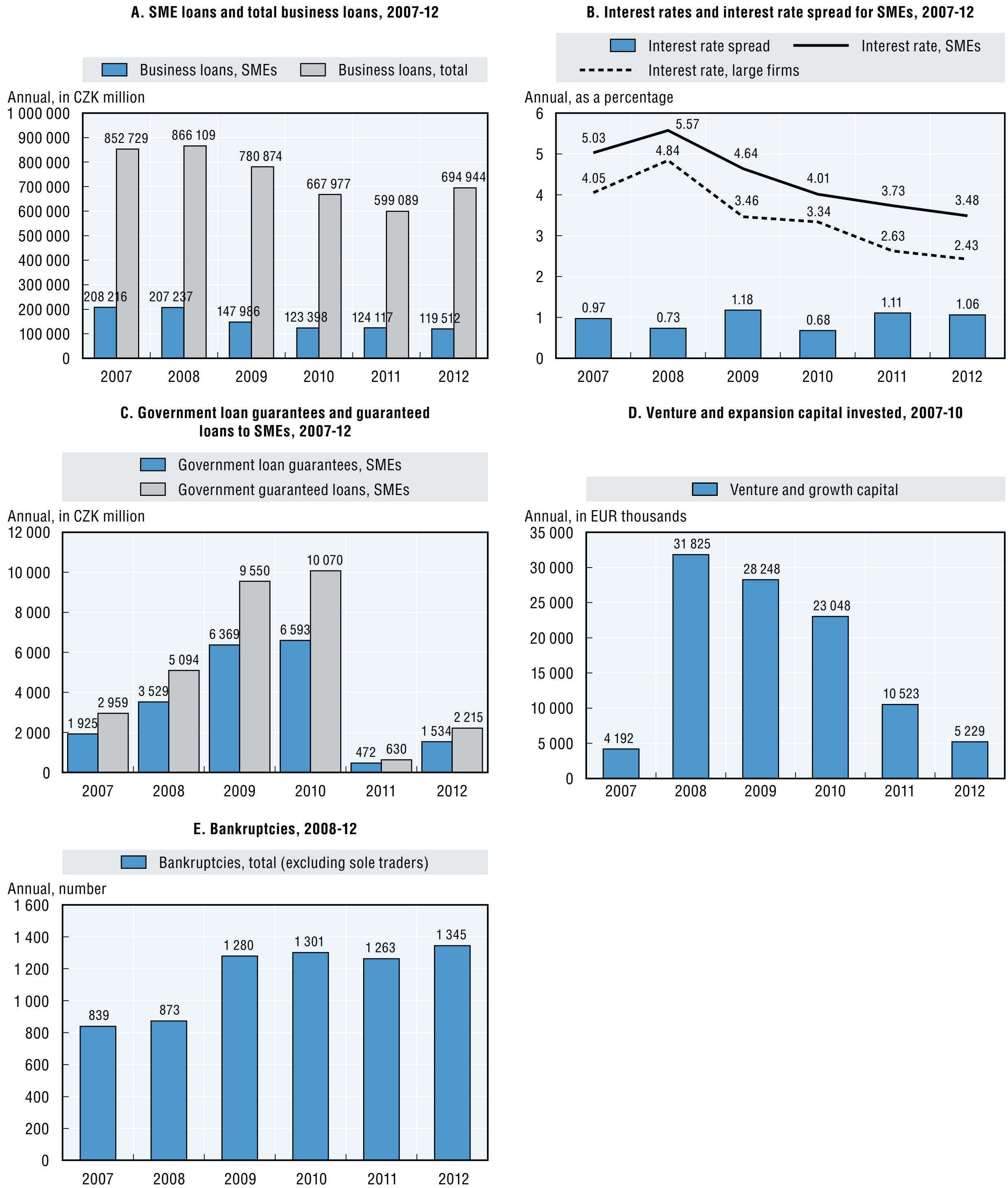
Table 8.3. **Scoreboard for the Czech Republic, 2007-12**

Indicator	Unit	2007	2008	2009	2010	2011	2012
Debt							
New business loans, SMEs (flows)	CZK million	208 216	207 237	147 986	123 398	124 117	119 512
New business loans, total (flows)	CZK million	852 729	866 109	780 874	667 977	599 089	694 944
New business loans, SMEs	% of total new business loans	24.4	23.9	19.0	18.5	20.7	17.2
Outstanding business loans, SMEs (stock)	CZK million	360 119	421 107	395 360	395 917	416 494	419 025
Outstanding business loans, total (stock)	CZK million	743 380	848 068	782 185	780 425	828 055	835 415
Outstanding business loans, SMEs	% of total outstanding business loans	48.4	49.7	50.5	50.7	50.3	50.2
Government loan guarantees, SMEs	CZK million	1 925	3 529	6 369	6 593	472	1 534
Government guaranteed loans	CZK million	2 959	5 094	9 550	10 070	630	2 215
Non-performing loans, total	CZK million	22,816	35,340	61,904	70,166	67,876	61,520
Non-performing loans, total	% of total outstanding business loans	3.1	4.2	7.9	9.0	8.2	7.4
Interest rate, SMEs	%	5.03	5.57	4.64	4.01	3.73	3.48
Interest rate, large firms	%	4.05	4.84	3.46	3.34	2.63	2.43
Interest rate spread	%	0.97	0.73	1.18	0.68	1.11	1.06
Equity							
Venture and growth capital	EUR thousands	4,192	31,825	28,248	23,048	10,523	5,229
Venture and growth capital	Year-on-year growth rate, %	..	659.2	-11.2	-18.4	-54.3	-50.3
Other							
Bankruptcies, total	Number	839	873	1,280	1,301	1,263	1,345
Bankruptcies, total	Year-on-year growth rate, %	..	4.1	46.6	1.6	-2.9	6.5

Source: Refer to Table 8.4.

StatLink http://dx.doi.org/10.1787/888933013472

Figure 8.1. **Trends in SME and entrepreneurship finance in the Czech Republic**



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

StatLink http://dx.doi.org/10.1787/888933015638

Table 8.4. **Definitions and sources of indicators for the Czech Republic's scoreboard**

Indicator	Definition	Source
Debt		
New business loans, SMEs (flows)	Bank loans up to CZK 30 million to non-financial enterprises; new loans only (flow per year)	Czech National Bank, ARAD
New business loans, total (flows)	Total bank loans to non-financial enterprises; new loans only (flow per year)	Czech National Bank, ARAD
Outstanding business loans, SMEs (stock)	Loans to entities with less than 250 employees.	Czech National Bank, Loan register
Outstanding business loans, total (stock)	All business loans	Czech National Bank, ARAD
Government loan guarantees	Value of guarantee funds, programmes of ČMZRB.	ČMZRB
Government guaranteed loans, SMEs	Value of guaranteed loans, programmes of ČMZRB	ČMZRB
Non-performing loans, total		Czech National Bank, ARAD
Interest rate, SMEs	Average annual rates for new loans; amounts up to CZK 30 million; non-financial enterprises only	Czech National Bank, ARAD
Interest rate, large firms	Average annual rates for new loans; amounts over CZK 30 million	Czech National Bank, ARAD
Interest rate spread	Between interest rate for new loans up to CZK 30 million and amounts over CZK 30 million for new loans	Czech National Bank, ARAD
Equity		
Venture and growth capital	Seed, start-up, later-stage and growth capital investments into business entities in the Czech Republic	European Private Equity and Venture Capital Association (EVCA)
Other		
Bankruptcies	Number of cases in bankruptcy and reorganisation based on Act No. 182/2006 Coll. on Insolvency, excluding sole traders.	Ministry of Justice, insolvency register

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Denmark

SMEs in the national economy

SMEs account for 99.7% of all enterprises in Denmark as of 2010. In particular, 89.4% of these are micro-enterprises.

Table 9.1. **Distribution of firms in Denmark, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**208 237**	**100.0**
SMEs (0-249)	**207 661**	**99.7**
Micro (0-9)	186 085	89.4
Small (10-49)	18 493	8.9
Medium (50-249)	3 083	1.5
Large (250+)	**576**	**0.3**

Note: Non-employer enterprises are included. Data excludes financial and insurance enterprises.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933013491

SME lending

Financial institutions lending to SMEs, approximated by loans which amount to less than EUR 1 million, declined by around 30% between 2007 and 2009. SME lending recovered in 2010, recording a 23% increase, but stagnated in 2011 followed by yet another increase in 2012 by almost 15%. The current level of lending to SMEs in Denmark is now very close to pre-crisis level. Total business loans have experienced a hefty decline over the period 2009-12. The share of SME loans in total business loans is still relatively small (16%) but has increased steadily during 2009-12. As could be expected, the share of SME short-term loans increased as SMEs sought financing to remedy liquidity problems. Combined with a significant decline in business lending in general this explains the increase in the share of SME loans compared to total business loans.

The latest assessment about the availability of credit published by the Danish Ministry of Business and Growth published in September 2013 shows signs of improvement in access to credit for Danish small and medium sized businesses The margins on interest rates on loans offered by banks to businesses have shown a downward trend since the first half of 2012. The indicators are not clear, however, and many SMEs still find it difficult to gain access to credit.

From January 2012 to January 2013, total bank lending has decreased by 0.3% or nearly 17 billion DKK. Since the financial crisis escalated in the fourth quarter of 2008, total business lending has fallen until the first of January 2013, by almost 7%, equivalent to 75 billion DKK. The decrease is primarily driven by a significant reduction in the bank's lending to businesses. It should be noted that part of the reductions are due to technical issues, which affects banks' lending, primarily in the negative direction. The most noticeable single example is that from Q1 2011 to Q1 2013 loans accumulating to almost 46 billion DKK were moved from banks undergoing liquidation to the state-owned public limited company Finansiel Stabilitet. Loans transferred to Finansiel Stabilitet are not included in the base lending statistics, thus overestimating the overall decline in lending by banks.

Mortgage institutions have managed to steadily increase their lending to businesses during the same period. At the same time several major companies are deliberately bypassing bank financing, primarily through the use of corporate bonds as the most common form of alternative finance.

Member surveys from most of the larger business organizations seem to indicate that the majority of many small and medium sized companies still perceive the current credit situation as significantly tighter than in the years leading up to the financial crisis in 2008. As a consequence of the crisis, Danish banks have adopted tighter credit policies. This change in banks' behaviour signals a more responsible approach to lending compared to the very significant growth in lending in the years leading up to the crisis.[1] The earlier less prudent approach to business lending resulted in marked losses on lending to small and medium-sized enterprises. The result of less prudent credit policies was that many banks became troubled, such as Roskilde Bank in 2008 and Amagerbanken in 2011. Since 2008, 13 banks (including Roskilde Bank) have been taken over by Finansiel Stabilitet. It thus became evident that it was necessary to develop a new balance on access to credit and to implement healthier credit policies in the Danish financial sector.

The weak economic outlook in Denmark has also made it difficult for Danish companies to provide strong financial statements, which is often a prerequisite for gaining access to credit. As a further consequence of the economic downturn many companies are reluctant to invest, which naturally reduces the demand for loans. There is no evidence that the tightening of credit in banks can be attributed to the stricter capital requirements for banks. In the latest quarterly report by the Danish National Bank there are no indications that the lending capacity of Danish financial institutions has been a limiting factor for the development in lending.

Statistics Denmark has made a survey measuring the output restrictions of Danish companies within different industries. The survey shows that industrial companies only experience modest financial constraints, while it is more challenging for businesses that offer services. The difference might be that service companies are typically smaller and find it harder to provide collateral, such as production facilities, when requesting a loan.

Member surveys by the business organizations in Denmark show that the financial outlook of member companies in the Confederation of Danish Industry (DI) has improved in the last quarter of 2012 and the first two quarters in 2013. Similarly members of the Danish Chamber of Commerce give a better assessment of the credit situation compared to earlier surveys. Conversely more members of the Danish Crafts Council find that access to finance is a limiting factor which hinders their growth potential. An important distinction is that DI's members typically represent much larger companies comparatively to the

Danish Crafts Council. This seems to support the argument that access to credit is tighter for smaller businesses.The percentage of SMEs applying for finance increased from 35% to 44% between 2007 and 2010.

Table 9.2. **Share of firms that applied for financing in Denmark, 2007 and 2010**

Percentage

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

Source: Data is based on a sample by Statistics Denmark from 2010, which has not been renewed since.

StatLink http://dx.doi.org/10.1787/888933013510

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

Table 9.3. **Result of loan applications by size of firm in Denmark, 2010**

Percentage

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

Source: Data is based on a sample by Statistics Denmark in 2010, which has not been renewed since.

StatLink http://dx.doi.org/10.1787/888933013529

Credit conditions

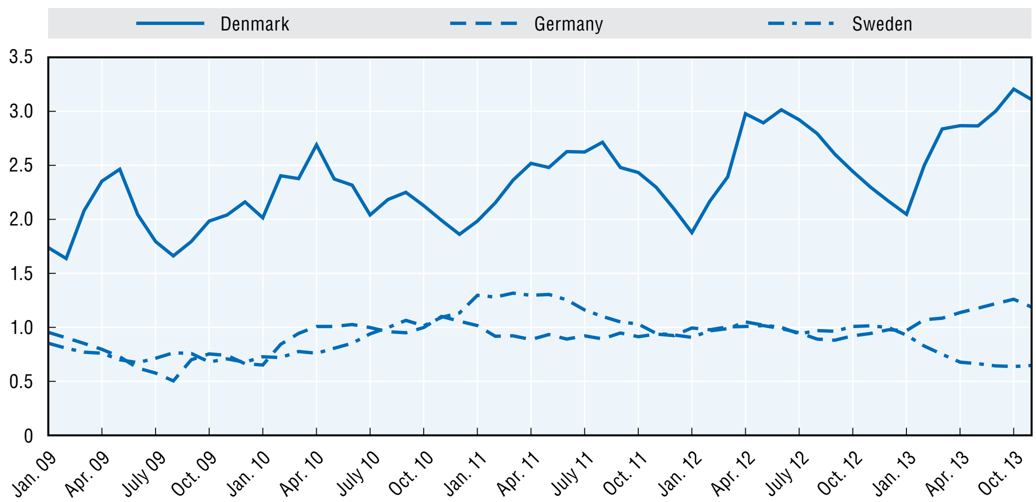
Interest rates declined from a high of over 7% in 2008 to 5.86% in 2012, 22 basis points higher than in 2011. The interest rate spread increased continuously over the period, up to 3.93 in 2012, 50 basis points higher than in 2011. This increase in interest rate spreads is explained by the double effect of an increase in interest rates charged to small loans and a simultaneous decrease in the interest rate charged on large loans. According to the Danish Central Bank's bank lending survey,[2] financial institutions have imposed higher interest margins and increased collateral requirements as a consequence of the financial crisis. The survey also states that many SMEs have a difficult time providing solid financial statements hampering their ability to obtain finance to fund their operations. Thus, SMEs with either liquidity issues or low equity ratios are faced with more onerous loan terms on renegotiation of loans and on new loans. The interest rate spread between large loans and small loans in Denmark is still relatively high compared to other countries. This is particularly driven by a very low interest rate level for larger loans. Looking at the general interest rate margin for corporates in Denmark, this has decreased from around 4% to 3.5% over the past year (August 2012 to August 2013).

Equity financing

According to the European Venture Capital Association database (industry data) Danish venture capital investments declined steeply in 2009. However, the Danish venture funds

Figure 9.1. **The development in interest rate spread between large and small loans in Denmark, Germany and Sweden, 2006-12**

In percentages



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

Source: Danish Central Bank and ECB, Report on the Development in the availability of credit by the Ministry of Business and Growth, September 2013.

StatLink http://dx.doi.org/10.1787/888933015657

have been increasing their investments by 50% in the period 2009-12, thereby returning to 2008 levels. Early-stage venture capital investments continued to escalate and increased by 39 per cent in 2012. Looking at the market data for venture investments in Danish companies, the investment level in 2012 is almost at par with the level in 2009, but still far from the pre-crisis levels in 2007 and 2008.

The development in the Danish market in the years following the financial crisis can largely be attributed to public initiatives launched in 2009, which meant that two Danish funds – SEED Capital and NorthCap Partners – were able to raise funds worth a total of more than EUR 120 million. Subsequently, the establishment of Danish Growth Capital (a fund-of-funds) facilitated that Danish venture funds were able to raise an additional EUR 200 million.

Other indicators

Payment delays reduced over 2011-12, from 13 to 12 days, reversing the increasing trend observed over 2007-10. At the same time bankruptcies remained virtually unchanged over 2011-12, at about 5 500, lower than the record level observed in 2010.

Government policy response

SME access to finance is managed by Vaekstfonden (The Danish Growth Fund), a government investment fund created in 1992. Vaekstfonden offers loan guarantees and loans to established SMEs, invests equity in young companies with growth potential and has a fund-of-funds activity focusing on equity investment in both venture and buyout funds. In September 2009, the government introduced several initiatives to improve SME financing and export opportunities by strengthening the loan guarantees schemes, the export guarantee scheme and improving access to risk capital. Another important step was taken in 2011 with the establishment of Danish Growth Capital (a fund-of-funds), where the Government and all Danish pension funds agreed to allocate risk capital in the amount of EUR 665 million to entrepreneurs and small and medium-sized companies with growth potential. In late 2012, a policy initiative was introduced by the government with the purpose of further improving SMEs' access to debt financing. According to this new initiative, from 2013 Vaekstfonden will introduce subordinated loans to SMEs. In addition, the former loan guarantee schemes are merged into one single scheme. In April 2013, Vaekstfonden has also been given the mandate to support Danish entrepreneurs with subordinated loans, and this scheme will be implemented by the end of 2013.

The available data for 2010-12 indicates that the financing situation remains tight for SMEs. This is the reason why schemes such as subordinated loans (growth loans) and loan guarantees have been introduced and strengthened to give SMEs improved access to debt finance. These new financing schemes administered by Vaekstfonden were needed as the former loan guarantee schemes required a lot of state financing, thus putting a strain on the yearly national budget negotiations in Denmark. The former loan guarantee schemes were supported, due to the financial crisis, with extraordinary high state funding, however, as the Danish economy recovered, the Danish government decided to significantly reduce the state funding to Get-started-loans and Vaekstkaution by the end of 2012. The result was that Vaekstfonden had to change its business model to become more market-based and thus commercially viable. The development of the subordinated loans was a direct consequence of this change. The challenge going forward will be to replicate the success of the former schemes and to communicate the benefits to potential clients and the Danish Bankers Association. As it takes time to raise the awareness and embed new products in the banks despite a broad and comprehensive marketing campaign, it is expected that the amount of new loan guarantees issued will be significantly lower in 2013 compared to 2012.

The former loan guarantee schemes: "Get-started-loans" and "Vaekstkaution"

The get-started loans combine loan guarantees and consultancy schemes for new businesses. Loans of up to DKK 1 million may be granted with 75% guaranteed by the government. The scheme is intended to provide entrepreneurs with easier access to loans and credits with banks. At the same time, entrepreneurs are offered consultancy services before and after financing has been granted to make them better equipped to run their businesses. By 2010 the financial institutions could grant start-up loans for a total of approximately DKK 200 million. In 2012 the total amount committed was DKK 95 million (EUR 13 million) an increase of about 5% compared to 2011. As mentioned above, this scheme is now merged into the general loan guarantee scheme.

The loan guarantees provided under the above schemes guarantee 75% of loans up to DKK 10 million and 65% of loans up to DKK 25 million. The loan guarantees issued has increased from a total commitment of DKK 94 million (EUR 13 million) in 2008 to DKK 845 million (EUR 113 million) in 2012. The development can be attributed to the increased difficulties for SMEs to obtain debt finance on normal terms in the wake of the financial crisis. However, increased knowledge of the scheme and the attractiveness of the scheme have also been influential for the increase. For banks the scheme has been attractive, as it will not only reduce the risk of lending, but also release parts of the tied-up capital for the banks.

The new schemes: Loan guarantees and subordinated loans

The new loan guarantee scheme was made available to SMEs on 1 January 2013 and helps SMEs with profitable projects to obtain loan financing that they cannot obtain otherwise, due to lack of collateral and track record. The loan guarantees are designed to help companies that wish to invest in growth, start a new business or make a successful change of ownership. DGF guarantees up to 75% of loans, credits, financial leasing or factoring as well as performance and payment guarantees. The purpose is to alleviate credit constraints of SMEs with a capital need less than EUR 250 000.

Growth loans are subordinated loans granted to SMEs with profitable growth plans that lack sufficient collateral to obtain debt finance on normal terms. The loans are used to finance any type of growth and to support investments in e.g. production facilities or the cultivation of new markets. Growth loans are granted directly to companies by Vaekstfonden and the purpose is to alleviate credit constraints of SMEs with a capital need greater than EUR 250 000.The financial assessment is based on the company's current and past performance, its potential for growth and profitability as well as the capabilities of management. All loans are granted as part of a funding package including other financial partners such as banks or mortgage institutions. The interest rate is set higher than the interest rate on bank loans because, in case of default, all collateral accrues to banks and other secured creditors before Vaekstfonden.

Risk capital

VF Venture, part of Vaekstfonden, invests in young companies in IT, medical technologies, industrial technology and other high growth industries. Its individual investments range from DKK 5 million to DKK 25 million. The portfolio currently comprises of 35 companies and the total amount invested in 2012 was DKK 98 million.

VF Fonde, part of Vaekstfonden invests in venture capital funds that in turn invest in unlisted companies with high growth potential. The investments are based on the market economy investor principles which means that investments are made pari passu with other institutional investors and on purely commercial terms in funds managed by private managers with specialized knowledge within the types of companies they invest in. The portfolio currently comprises of 24 funds. The Danish Growth Fund's total commitment to these funds amounts to approximately EUR 0.6 billion. In total, the 24 funds have risen more than EUR 1.5 billion and have invested in more than 150 companies. No new commitments were made in 2012.

Fund-of-funds investments are also being made by the specialized vehicle Danish Growth Capital (DGC), which is a private fund-of-fund that makes commercial investments in small and midcap, venture and mezzanine capital funds. The fund-of-funds was established in 2011 with a capital base of EUR 650 million. Today, midways through DGC's investment period half of the committed capital has been invested (app. EUR 0.3 billion) in six small-cap funds and 4 venture capital funds.

Export guarantee

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

The export credit facility

The export credit facility was established to support the international competitiveness of Danish enterprises and to benefit Danish exports in connection with the financial and

Table 9.4. **Investments of Danish growth capital, 2012**

In EUR million and in percentages

	Danish Growth Capital's commitment	Total size of Fund	Danish Growth Capital's ownership
	EUR million	EUR million	%
SMALL AND MID CAP-FUNDS			
Major Invest Equity 4	53	160	33
Capidea Kapital II	48	97	50
Procuritas Capital Investors V	5	204	3
IK VII	42	1400	3
CataCap	33	67	50
Erhvervsinvest III	40	103	39
VENTURE FUNDS			
Sunstone Technology Ventures Fund III	23	83	28
Sunstone Life Science Ventures Fund III	27	88	30
SEED Capital Denmark II	20	91	22
NCP-IVS Fund III	17	70	24

Source: Danish Growth Capital.

StatLink http://dx.doi.org/10.1787/888933013548

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

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

Other

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

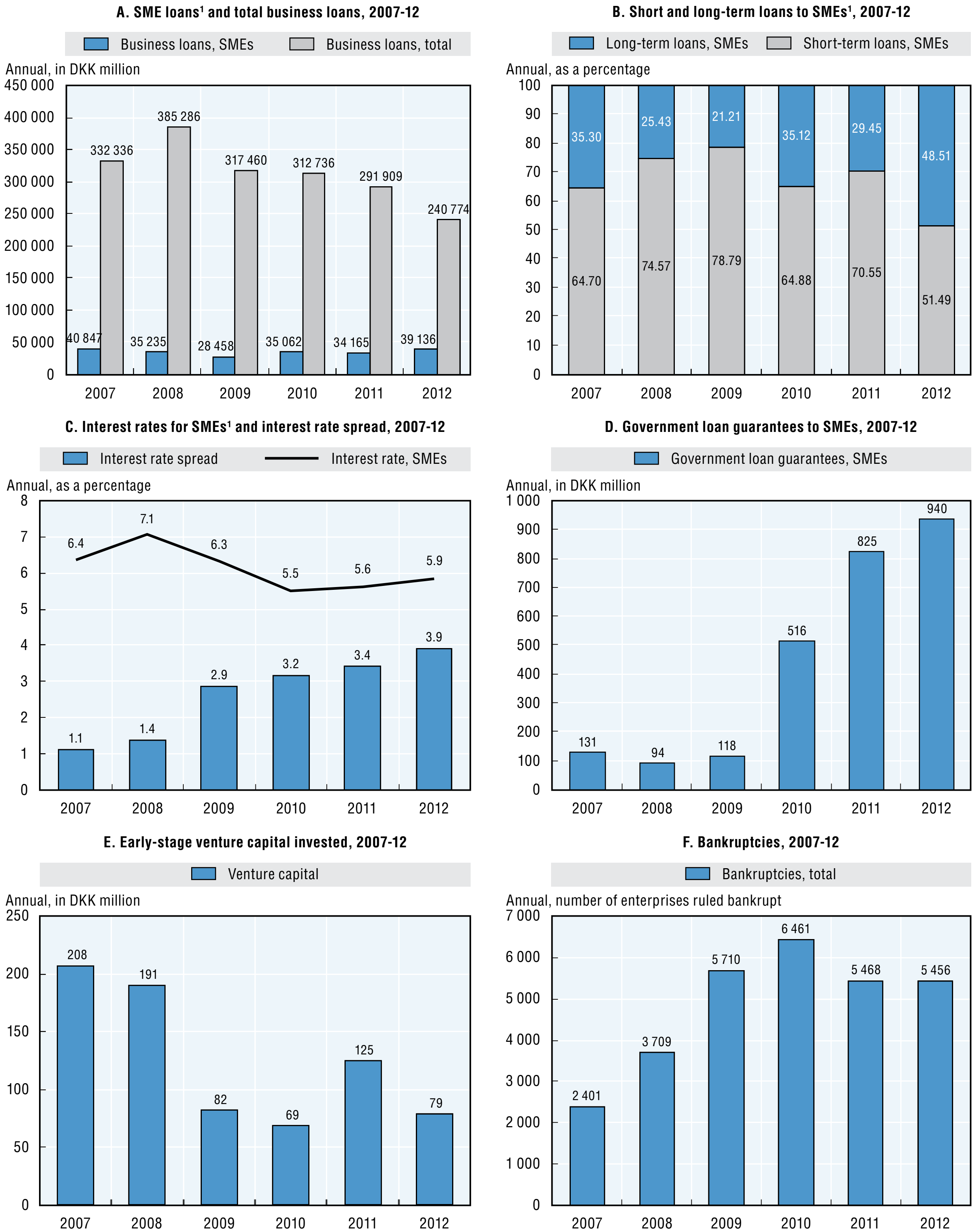
Table 9.5. **Scoreboard for Denmark, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	DKK million	40 847	35 235	28 458	35 062	34 165	39 136
Business loans, total	DKK million	332 336	385 286	317 460	312 736	291 909	240 774
Business loans, SMEs	% of total business loans	12.3	9.1	9.0	11.2	11.7	16.3
Short-term loans, SMEs	DKK million	26 426	26 274	22 423	22 697	24 098	20 152
Long-term loans, SMEs	DKK million	14 421	8 961	6 035	12 365	10 067	18 984
Total short and long-term loans, SMEs	DKK million	40 847	35 235	28 458	34 981	34 156	39 136
Short-term loans, SMEs	% of total short and long-term SME loans	64.7	74.6	78.8	64.9	70.6	51.5
Government loan guarantees, SMEs	DKK million	130.5	93.8	117.8	515.6	824.8	940.0
Interest rate, SMEs	%	6.37	7.06	6.33	5.52	5.64	5.86
Interest rate spread	%	1.12	1.39	2.89	3.19	3.43	3.93
Equity							
Venture capital	EUR million	207.7	190.7	82.2	68.8	125.3	79.1
Venture capital	Year-on-year growth rate, %	..	-8.2	-56.9	-16.3	82.0	-36.9
Other							
Payment delays	Average number of days	7.2	6.1	12.0	12.0	13.0	12.0
Bankruptcies, total	Number	2 401	3 709	5 710	6 461	5 468	5 456
Bankruptcies	Year-on-year growth rate, %	..	54.5	53.9	13.2	-15.4	-0.2
Bankruptcies	per 10 000 firms	79	119	193	217	182	n.a.

Source: Refer to Table 9.6.

StatLink http://dx.doi.org/10.1787/888933013567

Figure 9.2. **Trends in SME and entrepreneurship finance in Denmark**



Note: 1. For loans up to EUR 1 million.

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

StatLink http://dx.doi.org/10.1787/888933015676

Table 9.6. **Definitions and sources of indicators for Denmark's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	New loans (flows), loan amounts up to EUR 1 million.	Nationalbanken
Business loans, total	New loans (flows).	Nationalbanken
Short-term loans, SMEs	New lending amount up to EUR 1 million, interest rate fixation up to and including one year.	Nationalbanken
Long-term loans, SMEs	New lending amount up to EUR 1 million, interest rate fixation above one year.	Nationalbanken
Government loan guarantees	Loans guaranteed by government, stocks or flows for firms with up to 250 employees.	Vækstfonden
Interest rate, SMEs	Average annual rates for new loans, base rate plus risk premium; for maturity less than one year; and amounts up to EUR 1 million.	Nationalbanken
Interest rate spread	Between small & large enterprises; for maturity less than one year; amounts up to EUR 1 million and equal to or greater than EUR 1 million.	Nationalbanken
Equity		
Venture capital	Actual amounts invested in Denmark in early stage development.	European Private Equity and Venture Capital Association (EVCA)
Other		
Payment delays	Average number of days for business-to-business in 2008, 2009 and 2010. For 2007, average number of days for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia, European Payment Index 2008 – 2012
Bankruptcies, total	Number of enterprises ruled bankrupt.	Statistics Denmark
Bankruptcies (per 10 000 enterprises)	Number of bankrupt enterprises per 10 000 enterprises.	Statistics Denmark

Notes

1. Ministry of Business and Growth, "The Financial crisis in Denmark – Causes, consequences and Lessons", September 2013
2. The Danish National Bank, Quarterly Report, June 2013

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Finland

SMEs in the national economy

In Finland, 99.7% of all firms were SMEs in 2010. The vast majority of them (92.3%) were micro-enterprises with less than ten employees.

Table 10.1. **Distribution of firms in Finland, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**224 505**	**100.0**
SMEs (0-249)	**223 902**	**99.7**
Micro (0-9)	206 694	92.1
Small (10-49)	14 779	6.6
Medium (50-249)	2 429	1.1
Large (250+)	**603**	**0.3**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933013586

SME lending

After three years of relatively high demand for financing (2008-10), total new business loans declined to less than the pre-crisis level in 2011 and continued to drop in 2012,[1] reaching a six-year low. To some extent, this implies that larger firms were less reliant on bank financing than they were in 2008-10, which was confirmed by the fact that SME share of loans increased from 15.3% in 2010 to 22.4% in 2012. On the other hand, the demand for financing waned and SME loans declined every year since 2009. This may be a result of increased solvency problems among SMEs as well as tightened credit conditions. This decline showed some signs of slowing down in 2012, when SME loans decreased by only 0.5%, while total business loans decreased by 6.5% in the same year. In terms of maturity, more than two-thirds of SME loans were long-term. The share of short-term SME loans has, however, increased in 2012 to 29.7% from 24.0% in 2011.

SME authorised loans compared to requested loans

SME loans authorised declined over the 2009-12 period. New SME loans authorised were EUR 9.9 billion in 2009 and EUR 7.9 billion in 2012. During the same period, the share of SMEs requesting loans remained relatively stagnant. Also the demand for public financing has been at the same level as in 2011. For example, the demand for Finnvera's SME financing and financing granted by TEKES (the Finnish Funding Agency for Technology and Innovation) was rather stable in 2011-12.

Although the total amount of new SME loans has declined, the SME share of business loans has increased in 2011 and 2012. Moreover, this same development is evident in the financing granted by TEKES. This implies that the financial markets have started to recover and large firms' dependency on bank loans has decreased.

Credit conditions

In reviewing interest rates, the base rate on small loans of up to EUR 1 million decreased from 3.23% to 2.86% in 2012. At the same time, the interest rate spreads between small and large loans increased by 23.4% from 64 basis points in 2011 to 79 basis points in 2012, suggesting a tightening in credit terms for SMEs compared to large firms. Moreover, it appears that the collateral requirement was still one of the biggest obstacles SMEs faced when seeking new loans, albeit at somewhat lower levels in 2012 compared to 2011. In practice, the percentage of SMEs reporting less favourable terms in accessing new loans has stayed at the same level in 2010-12.

Based on the Confederation of Finnish Industries survey, the number of "discouraged borrowers" has also increased during the last couple of years. It is estimated that around 2-3% of all SMEs needing external financing do not apply for bank loans because of their weak financial condition and/or increased loan costs and credit terms. As would be expected during the reference period, there was a larger drop in SME long-term loans than in short-term loans. The share of SME long-term loans declined from 78.9% (2007) to 70.3% (2012).

Equity financing

Venture capital investments declined radically in 2008-09. Investments for growth and expansion experienced a major decline from EUR 168 million in 2007 to EUR 29 million in 2009. In 2010, venture capital investments picked up but declined again in 2011 and ended at EUR 143 million in 2012 compared to EUR 183 million in 2010.[2] Seed capital has dropped from EUR 19 million in 2007 to EUR 7 million in 2012 due to the uncertain financial environment and weakened profit expectations related to early stage investments. However, when interpreting the statistics provided by Finnish Venture Capital Association, it should be noted that seed investments made by private business angels are excluded from the data.

Table 10.2. **Venture and growth capital investment in Finland, 2007-12**

By stage of investment, EUR million

Type	2007	2008	2009	2010	2011	2012
Seed	19	10	10	5	3	7
Start-up	20	54	48	61	49	58
Other early stage	33	52	29	32	25	14
Expansion/growth	168	60	29	135	48	64
Total	240	176	116	233	125	143

Note: Total excludes buyout, turnaround and replacement capital.

Source: Finnish Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933013605

Other indicators

The average payment delays in Finland were historically low compared to some other countries before the crisis. Finnish firms have a strong payment discipline, which they maintained during the crisis. Their behaviour was reinforced by a law which requires late paying enterprises or public institutions to pay a debtor fee and interest on the unpaid amount. Bankruptcy proceedings for all enterprises were at the same level in 2011 and 2012 (1.1%). However, the most recent data provided by Statistics Finland revealed that there was a 6.5% increase in bankruptcy proceedings in the first four months of 2013 compared to January-April of 2012.

During the years 2009-13, the Confederation of Finnish Industries (EK) investigated the prevalence of financing difficulties and solvency problems among SMEs in different phases of the crisis. The findings revealed that a peak in the crisis was reached in September 2009 when 10% of SMEs reported major financing difficulties and 21% solvency problems. The prevalence of financing difficulties was five times higher than before the crisis. In addition, the incidence of solvency problems increased dramatically compared to that of 2008, being around 6-8%. Due to these changes, the demand for short-term financing increased rapidly whereas long-term investments were postponed by many SMEs.

According to the survey of EK conducted in November 2012, about 5% of all SMEs suffered from financing difficulties. Based on the EK's longitudinal surveys, it is estimated that in the near future the share of SMEs having major problems in obtaining finance might become permanently higher than at the end of 2008 and is going to stabilise around 4-6% compared to 2-3% in 2008. Moreover, the high incidence of solvency problems (20% of SMEs) restrained the recovery. Solvency problems in the case of Finnish SMEs were the most common among firms with 10-49 employees.

Table 10.3. **Incidence of solvency problems in Finland, June 2009 – November 2012**

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

Size of firm, employees	June 2009	September 2009	January 2010	August 2010	January 2011	November 2011	May 2012	November 2012
1-4	33	39	31	36	27	22	21	16
5-9	23	21	16	16	14	14	17	18
10-49	19	19	20	17	14	19	21	21
50-249	13	12	10	8	10	12	11	15
Average	**21**	**21**	**20**	**17**	**15**	**17**	**17**	**20**

Source: Confederation of Finnish Industries.

StatLink http://dx.doi.org/10.1787/888933013624

Based on the newest EK survey published in May 2013, about 7% of all SMEs had severe financing difficulties (5% in November 2012). Interestingly, although the average payment duration was slightly extended (28 days in the EK survey compared to 27 days in the European Payment Index 2012 by Intrum Justitia) the incidence of solvency problems dropped from 20% in November 2012 to 17% in May 2013. Non-performing loans in the business loan portfolio remained at very low levels with EUR 350 million as of 2012, as was the case in 2011. The vast majority of these non-performing loans were loans to micro enterprises with a turnover of less than EUR 200 000.

Government policy responses

SME counter-cyclical loans and guarantees

Finnvera is a financing company owned by the government and it is the official export credit agency. Finnvera provides financing for the start-up, growth and internationalisation of enterprises and guarantees against risks arising from exports. The company acquires its funds mainly from the capital market.

The financial crisis increased the SME demand for public financing, and SME loans and guarantees granted by Finnvera increased from EUR 801 million (2007) to EUR 1 067 million (2009). SME financing authorized by Finnvera declined to pre-crisis levels in 2010-11 and was at its lowest level during period in 2012 when the total was EUR 750 million. This implies that the demand for bank financing as well as the demand for public financing weakened during the year 2012. On the other hand, the drop in SME financing could be partly explained by the discouraged borrowers' phenomenon described above.

Table 10.4. **SME loans and guarantees granted by Finnvera, 2007-12**

In EUR million

Instrument	2007	2008	2009	2010	2011	2012
Loans	385	468	593	397	369	342
Guarantees	416	438	474	447	497	408
Subtotal	801	906	1 067	844	866	750
Export guarantees	96	122	127	71	111	104
Total	897	1 028	1 194	915	977	853

Source: Finnvera, Annual Reports 2009, 2010, 2011, 2012.

StatLink http://dx.doi.org/10.1787/888933013643

Finnvera's authorisation to grant counter-cyclical loans expired at the end of the 2012. Counter-cyclical financing granted by Finnvera was EUR 589 million in 2009-12 compared to EUR 119 million in 2012. Finnvera's counter-cyclical loans were intended for enterprises with less than 1 000 employees whose profitability or liquidity declined because of the crisis.[3] Such public financing has played an important role in ensuring employment in SMEs during the financial crisis. According to EK's rough estimation, without public financing the number of job losses could have been twice as high as the actual job losses in 2009. In practice, this means that over 20 000 positions were maintained with the help of finance granted by public organisations such as Finnvera and Centre for Economic Development, Transport and the Environment.[4]

According to the data provided by Statistics Finland, total government loan guarantees increased from EUR 1 491 million (2007) to over EUR 4 000 million annually (2008-11). However, in 2012 government guarantees to all enterprises declined from EUR 4 153 million in 2011 to EUR 3 144 million.

Finnvera offers both export guarantees and export credit guarantees. An export guarantee allows exporters to acquire pre- or post-delivery financing from a bank for working capital. An export credit guarantee covers the risks related to buyers' defaults. Finnvera's export credit guarantee programme dwarfs its other forms of assistance to enterprises. Export credit guarantees amounted to 86% (EUR 5 351 million) of total assistance compared to 14% (EUR 853 million) for loans, domestic guarantees and export guarantees. Export credit guarantees covered 9% of Finland's total exports. Of the total export credit guarantees, SMEs accounted for EUR 60.4 million.

Table 10.5. **SME export credit guarantees in Finland, 2007-12**

In EUR million

Year	2007	2008	2009	2010	2011	2012
Offered	38.3	76.8	79.6	100.3	79.1	60.4
In effect	43.3	43.0	73.8	79.7	42.8	31.9

Source: Finnvera, Annual Reports 2010, 2011, 2012.

StatLink http://dx.doi.org/10.1787/888933013662

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

Other policy measures

In the beginning of 2012, the corporate tax rate was lowered to 24.5%. At the same time, the tax rate for capital income rose to 30% (previously 28%) and to 32% for capital income exceeding EUR 50 000. By the government's decision in March 2013, the corporate tax rate will be reduced further to 20% with some adjustments also in the tax rate for capital income.

In addition, in 2013 and 2014 SMEs will be offered tax breaks for R&D personnel costs. Also private investors will be offered tax reductions in 2013-15 for their capital gains, if the money is invested in new micro and small firms. Moreover, the Finnish government will launch a ten-year growth financing programme which will be implemented in cooperation with private investors. It aims to consolidate the capital investment market and support SME growth.

Box 10.1. **Definition of SMEs used in Finland's SME and entrepreneurship finance scoreboard**

Country definition

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

The SME definition used by financial institutions

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

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

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

Source: Bank of Finland.

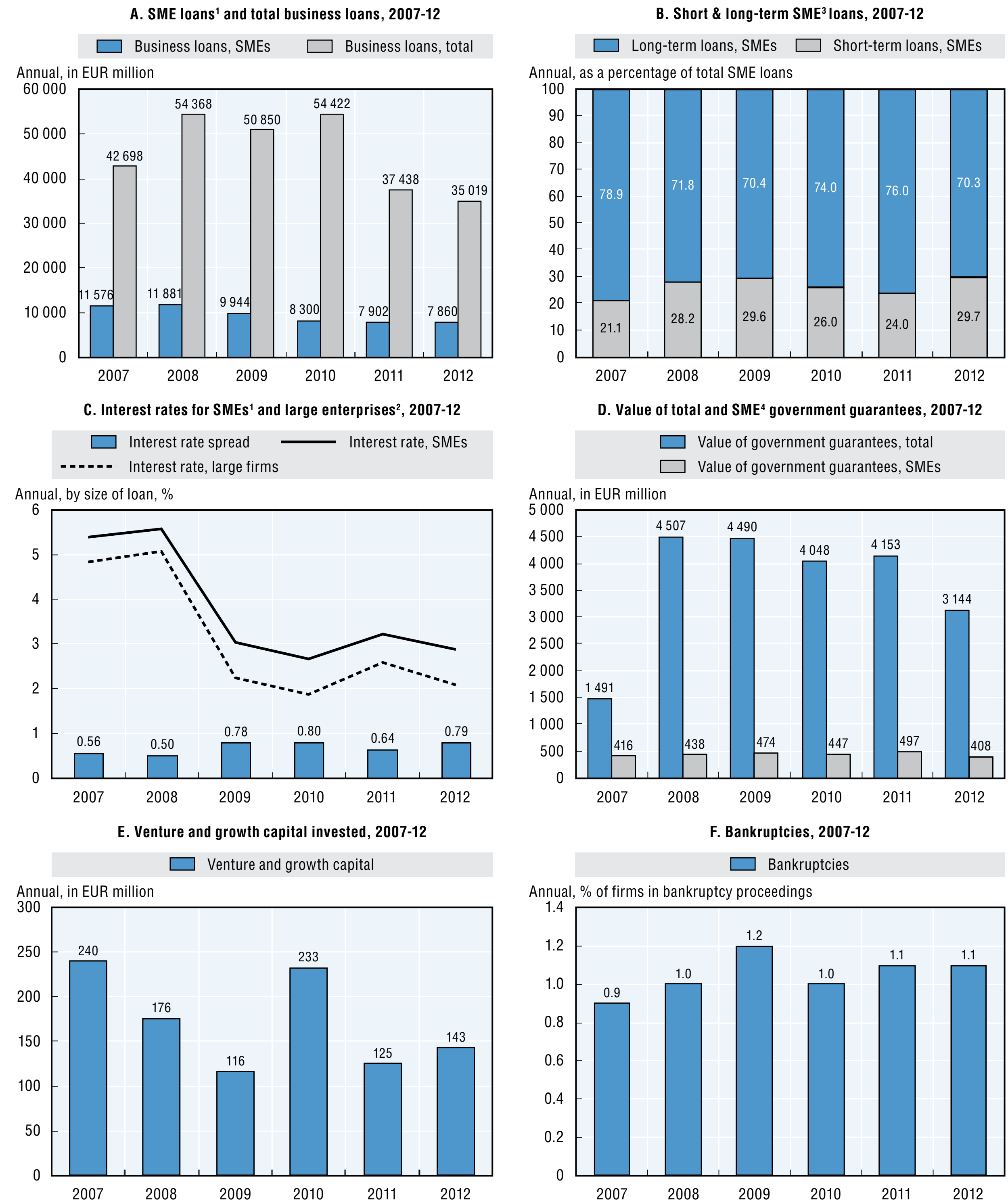
Table 10.6. **Scoreboard for Finland, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	EUR million	11 576	11 881	9 944	8 300	7 902	7 860
Business loans, total	EUR million	42 698	54 368	50 850	54 422	37 438	35 019
Business loans, SMEs	% of total business loans	27.1	21.9	19.6	15.3	21.1	22.4
Short-term loans, SMEs	EUR million	1 500	2 000	2 100	1 612	1 416	1 805
Long-term loans, SMEs	EUR million	5 600	5 100	5 000	4 588	4 484	4 271
Total short and long-term loans, SMEs	EUR million	7 100	7 100	7 100	6 200	5 900	6 076
Short-term loans, SMEs	% of total loans	21.1	28.2	29.6	26.0	24.0	29.7
Value of government guarantees, total	EUR million	1 491	4 507	4 490	4 048	4 153	3 144
Value of government guarantees, SMEs	EUR million	416	438	474	447	497	408
SME government guarantees	% of SME business loans	3.6	3.7	4.8	5.4	6.3	5.2
Direct government loans, SMEs	EUR million	385	468	593	397	369	342
Loans authorised, SMEs	EUR million	11 576	11 881	9 944	8 300	7 902	7 860
Loans requested, SMEs	% of SMEs requesting loans during last 12 months	23	26-31	29-30	29	26-29	28
Non-performing loans, total	EUR million	132	210	341	339	359	359
Interest rate, loans < 1 million	%	5.39	5.58	3.02	2.66	3.23	2.86
Interest rate, loans > 1 million	%	4.83	5.08	2.24	1.86	2.59	2.07
Interest rate spread (between loans < 1 million and > 1 million)	%	0.56	0.50	0.78	0.80	0.64	0.79
Collateral, SMEs	% of SMEs required to provide increased collateral	5	16	28	24	24	23
Equity							
Venture and growth capital	EUR million	240	176	116	233	125	143
Venture and growth capital	Year-on-year growth rate, %	..	-26.7	-34.1	100.9	-46.4	14.4
Other							
Payment delays, SMEs	Average number of days	6	5	7	7	7	7
Bankruptcies, total	% of firms in bankruptcy proceedings	0.9	1.0	1.2	1.0	1.1	1.1

Source: Refer to Table 10.7.

StatLink http://dx.doi.org/10.1787/888933013681

Figure 10.1. **Trends in SME and entrepreneurship finance in Finland**



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

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

StatLink http://dx.doi.org/10.1787/888933015695

Table 10.7. **Definitions and sources of indicators for Finland's scoreboard**

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

Notes

1. According to the Bank of Finland, "the MFI data collection scheme was revised as of June 2010, and hence the figures published are not totally comparable with earlier observations. The differences may be due to improved data collection accuracy, revised statistical definitions (e.g. extending the definition of overdrafts and credit card credit to include revolving credits) and the collection of detailed data from all MFIs."
2. In statistics provided by the Finnish Venture Capital Association, major variations emerge between figures provided in preliminary statistics and in the finalized data. This may reduce the comparability and reliability of results presented in previous publications in the OECD Scoreboard. In table 55, the final data is presented.
3. For special reasons loans can also be granted for companies with more than 1000 employees.
4. Estimation is based on EK's financing surveys and the answers given by the managers and the owners of firms with 10-249 employees. When formulating the estimation, weighting coefficient was used to ensure the generalization of the results for the total population of SMEs.

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France

SMEs in the national economy

There are roughly 2.5 million SMEs (legal units) in France, which account for 99.8% of all enterprises.

Table 11.1. **Distribution of firms in France, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**2 513 679**	**100.0**
SMEs (0-249)	**2 509 345**	**99.8**
Micro (0-9)	2 368 046	94.2
Small (10-49)	121 159	4.8
Medium (50-249)	20 140	0.8
Large (250+)	**4 334**	**0.2**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

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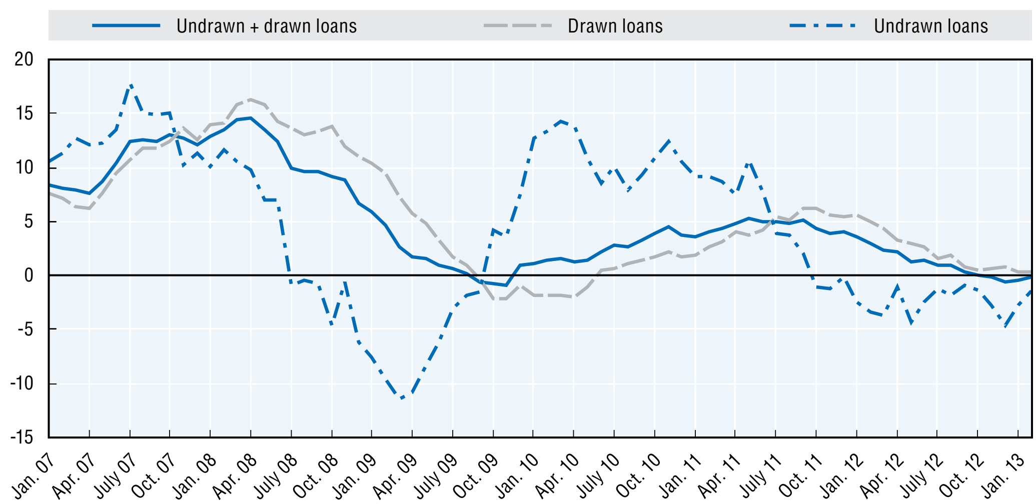
SME lending

The Central Credit Register of the Banque de France collects monthly data on loans over EUR 25 000 granted to enterprises (legal units). The data include both loans drawn (utilised) and undrawn (not utilised) for enterprises resident in France. Both total business loans and SME loans increased over the period 2007-12 (excluding individual entrepreneurs, EI). However, the growth rate declined significantly in 2009 following the initial outset of the recession, and picked up in the following years, only to drop to new lows in 2012. In fact, total drawn and undrawn business loans declined in 2011-12 by 0.4%, while SME loans continued to grow by 1.8%, a modest increase compared to the previous year (5.3% growth in 2010-11). The share of SME loans in total business loans stood at 21.2% in 2012, 50 basis points higher than in 2011, consistent with the 2% growth recorded in the period 2007-12. The share of drawn SME short-term loans in total drawn SME loans has remained stable at 22%, but has been on a continuous decline since 2007 (19% decline recorded in the period 2007-12).

The Banque de France breaks business loans into various categories including: microenterprises and independent SMEs, SMEs belonging to a group, large enterprises and holdings. When analysing the credit terms for SME lending by type of SME, all categories enjoyed a correction in the interest rates applied in 2012 compared to the year before, however, SMEs in a group benefited from both lower interest rates (2.5% in 2012) and a larger interest rate reduction (40 basis points comparison) when compared to independent SMEs (3.5% and 30 basis points, respectively). This trend has continued over the first quarter of 2013, with interest rates dropping by 20 basis points for SMEs in a group compared to ten basis point drop for independent SMEs between December 2012 and March 2013.

Figure 11.1. **Growth rates of bank loans to all firms in France, 2007-13**

Year-on-year growth rate, as a percentage



Source: Banque de France, Companies Directorate, Central credit register, data available in May 2013.

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SME loans utilised compared to authorised

SME loans drawn compared to authorised remained at 87.0% over the period 2007-12, but increased to 87.8% in 2011-12. This indicated a high degree of utilisation and a tight credit market. The yearly growth rate of drawn loans to all firms has been declining since the end of 2011, depicting tighter credit conditions in the banking system, combined with a constant declining growth rate in undrawn loans. There has been a negative growth rate for the sum of drawn and undrawn loans since November 2009, illustrating a restricted availability of credit to all firms.

Other supplementary information can be gathered from periodic supply-side surveys such as the Enquête trimestrielle auprès des banques sur la distribution du crédit en France from the Banque de France. In 3Q08, the majority of the bank respondents (77.1%, balance of opinions) thought there was a more severe tightening in the credit criteria for all enterprises than over the three previous months. A larger balance of respondents, 38.8%, thought it was more severe for SMEs than for large enterprises. After that the credit conditions were normalised. During the 2009-10 period, respondents thought the conditions were less restrictive in France than in the euro area. However, by the fourth quarter of 2012 the balance of respondents thought that credit conditions were again tightening in France (12.7%) but not in the euro area (0.0%).

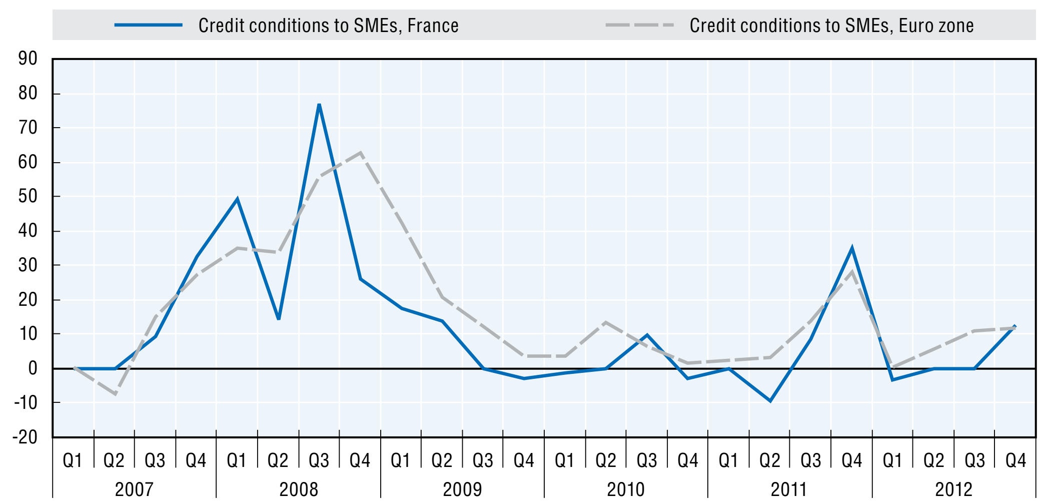
Credit conditions

The above opinions were borne out by the comparison of interest rates charged for large loans vs. small. Not only did small borrowers pay more, but the spread also increased between July 2008 and July 2009, even as rates were declining. The spread diminished thereafter but rose again between 2011 and 2012 to 1.51%. The spread between SMEs and large firms dropped by 63.3% on a quarter-to-quarter basis in the first quarter of 2013, reaching a new low. The spread remained larger for independent SMEs than for SMEs in a group, reaching 100 basis points difference between the two SME groups during the first quarter of 2013.

The European Central Bank/European Commission demand-side survey on SME credit conditions revealed that bank rejection rates in France declined from 12% in the first half of 2009 to 10% in the second half of 2010, further declining over the period October 2012 – March 2013, in line with most euro area countries. This could be evidence that the French credit mediation scheme was bearing positive results.

Figure 11.2. **Credit conditions for SMEs in France and the Eurozone (supply side survey), 2007-12**

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



Source: Banque de France (DGS-DSMF) and ECB (BLS survey).

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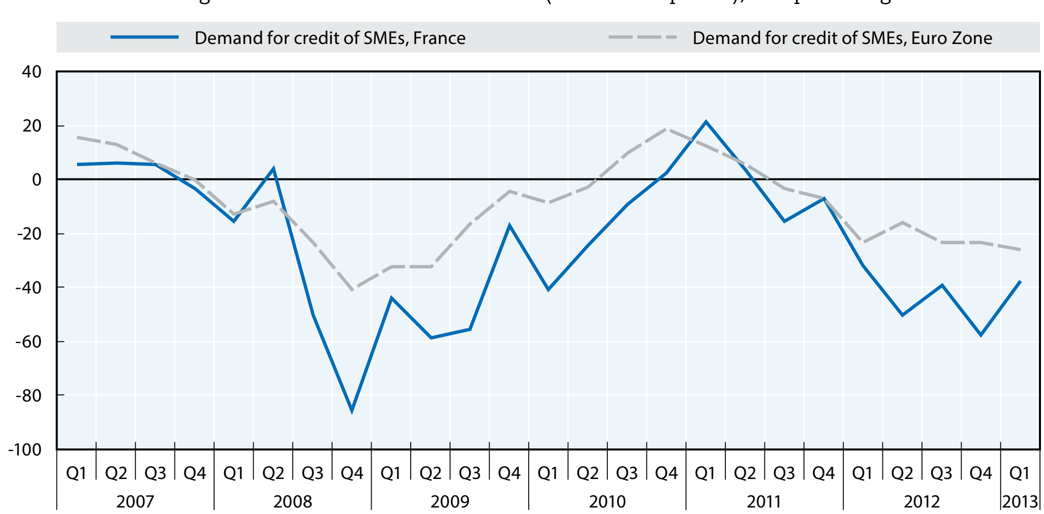
Figure 11.3. **Credit demand for SMEs in France and the Eurozone (supply side survey), 2007-12**

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



Source: Banque de France (DGS-DSMF) and ECB (BLS survey).

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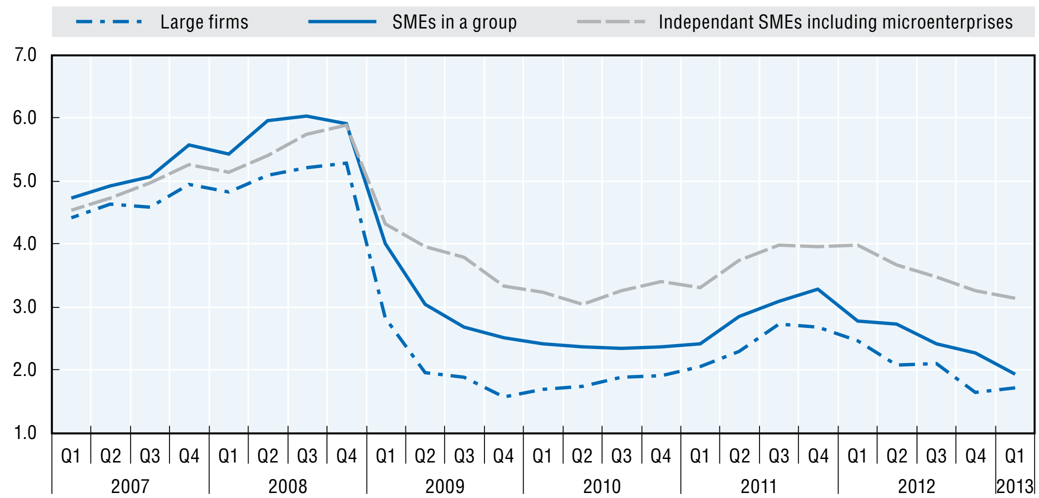
Figure 11.4. **Interest rates in France, 2007-13**

By size of firm, as a percentage



Source: Banque de France, Companies Directorate.

StatLink http://dx.doi.org/10.1787/888933015771

Equity financing

The value of venture and expansion capital invested had followed a growing pattern since its low in 2002, reaching EUR 3 537 million in 2011, largely driven by a continuous increase in expansion capital. This pattern was reversed in 2012 with a sharp decline of both venture and expansion capital, overall amounting to a decrease by almost 32%. It should be noted, however, that this was a mere fraction of SME debt financing.

Table 11.2. **Private equity investment in France, 2005-12**

By stage of investment, in EUR million

Stage	2005	2006	2007	2008*	2009	2010	2011	2012
Venture capital	481	536	677	758	587	605	597	443
Expansion capital	895	1 057	1 310	1 653	1 798	2 310	2 940	1 946
Sub-total	1 376	1 593	1 987	2 411	2 385	2 915	3 537	2 389
LBO	6 287	8 075	10 340	7 399	1 605	3 512	6 015	3 568
Turnaround capital	59	95	84	99	84	90	118	115
Total investment	8 071	10 164	12 554	10 009	4 100	6 597	9 750	6 072

Note: * Investment in the enterprises of the CAC40 since 2008.

Source: Association française des investisseurs en capital (AFIC)/Grant Thornton, April 2013.

StatLink http://dx.doi.org/10.1787/888933013719

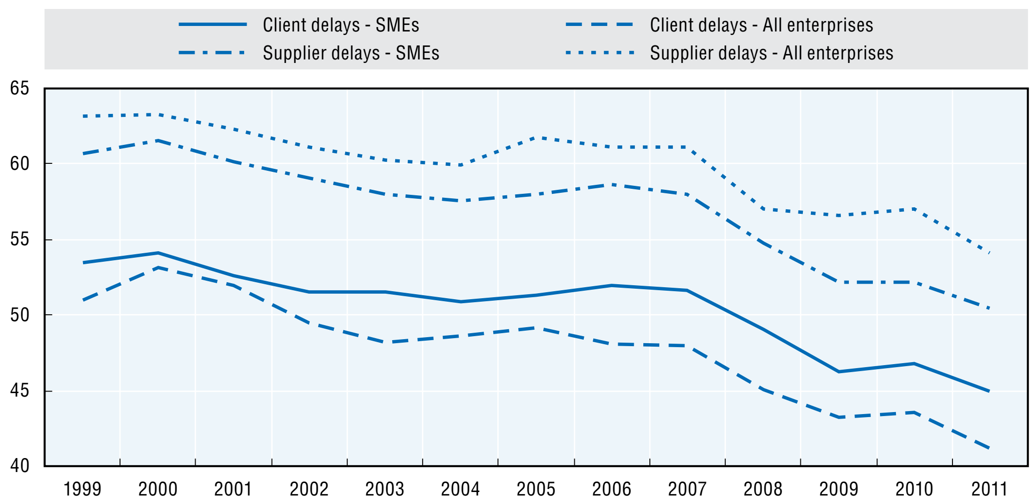
Other indicators

Payment periods measured in terms of the duration of the suppliers' payment period, taking into account advances and payments on account, decreased by 9.1% between 2007 and 2009. It appears that the Modernization of the Economy Act of 2008, which required the reduction of payment periods, was having an effect which benefited SMEs. After a halt in 2010 (-0.5%), a further decrease was registered in 2011 (-2.6%). However a third of enterprises still do not settle their accounts within 60 days (fixed by law). If the large enterprises had paid on time there would have been a transfer to SMEs of about EUR 13 billion.

Bankruptcies for SMEs other than microenterprises grew by 40% between 2007 and 2009. A comparable increase could be observed during the recessions of 1993 and 2002-03. SMEs have historically represented the bulk of all bankruptcies, accounting for 93.4% of all bankruptcies in 2012, slightly down from 93.9% in 2011. Nevertheless, SME bankruptcies grew by 3% in 2011-12 after having declined for several years.

Figure 11.5. **Changes to supplier and client payment delays for SMEs in France, 1999-2011**

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



Source: Banque de France, FIBEN database, December 2012.

StatLink http://dx.doi.org/10.1787/888933015790

Government policy response

In spite of the continuous increase in SME loans throughout the period under review, the financial situation of SMEs remained a concern for public authorities, because of the global economic situation and the resulting difficulties for SMEs to finance their operations.

Since February 2013, public support to SMEs is managed through a newly created public financial institution, Bpifrance, which reorganised several existing financing entities (OSÉO, CDC Enterprises, Fonds Stratégique d'Investissement (FSI) and FSI regions). The creation of Bpifrance offers a tailored funding service, with a wider assortment financial instruments and advice, aimed at supporting enterprises, particularly SMEs, at every stage of their development. It will help to expand the existing credit volume and equity funds for SMEs particularly industrial ones, along with market operators. Bpifrance will optimise the existing public financial system by bringing stakeholders together and simplifying procedures for entrepreneurs.

The credit mediation set up in November 2008 to assist SMEs to resolve their liquidity problems by maintaining or obtaining bank credit remains a central part of facilitating access to finance for SMEs. To start the process, the enterprise must establish a "mediation file" on the website of the Credit Mediator who has been appointed at the national level to co-ordinate and act as a final "referee". He is assisted by departmental mediators from the Banque de France. After the file is received, the banks are notified by mail and they have five business days to reply to the enterprise. After this, the departmental mediator has five business days to review the file and indicate how the file should be treated. When the mediator has identified solutions, the enterprise is notified by mail. If the enterprise is not satisfied, it may appeal to the national mediator. As of December 2012:

- 37 157 enterprises had sought mediation.
- 30 196 enterprises had been accepted for mediation.
- The rate of successful mediation was 62%.

The credit mediation scheme has reinforced 16 501 firms of all sizes, unblocked EUR 4.2 billion in credit and preserved 291 314 jobs (Médiateur du Crédit, 2013).

Box 11.1. **Definition of SMEs in the EU and France**

Definition of SMEs used in the EU

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

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

Definition of SMEs used in France

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

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

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

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

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

Source: Banque de France (2010).

In 2011 and 2012, SMEs faced the euro area financial turmoil, and since then an uncertain economic situation, that has constrained these firms which have low margins since the 2008-09 crisis. They are facing two challenges, with financial consequences:

- They have to continue their daily operations at a time when banks are undergoing some drastic changes and reducing their balance sheets so that access to short term finance has thus become more difficult for SMEs.
- They also have to prepare for the future and consider investing while the economic situation remains uncertain, without having the internal means to do so.

In November 2012, the French Government adopted its competitiveness roadmap for a five years period: the "Pacte national pour la croissance, la compétitivité et l'emploi" puts specific emphasis on SMEs access to finance. Besides the structural measures such as tax reform to promote a better allocation of savings towards enterprises and the new banking law to encourage banks to refocus on their core business, other measures have been put in place:

- The public development bank – Bpifrance – created at the start of 2013 through the union of several public operators (OSEO, CDC Entreprises, Fonds stratégique d'investissement) began operations during the first semester of 2013 and is now able to offer businesses local financing services supported by an extended portfolio of financial instruments and business advice that can be called upon during all stages of the business development process.
- As of 1st of January 2013, a new guarantee was set up by the government (managed by Bpifrance) in order to make over EUR 500 million available to SMEs to address their operational needs.
- An action plan to counteract payment delays has been put in place: SMEs, which face a real burden linked to payment delays by larger companies will have the support of the administration, which will have effective sanctioning powers, to ensure that legal payment deadlines are met (which is not the case for 60% of the delays). The government will undertake to reduce its own payment delays over the next five years, to achieve a 20-day payment deadline by 2017.
- Enternext, the new SME stock exchange, was launched in May 2013; it might offer SMEs a better access to capital markets. This alternative source of financing might be strengthened by the future implementation of an SME Equity Savings Plan.

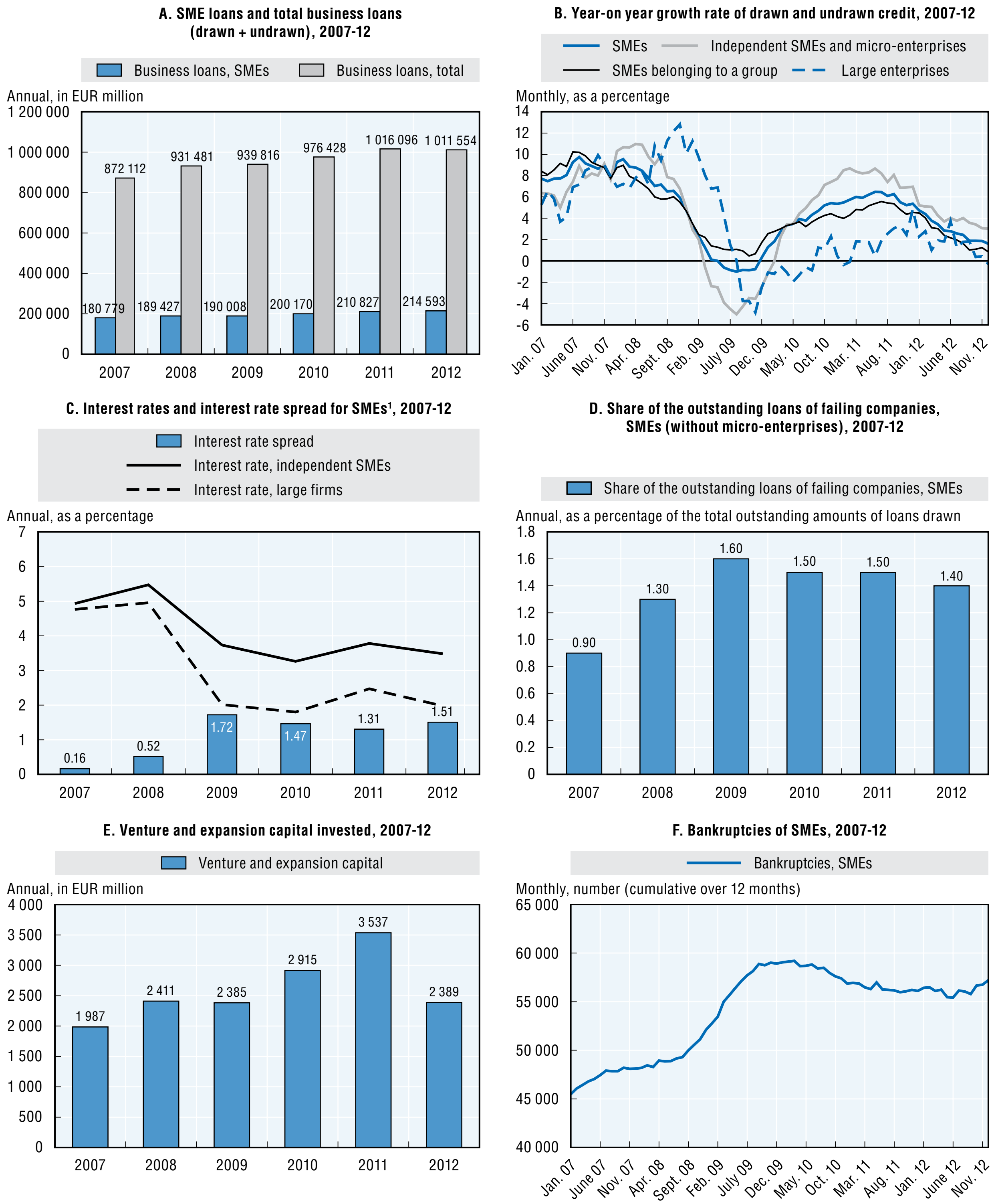
Table 11.3. **Scoreboard for France, 2007-12**

Indicator	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs (drawn + undrawn)	EUR million	180 779	189 427	190 008	200 170	210 827	214 593
Business loans, total (drawn + undrawn)	EUR million	872 112	931 481	939 816	976 428	1 016 096	1 011 554
Share of SME business loans in total business loans	%	20.7	20.3	20.2	20.5	20.7	21.2
Share of SMEs drawn business loans in total SMEs business loans	% of total drawn & undrawn SMEs business loans	87.7	87.8	87.2	86.4	87.0	87.8
Short-term loans, SMEs (drawn)	EUR million	43 107	42 702	37 589	38 182	40 411	41 245
Medium and long-term loans, finance leases and securitised loans, SMEs (drawn)	EUR million	115 386	123 559	128 042	134 709	143 062	147 107
Total loans, SMEs (drawn)	EUR million	158 492	166 262	165 631	172 892	183 473	188 352
Share of SMEs short-term loans in total drawn loans	% of total short and long-term drawn loans	27.2	25.7	22.7	22.1	22.0	21.9
OSEO guaranteed loans	EUR million	5 850	6 861	11 267	11 883	9 826	8 501
Value of OSEO loan guarantees	EUR million	2 707	3 219	5 752	5 326	4 231	4 175
Share of the outstanding loans of failing companies, SMEs without micro-enterprises	% of the total outstanding amounts of loans drawn	1.0	1.3	1.7	1.4	1.5	1.4
Interest rate, independent SMEs	%	4.93	5.47	3.73	3.27	3.78	3.49
Interest rate, SMEs belonging to a group	%	5.18	5.73	2.93	2.35	2.94	2.48
Interest rate spread (between loans to independent SMEs and loans to large firms)	%	0.16	0.52	1.72	1.47	1.31	1.51
Equity							
Venture and expansion capital	EUR million	1 987	2 411	2 385	2 915	3 537	2 389
Venture and expansion capital	Year-on-year growth rate, %	24.7	21.3	-1.1	22.2	21.3	-32.5
Other							
Payment delays	Average number of days past due date	14.3	16.0	18.0	18.0	18.0	17.0
Bankruptcies, total	Number	51 343	55 562	63 205	60 330	59 558	61 327
Bankruptcies, total	Year-on-year growth rate, %	7.1	8.2	13.8	-4.5	-1.3	3.0
Bankruptcies, SMEs	Number	48 111	52 104	58 909	56 650	55 947	57 295
Bankruptcies, SMEs	Year-on-year growth rate, %	6.6	8.3	13.1	-3.8	-1.2	2.4

Source: Refer to Table 11.4.

StatLink http://dx.doi.org/10.1787/888933013738

Figure 11.6. **Trends in SME and entrepreneurship finance in France**



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

StatLink http://dx.doi.org/10.1787/888933015809

Table 11.4. **Definitions and sources of indicators for France's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs (drawn + undrawn)	Total drawn and undrawn credit (credits mobilisés et mobilisables) for SMEs (both independent and belonging to a group), comprised of short-term, medium-term, long-term, finance leases and securitised loans. A bank must inform the Banque de France Central credit register whenever one of its branch offices has granted more than EUR 25 000 to a firm (total outstanding loan).	Banque de France, les encours de crédits aux entreprises résidentes par catégorie et taille
Business loans, total (drawn + undrawn)	Total drawn and undrawn credit (credits mobilisés et mobilisables) comprised of short-term, medium-term, long-term, finance leases and securitised loans. A bank must inform the Banque de France Central credit register whenever one of its branch offices has granted more than EUR 25 000 to a firm (total outstanding loan).	Banque de France, les encours de crédits aux entreprises résidentes par catégorie et taille
Short-term loans, SMEs (drawn)	Short-term credit drawn by SMEs, i.e. loans with a maturity less than or equal to one year. A bank must inform the Banque de France Central credit register whenever one of its branch offices has granted more than EUR 25 000 to a firm (total outstanding loan).	Banque de France, le financement des PME en France
Medium and long-term loans, finance leases and securitised loans SMEs (drawn)	Medium and long-term loans, finance leases and securitised loans drawn by SMEs. 'Medium and long-term' refers to loans with a maturity of more than one year.	Banque de France, le financement des PME – France
OSEO guaranteed loans	Government guaranteed loans to SMEs are proxied by the amount of loans guaranteed by OSEO.	OSEO, Annual Report 2008 and 2009
Value of OSEO loan guarantees	Value of government loan guarantees to SMEs are the net amount of risk covered by OSEO for guarantees to all firms.	OSEO, Annual Report 2008 and 2009
Share of the outstanding loans of failing companies, SMEs except micro-enterprises	Outstanding loans of failing SMEs (except microenterprises), expressed as a percentage of total outstanding amounts of SMEs drawn loans (except microenterprises).	Banque de France, le financement des PME en France
Interest rate, independent SMEs	Narrowly defined effective rate (NDER), equivalent to the interest rate component of the annual percentage rate of charge (APRC, which includes fees, in addition to interest). The granularity of the collect of information from banks by enterprise allows the identification of the category of SME.	Banque de France, Montant des crédits nouveaux à la clientèle résidente – France
Interest rate, SMEs belonging to a group	Narrowly defined effective rate (NDER), equivalent to the interest rate component of the annual percentage rate of charge (APRC, which includes fees, in addition to interest). The granularity of the collect of information from banks by enterprise allows the identification of the category of SME.	Banque de France, Montant des crédits nouveaux à la clientèle résidente – France
Interest rate spread (between loans to independent SMEs and loans to large firms)	Difference between interest rate charged on independent SMEs' loans and interest rate on loans to large firms	Banque de France, Montant des crédits nouveaux à la clientèle résidente – France
Equity		
Venture and expansion capital	Amount of funds invested in venture capital and expansion capital stages in France. All enterprises.	Association française des investisseurs en capital (AFIC)
Other		
Payment delays, SMEs	Average number of days beyond the agreed date for business-to-business. For 2007, average number of days beyond the agreed date for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia, European Payment Index 2008, 2009, 2010 and 2013
Bankruptcies, total	Total bankruptcies of all enterprises. Bankruptcies of legal units over the year. The statistics are established on the date of judgement.	Banque de France, Les défaillances d'entreprises
Bankruptcies, SMEs	Bankruptcies of SMEs. Bankruptcies of legal units over the year. The statistics are established on the date of judgment.	Banque de France, Les défaillances d'entreprises

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Greece

SMEs in the national economy

SMEs make up 99.9% of firms in Greece and employ 85.5% of the labour force and produce 70.2% of the value added.

Table 12.1. **Distribution of firms in Greece**

Firm size (employees)	Share of firms	Employment share	Value added share
Micro (1-9)	96.6	57.1	34.2
Small (10-49)	3.0	17.2	21.2
Medium (50-249)	0.4	10.9	14.8
Large (250+)	0.1	14.8	29.8

Source: Hellenic Confederation of Professionals, Craftsmen and Merchants, demand-side Survey.

StatLink http://dx.doi.org/10.1787/888933013757

SME lending

Total business lending declined by 18% between 2008 and 2012. SME loans declined by 14.5% between 2010 and 2012. The SME share in total business loans was 38% in 2012. In 2011, 14.7% of loans (housing, consumer, business) were non-performing. The Greek economy came under strain as a result of the global recession but also by its high debt/GDP ratio, a collapse in tax revenues and serious weakness in government accounting. While other economies have been recovering, Greece has been in recession since 2008. In 2012 Greece's GDP declined by 6.4%. The Greek banking sector has faced the consequences of Greece's sovereign debt crisis. The banks' financing capacity has been constrained by their impaired access to international funding sources and mass outflows in deposits as well as the fall in sovereign bond prices. The banks' exposure to Greek government debt exceeded other OECD member countries' exposure and amounted to 25% of GDP.

Credit conditions

Interest rates were higher for SMEs than for large firms for the entire 2007-12 period. In 2012 the SME interest rate was 6.46%. The interest rate spread peaked at 1.36% in 2010 and has declined considerably since then.

Other indicators

Bankruptcies increased by 25.4% between 2010 and 2011, reaching their peak in 2011. In 2012, the trend was reversed with a 6.7% decline in the total number of bankruptcies, further declining in 2013 with a 5.5% decrease on a year-to-year basis.

Government policy response

Direct loans

The Entrepreneurship Fund provides low cost loans to SMEs. The Fund has programmes to cover various SMEs in different sectors.

Table 12.2. **Entrepreneurship Fund in Greece, 2011-13**

Component/beneficiary	Period	Max. loan amount EUR	Interest Rate %	Loan duration years	Beneficiaries number
General-all SMEs	2011-13	800 000	3.30	5-10	0
Youth	2011-13	300 000	3.25	5-10	0
Competitiveness	2011-14	500 000	3.17	5-10	24
Tourism, water, waste, green, renewables	2011-13	500 000	3.67	5-10	368
Food, beverage, supply chain, innovation	2011-13	500 000	3.40	5-10	0

StatLink http://dx.doi.org/10.1787/888933013776

The government, with the assistance of the European Union, has co-financed direct loans to SMEs for investment and for working capital. Some of these direct loans have targeted young entrepreneurs, export-oriented SMEs or those in specific sectors. Co-financing by the government usually amounted to 50%. Some sectoral loans were 33% co-financed. The take up of this facility has been low.

Loan guarantees

The Government operates a number of loan guarantee programmes. There was a spike in these programmes between 2010 and 2011 but the sovereign debt crisis prevented Greece from continuing such support in 2012 when loan guarantees declined by 50% (see Table 12.3).

Table 12.3. **Loan guarantee programmes in Greece, 2008-13**

Programme	Period	Type	Max. loan amount euros	Interest Rate	duration years	Beneficiaries number
Tempme*	2008-09	Working capital	350 000	6M euribor +210	3	27 069
Tempme*	2009-10	Working capital	125 000	6M euribor +210	3	30 301
Raw materials, goods, services	2010-12	Working capital	300 000	6M euribor +600	6	1 777
Tax & insurance claims	2010	Working capital	100 000	6M euribor +600	6	262
Letters of guarantee**	2012-13	Bank bonds	150 000		720 days	47

Notes: *Tempme programme guarantees working capital loans for SMEs with at least three years of operation. **Letters of guarantee programme guarantees a portfolio of letters of guarantee which includes bid bonds, advance payment bonds, performance bonds, payment bonds and withheld amount bonds issued by the banks in favour of SMEs.

Source: Hellenic Republic, Ministry of Finance, 2013 Budget

StatLink http://dx.doi.org/10.1787/888933013795

The usual guarantee rate for these programmes is 80%. The purpose of the guarantees is to provide liquidity to SMEs rather than to allow them to expand. The uptake for these programmes is higher than that for direct loans. The default rate on these guaranteed loans is between 12 and 23%.

Support to venture capital

The government and private investors funded the New Economy Development Fund in 2003 to provide venture capital funds to innovative SMEs in the high tech sector. The Fund takes a minority participation in venture capital funds and companies which provide equity to such SMEs. The venture capital funds may invest in issues of shares, interest in companies, convertible bonds or equity loans to SMEs that are at the start up stage or other early stage and are registered and based in Greece. The total value of the Fund is EUR 280 million.

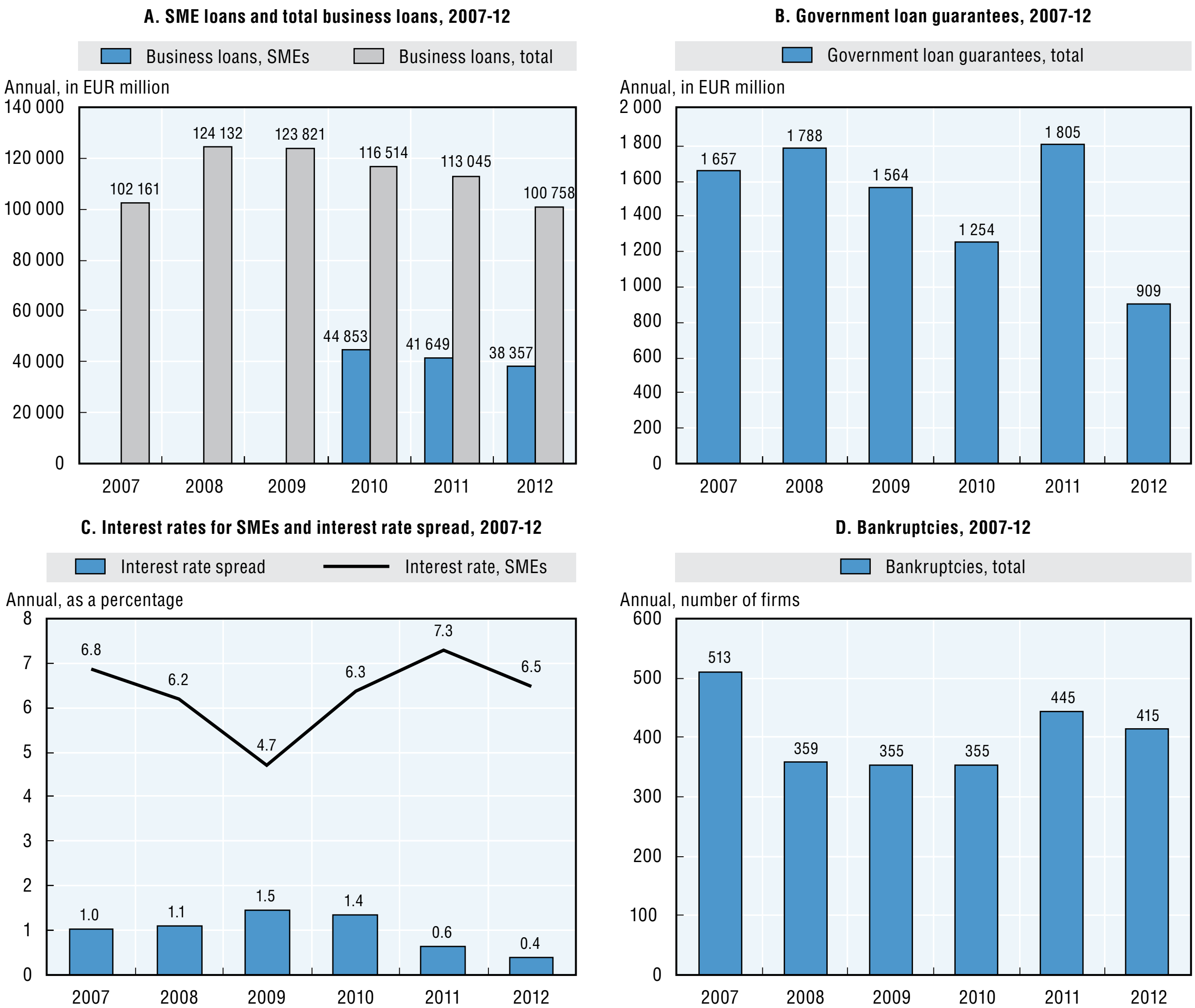
Table 12.4. **Scoreboard for Greece, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	EUR million	..	..	..	44 853	41 649	38 357
Business loans, total	EUR million	102 161	124 132	123 821	116 514	113 045	100 758
Business loans, SMEs	% of total business loans	..	..	..	38.5	36.8	38.1
Total short and long-term loans, SMEs	EUR million	..	..	..	44 853	41 649	38 357
Short-term loans, SMEs	% of total SME loans	..	..	..	..	..	..
Government loan guarantees, total	EUR million	1 657	1 788	1 564	1 254	1 805	909
Government guaranteed loans	% of total business loans	..	..	..	..	..	..
Non-performing loans, total	% of total loans	4.5	5.0	7.7	10.4	15.9	24.5
Interest rate, SMEs	%	6.83	6.18	4.70	6.34	7.26	6.46
Interest rate, large firms	%	5.79	5.07	3.24	4.98	6.64	6.07
Interest rate spread (between SMEs and large firms)	%	1.04	1.11	1.46	1.36	0.63	0.39
Other							
Payment delays, business loans	%	4.6	4.3	6.7	8.7	14.1	23.4
Bankruptcies, total	Number	513	359	355	355	445	415
Bankruptcies, total	Year-on-year growth rate, %	..	-30.0	-1.1	0.0	25.4	-6.7

Source: Refer to Table 12.5.

StatLink http://dx.doi.org/10.1787/888933013814

Figure 12.1. **Trends in SME and entrepreneurship finance in Greece**



Note: 1. Collaterals for loans < EUR 1 million addressed to SMEs.

Sources: Charts A and C: Bank of Greece. Chart B: Hellenic Republic Ministry of Finance, Chart D: Tiresias SA.

StatLink http://dx.doi.org/10.1787/888933015828

Table 12.5. **Definitions and sources of indicators for Greece's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	99.9% of Greek enterprises are SMEs according to European Commission's definitions (Recommendation 2003/361/European Parliament). Data collected by commercial banks. Refers to loans towards non-financial corporations.	Bank of Greece, Statistics, Monetary, Financing
Business loans, total	Includes loans, MFI holdings of corporate bonds, securitized loans and securitized corporate bonds. Refers to business loans only. Excludes self-employed and farmers. Refers to loans towards non-financial corporations.	Bank of Greece, Monetary Policy Report 2012-13
Government loan guarantees	Sum of guarantees as referred to in the 2013 Annual Budget of the Hellenic Republic.	Hellenic Republic, Ministry of Finance, 2013 Budget
Non-performing loans, total	Ratio of non-performing loans over sum of loans. Total loans include housing, consumer and business loans.	Bank of Greece, Monetary Policy Report, 2008, 2009, 2010, 2011, 2012, 2012-13
Interest rate, SMEs	Average annual rates for new loans, base rate plus risk premium; for maturity less than one year and amounts less than EUR 1 million.	Bank of Greece, Monetary Policy Report 2008, 2009, 2010, 2011, 2012
Interest rate, large firms	Average annual rates for new loans, base rate plus risk premium; for maturity less than one year and amounts more than EUR 1 million.	Bank of Greece, Monetary Policy Report 2008, 2009, 2010, 2011, 2012
Interest rate spread	Spread between SME loans and loans to large firms.	Bank of Greece, Monetary Policy Report 2008, 2009, 2010, 2011, 2012
Payment delays	Ratio of non-performing business loans over sum of business loans.	Bank of Greece, Monetary Policy Report 2008, 2009, 2010, 2011, 2012, 2012-13
Bankruptcies, total	Total firm bankruptcies as declared by the Greek Courts of Justice, according to the Greek Bankruptcy Code.	Tiresias SA

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Hungary

SMEs in the national economy

In 2010, 99.9% of all enterprises in Hungary were SMEs and 94.7% were micro enterprises. SMEs account for the largest part of the country's workforce, employing 71.9% of the total labour force as of 2010.

Table 13.1. **Distribution of firms in Hungary, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**554 886**	**100.0**
SMEs (0-249)	**554 082**	**99.9**
Micro (0-9)	525 411	94.7
Small (10-49)	24 619	4.4
Medium (50-249)	4 052	0.7
Large (250+)	**804**	**0.1**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933013833

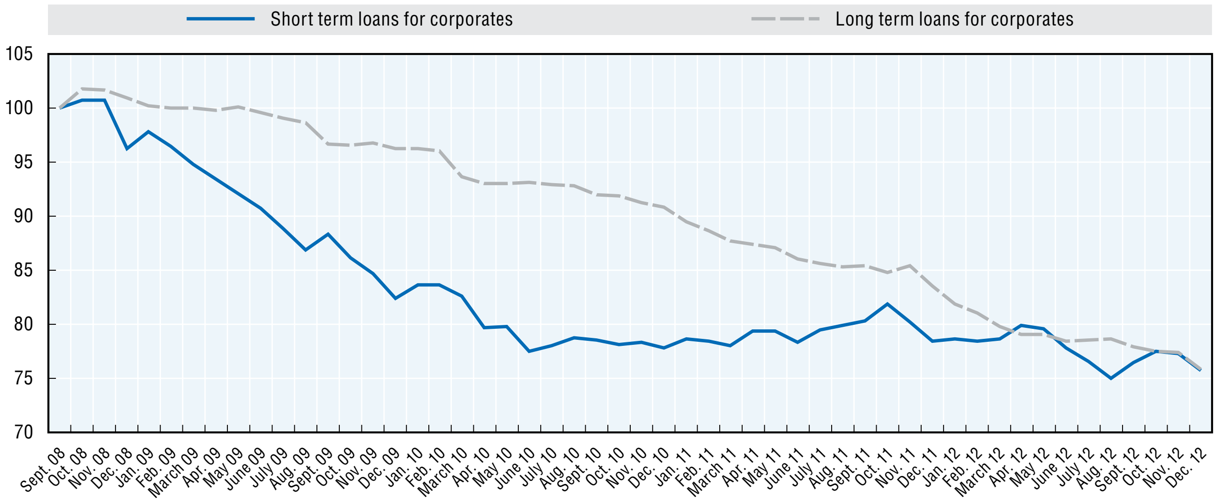
SME lending

The contraction of total business loans started during the recession but showed signs of recovery in 2011 with a 0.6% increase, only to experience an accelerated decline of 10.1% in 2012. Around 50-60% of business loans are denominated in foreign currency so that the change in the exchange rate in itself caused significant changes in the national currency (HUF) terms of total business loans. Figure 13.1. shows business loans adjusted by the exchange rate.

In net terms, adjusted by exchange rate, domestic business loans outstanding shrank by 10.5% in 2011. The outstanding business loans of domestic financial intermediaries decreased considerably in H2 2012, and this decline accelerated at the end of the year. The fall in long-term loans continues to drive developments in lending, but the outstanding short-term loans also declined in 2012. The contraction in foreign currency loans, which are typically related to long-term financing, was significant, but outstanding forint loans increased slightly in 2012.

The outstanding SMEs loans continued to increase in 2012, growing slightly by 1.9% following a positive rebound of 0.3% in 2011 for the first time since the outset of the recession, but still at lower levels, in absolute terms, than in 2007. While total outstanding business loans continued to contract, the SMEs share increased almost to its 2007 level.

Figure 13.1. **Short and long-term loans in Hungary, 2008-12**



Source: Hungarian National Bank (MNB), *Report on Financial Stability (May 2013)*, 2013.

StatLink http://dx.doi.org/10.1787/888933015847

As regards new lending, contrary to the sharp decline in the total business loan portfolio in 2012, new SME loans increased significantly in 2012, by 50.5%, following a persistent decline over 2008-11. Short-term loans prevailed, accounting for 70% of total new loans in 2012, down from 76% in 2011.

In 2012 the banking sector's lending capacity continued to deteriorate, with the vast majority of banks still under severe supply constraints. Due to a lower willingness to take risks and the substantial outflows of external liabilities, enterprises faced tighter credit conditions. Demand for credit also decreased as a result of deteriorating economic prospects, with investments being postponed or cancelled due to the weaker credit supply. Therefore, demand and supply factors are both reflected in the falling dynamics of total business lending. The impact of supply constraints, however, was greater for SMEs than for large enterprises. Due to a continuous decline in their risk tolerance, the vast majority of banks compete for the most creditworthy enterprises; SMEs were crowded out and faced a shortage of financing. Funding was not only impaired by rising credit costs, but also through the withdrawal of external funds from banks, which continued throughout 2012.

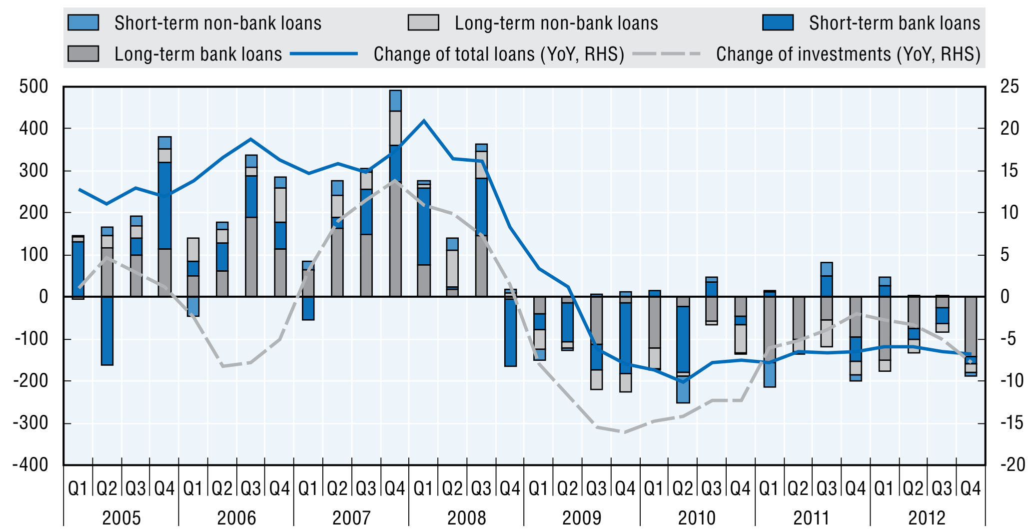
Credit conditions

Interest rates have been traditionally high in Hungary. In 2002 the government started to subsidise interest rates with a scheme for SMEs called the Szechenyi card. The government issued about 150 000 cards with a credit line of more than EUR 3.5 billion by 2010. This scheme has been very successful in helping SMEs to access credit. Credit terms for business loans started to ease during the second half of 2012, with a consistent decline in interest rates. After peaking during the first months of 2012, price conditions for new and outstanding loans eased further due to the Hungarian National Bank's (MNB) policy rate cuts. On average for the year 2012, SMEs' interest rates grew by 3.4% on a year-to-year basis, a smaller increase than in 2011 (4.3%). The spread between the interest rate applied to large firms vs. SMEs narrowed to 1.1% vs. 1.3% in 2011.

MNB launched an ad-hoc survey on interest rates for SMEs in Q1 2012, repeated it in Q1 2013. The responses showed that micro and small-sized enterprises in H2 2012 had access to credit at significantly higher costs than the average spread of around 2.0 percentage points.

Figure 13.2. **Domestic investments and net quarterly changes in corporate domestic loans in Hungary, 2005-12**

In HUF billion (LHS) and percentages (RHS)



Source: Hungarian National Bank (MNB), *Report on Financial Stability (May 2013)*, 2013.

StatLink http://dx.doi.org/10.1787/888933015866

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

Non-performing loans

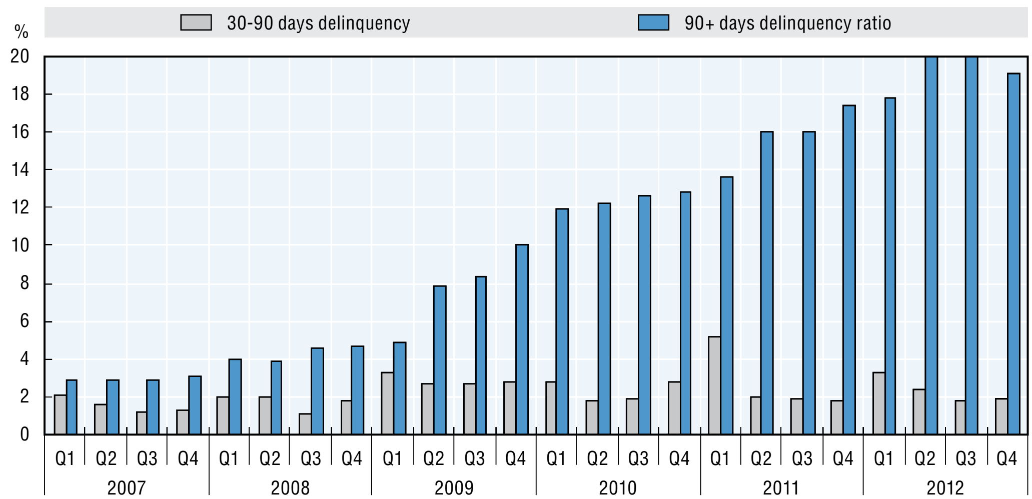
As a result of the worsening economic outlook, the share of non-performing business loans continued to increase in 2012 by 10%,although this was at a much slower pace than in 2011, when it recorded a 40% increase. For SME loans, in particular the ratio of loans overdue more than 90 days reached 19.05% by the end of 2012, compared to 17.37% in 2011. Default of previously restructured loans played a central role in the increase. Such deterioration in portfolio quality reduces the willingness of banks to continue lending.

Equity financing

In 2011, the amount of Hungarian venture capital investments recovered to earlier levels, increasing by 62% and was followed by another major increase of 71% in 2012. This was mainly due to the activities of EU-JEREMIE venture capital funds. The eight JEREMIE funds established in 2010 invested in early stage enterprises. The JEREMIE funds combined EU and private financing sources. In 2011, the Hungarian venture capital market ranked sixth within the EU regarding the value of early stage venture capital investments compared to GDP. In 2011, as a result of the EU-JEREMIE funds' portfolio decisions, nearly half of the value of early stage venture capital investments belonged to the high-tech category. In 2012, the JEREMIE programme allocated HUF 11.8 billion to risk capital investments.

Figure 13.3. **Ratio of non-performing business loans within total loan portfolio in Hungary, 2007-12**

In percentages

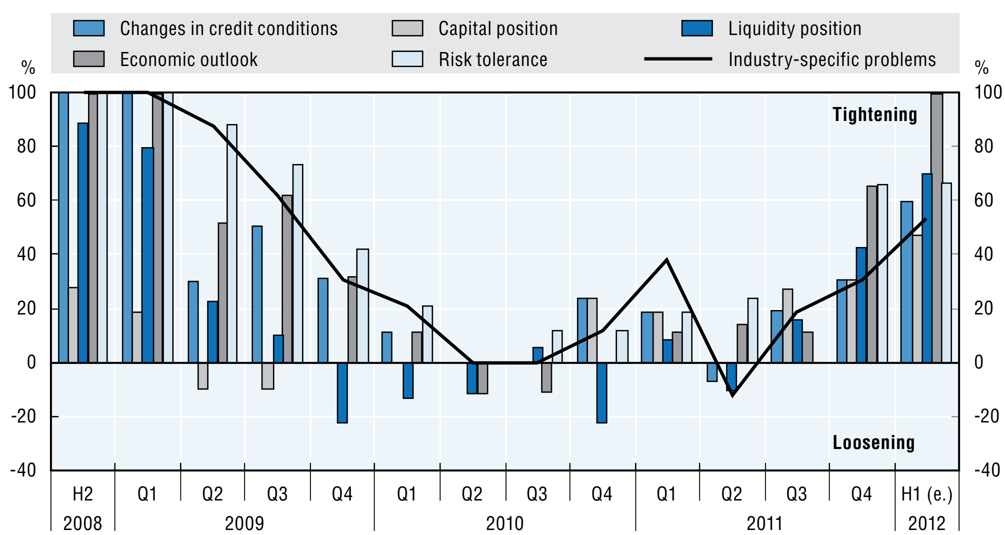


Source: Hungarian National Bank (MNB).

StatLink http://dx.doi.org/10.1787/888933015885

Figure 13.4. **Credit conditions in Hungary, 2008-12**

In percentages



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

StatLink http://dx.doi.org/10.1787/888933015904

Other indicators

SME payment delays decreased from 22 days in 2011 to 20 days in 2012, with the decline set to continue throughout 2013. Bankruptcies have increased in 2012 but at a much reduced rate compared to the previous year a7.9% increase for 2012, compared to 20.4% in 2011.

Table 13.2. **Venture and growth capital financing in Hungary, 2007-12**

In HUF million

Year	Seed, start-up, early stage	Later stage expansion	Total[1]
2007	494	3 455	3 949
2008	479	13 303	13 782
2009	420	300	720
2010	5 013	1 969	6 982
2011	11 168	140	11 308
2012	18 580	781	19 361

Note: 1. Total excludes buy-outs.

Source: Hungarian Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933013852

Government policy responses

Hungary has a loan guarantee programme, as well as direct loans for SMEs. The guarantee programme, launched in 1998-99, is run by Guarantee Institutes controlled by the government (Garantiqa Plc, Agricultural Loan-Guarantee Foundation), which provide guarantees for 50-80% of an SME loan. Their guarantees are counter-guaranteed by the government up to 85% of the loan. In 2012, 6.4% of SME loans had a government guarantee, down from 9.1% in 2011, with the total uptake by SMEs reaching HUFs 314.8 billion, 28.0% lower than a year before.

The Szechenyi Card Programme was launched in 2002 and is run by the domestic credit institution Kavosz Plc. The Programme allows banks to provide standardized loans to SMEs with subsidized interest rates. The main facility in the Programme is an overdraft loan that requires no tangible collateral. There is evidence that both businesses and banks prefer this standardized, simplified and state sponsored product compared to the pure banking products on the market. At the end of 2012 the Szechenyi Card Programme had supported 19 545 loans worth HUF 153 billion.

The Hungarian Development Bank (MFB) provides direct loans and loans to refinance banks, with financing sourced from EIB loans. The purpose of the programme is to support infrastructural and technological developments so as to boost the country's economic development and support its competitiveness. The value of SMEs direct loans increased by 49% over the 2007-10 period. There are also micro-loans disbursed by microcredit institutions financed from the government or EU budget.

A three-month zero-cost financing programme, called Funding for Growth, was launched in June 2013 by the Hungarian National Bank, channelling funds to domestic credit institutions at 0% interest, provided that they on-lend to SMEs with a maximum margin of 2.5% (including transaction fees). The programme had a limit of HUF 425 billion in its first pillar and HUR 325 billion in its second. This scheme is expected to provide further impetus to lending, easing both demand and supply constraints, throughout 2013. Overall, the positive effects are anticipated to improve lending compared to March 2013 forecasts, resulting in considerably more favourable lending dynamics, particularly for SMEs.

Venture Finance Hungary Plc, a publicly owned company managing JEREMIE funds for the country, launched in 2007 a nine year low-cost refinancing facility, whereby it co-invests with private investors in risk capital investments. In 2012, 4 478 SMEs received loans of more than HUFs 45 billion, while HUF 11.8 billion was invested in venture capital programmes.

The policy of monetary easing followed by MNB and the reduction in the central bank's policy rate are expected to positively influence business lending, both directly, through the availability of lower financing and the subsequent increase in demand for credit, as well as indirectly, through the growth of long-term investments and the reduction in bankruptcy rates due to the lower interest burden. This, together with the various programmes introduced by the MNB, may prove a catalyst to SME lending in the coming years tackling both the availability of funding and the restrained demand.

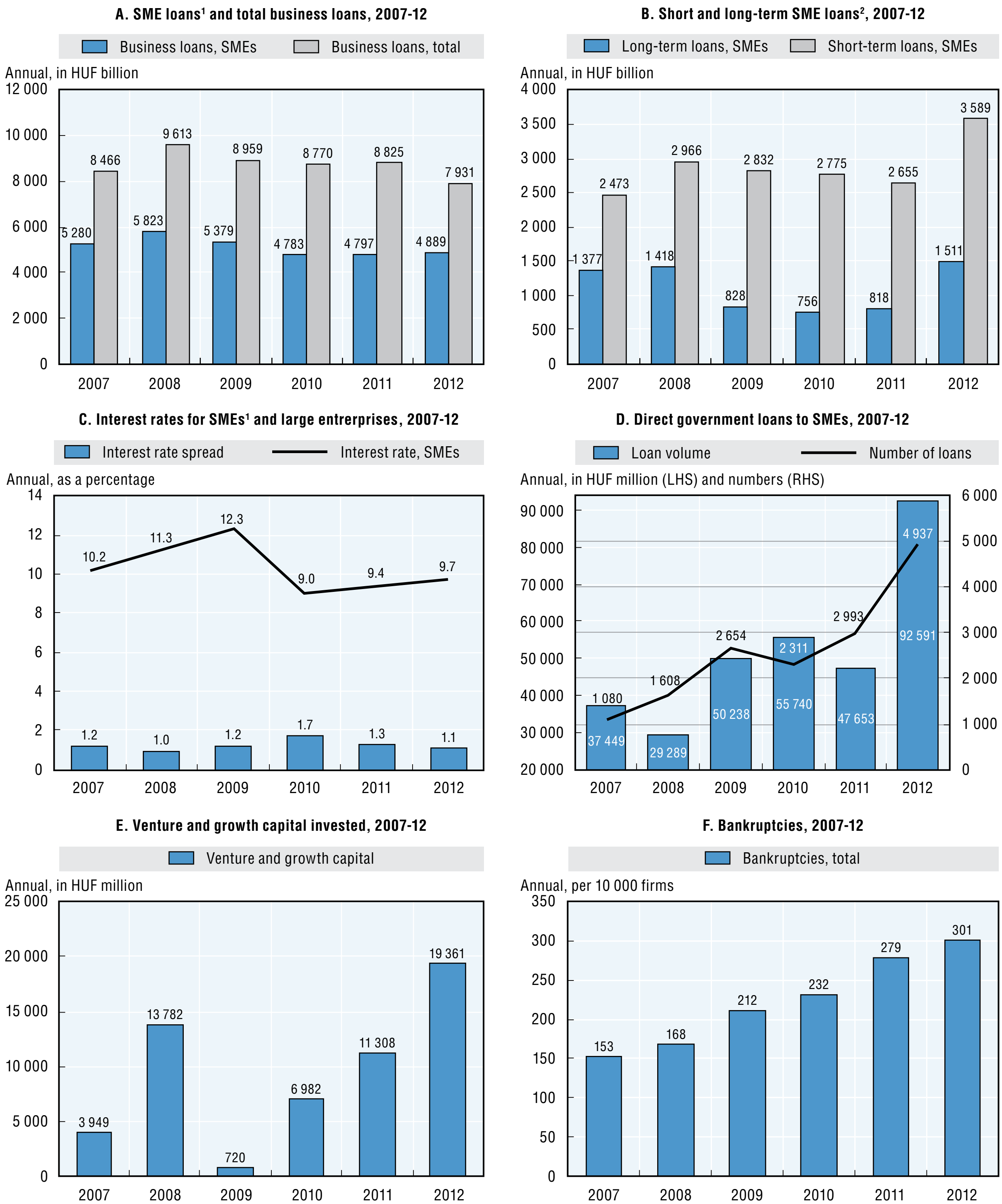
Table 13.3. **Scoreboard for Hungary, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	HUF million	5 279 722	5 823 289	5 379 295	4 782 676	4 796 982	4 889 120
Business loans, total	HUF million	8 466 015	9 612 649	8 958 573	8 769 596	8 825 160	7 930 657
Business loans, SMEs	% of total business loans	62.4	60.6	60.0	54.5	54.4	61.6
Short-term loans, SMEs	HUF million	2 473 389	2 965 962	2 832 008	2 774 744	2 654 536	3 589 000
Long-term loans, SMEs	HUF million	1 377 444	1 417 538	828 430	756 021	817 982	1 510 811
Total short and long-term loans, SMEs	HUF million	3 850 833	4 383 500	3 660 438	3 530 765	3 388 043	5 099 811
Short-term loans, SMEs	% of total short and long-term SME loans	64.2	67.7	77.4	78.6	75.9	70.4
Government loan guarantees, SMEs	HUF million	308 800	352 100	409 200	377 100	343 400	251 850
Government guaranteed loans, SMEs	HUF million	381 400	436 400	600 300	472 019	437 200	314 813
Direct government loans, SMEs	HUF million	37 449	29 289	50 238	55 740	47 653	92 591
Direct government loans, SMEs	Number	1 080	1 608	2 654	2 311	2 993	4 937
Bank loans with subsidised interest rates	HUF million	129 391	124 049	128 366	130 935	137 425	152 880
Bank loans with subsidised interest rates	Number	19 411	17 789	17 517	17 405	18 148	19 545
Ratio of non-performing business loans within total business loan portfolio	%	3.1	4.7	10.1	12.8	17.4	19.1
Ratio of SME non-performing loans within total SME loan portfolio	%	..	5.4	8.9	12.8	15.9	22.3
Average interest rate, SMEs	%	10.19	11.25	12.31	8.99	9.38	9.70
Interest rate spread	%	1.22	0.97	1.24	1.74	1.3	1.1
Equity							
Venture and growth capital	HUF million	3 949	13 782	720	6 982	11 308	19 361
Venture and growth capital	Year-on-year growth rate, %	..	249.0	-94.8	869.7	62.0	71.2
Other							
Payment delays	Days	16.3	19.0	19.0	15.0	22.0	20.0
Bankruptcies, total	per 10 000 firms	152.6	168.4	211.6	231.8	279.2	301.3
Bankruptcies, total	Year-on-year growth rate, %	..	10.3	25.6	9.5	20.4	7.9

Source: Refer to Table 13.4.

StatLink http://dx.doi.org/10.1787/888933013871

Figure 13.5. **Trends in SME and entrepreneurship finance in Hungary**



Notes: 1. For loans up to EUR 1 million. 2. Short (long) term loans have a maturity equal to or less than (more than) one year. The data don't include the loans of financial institutions. In 2007-09 the data contain loans to all SMEs including financial ones, in 2010-11 only non-financial SMEs.

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

StatLink http://dx.doi.org/10.1787/888933015923

Table 13.4. **Definitions and sources of indicators for Hungary's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Amount of outstanding loans at the end of period (stocks). Gross bank and financial institution business loans to nonfinancial enterprises. In 2007-09 the data contains loans to all SMEs including financial ones, in 2010-12 only non-financial SMEs. Excludes sole proprietorships. Includes lines of credit, overdrafts, leases, business mortgages, business credit cards, factoring and securitised loans.	Hungarian Financial Supervisory Authority
Business loans, total	Amount of outstanding loans at the end of period (stocks). Gross bank and financial institution business loans to all non-financial enterprises. Excludes sole proprietorships. Includes lines of credit, overdrafts, leases, business mortgages, business credit cards, factoring and securitised loans.	Hungarian Financial Supervisory Authority
Short-term loans, SMEs	New loans (flow) equal to or less than one year. The data doesn't include the loans of financial institutions. In 2007-09 the data contains loans to all SMEs including financial ones, in 2010-12 only non-financial SMEs.	Hungarian Financial Supervisory Authority
Long-term loans, SMEs	New loans (flow) longer than one year. The data doesn't include the loans of financial institutions. In 2007-09 the data contains loans to all SMEs including financial ones, in 2010-12 only non-financial SMEs.	Hungarian Financial Supervisory Authority
Government loan guarantees, SMEs	New guarantees (flow) available to banks and financial institutions, guaranteed (partly) by government.	Administrative data from Hungarian Development Bank, Garantiqa Hitelgarancia Zrt, AFGHA (Agrárvállalkozási Hitelgarancia Alapítvány), and the EU SA financed Economic Development Programme
Government guaranteed loans, SMEs	New loans (flows) guaranteed (partly) by government.	Administrative data from the EU SA financed Economic Development Programme
Direct government loans, SMEs	Sum and number of new direct loans (flow) to SMEs from Hungarian Development Bank, microfinance programmes financed from state resources.	Administrative data from the Economic Development Programme
Bank loans with subsidized int. rates	Sum and number of new bank loans with subsidized int. rates (Szechenyi Card Program).	KA-VOSZ Co. (Intermediary corporation of the Program.)
Ratio of non-performing business loans	% of non-performing business loans within total business loan portfolio (90+ days delinquency ratio) to total business loans at the end of the year.	Hungarian Financial Supervisory Authority
Ratio of SME non-performing loans	% of SME non-performing loans within total SME loan portfolio at the end of the year (90+ days delinquency ratio) to total SME loans at the end of the year.	Hungarian National Bank
Interest rate, SMEs	Average annual interest rate for all new SME loans.	Hungarian National Bank
Interest rate spread	Between small & large enterprises; for maturity less than one year; amounts less than EUR 1 million and equal to or greater than EUR 1 million.	Hungarian National Bank
Equity		
Venture capital	Venture and growth capital, total amount invested. Includes seed, start-up, early and later stage expansion capital (excludes buyouts, turnarounds, replacements).	Hungarian Venture Capital Association
Other		
Payment delays	Average number of days beyond the agreed date for business-to-business in 2008 and 2009. For 2007, average number of days beyond the agreed date for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia, European Payment Index
Bankruptcy	Number of officially published bankruptcies and liquidations per 10 000 taxpayer enterprises.	National Tax and Customs Administration

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Ireland

SMEs in the national economy

SMEs comprised 99.6% of all employer firms in 2011 and employed approximately 69% of the labour force, whereas large enterprises comprised just 0.4% but accounted for approximately 31% of the employment. Microenterprises constituted 82.6% of all enterprises.

Table 14.1. **Distribution of operating firms in Ireland, 2011**

Firm size (employees)	Number of enterprises	% of total	Number of employees	% of employees
All active enterprises	**183601**			
Non-employer firms	87228			
All active enterprises (excluding non-employer firms)	**96 373**	**100.0**	**1 025 299**	**100.0**
SMEs	**95 971**	**99.6**		
Micro (1-9)	79 629	82.6	222 358	21.7
Small (10-49)	14 026	14.6	263 515	25.7
Medium (50-249)	2 316	2.4	220 473	21.5
Large (250+)	**402**	**0.4**	**318 953**	**31.1**

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

Source: Central Statistics Office.

StatLink http://dx.doi.org/10.1787/888933013890

SME lending

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

Total business lending (outstanding loan balances) declined during the crisis and even more during the recovery period. Business loans were down from EUR 56 billion in 2007 to EUR 40 billion in 2011 and declined further to EUR 38 billion in 2012. The rate of decline eased considerably in the recovery period. Unfortunately, SME loan data are available only since 2010. SME loans showed minimal growth between 2010 and 2011 and decreased by 6.4% in 2012. The SME loan share in total business loans increased from 63.9% in 2010 to 67.8% in 2011 and is almost the same at 67.5% in 2012.

Data for SME short and long term loans are not available by firm size but by loan size. According to that data set, new short term loans composed almost 90% of total new SME loans over the period but these loan volumes plummeted 77% between 2007 and 2011 from EUR 19.4 billion to EUR 4.4 billion. SME loans fell further to EUR 3.6 billion in 2012 with short term loans accounting for most of the loans.

Credit conditions

A number of independent surveys of credit conditions have been conducted by the consultancy company Mazars and by the research and marketing company Red C at the request of the Irish Government. They covered the period from June 2008 to September 2012. Loan approval rates declined from 76% in 2008 to 70% in September 2011 period but have improved since then. Between October 2011 and March 2012 approval rates rose to 72% and in the six months to September 2012 they rose again to 76%. These included applications which were both fully approved and those which were partially approved. Between April 2012 and September 2012 71% of applications were fully approved and 5% were partially approved.

Data on interest rates are available by loan size. SME interest rates declined up to 2010 but have increased since then. The spread between large and small loans increased and continues to rise. The independent surveys also covered collateral requirements. About 32% of the SMEs were asked for specific security for their loans during the period 2008-11 but this fell to 28% in September 2012.

Equity financing

The data for venture capital were provided by the Irish Venture Capital Association and included both funding by business angels as well as venture capital funds. Total venture capital increased over most of the period but declined in 2011 and again in 2012. Contrary to trends in other countries, seed capital rose and was even larger than early stage and growth capital in 2011 although it declined significantly in 2012. Growth capital fell drastically between 2008 and 2009 and has yet to recover to its 2007 level although it increased in 2012.

Table 14.2. **Venture capital raised by Irish SMEs, 2007-12**

EUR million

Stage	2007	2008	2009	2010	2011	2012
Seed	20.4	51.1	71.2	53.6	104.9	53.7
Early	119.8	116.5	185.4	175.9	99.2	135.6
Growth/ Expansion	85.7	75.3	31.5	80.7	70.3	79.6
Total	**225.9**	**242.9**	**288.1**	**310.2**	**274.4**	**268.9**

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

Source: Irish Venture Capital Association.

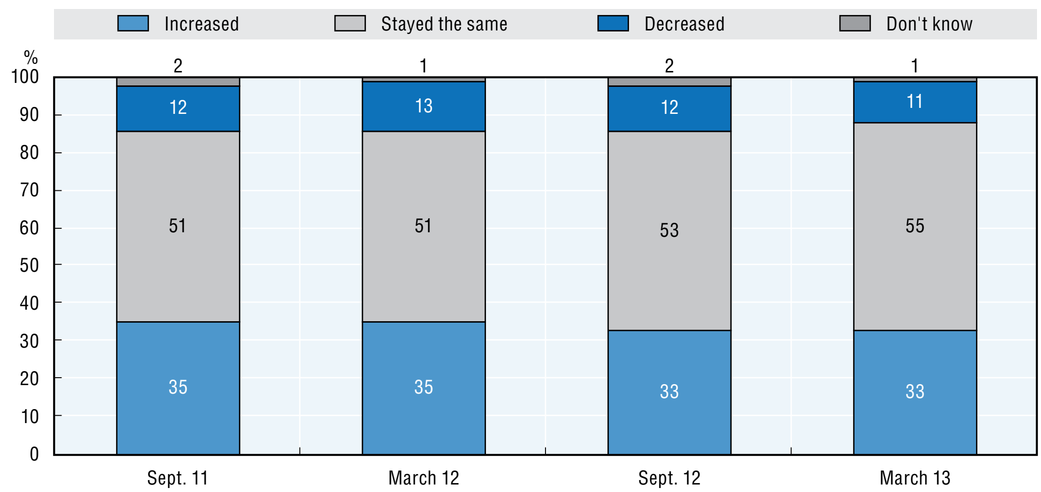
StatLink http://dx.doi.org/10.1787/888933013909

Other indicators

The Mazars survey asked about the average number of days in which enterprises received payments from customers but only in respect to the direction of movement rather than the number of days. Between April and September 2011 the number of days increased for 34% of the SMEs surveyed while 13% of the SMEs reported a decrease. For the year 2012, there has been relatively little change in the responses between the different waves of the survey with around one third of SMEs reporting an increase in the number of days and 12% reporting a decrease.

Figure 14.1. **Average number of payment days from customers to SMEs in Ireland, 2011-13**

% of SMEs' responses



Source: Mazars, Red C survey.

StatLink http://dx.doi.org/10.1787/888933015942

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

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

Table 14.3. **Bankruptcies in Ireland, 2007-12**

	2007	2008	2009	2010	2011	2012
Examinership	19	49	84	28	31	32
Receivership	14	59	205	388	533	654
Liquidation	1 389	1 664	2 403	2 285	2 464	2 236
All processes	1 422	1 772	2 692	2 701	3 028	2 922

Source: Department of Jobs, Enterprise and Innovation.

StatLink http://dx.doi.org/10.1787/888933013928

Bankruptcies increased steadily in the period 2007 to 2011 and decreased slightly in 2012 but were still above the 2007 level.

Government policy response

The government has imposed SME lending targets on the two domestic pillar banks for the three calendar years, 2011 to 2013. Each bank was required to approve loans of at least EUR 3 billion in 2011, EUR 3.5 billion in 2012 and EUR 4 billion in 2013 for new or increased credit facilities to SMEs. Both banks achieved their targets for 2011 and 2012.

The SME State Bodies Group was established in 2012 to both develop key policy initiatives to support SME access to credit and other forms of finance, and to ensure their implementation. It will continue in 2013 to engage intensively in proactively addressing issues associated with SME funding and financing in conjunction with the relevant stakeholders through the SME Funding Consultation Committee.

In October 2012, the government introduced a Temporary Partial Credit Guarantee scheme to address the situation where the SME is outside the risk appetite of the banks. This can arise because the SME lack of collateral or the banks' lack of understanding of the business model, the market, the sector or the technology. The three main SME lenders are all participating in the guarantee scheme.

The Microenterprise Loan Fund Scheme will provide loans of up to EUR 25 000 to start-up, newly established, or growing microenterprises employing less than ten people, which have commercially viable proposals that do not meet the conventional risk criteria applied by banks.

In its budget for 2013, the government included a 10 Point Tax Reform Plan to assist small business in a number of ways by:

- improving their cash flow position
- facilitating access to funding
- reducing the costs associated with the administrative burden of tax compliance
- boosting demand for their products in new markets
- incentivising them to create jobs.

The Credit Review Office was established in 2010 to review cases where credit facilities up to EUR 500 000 are refused, withdrawn, or offered to SMEs on unreasonable terms. Towards the end of 2012, the government sanctioned the appointment of additional reviewers to the CRO to ensure that SMEs appealing the banks' decisions to refuse credit receive a considered and timely response to their application.

At the start of 2013, the National Pensions Reserve Fund (NPRF) launched a set of three new long-term funds which will provide equity, credit and restructuring / recovery investment for Irish SMEs and mid-sized corporates. Altogether these funds provide a total of EUR 850 million available for investment in Irish SMEs.

Seed and Venture Capital Scheme

To develop the domestic venture capital system, the government commitment of EUR 175 million in the 2013 Budget to the Seed and Venture Capital Scheme 2013-18 will leverage a further EUR 525 million from the private sector, for investment in high potential start-ups. This is the fourth such programme since 1994. A first call for expressions of interest was issued under this new scheme in May in line with the Action Plan for Jobs 2013. Enterprise Ireland (EI) will continue to make commitments on a pari passu basis with the private sector.

Development Capital Scheme

The Development Capital Scheme addresses the funding gap for mid-sized, high-growth, indigenous enterprises with significant prospects for jobs and export growth. The Scheme created funds that would invest between EUR 2 million and EUR 5 million in established medium sized enterprises by way of equity, quasi equity and/or debt. Initially in 2012, the government allocated EUR 50 million of Exchequer funding with the intention of leveraging a further EUR 100 million of private sector investment. The original scheme was extended in December 2012 and an additional EUR 25 million was allocated to the Scheme. This allocation should leverage a further EUR 50 million from the private sector over the duration of the scheme, making a total of EUR 225 million in funding available to mid-sized indigenous firms with significant prospects for jobs and export growth. Enterprise Ireland will promote this initiative in 2013. The funds will be managed by private sector fund managers who will make their own commercial investment decisions in the context of an agreed investment strategy for the funds.

Innovation Fund Ireland

Innovation Fund Ireland is an Irish government initiative designed to attract leading international venture capital fund managers to Ireland. Innovation Fund Ireland funding involves Enterprise Ireland and NPRF working in partnership. Both EI and NPRF bring approximately EUR 125 million each to the table and make commitments to international Venture Fund Managers. These managers commit to establishing a presence in the Irish market and agree to invest, at a minimum, the equivalent of EI's contribution to Irish enterprises or enterprises with significant operations in Ireland.

The Innovation Fund Ireland has been created to increase the availability of risk capital for early-stage and high-growth companies, and is central to the Irish government's strategy for economic recovery. The main objectives of Innovation Fund Ireland are to:

- increase the number and scale of innovation driven and high-growth businesses in Ireland
- increase the availability of smart risk capital for early stage and high-growth enterprises
- attract top-tier venture capital fund managers to Ireland
- attract, leverage and develop entrepreneurial talent.

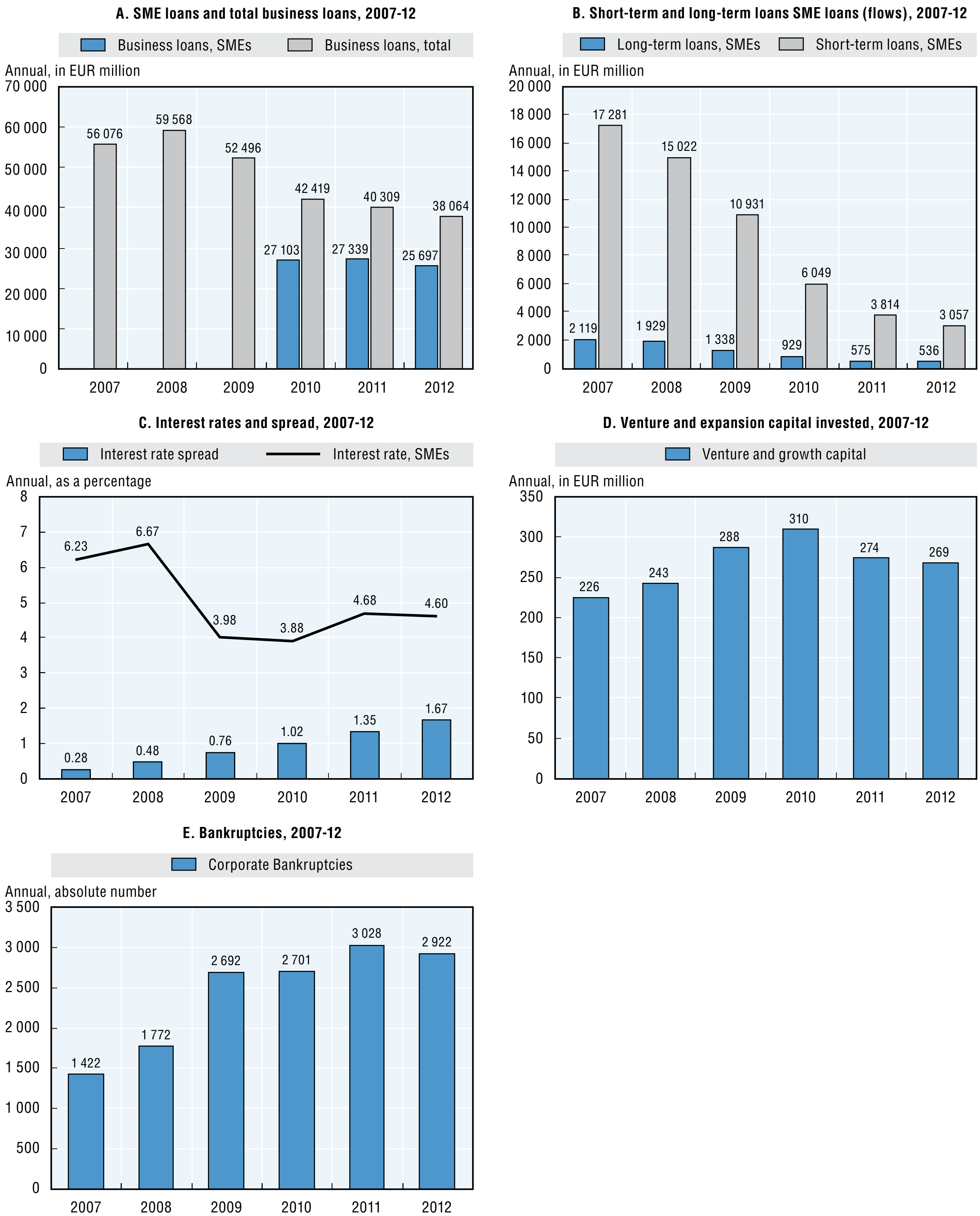
Table 14.4. **Scoreboard for Ireland, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	EUR million	..	..	..	27 103	27 339	25 697
Business loans, total	EUR million	56 076	59 568	52 496	42 419	40 309	38 064
Business loans, SMEs	% of total business loans	..	..	..	63.9	67.8	67.5
Short-term loans, SMEs	EUR million	17 281	15 022	10 931	6 049	3 814	3 057
Long-term loans, SMEs	EUR million	2 119	1 929	1 338	929	575	536
Total short and long-term loans, SMEs	EUR million	19 400	16 951	12 269	6 978	4 389	3 593
Short-term loans, SMEs	% of total SME loans	89.1	88.6	89.1	86.7	86.9	85.1
SME loans approved	%	..	76	72	..	70-72	72-76
Interest rate, SMEs	%	6.23	6.67	3.98	3.88	4.68	4.60
Interest rate spread	%	0.28	0.48	0.76	1.02	1.35	1.67
Equity							
Venture and growth capital	EUR million	226	243	288	310	274	269
Venture and growth capital	Year-on-year growth rate, %	..	7.5	18.6	7.7	-11.5	-2.0
Other							
Payment Delays	Days	..	..	22.0	25.0	30.0	31.0
Bankruptcies	Number	1 422	1 772	2 692	2 701	3 028	2 922
Bankruptcies	Year on year growth rate %	..	24.6	51.9	0.3	12.1	-3.5

Source: Refer to Table 14.5.

StatLink http://dx.doi.org/10.1787/888933013947

Figure 14.2. **Trends in SME and entrepreneurship finance in Ireland**



Sources: Charts A, B, and C: Central Bank of Ireland. Chart D: Irish Venture Capital Association. Chart E: Department of Jobs, Enterprise and Innovation.

StatLink http://dx.doi.org/10.1787/888933015961

Table 14.5. **Definitions and sources of indicators for Ireland's scoreboard**

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

Israel

SMEs in the national economy

The Israeli[1] Small and Medium Business Agency (SMBA) defines an SME as follows:

- micro business: up to 4 employees
- small business: up to 20 employees
- medium Business: up to 100 employees and an annual turnover of up to 100 million NIS
- big business: over 100 employees or an annual turnover of over 100 million NIS.

Micro and small businesses constitute about 96% of businesses. Less than 1% of the businesses are defined as large businesses and the other 3% are medium-sized businesses.

Table 15.1. **Distribution of firms in Israel, 2011-12**

Firm size (employees)	2011	2012	Growth rate (%)
All firms	**492 952**	**505 258**	**2.5**
SMEs (0-100)	**489 474**	**501 676**	**2.5**
Micro (0-4)	420 414	431 344	2.6
Small (5-20)	53 230	54 227	1.9
Medium (21-100)	15 830	16 105	1.7
Large(100+)	**3 478**	**3 582**	**3.0**

Source: Israel Central Bureau of Statistics.

StatLink http://dx.doi.org/10.1787/888933013966

According to the Central Bureau of Statistics there were about 1.85 million employees that were employed in big business, whereas 1.4 million employees (employee jobs) were working at SMEs in 2012, representing approximately 43% of the 3.25 million employees in the business sector.

SME lending

Bank credit is the main funding instrument for SME (over 80% of SMEs credit is provided by banks). Over 95% of the bank credit to SMEs was made by the five major banking groups in the country.

The Bank of Israel requires banks to list the credit data by size of business (small, medium and large businesses). The definition of the business size varies in the different bank groups[2] - but it is assumed that the aggregate figures from all the major banks provide a reasonable estimate for the credit given to the various size business groups.

Table 15.2. **Total credit in Israel as of December 2007-12**

Billion NIS

Enterprise size	2007	2008	2009	2010	2011	2012
All firms	**402.8**	**446.4**	**413.8**	**426.9**	**446.1**	**437.6**
SMEs	162.9	163.2	154.8	166.1	177.7	178.2
Micro & small	56.2	56.0	55.8	61.4	61.6	65.3
Medium	106.7	107.2	99.0	104.7	116.1	112.9
Large	**239.8**	**283.2**	**259.0**	**260.8**	**268.4**	**259.4**

Source: Bank of Israel.

StatLink http://dx.doi.org/10.1787/888933013985

The data indicate a consistent increase in the volume of bank credit to SMEs between 2007 and 2012. Since 2007 there has been a combined increase of 10% in credit to these sectors although this includes a sharp decrease in 2009. Credit to small businesses grew approximately NIS 9 billion (about 16%) since 2007, while the medium businesses increased their credit by NIS 6 billion (about 6%). Credit to large businesses increased by 8% in comparison to 2007. However, 2008 brought an ever more significant increase, of 18%. Later, in 2009, there was a strong reduction of about NIS 24 billion.

The distribution of the business credit in 2012 was as follows: small businesses 15%, medium-sized businesses 26%, and large businesses 59%. Most of the credit given to small businesses was short term credit, in order to finance the working capital. According to the 2012 financial statements of the banks, small business deposits were larger than the credit given to them (credit given to small business equalled about 90% of their deposits). This means that an average small business was not able to leverage credit compared to the medium-sized businesses where credit was 30% higher than their deposits, and the large businesses where credit was 65% higher than their deposits.

Credit conditions

Interest rate spreads between SMEs and large businesses were relatively steady, ranging from 1.9% to 2.5%. It should be noted that in the internal SME distribution approximately 75% of the spread was explained by the internal spread between small businesses and medium-sized businesses. The spread between small and large businesses was 3.5 times larger than the spread between medium-sized and large businesses. This means that the cost of capital and the risk factor for medium businesses was relatively similar to that of the large businesses. On the other hand, the small business risk factor seemed to be far greater, and raising capital was a more difficult task for this category.

Interest rate data were extracted and calculated from the financial statements of the main banking groups in the country. They are required to publish a breakdown of the nominal credit that they distributed, by the various business segments. The quality of data available to correctly calculate this indicator was sufficiently satisfactory to report interest rates for 2010-12.

Equity financing

There are approximately 70 venture capital funds in Israel, including 14 international funds. Investments by venture capital funds in 2012 amounted to approximately USD 1 924 million, of which about one-third came from Israeli funds and two-thirds from foreign funds and other deposits. The year 2012 saw a 10% decrease in investments by venture capital in comparison to the previous year.

Table 15.3. **Interest rates in Israel, 2010-12**

	2010	2011	2012
SMEs	**5.49%**	**5.85%**	**5.61%**
Small business	7.26%	8.11%	7.36%
Medium business	4.46%	4.65%	4.60%
Large business	3.41%	3.32%	3.66%

Note: The indicator used as the interest rate was calculated as: the net income from credit given to the specific business segment as a percentage of the net interest income, multiplied by the total interest income as a percentage of the total credit distributed.

Source: Bank of Israel.

StatLink http://dx.doi.org/10.1787/888933014004

Investments in 2007 amounted to USD 1 759 million, and declined during the economic crisis in 2009 to USD 1 122 million. In the years 2011 and 2012 the level of investments returned to their pre-crisis levels.

Table 15.4. **Investment by venture capital funds in Israel, 2007-12**

	Units	2007	2008	2009	2010	2011	2012
Total investment	**USD Million**	**1 759**	**2 076**	**1 122**	**1 262**	**2 136**	**1 924**
Israeli VCS	USD Million	678	780	410	371	638	516
Israeli VCS	%	39	38	37	29	30	27

Note: Israel Venture Capital (IVC) 2013 Yearbook

StatLink http://dx.doi.org/10.1787/888933014023

The high tech industry receives almost all venture capital investments. Other industries have to find alternative sources of financing.

Other indicators

Business survival is an important indicator of the robustness of a new business. An examination of the businesses started in 2005-11 showed that on average of 87.4% of businesses go on to a second year of activity. Approximately 73% managed to survive the third year, and only about 50% of the businesses were still active after six years. That is, after five years approximately half of businesses stopped functioning.

Table 15.5. **Percentage of Israeli businesses that continued to operate, according to year of establishment 2005-11**

Percentage

Year of establishment	Operating after one year	Operating after two years	Operating after three years	Operating after four years	Operating after five years	Operating after six year	Operating after seven years
2005	86.2	71.4	61.4	55.1	50.1	45.9	42.2
2006	87.2	72.3	63.1	56.1	50.7	46.4	..
2007	87.5	73.7	64.3	57.1	51.3	..	..
2008	88.1	74.2	64.4	57.0	..	..	..
2009	87.0	72.9	63.2	..	..	..	..
2010	88.0	74.3	..	..	..	..	..
2011	88.1	..	..	..	..	..	..

Source: Central Bureau of Statistics, press release: Business Demography 2010-12.

StatLink http://dx.doi.org/10.1787/888933014042

Government policy response

The Small and Medium Business Agency (SMBA) in the Ministry of Economy is the government agency responsible for SME policy, as well as for directing aid to SMEs. The SMBS facilitate a number of programmes benefiting SMEs.

Loan guarantees

The data indicate that guaranteed loans in 2012 were ten times larger than in 2007. In 2012 guaranteed loans totalled NIS 1 487 million in comparison to NIS 144 million in 2007.

Table 15.6. **Guaranteed loans approved and executed in 2007-12**

NIS million

	2007	2008	2009	2010	2011	2012
Credit that was approved	158	108	1 003	1 065	919	1 723
Credit that was executed	144	96	759	1 017	906	1 478

StatLink http://dx.doi.org/10.1787/888933014061

A significant increase in guaranteed loans occurred in 2009 following the global economic crisis, and then again in 2012 following the establishment of the new fund for loan guarantees. It should be noted that only 1.5% of the loans are non-performing and the guarantee ends up being forfeited.

A new guarantee fund was established in 2012. The government contribution to the new fund amounted to NIS 500 million. The new fund provided guarantees to private banks via a tender. The winners of the tender competed on the basis of the leverage they were willing to create on the basis of the guarantee. The total volume of guaranteed loans was NIS 4.23 billion. This is equivalent to a leverage ratio of 8.46:1. The guaranteed loans are for a five year period (bank credit is usually given for a shorter period). The government guarantees 70% of the loan, the borrower must guarantee 25% and the bank takes a 5% risk. Regarding new businesses – the guarantee rate is 85%, the borrower must guarantee 10%, and the bank takes a 5% risk.

Other selected programmes

The government operates a number of grant and loan programmes for certain types of SMEs.

Ministry of Economy fund to finance overseas marketing activities gives grants covering up to 50% of overseas marketing expenses. Assistance is provided to potential SME exporters with an annual turnover of up to NIS 20 million and to medium size exporters with an annual turnover of up to NIS 100 million. Maximum grant size is NIS 2 million.

Office of the Chief Scientist (OCS), Ministry of Economy, Central Fund for Research and Development (R&D) provides grants for research and project development in the firms. These firms later pay the OCS royalties, which are one of the main resources of the fund.

Investment Center, Ministry of Economy provides grants to businesses that generate a foreign cash flow; such businesses contribute to the national growth and compete in the international market. The Center provides grants covering 20% of the investments of businesses whose export sales generate 25% of their total revenue.

Independent Immigrant Assistance Fund, Ministry of Immigrant Absorption assists new immigrants and returning residents to establish a new business. Loans are for working capital and are given for long periods (up to ten years) at a low interest rate.

Box 15.1. **Definition of the business types in the various bank groups in Israel**

Category	Criteria	Bank Leumi	Bank Hapoalim	Bank Mizrahi	Bank Discount	First International Bank
Small business	Credit	Up to 10 million NIS	Up to 6 million NIS		Up to 10 million NIS	Receive credit of up to 5 million NIS, with total indebtedness of up to 100,000 NIS or an investment portfolio of 0.5 million NIS
	Annual Turnover	Up to 30 million NIS	Up to 30 million NIS	Up to 30 million NIS	Up to 30 million NIS	
Medium business	Credit	10 to 80 million NIS	6 to 100 million NIS		10 to 50 million NIS	Up to 40 million NIS
	Annual Turnover	30 to 250 million NIS	30 to 400 million NIS	30 to 120 million NIS	31 to 150 million NIS	
Large business	Credit	Over 80 million MIS	Over 100 million MIS		Over 50 million MIS	Over 40 million MIS
	Annual Turnover	Over 250 million MIS	Over 400 million MIS	Over 120 million MIS	Over 150 million MIS	

Source: Bank of Finland.

Table 15.7. **Scoreboard for Israel 2007-12**

Indicator	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	NIS Billions	162.9	163.2	154.8	166.1	177.7	178.2
Business loans, total	NIS Billions	402.8	446.4	413.8	426.9	446.1	437.6
Business loans, SMEs	% of total business loans	40.4	36.6	37.4	38.9	39.8	40.7
Government guaranteed loans, SMEs	NIS Millions	158	108	1 003	1 065	919	1 723
Interest rate, small firms	%	..	..	..	7.26	8.11	7.36
Interest rate, medium firms	%	..	..	..	4.46	4.65	4.60
Interest rate, SMEs	%	..	..	..	5.49	5.85	5.61
Interest rate, large firms	%	..	..	..	3.41	3.32	3.66
Interest rate, spread	%	..	..	..	2.09	2.53	1.95
Equity							
Venture and growth capital	USD Millions	1 759	2 076	1 122	1 262	2 136	1 924
Venture and growth capital	% Year-on-year growth rate	..	18.0	-46.0	12.4	69.3	-10.0

Source: Refer to Table 15.8.

StatLink http://dx.doi.org/10.1787/888933014080

Table 15.8. **Definitions and sources of indicators for Israels scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Business loan amount outstanding for SMEs	Financial statement of the five largest banking groups
Business loans, total	Total business loan amount outstanding for all firms	Financial statement of the five largest banking groups
Government guaranteed loans, SMEs	Bank loan given with an governmental guarantee	Financial statements of firms who authorise guarantee
Interest rate, small firms	Net income from credit given to small firms as a percentage of the net interest income, multiplied by the total interest income as a percentage of the total credit distributed	Financial statement of the five largest banking groups
Interest rate, medium firms	Net income from credit given to medium firms as a percentage of the net interest income, multiplied by the total interest income as a percentage of the total credit distributed	Financial statement of the five largest banking groups
Interest rate, SMEs	Net income from credit given to SMEs as a percentage of the net interest income, multiplied by the total interest income as a percentage of the total credit distributed	Financial statement of the five largest banking groups
Interest rate, all firms	Net income from credit given to all firms as a percentage of the net interest income, multiplied by the total interest income as a percentage of the total credit distributed	Financial statement of the five largest banking groups
Interest rate, spread	Margin between the SMEs interest rate and the large business interest rate	Financial statement of the five largest banking groups
Equity		
Venture and growth capital	Venture capital investments in Israeli SMEs	Israel Venture Capital (IVC) 2013 Yearbook

Notes

1. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
2. See Box 15.1.

Italy

SMEs in the national economy

SMEs comprise 99.9% of enterprises in Italy and account for 80% of the industrial and service labour force (Eurostat, 2011). The sector has a relatively small-scale structure: the share of micro-enterprises is higher than the EU average and this particular feature does not depend on the sector composition. Data collected from the debt side were mainly available for most of the firms with less than 20 employees, which represents nearly the entire universe.

Table 16.1. **Distribution of firms in Italy, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**3 867 813**	**100.0**
SMEs (0-249)	**3 864 582**	**99.9**
Micro (0-9)	3 660 256	94.6
Small (10-49)	184 925	4.8
Medium (50-249)	19 401	0.5
Large (250+)	**3 231**	**0.1**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933014099

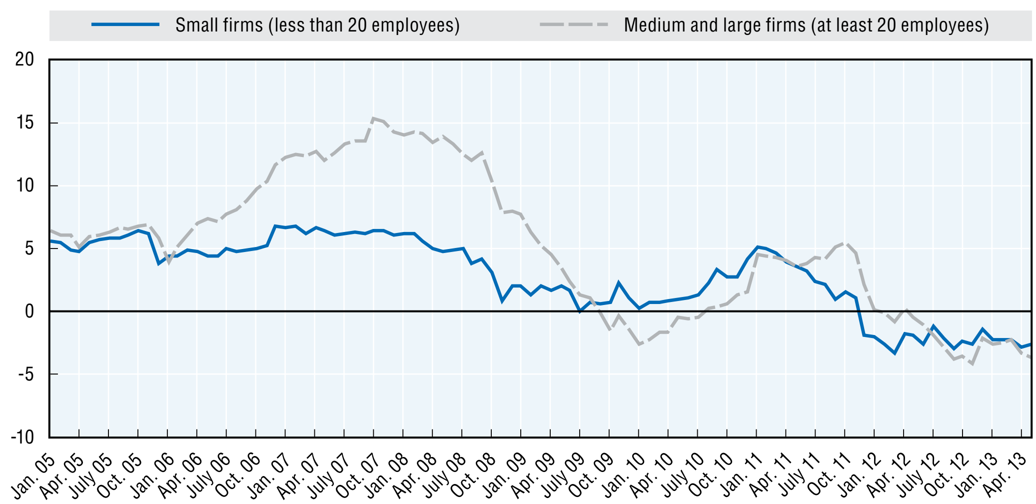
SME lending

In Italy, the impact of the 2007-08 crisis on the national banking system was cushioned by a sound model of intermediation, more oriented towards direct lending than to transactions on capital markets. This meant that there was less exposure to toxic assets arising from collateralised debt obligations. In the second half of 2011 the country entered a new recession. Sovereign debt market strains, which flared up in the summer, impaired banks' capacity to raise funds on wholesale markets. Nevertheless, domestic financial institutions further strengthened their highest-quality capital resources through substantial equity increases and, to a lesser extent, self-financing. During 2012, financial market conditions remained fragile, albeit benefiting at times from declining sovereign spreads. Actions were undertaken to further increase the capitalisation of the banking system and to ensure resilience to the prolonged downturn.

Two recessions in the span of few years adversely affected credit trends. Total business loans declined in absolute terms in 2009 and experienced a short-lived improvement in the subsequent two years. They declined sharply in 2012, when lending dynamics reflected, to a large extent, the perceived riskiness of borrowers. Years of weak economic conditions caused a sharp deterioration in firms' profitability and weighted on their financial buffers. After mid-2008, SME loan growth rates decelerated sharply, recovering somewhat until the second half of 2011.[1] During the new downturn that hit the economy in mid-2011, the credit slowdown was stronger for SMEs than for larger enterprises resulting, at the end of that year, in negative growth rates for SME loans for the first time since the beginning of the crisis. From mid-2012 the outright decline in lending affected especially larger firms. As a result, the share of SME loans in total business loans slightly increased in 2012 from a year earlier. It is worth noting, however, that large enterprises have easier access to alternative sources of finance and partially offset the drop in bank credit by issuing debt securities. SME short-term loans showed a marked slowdown as the financial crisis intensified, lending conditions tightened and credit demand from firms shrank. The share of short term SME loans in total SME loans declined from 33.9% in 2007 to 26.6% in 2012.

Figure 16.1. **Lending to firms in Italy, 2005-13**

Monthly data, 12 month percentage changes



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

Source: Bank of Italy.

StatLink http://dx.doi.org/10.1787/888933015980

SME loans used vs. authorised

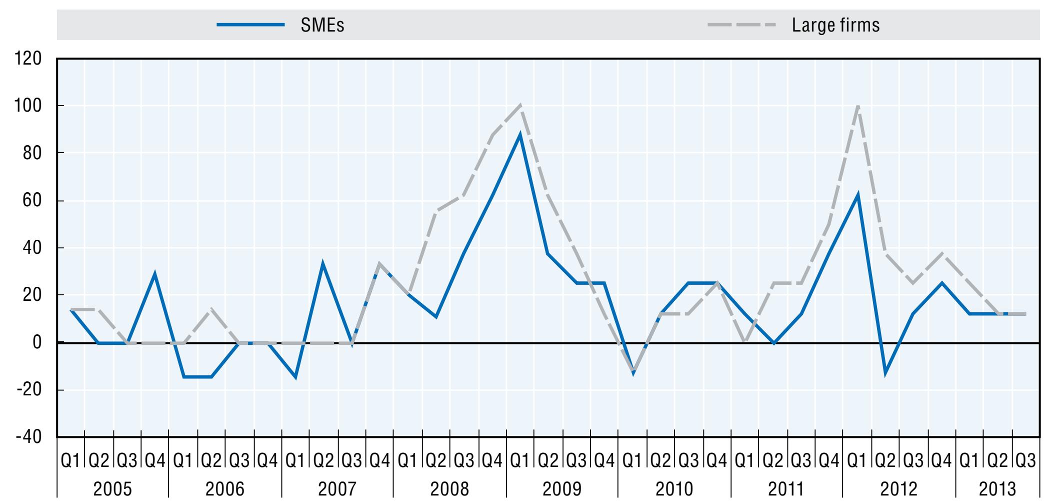
The ratio of loans used to loans authorised rose from 79.7% in 2007 to 85.7% in 2012, showing an increased need for liquidity. A more in-depth analysis – disaggregating data by type of loan – reveals in fact that credit use for overdrafts intensified significantly in 2012, reaching 69.1%, nearly seven percentage points higher than the previous year. This evidence suggests that firms met their liquidity needs through greater recourse to short-term credit lines.

Credit conditions

Following the turmoil in the financial markets in mid-2007 and the failure of Lehman Brothers in the autumn of 2008, the Italian banks participating to the euro area quarterly Bank Lending Survey (BLS) highlighted a tightening of the criteria applied to loan approvals and the opening of credit lines to enterprises. During the second half of 2011, the strains from the sovereign debt market were reflected in a progressive tightening of lending standards mainly due to banks' fund-raising difficulties and worsened liquidity positions. The tensions were less acute in 2012, after the long term refinancing operations of ECB, even though the effects of the recession on credit quality were reflected in tight credit standards during the whole year.

Figure 16.2. **Credit conditions for SMEs and large firms in Italy, 2005-13**

Net percentages



Note: SMEs have annual net turnover up to EUR 50 million.

Source: The euro area Bank Lending Survey.

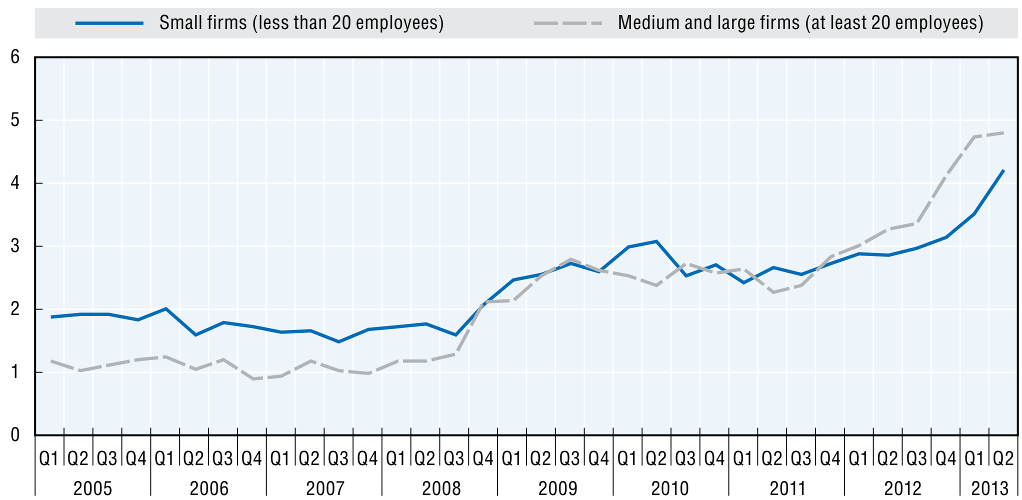
StatLink http://dx.doi.org/10.1787/888933015999

By autumn 2008 reductions in official interest rates were gradually being passed on to bank customers. SME interest rates declined from 6.3% in 2008 to 3.6% in 2009. During the sovereign debt crisis, the rise in interest rates was by far stronger for SMEs than for large firms. At the end of 2011, the average SME rate stood at 5.0% and the interest spread was 1.7% points higher than that applied to large firms. The trend was confirmed in 2012, when it reached 5.6% and the spread was 1.8%. The risk discriminating approach adopted by banks in the pricing of SME loans is shown by the widening spread between average SME and large firm rates, which reached its largest difference since the beginning of the crisis.

The decrease in collateral requirements between 2008 and 2009 followed a change in methodology which lowered the Central Credit Register's reporting threshold and the inclusion of small, less secured loans. Since the end of 2010 the requests for guarantees were on the rise. The worsening of SME credit conditions was also confirmed by the increase in collateral requirements reported in the ECB's Survey on the access to finance of SMEs in the euro area. In the second half of 2012 SMEs requested more guarantees than in the same period of the previous year. Credit quality worsened further. The ratio of new bad debts to outstanding loans, annualized and seasonally adjusted, rose significantly. For SMEs the indicator peaked at 4.2% in mid-2013, the highest level in recent years. It should be noted, however, that Italian banks report their NPLs and coverage ratios based on prudential regulations set by the Bank of Italy, classifying loans as impaired on the basis of the borrower's creditworthiness irrespective of the presence of collateral or guarantees. In addition, credit recovery procedures are particularly slow in Italy, extending the period during which the NPLs remain at the banks' balance sheet and further increasing the reported NPL ratios. As a result of these two features which differ from those prevailing at the European level, Italian NPL ratios reported are significantly higher, while coverage ratios reported are significantly lower than their European peers (Bank of Italy, 2013b).

Figure 16.3. **Ratio of new bad debts to outstanding loans in Italy, 2005-13**

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



Source: Bank of Italy.

StatLink http://dx.doi.org/10.1787/888933016018

Equity financing

Total venture and growth capital fell drastically between 2008 and 2009. It rose in 2010, but not for SMEs. Venture and expansion capital investment in SMEs increased by 65% in 2011 compared to 12.5% rise for total investment of this kind. The upward trend for SMEs was confirmed in 2012, albeit the bulk of the recorded increase went to large firms. In order to promote SME access to alternative sources of finance, in 2012 specific tax incentives were introduced for seed and early stage investments in innovative start-ups.

Provisions introduced by the government included the establishment of a private equity fund with an endowment of EUR 1.2 billion to boost capitalisation and consolidation among firms with a turnover of between EUR 10 million and EUR 250 million. Promoted by the Italian Ministry of Finance in cooperation with the main financial and industrial institutions, the fund became operational at the end of 2010. Through April 2013, it had approved direct investments for the acquisition of minority stakes – amounting to EUR 310 million and indirect investments in third party managed funds totalling EUR 350 million.

Other indicators

The slump in sales and the tightening of credit conditions contributed to SME cash flow problems, which in turn were partly reflected in the increase in payment delays. Moreover, after the outbreak of the crisis, suppliers began to demand faster payment. For SMEs, payment delays rose from 19 days in 2008 to 22 days in 2009. Payment delays recorded a downward trend in 2010-11. However, the new economic downturn in mid-2011 resulted in a significant increase of the indicator, which increased to 18 days in 2012.

Table 16.2. **Early stage and expansion capital in Italy, 2006-12**

EUR thousands

Number of employees	2006	2007	2008	2009	2010	2011	2012
0-9	36 445	110 472	111 349	98 746	141 424	95 247	155 927
10-19	8 310	39 433	120 667	29 592	23 626	34 585	28 668
20-99	82 048	79 615	243 437	136 044	113 223	181 820	326 372
100-199	49 173	113 513	56 684	65 459	72 644	211 564	62 477
200-249	6 466	17 554	23 602	28 089	1 500	58 674	65 218
SMEs sub-total	**182 442**	**360 587**	**555 739**	**357 930**	**352 417**	**581 890**	**638 662**
250-499	16 525	52 353	98 015	18 524	26 960	23 879	49 566
500-999	62 260	113 900	65 411	25 787	11 533	48 286	123 179
1 000-4 999	283 488	180 468	27 050	66 419	267 710	99 574	205 162
> 5 000	496 866	0	164 853	0	13 600	2 560	44 262
Total	**1 041 581**	**707 308**	**911 068**	**468 660**	**672 220**	**756 189**	**1 060 831**

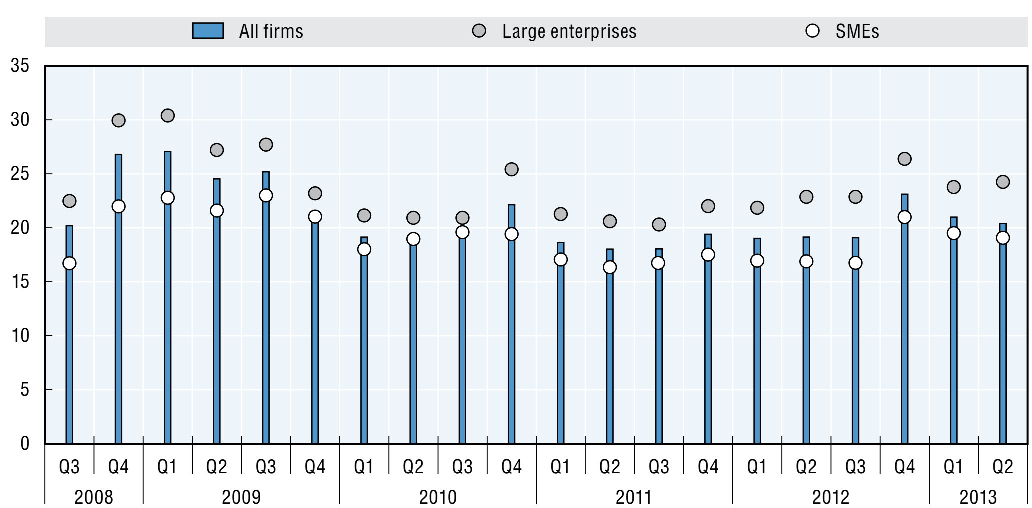
Source: AIFI-PwC.

StatLink http://dx.doi.org/10.1787/888933014118

Bankruptcies rose from 11.2 per 10 000 enterprises in 2007 to 17.1 in 2009. The weak economic recovery in 2010 did not allow a significant improvement in the financial condition of firms, as witnessed by the still rapid rise in the indicator (20.3 per 10 000 enterprises). The incidence of insolvency continued to increase, also due to a new recession, reaching 22.0 per 10 000 enterprises in 2012.

Figure 16.4. **Payment delays in Italy, 2008-13**

Average number of days



Source: Cerved Group, Payline database.

StatLink http://dx.doi.org/10.1787/888933016037

Government policy response

Against the backdrop of persistently weak economic conditions, several initiatives have been undertaken in recent years to ease SME access to credit and support their liquidity needs. The still sizeable uncertainty about the pace of economic recovery has prompted a step up in existing support measures, along with the introduction of new ones.

The Central Guarantee Fund (CGF) facilitates SME access to credit by providing public guarantees and counter-guarantees. The guarantee can be requested by banks or financial companies entered in a special register. The 'counter guarantee' and 'joint guarantee' can be requested by Confidi (mutual guarantee institutions) and other guarantee funds. Operational for more than a decade, during the crisis the CGF was the chief instrument easing SME credit constraints. Between 2009 and 2012 it provided more than EUR 16 billion in guarantees for EUR 31 billion worth of loans. The increase in its endowment and the provision of a government back stop guarantee, which reduces or exempts banks from capital charges for loans covered by the Fund, contributed to the expansion of its activity.

Further actions undertaken to overcome liquidity problems included the two debt moratoria, signed in 2009 and 2012, that allowed firms (with no bad debts, restructured loans or on-going foreclosures) to suspend for a year the repayment of the loan principal on some forms of debts contracted by SMEs, including provisions to reduce their debt service. The measure applied to enterprises which employed fewer than 250 persons, with an annual turnover not exceeding EUR 50 million and/or an annual balance sheet total not exceeding EUR 43 million. Through March 2013 more than 310 000 applications had been accepted, and EUR 19 billion worth of debts rolled over. Assessments of the first round of the SME moratorium showed that the measure had proven effective in helping firms, while limiting forbearance risks. In July 2013 a new round of debt moratoria has been signed with similar characteristics to the previous ones. Like the second round of moratorium, eligibility requirements are stricter than those requested by the first agreement signed in 2009, thus curtailing forbearance risks; however, the inclusion of loans that benefited from the first moratorium – and that had been excluded by the second – broadens the number of potential debt positions that could take advantage of the new measure.

Another measure enhancing access to credit was the use of the Deposits and Loans Fund (Cassa Depositi e Prestiti, CDP) to supply to the banking system with earmarked funds from postal savings at reduced interest rates to support SMEs. After the exhaustion of the first EUR 8 billion allocation, which benefited 53 000 firms, in 2012 CDP made available a further EUR 10 billion, of which just under EUR 2 billion had been absorbed by the banking system through April 2013.

Several initiatives were undertaken in 2012 to relieve cash flow problems stemming from public administration payment delays. However, the resources released to enterprises were rather modest. In April 2013 a new measure was approved for the payment of general government overdue debts, mainly commercial, amounting to EUR 40 billion in 2013-14.

To promote a more diversified corporate capital structure and to reduce the firms' vulnerability to adverse bank loan supply shocks, the government regulated the issuance of short- and medium- term debt instruments by unlisted firms other than banks and micro enterprises. So far, the measure has been used by few larger companies.

The above mentioned initiatives, mainly targeting SMEs, aimed at easing access to credit, supporting liquidity needs and fostering the access to market financing. The impact of some of them was not negligible. Between 2009 and 2012, the financial resources made available through debt moratoria and the interventions of the Central Guarantee Fund and the Deposits and Loans Fund amounted to almost EUR 60 billion. As for the improvement in public payment delays, its effect will depend on how the financial resources will be used by firms (for investment plans or precautionary hoarding). In case where enterprises decide to repay their bank debt, this could result in lower default rates and, consequently, in better access to the credit market.

Box 16.1. **Definition of SMEs used in Italy's SME and entrepreneurship finance Scoreboard**

Country definition

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

The SME definition used by financial institutions

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

Source: Bank of Italy.

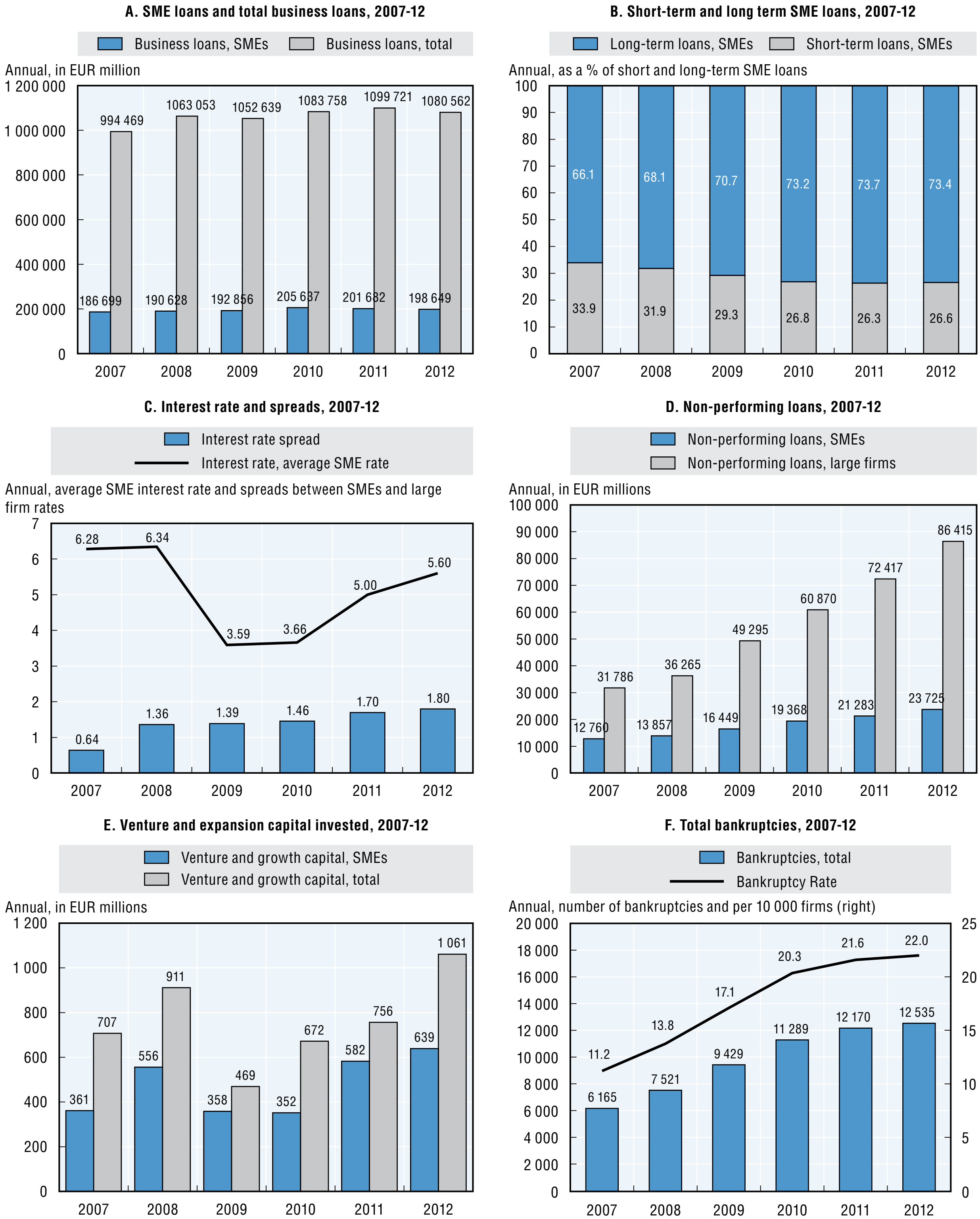
Table 16.3. **Scoreboard for Italy, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	EUR million	186 699	190 628	192 856	205 637	201 682	198 649
Business loans, total	EUR million	994 469	1 063 053	1 052 639	1 083 758	1 099 721	1 080 562
Business loans, SMEs	% of total business loans	18.8	17.9	18.3	19.0	18.3	18.4
Short-term loans, SMEs	EUR million	59 026	56 335	51 607	49 984	47 532	46 471
Long-term loans, SMEs	EUR million	114 912	120 437	124 801	136 284	132 867	128 453
Short-term loans, SMEs	% of total short and long-term SME loans	33.9	31.9	29.3	26.8	26.3	26.6
Government guaranteed loans, CGF	EUR billion, flows	2.3	2.3	4.9	9.1	8.4	8.2
Direct government loans, SMEs	EUR million, flows	354	373	255	276	272	252
Ratio of loans used to authorised, SMEs	%	79.7	80.7	80.7	82.8	83.6	85.7
Non-performing loans, total	EUR million	44 546	50 122	65 744	80 238	93 700	110 140
Non-performing loans, SMEs	EUR million	12 760	13 857	16 449	19 368	21 283	23 725
Non-performing loans, large firms	EUR million	31 786	36 265	49 295	60 870	72 417	86 415
Interest rate, average SME rate	%	6.28	6.34	3.59	3.66	5.00	5.60
Interest rate spread (between average SME and large firm rate)	%	0.64	1.36	1.39	1.46	1.70	1.80
Collateral, SMEs	% of collateralised loans	54.4	54.3	51.9	53.0	54.4	54.9
Equity							
Venture and expansion capital, total	EUR million	707	911	469	672	756	1 061
Venture and expansion capital, SMEs	EUR million	361	556	358	352	582	639
Venture and expansion capital, SMEs	Year-on-year growth rate, %	97.6	54.1	-35.6	-1.5	65.3	9.8
Other							
Payment delays, all firms	Average number of days	..	23.6	24.6	20.0	18.6	20.2
Payment delays, SMEs	Average number of days	..	19.4	22.1	19.0	16.9	17.9
Payment delays, large firms	Average number of days	..	26.2	27.1	22.1	21.0	23.5
Bankruptcies, total	Number	6 165	7 521	9 429	11 289	12 180	12 535
Incidence of insolvency, total	per 10 000 enterprises	11.2	13.8	17.1	20.3	21.6	22.0

Source: Refer to Table 16.4.

StatLink http://dx.doi.org/10.1787/888933014137

Figure 16.5. **Trends in SME and entrepreneurship finance in Italy, 2007-12**



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

StatLink http://dx.doi.org/10.1787/888933016056

Table 16.4. **Definitions and sources of indicators for Italy's scoreboard**

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

Table 16.4. **Definitions and sources of indicators for Italy's scoreboard** *(cont.)*

Indicators	Definition	Source
Venture and expansion capital, SMEs	Amounts invested in SMEs (defined as firms with less than 250 employees). Data include early stage and expansion phases, not turnaround or buyout/ replacement stages.	A I F I – Italian Private Equity and Venture Capital Association; (supply-side survey)
Other		
Payment delays, all firms	Average payment delay in days for business-to-business, all firms	Cerved Group, Payline database
Payment delays, SMEs	Average payment delay in days for business-to-business, SMEs (defined as firms with turnover of up to EUR 50 million)	Cerved Group, Payline database
Payment delays, large firms	Average payment delays in days for business-to-business, large firms (with turnover exceeding EUR 50 million)	Cerved Group, Payline database
Bankruptcies, total	The judicial procedure through which the property of an insolvent entrepreneur is removed and destined to the equal satisfaction of the creditors. The bankruptcy closing is declared by the court with a justified decree, on the request of the trustee, the creditor or also officially. The closing decree could be claimed within 15 days, in front of the Court of Appeal, from every admitted creditor. All enterprises.	Cerved Group

Note

1. See Box 16.1. for the SME definition used in the text.

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Korea

SMEs in the national economy

SMEs constituted 99.9% of industrial enterprises in 2010, with the vast majority being micro enterprises employing up to nine employees (96.4% of enterprises). Small and medium enterprises accounted for another 3.5% of all enterprises. The large enterprises with more than 250 employees are only 0.1% of all enterprises.

Table 17.1. **Distribution of firms in Korea, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**5 146 659**	**100.0**
SMEs (0-249)	**5 143 696**	**99.9**
Micro (0-9)	4 963 546	96.4
Small (10-99)	170 707	3.3
Medium (100-299)	9 443	0.2
Large (300+)	**2 963**	**0.1**

Note: Data includes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

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With the services industry in Korea growing at a rapid rate, and with the government focusing its efforts on nurturing and supporting SMEs, the contribution of SMEs is increasingly important in the country. In 2011, SMEs employed for the first time more than 50% of the country's economically active population, with SME employees totalling 1.26 million according to Statistics Korea. SMEs employees were at 39.2% of the labour force in 2000 and were 50.3% in 2011, following a consistent pattern of growth throughout the period.

SME lending

Korea's definition of an SME varies by sector (see Box 17.1.). SME and total business loans increased over the period 2007-12 by 25.1% and 45.4% respectively. SME loan shares were calculated on the basis of total business loans outstanding (i.e. stocks). The SME share of business loans declined from 86.8% (2007) to 77.7% (2011), further declining to 74.7% in 2012. Most of the business loans were short-term accounting for 63.9% of the total business loans in 2012, down from 75.0% in 2007).

The above trends were probably due to the more conservative attitude of the banks at the end of the period. At the beginning of the crisis SMEs had access to credit despite the rather alarming rates of increase in non-performing SME loans: 124% between 2007 and 2008 and 46% between 2009 and 2010. In 2011, non-performing loans declined to nearly their 2008 level, while in 2012 they registered another decline, albeit a smaller one compared to a year earlier (-4.5% in 2012, -20.9% in 2011). Data for non-performing loans include domestic and foreign currency loans.

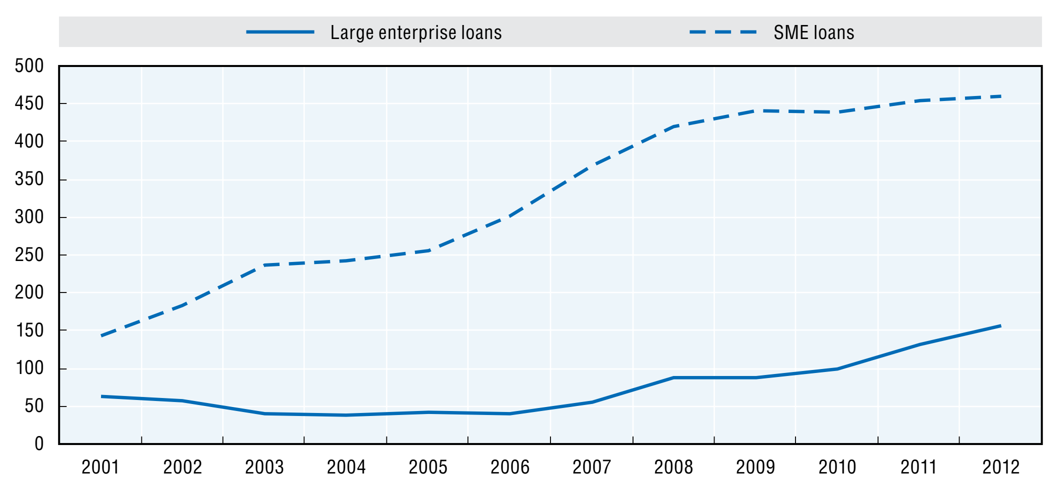
Credit conditions

The average interest rate charged on outstanding SME loans has dropped by 18.9% over the period 2007-12. It was 6.26% in 2012, a decrease of 8.1% compared to its 2011 level. SME loan rates are higher than rates charged in western economies, which engaged in quantitative easing. The higher rates probably reflected the greater risks faced by Korean banks and inflation. Interest rate spreads between SMEs and large firms declined over the period, dropping from 76 basis points in 2007 to 55 basis points in 2011, reaching a new low of 43 basis points in 2012. Banks eased lending conditions for SMEs not because of their willingness to absorb SMEs' credit risks, which were high, but because of the government's advice to banks to automatically roll over loans to SMEs. Roll-over rates reached 90%. The government justified this approach on the grounds that banks were not capable of making an accurate assessment of the viability of borrowers during the crisis. Additionally, government guarantee programmes, discussed below, contributed to the banks' lending behaviour to SMEs despite their own liquidity shortages and difficulty in meeting regulatory standards. By the end of 2011, domestic banks carried KRW 455 billion in SME loans or an increase of 23% over 2007, which increased again in 2012 by 1.4%.

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

Figure 17.1. **Large enterprise and SME loans in Korea, 2001-12**

KRW trillions



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

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Equity financing

Venture and growth capital declined between 2007 and 2008 as in other countries but rebounded in 2009, 2010 and in 2011 so that it exceeded its 2007 level. In 2012, venture capital investment decreased by 2.2%.

Table 17.2. **Venture and growth capital in Korea, 2007-12**

KRW billion

Stage	2007	2008	2009	2010	2011	2012
Early	365.0	290.8	247.6	319.2	372.2	369.6
Expansion	377.4	255.3	260.1	290.4	329.6	313.7
Later	249.3	178.6	359.4	481.4	559.0	550.0
Total	991.7	724.7	867.1	1 091.0	1 260.8	1 233.3

Source: Small and Medium Business Administration (SMBA).

StatLink http://dx.doi.org/10.1787/888933014175

Venture capital was concentrated in the early and expansion stages in 2007. By 2012 venture capital investment was concentrated in the later-stage firms (45%) whereas the early and expansion stages were 30% and 23%, respectively.

Other indicators

Data on payment delays were for loans overdue rather than for the average payment delays of customers, suppliers or government. Overdue loans declined in 2009 but rose again in 2011, only to drop again in 2012 (22.2% decrease compared to 2011). Although many SMEs in Korea were financially pinched after the outbreak of the global financial crisis, they avoided bankruptcy, thanks to the financial support from the government. Bankruptcies actually decreased steadily from 2009 to 2011 because firms missing payments were not declared insolvent. Bankruptcies in 2011 decreased by 13.4% and the declining trend continued in 2012, with a further 9.6% decrease. It could be said that while SMEs avoided bankruptcy because of the policies of the central and regional governments, they still were financially stressed.

Government policy response

There was a 42% increase in the amount of government guaranteed loans during the crisis (2007-09). Also, the guarantee coverage ratio was raised temporarily from 85% to 95%, or even 100% in the case of export credit guarantees. While the Small Business Corporation (SBC) increased its direct lending by only 6.2% between 2007 and 2008; there was a dramatic jump in 2009 (83%). During the recovery, direct loans declined indicating this type of government assistance was easing off. But at the same time, the SBC loan authorisation rate remained well above 50%. However, the SBC increased its policy-based fund of 2012 by 7.3%.

Outstanding government guaranteed loans were KRW 71.3 trillion in 2012 which included loans that were backed by both national and regional funds. Direct and indirect loans provided by the SBC totalled KRW 14.8 trillion. They supported about 85 000 SMEs and remedied market failures and enhanced the competitiveness of SMEs. The Korean Government is now actively looking for other cost effective ways to support SME lending. In addition, the Korean Government is planning to improve the policy-based financial system in order to support innovative SMEs in terms of better policies rather than by the quantitative expansion.

Box 17.1. **Definition of SMEs used in Korea's SME and entrepreneurship finance Scoreboard**

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

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

Definition of SMEs used by BOK and FSS

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

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

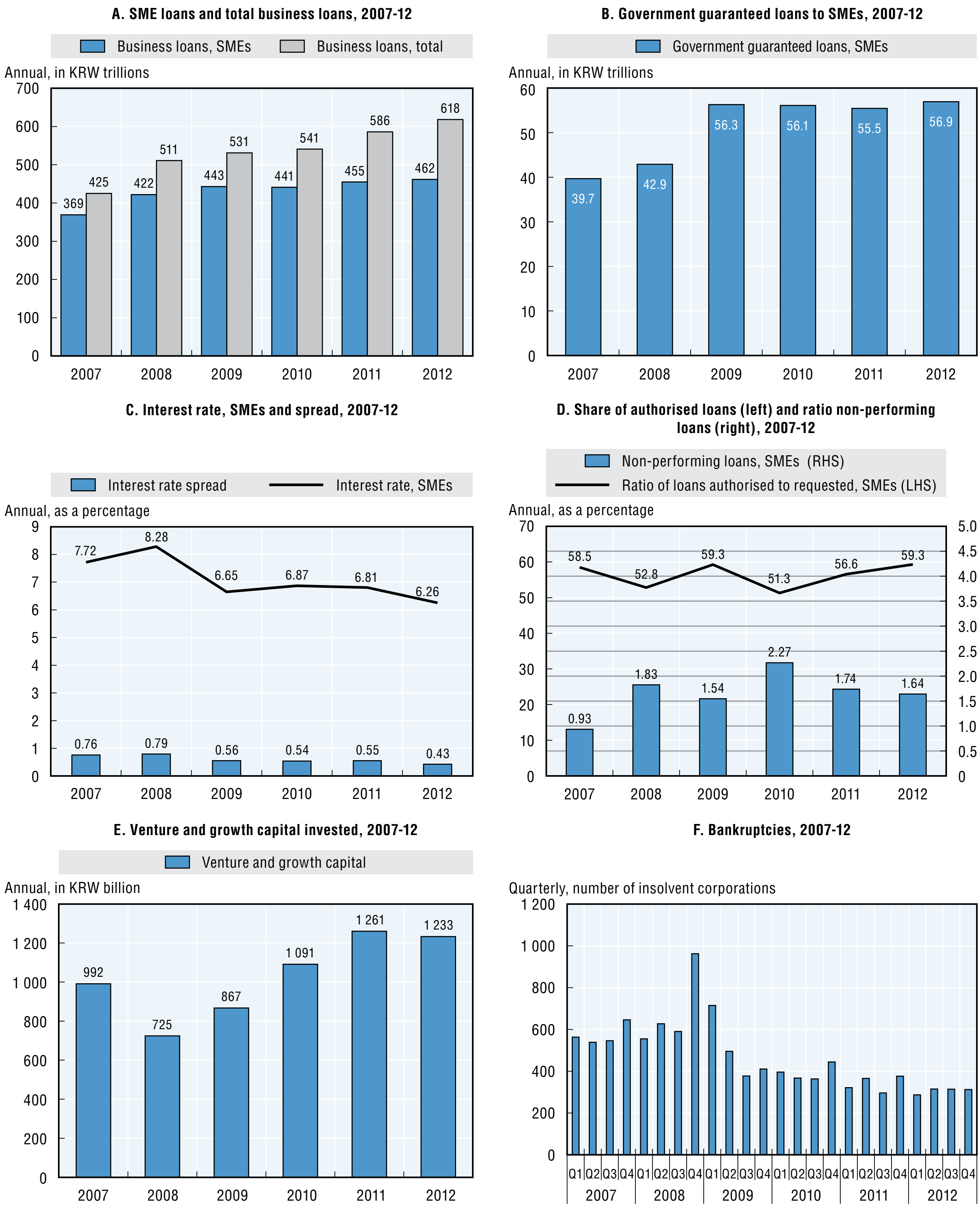
Table 17.3. **Scoreboard for Korea, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	KRW trillions	369	422	443	441	455	462
Business loans, total	KRW trillions	425	511	531	541	586	618
Business loans, SMEs	% of total business loans	86.8	82.6	83.5	81.5	77.7	74.7
Short-term business loans, total	KRW trillions	319	375	373	372	388	395
Long-term business loans, total	KRW trillions	106	136	158	169	197	223
Short-term loans	% of total business loans	75.0	73.4	70.3	68.7	66.3	63.9
Government guaranteed loans, SMEs	KRW trillions	39.70	42.90	56.30	56.10	55.46	56.94
Government guaranteed loans, SMEs	% of SME business loans	10.8	10.2	12.7	12.7	12.2	12.3
Direct government loans, SMEs	KRW trillions	2.5	2.6	4.8	3.1	3.0	3.1
Loans authorised, SMEs	KRW trillions	2.72	3.20	5.82	3.42	3.35	3.34
Loans requested, SMEs	KRW trillions	4.65	6.06	9.82	6.66	5.93	5.74
Ratio of loans authorised to requested, SMEs	%	58.5	52.8	59.3	51.3	56.6	59.3
Non-performing loans, SMEs	KRW trillions	3.45	7.71	6.85	10.0	7.9	7.5
Non-performing loans, SMEs	% of SME business loans	0.9	1.8	1.5	2.3	1.7	1.6
Average interest rate, all loans	%	6.95	7.49	6.09	6.33	6.25	5.83
Average interest rate, SMEs	%	7.72	8.28	6.65	6.87	6.81	6.26
Interest rate spread	%	0.76	0.79	0.56	0.54	0.55	0.43
Equity							
Venture and growth capital	KRW trillions	992	725	867	1 091	1 261	1 233
Venture and growth capital	Year-on-year growth rate, %	..	-26.9	19.7	25.8	15.6	-2.2
Other							
Payment delays, SMEs	Number of days past due date	11.0	12.1	9.9	12.1	11.7	9.1
Bankruptcies, total	Number	2 294	2 735	1 998	1 570	1 359	1 228
Bankruptcies, total	Year-on-year growth rate, %	..	19.2	-26.9	-21.4	-13.4	-9.6

Source: Refer to Table 17.4.

StatLink http://dx.doi.org/10.1787/888933014194

Figure 17.2. **Trends in SME and entrepreneurship finance in Korea**



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

StatLink http://dx.doi.org/10.1787/888933016094

Table 17.4. **Definitions and sources of indicators for Korea's scoreboard**

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

Reference

OECD (2013), *Entrepreneurship at a Glance*, OECD Publishing, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*

Mexico

SMEs in the national economy

There were approximately 4.7 million SMEs in Mexico as of 2008. The majority of Mexican firms were micro-enterprises (95.0%).

Table 18.1. **Distribution of firms in Mexico, 2008**

Firm size (employees)	Number of firms	%
SMEs (0-249)	**4 671 883**	99.9
Micro (0-10)	4 443 783	95.0
Small (11-50)	197 429	4.2
Medium (51-250)	30 671	0.7
Large (251+)	**5 814**	0.1
Total	**4 677 697**	**100.0**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013a.

StatLink http://dx.doi.org/10.1787/888933014213

Micro enterprises' contribution to employment (40%) and value added (53.5%) was lower than in most other OECD countries (OECD Studies in SMEs and Entrepreneurship: Mexico, Key Issues and Policies, OECD, 2013b, p.28.). The National Micro Business Survey in 2008 estimated that 87% of the micro enterprises were self-employed individuals and 12.9% had employees other than the owner.

Informality is high in the Mexican economy but is difficult to measure because of the lack of recording in official Mexican statistics. There are differing degrees of informality including:

- Firms that are not registered and pay no taxes.
- Firms that are registered and pay some but not all taxes.

Informal activity is a drag on the economy and job generation in the longer term because informal entities have difficulty accessing credit, training and legal protection which limits their growth. The OECD recommended that Mexico develop an active strategy to reduce informality by providing business advice, basic training, and access to finance to firms interested in making the transition to the formal economy (OECD, 2013).

According to the World Bank Enterprise Survey 2010 between 12-16% of firms surveyed identified the following factors as the main obstacles to their business development:

- practices of the informal sector
- tax rates

- access to finance and
- crime.

However, when the respondents were broken down by firm size, small enterprises and medium-sized enterprises had the most difficulty with the practices of the informal sector while large firms had the most difficulty with licenses and permits. Small enterprises also had more difficulty with access to finance than medium-sized or large enterprises.

SME lending

Total business loans experienced uninterrupted growth between 2007 and 2012, only slowing down in 2009 because of the global financial crisis. SME loans followed the same pattern except that loan growth turned negative in 2009. Thereafter, SMEs loans increased rapidly and in 2012 grew almost 30%. However, the share of SME loans in total loans is very low, averaging between 12-13%. The rapid growth of SME loans in 2012 raised the SME loan share to 16%. The number of non-performing loans has increased both for total business loans and for SME loans. However, since loans have been growing more rapidly, the share of non-performing loans has declined. The share of non-performing SME loans in total SME loans has declined over time to 3.6% in 2012 compared to 1.4% for the share of total business non-performing loans in total business loans. Despite the declining rate of SME non-performing loans, banks still had an incentive to loan to larger enterprises.

12% of firms in the World Bank survey identified access to finance as the main obstacle they faced. Interest rates have been reduced considerably during the last decade but difficulties remain in the limited amounts of credit accessed by SMEs. Low levels of bank credit are also related to the prevalent financial culture of SMEs which have not traditionally looked to banks for credit. A more important source of finance is trade credit. The Bank of Mexico data show that in 2009, for every ten pesos of financing to small enterprises, 6.3 pesos came from their suppliers whereas only 1.7 pesos came from commercial banks and 1.6 pesos from development banks (OECD, 2013b).

One obstacle appears to be high operating costs in large banks which makes micro credits and small loans very expensive to offer. These high costs appear to be related to limited competition in the banking sector. Another factor affecting debt financing is that credit bureaus face difficulties in tracking the credit history of firms given the large size of the informal sector.

Credit conditions

Interest rates for SMEs ranged well above those for large enterprises. The spread in 2010 was 818 basis points which declined to 324 basis points in 2012 but was still well above most other OECD countries.

Another obstacle is the high levels of collateral demanded by commercial banks to secure loans. According to the OECD policy review (OECD, 2013), the collateral required is usually twice the value of the loan. The amount of collateral depends on the type of asset that firms offer such as liquid warranty, mortgage guarantee, fixed assets, firms' shares, fiduciary guarantee, accounts receivable etc. According to the Scoreboard data only 32% of SMEs were required to provide collateral in 2012.

Equity financing

In 2004 the first seed venture capital fund Conacyt-Nafin was created. It was launched with contributions from Nacional Financiera SNC and CONACYT with an initial value of

MXN 230 million. It targets high technology projects that include aircraft, hybrid vehicles, healthy snacks, sports cars, biomedical applications and others. It has invested in 43 companies that add value to the economy. It closed its financing round in 2010. In 2006 a fund of funds was created with the collaboration of all the development banks of Mexico. It had private equity amounting to USD 250 million. In 2010 Nacional Financiera SNC and the Ministry of Economy created Mexico Ventures which is a fund of funds for foreign and national funds that will invest in Mexican companies. It had a size of MXN 1170 million. In 2012 the Nacional Financiera SNC and the Ministry of Economy created the Seed Capital Fund valued at MXN 300 million. In 2013 MXN 150 million was added to the Seed Capital Fund. In 2013 the Entrepreneurs Institute was established and its management team launched new programs to develop the equity financing such as Conacyt-Nafin Fund, Mexico Ventures and the Seed Capital Fund. The Institute's 2013 budget to create new funds was MXN 590 million. It will have a leverage ratio of about 2. It expects to create 15 new funds that will invest equity in high impact firms.

Table 18.2. **Equity financing in Mexico, 2004-13**

Year	SME fund size MXN million	No. of projects/funds	Ave. equity investment MXN
2004-10	230	43	USD 5 500 000
2006*	2500	ND	ND
2011	1170	15	USD 50 000 000
2012	300	1	20 000 000
2013	740	15**	50 000 000

Notes: * Fund of Funds, information not validated (CMIC); ** Estimated 2013.

StatLink http://dx.doi.org/10.1787/888933014232

As a result of these efforts, equity financing in Mexico according to the Mexican scoreboard almost doubled between 2007 and 2012. However, it showed large variations in annual growth which is the pattern for most other countries.

Table 18.3. **Equity financing in Mexico, 2007-12**

MXN million

Year	2007	2008	2009	2010	2011	2012
Amount	2370	2610	2730	3900	3900	4200
Growth		1.6	4.6	42.9	0	7.7

Source: Mexican Entrepreneurs Institute.

StatLink http://dx.doi.org/10.1787/888933014251

Government policy responses

The initial emphasis was on the provision of grants but the policy effort has shifted to loans. While for a time there was emphasis on direct loans, the recent trend has been to replace loans with loan guarantees and to promote the capitalisation of enterprises through private equity capital markets. An innovative factoring programme has also been started whereby suppliers in the value chains of large firms can obtain prepayment of their invoices.

Seed Capital Programme

It provides loans for the creation of new businesses operating within or graduating from the national business incubation system. It fills the finance gap caused by lack of a credit history and collateral. It is managed by non-banking financial institutions. Loan amounts range from MXN 50 000 to 1.5 million over periods of 42 to 48 months. The average size of a loan is about MXN 290 000. In 2010 12% of the enterprises in the incubator system submitted proposals for funding; the approval rate was about 45%. In 2011 this programme was replaced by the Financing Programme for Entrepreneurs through Commercial Banks.

Table 18.4. **Seed capital programme in Mexico, 2007-10**

Year	SME fund expense MXN million	No. of projects	Ave. loan value MXN	Participating Incubators
2007	120.00	530	230 000	91
2008	46.63	201	230 000	66
2009	90.99	355	260 000	191
2010	149.33	532	340 000	202

Source: Mexican Ministry of Economy and Entrepreneurs Institute.

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Financing Programme for Entrepreneurs through Commercial Banks

In 2011, the Ministry of Economy launched the Financing Programme for Entrepreneurs through Commercial Banks, as a pilot programme, which is a credit guarantee fund operated by the Nacional Financiera. Its objective is to give incentives to commercial banks to extend credit to entrepreneurs with feasible projects. It covers 100% of the credit risk during the first two years of the credit term and declines to 75% for the third and fourth years. This programme is intended to support 187 entrepreneurs' projects.

The credit available varies depending on the level of the project's technology (MXN 50 000–500 000 for traditional enterprises, MXN 100 000 – 500 000 for intermediate technology enterprises, and MXN 350 000 - 1.5 million pesos for high technology enterprises). The credit term extends from 36 to 48 months, at a fixed annual interest rate of 12%, and a grace period between three and nine months.

Table 18.5. **Financing programme for entrepreneurs in Mexico, 2010-13**

Year	Emprende Trust Fund guarantees MXN million	No. of projects	Ave. loan value MXN	Number of participating incubators
2011	50	87	400 000	36
2012	100	329	430 000	160
2013*	200	698	430 000	233

Note: * Estimated goals for 2013.

Source: Mexican Ministry of Economy, Mexican Entrepreneur Institute (INADEM).

StatLink http://dx.doi.org/10.1787/888933014289

SME productive projects

This programme promotes the creation of SMEs in needy regions, particularly rural areas by providing loans to entrepreneurial projects. The loan can be used for financing equipment, infrastructure and up to 50% of working capital to a maximum of MXN 2 million. The interest rate is 12% for a term of 48 months with a reduction to 6% if payments are made on time. To be eligible the enterprise must be registered and at least one year old and the firm must contribute 30% of the value of the investment project. Between 2007 and 2011 the SME Fund invested an average of MXN 540 million per year, funding a total of 4 593 projects.

Financing franchise activity

The National Programme of Franchises allows relatively large SMEs to participate in a franchise. Entrepreneurs wishing to start a new business as a franchise can access an interest free loan from a partnering financial institution to cover up to 50% of the costs of the franchise fee to a maximum of MXN 250 000 which must be repaid over a 36 month period. During 2007-11 the programme supported 1 627 franchising outlets.

National credit guarantee system

This is the main policy tool to increase credit financing to SMEs. It has several novel aspects:

- Public auctions where financial institutions bid for the right to obtain guarantees; selection of winners is made on the basis of proposed volume of loans the guarantee will leverage (i.e. amount of risk the bank is willing to accept) and the interest rate they will charge.
- Loan guarantee programme targeted to micro-enterprises and SMEs in general rather than to a specific disadvantaged group (women, youth etc.).
- Programme is relatively large scale.
- There is no explicit exit plan.

The government also provides guarantees in a non-competitive manner to banks and non-bank financial institutions. The national credit guarantee system issues lines of credit to non-bank financial institutions to support the Equipment Financing Programme; the Modernisation and Integration Programme for micro-enterprises; loan guarantees for software developers and suppliers to larger firms and for financing SME export activities. In a typical year half the bank financing flows through the auction system and half through straight counter guarantees. One third of the value of the SME Fund is allocated to financing the national credit guarantee system. Investment in the national credit guarantee system has increased from MXN 825 million in 2007 to MXN 3 billion in 2012.

Table 18.6. **National credit guarantee system in Mexico, 2007-12**

MXN millions

Year	Invested	Credit leveraged
2007	825	21 854
2008	1 136	63 751
2009	1 935	77 656
2010	2 300	67 390
2011	3 002	74 285
2012	3 000	96 940

Source: Ministry of Economy.

StatLink http://dx.doi.org/10.1787/888933014308

While the loan guarantee programme is larger in scale than in many other OECD member countries, this largely reflects the relatively underdeveloped private finance market for SMEs and micro-enterprises. The immediate challenge is to insure that bank finance reaches a higher proportion of more than 4 million SMEs given that the guarantees cover only 70 000 to 80 000 SMEs per year.

Alongside the national credit guarantee programme, the government has amended the Commercial Code to provide for a Unified Registry of Movable Property Collateral. This expanded the types of collateral allowable from real estate and other immovable assets to movable assets such as machinery and equipment. The World Bank estimated that with the new registry, lenders multiplied the number of business loans by four for an estimated value of more than USD 50 billion in additional financing to firms and that borrowers saved USD 1.1 billion in registration fees associated with the registration of collateral.

Support for equity financing

Key recent policy measures in this domain are the creation of Angel Investors Clubs, venture capital funds and a mechanism to bring high-potential SMEs into the bond market. In 2011 there were 13 government-supported Angel Investors Clubs offering equity investments in the range of MXN 2 million to 20 million. The initiative uses consultants to evaluate entrepreneurial projects and present them to potential investors as well as facilitating the pooling of their investments. A specific investment guarantee was created for the Clubs which covers up to 70% of investments in early-stage SMEs engaged in innovative, high value-added or export-oriented activities to a maximum of USD 500 000 over a three to five year period.

In 2011 NAFIN, the public development bank, created a fund of funds with support from the SME Fund. This organisation, Mexico Ventures I, operated by the Corporacion Mexicana de Inversiones de Capital and Sun Mountain Capital, makes investments in other venture capital funds rather than investing in firms directly. Its objective is to increase the availability of private sector venture capital to early stage innovative SMEs with high growth potential. The government invested MXN 850 million in 2011-12 which is expected to leverage MXN 6.5 billion of private venture capital investment in growth-oriented SMEs.

In 2011 the Ministry of Economy allocated MXN 50 million to launch the Debt Programme in alliance with the Mexican Stock Exchange and AMEXCAP. Its aim is to enable firms to issue bonds that can be quoted on the Mexican Stock Exchange. The programme offers medium-sized SMEs funding to carry out the necessary corporate governance process, introduce an appropriate software infrastructure and obtain legal and advice services for listing. Some 124 firms registered and ten were selected.

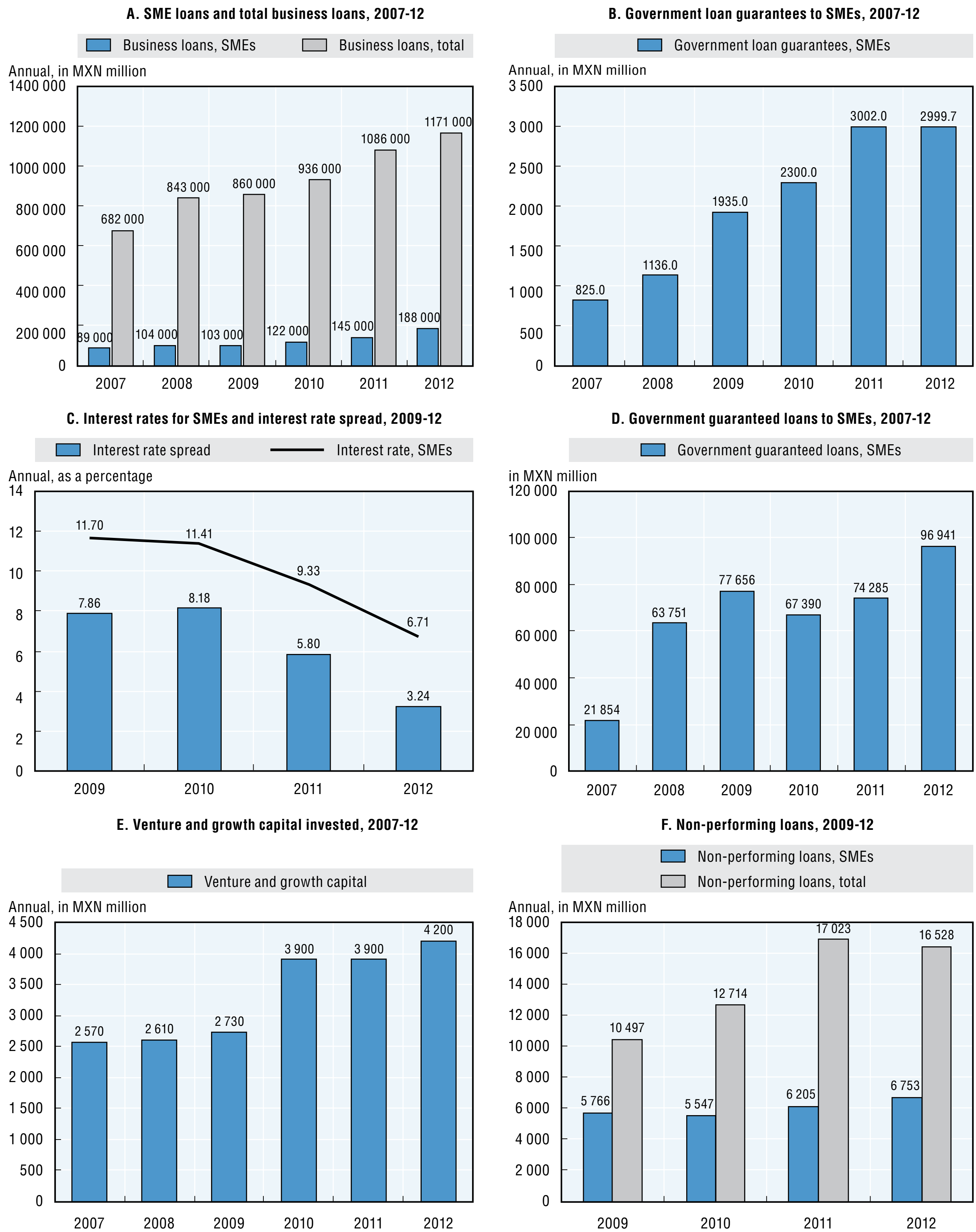
Table 18.7. **Scoreboard for Mexico, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	MXN million	89 000	104 000	103 000	122 000	145 000	188 000
Business loans, total	MXN million	682 000	843 000	860 000	936 000	1 086 000	1 171 000
Business loans, SMEs	% of total business loans	13.0	12.3	12.0	13.0	13.4	16.1
Government loan guarantees, SMEs	MXN million	825	1 136	1 935	2 300	3 002	3 000
Government guaranteed loans, SMEs	MXN million	21 854	63 752	77 656	67 391	74 285	96 941
Non-performing loans, total	MXN million	..	..	10 497	12 714	17 023	16 528
Non-performing loans, SMEs	MXN million	..	..	5 766	5 547	6 205	6 753
Non-performing loans, SMEs	% of SME loans	..	..	5.6	4.5	4.3	3.6
Interest rate, SMEs	%	..	..	11.7	11.4	9.3	6.7
Interest rate, large firms	%	..	..	3.8	3.2	3.5	3.5
Interest rate spread	%	..	..	7.9	8.2	5.8	3.2
Equity							
Venture and growth capital	MXN million	2 570	2 610	2 730	3 900	3 900	4 200
Venture and growth capital	Year-on-year growth rate, %	..	1.6	4.6	42.9	0.0	7.7

Source: Refer to Table 18.8.

StatLink http://dx.doi.org/10.1787/888933014327

Figure 18.1. **Trends in SME and entrepreneurship finance in Mexico**



Source: Refer to Table 18.8.

StatLink http://dx.doi.org/10.1787/888933016113

Table 18.8. **Definitions and sources of indicators for Mexico's scoreboard**

Indicator	Definition	Source
Debt		
SME loans	Bank and financial institution loans to SMEs, amount outstanding (stocks) at the end of period; The company size is obtained based on the number of employees and the amount of annual income of the borrower, according to what was published in the Official Gazette of the Federation on June 30, 2009.	Supply side data from financial institutions
Total business loans	Bank and financial institution business loans to all non-financial enterprises, amount outstanding (stocks)	Supply side data
SME short-term loans	Loans equal to or less than one year; outstanding amounts (stocks)	Supply side data
SME long-term loans	Loans for more than one year; outstanding amounts (stocks)	Supply side data
SME government guaranteed loans	Guaranteed loans by government (stocks)	Supply side data
SME government direct loans	Direct loans from government, (stocks)	Supply side data
SME loans authorized	Stocks	Demand side survey
SME loans requested	Stocks	Demand side survey
SME non-performing loans	SME non-performing loans out of total SME loans as a percentage	Supply side data
SME Interest rate	Average annual interest, including rate and fee.	Supply side data
Interest rate spreads	Between small & large enterprises	Supply side data
Collateral	Percentage of SMEs that were not required to provide collateral on latest bank loan	Demand side survey
Equity		
Venture capital	Actual amounts invested in SMEs in the country in early stage development (excludes buyouts)	VC association (supply side)
Other		
Payment delays	Average number of days delay beyond the contract period for Business to Business (B2B)	Demand side survey
Bankruptcy	Number of SMEs ruled bankrupt;	Supply side data

References

OECD (2013a), *Entrepreneurship at a Glance*, OECD Publishing, Paris. doi: *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*

OECD (2013b), *Mexico: Key Issues and Policies: OECD Studies on SME and Entrepreneurship*, OECD Publishing, Paris. doi: *http://dx.doi.org/10.1787/9789264187030-en*

The Netherlands

SMEs in the national economy

SMEs with up to 250 employees comprised 99.8% of enterprises and employed around 95% of the labour force in 2010. A total of 917 250 non-employer firms were active in the country as of 2012.

Table 19.1. **Distribution of firms in the Netherlands, 2010**

By firm size

Firm size (full time employees)	Number	%
All firms	**777 869**	**100.0**
SMEs (0-249)	**776 315**	**99.8**
Micro (0-10)	727 802	93.6
Small (10-49)	40 109	5.2
Medium (50-249)	8 404	1.1
Large (250+)	**1 554**	**0.2**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933014346

SME lending

The Dutch Central Bank uses loan size to define an SME loan. Furthermore, each bank uses its own reporting system, constituting a challenge to the aggregation of loan data. The economy was recovering in 2011, but, in the final part of the year, the euro crisis resulted in a slowdown. Up until 2011, new SME loans were considered reasonably maintained and even showed an increase, although they did not recover to their 2007 level. Some SMEs such as start-ups, high growth and innovative SMEs had particular difficulties in accessing finance. Figures show that from 2010 to 2012, new loans to SMEs up to EUR 250,000 declined by 12%, while SME loans up to EUR 1 million declined by 3.6%. This was the first time a reduction was observed since 2009. Total business loans outstanding increased over the entire period 2007-12 by 34.5%, registering a 2.6% increase in 2012 compared to 2011.[1] The share of SME short-term loans in total SME loans rose from 48% in 2010 to 52% in 2011. The trend was reversed in 2012, when the share decreased to 49.2%, as banks provided fewer short-term loans.

SME loans authorised vs. requested

The percentage of enterprises seeking loans decreased over the last couple of years (22% in 2010, 19% in 2011 and 18% in 2012). SMEs with less than 50 employees seeking finance in 2012 only 42% obtained all they requested compared to 54% in 2011. The percentage of SMEs that did get all the requested funding in 2012 was 54% compared to 78% for larger enterprises and 59% for medium-sized enterprises (medium-sized enterprises got 71% in 2011). Thus, more SMEs had more difficulty in attracting the required funding than larger enterprises and the rejections increased from 19% (2010) to 33% (2011). This situation was largely due to a number of factors such as early compliance with Basel III, decreased solvency and the general economic situation.

Credit conditions

Credit conditions for SMEs eased significantly in 2012, when the interest rate for small firms (2-49 employees) dropped by 200 basis points to 4.4% compared to 2011. In addition, large firms' interest rate increased by 70 basis points to 4.2% in 2012. The decrease in SME interest rate, coupled with the increase in interest rate charged to large enterprises, resulted in an important decrease of the spread by 270 basis points, from 2.90% in 2011 to 0.20% in 2012. The average fixed rate for all enterprises dropped from 6.2% in 2011 to 4.2% in 2012 and the average flexible rate dropped from 4.6% to 3.3%.

Collateral requirements for SMEs, however, increased in 2012, with 47% of SMEs required to provide it (compared to 44% in 2011 and 45% in 2010). Quite remarkable was the shift of movable and immovable property and receivables or inventories to other forms of collateral (mainly guarantees of owners and shareholders).

Equity financing

There was a turnaround in equity investments in 2011, in that firms, both small and large, were seeking more alternative sources of finance. Venture capital investment increased by 56% between 2010 and 2011 but did not quite reach its 2008 high. In 2012, the trend was reversed with a 39.0% decline in venture and growth capital investment on a year-to-year basis. This was largely because there were no major acquisitions. The number of enterprises invested in dropped less and was at a level similar to previous years: it was in 326 companies participated in 2011 against 359 in 2012.

Other indicators

Non-performing business loans for the entire business loan portfolio increased in absolute terms by 19.1% in 2012. Non-performing SME loans registered a 10.7% increase in absolute terms on a year-to-year basis. However, SME non-performing loans as a percentage of total non-performing loans dropped to 89.3% in 2012 compared to 96.0% in 2011. Still, SMEs account for the vast majority of non-performing loans.

Over 2007-12, payment delays increased from 13.2 days to 17 days. However, 2012 marked a year-to-year improvement, for the first time over the entire period, as payment delays decreased with respect to their 2011 high (18 days).

Bankruptcies in 2011 declined slightly from their 2010 level and were considerably lower than their 2009 high, but appear to rebound in 2012 with a 19.4% increase compared to 2011.

Government policy response

The Dutch government created or strengthened programmes during the financial crisis. Some of these programmes were implemented after the report of the Business Financing Expert Group commissioned by the Ministry of Economic Affairs. Government loan guarantees increased from EUR 634 million in 2007 to over EUR 1 161 million in 2011. After this increase the guarantees dropped significantly to EUR 590 million in 2012. This decline reflects both supply and demand factors. A lower credit demand during a recession is not exceptional, due to lower demand for financing expansion by enterprises. In addition, banks in the Netherlands tightened their credit standards for business loans in recent years.

New SME finance institutions like SME funds, credit unions and crowdfunding, are being developed and some of them were introduced in 2012. For example an SME loan guarantee was offered to non-banks in September 2012. These initiatives are mainly focussed in filling the gaps in the financial market.

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

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

The Guarantee for Entrepreneurial Finance (GO) was launched in March 2009. It provides banks with a 50% guarantee on new bank loans ranging from EUR 1.5 million to EUR 50 million (the maximum was temporarily set at EUR 150 million but has been reduced to EUR 50 million in 2012). GO substantially lowers the bank risk when issuing credit to entrepreneurs applying for new bank loans.

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

In 2013, the government introduced, in cooperation with the EIF, a fund of funds for later stage venture capital investment. Furthermore the maximum amount for microcredits will be increased and a co-financing scheme will introduced to support access to finance for smaller companies and start-ups.

Table 19.2. **Scoreboard for the Netherlands, 2007-12**

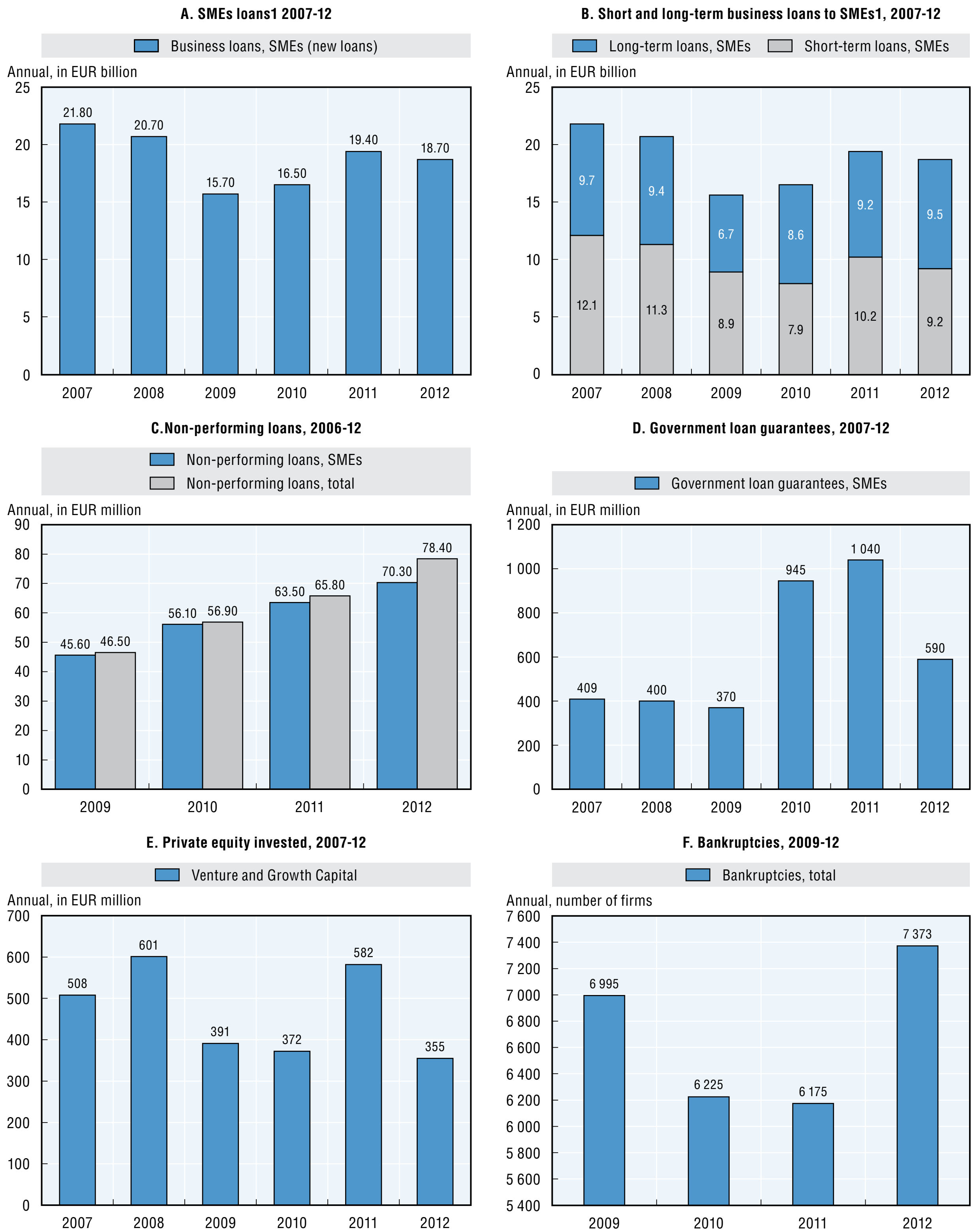
Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs (new loans)	EUR billion	21.8	20.7	15.7	16.5	19.4	18.7
Business loans, total (outstanding amounts)	EUR billion	258.5	304.8	313.5	325.7	341.1	350.0
Short-term loans, SMEs	EUR billion	12.1	11.3	8.9	7.9	10.2	9.2
Long-term loans, SMEs	EUR billion	9.7	9.4	6.7	8.6	9.2	9.5
Short-term loans, SMEs	% of total SME business loans	55.5	54.6	57.1	47.9	52.6	49.2
Government guaranteed loans, total	EUR million	634	647	1 060	1 318	1 161	687
Government guaranteed loans, SMEs	EUR million	409	400	370	945	1 040	589.6
Loans authorised, SMEs	% of SMEs which requested a bank loan and received it in full	..	72	49	60	66	42-59*
Loans requested, SMEs	% of SMEs requesting a bank loan	..	19	29	22	19	18
Non-performing loans, total	% of total business loans	..	..	14.8	17.5	19.3	22.4
Non-performing loans, SMEs	% of total NPLs	..	..	98.1	98.6	96.5	89.7
Interest rate, SMEs	%	5.40	5.70	4.50	6.00	6.40	4.40
Interest rate, large firms		..	..	..	..	3.50	4.20
Collateral, SMEs	% of SMEs required to provide collateral for last bank loan	..	..	47.0	45.0	44	47
Equity							
Venture capital	EUR million	508	601	391	372	582	355
Venture capital	Year-on-year growth rate, %	..	18.3	-34.9	-4.9	56.5	-39.0
Other							
Payment delays	Average number of days	13.2	13.9	16.0	17.0	18.0	17.0
Bankruptcies, SMEs	Number	..	..	6 995	6 225	6 175	7373
Bankruptcies, SMEs	Year-on-year growth rate, %	..	..	..	-11.0	-0.8	19.4
Bankruptcies, total	Per 10 000 firms	58	56	87	83.5	..	..

Note: * for enterprises with less than 50 employees, 59 for enterprises with 50-250 employees.

Source: Refer to Table 19.3.

StatLink http://dx.doi.org/10.1787/888933014365

Figure 19.1. **Trends in SME and entrepreneurship finance in the Netherlands**



Note: 1. For loans up to EUR 1 million.

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

StatLink http://dx.doi.org/10.1787/888933016132

Table 19.3. **Definitions and sources of indicators for the Netherlands' scoreboard**

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

Note

1. The SME share in total business loans cannot be calculated because the figures for SME loans are flows and those for business loans are stocks.

Reference

OECD (2013), *Entrepreneurship at a Glance*, OECD Publishing, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*

New Zealand

SME in the national economy

Small businesses in New Zealand dominate the scene with 99.5% of enterprises being classified as SMEs in 2012, including 322 887 non-employer firms. SMEs had 833 710 employees as of 2012, which corresponds to 43.3% of the country's workforce.

Table 20.1. **Distribution of firms in New Zealand, 2012**

By firm size

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

Note: Non-employer enterprises are included.

Source: Statistics New Zealand, *Business Demography Statistics*, 2012.

StatLink http://dx.doi.org/10.1787/888933014384

SME lending

Prior to the credit crunch, New Zealand's SMEs had access to a range of both debt and equity finance options, including bank overdrafts, finance companies, angel investors and venture capital. Bank lending to businesses declined to a low of NZD 75.7 billion in 2010 and returned to positive growth in 2011 and 2012 with 1.6% and 2.2% growth rates, respectively. Total business loans increased by 3.8% over the period 2007-12, reaching NZD 78.6 billion, lower than the peak level of 2008. Bank lending has increased by 2.2% in the year to February 2012, but lending growth is far below the 10.9% increase in 2008, prior to the onset of the financial crisis. SME lending declined in 2011 by almost 1% only to return to positive growth in 2012 with a 5.3% increase and SME loans ending at NZD 33.8 billion. In 2012, the share of SME loans in the total business loans reached a four-year high at 43.0%. The Reserve Bank of New Zealand's Financial Stability Report (May 2013) explained that the recovery in business lending over the past two years partly reflects improved access to finance, despite the fact that credit criteria still appear to be tighter than prior to the global financial crisis. The report suggests that there is potential for business credit growth to pick up further in 2013 if increased confidence leads to a rise in capital spending, which has remained subdued over the past few years.

SME loans authorised vs. requested

Among SMEs with six or more employees, 28% requested debt finance in the years 2007-09. Of those requesting finance in 2007, 94% obtained it. In subsequent years there was a continuous decline in the proportion of those SMEs requesting and obtaining debt finance, indicating the increasing reluctance of banks to lend. The percentage of those requesting financing and obtaining it declined steadily to a low of 78% in 2010, but began to rise again, reaching 86% in 2012. The decline in recent years reflected a change in lenders' appetite for risk and the terms they offered.

Table 20.2. **SME requesting and obtaining finance in New Zealand, 2007-12**

As a percentage of SMEs with more than six employees

SMEs	2007	2008	2009	2010	2011	2012
Requesting debt finance	28	28	28	26	22	26
Of which obtaining debt finance	94	87	82	78	87	86

Source: Statistics New Zealand, Business Operations Survey.

StatLink http://dx.doi.org/10.1787/888933014403

Credit conditions

Banks have become increasingly risk averse since the beginning of the economic downturn. In November 2008 banks were perceived to be rationing credit and putting pressure on SMEs by increasing interest rates to reflect higher risk levels. In 2011 the Small Business Advisory Group (SBAG)[1] reported that SMEs were finding that investment capital was more difficult to secure, that credit was not being renewed and that cash flow was SMEs' biggest concern. These concerns continue to hold true in 2012, though the SBAG stated that pressure is easing somewhat in some sectors. Consistent with this, the Financial Stability Report notes that while there has been some easing since 2010, it appears that certain borrowers face substantially greater constraints in obtaining capital than they would have five years ago, and that the tightening of credit since the crisis has been particularly notable for smaller firms. In response to the financial crisis, banks have tightened their lending standards while firms scaled back investment plans.

By December 2010, the banks' average interest rate for SMEs had declined from 12.15% in December 2008 to 9.98%, dropping further to 9.60% in 2012, a 5.2% decrease. The recent improvement in the balance sheet position of the entire banking system (profitability and funding buffers) during the second half of 2012, has encouraged banks to compete more vigorously, resulting in easing lending standards across most sectors, as demonstrated by the Reserve Bank's March Credit Conditions survey. The SME sector, however, was the exception with lending standards remaining unchanged. The same trend was reported in the first quarter of 2013. The spread between the interest rate for SMEs and for large enterprises peaked in 2009 at 425 basis points following a 43.1% increase but dropped to 360 basis points in 2012, a 10.4% decrease since 2011.

The share of non-performing SME loans has increased from 2% in 2009 to 2.9% in 2012. With some stabilisation in the economy, there are signs that more firms were willing to invest and can meet bank lending criteria, which banks say are easing. In 2012, all non-performing loans fell to 1.6% of total lending from their 2010 peak. Despite an improvement in asset quality for the SME sector, non-performing loans remain elevated, reaching 2.32% in March 2013, but down from 2.87% in September 2011.[2]

Equity financing

The global financial crisis has had an adverse effect on New Zealand's venture capital market, although there are signs that access to capital for early stage, high growth firms has started to improve. The NZ Venture Capital Monitor reports that venture capital and early stage investment activity grew from NZD 34 million in 2009 to NZD 94 million in 2010, while the peak in 2010 was in part attributed to two international deals totalling NZD 45 million. Venture capital funding dropped dramatically in 2011 to NZD 36.6 million (a 61.2% drop), followed by another important decrease of 26% in 2012, with venture capital investment totalling NZD 26.8 million invested in 50 deals. Health, bioscience and IT/software enterprises were the beneficiaries of the majority of venture capital funding in 2012. Historical trends have highlighted a funding gap for early stage growth enterprises seeking funds for their financing beyond the level of seed and start-up funding from domestic venture capital funds. Expansionary funding declined in 2012, which highlighted once again this challenge.

In February 2012 the government approved a further NZD 60 million capital underwrite for its Venture Capital Fund, in addition to a previous NZD 40 million capital underwrite, to allow the Fund to commit to new venture capital funds investing in technology enterprises. The Fund was established in 2001 to co-invest NZD 160 million with private sector venture capital funds in innovative young New Zealand firms and catalyse the evolution of a viable venture capital market in New Zealand. The underwriting has enabled the operator of the Fund to continue to engage with prospective co-investment partners. A NZD 40 million Seed Co-Investment Fund for early stage ventures was launched in 2006.

Other indicators

Payment delays have reached a six year low in 2012. According to Dun and Bradstreet, payment delays began lengthening in late 2007, peaking at 51 days in the fourth quarter of 2008 at the height of the crisis, before trending downwards over the next few years. In particular, the last 12 months have seen businesses pay their bills significantly faster, with an average payment time of 40.1 days in 2012 compared to 45.6 days in 2011, and with small businesses (defined in the data as having fewer than 20 employees) being the fastest payers at 39 days, down 3.7 days year-on-year.

Bankruptcies have declined by 7.4% during 2012, a smaller decrease than in 2011, when it decreased by 12.1%. During 2009, the number of bankruptcies peaked as a result of the crisis, with bankruptcies almost doubling year-on-year, however, current levels are not far from the five year low, having grown by 12% over the period 2008-12. Alternatives to bankruptcy introduced by the government in 2008, such as No Asset Procedures and Summary Installement Orders, provide enterprises with a debt of less than NZD 40 000 with some flexibility and have contributed to the decrease in bankruptcies.

Government policy response

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

- a series of tax reduction and tax payment deferments
- an expansion of the working capital guarantee scheme to exporters with a turnover of up to NZD 50 million

- an extended jurisdiction for the disputes tribunal allowing businesses to settle more claims without recourse to the courts
- expansion of business advice services such as a hotline, health check, seminars and mentors
- prompt payment requirements for government agencies.

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

The Financial Markets Conduct Act passed in December 2013 will enable low-cost exchanges to be established and more financing options such as crowd-funding and peer-to-peer lending, making it easier and cheaper for small businesses to raise capital. It will also raise investor confidence and reduce compliance costs for some SMEs through clearer disclosure regulations, including exemptions from full disclosure requirements for some firms. The Act will progressively come into force from April 2014.

In May 2013, a new programme called Repayable Grants for Start-ups was introduced to promote SMEs' access to finance. Over NZD 31.3 million of repayable grants will be distributed to high-growth early-stage enterprises commercialising intellectual property over a four-year period. The grants will provide funding in the range of NZD 250,000-500,000 per business per year for two to three years, repayable contingent on the success of the business and with the investment vehicle receiving a negotiated equity stake of 30-50% in the business.

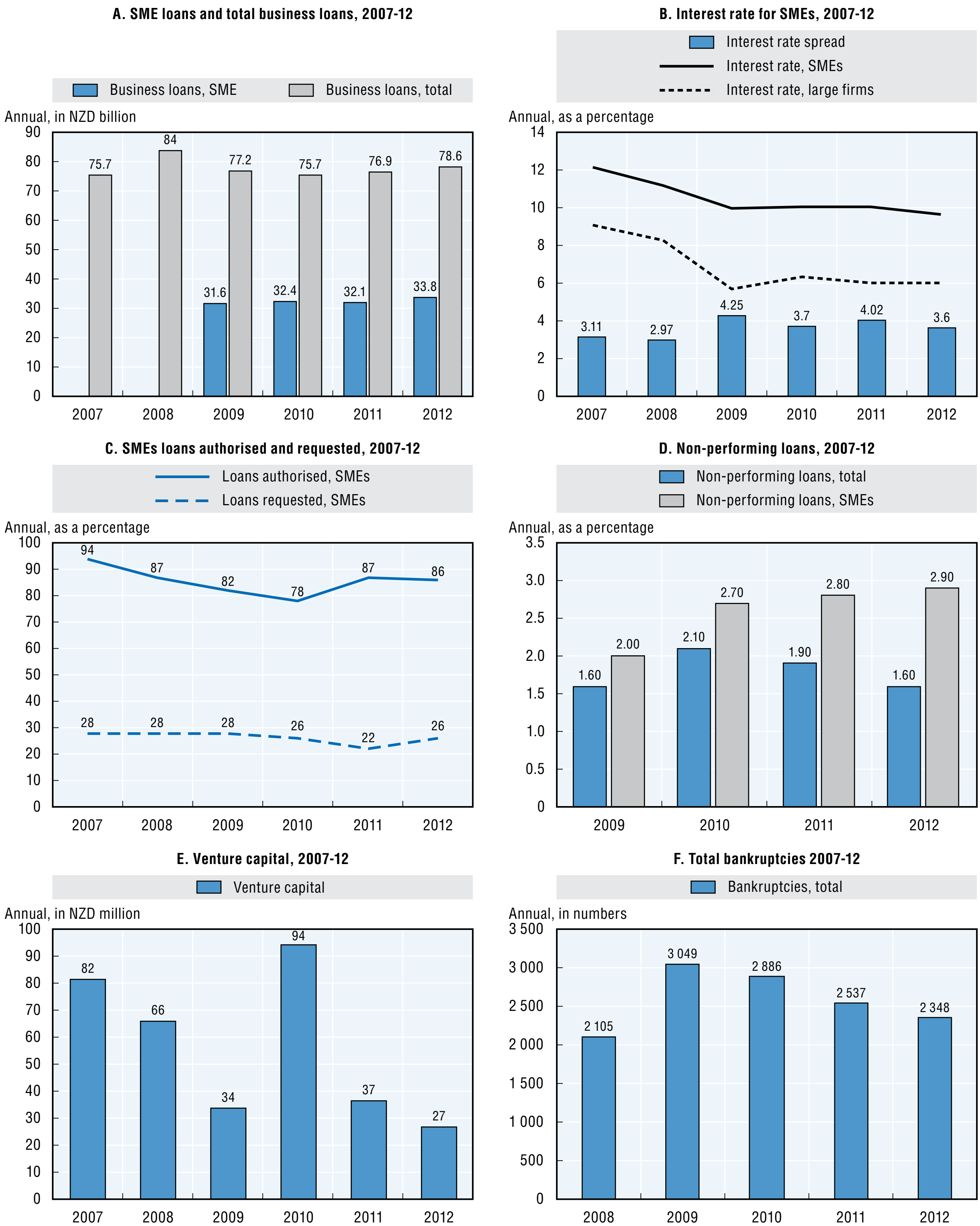
Table 20.3. **Scoreboard for New Zealand, 2007-12**

Indicator	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	NZD billion	..	..	31.6	32.4	32.1	33.8
Business loans, total	NZD billion	75.7	84.0	77.2	75.7	76.9	78.6
Business loans, SMEs	% of total business loans	..	..	40.9	42.8	41.7	43.0
Loans authorised, SMEs	%	94	87	82	78	87	86
Loans requested, SMEs	%	28	28	28	26	22	26
Non-performing loans, total	% of total lending	..	..	1.6	2.1	1.9	1.6
Non-performing loans, SMEs	% of SME lending	..	..	2.0	2.7	2.8	2.9
Interest rate, SMEs (loans < NZD 1 million)	%	12.15	11.19	9.92	9.98	10.04	9.60
Interest rate, large firms (loans > NZD 1 million)	%	9.04	8.22	5.67	6.28	6.02	6.00
Interest rate spread (between loans < 1 million and > 1 million)	%	3.11	2.97	4.25	3.70	4.02	3.60
Equity							
Venture capital	NZD million	81.9	66.1	34.0	94.4	36.6	26.8
Venture capital	Year-on-year growth rate, %	..	-19.3	-48.6	177.6	-61.2	-26.0
Other							
Payment delays	% of respondents waiting more than 60 days	43.1	50.8	44.5	44.0	45.6	40.1
Bankruptcies, total	Number	..	2 105	3 049	2 886	2 537	2 348
Bankruptcies, total	Year-on-year growth rate, %	..	..	44.8	-5.3	-12.1	-7.4

Source: Refer to Table 20.4.

StatLink http://dx.doi.org/10.1787/888933014422

Figure 20.1. **Trends in SME and entrepreneurship finance in New Zealand**



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

StatLink http://dx.doi.org/10.1787/888933016151

Table 20.4. **Definitions and sources of indicators for New Zealand's scoreboard**

Indicators	Definitions	Source
Debt		
Business loans, total	Lending to the resident business sector by registered banks and non-bank lending institutions, excludes agriculture, finance and insurance, general government, household and non-resident sector loans. Includes non-employer enterprises.	Reserve Bank of New Zealand
Business loans, SMEs	Estimated lending to SMEs. Data is not standardised and definitions may vary across banks.	Reserve Bank of New Zealand
Loans authorised, SMEs	Percentage of SMEs (firms with 6-19 employees) requesting debt finance that received it on reasonable terms.	Statistics New Zealand, Business Operations Survey
Loans requested, SMEs	Percentage of SMEs (firms with 6-19 employees) requesting debt finance.	Statistics New Zealand, Business Operations Survey
Non-performing loans, total	Non-performing loans as a percentage of total lending. Includes impaired and 90-day past due assets. Data are not standardised and definitions may vary across banks.	Reserve Bank of New Zealand
Non-performing loans, SMEs	Non-performing loans to SMEs as a percentage of total SME lending. Includes impaired and 90-day past due assets. Data are not standardised and definitions may vary across banks.	Reserve Bank of New Zealand
Interest rate, SMEs	Base interest rate for new loans to SMEs, non-farm enterprises.	Reserve Bank of New Zealand
Interest rate, large firms	Business lending rate for New Zealand resident business borrowing (including agriculture) from registered banks.	Reserve Bank of New Zealand
Interest rate spread	Difference between the business lending rate and the SME loan rate.	Reserve Bank of New Zealand
Equity		
Venture capital	Amount invested in seed, start-up, early-stage expansion, expansion and turnaround (excludes buy outs). All enterprises.	NZ Private Equity and Venture Capital Association and Ernst & Young
Other		
Payment delays	Average time taken by businesses to pay their bills in the December quarter each year.	Dun and Bradstreet, survey of 659 firms
Bankruptcies, total	All bankruptcy adjudications by the High Court, including individual non-firm bankruptcies.	Ministry of Business, Innovation and Employment, Insolvency and Trustee Service

Notes

1. The Small Business Advisory Group was established in 2003 to advise government on issues affecting SMEs and to help government agencies communicate more effectively with SMEs. The last SBAG report is available at www.med.govt.nz/sbag2012.
2. Based on private reporting from eight registered banks, includes impaired and 90-day past due assets. Data are not standardised and definitions may vary across banks, as of May 2013 Financial Stability Report, Reserve Bank of New Zealand.

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Norway

SMEs in the national economy

There was a total of 399 804 enterprises in Norway in 2010, out of which 256 871 non-employer firms. The bulk of the employer firms are SMEs, employing between 1 and 249 employees and accounting for 99.6% of total firms with employees. Of the enterprises with at least one employee, 81.2% were microenterprises.

Table 21.1. **Distribution of firms in Norway, 2010**

By firm size

Firm size (employees)	Number	%
Total firms with employees	**142 933**	**100.0**
SMEs (1-249)	**142 298**	**99.6**
Micro (1-9)	116 051	81.2
Small (10-49)	22 936	16.0
Medium (50-249)	3 311	2.3
Large (250+)	**635**	**0.4**

Note: Data do not include non-employer firms. SMEs include holding companies with less than 250 employees.

Source: Statistics Norway.

StatLink http://dx.doi.org/10.1787/888933014441

Using 250 employees as the cut off for an SME follows the definition used in many EU countries but it would be too high with respect to the structure of Norwegian business. In order to produce indicators relevant to Norway, Statistics Norway classified its data as firms with less than 250 as well as those with less than 50 employees (97.6%) to report on the core indicators in the OECD Scoreboard. The distribution of employees in groups of enterprises, however, is not obvious. Some enterprises in large groups have therefore been included in the SME population, even though they belong to groups of enterprises with far more employees, and would accordingly be classified as large enterprises.

SME lending

SME loan data are based on administrative data collected from non-financial limited companies and public limited companies. The data are sourced from the financial statements and compiled annually by Statistics Norway. Total business loans went up 34.4% over the period 2007-11 from NOK 837 193 million in 2007 to NOK 1 125 193 million in 2011, which was 6.4% higher than in 2010. SME loans declined during 2009 as a result of the financial crisis but recovered in the following years, recording a 4.2% increase in

2010 and 4.7% in 2011. Over the 2007-11 period, SMEs recorded a pronounced increase of 26.5%, although lower than the increase in total business loans. The share of SME loans in total business loans has remained almost stable over the past three years at 41%, down from 44% in 2008, nevertheless accounting for a very important part of the overall business lending activity.

In 2011, SME loans grew about 5%. However, over the past five years, short-term lending growth has lagged behind long-term lending, with 9.8% and 30.5% respective growth rates. Short-term loans account for 16.7% of the 2012 SME loans, at the same level as 2010 and 2009, down from 19.3% in 2007. The strength of legal rights and the depth of credit information, as conditions that support creditors' confidence in lending to SMEs, could be one of the reasons long-term lending prevails, contrary to most countries' short-term bias.

According to Norges Bank's Survey of Bank Lending, banks reported a slight increase in corporate credit demand in the first two quarters of 2011, with credit standards mostly unchanged, save for a reduction in lending margins and a slight increase in loan maturities. The economic outlook, capital adequacy requirements and banks' funding situation have resulted in higher lending margins on corporate loans in Q3 2011, nevertheless a slight increase in corporate credit demand was recorded in the same quarter, with a somewhat higher demand for fixed-rate loans. This increased demand halted and even reversed in Q4 2011, with a slight decrease in corporate lending demand coupled with a further rise in lending margins and tighter credit conditions overall. According to Norges Bank's Financial Stability Report (2012), banks expected further tightening in credit standards for enterprises given the need to further boost capital adequacy. SMEs were expected to take most of the hit, given that large enterprises can offset the decline in available credit by the issuance of bonds.

Equity financing

Venture capital and growth capital are defined as total invested equity in businesses established within the last two financial years. The data for invested equity in businesses draws from the companies' questionnaires on accounting. Information about the date of establishment is taken from Statistics Norway's Central Register of Establishments and Enterprises. Invested equity was at an all-time low in 2009 but doubled in 2010, with a further 29.6% increase recorded in 2011. Despite the overall improvement in the venture capital and private equity market, early-stage investments are suffering severely, with seed investing nearly unavailable. According to the Norwegian Venture Capital and Private Equity Association, a large portion of all funds invested are coming from international private equity investors, with Norwegian businesses viewed as particularly attractive to foreign investors, also demonstrated by the fact that the majority of capital raised by new funds is channelled from non-domestic sources.

Table 21.2. **SME equity financing in Norway 2007–11**

in NOK million

	2007	2008	2009	2010	2011
Invested equity for enterprises with less than 250 employees	39 888	29 597	14 577	30 305	39 262

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

StatLink http://dx.doi.org/10.1787/888933014460

Other indicators

Business-to-business payment delays declined in 2010 but increased in 2011 and 2012. They were still not far from their pre-crisis level and were below the European average.

Bankruptcy data cover enterprises which are in actual bankruptcy proceedings, for all enterprises except for sole proprietorships. The statistics on bankruptcy proceedings are based on information reported to the Register of Bankruptcies by probate registries and administrators in bankruptcies. Bankruptcies peaked in 2009 and dropped for three consecutive years for SMEs, registering a 4.4% and an 11.6% drop in 2011 and 2012 respectively. Nevertheless, bankruptcies were 50% higher than in 2007.

Table 21.3. **Number of bankruptcy proceedings by firm size in Norway, 2007–12**

by employees

Firm size	2007	2008	2009	2010	2011	2012
0 (non-employer firms)	892	1 173	1 753	1 355	1 449	1 236
1-9	808	1 195	1 738	1 497	1 373	1 237
10-49	138	210	299	285	330	262
50-249	6	22	22	22	22	26
250+	0	0	1	2	0	2
Total	**1 844**	**2 600**	**3 813**	**3 161**	**3 174**	**2 763**

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

Source: Register of Bankruptcies.

StatLink http://dx.doi.org/10.1787/888933014479

Government policy response

A number of public support instruments are continuously delivered through agencies, such as Innovation Norway, SIVA and the Research Council of Norway. Innovation Norway and SIVA target SMEs in particular. The instruments include loans, guarantees, grants and tax incentives. There are relatively more funds available in rural than in urban areas.

The most important new initiative in 2012 was NOK 500 million in government funding for two new seed capital funds which will be established in cooperation with private investors. Other important instruments were entrepreneurship grants, low-risk loans, innovation loans and tax incentives for research and development.

In March 2012, the government launched an SME strategy to reduce regulatory burdens. The target is to be reached by 2015, and the main measures include are cutting red tape, simplification of official forms and reductions to the need in reporting.

Among these measures, there are several concerning "starting a business" such as:

- When the Limited Liability Companies Act becomes valid (from 1 July 2013), it will be possible to start a business fully by electronic means.
- Equity requirements for private limited companies have been reduced by 70%, from EUR 14 000 to EUR 4 000. This significantly reduces the cost of establishing new businesses.
- Audit requirements have been removed for small companies.
- The strategy also includes a number of measures concerning "running a business", for instance:
  - It will be possible to distribute the equity more efficiently by allowing dividend payments all year around.
  - The rules concerning boards is significantly simplified.

In addition, there are numerous measures to improve digital solutions and to ease electronic reporting and communication between the government and businesses. The "one stop shop" electronic portal Altinn is central in this "digitalisation process", and almost no other country has reached this level of digitalisation of business services.

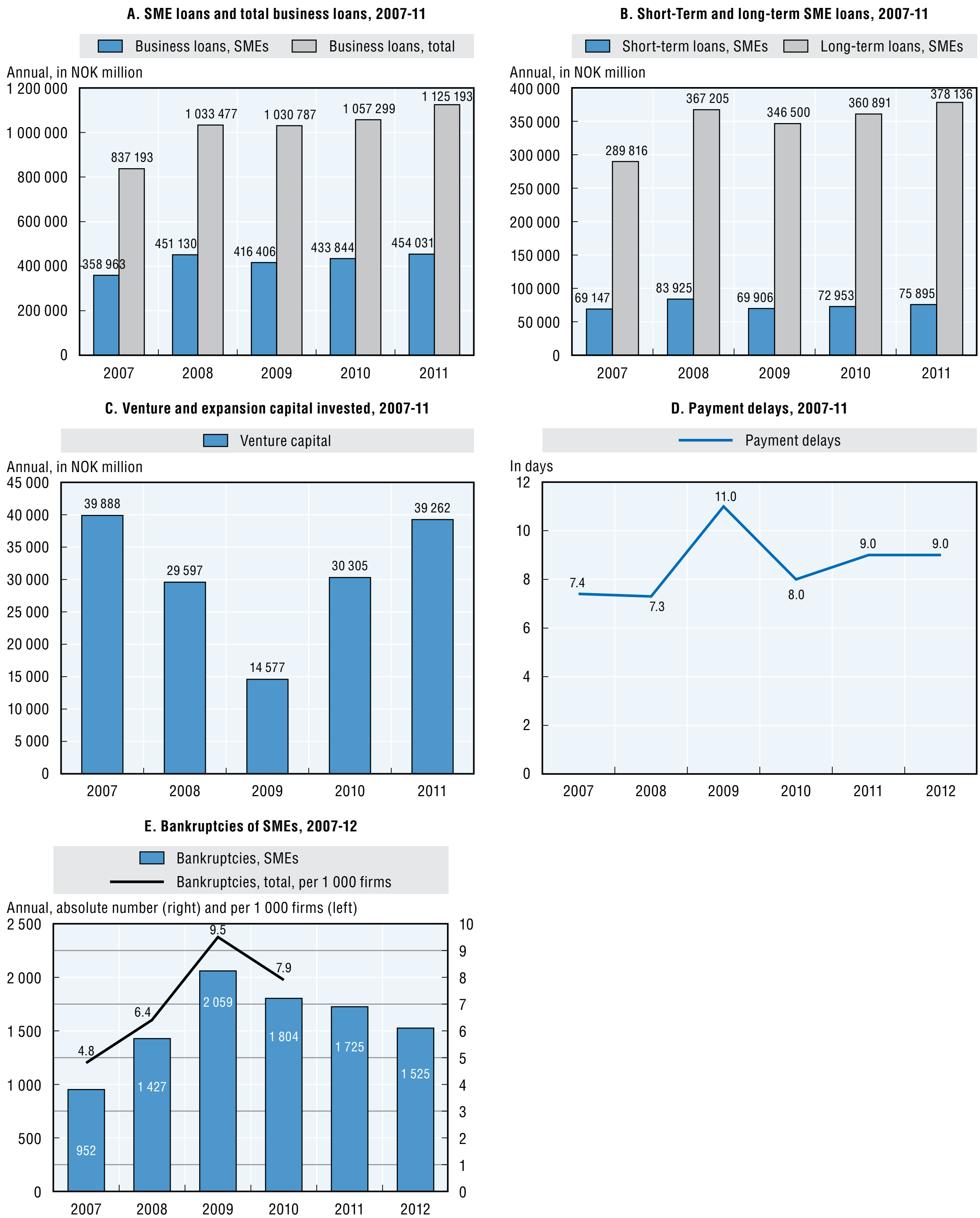
Table 21.4. **Scoreboard for Norway, 2007-12**

Indicator	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	NOK million	358 963	451 130	416 406	433 844	454 031	..
Business loans, total	NOK million	837 193	1 033 000	1 030 000	1 057 299	1 125 193	..
Share of SME business loans in total business loans	%	42.9	43.7	40.4	41.0	40.4	..
Short-term loans, SMEs	NOK million	69 147	83 925	69 906	72 953	75 895	..
Long-term loans, SMEs	NOK million	289 816	367 205	346 500	360 891	378 136	..
Short-term loans, SMEs	% of total SME loans	19.3	18.6	16.7	16.8	16.7	..
Equity							..
Venture capital	NOK million	39 888	29 597	14 577	30 305	39 262	..
Venture capital	Year-on-year growth rate, %		-25.8	-50.7	107.9	29.6	..
Other							
Payment delays	Days	7.4	7.3	11.0	8.0	9.0	9.0
Bankruptcies, total	Number	952	1 427	2 060	1 806	1 725	1 527
Bankruptcies, SMEs	Number	952	1 427	2 059	1 804	1 725	1 525
Bankruptcies, SMEs	Year-on-year growth rate, %	..	49.9	44.3	-12.4	-4.4	-11.6
Bankruptcies, total	per 1 000 firms	7.7	11.2	16.3	14.3	..	..
Bankruptcies, SMEs	per 1 000 firms	7.7	11.3	16.4	14.4	..	..

Source: Refer to Table 21.5.

StatLink http://dx.doi.org/10.1787/888933014498

Figure 21.1. **Trends in SME and entrepreneurship finance in Norway**



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

StatLink http://dx.doi.org/10.1787/888933016170

Table 21.5. **Definitions and sources of indicators for Norway's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Debts owed to financial lending institutions, non-financial limited enterprises with less than 250 employees (stocks). Excludes non-employer firms.	Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises
Total business loans	Debts owed to financial lending institutions (stocks). Includes non-employer firms.	Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises
Short-term loans, SMEs	Short-term debts owed to financial lending institutions, non-financial limited enterprises with less than 250 employees (stocks). Excludes non-employer firms.	Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises
Long-term loans, SMEs	Long-term debts owed to financial lending institutions, non-financial limited enterprises with less than 250 employees (stocks). Enon-employer firms.	Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises
Equity		
Venture capital	Venture and growth capital is defined as total invested equity in businesses established within the last two financial years.	Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises
Other		
Payment delays	Average number of days for business-to-business in 2008-12. For 2007, average number of days for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia European Payment Index 2008, 2009, 2010, 2011 and 2012
Bankruptcies, total	Bankruptcy proceedings for enterprises, excludes non-employer firms and sole proprietorships.	Register of Bankruptcies and the Central Register of Establishments and Enterprises
Bankruptcies, SMEs	Bankruptcy proceedings for SMEs (enterprises with less than 250 employees), excludes non-employer firms and sole proprietorships.	Register of Bankruptcies and the Central Register of Establishments and Enterprises
Bankruptcies, total per 1 000 firms	Non-employer firms are included in the number of enterprises used to calculate the number of bankruptcies per 1 000 enterprises. The most current number of enterprises broken down by number of persons employed is from 2010. The statistics on enterprises do not include public administration and agriculture, forestry and fishing.	Register of Bankruptcies and the Central Register of Establishments and Enterprises

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Portugal

SMEs in the national economy

In 2010, SMEs comprised 99.9% of enterprises in Portugal and employed 79.4% of the business sector labour force. The vast majority of enterprises (94.9%) were micro-enterprises employing 41.7% of the country's workforce, 4.4% were small and 0.6% were medium-sized.

Table 22.1. **Distribution of firms in Portugal, 2010**
By firm size

Firm size (employees)	Number	%
All firms	**861 135**	**100.0**
SMEs (0-249)	**860 330**	**99.9**
Micro (0-9)	817 408	94.9
Small (10-49)	37 537	4.4
Medium (50-249)	5 385	0.6
Large (250+)	**805**	**0.1**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.
Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933014517

SME lending

The recent evolution in lending policy over the period 2010-12, driven by the increase in the cost of funding, balance sheet constraints and a less favourable perception of risk, has resulted in stricter credit standards and tighter lending conditions and a consistent declining trend in outstanding loans since 2010. In 2012, outstanding business loans decreased by 7.2%, with most of the decline been attributed to the decrease in SME lending, which recorded a 10.0% drop, reaching a new six year low. The share of SME loans in total business loans also declined from 78.3% (2007) to 76.8% (2011), further declining to 74.7% in 2012.

Over the period 2007-12, SME lending declined by 6.2% while total business loans declined by just 1.6%. This decline was more pronounced in short-term SME lending, having dropped by 36.1% over the period 2007-12 and registering a 29.5% decrease in 2012 compared to a year before, whereas long-term SME loans decreased by 7.7%. SMEs were particularly affected by difficulties in accessing short-term financing to cover cash flow problems with short-term lending accounting for 24.5% of SME loans in 2012, down from 29.9% in 2011, reaching a six year low.

The share of government guaranteed loans in total SME loans grew significantly from 0.9% in 2007 to 7.4% in 2011, demonstrating the sustained public efforts to maintain SME access to finance. Following a short period of decline in 2011, when this share dropped to 6.9%, government guaranteed loans rose back to 7.2% of total SME loans in 2012.

Credit conditions

Over the period 2009-12, banks have significantly tightened credit conditions, with restrictive terms coincided with a sharp drop in investment. This reflected the depressed level of domestic demand and resulted in a decrease in borrowing requirements and loan demand.

The average interest rate for SME loans has increased by 188 basis points, from 5.71% in 2009 to 7.59% in 2012, with the interest rate spread between SMEs and large firms having also increased from 1.87% in 2009 to 2.16% in 2012, indicating less favourable conditions for SMEs. 80% of collateralised loans were SME loans in 2012, at almost constant levels throughout the past six years, underlying the tight collateral requirements for SMEs compared to large enterprises. The tightening in credit standards was more significant in the case of long-term loans.

According to the Banco de Portugal's Financial Stability Report for 2012, the persistently negative expectations about economic activity in general and the strong inertia in the deleveraging process of non-financial enterprises justified restrictive lending criteria. However, there are signs of stabilisation of lending criteria, but at a high level, following the increasing trend over the last three to four years.

Equity financing

Venture capital invested in SMEs fell significantly over the 2007-12 period, reaching EUR 16.5 million in 2012, 88% less than in 2007, due to investors' extreme risk aversion as a consequence of the financial crisis. In 2012, however, there were signs of recovery, with total venture capital investment increasing by 28.9% since 2011. However, venture capital was more than eight times lower in 2012 than in 2007.

Table 22.2. **Equity capital invested by stage in Portugal, 2007-12**

EUR million

Stage	2007	2008	2009	2010	2011	2012
Early stage	28.5	52.0	30.2	53.2	10.0	12.9
Seed	0.2	0.0	0.2	0.0	0.5	0.6
Start up	28.3	52.0	30.0	53.2	9.5	12.3
Later stage	108.6	40.1	11.8	12.1	2.8	3.7
Total	**137.1**	**92.1**	**42.0**	**65.4**	**12.8**	**16.5**

Source: Portuguese Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933014536

Other indicators

A deterioration in asset quality has been noted over the period 2007-12, with defaults and non-performing loans progressively increasing, reaching excessive levels. Both non-performing business loans and non-performing SME loans have increased fivefold over the course of 2007-12, both recording nearly a 40% increase in 2012. Non-performing loans to large firms have registered a significant increase of 73.3% in 2012. SME loans, however, accounted for 90% of the total non-performing loans. Nevertheless, according to the Financial Stability Report (2012), a downward trend in new overdue and other doubtful loans has been observed in the second half of 2012, indicating a smoother evolution for these indicators.

The drop in sales and the difficulties in accessing finance had a negative impact on SME cash flows, causing an increase in payment delays, which rose from 33 days in 2008 to 41 days in 2011, decreasing to 40 days in 2012. The number of bankruptcies has more than doubled over the period 2007-12, with total bankruptcies increasing from 2 612 (2007) to 4 746 (2011), reaching new highs in 2012 with 6 688 registered bankruptcies, up 40.9%. This significant increase, although universal across most sectors of activity, was concentrated in construction, real estate and the trade sectors, with enterprises active in these sectors facing more challenges when trying to access bank financing.

Table 22.3. **Default indicators on loans to non-financial enterprises in Portugal by corporation size, 2010-12**

in percentages

	Number of Debtors in default (a)			Overdue credit and interest (b)		
	Dec-11	Dec-12	Mar-13	2010	2011	2012
Micro	23.8	27.8	29.0	10.6	14.9	16.6
Small	19.4	24.6	26.3	6.4	10.8	11.9
Medium	18.4	24.2	25.7	4.6	8.1	8.9
Large	**12.2**	**15.3**	**17.1**	**1.5**	**2.1**	**2.3**

Source: Banco de Portugal, Financial Stability Report (May 2013), for loans granted by monetary financial institutions.

StatLink http://dx.doi.org/10.1787/888933014555

Government policy response

The global financial crisis has undoubtedly affected SME demand for credit. In addition creditors have adopted more conservative positions in their lending decisions. Risk premiums have increased and credit maturities have been reduced.

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

As of 31 December 2012, about 105 000 projects were eligible for the SME Invest and SME Growth credit lines. EUR 9.8 billion in finance was provided to about 60 000 SMEs (17% of SMEs), supporting more than 825 000 jobs. As part of the global package of the SME Invest credit lines, the government proceeded to recapitalise the Mutual Counter-Guarantee Fund allowing SMEs to benefit from a higher level of public guarantees.

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

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

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

Table 22.4. **Scoreboard for Portugal, 2007-12**

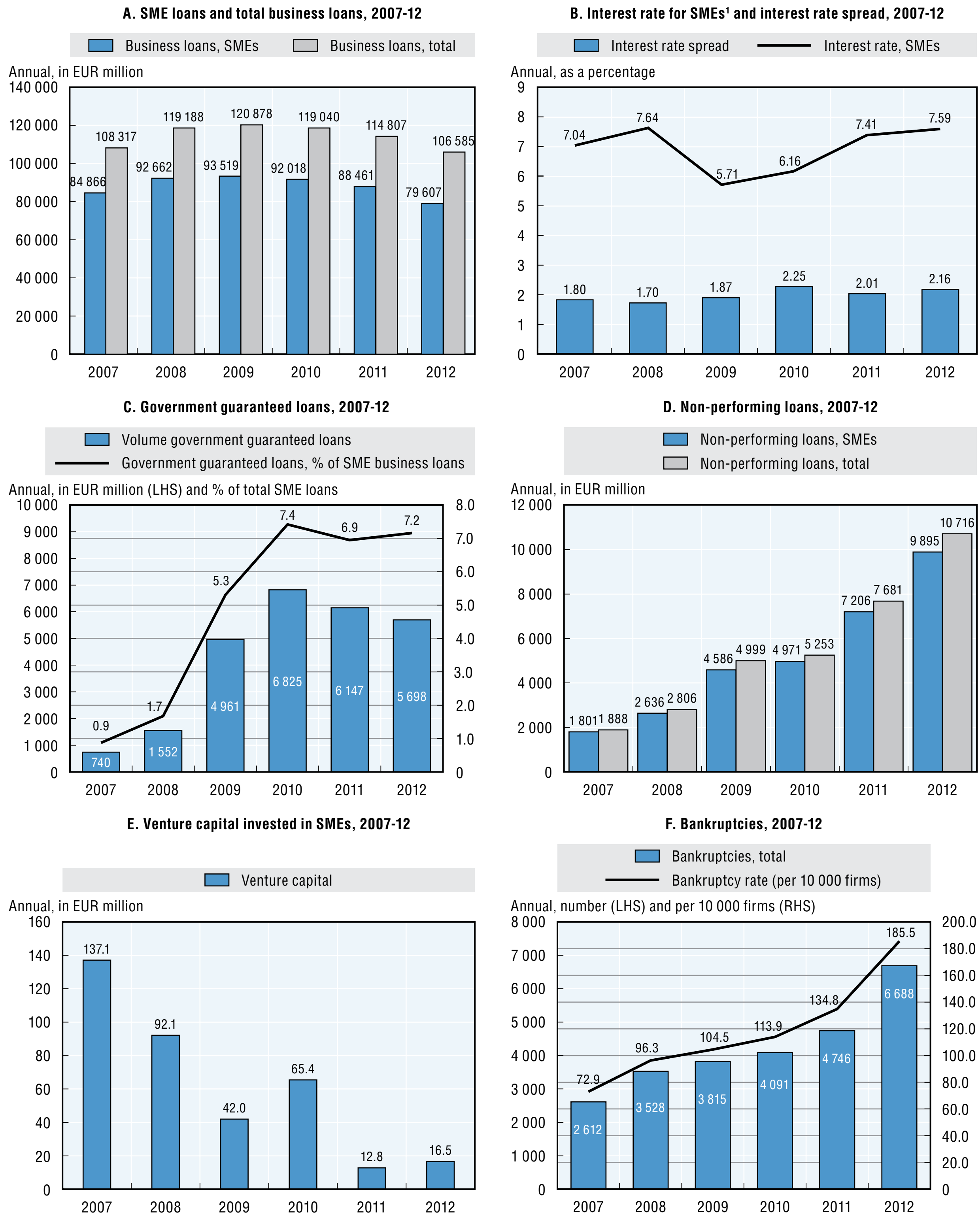
Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	EUR million	84 866	92 662	93 519	92 018	88 461	79 607
Business loans, total	EUR million	108 317	119 188	120 878	119 040	114 807	106 585
Business loans, SMEs	% of total business loans	78.3	77.7	77.4	77.3	77.1	74.7
Short-term loans, SMEs	EUR million	26 758	27 928	29 178	27 166	24 267	17 109
Long-term loans, SMEs	EUR million	56 308	62 098	59 754	59 882	56 988	52 603
Total short and long-term loans, SMEs	EUR million	83 066	90 026	88 933	7 048	81 255	69 712
Short-term loans, SMEs	% of total SME loans	32.2	31.0	32.8	31.2	29.9	24.5
Government guaranteed loans, CGF	EUR million	740	1 552	4 961	6 825	6 147	5 698
Government guaranteed loans, CGF	% of SME business loans	0.9	1.7	5.3	7.4	6.9	7.2
Non-performing loans, total	EUR million	1 888	2 806	4 999	253	7 681	10 716
Non-performing loans, SMEs	EUR million	1 801	2 636	4 586	4 971	7 206	9 895
Non-performing loans, large	EUR million	87	170	412	282	474	821
Interest rate, average SME rate[1]	%	7.04	7.64	5.71	6.16	7.41	7.59
Interest rate spread (between average SME rate and large firm rate)	%	1.80	1.70	1.87	2.25	2.01	2.16
Collateral, SMEs	% of collateralised loans granted to SMEs in total collateralised loans	..	..	82.1	81.8	81.2	80.0
Equity							
Venture capital, SMEs	EUR million	137.1	92.1	42.0	65.4	12.8	16.5
Venture capital	Year-on-year growth rate, %	..	-32.8	-54.4	55.7	-80.4	28.9
Other							
Payment delays	Days	39.9	33.0	35.0	37.0	41.0	40.0
Bankruptcies, total	Number	2 612	3 528	3 815	4 091	4 746	6 688
Bankruptcies, total	Year-on-year growth rate, %	..	35.1	8.1	7.2	16.0	40.9
Incidence of insolvency, total	per 10 000 enterprises	72.9	96.3	104.5	113.9	134.8	185.5

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

Source: Refer to Table 22.5.

StatLink http://dx.doi.org/10.1787/888933014574

Figure 22.1. **Trends in SME and entrepreneurship finance in Portugal**



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

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

StatLink *http://dx.doi.org/10.1787/888933016189*

Table 22.5. **Definitions and sources of indicators for Portugal's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Performing and non-performing loans outstanding granted by banks and other financial institutions. Performing loans do not include Factoring without recourse. Small and medium sized companies are defined as companies with less than 250 employees and a turnover below 50 million Euros, excluding holding companies. Includes non-employer firms.	Bank of Portugal, Central Credit Registry
Business loans, total	Performing and non-performing loans outstanding granted by banks and other financial institutions. Performing loans do not include Factoring without recourse. Includes non-employer firms.	Bank of Portugal, Central Credit Registry
Short-term loans, SMEs	Performing loans; maturity up to 12 months. Excluding holding companies and sole traders.	Bank of Portugal, Central Credit Registry
Long-term loans, SMEs	Performing loans; maturity more than 12 months. Excluding holding companies and sole traders.	Bank of Portugal, Central Credit Registry
Government guaranteed loans, CGF	Government guaranteed loans to SMEs by the public Mutual Counter-guarantee Fund.	SPGM, SA
Non-performing loans, total	Loans outstanding overdue for more than 30 days; in the case of factoring without recourse only amounts overdue for more than 90 days are included.	Bank of Portugal, Central Credit Registry
Non-performing loans, SMEs	Loans outstanding overdue for more than 30 days; in the case of Factoring without recourse only amounts overdue for more than 90 days are included.	Bank of Portugal, Central Credit Registry
Non-performing loans, large	Loans outstanding overdue for more than 30 days; in the case of factoring without recourse only amounts overdue for more than 90 days are included. Large companies include holding companies.	Bank of Portugal, Central Credit Registry
Interest rate, average SME rate	No data on interest rates by size of the corporations is available. As a proxy to SME, we considered data on Interest rate on new loans up to EUR 1 million (prior to 2010) and loans up to EUR 0.25 million (onwards). Data on interest rates covers only loans granted by banks.	Bank of Portugal, Monetary and Financial Statistics
Interest rate spread (between average SME rate and large firm rate)	No data on interest rates by size of the corporations is available. As a proxy to SME, we considered data on Interest rate on new loans up to EUR 1 million (prior to 2010) and loans up to EUR 0.25 million (in 2010). For large firms we considered data on Interest rate on new loans over EUR 1 million. Data on interest rates covers only loans granted by banks.	Bank of Portugal, Monetary and Financial Statistics
Collateral, SMEs	The percentage of collateralised loans granted to SMEs in total collateralised loans. Information on collateral is only available from January 2009 onwards. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC). Excluding holding companies and sole traders.	Bank of Portugal, Central Bank Registry
Equity		
Venture capital, SMEs	Investment in SMEs. Data include early stage and expansion phases, turnaround and buyout/replacement is excluded.	Portuguese Venture Capital Association
Other		
Payment delays	Average payment delay in days for business-to-business in 2008, 2009, 2010 and 2011. For 2007, average delay in days for business-to-business, business-to-consumer and public entities. All enterprises.	Intrum Justitia, European Payment Index
Bankruptcies, total	Data include all dissolved companies.	Statistics Portugal, IP and COSEC, SA
Incidence of insolvency, total	Number of dissolved enterprises per 10 000 enterprises.	Statistics Portugal, IP and COSEC, SA

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Russian Federation

SMEs in the national economy

The Russian Federation does not use the EU definition of an SME (see Box 23.1.). The Russian State Statistics Service undertook a complete statistical census of actually operating SMEs in 2011. Included were individual entrepreneurs and those micro, small and medium enterprises which were legal entities or officially registered. If both legal and non-legal entities were included, there were 4.6 million SMEs in the Russian Federation in 2011 vs. 3.2 million legal operating entities. However, some SMEs register in one area and operate in another area and such SMEs were not counted in the survey undertaken by the Russian State Statistics Service.

According to the statistics of the Ministry for Economic Development of the Russian Federation based on the data of the Russian State Statistics Service and State Tax Administration the figures are the following:

Table 23.1. **Distribution of firms in the Russian Federation, 2012**

by firm size

Firm size (employees)	On 1 January 2013 (thousands)
SMEs (up to 250)	
Individual entrepreneurs	4023.8
Micro (up to 15)	1 758.9
Small (16-100)	238.1
Medium (101-250)	16.1
Total	**6 036.9**

Note: Individual entrepreneurs can be self-employed or they can have employees but almost all of the individual entrepreneurs are SMEs. Non-employer enterprises are included.

Source: State Tax Administration, the Russian State Statistics Service.

StatLink http://dx.doi.org/10.1787/888933014593

SME lending

A survey of SMEs undertaken by the all-Russia public organisation of small and medium entrepreneurship "OPORA RUSSIA" revealed that the low availability of financial resources was one of the key challenges for small and medium-sized businesses, especially in the industry. 44% of industrial SME owners reported having experienced difficulties in accessing long term financing (three years and more) (OPORA INDEX, 2012). Outstanding SME loans grew by almost 76% over the period 2008-12, with strong growth rates of 19.1% in

2010-11 and 16.9% in 2011-12. Total business loans have recorded lower, albeit very strong, growth over the period 2008-12 with a 53% increase in total outstanding business loans. The growth rate for the latter has declined more rapidly than for SME loans, decreasing to 14.8% in 2011-12, down from 25.5% in 2010-11. The SME loan share was steady in 2012 at 23.0%, having increased from 19.9% to 22.5% over 2008-11.

The data on new loans contains short-term loans which are being repaid and then reissued. Although these short-term loans are functioning as lines of credit, they are being counted multiple times, resulting in flow figures that exceed stock data or outstanding loans for both SME and total business loans. According to the flow data a different picture emerges. In 2008-09 banks sharply reduced SME loans because of perceived higher risks associated with the credit crisis, and new loans decreased by 26.3%, but rebounded in 2010 and 2011 (56.1% and 28.7% growth rate respectively), with banks having the opportunity to provide more credit to an increased number of registered, creditworthy SMEs. In 2012, new SME loans grew by a more modest 14.6% compared to the previous couple of years.

The SME share in new business loans has remained in the low twenties for the entire 2008-12 period, with SME loans accounting for 22.9% of new business loans in 2012, almost unchanged since 2011. Notwithstanding the increased levels of SME lending over the last four years, loan rejection rates remain high and it is widely believed that SMEs face more severe problems in accessing external capital than large enterprises. This is attributed to the fragmented nature of the country's banking industry that is still in transition, the lack of SME financial transparency and the information asymmetries between the suppliers and users of capital. Lending to SMEs is historically seen as a high-risk activity, and such information asymmetries exacerbate the risks and can explain the predominance of short-term financing to SMEs.

SME non-performing loans (NPLs) also increased from a low of 2.9% in 2008 to 8.2% in 2011 and 8.4% in 2012. While the peak of the crisis in the financial sector was in 2009, its effects were still being felt in 2010 when the SME NPL rate peaked at 8.8%. The weight of SME NPLs in the total NPLs has grown from 27.7% in 2008 to a staggering 42.1% in 2012, adding to the reluctance of the banks to provide loans to SMEs.

Credit conditions

The survey of SMEs undertaken by "OPORA RUSSIA" revealed that the lack of available financial resources was one of the key challenges for SMEs, especially in the industry. 44% of industrial SME experienced difficulties in accessing long- term financing (three years and more) (OPORA INDEX, 2012). OPORA RUSSIA reports that while approximately 83% of loan applications were approved, interest rates and spreads are high, typically between 14%-17%, with interest rates in remote regions tending to be still higher. The volatility and short-term nature of deposits with Russian banks limited their ability to extend credit other than short-term loans. In 2005, a European Union study found that it was not uncommon for banks in the Russian Federation to seek marketable collateral up to 200% of the loan. The high value of the collateral demanded was an adverse response not only to risk but also to the cost of actually recovering the asset offered as collateral, with lenders finding it difficult to recuperate on collateral in case of default. Court costs and taxes could amount to 40% of the asset cost (Barrie, 2005). The situation has generally improved since 2005, largely because of the government guarantees which absorbed some of the banks' risk. Some banks started to offer unsecured loans, while others accepted government loan guarantees as part of the collateral. Almost all banks required a personal guarantee from the SME's owner.[1]

The unavailability of bank financing for nascent or start-up firms has led to the development of a microfinance market to support entrepreneurship. Those SMEs that were able to obtain loans from regional microfinance institutions paid 10-12% interest versus 27% which was the average interest rate in the country. Micro loans were usually given for periods of not more than 12 months and up to RUB 1 million (Ministry of Economic Development, 2012a).

Equity financing

After the break-up of the former Soviet Union (FSU), international donors such as EBRD, IFC and USAID were active in starting the development of venture capital in Russia. The Russian Venture Capital Association was established in 1995. The venture capital sector initially experienced difficulties in attracting investors from the traditional sources such as insurance companies and pension funds due to legal restrictions. In 2006 the Ministry of Economic Development launched a programme for regional venture capital funds in 19 Russian regions. The Russian Venture Company (RVC) was also established in 2006 and was financed from the federal budget. RVC is a federal fund-of-funds stimulating venture capital investment in the hi-tech sector (OECD, 2010).

Venture capital has grown steadily over the period 2008-12. At the end of 2012 outstanding direct and venture capital investment stood at USD 26 419 million. It is worth noting that the actual number of active Venture Capital funds has greatly expanded in 2012 to 155 such funds active in the country. The main driver of this expansion is the growing number of funds investing in Internet projects, which absorb the bulk of these investments.

Table 23.2. **Venture capital investment in the Russian Federation, 2008-12**

Capitalisation of Venture Capital funds, in USD million

Year	Amount	Number of active funds
2008	14 327	80
2009	15 192	87
2010	16 787	91
2011	20 092	97
2012	26 419	155

Source: Russian Venture Company, Vnesheconombank.

StatLink http://dx.doi.org/10.1787/888933014612

When looking at the distribution of funds by stage of investment, it is clear that the vast majority of investments have historically been channelled into later-stage enterprises, to the detriment of early-stage or start-up ventures. Total investment in early-stage enterprises, including seed capital, start-up and other early stages, represented only 9.9% of total venture capital investment in 2012, up from 8.8% in 2011. Nevertheless, in absolute figures, total funds invested in early stage enterprises have indeed increased in 2012 by 46.2%, reaching USD 398 million, up from USD 272 million in 2011.

Other indicators

Recent SME surveys by the Chamber of Commerce and Industry (June 2011) revealed that 71.2% of the respondents said that SME suppliers were affected by payment delays. Bankruptcies increased over the 2008-10 period but declined below the 2008 level in 2011, and increased in 2012 by 10.0% with a total of 14 072 bankruptcies registered.

Table 23.3. **Venture capital investment in the Russian Federation by stage, 2008-12**

In USD million, flows

	2008	2009	2010	2011	2012
Seed & Start up	67.8	13.3	21.5	129.2	129.0
Other early stages	94.0	110.5	131.8	143.0	269.0
Expansion	1 310.7	314.2	2 257.9	979.9	2 037.0
Restructuring	0.0	70.0	2.7	6.8	353.0
Later stage	0.0	0.0	100.0	1 823.9	1 364.0
Total	**1 472.4**	**507.9**	**2 513.8**	**3 082.8**	**4 152.0**

Source: Russian Venture Capital Association.

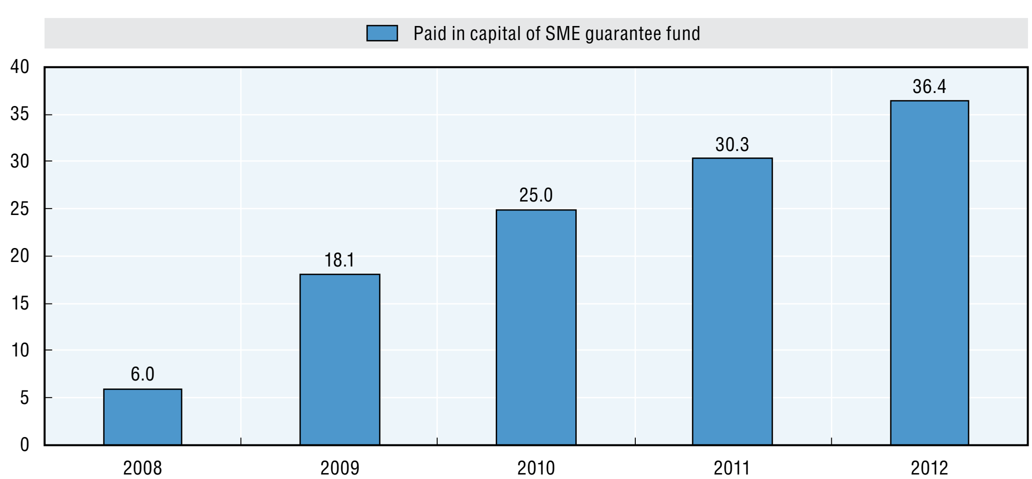
StatLink http://dx.doi.org/10.1787/888933014631

International and national policy response for promoting SME finance

The EBRD was one of the first international institutions which launched SME financing in the Russian Federation. Currently, a number of government ministries, banks and funds promote access to finance for SMEs by developing micro finance, establishing guarantee funds and subsidising interest rates. The Federal Fund for the Support to Small Business was established in 1995. It was a network of 75 regional funds and 175 municipal funds. Its main purpose was to provide credit guarantees. It has been superseded by the Programme of Guarantee Fund Creation and Development which began operation in 2006. The Guarantee Fund is a joint creation of the federal and regional governments. 83 organisations were created in 79 regions. In general it is funded 30% by the regions and 70% by the Ministry of Economic Development. However, in some cases there is 50-50 co-financing by the regions and the government. The central government finances between 50% and 80% of the fund's budget. Its capitalisation has grown steadily.

Figure 23.1. **Paid in capital of SME guarantee fund in the Russian Federation**

RUB billion



Source: Ministry of Economic Development.

StatLink http://dx.doi.org/10.1787/888933016208

Loan guarantees and guaranteed loans both increased between 2011 and 2012. The value of loan guarantees backed twice the value of the loans in 2012. On the 1st of January 2013 2.1% of all SME loans were backed by government guarantees.

The Ministry of Economic Development subsidizes interest rates and finances guarantee funds. The Russian Bank for Development, now the Russian Bank for Small and Medium Enterprises Support, was first established in 1999 and became a subsidiary of Vnesheconombank in 2008. It provides low interest rate financing for innovation and modernisation as well as leasing for start-ups and microfinance. As of 1 August 2013, it had 258 partners (mainly regional banks) through which it had granted EUR 2.1 billion for SMEs. More than 62.5% of SMEs loans were granted for a period of over three years. Their average interest rate was 12.8%.

The management of Vnesheconombank recognises that international cooperation has been instrumental in enhancing the scale and scope of SME support. Vnesheconombank has concluded agreements with various international financial institutions, including KfW, the European Bank for Reconstruction and Development (EBRD), IntesaSanpaolo SPA, UBI Banca (Italy), ZuercherKantonalbank (Switzerland) and the Export-Import Bank of India. These agreements provide for the extension of long-term credits amounting to EUR 1 billion to increase Vnesheconombank's guarantees to Russian commercial banks for subsequent financing of SMEs, including those engaged in export-import operations with counteragents from Europe and India. As of 1 August 2013, largely due to these agreements, the amount of guarantees extended by Vnesheconombank to Russian banks stood at EUR 49.7 million.

The Chamber of Commerce and Industry and the Ministry of Economic Development have been monitoring the impact of the financial crisis on SMEs. In the June 2011 survey, 88% of SMEs interviewed said the socio-economic situation was still being affected. Their biggest problems were charges for social insurance payments which replaced the unified social tax, and other taxes. 99% said they faced a growing tax burden. 90.3% said that the most effective thing the government could do, would be to lower social insurance payments, whereas only 43.5% said that the most effective support would be to facilitate SME access to credit.

Box 23.1. **Definition of SMEs in the Russian Federation**

The 2007 Federal Law on "Development of Small and Medium Entrepreneurship in the Russian Federation" defines the sizes of SMEs as follows:

Definition of SMEs

Type	Employees	Sales (RUB million)
Micro	Up to 15	Not more than 60
Small	16-100	Not more than 400
Medium	101-250	Not more than 1000

Section 4 of Federal Law No 209-FZ dated July 24, 2007 "On the small and medium-sized enterprise development in the Russian Federation" sets a restriction on the participatory interest held in the authorised capital of SMEs being legal persons by certain categories of legal and natural persons (the so-called "independence of origin" criterion). According to the provisions of the aforesaid Section, the SMEs include legal persons in which the total participatory interest of the Russian Federation, constituent entities of the Russian Federation, municipal corporations, foreign legal persons, foreign citizens, public and religious organisations (associations), charitable and other foundations in the authorised (contributed) capital (unit fund) should not exceed 25% (except assets of joint stock investment funds and closed-end funds), nor should the participatory interest belonging to one or more legal persons that are not SMEs exceed 25%.

Over the last years a number of steps have been taken to enhance the integration of the country into the international economy and to develop cooperation between Russian and foreign companies.

In this connection, changes were made in the legislation related to the SME development in July 2013. In accordance with these changes, the restriction on the participation of foreign citizens (natural persons) in the authorised capital of SMEs which are legal persons is to be lifted.

The broadening of the opportunities for the participation of foreign citizens in the authorised capital of an SME will form a new basis for a mutually beneficial cooperation and further integration of Russian and foreign companies and will allow the creation of new technological linkages and the attraction of foreign direct investment and will also have a positive effect on the improvement of the quality of the services being provided.

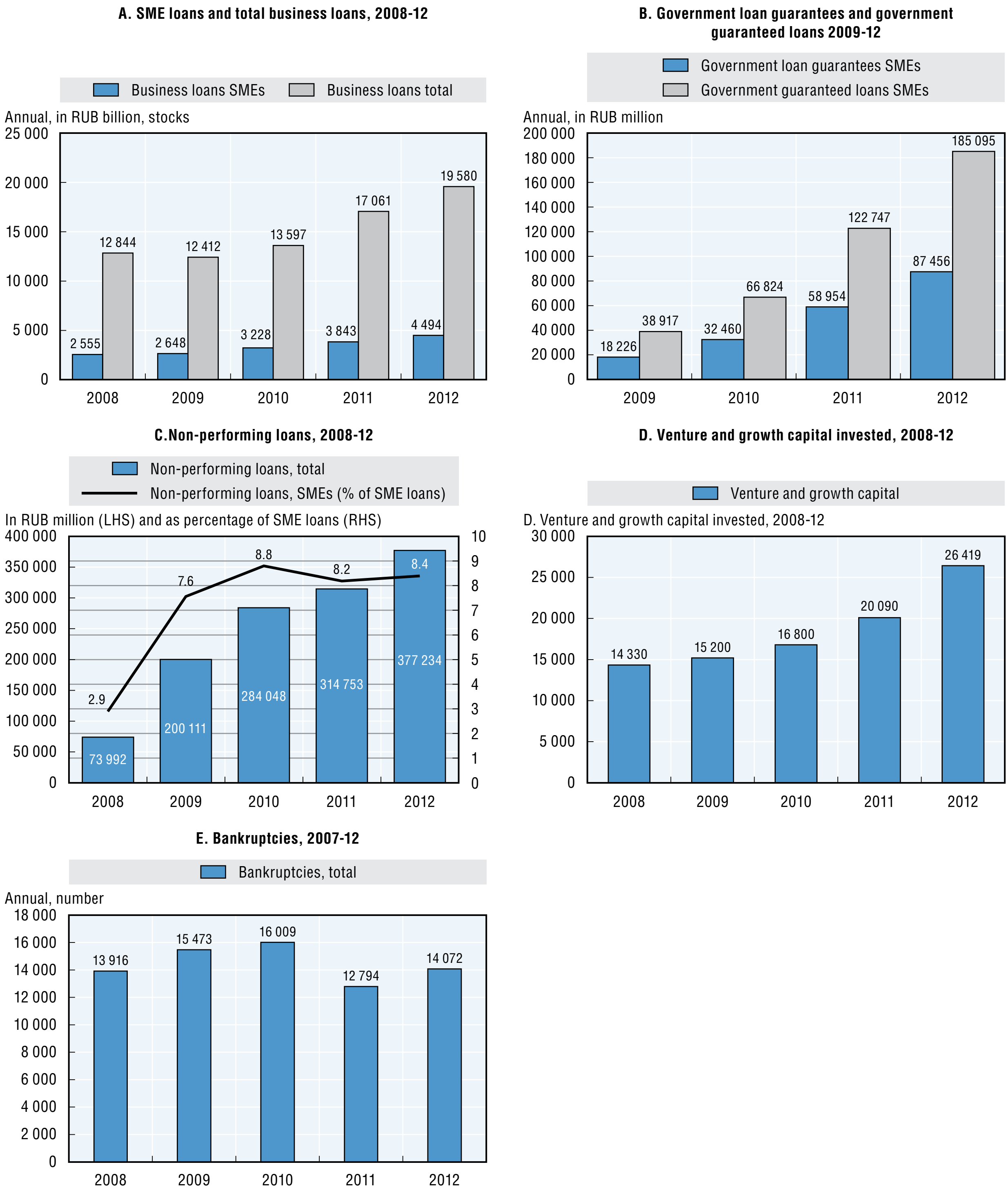
Table 23.4. **Scoreboard for the Russian Federation, 2008-12**

Indicators	Units	2008	2009	2010	2011	2012
Debt						
Business loans, SMEs (stocks)	RUB million	2 554 534	2 647 973	3 227 570	3 843 458	4 493 760
Business loans, SMEs (flows)	RUB million	4 089 500	3 014 572	4 704 715	6 055 744	6 942 203
Business loans, total (stocks)	RUB million	12 843 519	12 412 406	13 596 593	17 061 389	19 580 176
Business loans, total (flows)	RUB million	..	19 091 541	20 662 219	28 412 267	30 255 044
Business loans, SMEs (stocks)	% of total business loans	19.9	21.3	23.7	22.5	23.0
Business loans, SMEs (flows)	% of total business loans	..	15.8	22.8	21.3	22.9
Government loan guarantees, SMEs	RUB million	..	18 226	32 460	58 954	87 456
Government guaranteed loans, SMEs	RUB million	..	38 917	66 824	122 747	185 095
Non-performing loans, total (stocks)	RUB million	..	723 700	738 416	807 889	895 339
Non-performing loans, SMEs (stocks)	RUB million	73 992	200 111	284 048	314 753	377 234
Non-performing loans, SMEs (% of SME loans)	%	2.9	7.6	8.8	8.2	8.4
Equity						
Venture capital	USD million	14 327	15 192	16 787	20 092	26 419
Venture capital	Year-on-year growth rate, %	..	6.0	10.5	19.7	31.5
Other						
Bankruptcies (all enterprises)	Number	13 916	15 473	16 009	12 794	14 072

Source: Refer to Table 23.5.

StatLink http://dx.doi.org/10.1787/888933014650

Figure 23.2. **Trends in SME and entrepreneurship finance in the Russian Federation**



Sources: Charts A and C: Bank of Russia. Chart B: Ministry of Economic Development and Vnesheconombank. Chart D: Russian Venture Company, Vnesheconombank, Chart E: Supreme Commercial Court of Russian Federation.

StatLink http://dx.doi.org/10.1787/888933016227

Table 23.5. **Definitions and sources of indicators for the Russian Federation's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs (stocks)	Bank and other credit institution loans to SMEs outstanding, stock.	Bank of Russia
Business loans, SMEs (flows)	Amount of new loans for SMEs are granted during the year. Lines of credit are included.	Bank of Russia
Business loans, total (stocks)	Bank and other credit institution loans to all enterprises outstanding.	Bank of Russia
Business loans, total (flows)	Amount of total business new loans are granted during the year. Lines of credit are included.	Bank of Russia
Government loan guarantees	Guarantees available to banks and financial institutions. Guarantees are provided by regional funds of SME assistance.	Ministry of Economic Development
Government guaranteed loans	Loans guaranteed by regional funds of SME assistance.	Ministry of Economic Development
Government direct loans	Direct loans from regional funds of SME assistance and Bank for Development programmes.	Ministry of Economic Development and Vnesheconombank
Non-performing loans, total	Non-performing loans out of total business loans.	Bank of Russia
Non-performing loans, SMEs	Non-performing loans out of total SME business loans.	Bank of Russia
Equity		
Venture capital	Financial support of SME by venture capital funds.	Russian Venture Company, Vnesheconombank
Other		
Bankruptcies	Number of enterprises ruled bankrupt. All enterprises.	Supreme Commercial Court of Russian Federation

Note

1. For more information see http://raexpert.ru/editions/bulletin/credit_msb.pdf

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Serbia

SMEs in the national economy

Serbia does not use the standard EU definition for an SME (see Box 24.1.). 99% of all Serbian enterprises are SMEs and employ around 65% of the labour force.

Table 24.1. **Distribution of firms in Serbia, 2011**

By firm size

Firm size (employees)	No. firms	%	No. employees	%
All enterprises	**319 802**	**100.0**	**1 205 277**	**100.0**
SMEs (0-249)	**319 304**	**99.8**	**786 873**	**65.3**
Micro (0-9)	307 430	96.1	358 992	29.8
Small (10-49)	9 656	3.0	195 602	16.2
Medium (50-249)	2 218	0.7	232 279	19.3
Large (250+)	**498**	**0.2**	**418 404**	**34.7**

Note: Non-employer enterprises and entrepreneurs are included.

Source: Statistical Office of Republic of Serbia.

StatLink http://dx.doi.org/10.1787/888933014669

In examining the changes in the distribution of firms over time there has been a decrease in small and medium size enterprises from 4.2% (2007) to 3.7% (2011) whereas the percentage of microenterprises grew.

SME lending

In order to obtain the data necessary to calculate the core indicators for SME access to finance, the National Bank of Serbia undertook a special survey in 2013 on SME financing among 27 commercial banks residing in Serbia.

Total outstanding business loans increased by 36.1% between 2007 and 2008 and continued to grow in the following years, resulting in a 48.4% increase over the period 2007-12. SME loans exhibited a similar pattern with a 40.3% increase between 2007 and 2008 and continued growth thereafter resulted in a 47.6% growth over the period 2007-12. The SME loan share in total business loans remained almost constant over the period starting at 21.4% (2007) and ending at 21.2% in 2012. Long-term loans account for the majority of SME lending, and have increased from 64.5% in 2007 to 72% in 2012.

Over the 2008-12 period, the value of SME non-performing loans in the total SME loan portfolio increased by more than a factor of two, recording a much sharper increase than total NPLs of the business loan portfolio, which increased by about a third. The growth trend was reversed for total NPLs in 2012, with decrease of the NPL ratio of 3.1%.

Credit conditions

SME credit conditions generally reflected the banks' perception of risk. However credit conditions differed depending on the currency of the loan (national vs. foreign currency). This can be attributed to the influence of the domestic macro-economic situation. The average interest rate charged for SME loans in national currency rose in 2012 by almost one percentage point. The SME rate was 18.84% compared to 14.15% for large enterprises in 2012. The risk premium for SMEs was 4.69%, a significant jump after a two year decline. In contrast, interest rates for SME loans in foreign currency declined throughout the period 2007-12, reaching 8.23% in 2012 compared to 7.16% for large enterprises. The interest rate spread for loans in foreign currency has dramatically decreased over the period 2007-12 by almost four percentage points, ending with the spread of 108 basis points in 2012.

In 2012, 54.2% of SMEs were required to provide additional type of collateral beside bill of exchange for their loans. At the same time SME loans authorised to SME loans requested declined from 84.2% (2007) to 69.2% (2012) as the banks became more selective.

Equity financing

Venture capital financing is rare in Serbia. There are legal problems because there is no legal process to create a venture capital fund. In 2010, venture capital investment stood at EUR 13.2 million.

Other indicators

Business-to-customer (B2C) payment delays decreased in 2012, with 28% of SMEs waiting more than 60 days for payment. Bankruptcies for all entities in Serbia increased considerably from 18.3 per 1 000 firms (2007) to 44.0 per 1 000 firms (2012), with a total of 4 719 enterprises having initiated a bankruptcy process in 2012.

Government policy response

The Guarantee Fund of the Autonomous Province of Vojvodina had committed EUR 5.4 million to guarantee loans in 2010, but only EUR 2.2 million were disbursed. There were two approved programmes; the first provided guarantees for procuring agricultural equipment with an annual interest rate of 6.5% and the second was for promoting women entrepreneurs. For women entrepreneurs, two kinds of loans were available: one for procurement of equipment and the other for start-ups. According to the Development Fund of the Republic of Serbia the available guarantee fund was RSD[1] 3 000 million (equivalent to EUR 29 million) and RSD 4 000 million (equivalent to EUR 39 million) for 2010 and 2011, respectively.

The government also had a direct loan programme. The direct loan programme was larger than the guarantee programme. It increased by a multiple of nine between 2008 and 2009. There was also a considerable rise between 2009 and 2010 (43%). These increases were considerably larger than the increase in SME bank loans. This could mean that the government intervened because interest rates had reached unacceptable levels.

Box 24.1. **Definition of an SME in Serbia**

The Serbian Accounting and Auditing Law (2006) defines an SME as an enterprise which fulfills at least two out of three conditions: employees up to 250, annual turnover up to EUR 10 million and total assets up to EUR 5 million.

Table 24.2. **Scoreboard for Serbia, 2007-12**

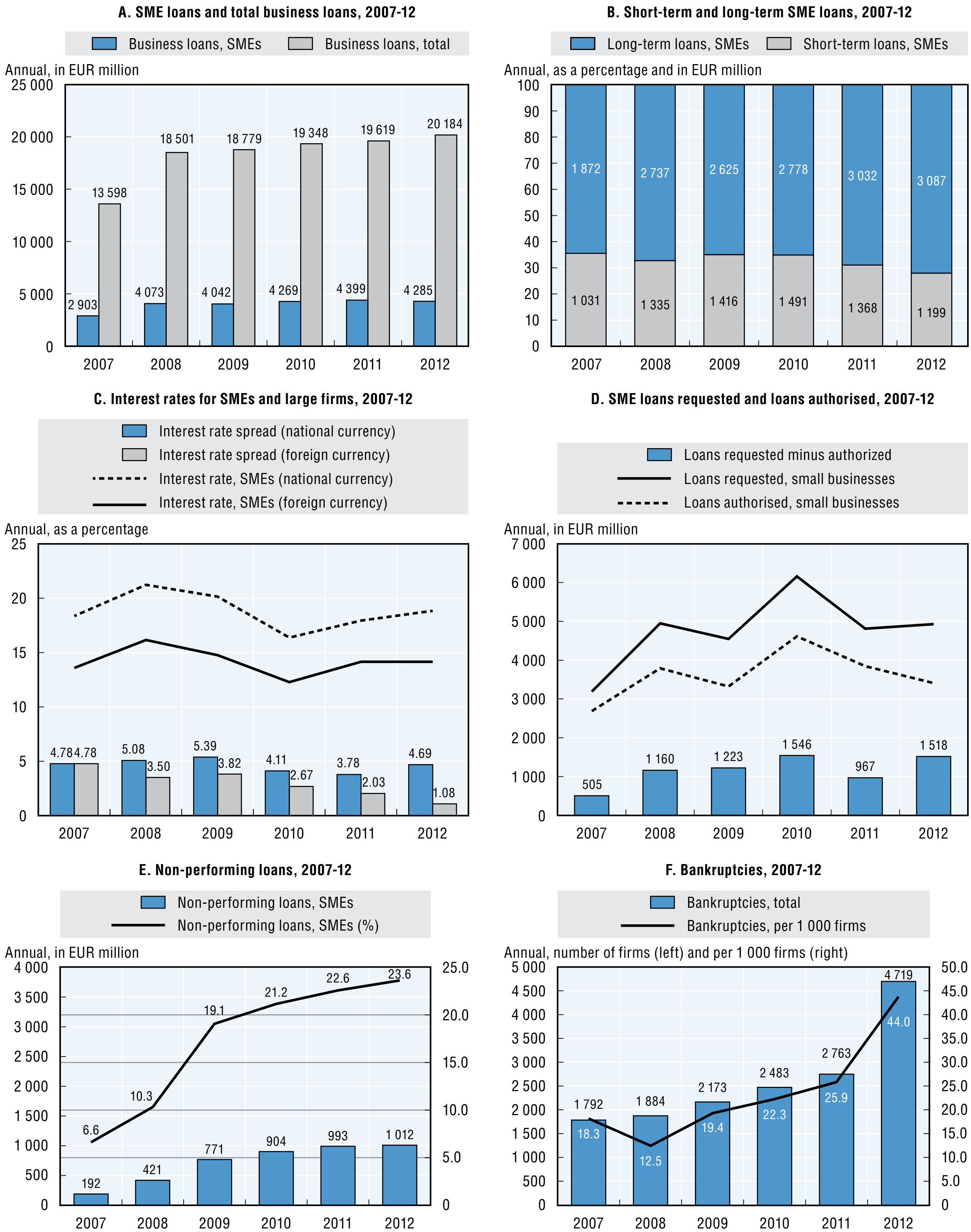
Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	EUR million	2 903	4 073	4 042	4 269	4 399	4 285
Business loans, total	EUR million	13 598	18 501	18 779	19 348	19 619	20 184
Business loans, SMEs	% of total business loans	21.4	22.0	21.5	22.1	22.4	21.2
Short-term loans, SMEs	EUR million	1 031	1 335	1 416	1 491	1 368	1 199
Long-term loans, SMEs	EUR million	1 872	2 737	2 625	2 778	3 032	3 087
Short-term loans, SMEs	% of total SME loans	35.5	32.8	35.0	34.9	31.1	28.0
Government guaranteed loans, SMEs	EUR million	0.2	0.2	297.9	522.7	390.3	600.5
Loans requested (new loans total)	EUR million	3 193	4 951	4 546	6 160	4 812	4 927
Loans used (new loans total)	EUR million	2 127	3 682	3 149	3 269	3 428	3 208
Loans authorised to requested (new loans total)	%	84.2	76.6	73.1	74.9	79.9	69.2
Non-performing loans, total	% of total loans	..	14. 6	19.8	20.7	22.3	19.2
Non-performing loans, SMEs	EUR million	192	421	771	904	993	1 012
Non-performing loans, SMEs	% of total SME loans	6.6	10.3	19.1	21.2	22.6	23.6
Interest rate, SME							
loans in national currency	%	18.36	21.23	20.14	16.38	17.94	18.84
Interest rate spread,							
loans in national currency	%	4.78	5.08	5.39	4.11	3.78	4.69
Interest rate, SMEs							
loans in foreign currency	%	10.63	10.86	10.58	9.99	9.76	8.23
Interest rate spread,							
loans in foreign currency	%	4.78	3.50	3.82	2.67	2.03	1.08
Collateral, SMEs	% of SMEs required to provide collateral on last loan	31.5	38.3	42.4	45.7	47.0	54.2
Equity							
Venture and growth capital	EUR million	0.1	1.3	..	13.2	..	..
Other							
Payment delays	% of SMEs waiting more than 60 days for payment	..	..	34	31	31	28
Bankruptcies, total	Per 1 000 firms	18.3	12.5	19.4	22.3	25.9	44.0
Bankruptcies, total	Year-on-year growth rate, %	..	-31.6	55.0	15.3	16.1	69.5

Note: Historical loan figures adjusted to reflect the exclusion of two liquidated banks from the sample of National Bank of Serbia's survey on SME financing in 2013 (27 banks participating in the survey).

Source: Refer to Table 24.3.

StatLink http://dx.doi.org/10.1787/888933014688

Figure 24.1. **Trends in SME and entrepreneurship finance in Serbia**



Sources: Chart A, B, C, D, and E: National Bank of Serbia. Chart F: Agency for Business Registry of Serbia.

StatLink http://dx.doi.org/10.1787/888933016246

Table 24.3. **Definitions and sources of indicators for Serbia's scoreboard**

Indicator	Definition	Source
Debt		
SME loans	Bank loans to SMEs, stocks, by firm size using national definition. Includes short-term and long-term credit, credit lines and overdrafts, domestic and cross-border loans, as well as non-performing SME loans.	National Bank of Serbia, Bank Survey on SMEs
Total business loans	Bank loans to all non-financial enterprises, stocks. Includes short-term and long-term credit, credit lines and overdrafts, domestic and cross-border loans, as well as non-performing corporate loans.	National Bank of Serbia Statistics
Short-term loans, SMEs	Stock of loans equal to or less than one year to SMEs, stocks, by firm size using national definition.	National Bank of Serbia, Bank Survey on SMEs
Long-term loans, SMEs	Stock of loans with maturity over one year to SMEs, stocks, by firm size using national definition.	National Bank of Serbia, Bank Survey on SMEs
Government guaranteed loans, SMEs	Includes loans provided to eligible SMEs meeting required conditions by the Government through commercial banks.	National Bank of Serbia, Bank Survey on SMEs
SME loans requested	Flows	National Bank of Serbia, Bank Survey on SMEs
SME loans authorised	Flows	National Bank of Serbia, Bank Survey on SMEs
Non-performing loans, total	Corporate sector percentage of non-performing loans in total loans, National Bank of Serbia definition of NPLs.	National Bank of Serbia Statistics
Non-performing loans, SMEs	SME non-performing loans, National Bank of Serbia definition of NPLs.	National Bank of Serbia, Bank Survey on SMEs
Non-performing loans, SMEs, % of total SME loans	SME non-performing loans out of total SME loans, National Bank of Serbia definition of NPLs.	National Bank of Serbia, Bank Survey on SMEs
Interest rate, SME loans in national currency	Average interest rate on SME loans in dinars.	National Bank of Serbia, Bank Survey on SMEs
Interest rate spread, loans in national currency	Difference between interest rate for SME loans and large enterprise loans in national currency.	
Interest rate, SME loans in foreign currency	Average interest rate on loans in foreign currency.	National Bank of Serbia, Bank Survey on SMEs
Interest rate spread, loans in foreign currency	Difference between interest rate for SME loans and large enterprise loans in foreign currency.	National Bank of Serbia, Bank Survey on SMEs
Collateral	Percentage of SMEs that were required to provide collateral on latest bank loan, in addition to bills of exchange provided as collateral on a standard basis from all SMEs.	National Bank of Serbia, Bank Survey on SMEs
Equity		
Venture and growth capital	Seed, start-up, early stage and expansion capital (excludes buyouts, turnarounds, replacements).	European Private Equity and Venture Capital Association
Other		
Payment delays	% of SMEs waiting more than 60 days for payment.	Statistical Office of Republic of Serbia
Bankruptcy	Number of enterprises ruled bankrupt; enterprises of all size.	Survey of the Agency for Business Registry of Serbia
Bankruptcy, per 1 000 firms	Number of enterprises ruled bankrupt per 1 000 firms; enterprises of all size.	National Bank of Serbia's calculation based on survey of the Agency for Business Registry of Serbia

Note

1. RSD = Serbian Dinar (national currency)

Reference

European Venture Capital Association (2013), "*Central and Eastern Europe Statistics 2012*", Brussels *http://www.evca.eu/media/18369/CEE-Report-2013.pdf*

Slovak Republic

SMEs in the national economy

SMEs dominated the Slovak Republic's economy, accounting for 99.9% of the enterprises population as of 2010. The vast majority of SMEs (95.7%) were micro enterprises, employing up to nine employees. Self-entrepreneurs are an important component of the enterprise population in Slovak Republic, a significant part of which are employing firms. In 2012, there were altogether 41 031 self-entrepreneurs with at least one employee, which constitute a significant part of the SME population.

Table 25.1. **Distribution of firms in the Slovak Republic, 2010**

By firm size

Firm size (employees)	Number	%
All firms	406 084	100.0
SMEs (0-249)	**405 581**	**99.9**
Micro (0-9)	388 531	95.7
Small (10-49)	14 743	3.6
Medium (50-249)	2 307	0.6
Large (250+)	**503**	**0.1**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933014707

SME lending

In the beginning of 2012 the banking statistics methodology was amended in order to collect specific data on SME financing. Because of different definitions of SME that have been historically applied in the banking sector, it was not possible to provide harmonized data according to the EU SME definition. The situation might change in the future as the use of the EU SME definition has been imposed to banks by law, so banks will have to adapt their internal methodologies accordingly. As a consequence the data in the current Scoreboard are based on the previous methodology. The data for the SME sector are collected from the database of financial statements (balance sheets) of enterprises. The data are taken from the financial statements available from the tax authorities. The data are processed according to the size of the firm (represented by number of employees) and the annual turnover. As this database excludes loan data for natural persons the figures for the SME sector are considered estimates. The current figures for SME loans were calculated by aggregating the subtotal for legal persons/enterprises from financial statements database with the subtotal for natural persons from the National Bank statistics. Once harmonized SME data are made available from banking statistics, these will be used for both natural and legal persons.

Total SME lending increased in 2008 and stagnated in 2009-10, decreasing by 12.0% in 2011. There was a modest growth in total business lending in 2011 of 6.2% year-on-year. In 2012, total lending to enterprises slowed down recording a 3.7% decrease as a result of stagnating demand and weakening supply that can be attributed to the uncertain macroeconomic outlook. Nevertheless, lending in 2012 is still above the 2007 level. The SME share in total business loans in 2010 remained 79.4% as was the case in 2009, while it declined by 17.2% in 2011, reaching a five year low level at 65.8%, almost at the same level as in 2007. The investment activity of SMEs continued in 2010 as evidenced by the share of SME long-term loans in total SME loans, which was the same as in previous years, standing at around 60% of total loans. In addition, the decline in SME lending in 2011 was more pronounced in short-term loans (-16.0%) rather than in long-term lending (-9.2%).

Credit conditions

General interest rates for all businesses declined from 5.5% (2007) to 3.0% (2009) but rose again in 2010 to 3.2%, remaining at the same level in 2011. This was 41.8% lower than in 2007. In 2012, interest rates for all businesses dropped by 17.8%, standing at 2.6%. SME interest rates stood at 3.8% in 2012, with the spread between SME and general interest rates for all businesses standing at 120 basis points in 2012. Interest rates for self-entrepreneurs stood at 6.0% in 2012.

According to the Central Bank of the Slovak Republic's Lending Surveys, over the first half of 2011 most banks saw a moderate easing in credit standards to large corporates and for short-term loans, while credit standards have moderately tightened for SMEs. The banks' liquidity position and cost associated with their capital position were the main factors behind this tightening. Banks have repeatedly recorded an increase in demand for corporate loans of all categories as of early 2011, at slightly higher level for large firms than for SMEs.

According to commercial bank procedures, SMEs are required to provide collateral for development and expansion loans, with almost every SME loan being accompanied by collateral. Operating loans do not usually require specific collateral as they are covered by the framework of the funding agreements which are usually collateralised or secured.

Equity financing

Venture capital investments with public participation in 2011 declined by 20% from their peak in 2009. Total funding over the period was very marginal. In 2012, Venture capital investment with a public element dropped by 39%, a decline mainly driven by the inactivity of funds at the start-up stage, where the amount invested in 2012 was almost 4% of what was invested a year earlier. The small volume of venture capital operations in Slovak Republic also explains the high volatility in the reported investment levels.

Table 25.2. **Venture capital investments in SMEs in the Slovak Republic, by investment stage, 2007-12**

In EUR

	2007	2008	2009	2010	2011	2012
Seed	215 760	3 845 847	2 099 247	61 988	872 467	1 183 805
Start-up	46 471	451 437	3 895 833	10 896 510	4 798 078	201 660
Development	6 771 559	3 693 587	8 370 533	459 500	5 800 000	5 592 872
Total	**7 033 791**	**7 990 872**	**14 365 613**	**11 417 998**	**11 470 545**	**6 978 337**

Note: Venture capital investments with public participation.

Source: National Agency for Development of Small and Medium Enterprises.

StatLink http://dx.doi.org/10.1787/888933014726

Other indicators

While payment delays of customers declined from 22 days (2007) to 13 days (2011 and 2012), suppliers' payment delays remained high so that this allowed SMEs to retain cash and is evidence of liquidity problems. Payment delays for business-to-business stood at 20 days in 2007, dropped by more than half in 2008 but resumed a positive growth trend from 2009 onwards, reaching a new high of 21 days in 2012.

Total bankruptcies continued to increase over the period, standing at 169 in 2007 and increasing by 2.45 times by 2011. In 2012, however, this increase was halted, with total bankruptcies decreasing by 4.0% year-on-year. SMEs account for the lion's share of total bankruptcies, covering 94.2% of the total in 2012, down from 96.8% in 2011.

Government policy response

There are government SME loan and guarantee programmes operated by specialized state banks and the National Agency for Development of Small and Medium Enterprise (NADSME). During the financial crisis government guaranteed loans increased by 36% to EUR 157 million (2008), similarly SME government direct loans increased by 37% between 2007 and 2008 to EUR 160 million. After a certain decline in 2009 and 2010 SME government guaranteed loans and SME government direct loans increased in 2011 beyond the levels of 2008. In 2012, however, government guaranteed loans decreased by 13.2% reaching EUR 145 million. This was related mostly to the exhaustion of funds originally allocated for guarantees in 2008 with no replenishments made afterwards due to expected launch of the guarantee scheme under EU-JEREMIE initiative, which was delayed. On the other hand direct government loans funding increased significantly by 30% reaching EUR 219 million.

The increase of government supported financing was related to the overall recovery of the economy. The situation of SMEs improved and they were consequently requesting more financing for expansion purposes. The new government (2012) committed to increasing the basic capital of two state banks: the Slovak Guarantee and Development Bank and the Eximbank which provide loans and guarantees. In December 2012 Eximbank received replenishment for its risk and guarantee funds by EUR 60 million. While the overall budget for SME support is declining, support for SME financing is not. Another government response, in cooperation with EIF, is the EU-JEREMIE initiative that will foresee the launch of different financing instruments, including a new guarantee scheme that will provide EUR 283.3 million of loans with favourable conditions for a two year period.

Besides funding provided by the state banks the most prominent programme of the government supporting Slovakian SMEs is the Operational Programme Competitiveness and Economic Growth, initiated in 2008 and envisaged to be completed by 2015. The programme is funded by a combination of state funds and EU structural funds, and is being implemented by designated intermediary bodies. Under this scheme, SMEs benefit from grants and innovative financing instruments (IFI) realised under the JEREMIE initiative. IFIs loans with preferential interest rate and collateralisation conditions along with the VC investments are foreseen but have not started yet. The total budget for the whole period is EUR 1 139 million EUR, including replenishment by EUR 225 million made in 2012, with the actual cost standing at EUR 485.6 million (42.2% of the total allocation). Until the end of 2012, 492 entrepreneurs have made use of the programme, out of which 96% were SMEs.

Table 25.3. **Scoreboard for the Slovak Republic, 2007-12**

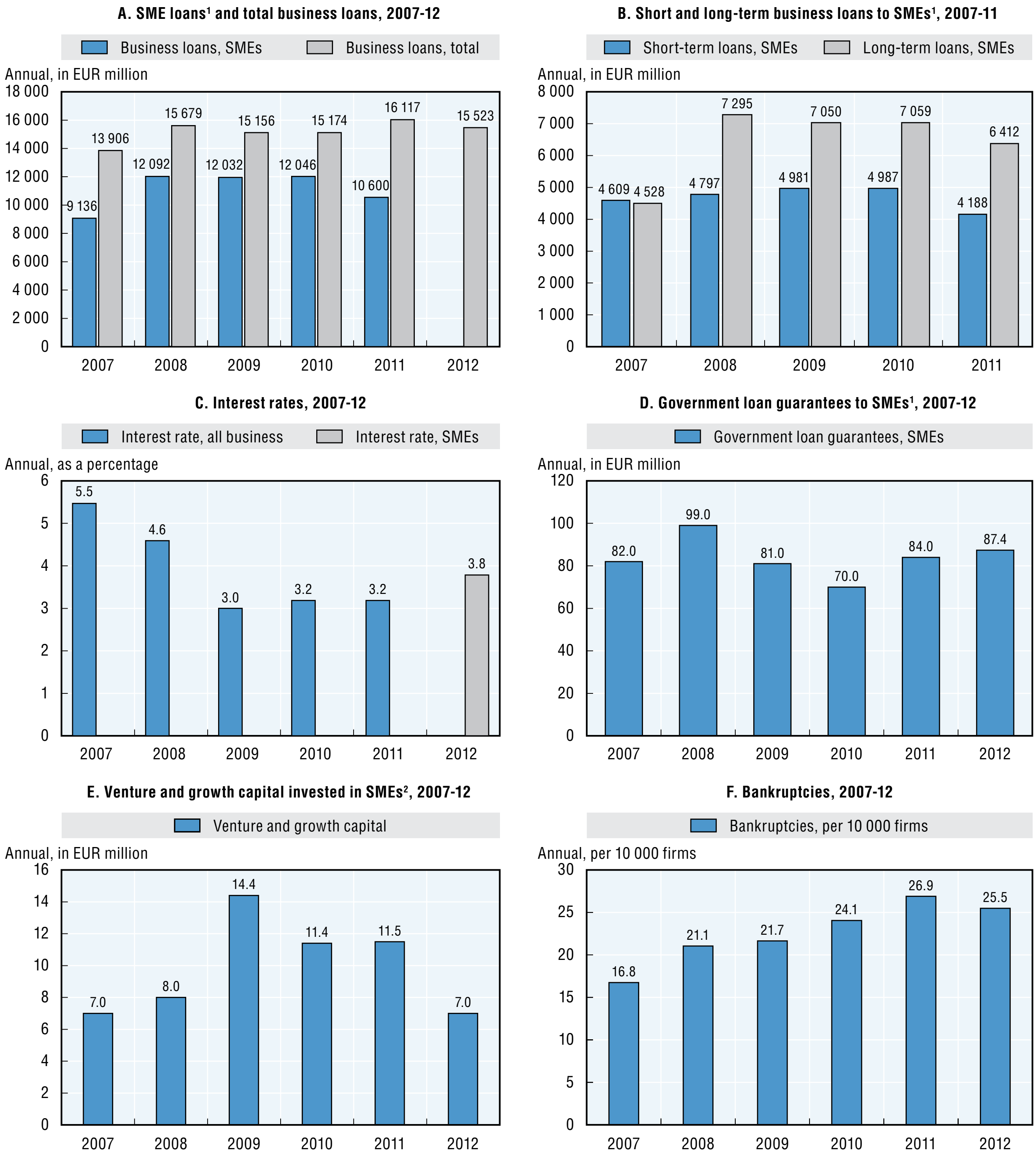
Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	EUR million	9 136	12 092	12 032	12 046	10 600	..
Business loans, total	EUR million	13 906	15 679	15 156	15 174	16 117	15 523
Business loans, SMEs	% of total business loans	65.70	77.12	79.39	79.39	65.77	..
Short-term loans, SMEs	EUR million	4 609	4 797	4 981	4987	4 188	..
Long-term loans, SMEs	EUR million	4 528	7 295	7 050	7 059	6 412	..
Short-term loans, SMEs	% of total loans	50.4	39.7	41.4	41.4	39.5	..
Government loan guarantees, SMEs	EUR million	82	99	81	70	84	87
Government guaranteed loans, SMEs	EUR million	115	157	143	139	167	145
Direct government loans, SMEs	EUR million	117	160	139	147	168	219
Interest rate, all business	%	5.5	4.6	3.0	3.2	3.2	2.6
Interest rate, SMEs	%	..	..	..	..	..	3.8
Interest rate spread	%	..	..	..	..	..	1.2
Collateral, SMEs[1]	% of SMEs required to provide collateral on latest bank loan	100	100	100	100	100	100
Equity							
Venture capital, SMEs	EUR million	7	8	14	11	12	7
Venture capital, SMEs	Year-on-year growth rate, %	..	14.3	80.0	-20.8	0.9	-39.1
Other							
Payment delays, SMEs	Days, B2B	19.7	8.0	13.0	17.0	20.0	21.0
Payment delays, SMEs	Days, B2C	21.8	8.0	10.0	15.0	13.0	13.0
Bankruptcies	Number	169	251	276	344	375	360
Bankruptcies	Year-on-year growth rate, %	..	48.5	10	24.6	9.0	-4.0
Bankruptcies, SMEs	Number	..	..	..	..	363	339
Bankruptcies	Per 10 000 firms	16.8	21.1	21.7	24.1	26.9	25.5

Note: 1. Figures relate to development loans, for working capital loans collateral is usually not requested.

Source: Refer to Table 25.4.

StatLink http://dx.doi.org/10.1787/888933014745

Figure 25.1. **Trends in SME and entrepreneurship finance in the Slovak Republic, 2007-12**



Notes: 1. Enterprises with less than 250 employees, including natural persons – entrepreneurs. 2. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC). Reflects venture capital investments with a public element.

Sources: Chart A, B and C: National Bank of Slovakia. Chart D: National Agency for Development of Small and Medium Enterprises, Slovak Guarantee and Development Bank, Export-Import Bank. Chart E: National Agency for Development of Small and Medium Enterprises. Chart F: Statistical Office of the Slovak Republic.

StatLink http://dx.doi.org/10.1787/888933016265

Table 25.4. **Definitions and sources of indicators for the Slovak Republic's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Bank and financial institution loans to SMEs, amount outstanding at the end of period; by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – self-entrepreneurs). Includes overdrafts, lines of credit, business mortgages and business credit cards.	Financial Directorate/ financial statements (balance sheets) database for the period 2007-11, National Bank of Slovakia
Business loans, total	Bank and financial institution business loans to all non-financial enterprises, including natural persons – entrepreneurs, stocks. Includes overdrafts, lines of credit, business mortgages and business credit cards.	National Bank of Slovakia
Short-term loans, SMEs	Loans equal to or less than one year by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – self-entrepreneurs).	Financial Directorate/ financial statements (balance sheets) database for the period 2007-11, National Bank of Slovakia
Long-term loans, SMEs	Loans for more than one year by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – entrepreneurs).	Financial Directorate/ financial statements (balance sheets) database for the period 2007-11, National Bank of Slovakia
Government loan guarantees, SMEs	Guarantees available to banks and financial institutions – new by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – entrepreneurs).	Annual reports on the state of SMEs in the Slovak Republic (National Agency for Development of Small and Medium Enterprises), Slovak Guarantee and Development Bank, Export-Import Bank
Government guaranteed loans, SMEs	Loans guaranteed by government – new. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).	Slovak Guarantee and Development Bank, Eximbank
Direct government loans, SMEs	New loans guaranteed by government (state owned banks) by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – entrepreneurs).	Annual reports on the state of SMEs in the Slovak Republic (National Agency for Development of Small and Medium Enterprises), Slovak Guarantee and Development Bank, Export-Import Bank
Interest rate, all business	Figures represent the general interest rate for all business for the period 2007-11.	National Bank of Slovakia
Interest rate, SMEs	Represents the general interest rate for SMEs – non-financial enterprises.	National Bank of Slovakia
Interest rate spread	Difference between interest rate charged on loans to all businesses and interest rate charged on SMEs – proxy	National Bank of Slovakia
Collateral, SMEs	Percentage of SMEs that were required to provide collateral on latest development bank loan. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).	National Bank of Slovakia, National Agency for Development of Small and Medium Enterprises survey
Equity		
Venture capital, SMEs	Actual amounts invested in SMEs: seed and start-up phase. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC). Reflects venture capital investments with a public element.	Annual reports on the state of SMEs in the Slovak Republic (National Agency for Development of Small and Medium Enterprises)
Other		
Payment delays	Average number of days delay beyond the contract period for Business to Business (B2B) and Business to Customer (B2C).	European Payment Index reports (Intrum Justitia)
Bankruptcies, total (number)	Number of enterprises ruled bankrupt.	Statistics of the Ministry of Justice
Bankruptcies, SMEs	Number of SMEs ruled bankrupt.	CRIF – Slovak Credit Bureau for the period 2011-12
Bankruptcies, total (per 10 000 firms)	Number of enterprises ruled bankrupt per 10 000 enterprises.	Conversion based on business database of the Statistical Office of the Slovak Republic

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OECD (2013), *Entrepreneurship at a Glance*, OECD Publishing, Paris. doi: *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*

Slovenia

SMEs in the national economy

In 2010, 99.8% of all firms in Slovenia were SMEs. Micro-enterprises with less than nine employees accounted for the bulk of the SME sector, covering 93.8% of SMEs.

Table 26.1. **Distribution of firms in Slovenia, 2010**

By firm size

Firm size (employees)	Number of firms	%
All firms	**115 243**	**100.0**
SMEs (0-249)	**115 013**	**99.8**
Micro (0-9)	107 864	93.6
Small (10-49)	5 925	5.1
Medium (50-249)	1 224	1.1
Large (250+)	**230**	**0.2**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933014764

SME lending

Enterprises with more than EUR 2 million in assets have to report their debt, but sole proprietors are excluded. Data on business loans are collected by the Bank of Slovenia, but SME loans are not disaggregated by firm size or loan size. Information on SME loans comes from the balance sheets of enterprises (S11 enterprises) with assets between EUR 2 million and EUR 17.5 million. Thus, many smaller SMEs are omitted from the loan data.

Large enterprises were hit hard by the recession and SMEs which were their suppliers suffered the knock-on effects. Over the period 2007-12, total outstanding business loans grew by 11.0%, while outstanding SME loans increased by 25.9%. In 2012, both total business loans as well as SME loans declined on a year-to-year basis by 7.2% and 4.0%, respectively. The share of SME loans in the total lending portfolio has increased from 54.8% in 2007 to 62.2% in 2012. Short-term loans account for around 35% of total SME loans throughout the period 2007-12.

Credit conditions

Over the period 2007-12, SME interest rates charged on loans below or above EUR 1 million have increased by 5.2% and 1.3% respectively. In 2012, SMEs benefited from looser credit terms when it comes to interest rates charged: interest on SME loans below EUR 1 million registered a five basis points decrease, while the rate charged on SME loans larger than EUR 1 million declined by 43 basis points.

Nevertheless, when compared to credit terms applied to large firms, the picture is mixed. The spread between the interest rate charged on loans to SMEs vs. loans to large firms has tightened significantly for loans below EUR 1 million, standing at three basis points as of 2012. The corresponding interest rate spread between SMEs and large firms has increased when it comes to loans above the EUR 1 million thresholds, standing at 82 basis points in 2012, against 33 basis points in 2007.

Other indicators

In 2012, payment delays decreased both on a business-to-business (B2B) and on a business-to-customer (B2C) level. The average B2B payment delay stood at 30 days in 2012, compared to 32 days in 2011. B2C payment delays decreased by a day, from 25 days in 2011 to 24 days in 2012. Government delays, however, increased by 27%, reaching 19 days as of 2012.

Government policy response

Direct loans are mostly provided by public funds such as the Slovene Enterprise Fund (SEF), the Slovenian Regional Development Fund and the Housing Fund. Government direct loans to SMEs declined by almost half between 2007 and 2010.

The Ministry of the Economy provides credit guarantees and interest rate subsidies through the Slovene Enterprise Fund. The programme for interest rate subsidies started in the beginning of 2009, but the guarantees for bank loans were provided prior to this by the SEF. The Ministry has two guarantee funds for SMEs. Guarantees are also provided by Slovenian Investment and Development Bank (SID) which is responsible for developing, providing and promoting innovative and long-term financial services which are designed to supplement financial markets for the sustainable development of Slovenia. SID Bank provides funds to banks to on-lend and it also provides direct loans to SMEs in case of market failure.

Box 26.1. **Definition of an SME in Slovenia**

The Statistical Office of the Republic of Slovenia defines SMEs as enterprises with less than 250 employees, although the official legal definition and the definition used by the Ministry of the Economy are wider and contain additional criteria, including asset value, revenue threshold and requirements from Commission Recommendation 2003/361/ES.

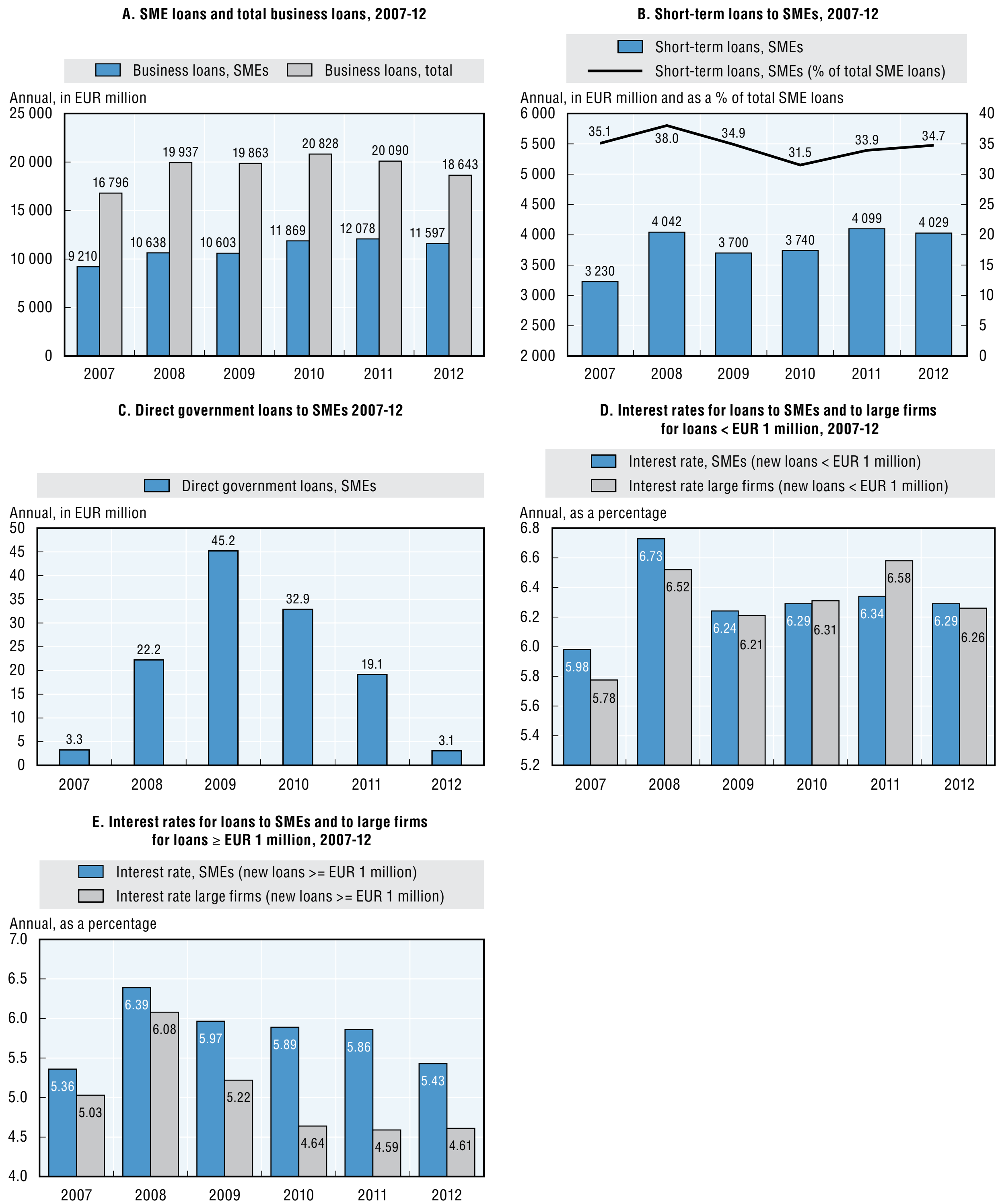
Table 26.2. **Scoreboard for Slovenia, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	EUR million	9 210	10 638	10 603	11 869	12 078	11 597
Business loans total	EUR million	16 796	19 937	19 863	20 828	20 090	18 643
Business loans, SMEs	% of total business loans	54.8	53.4	53.4	57.0	60.1	62.2
Short -term loans, SMEs	EUR million	3 230	4 042	3 700	3 740	4 099	4 029
Long-term loans, SMEs	EUR million	5 980	6 595	6 903	8 129	7 979	7 568
Short-term loans, SMEs	% of total SME loans	35.1	38.0	34.9	31.5	33.9	34.7
Government loan guarantees, SMEs	EUR million	3.3	22.2	45.2	32.9	19.1	3.1
Interest rate SMEs (new loans < EUR 1 million)	%	5.98	6.73	6.24	6.29	6.34	6.29
Interest rate SMEs (new loans ≥ EUR 1 million)	%	5.36	6.39	5.97	5.89	5.86	5.43
Interest rate large firms (new loans < EUR 1 million)	%	5.78	6.52	6.21	6.31	6.58	6.26
Interest rate large firms (new loans ≥ EUR 1 million)	%	5.03	6.08	5.22	4.64	4.59	4.61
Interest rate spread (new loans < EUR 1 million)	%	0.21	0.21	0.03	-0.02	-0.24	0.03
Interest rate spread (new loans ≥ EUR 1 million)	%	0.33	0.31	0.75	1.25	1.27	0.82
Other							
Payment delays	days	..	..	..	..	32	30

Source: Refer to Table 26.3.

StatLink http://dx.doi.org/10.1787/888933014783

Figure 26.1. **Trends in SME and entrepreneurship finance in Slovenia**



Source: Bank of Slovenia.

StatLink http://dx.doi.org/10.1787/888933016284

Table 26.3. **Definitions and sources of indicators for Slovenia's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Sum of short and long-term SME loans, stocks. Excludes financial sector.	Bank of Slovenia
Business loans total	Business loans amount outstanding, stocks. Excludes financial sector.	Bank of Slovenia
Short-term loans SMEs	Short-term bank loans to companies of nonfinancial sector (S.11) with less or equal to 250 employees.	Bank of Slovenia
Long-term loans SMEs	Long-term bank loans to companies of nonfinancial sector (S.11) with less or equal to 250 employees.	Bank of Slovenia
Government loan guarantees, SMEs	Government loan guarantees, flows. SMEs are defined as enterprises with less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.	Bank of Slovenia
Interest rate, SMEs	Interest rates for new loans to non-financial enterprises with less than 250 employees	Bank of Slovenia
Interest rate, large firms	Interest rates for new loans to non-financial enterprises with more than or equal to 250 employees.	Bank of Slovenia
Interest rate spread (new loans < EUR 1 million)	Difference between the interest rate charged on SME and the interest charged on large firms for new loans of value lower than EUR 1 million	Bank of Slovenia
Interest rate spread (new loans ≥ EUR 1 million)	Difference between the interest rate charged on SME and the interest charged on large firms for new loans of value equal to or more than EUR 1 million.	Bank of Slovenia
Payment delays	Average number of payment delays for business-to-business. All enterprises.	Intrum Justitia European Payment Index 2012

Reference

OECD (2013), *Entrepreneurship at a Glance*, OECD Publishing, Paris. doi: *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*

Spain

SMEs in the national economy

In Spain, 99.8% of all enterprises were SMEs in 2011, employing 66.0% of the labour force. Out of these, 89.8% were microenterprises, 8.6% were small and 1.4% were medium-sized enterprises.

Table 27.1. **Distribution of firms in Spain, 2011**

By firm size

Size (employees)	No. enterprises	%
All Firms	**1 228 875**	**100.0**
SMEs (1-249)	**1 291 895**	**99.8**
Micro (1-9)	1 169 391	89.8
Small (10-49)	105 702	8.6
Medium (50-249)	16 802	1.4
Large enterprises (> 249)	**3 046**	**0.2**

Note: Data includes financial enterprises with the exception of holding companies (ISIC Rev.4 sector 642). Non-employer enterprises are not included.

Source: Central Companies Directory (CCD), National Statistics Institute.

StatLink http://dx.doi.org/10.1787/888933014802

SME lending

Before the data on SME lending can be analysed, it is useful to review overall business debt developments between 2007 and 2010. Changes in debt levels resulted, generally, in a gradual reduction of leverage ratios in the productive sectors that were most indebted at the beginning of the period.[1] This process of debt rebalancing has continued throughout 2012, with a persistent contraction in lending.

The Central Balance Sheet Data Office's (CBSO) databases (CBA and CBB) can be used to study the main characteristics of non-financial corporations' deleveraging process in Spain for firms of different sizes.[2] The size breakdown shows the differences in debt and leverage developments for smaller and larger enterprise from 2007 onwards. As seen in the Scoreboard data, both new SME and total business loans registered an important decline between 2007 and 2012, -63.0% and -51.1% respectively. There was no recovery in 2011-12, with SME loans particularly affected, recording a 16.2% decline contracting at the same rate as in 2010-11. Total business loans also decreased, albeit at a more moderate pace than in 2011 (8.1% decline in 2012 compared to a 20.7% decline in 2011). The SME loan share (proxied by the ratio of new loans less than EUR 1 million over total new business loans) declined significantly from almost 40% (2007) to 30% (2012). Both short-term and long-term SME loans declined equally. However, short-term loans accounted for the lions' share of the total SME loans granted, amounting to 95.2% in 2012.

Credit conditions

Interest rates on all loans to non-financial enterprises showed a downward trend between 2007 and 2010. However, interest rates rose in 2011 for both small and large enterprises. By 2012 the spread was 230 basis points, the large for the entire period.

In line with this trend, the evidence in the ECB/EC Survey on the access to finance of SMEs in the euro area (SAFE) showed that SMEs perceived a stronger tightening of credit standards than large firms during and after the crisis. This is probably linked to their poor business performance during this period, the scant growth prospects and consequent uncertainty. The SAFE shows a larger contraction of sales and profits of SMEs during the crisis than that of larger companies in Spain and also than that of SMEs in other countries. According to the same source, however, the general credit conditions that banks apply to SMEs seem to have slightly loosened from 2009 to 2011 when it comes to loan rejection rates. The proportion of rejected loans decreased from 31% in 2009 to 16% in 2011, and fewer SME borrowers report deterioration in the banks' willingness to provide loans.

It should be noted that Spain has undertaken a banking reform which started with the creation of the Fund for the Orderly Restructuring of the Banking Sector (FROB). A consolidation process has resulted in a substantial reduction in the number of banking institutions. 45 savings banks have been transformed into ten banking institutions, with many of those regional savings banks traditionally lending to SMEs. Various initiatives have been taken to improve the resilience of banks to adverse shocks. In February 2011, the minimum required capital was increased. In addition, the European Union adopted a recapitalisation plan for major banks which required an extraordinary capital buffer of a temporary nature until market confidence was re-established.

Equity financing

Venture capital and private equity financing are still underdeveloped in Spain and their performance paralleled that of the Spanish economy. According to the Comisión Nacional del Mercado de Valores (CNMV) a decline of 23.5% in investments was recorded for the sector in 2012, reaching EUR 2 202 million, down from EUR 3 618 million in 2010. The environment was characterised by a lack of new funds and divestment. Nevertheless, according to the Spanish Association of Venture Capital (ASCRI), venture capital and private equity enterprises remained especially focused on SMEs, having financed 543 enterprises in 2012, out of which 90% were transactions of less than EUR 5 million for start-ups and early-phase expansion enterprises.

Fiscal incentives are used to promote venture capital investment. Venture capital companies registered with the CNMV pay a 1% corporate income tax. In July 2011 a national tax incentive scheme to encourage direct investment by third parties in small, early-stage enterprises was introduced. Third parties investing in shares of unlisted enterprises are exempt from capital gains. At the time of the investment the enterprises must be no more than three years old, with equity of no more than EUR 200 000. Investments eligible for relief may not exceed EUR 25 000 a year or EUR 75 000 in three consecutive years. Furthermore, individual investors may not hold over 40% of the company's share capital and must hold the shares for a period of three to seven years.

Other indicators

Payment delays rose from 12 days in 2008 to 26 days in 2009. The modification in 2010 of the former Law against the delays (Law 15/2010, modifying Law 3/2004) has reduced delays of B2B from 26 days (2009) to 14 days (2011). In any case, it should be stressed that the data obtained from accounting data are approximations. They are useful for analysing changes and trends but they cannot verify the degree of compliance with the legal limits set for payment periods.

SMEs ruled bankrupt in 2011 increased by a factor of five in comparison with 2007 figures. More than 30% of construction and property development enterprises have gone bankrupt. The increasing trend was maintained throughout 2012, with an estimated increase of 30.4% in the number of failing enterprises.

Asset quality has significantly deteriorated over the period 2007-12, with non-performing loans for the business loan amounting to 16.06% in 2012 compared to 11.64% in 2011.

Government policy response

The government has undertaken several measures to ensure SME access to finance. This set of measures includes financial measures to facilitate access to credit and fiscal measures to support businesses.

The Official Credit Institute (ICO) is a public company that has a dual role of a specialised credit institution and a state financial agency. The ICO's main objectives are to support and promote economic activities that contribute to the growth and improvement in the distribution of national wealth and in particular, to cultural, innovative or ecological priorities. In this regard it responded to the economic crisis and it extended and improved its traditional credit lines and direct loans to SMEs. It also created a number of new facilities. Among the most important were the following:

- New ICO-Liquidity Facility for SMEs established in 2008 to finance working capital for SMEs.
- New ICO-SME Moratorium declared in 2009 which allowed the postponement of repayment of loans from the ICO-SME (traditional SME credit line).
- ICO-PROINMED is an intermediation line for financing investment projects of medium-sized enterprises.
- ICO-FTPYME for securitisation funds: in 2008 the Treasury introduced line FTPYME and extended it in 2009 and 2010. This line allows the state to provide guarantees to insure debt securities issued by the Asset Securitisation Fund. Specifically, it supports some of the debt securities issued by the Asset Securitisation Fund on behalf of the credit institutions which lend to SMEs.
- Others include ICO Investment (EUR 4.2 billion), ICO International Facility (EUR 231 million), ICO Entrepreneurs facility (EUR 141 million) and ICO Liquidity Facility (EUR 6.8 billion). All these are second-floor facilities funded by the ICO and granted through loans to private credit institutions, who assume the credit risk associated with each operation. The maximum amount of the underlying funding is EUR 10 million per client, granted via loans or leasing and with repayment terms of up to 20 years.

Export subsidies

The financial measures to boost exports include the reform of the System of Contracts for Reciprocal Interest Adjustment (CARI) to encourage the granting of export credit and as well as promoting export credit insurance managed by the Spanish Insurance Company for Export Credit (CESCE). Several initiatives include the creation of the Fund for Aid to Development – SME line and the CESCE-SME line to facilitate access to export credit insurance at a lower cost.

SME guarantee programmes

Launched in 2013, the programme provides guarantees for SME loans between 12-18 months for investments, R&D and working capital financing. This is a counter-guarantee programme, funded by the Ministry of Industry Energy and Tourism. The maximum financing allowed is EUR 1 million per SME or group and the counter-guarantee coverage reaches 50%. The programme targets involve the provision of guarantees to 10 000 SMEs with a corresponding amount of EUR 400 million in guaranteed loans.

Other national programmes

A number of pre-existing programmes have been maintained in 2012 and 2013 and are running throughout the year, namely: SME facilities providing interest-free loans to young entrepreneurs (Young Entrepreneurs Facility), IT-related SMEs (IT-based SME Facility) and innovation-driven SMEs. These interest-free loans are funded by the Spanish Treasury through the Ministry of Industry and delivered directly to the companies, without any agents involved.

Additionally, a number of programmes financing R&D business projects have been launched in 2013, such as Feder Innterconecta, Innternacionaliza, Ayudas Neotec and Linea Directa de Innovacion. All the above are funded by the government budget, and some of which drawing also by EU budgets (ERDF) and are delivered through a public agent (CDTI). The estimated cost for these programmes is nearly EUR 1 billion.

Fiscal measures

The government has also undertaken the following fiscal measures:

- Monthly VAT refund: from January 2009, taxpayers may apply for VAT refunds every month without having to wait for the end of the year.
- Accelerated depreciation for new assets.
- New regime for instalment payments for income taxes.

Box 27.1. **Definition of an SMEs used in Spain's SME and entrepreneurship finance Scoreboard**

Country definition

In Spain, SMEs are classified according to the European Union standard definition (2003/361/EC), that is firms with less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million.

Definition of SMEs for financial indicators

For business loans, short- and long-term loans, interest rates and collateral indicators, the SME definition used is based on loan size: amounts of new euro-denominated loans granted in the reference period to non-financial corporations resident in the euro area for amounts below EUR 1 million.

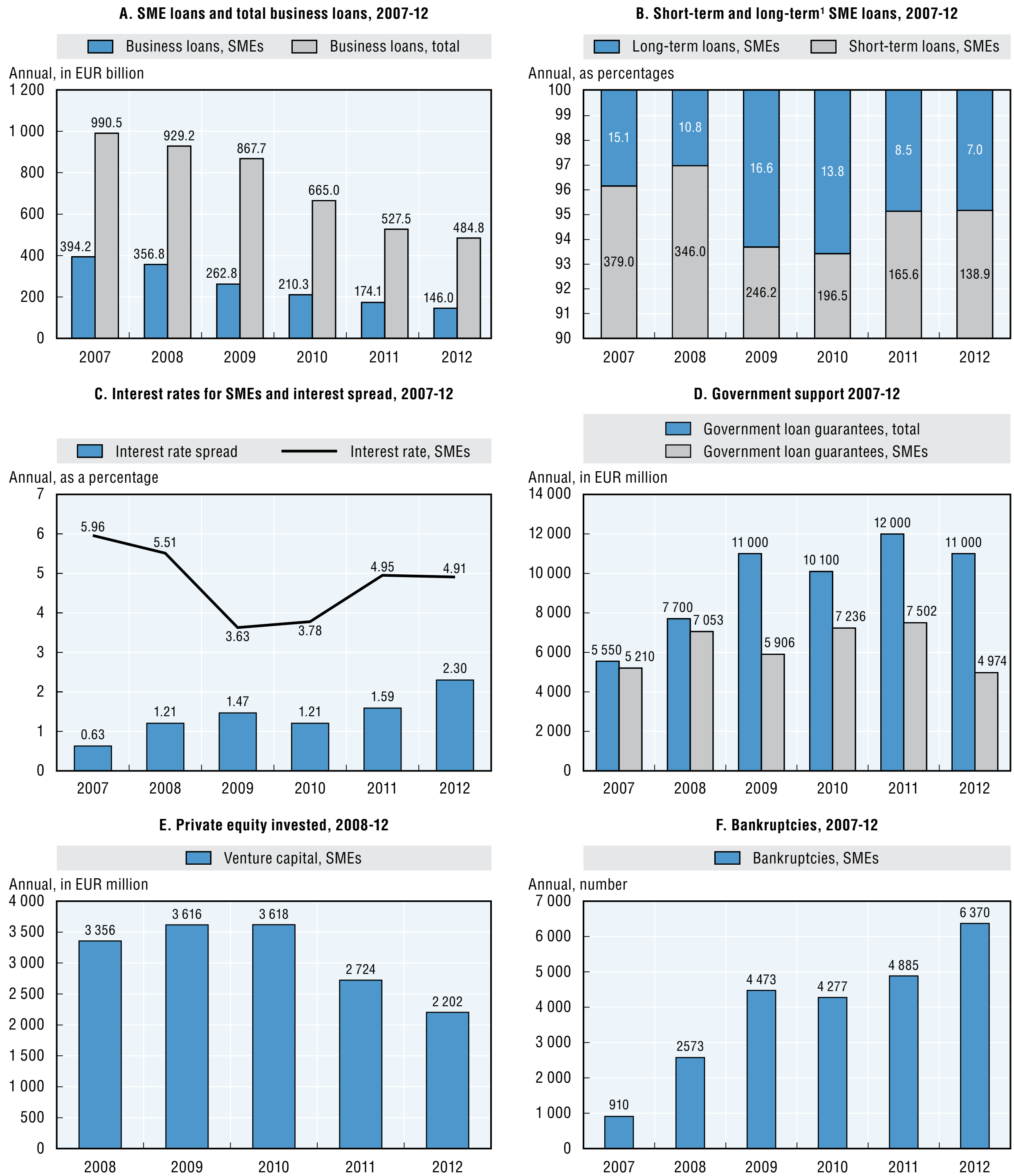
Table 27.2. **Scoreboard for Spain, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	EUR billion	394.2	356.8	262.8	210.3	174.1	146.0
Business loans, total	EUR billion	990.5	929.2	867.7	665.0	527.5	484.8
Business loans, SMEs	% of total business loans	39.8	38.4	30.3	31.6	33.0	30.1
Short-term loans, SMEs	EUR billion	379.0	346.0	246.2	196.5	165.6	138.9
Long-term loans, SMEs	EUR billion	15.1	10.8	16.6	13.8	8.5	7.0
Short-term loans, SMEs	% of total SME loans	96.2	97.0	93.7	93.4	95.1	95.2
Government loan guarantees, total	EUR million	5 550	7 700	11 000	10 100	12 000	11 000
Government guaranteed loans, SMEs.	EUR million	5 210	7 053	5 906	7 236	7 502	4 974
Direct government loans, total (stocks)	EUR million	15 929	17 630	24 470	26 262	27 045	26 205
Direct government loans	Year-on-year growth rate, %	..	10.7	38.8	7.3	3.0	-3.1
Ratio of non-performing business loans within total business loan portfolio	%	0.74	3.67	6.25	8.09	11.64	16.06
Interest rate, SMEs	%	5.96	5.51	3.63	3.78	4.95	4.91
Interest rate, large firms	%	5.33	4.30	2.16	2.57	3.36	2.61
Interest rate spread	%	0.63	1.20	1.46	1.21	1.59	2.30
Collateral, total	% of collateralised loans	..	..	..	..	34.4	31.5
Equity							
Venture capital, SMEs	EUR million	..	3 356	3 616	3 618	2 724	2 202
Venture capital, SMEs	Year-on-year growth rate, %	..	..	7.7	0.1	-24.7	-19.2
Other							
Payment delays, SMEs	Days	27	12	26	23	14	11
Bankruptcies, SMEs	Number of enterprises	910	2 573	4 473	4 277	4 885	6 370

Source: Refer to Table 27.3.

StatLink http://dx.doi.org/10.1787/888933014821

Figure 27.1. **Trends in SME and entrepreneurship finance in Spain**



Note: 1. The term in this case refers to the initial rate fixation and not to the loan term.

Sources: Chart A, B, C and F: Banco de España. Chart D: Dirección General del Tesoro y Política Financiera. Chart E. Comisión Nacional del Mercado de Valores

StatLink http://dx.doi.org/10.1787/888933016303

Table 27.3. **Definitions and sources of indicators for Spain's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Amount of new euro-denominated loans granted in the reference period to non-financial corporations (NFCs) resident in the euro area for amounts below EUR 1 million. Overdrafts are excluded. From June 2010, credit lines and credit card are excluded.	Banco de España
Business loans, total	Amount of new euro-denominated loans granted in the reference period to non-financial corporations (NFCs) resident in the euro area. Overdrafts are excluded. From June 2010, credit lines and credit card are excluded.	Banco de España
Short-term loans, SMEs	Amounts of new euro-denominated loans granted in the reference period to NFCs resident in the euro area for amounts below EUR 1 million with terms of one year or less. The term in this case refers to the initial rate fixation and not to the loan term. Overdrafts are excluded. From June 2010, credit lines and credit cards are excluded.	Banco de España
Long-term loans, SMEs	Amounts of new euro-denominated loans granted in the reference period to NFCs resident in the euro area for amounts below EUR 1 million with terms exceeding one year. The term in this case refers to the initial rate fixation and not to the loan. Overdrafts are excluded. From June 2010, credit lines and credit cards are excluded.	Banco de España
Government loan guarantees, total	Ceiling on Central Government guarantees approved by Law includes only guarantees for the securitisation funds. Stocks	Dirección General del Tesoro y Política Financiera
Government guaranteed loans, SMEs.	Proxy: guarantees granted by general government for SME enterprises; includes only guarantees for the securitisation funds. Stocks.	Dirección General del Tesoro y Política Financiera
Direct government loans, total	Financial assets of general government in the Financial Accounts of the Spanish Economy: loans to NFCs. stocks.	Dirección General del Tesoro y Política Financiera e Intervención General de la Administración del Estado
Interest rate, SMEs	Interest rates applied to new euro-denominated loans granted in the reference period to NFCs resident in the euro area for amounts below EUR 1 million with terms of one year or less. The term in this case refers to the initial rate fixation and not to the loan term.	Banco de España
Interest rate, large firms	Interest rates applied to new euro-denominated loans granted in the reference period to NFCs resident in the euro area for amounts over EUR 1 million with terms of one year or less. The term in this case refers to the initial rate fixation and not to the loan term.	Banco de España
Interest rate spread	Interest rates applied to new euro-denominated loans granted in the reference period to non-financial corporations (NFCs) resident in the euro area for amounts below and above EUR 1 million with terms of one year or less. The term in this case refers to the initial rate fixation and not to the loan term. Interest rates SME minus interest rate large firms.	Banco de España
Collateral, total	Proxy: percentage of loans backed by real state guarantees. Estimate based in outstanding amounts. Total firms.	Banco de España
Equity		
Venture capital, SMEs	Actual amounts invested in SMEs: seed, start up and expansion stage (excludes buyouts, turnarounds, replacements). SME defined as firms with less than 250 employees.	Comisión Nacional del Mercado de Valores
Other		
Payment delays	Average delay in days for B2B. SME enterprises. It has been calculated, subtracting the accounting payment period, to the legal maximum average payment period prescribed in the law.	Banco de España
Bankruptcy	Number of SMEs enterprises ruled bankrupt.	Banco de España obtained from Mercantile Register information.

StatLink http://dx.doi.org/10.1787/888933014840

Notes

1. The only exception to this pattern was the construction sector, where the debt decline was insufficient to counteract the decline in their assets, hence resulting in some increase in the indebtedness ratio.
2. Changes in debt levels for this sample replicate quite well the developments derived from the Financial Accounts of the Spanish Economy for the business sector: they show an increase in non-financial corporations debt in 2008, a slight decline in 2009 and stabilisation in 2010.

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Sweden

SMEs in the national economy

In Sweden non-employer firms accounted for 623 087 firms in 2010, 99.8% of which were SMEs, employing 65.4% of the country's labour force.

Table 28.1. **Distribution of firms in Sweden, 2010**

By firm size

Firm size (employees)	Firms		Employees	
	Number	%	Number	%
Total firms	**623 087**	**100.0**	**2 890 808**	**100.0**
SMEs (0-249)	**622 106**	**99.8**	**1 890 319**	**65.4**
Micro (0-9)	588 665	94.5	745 282	25.8
Small (10-49)	28 542	4.6	620 833	21.5
Medium (50-249)	4 899	0.8	524 204	18.1
Large (250+)	**981**	**0.2**	**1 000 489**	**34.6**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933014859

SME lending

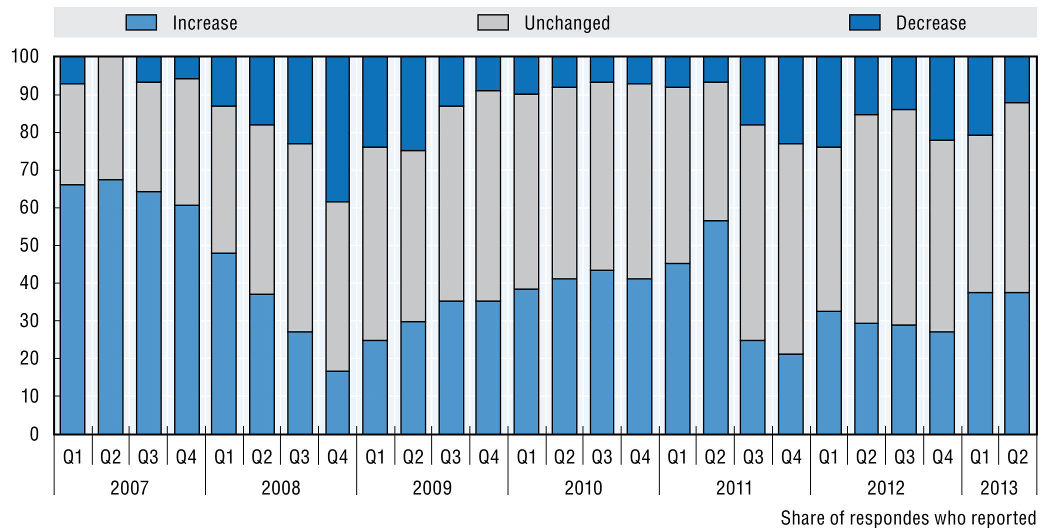
The majority of SMEs use the commercial banking sector when seeking external finance. Total business loans and SME loans increased over the period 2007 to 2009. Since no data were available through supply-side surveys, the loans were based on a proxy (financial balance sheet liabilities) obtained from tax record information. Using tax information creates a lag of 18 months in terms of its availability. A revised and considerably improved methodology will be applied for SME lending in coming scoreboards.

According to balance sheet data, the SME outstanding loan volume increased considerably between 2007 and 2009, driven by an increase in long-term lending. In 2010 however, long and short term loans dropped considerably, in the wake of the financial crisis.

According to quarterly surveys conducted by the Swedish finance company, ALMI, the share of bank managers reporting increased loan volumes to businesses (compared to the previous quarter) reached a low point during the height of the crisis (Q4 2008). Subsequent data indicated a recovery in lending until the latter half of 2011, when another drop in banks' lending to businesses seems to have occurred due to the weakening of the prospects of enterprises. In 2012 and the first half of 2013, lending is reported to have increased at a slow but steady pace.

Figure 28.1. **Share of bank managers reporting increased loan volumes to businesses in Sweden, 2007-13**

Percentages



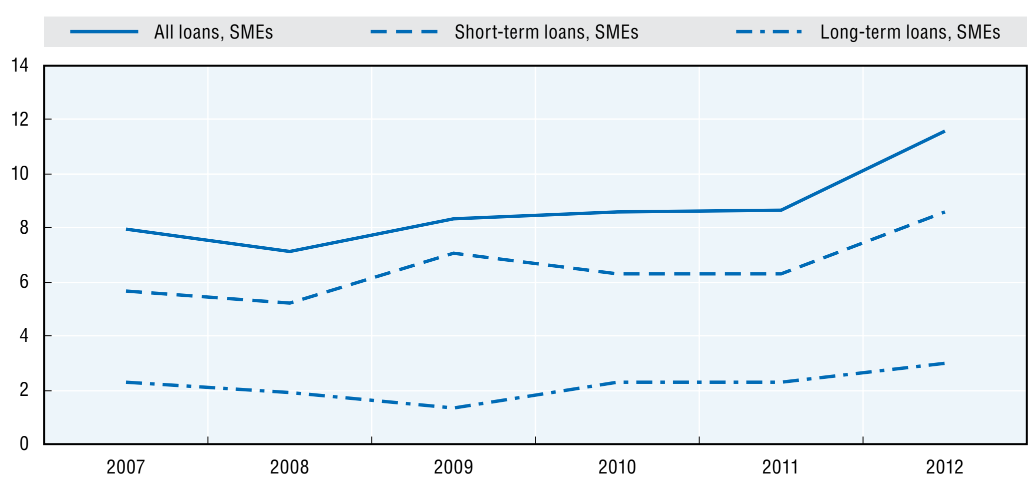
Source: Almi Företagspartner AB (September 2012).

StatLink http://dx.doi.org/10.1787/888933016322

SME lending can also be approximated by the share of new (and renegotiated) loans less than SEK 10 million (about EUR 0.9 million). Over the period of 2007 to 2012, the year of 2008 marked a low point for SME lending with just 7% of all new loans, and has since climbed to reach almost 12% in 2012. The increase is explained primarily by an increase in short-term loans, which could also be explained by SMEs seeking financing to alleviate liquidity issues.

Figure 28.2. **Approximated share of new loans to SMEs in Sweden, 2007-12**

Percentages



Note: Data includes new and renegotiated loans to non-financial enterprises in Sweden, short-term represents loans with a duration of up to one year. Based on a supply-side survey with a sample covering 90% of MFI lending to non-financial enterprises.

Source: Statistics Sweden, MIR database.

StatLink http://dx.doi.org/10.1787/888933016341

Credit conditions

As in most other euro area countries, interest rates peaked in 3Q08 and declined thereafter due to monetary easing. The interest rate for SME loans was 4.86% (2007), rising to 5.66% (2008) before declining in 2009 to 2.42%. In 2011, interest rates again rose significantly to 4.15% due to tightened monetary policy. The repo rate of the Swedish Riksbank affecting the rate at which banks loan money was 0.25% in early 2010, and reached a high of 2% by late 2011. Since December 2012 the repo rate has been fixed at 1%.

The interest rate spreads between small and large enterprises (measured by loans below/above EUR 1 million) declined during the recession but rose again during the recovery. Over the period 2007-12, the interest rate spread between small and large enterprises rose by 12.7%, despite the fact that respective interest rates for small and large firms have decreased over the same period by 17.0% and 23.5%, respectively (114 basis point spread in 2011-12).

In 2012, the weak economic climate has led companies to reduce their level of investment and as a result business lending has decreased. According to the Financial Stability Report of Riksbank (May 2013), restricted availability of bank financing was one of the main reasons for the decline in credit growth as reported by the enterprises facing funding challenges.

Equity financing

There was a marked drop in venture capital financing in 2009 due to the recession. Venture capital financing decreased further during 2010, 2011 and 2012. Total venture capital investments in 2012 were about a third of the level in 2008. Seed venture capital was particularly hard hit and dropped by 85% in 2011. Data includes investments from private and government financed venture capital organisations. The negative trend has carried on in 2012 and Q1 2013, with only SEK 230 million recorded in the first quarter of 2013, marking the lowest investment in venture capital since 2007, according to the Swedish Private Equity and Venture Capital Association. The market is characterized by low activity despite a supply of interesting investments and weak competition. This is mainly attributed to the venture capital market being underdeveloped, with few venture capital players.

In late 2012 and early 2013, publicly funded initial investments in venture capital have prevailed, with more publicly funded initial investments (16) than privately funded (15) for the first quarter of 2013. The proportion of publicly funded initial investments has had a positive trend since 2008, increasing from 10% in Q4 2008 to 40% in Q1 2013.

Table 28.2. **Capital invested by stage of development in Sweden, 2007–12**

In SEK million

	2007	2008	2009	2010	2011	2012
Seed	150	166	68	44	23	55
Start-up	2 163	2 507	1 467	1 430	1 157	817
Expansion	1 603	2 117	1 522	1 222	1 174	945
Total	**3 917**	**4 790**	**3 057**	**2 696**	**2 354**	**1 817**

Source: Swedish Venture Capital Association (SVCA), special data extraction 2013-05-06.

StatLink http://dx.doi.org/10.1787/888933014878

In 2010 the Swedish government launched Inlandsinnovation AB (Inland Innovation), a state venture capital company with a total of SEK 2 billion available for investments. The fund was originally limited to investments in the northern inland regions of Sweden, but has since spring 2013 received an increased mandate, allowing it to invest throughout all of northern Sweden. The initiation of the venture capital fund was not motivated by the financial crisis but rather by a permanent deficit of venture capital in these sparsely populated regions. Another government venture capital fund, Fouriertransform, established in 2009 to invest in R&D within the automotive sector, also received an increased mandate in spring 2013, allowing it to invest in other manufacturing industries.

Other indicators

A survey of SME managers by the Swedish Federation of Business Owners indicated that payment delays on the part of customers had a negative impact on SME cash flow and, in turn, affected the ability of these enterprises to make their payments. The share of enterprises having difficulties caused by payment delays increased from 19% (Q4 2008) to 24% (Q1 2009). However, while payment delays increased during the recession, they remained among the lowest in Europe. Furthermore, the average number of days of payment delay for SMEs was seven days in 2012, its lowest point since 2007-08.

In the aftermath of the global financial crisis, the combined drop in sales, payment delays and the credit crunch caused a jump in the number of SME bankruptcies, from 5 791 (2007) to 7 632 (2009). A decreasing trend in 2010 and 2011 has brought bankruptcies to 6 955 in 2011, with the decline halted in 2012 when 7 464 SMEs declared bankruptcy, 7.3% more than in 2011. As the total number of firms increased faster than the number of bankruptcies, the increase in number of bankruptcies per 10 000 firms shows that the increase was more modest than it appeared. SMEs account for nearly all recorded bankruptcies in the country.

With regards to asset quality, loan losses for the major Swedish banks remained at low levels in 2012. Banks have continued to roll back earlier provisions as loan losses have not been as high as expected. This is expected to remain unchanged in 2013 according to the Riksbank.

Government policy response

Throughout the financial crisis of 2008-09 the Swedish government undertook a number of measures, such as supporting the banking sector (through measures to strengthen the capital base and secure bank lending), tax credits, export credit facilitation and business development programmes. The most targeted government measure taken to increase access to finance for SMEs was to increase the support to the Swedish development bank, ALMI. A capital injection by the government increased lending capacity in 2009 compared to 2008, combined with allowing a higher share of co-financing. As the crisis subsided, the lending volume of ALMI returned to a more normal level.

Other measures were also implemented, but did not directly target the financial system. To reduce the liquidity problems of enterprises during the financial crisis, the government introduced a temporary act to defer tax payments in March 2009. Employers were able to obtain a respite, for a maximum of one year, in paying employees' social security contributions and preliminary taxes for their employees for two months during 2009. This measure was later prolonged, and relief from tax payment was in effect until January 2011.

Loan guarantees and direct government loans

Government guaranteed lending in the traditional sense is marginal in Sweden. There were previously 14 regional guarantee funds (funded by the State and regions) associated with the Swedish Credit Guarantee Association (SKGF), which provided state guarantees for SME bank loans. In total, the value of the issued guarantees amounted to approximately EUR 3 million in 2008 and EUR 1.5 million in 2009. The SKGF guarantee funds were part of a government project running from 2003 to 2010. Since the end of the project, all funds have been dissolved.

The main government tool for strengthening SME access to loans and credit was through a supplementary financing actor, ALMI, the Swedish finance company. During the second half of 2008, the government took steps to support SME access to finance by enhancing the activities of ALMI. The main activity of ALMI is the provision of SME loans and credits, rather than providing guarantees for bank loans. To some extent, this can be seen as a type of guarantee, as ALMI loans are co-financed by private banks. Following the financial crisis, it was decided to increase the cap for the maximum ALMI share in a loan from 50% to 80%. ALMI financed 100% of micro credits, and increased the loan size from SEK 100 000 to SEK 250 000. ALMI added a "new" client segment - the upper-tier SMEs. ALMI does issue traditional loan guarantees, but for very small volumes. In 2010, ALMI issued guarantees for SME loans worth SEK 46.2 million; in 2011 ALMI issued guarantees worth SEK 42.1 million, while in 2012 the respective guarantees issued stood at SEK 58.9 million.

There was also increased co-operation with private banks in terms of co-financing, as ALMI requires private banks' co-participation and involvement in every deal. But co-financing is not the same as the government guarantee systems that are in place in other countries in the OECD Scoreboard. SME direct government loans increased from SEK 1 422 million (2007) to SEK 3 231 million (2009) but declined to SEK 2 023 million in 2011. In 2012, direct loans from ALMI increased slightly to SEK 2 161 million.

ALMI authorised loans

The number of ALMI authorised loans increased to 2009 and then declined in both 2010 and 2011, but increased again in 2012. The increase in number of loans authorised grew in parallel to the loan volumes, thereby not affecting average loan size. To avoid undesired competition with private banks, the interest rate offered by ALMI was higher than the rate offered by private banks. The first choice for enterprises seeking external finance would have been to get the full loan from a private bank. This meant that most of those approaching ALMI had already approached banks, which had turned down their application or required co-financing from ALMI. There was evidence that the percentage of non-performing loans in relation to total loans peaked in 2009 and then declined. Thus, banks would have had an incentive to toughen the credit requirements for SME lending.

Export credit guarantees

In Sweden export credit guarantees are provided through the Swedish Export Credit Corporation (EKN), which offers guarantees up to 75% of total transactions. In 2007 EKN created a particular business category for enterprises with a turnover of less than SEK 1 billion and fewer than 500 employees. This business category was called "small and medium-sized exporting enterprises" (although inconsistent with the normal Swedish SME definition). Efforts to support this set of enterprises were subsequently increased up to 2010. Thereafter, export credit guarantees declined to SEK 2.2 billion in 2012 which was still above the 2007 level. A contributing factor was the expiration of a temporary permit that EKN had received from the EU to guarantee short-term credit risks during 2010.[1]

Update on government response

In addition to the measures mentioned above, no new SME specific measures have been launched since 2009 to address the effects of the financial crisis on SME access to finance. The recovery after the financial crisis is perceived to have been good in Sweden, which spilled over to the majority of SMEs. Nevertheless the drop in market demand forced many struggling businesses into default, illustrated by the increase in bankruptcies. In the face of the current euro crisis and the dip in SME lending, the Riksbank lowered its interest rate to both stimulate lending and weaken the kronor to help exports.

Table 28.3. **SME export credit guarantees in Sweden, 2007-12**

In SEK billion

	2007	2008	2009	2010	2011	2012
In effect	1.5	2.1	2.7	2.9	2.6	2.2

Note: SMEs refer to firms with a turnover of less than SEK 1 billion and fewer than 500 employees.

Source: Swedish Export Credit Corporation.

StatLink http://dx.doi.org/10.1787/888933014897

Further on, there is also a government proposition for a tax break for private venture capital investors, with the intent of improving SME access to finance, which will be put to a vote by the Parliament in Q3 2013. The tax break was approved by the European Commission in July 2013 and is expected to be implemented in December 2013. The government has set aside SEK 800 million annually to fund the relief, which will allow for tax relief up to 15% of the investment.

Table 28.4. **Scoreboard for Sweden, 2007-12**

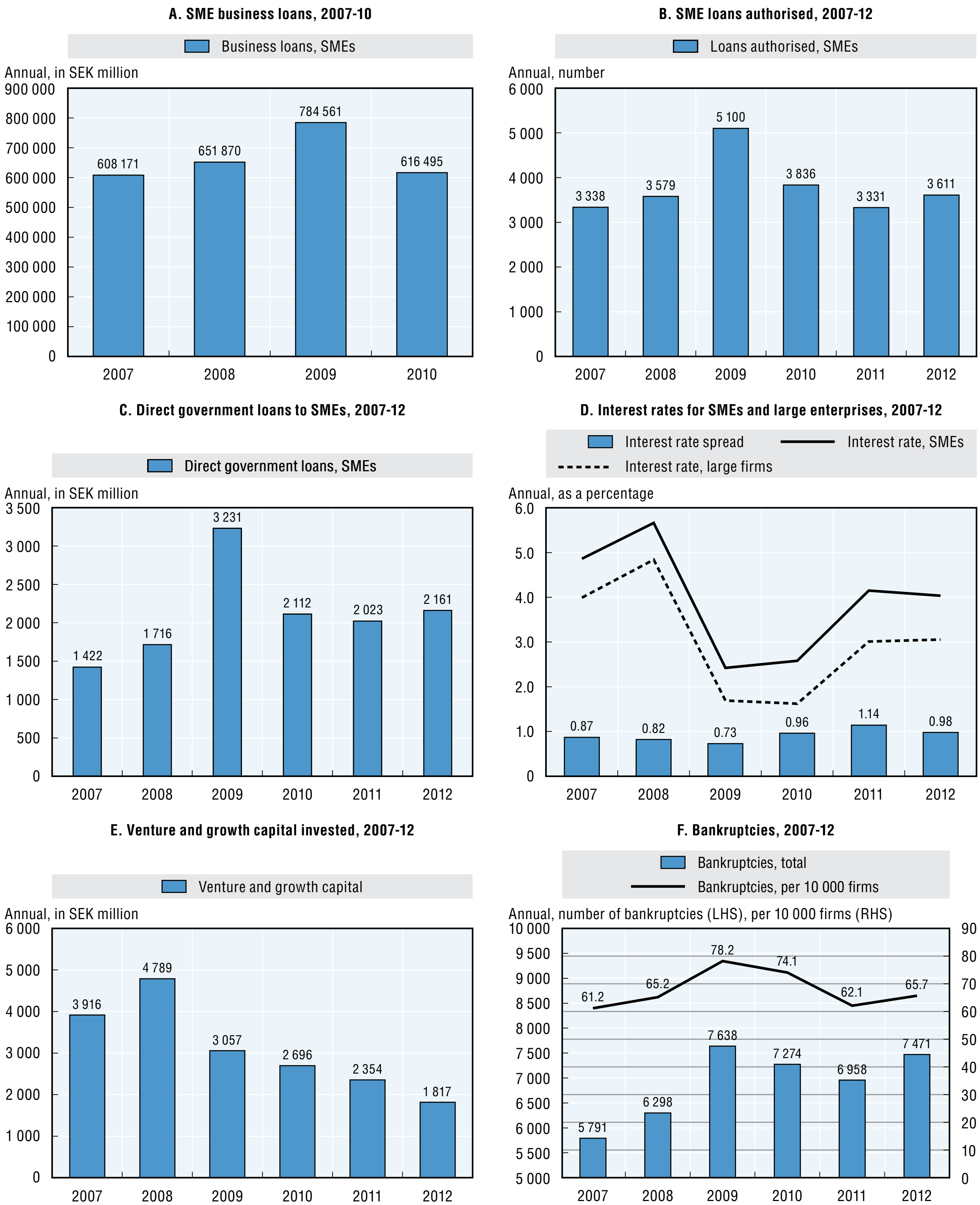
Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	SEK million	608 171	651 870	784 561	616,495	..	..
Short-term loans, SMEs	SEK million	83 393	77 961	93 314	85,081	..	..
Long-term loans, SMEs	SEK million	524 778	753 909	691 247	531,414	..	..
Total short and long-term loans, SMEs	SEK million	608 171	651 870	784 651	616,495	..	..
Short-term loans, SMEs	% of total SME loans	13.7	12.0	11.9	13.8	..	..
Government guaranteed loans, SMEs[1]	SEK million	157	131	107	0	0	..
Government loan guarantees, SMEs[2]	SEK million	53	31	15	0	0	..
Direct government loans, SMEs	SEK million	1 422	1 716	3 231	2 112	2 023	2 161
Loans authorised, SMEs	Number	3 338	3 579	5 100	3 836	3 331	3 611
Non-performing loans, total	% of non-performing loans to total business loans	0.24	0.37	0.85	0.88	0.78	0.74
Interest rate, loans < EUR 1 million	%	4.86	5.66	2.42	2.58	4.15	4.04
Interest rate, loans > EUR 1 million	%	3.99	4.84	1.69	1.62	3.01	3.05
Interest rate spread (between loans < 1 million and > 1 million)	%	0.87	0.82	0.73	0.96	1.14	0.98
Relation between large firm and SME interest rates	%	82.1	85.5	69.8	62.8	72.5	75.7
Equity							
Venture and growth capital	SEK million	3 916	4 789	3 057	2 696	2 354	1 817
Venture and growth capital	Year-on-year growth rate, %	..	22.3	-36.2	-11.8	-12.7	-22.8
Other							
Payment delays, SMEs	Average number of days	6.9	7.0	8.0	8.0	8.0	7.0
Bankruptcies, total	Number	5 791	6 298	7 638	7 274	6 958	7 471
Bankruptcies, total	Year-on-year growth rate, %	..	8.8	21.3	-4.8	-4.3	7.4
Bankruptcies, SMEs	Number	5 791	6 296	7 632	7 273	6 955	7 464
Bankruptcies, SMEs	Year-on-year growth rate, %	..	8.7	21.2	-4.7	-4.4	7.3
Bankruptcies, total	per 10 000 firms	61.2	65.2	78.2	74.1	62.1	65.7

Notes: 1. No new government guaranteed loans for SMEs were issued during 2010 by SKGF (Swedish Credit Guarantee Association). However, SKGF is and has not been the only provider of government guaranteed loans for SMEs. 2. Governmentally owned ALMI issued guarantees for SME loans to a value of SEK 46.2 million during 2010, and EKN issued governmentally backed loan guarantees for exporting businesses to a value of SEK 446 million.

Source: Refer to Table 28.5.

StatLink http://dx.doi.org/10.1787/888933014916

Figure 28.3. **Trends in SME and entrepreneurship finance in Sweden**



Source: Chart A: Statistics Sweden, Structural Business Statistics. Chart B and C: Almi Business Partner. Chart D: Statistics Sweden, Financial Market Statistics. Chart E: Swedish Venture Capital Association (SVCA). Chart F: Swedish Agency for Growth Policy Analysis, Statistics Sweden.

StatLink http://dx.doi.org/10.1787/888933016360

Table 28.5. **Definitions and sources of indicators for Sweden's scoreboard**

Indicators	Definitions	Sources
Debt		
Business loans, SMEs	Sum of SME short and long-term liabilities from credit institutions, excludes firms with 0 employees, stocks. Excludes ISIC codes A (Agriculture, forestry, fishing) and B (Mining and quarrying). Includes only limited companies. Firm independence not considered. Firms quoted on stock exchanges are excluded.	Statistics Sweden, Structural Business Statistics. Based on administrative data on liabilities collected from the reports of the National Tax Agency; a proxy since supply side data broken down by SMEs not available.
Short-term loans, SMEs	Sum of SME debts (liabilities) with a due date less than 12 months from closing day (includes overdraft facilities and other loans from credit institutions).	Statistics Sweden, Structural Business Statistics. Based on administrative data on liabilities collected from the National Tax Agency. Supply side data broken down by SMEs not available.
Long-term loans, SMEs	Sum of SME debts (liabilities) with a due date 12 months or longer from closing day (includes bond loans, overdraft facilities and other loans from credit institutions).	Statistics Sweden, Structural Business Statistics. Based on administrative data on liabilities collected from the National Tax Agency. Supply side data broken down by SMEs not available.
Government guaranteed loans, SMEs	Total value of guaranteed loans. No new government guaranteed loans for SMEs were issued during 2010 by SKGF (Swedish Credit Guarantee Association). However, SKGF is and has not been the only provider of government guaranteed loans for SMEs.	Swedish Credit Guarantee Association (SKGF); reports on 14 regional and local associations. Supply side data.
Government loan guarantees, SMEs	Value for all issued guarantees to SMEs by SKGF during the time period. No new government guaranteed loans for SMEs were issued during 2010 by SKGF (Swedish Credit Guarantee Association). However, SKGF is and has not been the only provider of government guaranteed loans for SMEs. Governmentally owned ALMI issued guarantees for SME loans to a value of SEK 46.2 million during 2010, and EKN issued governmentally backed loan guarantees for exporting businesses to a value of SEK 446 million.	Swedish Credit Guarantee Association (SKGF). Supply side data.
Direct government loans, SMEs	Total sum of new lending by ALMI. Total lending refers to the ALMI share of lending not including the bank share of the loan when co-investments are made.	ALMI Business Partner.
Loans authorised, SMEs	Number of new loan/credit applications approved by ALMI.	ALMI Business Partner. Supply side data.
Non-performing loans, total	Swedish data on loans outstanding to all firms. Percentages of non-performing loans in relation to total business loans (Definition: Economic claims on loans overdue for at least 60 days).	Swedish Riksbank. Based on information from the Swedish major bank groups: SEB, Handelsbanken, Nordea, and Swedbank.
Interest rate, loans < EUR 1 million	Average annual rates for new loans to SMEs (defined as loans up to EUR 1 million), base rate plus risk premium; for maturity less than one year, enterprises only.	Statistics Sweden, Financial Market Statistics. Produced on behalf of the Riksbank. Supply side information reported by Swedish Monetary Financial Institutions.
Interest rate, loans > EUR 1 million	Describes average interest rate for short-term (up to one year) loans up to and including EUR 1 million (as a proxy for SME loans).	Statistics Sweden, Financial Market Statistics. Produced on behalf of the Riksbank. Supply side information reported by Swedish Monetary Financial Institutions.
Relation between large firm and SME interest rates	Calculated based on: interest rate for loans > EUR 1 million divided by interest rate for loans < EUR 1 million.	Statistics Sweden, Financial Market Statistics. Produced on behalf of the Riksbank. Supply side information reported by Swedish Monetary Financial Institutions.
Equity		
Venture and growth capital	Describes investment in Swedish companies from private equity companies. Includes early phases; seed, start-up and expansion – but not buyout. All enterprises.	Swedish Venture Capital Association (SVCA).
Other		
Payment delays, SMEs	Average number of days beyond the agreed date for business-to-business in 2008, 2009 and 2010. For 2007, average number of days beyond the agreed date for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia, European Payment Index 2008, 2009 and 2010.
Bankruptcies, total (number)	Number of court ruled bankruptcies. All enterprises.	The Swedish Agency for Growth Policy Analysis.
Bankruptcies, total (per 10 000 firms)	Number of court ruled bankruptcies. All enterprises.	The Swedish Agency for Growth Policy Analysis, Statistics Sweden.

Note

1. For more information, see *www.ekn.se/sv/Sidor/Arsredovisningar/2011/Exportmojligheter/Storefterfragan-fran-sma-och-medelstora-foretag/*.

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Switzerland

SMEs in the national economy

SMEs, defined as firms with up to 250 employees, constituted 99.3% of Swiss enterprises in 2010, employing 67.4% of the labour force. Micro enterprises with up to nine employees accounted for the majority of SMEs (69.7% of SMEs), employing 18.0% of the country's workforce.

Table 29.1. **Distribution of firms in Switzerland, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**135 532**	**100.0**
SMEs (0-249)	**134 556**	**99.3**
Micro (0-9)	93 763	69.2
Small (10-49)	35 259	26.0
Medium (50-249)	5 534	4.1
Large (250 +)	976	**0.7**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933014935

SME lending

Although unfavourable economic and currency conditions for exports slowed down the Swiss economy in 2012, they did not bring it to a halt. The GDP growth of 1% in 2012 was lower than in the previous years (in 2010 the economy grew by 3%, in 2011 by 1.9%) but clearly it was far from a recession of the kind being experienced by many euro area countries.

The fact that – as in the global financial crisis of 2008-09 – the Swiss economy has been able to perform relatively well under difficult conditions, was mostly due to the interaction between a sound domestic economy and the resistance to crisis by some key branches of the export industry. Sectors of the economy with a domestic focus, such as construction, public and private sector services, benefited from continued immigration and low interest rates. Although the general situation was problematic in the export sector, the floor established for the exchange rate between the Swiss franc and the euro, plus robust individual sectors such as pharmaceuticals and the watch industry, helped mitigate the situation. On the other side, the subdued external environment and the currency situation were having a serious impact particularly on the MEM (machine-building, electrical industry and metal industry) sectors and on the tourism industry which faced increased margin pressures.

Both and SME business loans continued to grow both during the crisis and in the recovery period. Over the period 2007-12, SME loans increased by 19.9%, with total business loans registering a similar increase (23.5%). Both SME and total business loans increased by 2.8% in 2012. The share of SME loans in total business loans stabilised at 78.8% in 2012, following a declining pattern since their peak in 2008 (81.1%). The share of SME credit used to credit authorised was almost constant at 77% over the period 2007-12, suggesting a tangible need for credit by SMEs.

Credit conditions

Banks reported a tightening of their lending standards for SME loans in 2011. However, the somewhat tighter lending standards hardly affected loan volumes as discussed above. There were no data on interest rates or collateral requirements for 2007 and 2008. Interest rates were historically low between 2009 and 2011 and gradually declined by 9.2% over the period 2009-12. In 2012, interest rates for loans less than CHF 1 million registered a 3.4% decline. However, the interest rate spread between large and small enterprises grew over the period 2009-12 by 4.7%. This increasing trend has been halted in 2012, with a 1.8% decrease in said spread compared to a year earlier. The Monthly Bulletin of Banking Statistics showed that the percentage of SME loans requiring collateral increased at modest rates, from 76.4% in 2009 to 81.5% in 2012.

Equity financing

In June 2012 the Swiss Federal Council published a report entitled "Venture Capital in Switzerland" (Swiss Federal Council, 2012). In its opinion, this market operates reasonably well. Nevertheless, it is planned to improve the venture capital environment in the area of tax and corporate law.

The report showed that seed financing, which is necessary for the creation of new enterprises, was difficult to obtain. There is potential for the commercialisation of research results but investors are reluctant to invest in such early stages because of the higher risk.

Table 29.2. **Private equity and venture capital investments in Switzerland, 2007-12**

By phase of investment, in EUR thousand

	2007	2008	2009	2010	2011	2012
Seed	9 326	19 733	5 784	5 237	6 503	12 464
Start-up	109 578	96 992	151 854	127 862	160 934	73 211
Later stage	154 941	60 751	66 551	48 637	34 201	77 307
Growth	58 316	165 463	76 735	213 557	43 373	97 959
Total venture capital	**332 162**	**342 938**	**300 924**	**395 294**	**245 012**	**260 942**

Source: ECVA, *Yearbook 2013*, 2013.

StatLink http://dx.doi.org/10.1787/888933014954

As seen in the table above, venture capital investment declined to its lowest level in 2011, decreasing by 36.9%. Later stage and growth capital were responsible for this decrease. Venture capital investment rebounded in 2012, recording an 11.6% increase compared to 2011. Seed capital almost doubled, while later stage venture and growth capital registered important growth rates of 131.0% and 125.9%, respectively. Investment in start-ups, however, halved.

Other indicators

According to Intrum Justitia, payment delays remained steady or slightly decreased from 2007 through 2012. This indicated that SMEs' liquidity problems were not growing and were not as acute as elsewhere. However, insolvencies or bankruptcies rose by 23% in 2009 and 20% in 2010 following the outset of the crisis, however, the trend was reversed in 2011 and 2012, with declining growth rates of 6.5% and 2.7%, respectively. The important increases in 2009 and 2010 can be attributed in part to a new regulation which simplified the de-registration of inactive firms.

Government policy response

In Switzerland, there are four guarantee co-operatives that help promising SMEs obtain bank loans up to CHF 500 000. Three are regional co-operatives and a national one for women. The guarantee covers 65% of the loan. Loan guarantees increased steadily throughout the period 2007-10 but declined slightly in 2011 and 2012. The earlier increase was largely due to a restructuring of the guarantee programmes. The guarantee programmes increased the amount of risk that they covered, and this in turn increased the demand for guarantees.

Table 29.3. **Scoreboard for Switzerland, 2007-12**

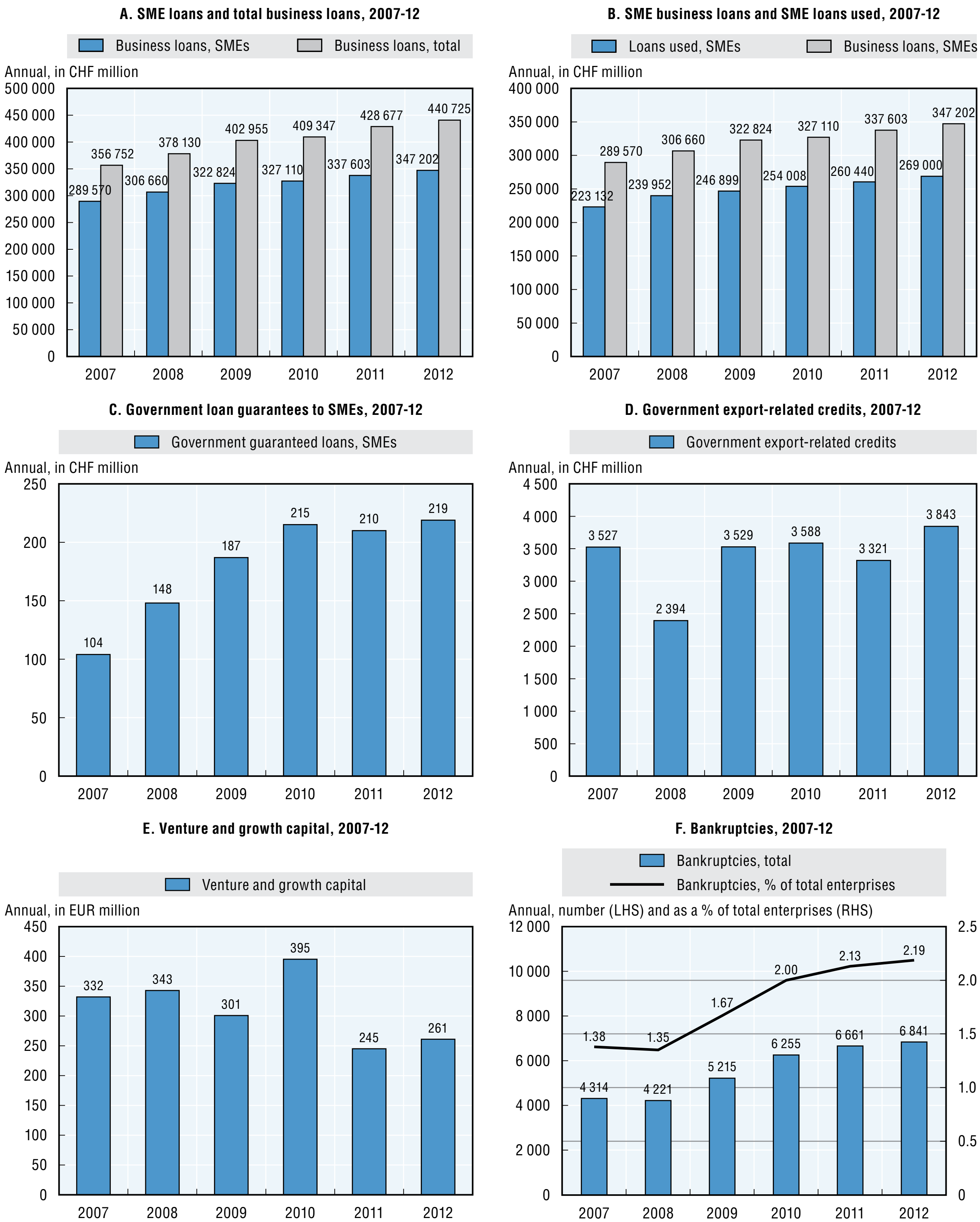
Indicators	Definitions	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	CHF million	289 570	306 660	322 824	327 110	337 603	347 202
Business loans, total	CHF million	356 752	378 130	402 955	409 347	428 677	440 725
Business loans, SMEs[1]	% of total business loans	81.2	81.1	80.1	79.9	78.8	78.8
Government export-related credits	CHF million	3 527	2 394	3 529	3 588	3 321	3 843
Government loan guarantees, SMEs	CHF million	104	148	187	215	210	219
Loans used, SMEs	CHF million	223 132	239 952	246 899	254 008	260 440	269 000
Interest rate	%	..	..	2.21	2.11	2.08	2.01
Interest rate spread	%	..	..	0.86	0.88	0.92	0.90
Collateral, SMEs	%	..	..	76.4	78.1	80.5	81.5
Equity							
Venture and growth capital	EUR million	332	343	301	395	245	261
Venture and growth capital	Year-on-year growth rate, %	..	3.2	-12.3	31.4	-38.0	6.5
Other							
Payment delays, SMEs	Days	13.7	12.0	13.0	13.0	11.0	10.0
Bankruptcies, total	Number	4 314	4 221	5 215	6 255	6 661	6 841
Bankruptcies	Year-on-year growth rate, %	..	-2.2	23.5	19.9	6.5	2.7
Bankruptcies	% of total enterprises	1.4	1.4	1.7	2.0	2.1	2.2

Note: 1. Proxy figures for 2008, 2009, 2010, 2011and 2012 due to definitional changes.

Source: Refer to Table 29.4.

StatLink http://dx.doi.org/10.1787/888933014973

Figure 29.1. **Trends in SME and entrepreneurship finance in Switzerland**



Sources: Charts A and B: Monthly Bulletin of Banking Statistics [www.snb.ch]. Chart C: Administrative data from the guarantee cooperatives. Chart D: SERV Annual Report. Chart E: EVCA Yearbook 2012. Chart F: Creditreform, Federal Statistical Office.

StatLink http://dx.doi.org/10.1787/888933016379

Table 29.4. **Definitions and sources of indicators for Switzerland's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Credit lines of all SMEs (firms with less than 250 employees, stocks).	Monthly Bulletin of Banking Statistics: 3Ca: Total credit lines (1) excl. total credit lines to companies with 250 or more employees (1) [www.snb.ch]
Business loans, total	Used credit of all enterprises (stocks). 2007 and 2008 figures include loans to public law institutions.	Monthly Bulletin of Banking Statistics: 3Ca: Total credit lines (1) [www.snb.ch]
Government export-related credits	New commitments.	SERV annual report [www.serv-ch.com]
Government loan guarantees, SMEs	Four guarantee cooperatives offer loan guarantees for SME of up to CHF 500 000. The federal government covers 65% of the exposure and shares in the administration costs. SMEs defined as firms with up to 250 employees.	Administrative data from the guarantee cooperatives.
Loans used, SMEs	Used credits of all SMEs (firms with up to 250 employees).	Monthly Bulletin of Banking Statistics: 3Ca: Total utilisation (2) excl. total utilisation of lending to companies with 250 or more employees (2) [www.snb.ch]
Interest rate	Interest rate at the end of the year for investment loans amounts less than CHF 1 million.	Monthly Statistical Bulletin: E3c: Average Investment loans with fixed interest rates for loan amount between CHF 50 000 and 1 million in December.
Interest rate spread	Interest rate at the end of the year for investment loans amounts less than CHF 1 million and equal to greater than CHF 1 million.	Monthly Statistical Bulletin: E3c: Interest rates of investment loans between CHF 50 000 and 1 million (average) minus interest rates of investment loans between CHF 1 and 15 million (average) in December.
Collateral, SMEs	Secured demands opposite customers in relation to total demands opposite customers.	Monthly Bulletin of Banking Statistics: 3Ca: secured demands opposite customers (5) in relation to total utilisation of demands opposite customers (4) for SMEs (up to 249 employees).
Equity		
Venture and growth capital	Seed, Start-up, late and growth stage venture capital invested.	EVCA Yearbook 2013.
Other		
Payment delays	B2B.	Intrum Justitia, European Payment Index.
Bankruptcies, total	Number of enterprises.	Creditreform.
Bankruptcies	Bankruptcies as a percentage of total enterprises.	Number of enterprises in the Business Census 2008, Federal Statistical Office (FSO).

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Thailand

SMEs in the national economy

There were 2.9 million SMEs (firms with less than 200 employees) in Thailand in 2010, constituting 99.6% of all enterprises and employed 78% of the labour force including agriculture. The economy of Thailand was hit by two major events during the period under study: political instability and the financial crisis originating in the West. In Studies on SME and Entrepreneurship: Thailand. Key Issues and Policies (2011), the OECD found that less than half of the 2.9 million SMEs can access formal finance. This problem was compounded in Thailand by systemic volatility in financial markets. The Asian financial crisis and the recent global financial crisis have made it difficult for Thai banks to accept risky loans, not least because they were often burdened with extremely high non-performing loan rates. The lesson learned from the Asian crisis in 1997 was that adequate capital alone cannot encourage bank lending. Banks will only lend when they are comfortable with the level of credit risk.

Table 30.1. **Distribution of firms in Thailand, 2010**

By firm size

Enterprise size (employees)	Number	%
All enterprises	**2 922 307**	**100.0**
SMEs (up to 200)	**2 913 167**	**99.6**
Small enterprises (up to 50)	2 894 780	99.0
Medium Enterprises (50-200)	18 387	0.6
Large (200+)	**9 140**	**0.3**

Note: Data include the manufacturing, services, wholesale and retail industries. Non-employer firms are included.

Source: Thai Office of SME Promotion.

StatLink http://dx.doi.org/10.1787/888933014992

SME lending

Most banks do not use the national definition for an SME. Instead, they use the size of loan or sales turnover as proxies, and definitions vary across banks. Total business loans decreased between 2007 and 2011, but SME loans increased gradually throughout the period 2007-12, so that the share of SME loans increased from 28.1% (2007) to 37.6% (2012). Bank lending to businesses in general languished at two-thirds of the 1990s levels. SME loans continued to grow both during the crisis and at the recovery period, slowing down in 2011 (3.1% year-on-year increase) and picking up again in 2012, recording a significant increase of 19.1%. SME short-term loans decreased in 2011 so that their share in total SME loans also declined from 58% (2010) to 47% (2011). The trend was reverted in 2012, with short-term SME loans increasing by 26.3%, accounting for 48.1% of the total SME lending portfolio.

The ratio of SME non-performing loans in the total SME loan portfolio was at a high of 7.9% in 2007 and has followed a declining trend up to 2012, when it reached a low at 3.3%, having decreased since 2011 when 3.6% of SME loans were non-performing. Total non-performing loans followed a similar pattern, declining from 9.6% in 2007 to 3.1% in 2011, further declining in 2012 to 2.7% of the total business loan portfolio.

SME loans authorised vs. requested

The ratio of loans authorised vs. requested rose from 71.54% (2007) to 73.1% (2010), indicating that banks were continuing to provide credit although the terms were tightening.

Credit conditions

Interest rates for SMEs continued to climb over the period 2007-11 since Thailand did not engage in monetary easing. In 2012, interest rate charged on SME loans declined by 106 basis points year-on-year. Interest rate spreads between small and large enterprises increased from 1.2% (2007) to 2.7% (2011). The trend was reversed in 2012, with the interest rate spread between SMEs and large enterprises standing at 1.5% in 2012 (43% decrease). More importantly, the value of collateral required increased to more than five times the value of SME loans in 2011 due to extreme risk aversion on the part of banks. However, this was not entirely unreasonable given the historic high rate of non-performing SME loans. The value of collateral required increased further by 13.7% in 2012, on a year-to-year basis.

Equity financing

Scarce supplies of venture capital stifled the business momentum of innovative firms. The venture capital and private equity industry is small in Thailand and has focused on mergers and acquisitions and restructurings, rather than start-up and mezzanine finance. The Market for Alternative Investments was established in 1999. It provides a simpler and lower cost alternative to smaller firms than the Stock Exchange of Thailand (SET). As such, MAI provides an exit point for venture capital investors and facilitates capital raising by firms from institutional and sophisticated investors. As of 2010, the MAI had 62 companies listed; and the market capitalisation of MAI listings was THB 43 billion. In 2009, there were only 11 members of the Thai Venture Capital Association. In addition, the weak Thai legal system and the underdeveloped capital market made exits difficult (Scheela and Jittrapanum, 2008).

Government policy response

Thailand established a five-year Portfolio Guarantee Scheme for SMEs in February 2008. All local commercial banks signed a Memorandum of Understanding to participate. It was expected that this would assure participating banks an acceptable level of risk. This supplemented the activities of the state-owned banks such as the Small Business Credit Guarantee Corporation (SBCGC). SBCGC was renamed into Thai Credit Guarantee Corporation (TCG).

The TCG provides credit guarantees to viable small businesses which do not have sufficient collateral. The TCG provides a letter of guarantee for approved applications to the financial institutions after the SME has paid the guarantee fee. In 2009, it had a THB 30 billion loan guarantee facility. In 2007, 2 866 SMEs were accepted for credit guarantees. The total number of loans guaranteed was an average of 7 800. This is a relatively small number compared to the total number of SMEs, pointing to an unexploited potential to ease SMEs' access to credit. In 2011 the TCG had THB 89 billion in outstanding loan guarantees.

Box 30.1. **Definition of SMEs used in Thailand's SME and entrepreneurship finance Scoreboard**

Country definition

On 11 September 2002, the Ministry of Industry introduced the definition of Thai small and medium-sized enterprises (SME). This definition is based on the number of employees and fixed capital. An enterprise is categorised as an SME if it has less than 200 employees and fixed capital less than THB 200 million, excluding land and properti es. SMEs in Thailand are classified in three sectors: production, service, and trading.

Definition of SMEs according to the Thai Ministry of Industry

Type	Small		Medium	
	Employees	Capital (THB million)	Employees	Capital (THB million)
Production	Not more than 50	Not more than 50	51-200	51-200
Service	Not more than 50	Not more than 50	51-200	51-200
Wholesale	Not more than 25	Not more than 50	26-50	51-100
Retail	Not more than 15	Not more than 30	16-30	31-60

The SME definition used by financial institutions

The official definition for SMEs is not used by financial institutions in Thailand. In fact, each financial institution in Thailand is permitted to use their own definition of SMEs, which typically follows criteria such as sales less than THB 400-500 million and/or credit line less than THB 200 million. Therefore, data presented in Thailand's profile does not reflect the above national definition.

Table 30.2. **Scoreboard for Thailand, 2007-12**

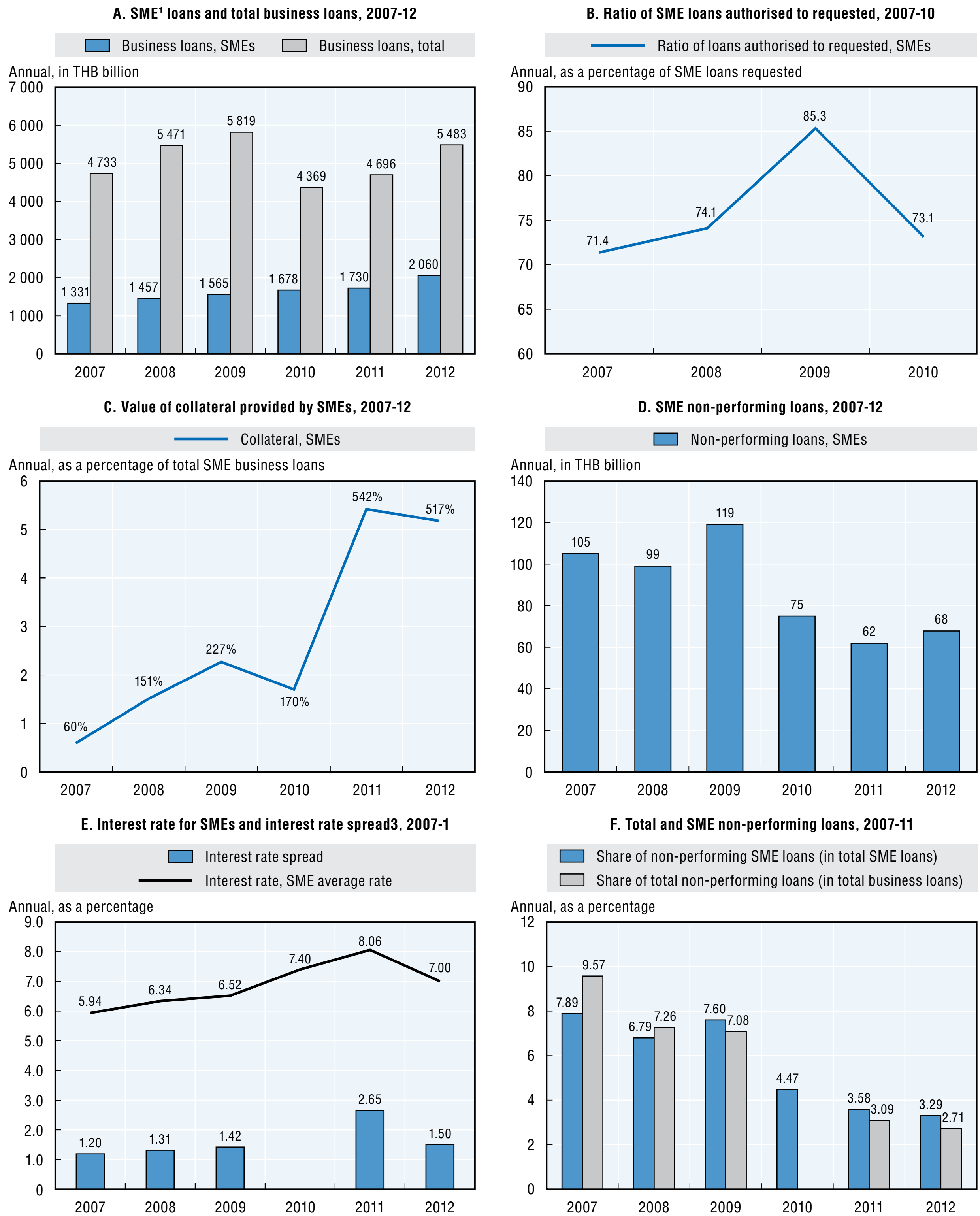
Indicators	Definitions	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	THB billion	1 331	1 457	1 565	1 678	1 730	2 060
Business loans, total	THB billion	4 733	5 471	5 819	4 369	4 696	5 483
Business loans, SMEs	% of total business loans	28.1	26.6	26.9	38.4	36.8	37.6
Short-term loans, SMEs	THB billion	578	647	692	973	783	988
Long-term loans, SMEs	THB billion	753	810	873	701	879	1 068
Total short and long-term loans, SMEs	THB billion	1 331	1 457	1 565	1 674	1 662	2 056
Short-term loans, SMEs	% of total SME loans	43.4	44.4	44.2	58.1	47.1	48.1
Loan guarantees outstanding, SBGC	THB billion	..	..	..	64.0	86.9	143.0
Government guaranteed loans, SMEs	THB billion	..	..	21.4	..	..	..
Loans authorised, SMEs	THB billion	217	312	186	392	..	..
Loans requested, SMEs	THB billion	304	421	218	536	..	..
Ratio of loans authorised to requested, SMEs	%	71.5	74.1	85.3	73.1	..	..
Non-performing loans, total	THB billion	453	397	412	..	145	149
Non-performing loans, SMEs	THB billion	105	99	119	75	62	68
Non-performing loans, SMEs	% of SME business loans	7.9	6.8	7.6	4.5	3.6	3.3
Non-performing loans, large	% of total business loans	9.6	7.3	7.1	..	3.1	2.7
Interest rate, SME average rate	%	5.94	6.34	6.52	7.40	8.06	7.00
Interest rate spread (between average interest rate for loans to SMEs and large firms)	%	1.20	1.31	1.42	..	2.65	1.50
Collateral, SMEs	THB billion	793	2 201	3 553	2 855	9 370	10 658
Collateral, SMEs	Value of collateral provided by SMEs over SME business loans, %	59.6	151.0	227.0	170.1	541.7	517.5
Other							
Payment delays, SMEs	Average number of days	33.0	..	..	..	..	..
Bankruptcies, total[1]	% of insolvencies over total number of SMEs	66.0	..	..	..	..	..

Note: 1. According to the Bank of Thailand, Thailand only has data for 2007 due to the financial statement reformat required by the Ministry of Commerce in 2009. Therefore, all financial statement data in 2008 are delayed for submission. In 2007, there were 370 118 insolvent companies in Thailand. In other words, Thailand had 6 600 insolvent companies per 10 000 enterprises. However, it should be noted that while companies shut down very frequently, it is also very easy for them to restart.

Source: Refer to Table 30.3.

StatLink http://dx.doi.org/10.1787/888933015011

Figure 30.1. **Trends in SME and entrepreneurship finance in Thailand**



Notes: 1. Firms with sales less than THB 400 million (EUR 10 million). 2. Spread between average interest rate for loans to SMEs and large firms. Banks did not provide information for 2010.

Source: Bank of Thailand.

StatLink http://dx.doi.org/10.1787/888933016398

Table 30.3. **Definitions and sources of indicators for Thailand's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Outstanding amount of SME loans provided by bank at the end of period, stocks. Banks in Thailand define SMEs as enterprises with sales less than THB 400 million and/or a credit line less than THB 200 million.	Bank of Thailand.
Business loans, total	Outstanding amount of all loans (excluding interbank loans) provided by bank at the end of period, stocks.	Bank of Thailand.
Short-term loans, SMEs	Outstanding amount of SME loans provided by bank with the maturity less than one year, stocks.	Bank of Thailand.
Long-term loans, SMEs	Outstanding amount of SME loans provided by bank with the maturity more than one year, stocks.	Bank of Thailand.
Loan guarantees outstanding, SBGC	SME loans guaranteed by Credit Guarantee Corporation. SMEs are defined as an enterprise with less than 200 employees and/or has fixed assets (excluding land) of less than THB 200 million.	Bank of Thailand.
Government guaranteed loans, SMEs	Guarantees outstanding at the end of the year. SMEs are defined as an enterprise with less than 200 employees and/or has fixed assets (excluding land) of less than THB 200 million.	Small Business Credit Guarantee Corporation, Annual Report.
Loans authorised, SMEs	SME loans approved by the banks.	Bank of Thailand.
Loans requested, SMEs	SME loans requested for approval.	Bank of Thailand.
Non-performing loans, total	Figures cover all enterprises in the Thai banking system.	Bank of Thailand.
Non-performing loans, SMEs	SME loans 90 days past due date. Figures cover all SMEs in the Thai banking system.	Bank of Thailand.
Interest rate, SME average rate	Average interest rate charged to new SME loans, approved by the bank during a year.	Bank of Thailand.
Interest rate spread (between average interest rate for loans to SMEs and large firms)	Average interest rate spread between SME loans and corporate loans.	Bank of Thailand.
Collateral, SMEs	Appraisal value of collateral based on market valuation.	Bank of Thailand.
Other		
Payment delays, SMEs	Average payment delay in days for trade credit, business-to-business (i.e. seller gives credit term to buyer for 30 days but the buyer makes a delayed payment after credit term 15 days. So, the payment delay is 15 days). SMEs are defined according to the national definition contained in Box 30.1.	Business online.
Bankruptcies, SMEs	Insolvent SMEs divided by the total number of SMEs, presented as a percentage. SMEs are defined according to the national definition contained in Box 30.1.	Business online.

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Turkey

SMEs in the national economy

In Turkey an enterprise is a legal unit or combination of legal units. The definition of an SME does not completely correspond to the EU definition. As illustrated in Table 31.1, micro-enterprises accounted for more than 98% of all firms in 2009.

Table 31.1. **Distribution of firms in Turkey, 2009**

Firm size (employees)	Number of firms	%
All enterprises	**2 294 554**	**100.0**
SMEs (0–249)	**2 291 904**	**99.9**
Micro (0-19)	2 259 062	98.5
Small (20-49)	20 504	0.9
Medium (50 -249)	12 338	0.5
Large (250+)	**2 650**	**0.1**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

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SME lending

Both business and SME loans increased significantly over the period 2007-12 by 174% and 156% respectively. SME loans followed a consistent growth pattern with the exception of 2009, when SME loans decreased slightly by 1.6%. In 2012, SME loans increased by 20.5% compared to 2011, reaching TL 196 224 million. Total business loans followed an uninterrupted growth trend, with a 14.7% increase in 2012, reaching TL 522 937 million. The SME share of total business loans was 37.5% in 2012, down from 40.1% in 2007. The share of non-performing loans in SME loans peaked at7.6% in 2009 but then declined to 3.2% in 2012.

Equity financing

The data include information on all venture capital investments in venture capital trusts which report to the Capital Markets Board (SPK). Between 2007 and 2012, venture capital investments in venture capital trusts increased more than seven times. In 2012, however, venture capital investments dropped by almost 71% to TL 110 million from TL 373 million in 2011. After the enactment of the new Capital Market Law in December 2012, secondary legislation regarding venture capital investment trusts has been published in October 2013 and the secondary legislation regarding venture capital investment funds has been published in January 2014 in the Official Gazette.

Regulation regarding angel investment

The law regarding the promotion of business angel investments was enacted in 2012 and secondary legislation came into force on 15 February 2013. This legal framework provides a mechanism for licensing business angels which will ease access to finance for entrepreneurs, increase professionalism and improve business culture and ethics in this market. Business angels are asking for tax and other incentives for their investments and are willing to participate in economic development of Turkey. This licensing mechanism provides a new instrument for those enterprises in early stage development and which are having funding difficulties. It also makes business angel investments an institutionalized and trustworthy financial market and eligible for state support.

Licensed business angel investors can deduct 75% of the capital that they invest in certain SMEs from their annual tax base. This rate will be increased to 100% for those investors investing in SMEs whose projects are supported by Ministry of Science, Industry and Technology, the Scientific and Technological Research Council of Turkey and Small and Medium Enterprises Development Organization in the last five years. The tax deduction will be applied until 2017 with the option to extend it for another five years.

Moreover, the acquired shares must be held by investors for at least two years in order to benefit from the tax incentive. The maximum annual amount which can be deducted from the tax base is TL 1 million. SMEs must meet certain criteria set by Turkish Treasury to be eligible to receive business angel investment such as having maximum annual net sales of TL 5.000.000.

Between 15.03.2013 and 31.10.2013, 159 business angels have applied for license and 100 of them have been licensed.

Insufficient data regarding business angel investment is a critical issue at both the national and international level. Licensing will improve data collection regarding business angel operations.

Regulation regarding fund of funds

The law regarding the capital contribution of the Turkish Treasury to a fund of venture capital funds was enacted by the Parliament (April 3, 2013). The secondary legislation is currently being prepared.

The law aims to strengthen the financial ecosystem together with the fund of venture capital funds and business angel program. To be more specific, relevant government agencies can directly contribute to the fund of venture capital funds and co-investment funds that invest together with the angel investors into early stage companies. In that case, a substantial increase can be expected in the volume of venture capital and angel investments, which would eventually support early stage companies not only financially but also in terms of institutionalisation and corporate governance. These mechanisms will accelerate the establishment of innovative start-ups, increase the dynamism of the economy and contribute to a stronger and more sustainable economic growth. It could also be accepted as a kind of public-private joint action for SMEs.

Other indicators

Bankruptcies are declared in a number of ways. A debtor firm or its creditors can directly apply to a commercial court to start bankruptcy procedures. When the liabilities exceed the assets, the authorized representatives or the managers of capitalised companies and cooperatives are obliged to inform a commercial court. A creditor can request the commercial court to begin proceedings if the creditor has been sent a payment order and it has not been paid. The court can then resend the payment order to the debtor and it should be paid within five days as well as court costs. If there are no objections, the payment order becomes final. However, the debtor can object and the proceedings are halted. The creditor can file a bankruptcy case with the commercial court. These legal proceedings can be lengthy and this results in a low number of bankruptcies. The number of enterprises ruled bankrupted in 2012 nearly doubled to 141 compared to 72 in 2011. This increase could be partially explained by the recent shortening of the length of the bankruptcy process.

Government policy response

The Small and Medium Size Development Organization of the Republic of Turkey (KOSGEB)**,** aware of the difficulties SMEs have in accessing finance, developed an SME Finance Model in 2003. All enterprises registered in the enterprise data base of KOSGEB can benefit from its programmes. KOSGEB offers interest subsidies and loan guarantees to increase lending and assists firms in listing on the stock market.

Interest subsidies

KOSGEB created interest support programmes in 2003 to assist SMEs with interest payments. The banks make proposals to KOSGEB for minimum interest rates. They are evaluated and the selected banks enter a protocol with KOSGEB. Enterprises registered with KOSGEB apply directly to the bank for a subsized loan. The bank decides on the credit-worthiness of the enterprise. Interest support programmes cover loans for

- machinery and equipment
- export promotion and finance
- tradesmen support in manufacturing and
- emergency support after natural disasters.

Loan size and duration are determined according to the purpose of the loan. The credit interest support programmes can be divided into two: the Enterprise Development Credit Interest Programme and the Investment Support Credit Interest Programme.

Enterprise development credit interest programmes

The Enterprise Development Credit Interest Support Programmes provided special financial support to help SMEs cope with the global economic crisis. The objectives of the Programmes included improving competitivity, helping firms to survive in difficult conditions, decreasing their financial constraints in terms of production costs, and in providing new investment, production and employment facilities. The upper limit for the credit is EUR 11 000. For the women- owned enterprises the upper limit is EUR 13 000.

KOSGEB also provided the Emergency Support Credits to help SMEs cope with the natural disasters such as floods, earthquakes, drought, storms, wars, general strikes, fire, terrorism and civil disturbances. Enterprises which officially document their natural disasters can benefit from credit support. For instance, following the devastating earthquake at Van, an emergency support loan with an upper limit of almost EUR 45 000 was provided to the local SMEs in Van and neighboring provinces. No repayment is required in the first six months and the interest is covered by the KOSGEB.

Investment support credit interest programmes

Under this programme KOSGEB supports the machinery and equipment purchases of medium-high and high technology sectors and medium-low and low technology sectors. This programme also supports the expansion of the enterprises work force The interest is paid by KOSGEB. The upper limit of the Programme 1 (for medium-high, high technology sectors) is EUR 271 000; and for Programme 2 (for medium-low, low technology sectors) is EUR 135 000. The enterprises are required to sign a contract which assures that the machinery and equipment they have purchased with this credit will be kept during the entire repayment period. The bank expert monitors whether the machine is in operation.

GAP-Machinery and Equipment Support Programme supports investment related equipment purchases of SMEs located in the Southeastern Anatolia Region of Turkey.[1] All registered SMEs can participate and the upper limit of the credit programme is EUR 135 000.

The table below shows the support given by KOSGEB's interest programmes over the years. Between 2003 and 2012 the value of credit allocated with various interest subsidies amounted to almost EUR 5 billion. During the global economic crisis, starting from 2008, KOSGEB increased its allocation for interest support programmes. In 2009, with the amendment of KOSGEB's Establishment Law, KOSGEB supported both the service sector and the manufacturing sector. In 2012 the amount of support offered by the programme has declined given the shift to project-based support, following the introduction of legislation that enlarges the scope of KOSGEB to trade and service SMEs, besides manufacturing ones. One of the most important measures enacted during this period is KOSGEB's Entrepreneurship Support Programme. Its purpose is to support and promote entrepreneurship and ensure that successful enterprises are established in order to solve the problems of economic development and employment. This programme covers grants and credit with no interest payment. Under this programme KOSGEB provided a support of TL 5.6 million to 139 entrepreneurs in 2011. In 2012, it provided a support of TL 11.5 million to 306 entrepreneurs.

Table 31.2. **Interest support programme of KOSGEB, 2003-12**

	Number of firms	Total amount of allocated credit (EUR)
2003	556	18 231 600
2004	2 840	118 190 177
2005	3 753	180 380 720
2006	2 787	128 956 328
2007	9 679	403 826 425
2008	23 886	715 775 799
2009	69 264	1 119 480 353
2010	43 310	765 050 710
2011	48 218	1 041 112 854
2012	7 408	186 848 815
Total	**211 701**	**4 677 853 781**

Source: KOSGEB.

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Loan guarantee programmes

The Credit Guarantee Fund (KGF) provides SME loan guarantees. Its shareholders include KOSGEB, the Union of Chambers and Commodity Exchanges, the Confeder ation of Turkish Craftsmen and Tradesmen and many banks. KOSGEB holds 33.2% of the total capital of KGF. The Turkish Treasury provides counter-guarantees to KGF.

Table 31.3. **KGF guarantees and credit volume in Turkey, 2007-12**

Year	No. enterprises	No. guarantees	Guaranteed amount (TL millions)	Credit volume (TL millions)
2007	249	305	52.9	75.4
2008	914	1138	284.5	402.5
2009	1 905	2605	565.3	790.6
2010	1 933	3090	938.9	1 302
2011	2 256	3 207	1 123	1 622
2012	5 012	5 517	1 114	1 553

Source: KGF.

StatLink http://dx.doi.org/10.1787/888933015068

There has been a significant increase in guaranteed loans between 2007 and 2012. During the financial crisis the Treasury provided support to those SMEs whose collateral was considered inadequate due to their increasing level of debt. The Treasury support enabled them to restructure their debt. In 2012 there was a significant increase in the number of enterprises benefiting from the debt.

In addition international financial organisations such as the World Bank, the European Commission, the European Investment Bank and the Council of Europe Development Bank provided direct loans to SMEs which were guaranteed by the Treasury.

Table 31.4. **International financial institutions direct loans with treasury guarantee in Turkey, 2007-11**

In USD millions

	2007	2008	2009	2010	2011
Direct loans	552	842	997	1 321	1 174

Source: Turkish Treasury.

StatLink http://dx.doi.org/10.1787/888933015087

Emerging companies market support programme

Starting in 2011 KOSGEB began to support equity investment in SMEs by assisting SMEs which wanted to list on the stock market. Under the programme KOSGEB pays the fees for the listing and does not require their repayment. The number of SMEs supported under this programme is 11. This Programme covers the listing expenditures of SMEs including market advisor and independent audit fees, Capital Markets Board registry fees, Borsa İstanbul Emerging Companies Market List acceptance fee, Central Registry Agency (CRA) costs and intermediary firm fees. In addition, the SME Development and Support Administration offers TL 100 000 in the form of a non-recourse loan.

KOSGEB support to venture capital

İstanbul Venture Capital Initiative (iVCi), founded in 2007, was Turkey's first ever dedicated fund of funds and co-investment programme. The investors in iVCi are the Small and Medium Industry Development Organisation of Turkey (KOSGEB), the Technology Development Foundation of Turkey (TTGV), the Development Bank of Turkey (TKB), Garanti Bank, National Bank of Greece Group (NBG) and the European Investment Fund (EIF). European Investment Fund (EIF) is the adviser to iVCi. Since 2008 KOSGEB has given iVCi EUR 18.2 million.

iVCi leverages on the experience of EIF, the European Union's specialised financial body for SMEs and the risk capital arm of the European Investment Bank Group (EIB Group). iVCi has signed eight commitments amounting to EUR 144 million. With the addition of a regional fund namely G-43 Anatolian Venture Capital Fund in 2012, iVCi will be fully committed bringing the total portfolio to nine funds.

Table 31.5 shows the capitalisation contributed by KOSGEB to iVCi.

Table 31.5. **Capitalisation of KOSGEB to iVCi, 2008-12**

Year	Amount (Euro)
2008	1 500 000
2009	1 093 750
2010	1 406 250
2011	3 025 000
2012	11 250 000
Total	18 275 000

Source: KOSGEB.

StatLink http://dx.doi.org/10.1787/888933015106

Box 31.1. **Definition of SMEs used in Turkey's SME and entrepreneurship finance Scoreboard**

The Law on the SME definition entered into force on 18 May 2006 and was amended on 04 November 2012. According to that law an SME is an economic entity which employs less than 250 persons and which has an annual turnover or an annual balance sheet not exceeding TL 40 Million. The characteristics of micro, small and medium enterprises are illustrated below.

	Micro Enterprise	Small Enterprise	Medium Enterprise
Employees	< 10	< 50	< 250
Annual turnover	≤ 1 Million TL	≤ 8 Million TL	≤ 40 Million TL
Annual balance sheet	≤ 1 Million TL	≤ 8 Million TL	≤ 40 Million TL

Source: Law on the SME definition, 04 November 2012.

Table 31.6. **Scoreboard for Turkey, 2007-12**

Indicator	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	Million TL	76 521	84 605	83 271	125 468	162 803	196 224
Business loans, total	Million TL	190 824	250 309	262 686	352 438	456 025	522 937
Business loans, SMEs	% of total business loans	40.1	33.8	31.7	35.6	35.5	37.5
Government loan guarantees, SMEs*	TL million	52.9	284.5	565.3	938.9	1 123	1 114
Government guaranteed loans, SMEs*	TL million	75.4	402.5	790.6	1 302	1 622	1 553
Direct loans	USD million	552	842	997	1 321	1.174	..
Non-performing loans, total	TL million	10 345	14 053	21 853	19 993	18 973	23 408
Non-performing loans, SMEs	TL million	2 873	4 260	6 892	5 892	5 180	6 391
Non-performing loans, SMEs	% of total SME loans	3.8	4.8	7.6	4.5	3.1	3.2
Equity							
Venture and growth capital	TL thousand	13 676	854	6 316	47 553	373 204	110 097
Venture and growth capital	%, Year-on-year growth rate	..	-93.8	639. 5	652.9	684.8	-70.5
Other							
Bankruptcies, total	Number	52	47	50	68	72	141

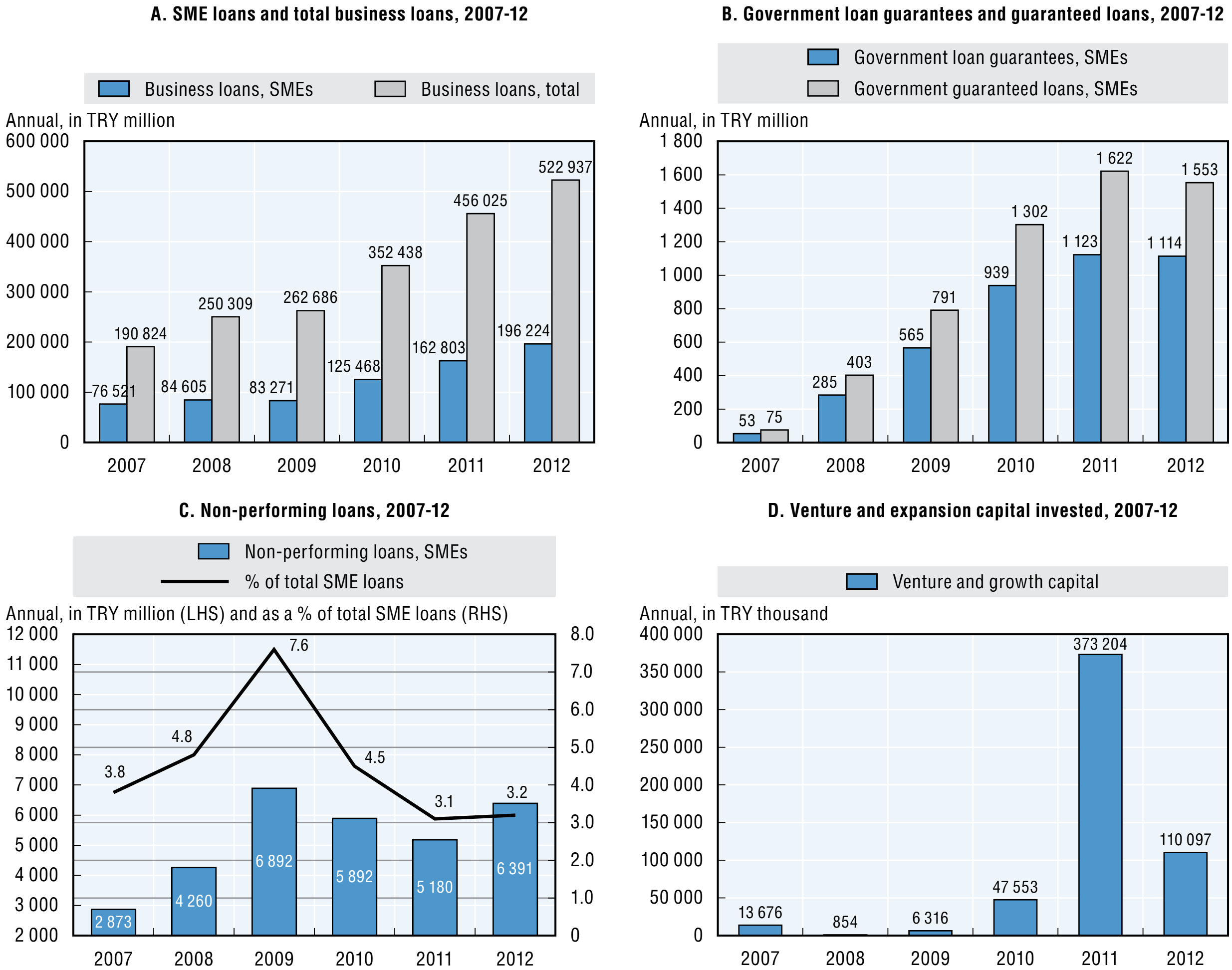
Source: Refer to Table 31.7.

StatLink http://dx.doi.org/10.1787/888933015125

Table 31.7. **Definitions and sources of indicators for Turkey's scoreboard**

Indicator	Definition	Source
Debt		
SME loans	Bank and financial institution loans to SMEs, amount outstanding (stocks) at the end of period; by firm size using the national definition of SME. Includes non-employer firm data.	Supply side data from financial institutions, consolidated data from Turkish Banking Regulation and Supervision Agency (BDDK).
Total business loans	Bank and financial institution business loans to all non-financial enterprises, amount outstanding (stocks).	Supply side data, consolidated data from Turkish Banking Regulation and Supervision Agency (BDDK).
SME government loan guarantees	Guarantees available to banks and financial institutions, outstanding.	Supply side data, consolidated data from Credit Guarantee Fund (KGF) and Turkish Treasury (Hazine Müsteşarlığı).
Government guaranteed loans	Credit volume supported by loan guarantees.	Credit Guarantee Fund (KGF) and Turkish Treasury (Hazine Müsteşarlığı).
Direct loans	The amount of loans acquired from international financial institutions (IFIs) under Treasury guarantee which are transferred by state banks to the SMEs for investment financing.	Supply side data, consolidated data from Turkish Treasury and KGF.
Non-performing loans	Non-performing loans out of whole loans.	Supply side data, consolidated data from Turkish Banking Regulation and Supervision Agency (BDDK).
SME non-performing loans	SME non-performing loans out of total SME loans.	Supply side data, consolidated data from Turkish Banking Regulation and Supervision Agency (BDDK).
Equity		
Venture and growth capital	Seed, start up, early stage and expansion capital (including buy outs, turnarounds and replacements of venture capital trusts).	Administrative data from Capital Markets Board of Turkey (SPK).
Other		
Bankruptcies	Number of enterprises ruled bankrupt. All enterprises.	The Union of Chambers and Commodity Exchanges of Turkey (TOBB).

Figure 31.1. **Trends in SME and entrepreneurship finance in Turkey**



Sources: Charts A and C: Turkish Banking Regulation and Supervision Agency (BDDK). Chart B: Credit Guarantee Fund (KGF) and Turkish Treasury. Chart D: Capital Markets Board of Turkey (SPK).

StatLink http://dx.doi.org/10.1787/888933016417

Note

1. The GAP is a regional development project which aims at improving the income level and quality of life of people living in the region by mobilising resources in Southeastern Anatolia, eliminating development disparities between this region and other regions of the country and thus contributing to the targets of economic growth and social stability at national level. The GAP is implemented in the Southeastern Anatolia Region which covers nine provinces (Adıyaman, Batman, Diyarbakır, Gaziantep, Kilis, Mardin, Siirt, Şanlıurfa and Şırnak). In terms of both population size and surface area the region corresponds approximately to 10% of the country.

Reference

OECD (2013), *Entrepreneurship at a Glance*, OECD Publishing, Paris. doi: *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*

United Kingdom

SMEs in the national economy

There were over 1.6 million enterprises in the United Kingdom in 2010, including non-employer enterprises. 99.6% of these were SMEs with less than 250 employees. 89.4% were micro enterprises with less than ten employees.

Table 32.1. **Distribution of firms in the United Kingdom, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**1 649 086**	**100.0**
SMEs (0-249)	**1 643 291**	**99.6**
Micro (0-9)	1 473 562	89.4
Small (10-49)	144 098	8.7
Medium (50-249)	25 631	1.6
Large (250+)	**5 795**	**0.4**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933015144

SME lending

SME loans recorded growth of more than 10% in 2008 but have followed a downward trend ever since the beginning of the financial crisis and up to 2012. Outstanding SME loans fell by 2.8% over the period 2007-12, and registered a 3.5% decline in 2012. Lending to large enterprises has followed a similar pattern with larger yearly decreases although the expansion in lending before 2008 was larger. Over 2007-12 outstanding large firms' loans fell by 14.6%, while in 2012 they recorded a 6.9% decline compared to 2011.

The SME loan share in total business loans increased since 2007 and accounted in 2012 for more than one fifth of the stock of lending to all businesses in the United Kingdom (21.8%). However, this should not be taken as a sign that SMEs enjoyed easier access to finance than large enterprises; the volume of loans to both small and large firms has fallen, and the fact that it has fallen further for larger firms probably reflects their greater options for raising finance, in particular access to capital markets (corporate bond issuance is up, and yields are relatively low). SMEs, by contrast, are much more reliant on banks, which have tightened their lending standards since the financial crisis. Analysis conducted for the Department for Business Innovation and Skills (BIS) by the National Institute of Economic and Social Research showed significantly higher rates of rejection and lending margins in the period from 2008-09 onwards than in the more "normal" credit environment of the early 2000s, even when controlling for firm risk factors (which are expected to rise in a recession) .[1]

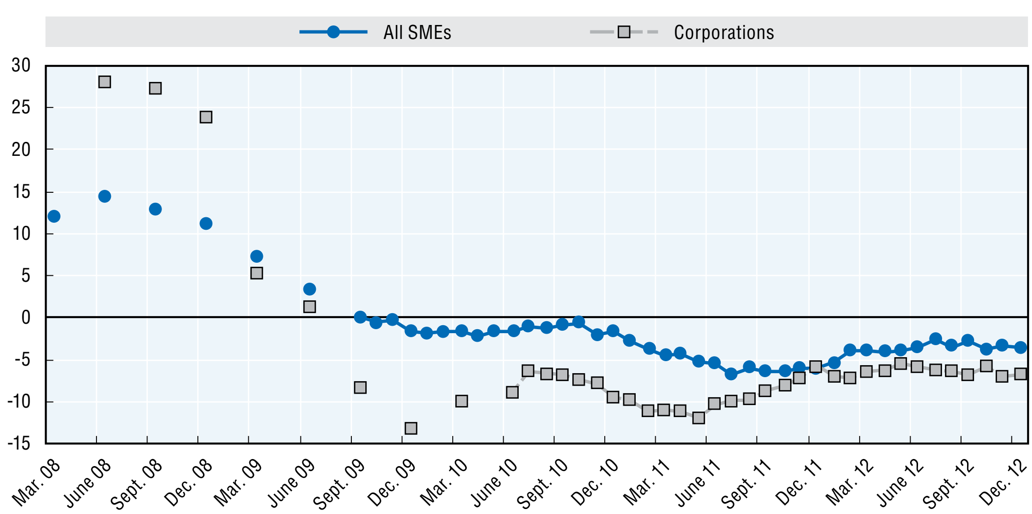
SME loans authorised vs. requested

BIS conducts a demand survey among SME employers every two years. This found that in the aftermath of the financial crisis the percentage of SMEs seeking finance rose from 23% (2007-08) to 26% (2010)[2] although there is other evidence to show a decline in the demand for bank finance.[3] In 2012, only 24% of SME employers sought financing, with larger SMEs more likely to apply than micros. Younger businesses had a greater propensity to seek finance than older ones (33% of those aged up to three years, 26% of those aged four to ten years and 22% of those aged over ten years). Over half of SMEs were seeking finance for working capital or for cash flow purposes, compared to 23% seeking it for the purchase of capital equipment. These are similar levels to those seen in 2010, although the proportion seeking finance to fund R&D rose by three percentage points (to 5%). Almost half of the requests were for bank loans (48% in 2012 compared to 40% in 2010), with another 35% being applications for bank overdrafts and 8% for leasing/hire purchase. Of the 76% not applying for finance, 15% had a need for it. The reasons these businesses did not apply for it were risk (56%), cost of finance (51%), unpropitious economic conditions (46%), and expectation of rejection (45%). Not knowing where to get finance was a factor in only a fifth of cases.

In 2012, the majority of those SMEs seeking finance were able to obtain the sum they required (58% the entire amount and a further 6% receiving some of it). However, 47% of those applying for finance had some form of difficulty obtaining the funds from the first source they approached, including 32% which were wholly refused. Difficulty was more frequently experienced by micro-enterprises (50%) rather than by small (39%) and medium-sized (29%) businesses. Overall the 2012 figures show an improvement compared to 2010, when 51% of SMEs reported difficulties.

Figure 32.1. **Lending to SMEs[1] and corporations in the United Kingdom, 2008-12**

Year-on-year percentage change



Notes: Quarterly data for SMEs from June 2008 until September 2009 and for corporations from June 2008 until June 2010. 1. SMEs are defined as firms with an annual turnover of up to GBP 25 million.

Source: BIS and Bank of England.

StatLink http://dx.doi.org/10.1787/888933016436

Credit conditions

Most SMEs paid less for finance overall in 2012 compared to 2008; the average interest rate on fixed-rate lending fell from 4.54% at the end of 2008 to 3.52% at the end of 2011, increasing slightly to 3.71% in 2012, though still below the 2008 high. Interest rate spreads between large enterprises and SMEs increased over the 2008-12 period except for a decline in 2011. In 2012, this spread increased to 131 basis points suggesting tighter credit conditions for SMEs compared to large firms. There is also the belief that banks are already pricing in the cost of complying with Basel III and other incoming financial regulations. Collateral requirements declined between 2010 and 2011, with 34%[4] of loans (including commercial mortgages) requiring security in 2011, compared to 45% in 2010.[5] Collateralised loans increased again in 2012, reaching 40% of overall SME loans, but are still at significantly lower levels than in 2007, when 55% of overall SME loans required collateral. This runs contrary to a general perception that banks' requirements for collateral have increased, but it is possible, especially at the smaller end, that businesses are choosing unsecured products rather than secured loans and are willing to pay a higher price.

Equity financing

While only a minority of SMEs seek external equity financing, it is an important source of finance for certain innovative businesses with high-growth potential. The venture capital market suffered a sharp decline between 2008 and 2009, particularly for expansion-stage investments, but it was also the growth stage which caused an overall increase in 2010 (other categories continued to fall). 2011 saw a stabilisation in the market, with the value of investments increasing slightly. The economic downturn resulted in a decline in investment levels in 2012 by 10%, with investment at the expansion stage being hit the most (venture capital was broadly flat). Over the period 2008-12, venture capital investment declined by almost 25%, again driven principally by growth stage investment. Nevertheless, a significant increase in fundraising during 2012 is signalling a positive outlook for venture capital investment over the coming years.[6]

Table 32.2. **Venture and growth capital investment in the United Kingdom, 2008-12**

By stage of development, GBP million

Stage of development	2007	2008	2009	2010	2011	2012
Seed	16	12	14	10	23	5
Start-up	174	160	125	46	47	57
Early stage VC	244	187	164	168	163	157
Later stage VC	..	..	151	89	115	125
Expansion	947	2 050	1 055	1 651	1 651	1 465
Total	**1 381**	**2 409**	**1 509**	**1 964**	**1 998**	**1 808**

Source: British Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933015163

Other indicators

Survey evidence shows cash flow was a significant obstacle to the success of the business, just after the economy. Enterprise payment delays, or the average number of days beyond term, decreased from 25.7 days in 2011 to 24.7 days in 2012 – although this remains above the average for 2008 (22.8 days). Enterprise liquidations (bankruptcies) peaked in 2009 and declined by 12% in 2010 but were on the rise again in 2011 (5.7% increase). The inconsistent pattern continued in 2012, when bankruptcies declined by 3.9% compared to 2011. However, the current liquidation rate is low by historical standards. In the twelve months ending 4Q2012, 0.7% of all active registered companies went into liquidation,[7] which is substantially lower than the peak of 2.6% in 1993, and the average of 1.2% seen over the last 25 years.[8]

Government policy response

The Enterprise Finance Guarantee (EFG) has been in operation since January 2009, as the replacement for the Small Firms Loan Guarantee Scheme (SFLG). It is designed to facilitate additional lending to viable SMEs lacking adequate collateral or proven track record for a commercial loan, and supports countercyclical lending (including converting overdrafts into loans). The government has committed funding until 2014-15, guaranteeing, subject to demand, up to GBP 2 billion in additional lending. EFG is subject to certain sector restrictions arising from the de minima aid rules under which it operates, but the majority of business sectors are eligible. EFG is available to viable businesses with a turnover of up to GBP 41 million,[9] seeking facilities between GBP 1 000 and 1 million, repayable over a period of three months to ten years.

The Start Up Loans programme was launched in May 2012 to provide micro loans and mentoring support to young people in England aged 18-30 who are looking to start a business, and who would not normally be able to access traditional forms of finance for a lack of track record or assets. Delivery of the scheme and credit decision-making is the responsibility of delivery partners, working closely with the Start Up Loans Company (a private company funded by government). The average loan size is around GBP 5,500; recipients are required to pay back the loan within five years at a fixed rate of interest – currently 6%. Since launch (up to August 2013), GBP 40 million has been lent under the scheme to almost 7,000 businesses. In 2013 the scheme has been widened to include Scotland, Wales and Northern Ireland, and the age limit removed, opening the scheme to all age groups throughout the UK.

Enterprise Capital Funds (ECFs) address a market weakness in the provision of equity finance to SMEs by using government funding alongside private sector investment to establish venture capital funds that operate within the 'equity gap'.[10] ECFs typically make investments of up to GBP 2 million in potential high-growth SMEs. The Government contribution is capped at GBP 25 million per fund, and private investors typically contribute about one-third of the total funds, approximately GBP 12.5 million. Approximately GBP 400 million has been committed to 12 ECFs by all investors up to mid-2013; since the start of the programme in 2006 nearly GBP 200 million has been invested in more than 160 companies.

The Business Angel Co-Investment Fund (CoFund) supports business angel investments in potential high- growth early- stage SMEs, addressing the recognised 'equity gap' for early stage investment in SMEs. The CoFund is able to make initial equity investments of between £100,000 and £1 million in SMEs alongside syndicates of business angels (subject to an upper limit of 49% of any investment round), with investment decisions made by the independent Investment Committee of the CoFund. From its launch in November 2011 to July 2013, the CoFund has enabled SMEs to secure GBP 54 million in 35 deals.

In order to consolidate these and other interventions, and provide additional support to viable but credit-constrained SMEs, the government announced the creation of a new state-backed business bank in autumn 2012. The new institution will review and consolidate existing government finance schemes, bring together management of the different schemes to increase awareness and simplify access, and deliver new interventions to address funding gaps – to this end the business bank has received GBP 1 billion of additional government funding to deploy alongside finance from private sector sources. The bank has a primary objective of increasing the level of diversity and competition in debt and equity markets, and is expected to function on commercial terms. The government announced the first disbursement of the additional funding in March 2013, including a new GBP 300 million Investment Programme that will promote diversity in the market through investments (alongside the private sector) in smaller and/or innovative finance providers, and an extra GBP 75 million to expand the ECF and CoFund programmes.

Falling outside the remit of the business bank, Funding for Lending is a central bank scheme, launched in July 2012, which provides banks with covered four-year funding at below current market rates, the aim being to enhance the effectiveness of monetary policy by incentivising banks to on-lend to the wider economy. Funds are available for lending to all non-financial corporations and households, not just SMEs. The scale and price of funding which banks can access is connected with their change in net lending over a reference period. Initially, each bank could borrow up to 5% of their stock of outstanding loans (as of June 2012), plus the value of any increase in lending between August 2012 and January 2014. Although the early indications suggest the scheme is having a positive effect on the pricing and volume of lending to households and larger corporations, there appears to have been less of an effect on SME lending. As a result, the scheme was first extended in April 2013 for an additional year, with the incentives to increase net lending skewed heavily towards SMEs – any increase in lending to SMEs now allows far greater access to the central bank funding than an equivalent increase in lending to other sectors. In November 2013 the scheme was further amended to exclude residential mortgage lending, so it can be fully focused on business lending.

The other main area of government support for SME finance outside the remit of the business bank is tax relief for equity investors in SMEs. Of these, the most significant is the Enterprise Investment Scheme (EIS). An investor receives 30% income tax relief on the cost of purchasing shares in a qualifying company (unquoted trading companies with fewer than 250 employees and gross assets of not more than GBP 15 million). The annual investment limit for individuals is GBP 1 million and for qualifying companies is GBP 5 million. April 2012 saw the introduction of a new variant, the Seed Enterprise Investment Scheme (SEIS), targeted specifically at small early-stage companies. Eligible companies need to have fewer than 25 employees and assets of up to GBP 200,000 at the point of investment. The scheme provides a higher rate of income tax relief of 50% on the cost of purchasing shares in qualifying seed companies, with an annual investment limit of GBP 100 000 per individual and a cumulative investment limit for companies of GBP 150 000.

Box 32.1. **Definition of SMEs used in United Kingdom's SME and Entrepreneurship Scoreboard**

While the national statistical definition of an SME follows the EU in terms of the number of employees, SME loans are defined as those made to firms with a turnover of up to GBP 25 million. The source of the SME loan data is the Department for Business Innovation & Skills, which carries out a private survey with the four largest banking groups in the United Kingdom. The aggregated data presented here represents a proxy for the entire SME lending market. This replaces data used in the previous version of the OECD scoreboard, which was based on industry figures from the British Bankers' Association for 2011, back-casted to 2007. The advantage of the new source is consistency over the time series, even though the coverage of the market is slightly lower.

Country definition

The national statistics definition is based on business size of less than 250 employees.

Financial institutions' definition

Financial institutions' definition is based on turnover of up to GBP 25 million.

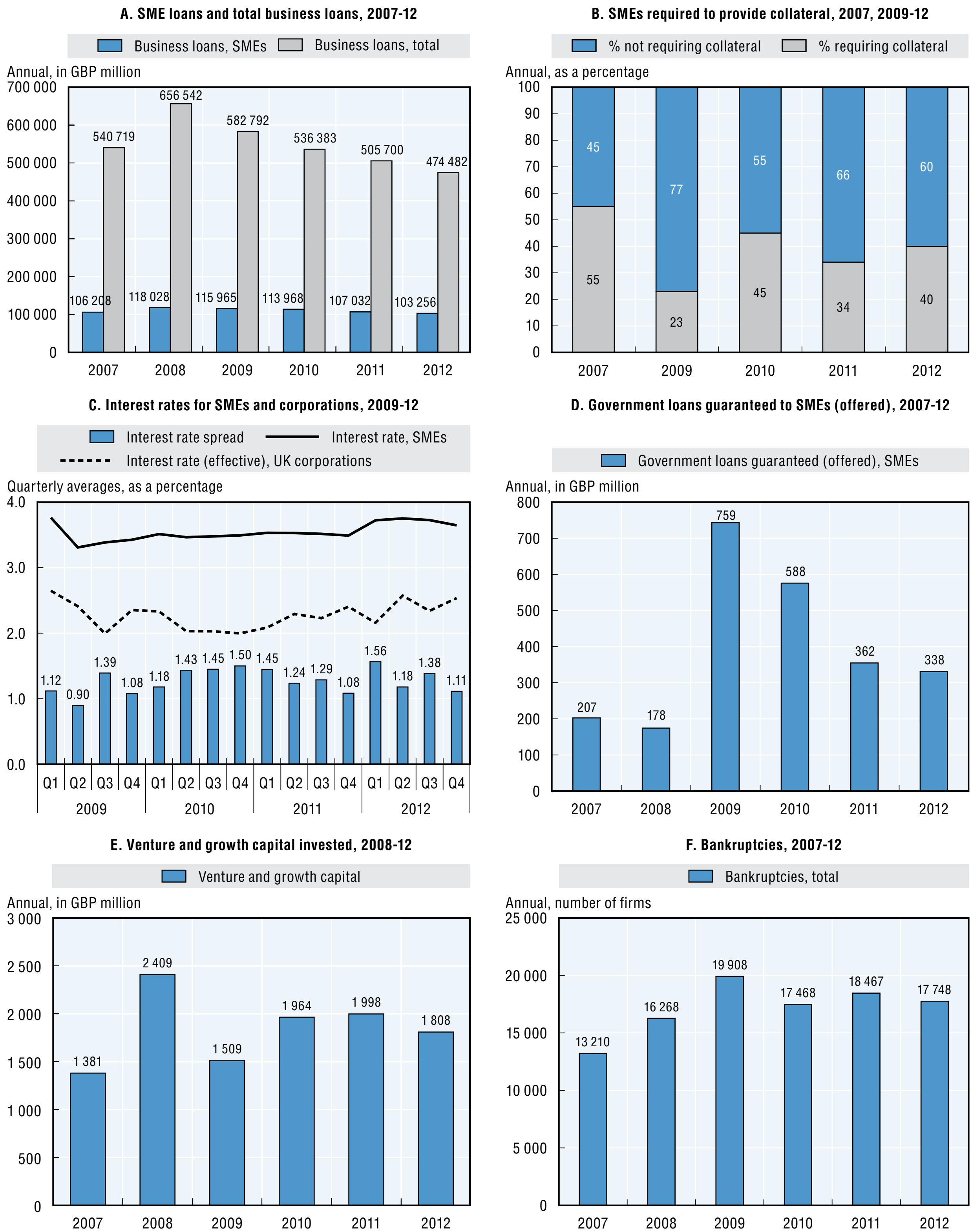
Table 32.3. **Scoreboard for the United Kingdom, 2007-12**

Indicator	Units	2007	2008	2009	2010	2011	2012
Debt							
Business lending, SMEs	GBP million	106 208	118 028	115 965	113 968	107 032	103 256
Business lending, total	GBP million	540 719	656 542	582 792	536 383	505 700	474 482
Business lending, SMEs	% of total business loans	19.6	18.0	19.9	21.2	21.2	21.8
Government loans guaranteed (offered), SMEs	GBP million	207.0	178.0	759.5	588.3	362.4	337.6
Government loans guaranteed (drawn), SMEs	GBP million	..	..	626.5	529.4	325.9	288.8
Ratio of government loans guaranteed drawn to offered, SMEs	%	..	..	82.5	90.0	89.9	85.5
Interest rate, SMEs[1]	%	..	4.54	3.47	3.49	3.52	3.71
Interest rate, corporations in the United Kingdom	%	..	3.49	2.35	2.10	2.25	2.40
Interest rate spread	%	..	1.05	1.12	1.39	1.26	1.31
Collateral, SMEs	% of loans requiring collateral	55.0	..	23.0	45.0	34.0	40.0
Equity							
Venture and growth capital	GBP million	1 381	2 409	1 509	1 964	1 998	1 808
Venture and growth capital	Year-on-year growth rate, %	..	74.4	-37.4	30.2	1.7	-9.5
Other							
Payment delays	Average days beyond term (full year)	..	..	22.8	22.6	25.7	24.7
Bankruptcies, total (liquidations)	Number	13 210	16 268	19 908	17 468	18 467	17 748
Bankruptcies, total	Year-on-year growth rate, %	..	23.1	22.4	-12.3	5.7	-3.9

Source: Refer to Table 32.4.

StatLink http://dx.doi.org/10.1787/888933015182

Figure 32.2. **Trends in SME and entrepreneurship finance in the United Kingdom**



Sources: Chart A: Department for Business Innovation & Skills (BIS). Chart B: Various surveys. Chart C: Bank of England (BOE). Chart D: BIS. Chart E: British Venture Capital Association (BVCA). Chart F: Insolvency Service.

StatLink http://dx.doi.org/10.1787/888933016455

Table 32.4. **Definitions and sources of indicators for the United Kingdom's scoreboard**

Indicator	Definition	Source
Debt		
Business lending, SMEs	Value of the stock of SME outstanding loan and overdraft facilities with major banks in the United Kingdom, as at December of each year. Proxy for the entire system's SME lending.	BIS private survey of four biggest lenders in the United Kingdom.
Business lending, total	Stock of outstanding monetary financial institutions' sterling lending to private non-financial corporations.	Bank of England.
Government guaranteed loans(offered), SMEs	The value of Enterprise Finance Guarantee (EFG) loans offered to SMEs. EFG covers SMEs with annual turnover of up to GBP 41 million. Figures for 2007 and 2008 are for the Small Firms Loan Guarantee scheme and relate to financial years.	BIS.
Government guaranteed loans(drawn), SMEs	The value of Enterprise Finance Guarantee (EFG) loans drawn by SMEs. There are no figures for 2007 and 2008.	BIS.
Interest rate, SMEs	The Median interest rate by value of new SME facilities from four major lenders (for SMEs with up to GBP 25 million turnovers). Quarterly figures are the average of 3 monthly rates; annual figures are the average of 12 monthly rates.	Bank of England.
Interest rate (effective),corporations in the United Kingdom	Effective interest rate on new lending to large corporations in the United Kingdom (proxied by businesses borrowing amounts of GBP 20 million or more), non-seasonally adjusted. Quarterly figures are the average of 3 monthly rates; annual figures are the average of 12 monthly rates.	Bank of England.
Interest rate spread	SME interest rate minus effective interest rate on new lending to large corporations.	Bank of England.
Collateral, SMEs	Percentage of SMEs that were required to provide collateral on bank loans drawn down. The 2009 figure is not comparable with other years due to differences in the way the question was asked between surveys. SMEs are defined as enterprises with less than 250 employees and include non-employer enterprises.	Various surveys.
Equity		
Venture and growth capital	Amount of external equity invested in enterprises in the United Kingdom by BVCA members (includes seed, start-up, early stage and expansion capital).	British Venture Capital Association (BVCA).
Other		
Payment delays	Average number of days beyond term for all businesses.	Experian.
Bankruptcies, total	Number of companies liquidated (voluntary and compulsory) in Great Britain and Northern Ireland.	Insolvency Service.

Notes

1. Department for Business, Innovation and Skills (2013) "Evaluating Changes in Bank Lending to UK SMES Over 2001-12 – Ongoing Tight Credit?" Report prepared by for BIS by NIESR.
2. BIS Small Business Survey 2012, www.gov.uk/government/publications/small-business-survey-2012-smeemployers
3. Whilst the BIS survey shows an increase in SMEs seeking finance overall, the Bank of England shows the value of applications by SMEs for new term loans and overdraft facilities in the six months to February 2011 was 19% lower than in the same period a year earlier (www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril11.pdf). Lower demand for bank finance and deleveraging by SME also impacted on the stock of lending.
4. By definition commercial mortgages are secured. Excluding commercial mortgages, 32% of loans required security.
5. In 2009 the proportion of loans requiring collateral fell but the figure is not comparable due to differences in the way the question was asked between surveys.
6. BVCA: Private Equity and Venture Capital Report on Investment Activity 2012.
7. England and Wales only.
8. www.insolvencydirect.bis.gov.uk/otherinformation/statistics/201302/index.htm
9. The turnover threshold for EFG was £25m until March 2012, so the figures presented for 2007-11 are based on this previous limit.
10. An equity gap arises where businesses with viable investment propositions are unable to attract investment from informal investors or venture capitalists. In bridging this gap, ECFs (and the Business Angel Co-Investment Fund) aim to alleviate what would otherwise present a significant barrier to enterprise and to productivity growth.

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United States

Small businesses in the national economy

The SBA broadly classifies small businesses as any firm with 500 or fewer employees (see Box 33.1.). These firms account for 99.7% of all firms. They employ slightly over half of the private sectors' employees, pay about 43% of the total private sector payroll, generate about 64% of net new private sector jobs, and create about 46% of the private-sector output.

Table 33.1. **Distribution of firms in the United States, 2010**

By size of firm

Firm size (employees)	Number	%
Total firms	**14 590 831**	**100.0**
SMEs (0-499)	**14 544 533**	**99.7**
Micro (0-9)	13 645 795	93.5
Small (10-99)	817 109	5.6
Medium (100-499)	81 629	0.6
Large (500+)	**46 298**	**0.3**

Notes: Data excludes financial and insurance enterprises. Non-employer enterprises are included. The number of non-employer firms from the Non-employer Statistics Database was added to the number of employer firms from the Statistics of U.S. Businesses, so to obtain the total number of firms with zero to nine persons employed.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933015201

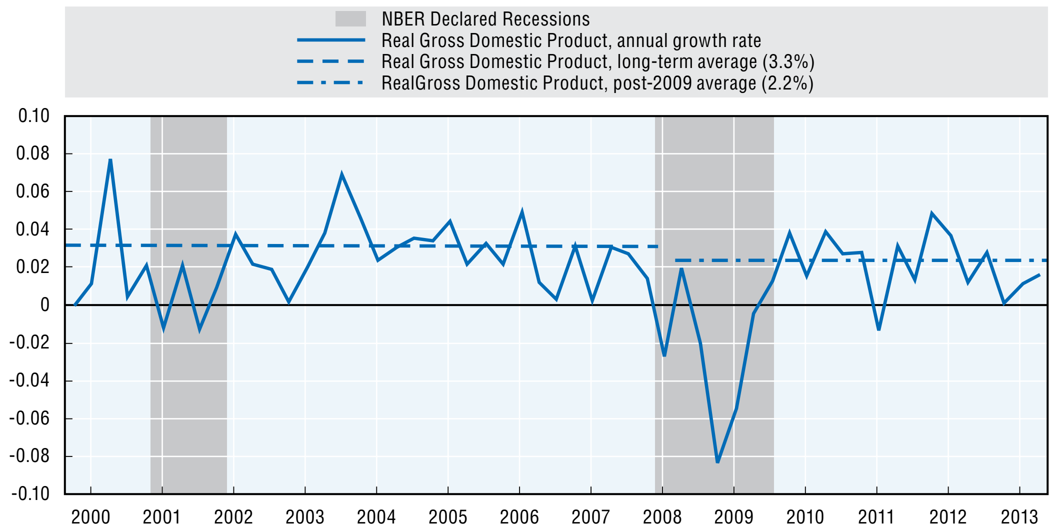
Macroeconomic environment and recent corporate trends

Since the Great Recession of 2008-09, the U.S. economy has recorded three years of positive growth, averaging 2.2%, below the historical average of 3.3%. This subpar growth has created a persistent and unusually pronounced underutilisation of resources, forcing economic agents to adapt to the modest growth environment.

This adaptive behaviour has resulted in historically high corporate profit levels and margins. The rebound in corporate profits has occurred across the entire firm-size spectrum. Profit margins at the largest firm-size class rebounded strongly during the recovery period and surpassed previous peaks. Profit margins at the smallest firm-size also rebounded during the same period, although not as strongly, and managed to reach but not surpass previous peak levels.

Figure 33.1. **Real gross domestic product, United States, 2000-13**

Year-over-year percentage change

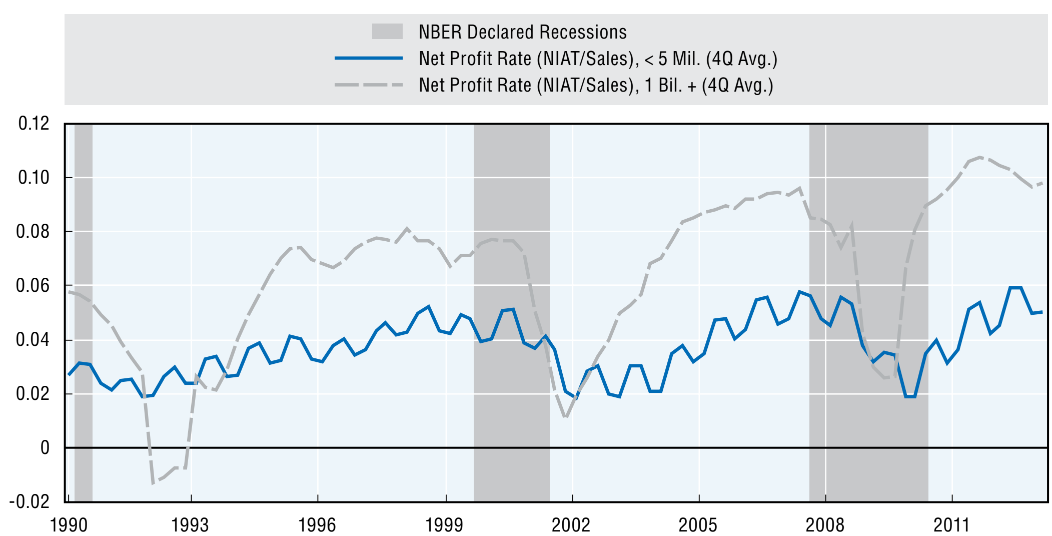


Source: U.S. Bureau of Economic Analysis, NIPA

StatLink http://dx.doi.org/10.1787/888933016474

Figure 33.2. **Industrial sector, after tax profit margins, selected firm sizes in the United States, 1990-2013**

Year-over-year percentage change



Source: U.S. Census, Quarterly Financial Report, and SBA calculations.

StatLink http://dx.doi.org/10.1787/888933016493

Net firm formation experienced a very different pattern than corporate profits. Net firm formation declined 5.3% during the 2008-10 period, a decline more than ten times larger than the 0.4% drop recorded during the steep 1991 recession. Net firm formation experienced a modest 0.6% increase during 2011 and 2012. Thus U.S. economy in 2012 operated with about 245 000, or 4.8%, fewer firms than the peak level recorded during 2007.

Table 33.2. **Percent change in the number of firms in the U.S., 1989-2010**

Percentage change

	Change in the number of Firms by Employment Size (in %)						
Date	TOTAL	0-4	5-9	10-19	20-99	100-499	500+
1989	1.3%	0.8%	1.5%	2.3%	3.1%	4.3%	8.2%
1990	1.0%	0.6%	1.6%	1.7%	2.2%	1.2%	1.1%
1991	-0.4%	0.5%	-1.1%	-2.0%	-3.1%	-3.0%	-0.3%
1992	0.9%	1.3%	0.5%	0.1%	-0.2%	1.2%	1.0%
1993	1.9%	2.1%	1.8%	1.4%	1.6%	3.4%	3.6%
1994	1.6%	2.2%	0.3%	0.6%	1.5%	2.5%	2.5%
1995	1.7%	1.3%	1.7%	2.4%	3.9%	4.0%	3.0%
1996	2.0%	2.4%	1.6%	1.6%	1.4%	-0.1%	1.1%
1997	1.2%	0.9%	1.1%	1.3%	2.3%	4.7%	3.0%
1998	0.7%	0.5%	0.5%	1.1%	1.4%	0.5%	1.9%
1999	0.5%	0.4%	0.1%	0.9%	1.5%	1.6%	2.2%
2000	0.8%	0.2%	0.8%	1.9%	2.8%	3.7%	2.5%
2001	0.1%	0.1%	-0.2%	-0.2%	0.4%	1.1%	1.2%
2002	0.7%	1.9%	-0.8%	-0.4%	-1.9%	-3.5%	-3.0%
2003	1.2%	1.1%	1.5%	1.1%	1.3%	3.0%	0.5%
2004	2.1%	2.1%	1.8%	2.0%	2.2%	2.0%	0.7%
2005	1.7%	2.7%	0.6%	-0.4%	-1.0%	0.9%	2.5%
2006	0.6%	-0.2%	1.0%	2.7%	2.9%	3.8%	3.4%
2007	0.5%	1.0%	-0.1%	-0.3%	-0.6%	-2.2%	1.3%
2008	-2.0%	-2.4%	-1.5%	-1.8%	-1.1%	2.0%	0.9%
2009	-2.7%	-1.6%	-4.1%	-3.5%	-5.8%	-7.8%	-5.2%
2010	-0.6%	0.5%	-3.3%	1.0%	-4.1%	-1.9%	-1.6%
2008-10	-5.3%	-3.5%	-8.9%	-4.3%	-11.1%	-7.6%	-5.9%

Notes: An establishment with 0 employment is an establishment reporting no paid employees in the mid-March pay period, but paid employees at some time during the year.

Source: U.S. Census, County Business Patterns, various years.

StatLink http://dx.doi.org/10.1787/888933015220

In this environment, the critical policy question becomes which SME exited the market? Were they (1) the less efficient, or were they (2) the risk takers? Further empirical analysis is needed to answer this critical policy question.

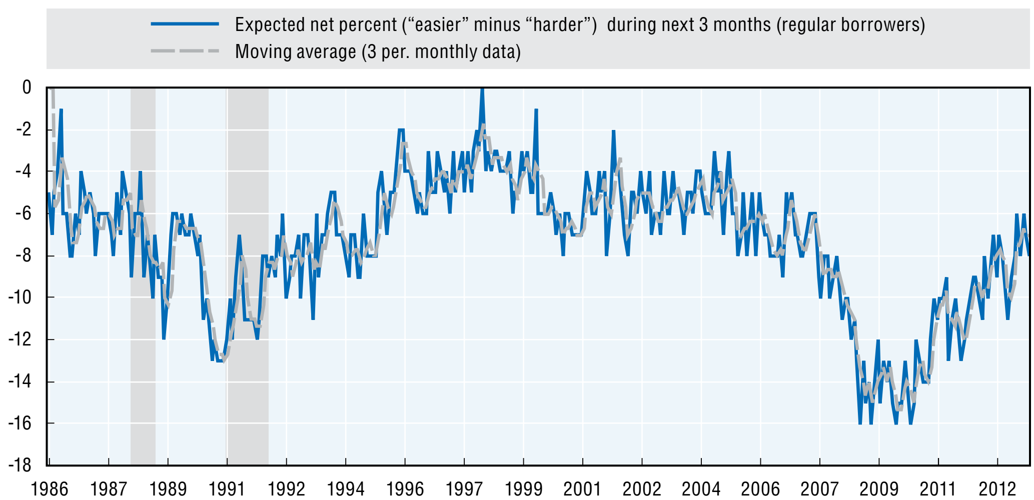
Employment at small and large firms continues to posting modest gains. Small firm employment got hit hard during the most recent recession, with 63% of the contractions occurring at small firms. During the recovery, small firms accounted for a strikingly similar 64% of the job gains. Recent labour churn is much lower than the historical average, and indicative of the conservative behaviour among small firms. Capital expenditures, excluding expenditures on real estate investments, for the entire business sector rebounded strongly during the recovery period. Data from the NFIB show that, since the latter part of 2009, a greater number of small firms have been planning capital expenditures one to two quarter forward.

SMEs' access to credit

The U.S. banking sector continues to improve. Quarterly net income at depository institutions slightly surpassed pre-recessionary levels, primarily benefitting from improvements in non-interest income and expense, and a reduction in loan losses. There is some evidence that small firms' higher usage of labour and capital during the recovery period, is also associated with a modest increase in credit usage. The net percent of bankers reporting stronger credit demand by small firms rose from the second half of 2009 and throughout 2013. Small firms that are regular borrowers are concurring with bankers that credit conditions have indeed been steadily improving. As a total group, however, small firms are reporting a lower percentage of them are borrowing, indicating that some small firms have not re-entered the credit markets.

Figure 33.3. **Net percent of regular borrower expecting improvement in credit condition during the next three months in the United States, 1986-2013**

percentage

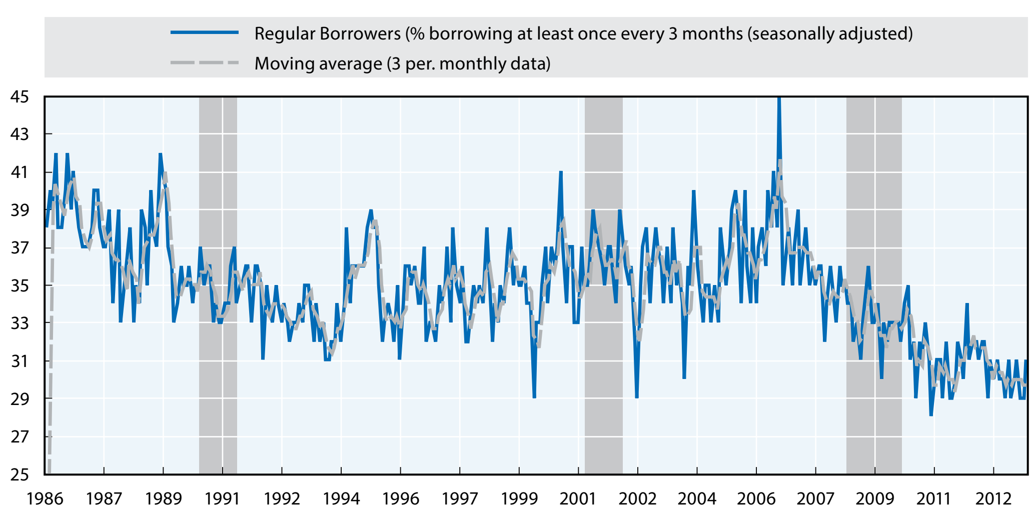


Source: National Federation of Independent Business.

StatLink http://dx.doi.org/10.1787/888933016512

Figure 33.4. **Percent of firms borrowing at least once a quarter in the United States, 1986-2013**

Percentage



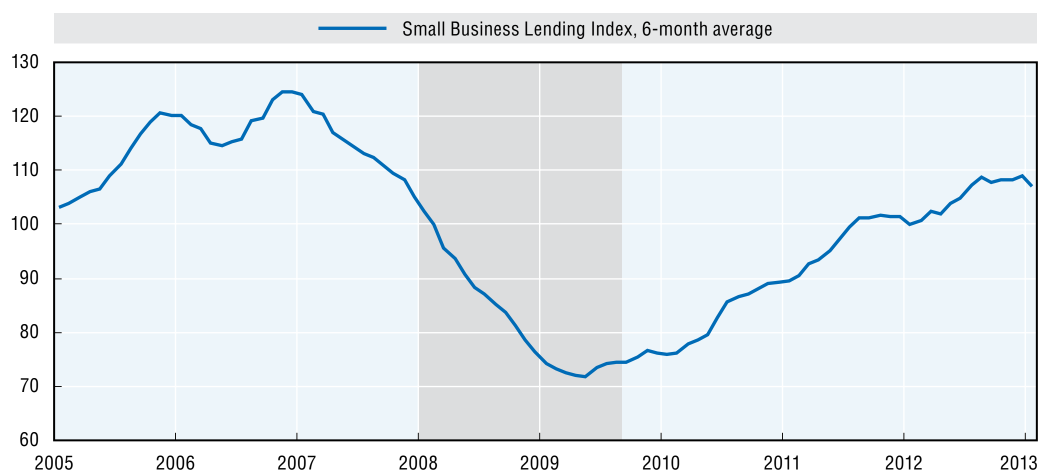
Source: National Federation of Independent Business.

StatLink http://dx.doi.org/10.1787/888933016531

Small loan balances at FDIC insured institutions have continued to decline since peaking during the second quarter of 2008. With the advent of financial innovation and financial deregulation, however, this dataset's capacity to capture changes in the supply of credit has significantly diminished. Data recently made available by some private sector firms indicate that origination, or new supply, of small firm credit may have been on the rise for several years now. For example, the Paynet Small business Index indicates that the new supply of credit to small firms has been steadily rebounding since the second half of 2009, although it has not reached the peak level recorded during the end of 2007. This data also indicates that the growth rate of credit origination directed at small firms seems to have reached a cyclical high during November of 2011, and during the first six months of 2013. Interest rates for small loans continue to remain low, reflecting the low interest environment fostered by the Federal Reserve strong intervention in the short-term and long-term markets.

Figure 33.5. **Paynet, small business lending index in the United States, 2005-13**

Percentage



Source: Thomson Reuters / Paynet.

StatLink http://dx.doi.org/10.1787/888933016550

The U.S. Small Business Administration role

The SBA works with approximately 5,000 banks and credit unions, some 250 Community Development Corporations (CDCs), over 170 non-profit financial intermediaries and Community Development Financial Institutions (CDFIs), and approximately 300 small business investment companies (SBICs). The SBA Capital Access Program has several major sub-programs that provide guarantees and co-funding for a wide range of products designed to meet the diverse financial needs of small firms throughout their life cycle, starting from small start-ups to established firms.[1]

The largest of these, the 7(a) Loan Program, provides guarantees for working capital loans up to USD 5.0 million to new and existing small businesses. The second largest sub-program, the Certified Development Corporation 504 Loan Program, provides guarantees and co-funding for loans up to USD 5.0 or USD 5.5 million used for the purchases of fixed assets.

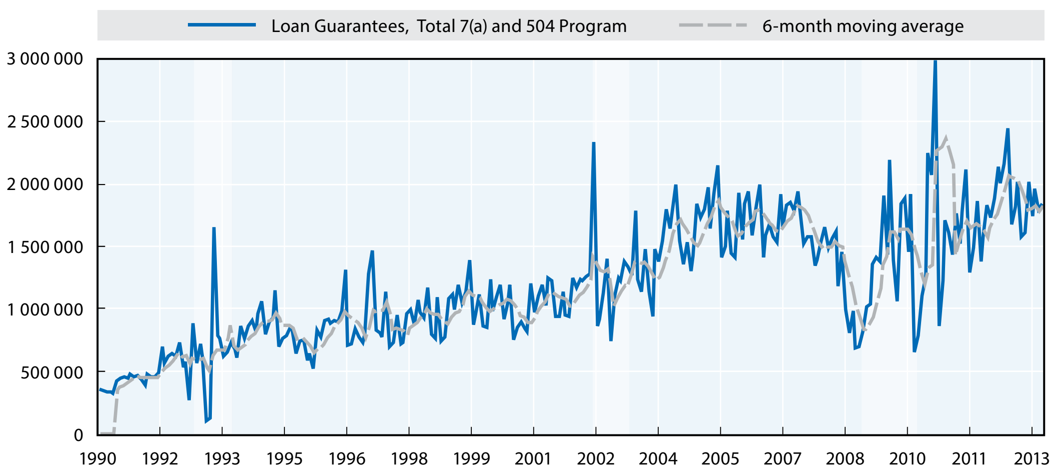
The financial and economic crisis of 2008-09 had a pronounced impact on SBA's Capital Access Programs, however, after several major interventions by the federal government the dollar volume of these two programs surpassed previous peak levels, reaching

USD 22.7 billion during 2012.[2] The bulk of these federal interventions were in the form of additional incentives to financial institutions, structural changes to its programs, and assistance in the secondary markets for SBA guaranteed loans.

More specifically, the Agency employed additional funding received from Congress to temporarily increase its guarantees from around 75% to 90%. The SBA also temporarily reduced or eliminated the fees it charges financial institutions participating in its loan guarantee programs. The Agency also increased its loan limits. Finally the U.S. Department of Treasury would purchase USD 15 billion of SBA loans on the secondary market.[3] Through this program the government promised to be a buyer of last resort for these recent loans.

Figure 33.6. **Gross loan guarantees, SBA 7(a) and 504 Programs, 1990-2013**

USD thousand



Source: United States Small Business Administration.

StatLink http://dx.doi.org/10.1787/888933016569

Box 33.1. **Definition of small businesses used in the United States' SME and Entrepreneurship Scoreboard**

Country definition

The SBA has two different approaches for defining small firms. The first approach is to define any firm with less than 500 employees as "small." This practice was first established by the Small Business Act of 1953. However, the same Act required the SBA to establish a size standard that "should vary to account for differences among industries." Second, the Act called on the SBA to "assist small businesses as a means of encouraging and strengthening their competitiveness in the economy." These two considerations are the basis for the SBA current methodology for establishing small business size standards. For further details see The U.S. Small Business Administration (2009) SBA Size Standard Methodology.

SME definition used in the United States profile

The United States statistics on business loans, interest rates and collateral are based on the loan size. Loans up to USD 1 million are classified as SME loans. In the case of SME government guaranteed loans the above mentioned thresholds are used.

Source: United States Small Business Administration (2009) SBA Size Standard Methodology; Table of Small Business Size Standards, www.sba.gov/content/table-small-business-size-standards.

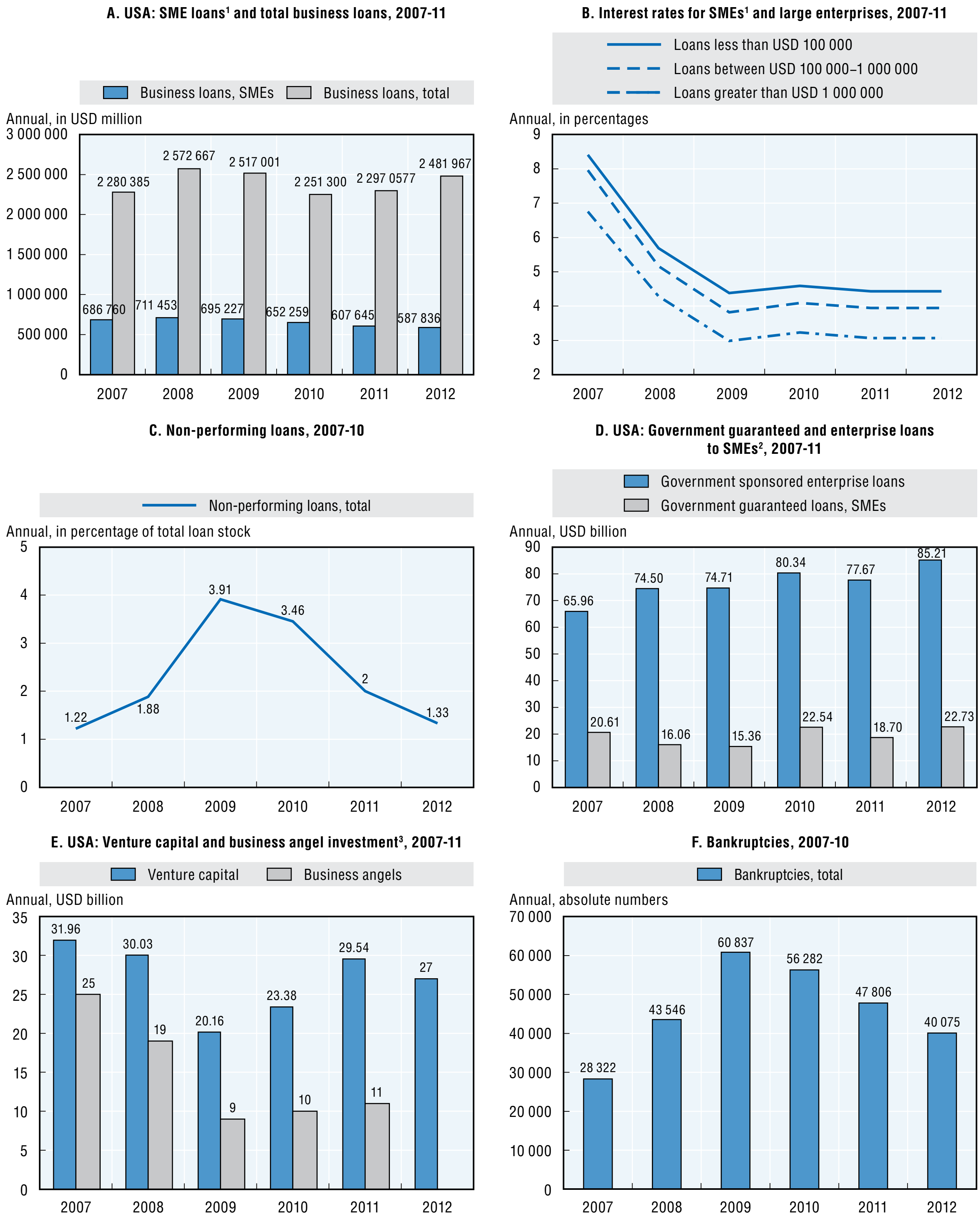
Table 33.3. **Scoreboard for the United States, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	USD million	686 760	711 453	695 227	652 259	607 645	587 836
Business loans, total	USD million	2 280 385	2 572 667	2 517 001	2 251 300	2 297 057	2 481 967
Business loans, SMEs	% of total business loans	30.1	27.7	27.6	29.0	26.5	23.7
Short-term loans, SMEs	% of credit market debt	29.9	30.3	23.8	20.6	21.3	20.8
Government sponsored Enterprise loans	USD billion	66.0	74.5	74.7	80.3	77.7	85.2
Government guaranteed loans, SMEs	USD billion	20.6	16.1	15.4	22.5	18.7	22.7
Ratio of loans authorised to requested, SMEs	%	71.8	66.6	..	..	..	..
Non-performing loans, total	% of loan stock	1.22	1.88	3.91	3.46	2.00	1.33
Interest rate, loans < USD 100 000	%	8.41	5.69	4.38	4.59	4.43	4.20
Interest rate, loans between USD 100 000 – 1 000 000	%	7.96	5.16	3.82	4.09	3.95	3.77
Interest rate, loans, greater than USD 1,000,000	%	6.75	4.29	2.99	3.23	3.07	2.81
Collateral, loans < USD 100 000	% of loans secured by collateral	84.2	84.7	89.2	..	..	..
Collateral, loans USD 100 000 – USD 999 999	% of loans secured by collateral	76.4	70.9	77.6	..	..	..
Collateral, loans USD 1 000 000 – USD 999 999 999	% of loans secured by collateral	46.7	42	48.5	..	..	..
Equity							
Venture capital	USD billion	32	30	20	23	30	27
Venture capital	Year-on-year growth rate, %	..	-6.0	-32.9	16.0	26.3	-9.1
Other							
Bankruptcies, total	Number	28 322	43 546	60 837	56 282	47 806	40 075
Bankruptcies, total	Year-on-year growth rate, %	..	53.8	39.7	-7.5	-15.1	-16.2

Source: Refer to Table 33.4.

StatLink http://dx.doi.org/10.1787/888933015239

Figure 33.7. **Trends in SME and entrepreneurship finance in the United States**



Note: 1. For loans up to USD 1 million. 2. Proxied by loans sponsored by the Small Business 7(a) loan program.

Source: Chart A: FDIC, Consolidated Reports of Condition and Income for U.S. Banks and thrift institutions. Chart B: Federal Reserve, Flow of Funds Accounts of the United States. Chart C: Federal Reserve Board. Chart D: Federal Reserve and USSBA. Chart E: PwC Money Tree Survey, Venture Capital Association. Chart F: Adm. Office of United States Courts: Business Bankruptcy Filings.

StatLink http://dx.doi.org/10.1787/888933016588

Table 33.4. **Definitions and sources of indicators for the United States' scoreboard**

Indicators	Definitions	Sources
Debt		
Business loans, SMEs	Loan balances held at financial institutions, loans to non-financial firms, loans up to USD 1 million.	FDIC, Consolidated Reports of Condition and Income for U.S. Banks and thrift institutions, June 30 reports.
Business loans, total	Loan balances held at financial institutions, loans to "Commercial Real Estate", "Commercial and Industrial Loans", and "Commercial real estate loans not secured by real estate"	FDIC Call reports.
Short-term loans, SMEs	Loans to non-financial corporations with duration of less than one year, loans up to USD 1 million, flows.	Federal Reserve, Flow of Funds Accounts of the United States, Table L102, line 43, "Short-term debt/credit market debt".
Government sponsored Enterprise loans	Government sponsored enterprise loans to non-corporate partners.	Federal Reserve, Flow of funds reports.
Government guaranteed loans, SMEs	Full value of guaranteed loans outstanding for working capital &fixed assets. Government guaranteed loans to SMEs by the Small Business 7(a) loan program, which is the most basic and most commonly used type of loans.	USSBA, 7(a) and 504 loan guarantee programs.
Ratio of loans authorised to requested, SMEs	Approval rate.	Kauffman Foundation, Firm Survey Micro data.
Non-performing loans, total	C&I bank loans, 30 days past due, all sizes, as a percentage of loan stock.	Federal Reserve Board.
Interest rate, loans < USD 100 000	Annual average from quarterly data.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release, SURVEY OF TERMS OF BUSINESS LENDING.
Interest rate, loans between USD 100 000 – 499 000	Annual average from quarterly data.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release, SURVEY OF TERMS OF BUSINESS LENDING.
Interest rate, loans between USD 500 000 – 999 999	Annual average from quarterly data.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release, SURVEY OF TERMS OF BUSINESS LENDING.
Collateral, SMEs	The percentage of loans secured by collateral.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release.
Equity		
Venture capital	Investment in all enterprises.	PwC Money Tree Survey, Venture Capital Association.
Other		
Bankruptcies, total	Bankruptcy data are 12 month numbers for 30 September of each year, all enterprises.	Adm. Office of United States Courts: Business Bankruptcy Filings.

Notes

1. For further details on the SBA's Capital Access Programs see www.sba.gov.
2. The SBA provides a range of guarantees through its various guarantee products. For a quick reference on the details of its loan guarantee programs see the U.S. Small Business Administration, Quick Reference to SBA Loan Guarantee Programs.
3. The Federal Reserve had already started to purchase some SBA guaranteed loans under the Term Asset-Backed Securities Loan Facility (TALF). For more details see Board of Governors of the Federal Reserve System, Term Asset-Backed Securities Loan Facility (TALF) Terms and Conditions, www.federalreserve.gov/newsevents/press/monetary/monetary20081125a1.pdf and the (White House Office of the Press Secretary 2010).

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ANNEX A

Methodology for producing the national scoreboards

Financing SMEs and Entrepreneurs – An OECD Scoreboard provides a framework to monitor trends in SMEs' and entrepreneurs' access™ to finance – at the country level and internationally – and a tool to support the formulation and evaluation of policies.

The country profiles present data for a number of core indicators, which measure trends in SME debt and equity financing, solvency and policy measures by governments. The set of indicators and policy information provide policy makers and other stakeholders with a consistent framework to evaluate whether SME financing needs are being met, to support the design and evaluation of policy measures, and to monitor the implications of financial reforms on SME access to finance. On the other hand, differences in definition and coverage between countries for many indicators limit cross-country comparisons, which can nevertheless be carried out in relation to general trends across countries.

The present Annex describes the methodology for producing the national profiles, details the core indicators, discusses the use of proxies in case of data limitations or deviation from preferred definitions and addresses the limits in cross-country comparability. It also provides recommendations for improving the collection of data on SME finance.

Scoreboard indicators and their definitions

Core indicators

Trends in financing SMEs and entrepreneurs are monitored through 13 core indicators, which tackle specific questions related to access to finance (Table A.1). These core indicators meet the following criteria:

- Usefulness: the indicators must be an appropriate instrument to measure how easy or difficult it is for SMEs and entrepreneurs to access finance and to help policy makers formulate or adjust their policies and programmes.
- Availability: the data for constructing the indicators should be readily available in order not to impose new burdens on governments or firms.
- Feasibility: if the information for constructing the indicator is not publicly available, it should be feasible to make it available at a modest cost, or to collect it during routine data exercises or surveys.
- Timeliness: the information should be collected in a timely manner so that the evolving conditions of SME access to finance can be monitored. Annual data may be more easily available, but should be complemented by quarterly data, when possible, to better capture variability in financing indicators and describe turning points.

- Comparability: the indicators should be relatively uniform across countries in terms of the population surveyed, content, method of data collection and periodicity or timeliness.

Table A.1. **Core Indicators of the OECD Scoreboard on financing SMEs and entrepreneurs**

1.	SME loans/all business loans
2.	SME short- term loans/SME loans
3.	SME government loan guarantees
4.	SME government guaranteed loans
5.	SME direct government loans
6.	SME loans authorised/SME loans requested or SME loans used/SME loans authorised
7.	SME non-performing loans
8.	SME interest rates
9.	Interest rate spread between SMEs and large enterprises or the difference between the interest rate charge on loans and prime base
10.	SMEs (%) required to provide collateral
11.	Venture and growth capital
12.	Payment delays
13.	Bankruptcies

Share of SME loans in total business loans: This ratio captures the allocation of credit by firm size, that is, the relative importance of SME lending in the national credit market.

Share of short-term loans in SME loans: This ratio shows the debt structure of SMEs or whether loans are being used to fund current operations or investment and growth needs. However, caution has to be used in interpreting this indicator, because it is affected by the composition of short-term loans versus long-term loans in the SME loan portfolio of banks. Indeed, the share of long-term loans could actually increase during a financial crisis, because it is easier for the banks to shut off short-term credit.

SME government loan guarantees, SME government guaranteed loans, SME direct government loans: These indicators show the extent of public support for the financing of SMEs in the form of direct funding or credit guarantees. By comparing government loan guarantees with guaranteed loans, information can be drawn on the take up of government programmes and on their leverage effect.

SME authorised loans/SME requested loans: This indicator shows the degree to which SME credit demand is met. A decrease in the ratio indicates a tightening in the credit market. It also provides information about the "rejection" rate for SME loans. A limitation in this indicator is that it omits the impact of "discouraged" borrowers. However, discouragement and rejection seem to be closely correlated, as the number of discouraged borrowers tends to increase when credit conditions become tighter and loan authorisation decreases.

SME loans used/SME loans authorised: This ratio is used as a proxy by some countries for the above indicator. It shows the willingness of the banks to provide credit. However, in contrast with the above ratio, a decrease in this ratio indicates that credit conditions are loosening because not all credit authorised is being used.

SME non-performing loans/SME loans: This indicator provides information about the relative performance of SME loans in banks' portfolio, that is, the riskiness implied by exposure to SME loans. It can be compared with the overall ratio of non-performing loans to all business loans to determine whether SMEs are less creditworthy.

SME interest rates and interest rate spreads: These indicators describe the tightness of the market and the (positive or negative) correlation of interest rates with firm size.

Collateral required: This indicator shows tightness of credit conditions. It is based on demand-side surveys where SMEs report if they have been explicitly required to provide collateral for their last loan. It is not available from supply-side sources, as banks do not generally divulge this information.

Venture capital and growth capital: This indicator shows the ability to access external equity in the form of seed, start-up, early stage venture capital as well as expansion capital. It excludes buyouts, turnarounds and replacement capital, as these are directed at restructuring and generally concern larger enterprises.

Payment delays: This indicator contributes to assess SME cash flow problems. If the delay is business-to-customer (B2C), it reveals difficulties in SMEs being paid by their clients; if it is businesstobusiness (B2B), it shows supplier credit delays and how SMEs are coping with cash flow problems by delaying their payments. The higher the B2B delay compared to B2C, the more relief to cash flow problems. At present, the countries report one or the other indicator, but in the future both indicators will be collected in order to allow this comparison.

SME bankruptcies or bankruptcies per 10 000 or 1 000 SMEs: This indicator is a proxy for SME survival prospects. Abrupt changes in bankruptcy rates demonstrate how severely SMEs are affected by economic crises. However, the indicator likely underestimates the number of SME exits, as some SMEs close their business before being in financial difficulties. Bankruptcies per 10 000 or 1 000 SMEs is a preferred measure, because the indicator is not affected by the increase or decrease in the number of enterprises in the economy.

Preferred definitions

In order to calculate these core indicators, data are collected for 16 variables. Each variable has a preferred definition (Table A.2), intended to facilitate time consistency and comparability. Most of the data come from supply side sources, that is, financial institutions, and usually central bank statistics. A few data are sourced from demand side surveys of either senior loan officers or SMEs themselves. In a number of cases it is not possible for countries to adhere to the "preferred definition" of an indicator, due to data limitation or reporting practices, and a proxy is used. For this reason, in each country profile the data are accompanied by a table of definitions and sources for each indicator.

SME target population

The SME target population of the Scoreboard consists of non-financial "employer" firms, that is, firms with at least one employee besides the owner/manager, which operate a non-financial business. This is consistent with the methodology adopted by the OECD-Eurostat Entrepreneurship Indicators Programme to collect data about business demography. The target group excludes firms with no employees or self-employed individuals, which considerably reduces the number of firms that can be considered SMEs. For most of the countries in the report, data are available for this target population. However, not all countries collect data at the source and compile them in accordance with these criteria. Therefore, in a few cases data include financial firms and/or self-employed individuals. This is mostly the case in countries reporting financial indicators based on loan size, rather than the target population, or when sole proprietorships/self-entrepreneurs cannot be distinguished from the SME population at the supply-side level of reporting.

Table A.2. **Preferred definitions for core indicators**

Indicator	Definition/Description	Sources
SME loans	Bank and financial institution loans to SMEs, amount outstanding (stocks) at the end of period OR new loans (flows); by firm size using the national definition of SME or, if necessary, loan amounts less than EUR 1 million or an equivalent threshold that is deemed appropriate on a case-by-case basis	Supply-side data from financial institutions
Total business loans	Bank and financial institution business loans to all non-financial enterprises, outstanding amounts (stocks) or new loans (flows)	Supply-side data
SME short-term loans	Loans equal to or less than one year; outstanding amounts or new loans	Supply-side data
SME long-term loans	Loans for more than one year; outstanding amounts or new loans	Supply-side data
SME government loan guarantees	Government guarantees available to banks and other financial institutions, stocks or flows	Supply-side data
SME government guaranteed loans	Loans guaranteed by government, stocks or flows	Supply-side data
SME government direct loans	Direct loans from government, stocks or flows	Supply-side data
SME loans authorised	Stocks or flows	Supply-side survey
SME loans requested	Stocks or flows	Supply-side survey
SME non-performing loans	SME non-performing loans out of total SME loans	Supply-side data
SME interest rate	Average annual rates for new loans, base rate plus risk premium; for maturity less than one year; and amounts less than EUR 1 million	Supply-side data
Interest rate spreads	Difference between average annual rates for small and large enterprises or for amounts less than EUR 1 million and equal to or greater than EUR 1 million; for maturity less than one year	Supply-side data
Collateral	Percentage of SMEs that were required to provide collateral on latest bank loan	Demand-side survey
Venture and growth capital	Seed, start-up, early stage and expansion capital (excludes buyouts, turnarounds, replacements)	VC association (supply side)
Payment delays	Average number of days delay beyond the contract period for Business to Business (B2B) and Business to Customer (B2C)	Demand-side survey
Bankruptcy	Number of enterprises ruled bankrupt; and number bankrupt per 10 000 or 1 000 enterprises	Administrative data

Timeframe for the data collection

The data in the present report cover the period 2007 to 2012, which includes three distinct economic stages: pre-crisis (2007), crisis (2008-09) and recovery (2010-12). The year 2007 serves as the benchmark year from which changes in SME access to finance are measured. Adopting as a benchmark an average of a number of years would allow for controlling for exceptional events or stage in the cycle of a given year. However, given that such an SME data series would be difficult to compile, it was decided to use just one data point as the benchmark. Specific attention is given to the period 2010-12, in order to identify the persistent effects of the crisis on SMEs and/or any signs of recovery and results of the policies implemented in the aftermath of the crisis.

Sources of the data

The data in the national Scoreboards are supplied by country experts with access to the information needed from a variety of supply-side and demand-side sources. Annex D provides references to surveys and statistical resources on financing SMEs and entrepreneurs in several countries.

Most of the Scoreboard indicators are built on supply-side data, that is, data which is provided by financial institutions and other government agencies. There are several indicators which are based on demand-side surveys of SMEs. However, not all countries undertake such surveys. Ideally, quantitative demand-side data, as collected by SME surveys, would complement the picture and improve the interpretative power of the OECD Scoreboard. However, whereas a plethora of qualitative SME surveys (i.e. opinion surveys) exist, quantitative demand-side surveys are rare. Experience shows that qualitative information based on opinion survey responses must be used cautiously, although the broader perception of entrepreneurs about access to finance and credit conditions, emanating from such opinion surveys, has its own value and should complement the hard data provided in the quantitative analysis. Furthermore, comparability of national surveys is limited, as survey methodologies differ from country to country. Comparable demand-side surveys are undertaken on a regular basis by the European Central Bank and the European Commission, which provide an example of the benefits that can come from standardised definitions and methodology across countries.

Deviations from preferred definitions of indicators

Data limitations and country-level specific reporting practices imply that the national Scoreboards may deviate from the 'preferred definitions' of some core indicator. A table of definitions and sources is included in each profile, to allow correct interpretation of the Scoreboard evidence. This also implies that cross-country comparisons are limited for some indicators. Some of the main deviations in definition of variables and data coverage are discussed below.

In addition, even when the indicators adopted correspond to the preferred definition, countries may be reporting flow variables or stock measures. Flows, which are measured over an accounting period (i.e. one year), are expected to reflect short-term events and are therefore more volatile than stocks, which measure the value of an asset at a given point in time, and thus reflect latest flows, as well as values that may have cumulated over time, net of depreciation. These differences require caution when making cross-country comparisons for a given indicator. Although stock measures allow for meaningful growth rate analysis, they are not sufficient for a comprehensive analysis and should be complemented by the corresponding flow data for the period examined.

SME loans

The OECD Scoreboard aims to collect business loan data that include overdrafts, lines of credit, short-term loans, and long-term loans, regardless of whether they are performing or non-performing loans. Additionally, it aims to exclude personal credit card debt and residential mortgages. However, for some countries, significant deviations exist from this preferred SME loan definition. For instance, in some cases, credit card debt is included in SME loans, and it cannot be determined which part corresponds to consumer credit card debt and which part is business credit card debt. In other cases, lines of credit and overdrafts are excluded, while a number of other products are indeed included in SME loans, such as securitised loans, leasing and factoring.

In some countries, central banks do not require any reporting on SME lending. In these cases the SME loans are estimated from SME financial statements available from tax authorities.

The indicators on SME loans authorised and SME loans requested are obtained from demand-side surveys. However, not all countries undertake such surveys, or, if they do, the results are not comparable. Several countries have information on SME loans used, rather than SME loans requested. In these cases, a proxy is used, which consists of SME loans used divided by SME loans authorised. While this does not provide information identical to the preferred definition, a decline in the ratio suggests that the credit market is easing, or that banks have been providing more credit than has been used.

Non-performing loans

There is also a great deal of latitude in how banks define non-performing loans. The generally accepted threshold of 90-day arrears, i.e. payments of interest and principal past due by 90 days or more, is indeed used by many of the Scoreboard countries. However, even when this same threshold is adopted, there is a great deal of variation across countries in the measurement of SME non-performing loans. In some cases, these are measured as a percentage of the entire SME loan portfolio. When compared to the non-performing loans ratio of large firms, this indicator provides a good description of the performance of SME loans on a national level, irrespective of the particularity of the national definition. In addition, if the changes in the non-performing ratio are analysed across time, the indicator can be even used for cross-country comparisons.

Government loan guarantees and guaranteed loans

The report includes data on government loan guarantees and on the value of loans backed by government guarantees. Supply-side data is the best source of information on loan guarantees. There are many sources for such guarantees: local, regional or central governments. In some countries, an important volume of guarantees is also provided by mutual guarantee schemes. These are private schemes that typically benefit from public support, in the form of direct funding or counter-guarantees. However, the various loan guarantees schemes, public, private and mixed, are not always consolidated to obtain national figures. Therefore, the OECD Scoreboard reports mostly on government loan guarantees which are readily available at central government level. This is also a way to avoid the double-counting of guarantees that have multiple layers, given the existence of counter-guarantees at other levels (regional or supra-national). Still, cross-country differences exist in the degree to which the reported data include all government guarantee programmes, or only large ones.

In some cases, lack of awareness and reporting make it difficult to collect data on guaranteed SME loans. In fact, SMEs are not always aware that their loan is backed by a government guarantee and banks do not usually report this information. When these guaranteed SME loans are reported, they usually represent the full value of the loan and not the portion of the loan that is actually backed by a public institution guarantee. Nevertheless, this figure has a value of its own when compared to the total amount of SME loans outstanding. Also, it allows the calculation of the leverage effect of government guarantees to SMEs (ratio of guaranteed SME loans to corresponding government guarantees).

SME credit conditions

Significant differences exist across countries in the calculation for SME interest rates. While there is agreement that “fees” should be included in the “cost” of the SME loans, it appears to be particularly difficult to determine which “fees”, among the various charges applied to firms, to include in the interest rates. In most cases, the interest rate charged on SME loans, net of any fee, is reported. The additional fees, however, represent a rather significant cost for SMEs that is not being captured by the current indicators built on supply-side data, particularly in the case of small SME loans,. In this regard, demand-side surveys could be used to collect information on the total cost of funding.

Central banks usually do not collect key pieces of information on SME access to finance, such as the collateral required for SME loans. Banks consider this to be confidential information. A rough approximation can be obtained from demand-side information, that is, the percentage of SMEs required to provide collateral on new loans. This measure is currently used in the OECD Scoreboard, and more transparent reporting by banks on the terms of their SME lending is recommended to improve information on SME credit conditions.

Equity financing

The present report monitors external equity, that is, venture and growth capital. Venture capital is usually reported by stage of development: seed, start-up and early expansion capital. Later stage expansion capital, referred to as growth capital, is also reported. Buyouts, turnarounds and replacement capital are excluded from venture and growth capital. Country classification systems do not always break down private equity data into these categories and most do not break it down by firm size. Indeed, at present, the lack of a standard international definition of venture capital limits cross-country comparability. Also, venture capital data are sometimes collected by private venture capital associations, which rely on voluntary reporting and whose membership may be incomplete. There is a need for greater standardisation of venture capital data reporting, in terms of both the definition used for the different stages of investment, and the methodology employed to collect data.[1]

Payment delays and bankruptcies

Payment delays and bankruptcy data are usually collected for all enterprises and not broken down by firm size. Since SMEs account for more than 97% of the enterprises in the participating countries, the national figures for payment delays and bankruptcy rates were used in this report. However, bankruptcies are hard to compare across countries because of different bankruptcy costs, legislation and behaviour in the face of bankruptcy. In some cases, bankruptcy procedures take a long time and so bankruptcies only show up in later periods rather than during the crisis period.

Payment delays are reported as delays beyond the contractual date on a B2B or on a broader B2B and B2C basis. Reporting of payment delays is important, given that it captures an additional source of cash flow constraints for SMEs. The reporting of both indicators and the comparison of B2B with B2C delays can also be used to uncover whether and how SMEs make use of such payment delays to resolve short-term cash flow issues in lieu of working capital credit facilities.

Differences in definitions of an SME

The biggest challenge to comparability is represented by large differences in the statistical definition of an SME by banks and national organisations across countries. Greater harmonisation continues to prove difficult due to the different economic, social and political concerns of individual countries. In addition, within-country differences exist: some banks and financial institutions do not use their national statistical definitions for an SME but a different definition to collect data on SME financing.

The most commonly used statistical definition for an SME among participating countries is the one used in the European Union (Box A.1). In many cases, the national authorities collect loan data using the national or EU definition for an SME, based on firm size, usually the number of employees or the annual turnover. In other cases, the SME loan data are based not on firm size but rather on a proxy, that is, loan size.[2] In the current edition of the Scoreboard, 20 countries reported SME loans based on firm size and 11 countries reported by loan size. However, the size of the SME loan can differ among countries and sometimes even among banks within the same country.

Several reasons are advanced for not compiling financial statistics based on firm size including:

- Banks do not collect data by firm size.
- It is too expensive to collect such data.
- Breaking down loan data by firm size would jeopardise confidentiality.

Box A.1. **What is an SME?**

While there is no universal definition of an SME and several criteria can be used in the definition, SMEs are generally considered to be non-subsidiary firms which employ less than a given number of employees. This number of employees varies across countries. The most frequent upper limit designation of an SME is 250 employees, as in the European Union. However, some countries set the limit at 200, while the United States considers SMEs to include firms with fewer than 500 employees. Small firms are mostly considered to be firms with fewer than 50 employees while micro-enterprises have less than 10. Medium-sized firms have between 50 and 249 employees. Turnover and financial assets are also used to define SMEs: in the EU, the turnover of an SME cannot exceed EUR 50 million and the annual balance sheet should not exceed EUR 43 million.

Source: OECD (2006), The SME Financing Gap (Vol. I): Theory and Evidence, OECD Publishing, Paris.

Experience gained from the OECD Scoreboard suggests that loan data broken down by firm size are already in the financial system but are not extracted unless banks are under a regulatory obligation to provide them. Experience also suggests that the challenges mentioned above could be addressed quite easily. For instance, confidentiality requirements in theory could be met through the use of judicious sub-grouping. In this case, resolution of this issue could be found if national regulatory authorities were to make the provision of this information mandatory for banks.

Table A.3. **Difference between national statistical and financial definitions of SMEs**

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
Austria	Size of firm: 1–249 employees	Business loans, SMEs	Loan size: amounts up to EUR 1 million.
		Short- and long-term loans, SMEs	Loan size: amounts up to EUR 1 million.
		Government loan guarantees and government guaranteed loans, SMEs	Firm size: enterprises with less than 250 employees.
		Direct government loans, SMEs	Firm size: enterprises with less than 250 employees.
		Rejected SME loans	Firm size: enterprises with less than 250 employees.
		Interest rate, SMEs	Loan size: amounts up to EUR 1 million.
Belgium	Size of firm: less than 250 employees	Business loans, SMEs	Firm size: enterprises with less than 250 employees.
		SME loans authorised and used	Firm size: enterprises with less than 250 employees.
		Interest rate, SMEs	Loan size: amounts up to EUR 1 million.
			Loan size: amounts up to EUR 1 million.

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
Canada	Size of firm: 1-499 employees	Business loans, SMEs	Loan size: amounts up to CAD 1 million.
		Short- and long-term loans, small businesses	Firm size: enterprises with 1-99 employees.
		Government guaranteed loans, SMEs	Firm size: annual sales (turnover) lower than CAD 5 million.
		Direct government loans, SMEs	Firm size: annual sales (turnover) less than CAD 25 million.
		Risk premium for small businesses	Firm size: enterprises with 1-99 employees.
		Loans authorised and requested, small businesses	Firm size: enterprises with 1-99 employees.
		Collateral, small businesses	Firm size: enterprises with 1-99 employees.
Chile	Annual sales of firm: up to UF 100000	Business loans, SMEs	Loan size: amounts up to UF 18 000.
		Short- and long-term loans, SMEs	Loan size: amounts up to UF 18 000.
		Government guaranteed loans, SMEs	Firm size: annual sales up to UF 100000 or annual exports up to UF 400 000.
		Direct government loans, SMEs	Less than 12 hectares and capital up to UF 3 500.
		Loans authorised and requested, SMEs	Firm size: annual sales up to UF 100 000.
		Non-performing loans, SMEs	Loan size: amounts up to UF 18 000.
		Short-term and long-term interest rate, SMEs	Loan size: amounts up to UF 18 000.
		Payment delays, SMEs	Loan size: amounts up to UF 18 000.
Colombia	Size of firm: less than 200 employees and total assets less than USD 10 million	Business loans, SMEs	Firm size according to the national definition.
		SME loans authorised/requested	Firm size: the definition of SMEs differs according to sector.
Czech Rep.	Size of firm: less than 250 employees	Business loans, SMEs (New business loans, SMEs – flows	Loan size: amount up to CZK 30 million.
		Business loans, SMEs (Outstanding business loans, SMEs – stock)	Firm size: up to 250 employees.
		Interest rate, SMEs	Loan size: amount up to CZK 30 million.
Denmark	Size of firm: less than 250 employees	Business loans, SMEs	Loan size: amounts up to EUR 1 million.
		Short- and long-term loans, SMEs	Loan size: amounts up to EUR 1 million.
		Government loan guarantees, SMEs	Firm size: up to 250 employees.
		Interest rate, SMEs	Loan size: amounts up to EUR 1 million.
Finland	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Loan size: up to EUR 1 million.
		Short- and long-term loans, SMEs	Firm size: less than 250 employees.
		Value of government guaranteed loans, SMEs	Firm size: less than 250 employees.
		Loans authorised and requested, SMEs	Loan size: up to EUR 1 million.
		Interest rate, SMEs	Loan size: up to EUR 1 million.
		Collateral, SMEs	Firm size: less than 250 employees.
France	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: number of employees (less than 250), turnover (less than EUR 50 million), total assets of legal units (less than EUR 43 million) and independent; bank must inform the Central Credit Register when it grants a loan of more than EUR 25 000.
		Short- medium- and long-term loans	Firm size: number of employees (less than 250), turnover (less than EUR 50 million), total assets of legal units (less than EUR 43 million) and independent; bank must inform the Central Credit Register when it grants a loan of more than EUR 25 000.
		Share of the outstanding loans of failing companies, SMEs except micro-enterprises	Firm size: number of employees (less than 250), turnover (less than EUR 50 million), total assets of legal units (less than EUR 43 million) and independent; bank must inform the Central Credit Register when it grants a loan of more than EUR 25 000.
		Interest rate, SMEs	Loan size: less than EUR 1 million.
		Bankruptcies, SMEs	Firm size: number of employees (less than 250), turnover (less than EUR 50 million), total assets of legal units (less than EUR 43 million) and independent.

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
Greece	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Interest rate, SMEs	Loan size: less than EUR 1 million.
		Collateral, SMEs	Loan size: less than EUR 1 million.
Hungary	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Overdraft loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Investment loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Direct government loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Government guaranteed loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Non-performing loans, SMEs	Firm size: number of employees (less than 250 employees), turnover (less than EUR 50 million) and total assets (less than EUR 10 million).
		Average interest rate, SMEs	Loan size: amounts up to EUR 1 million.
Ireland	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size.
		Short- and long-term loans, SMEs	Loan size: less than EUR 1 million.
		Interest rates, SMEs	Loan size: less than EUR 1 million.
Italy	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: less than 20 workers.
		Short- and long-term loans, SMEs	Firm size: less than 20 workers.
		Government guaranteed loans, SMEs	Firm size: less than 250 employees.
		Direct government loans, SMEs	Firm size: less than 250 employees.
		Loans authorised and used, SMEs	Firm size: less than 20 workers.
		Non-performing loans, SMEs	Firm size: less than 20 workers.
		Interest rate, average SME rate	Firm size: less than 20 workers.
		Collateral, SMEs	Firm size: less than 20 workers.
		Venture and expansion capital, SMEs	Firm size: less than 250 employees.
		Payment delays, SMEs	Firm size: turnover of up to EUR 50 million.
Israel[3]	Size of firm: less than 100 employees and annual turnover of up to NIS 100 million	Business loans, SMEs	Loan size: amounts of NIS differ depending on the bank.
		Interest rate small firms and medium firms	Loan size: amounts of NIS differ depending on the bank.
Korea	Varies by sector	Business loans, SMEs	The definition of SMEs differs according to sector.
		Short- and long-term loans, SMEs	The definition of SMEs differs according to sector.
		Government loan guarantees, SMEs	The definition of SMEs differs according to sector.
		Direct government loans, SMEs	The definition of SMEs differs according to sector.
		Loans authorised and requested, SMEs	The definition of SMEs differs according to sector.
		Non-performing loans, SMEs	The definition of SMEs differs according to sector.
		Interest rate spread, SME and large firm rates	The definition of SMEs differs according to sector.
		Payment delays, SMEs	The definition of SMEs differs according to sector.
Mexico	Firm size: up to 100 or 250 employees, depending on the sector	SME loans	Firm size according to the national definition.

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
The Netherlands	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Loan size: up to EUR 1 million.
		Short- and long-term loans, SMEs	Loan size: up to EUR 1 million.
		Government loan guarantees, SMEs	Firm size: up to 250 employees.
		Loans authorised and requested, SMEs	Firm size: up to 250 employees.
		Collateral, SMEs	Size of firm up to 250 employees.
New Zealand	No unique national definition.	Interest rates, SMEs	Loan size: up to NZD 1 million.
		Loan authorised, SMEs	Firm size: enterprises with 6-19 employees.
		Loan requested, SMEs	Firm size: enterprises with 6-19 employees.
Norway	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: less than 250 employees.
Portugal	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Short- and long-term loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Government guaranteed loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Loans authorised and requested, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Non-performing loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Interest rates, SMEs	Loan size: up to EUR 1 million (prior to 2010) and loans up to EUR 0.25 million (in 2010).
		Collateral, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
Russian Federation	Less than 250 employees, not more than RUB 1000 million	Business loans, SMEs	Firm size: Less than 250 employees, not more than RUB 1000 million.
		Government loan guarantees, SMEs	Firm size: Less than 250 employees, not more than RUB 1000 million.
		Government guaranteed loans, SMEs	Firm size: Less than 250 employees, not more than RUB 1000 million.
		Non-performing loans, SMEs	Firm size: Less than 250 employees, not more than RUB 1000 million.
Serbia	Up to 250 employees, turnover up to EUR10million, total assets up to EUR 5 million	Business loans, SMEs	Firm size, in accordance with national statistical definition.
		Interest rate, SMEs	Loan size: up to EUR 1 million.
Slovak Republic	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: less than 250 employees (including natural persons).
		Short- and long-term loans, SMEs	Firm size: less than 250 employees (including natural persons).
		Government loan guarantees, SMEs	Firm size: less than 250 employees (including natural persons).
		Government guaranteed loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Direct government loans, SMEs	Firm size: less than 250 employees (including natural persons).
		Direct government loans, SMEs	Firm size: less than 250 employees (including natural persons).
		Collateral, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).
		Venture capital, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
Slovenia	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Short- and long-term loans, SMEs	Firm size: less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.
		Direct government loans, SMEs	Firm size: less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.
		Interest rate, SMEs	Firm and loan size: enterprises with less than 250 employees and amounts less than EUR 1 million.
Spain	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Loan size: less than EUR 1 million.
		Short- and long-term loans, SMEs	Loan size: less than EUR 1 million.
		Government guaranteed loans, SMEs	Firm size: less than 250 employees.
		Interest rate, SMEs	Loan size: less than EUR 1 million.
		Venture capital, SMEs	Firm size: less than 250 employees.
		Payment delays, SMEs	Firm size: EU definition.
		Bankruptcies, SMEs	Firm size: EU definition.
Sweden	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: 1-249 employees.
		Short- and long-term loans, SMEs	Firm size: 1-249 employees.
		Government guaranteed loans, SMEs	Firm size: 0-249 employees.
		Government loan guarantees, SMEs	Firm size: 0-249 employees.
		Direct government loans, SMEs	Firm size: 0-249 employees.
		Loans authorised, SMEs	Firm size: 0-249 employees.
		Interest rates, SMEs	Loan size: up to EUR 1 million.
Switzerland	Size of firm: less than 250 employees	Business loans, SMEs	Firm size: less than 250 employees.
		Government guaranteed loans, SMEs	Firm size: less than 250 employees.
		Loans used, SMEs	Firm size: less than 250 employees.
		Collateral, SMEs	Firm size: up to 249 employees.
		Interest rates, SMEs	Loan size: less than CHF 1 million.
Thailand	Number of employees and fixed capital: less than 200 employees and fixed capital less than THB 200 million	Business loans, SMEs	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Short- and long-term loans, SMEs	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Government guaranteed loans, SMEs	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Loans authorised and requested, SMEs	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Non-performing loans, SMEs	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Interest rate, SME average rate	Firm size: sales less than THB 400 million and/or a credit line less than THB 200 million.
		Payment delays, SMEs	The National definition of SMEs differs according to sector.
		Bankruptcies, SMEs	The National definition of SMEs differs according to sector.
Turkey	Less than 250 employees and TRY 40 million in assets	Business loans, SMEs	Firm size.
		SME non-performing loans	Firm size.
United Kingdom	Size of firm: less than 250 employees	Business lending, SMEs	Firm size: turnover of up to GBP 25 million.
		Interest rates, SMEs	Firm size: turnover up to GBP 25 million.
		Collateral, SMEs	Firm size: less than 250 employees, including non-employer enterprises.
United States	Size of firm: less than 500 employees	Business loans, SMEs	Loan size: up to USD 1 million.
		Short-term loans, SMEs	Loan size: up to USD 1 million.
		Government guaranteed loans, SMEs	Varies by industry.
		Collateral, SMEs	Loan size: up to USD 1 million.

Impact of diversity in definitions

The many limitations in data collection above outlined limit the possibility to make cross-country comparisons using the raw data. However, it is possible to observe general trends for the indicators, both within and across countries, using growth rates. When analysing trends, the differences in the exact composition of the indicators are muted by the fact that the changes in the indicators over time are being examined instead of levels. Additionally, if the indicators are analysed as a set, it is possible to form an overview of the country trends in SME financing. It is precisely comparing trends that the Scoreboard sheds light on changing market conditions and policies for financing SMEs and entrepreneurs.

However, again, caution is required in cross-country comparisons, especially as concerns the use of flow variables and stock measures. Flows, which are measured over an accounting period (i.e. one year), capture changes of a given variables and are therefore more volatile than stocks, which measure levels, i.e. the value of an asset at a given point in time, and thus reflect latest flows, as well as values that may have cumulated over time, net of depreciation. The comparison of flows and stock measures can be particularly problematic when growth rates are considered. In fact, a negative growth rate of a flow variable can be compatible with a positive growth rate of the same variable measured in stocks. This would be the case if the stock variables increases over time but the absolute increase by which the stock variables grows becomes smaller. Similarly, a negative growth rate of a loan stock does not necessarily mean a decline in SME lending, but could be attributed to maturing loans exceeding the value of new loans granted. Such difficulties underline the importance of complementing stock data with flows of new loans.

Recommendations for data improvements

Standardised templates

To enable more timely collection of data and better cross-country comparability in the future, it is necessary for countries to advance in the harmonisation of data content and in the standardisation of methods of data collection. The adoption of standardised formats for the collection of SME financing information across countries enables improvements to the quality and time consistency of the monitoring framework, while allowing for some customisation at the country level.

The standardised table for data collection and submission (see Annex B) has been adopted for that purpose. It is recommended that countries also use the standardised format for reporting on the creation of and changes in government policies and programmes for SME finance (see Annex C). The benefits of using the standardised templates are not limited to efficiency and timeliness, as their recurrent use allows for inter-temporal analysis and gathering of a greater degree of detailed information.

Core indicators

Since the Scoreboard pilot exercise was launched in 2009-10, with the participation of 11 countries, important progress has been made in terms of standardisation and comparability of information. As country coverage increases, it is important that good practices in data collection and reporting be shared among countries, but also that further advancement be made in the harmonisation of core indicators. A number of areas can be identified to improve the monitoring over time of trends at the country level and across countries.

First, it is of paramount importance to improve reporting of SME loan variables. Key areas for refinement include:

- Separate reporting of financial information for non-employer and employer-firms, so as to harmonise the financial data with the SME definition employed in national statistics. The separation would also allow for a more in-depth evaluation of financing trends at the country level, distinguishing between funding that is directed to businesses that generate employment from that directed to self-employers, which may however represent an important share of the country's business activity.
- Collection of stock and flow data for SME loans. These two indicators are complementary and should be jointly analysed in order to draw a comprehensive picture of the evolution of the SME lending portfolio.
- Information on the composition of lending portfolios, broken down by different products (overdrafts/ lines of credit/ leases/ business mortgages or credit cards/ securitised loans). Greater granularity in the reporting of business loans would allow for the identification of the underlying elements of the SME business loan portfolio. This represents a necessary first step towards pursuing greater harmonisation in the definition of SME loans across countries, or, at least identifying a common "base composition" for more meaningful cross-country comparisons.

It is also necessary to fill the gaps in available data and work towards more comprehensive information for other core indicators in the Scoreboard:

- Government guarantees: Provide consolidated figures, which take into account the entire range of public guarantee programmes, while excluding double counting related, for instance, to the counter-guarantee of the same lending portfolio. Include additional information on the scope and coverage of public guarantee schemes, in particular information on the volume of outstanding guarantees, the public contribution to the fund's capitalisation, and the value of the loans supported by public guarantees. The Scoreboard data should be complemented, in the policy section of country profiles, by the monitoring of the take-ups and phasing out of these guarantee schemes.
- Government guaranteed loans: Provide the corresponding loans backed by the reported government guarantees so as to allow for the calculation of a leverage ratio. Optimally, the guaranteed portions of these loans should be also reported.
- Non-performing loans (NPLs): Provide the NPL ratio for SME loans, together with the overall NPL ratio of the business loan portfolio or the NPL ratio for large firms. The latter would be used as a benchmark against which the performance and quality of the SME loan portfolio is measured.
- SME loan fees: Provide information on the standard practice of the commercial banking sector with respect to loan fees charged to SME loans in addition to the interest rate, at a national level. Use demand-side surveys to collect information on this indirect cost on SME lending.
- Collateral: Improve the description of what constitutes collateral and use demand-side survey information to compensate for lack of supply-side data on collateral.

Medium and long-term objectives

In the medium to long term, it is necessary for countries to continue to make progress in the harmonisation of definitions and to improve transparency and accounting practices by financial institutions. In this regard, the following steps should be considered by governments to improve the collection of data on SME and entrepreneurship finance:

- Require financial institutions to use the national definition for an SME based on firm size.
- Require financial institutions to report on a timely basis to their regulatory authorities SME loans, interest rates, collateral requirements, by firm size and broken down into the appropriate size subcategories, as well as those SME loans which have government support.
- Encourage international, regional and national authorities as well as business associations to work together to harmonise quantitative demand-side surveys in terms of survey population, questions asked and timeframes; encourage the competent organisations to undertake yearly surveys.
- Promote the harmonisation of the definition of venture capital in terms of stages of development.

Notes

1. See Annex C in OECD (2013), Entrepreneurship at a Glance 2013, OECD Publishing, Paris, for a detailed discussion on the international comparability of venture capital data.
2. Recent studies by the World Bank provide evidence that loan size is an adequate proxy for size of the firm accessing the loan. See for instance Ardic O.P., Mylenko N., Saltane V. (2012), "Small and medium enterprises: a cross-country analysis with a new data set", Pacific Economic Review, Vol. 17, Issues 4, pp. 491-513.
3. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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ANNEX B

Standardised Table for SME and entrepreneurship Finance Data Collection

Country Name										
Indicator	Unit	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Notes/ revisions last year**	**Definition**	**Source**
Debt										
Business loans, SMEs										
Business loans, total										
Business loans, SMEs	% of total business loans									
Short-term loans, SMEs										
Long-term loans, SMEs										
Total short and long-term loans, SMEs										
Short-term loans, SMEs	% of total SME loans									
Government loan guarantees, SMEs										
Government guaranteed loans, SMEs										
Non-performing loans, total										
Non-performing loans, SMEs										
Non-performing loans, SMEs	% of total SME loans									
Interest rate, SMEs										
Interest rate, large firms										
Interest rate spread										
Collateral, SMEs										
Equity										
Venture and growth capital										
Venture and growth capital	%, Year-on-year growth rate									
Other										
Payment delays										
Bankruptcies, total										
Bankruptcies, total	%, Year-on-year growth rate									
Bankruptcies, SMEs										
Bankruptcies, SMEs	%, Year-on-year growth rate									

ANNEX C

Standardised Format for reporting government policy programmes

The standardised format for reporting government policy programmes (Table C.1) aims to harmonise information and support policy makers to monitor change in programmes' terms, outcomes, and effectiveness. The consistency and continuity of reporting over time is crucial to the assessment. Often, changes in programmes' parameters influence outcomes, such as uptake and costs, with a time lag. The format allows for systematic and time-consistent reporting without increasing the reporting burden. Once the information on a specific programme is entered, it can be updated a on regular basis. When the programme changes, the information sheet would track the year of the change and the parameter(s) affected.

The focus of the reporting is on national programmes, rather than on regional ones, in order to reduce the complexity of reporting, but it would be useful to indicate if similar independent regional or local initiatives exist.

Programme parameters

The programme parameters are grouped into five categories:

- Delivery agents and type. Many different agents can deliver the programmes including: the private sector, the government or an NGO. Among the various types of programmes supporting SME finance are loan guarantee schemes, direct loans, co-financing of loans or equity, leasing, micro credit, venture capital and business angel incentives, credit mediation and credit review.
- Eligibility. The eligibility criteria for participation to the programme directly affect uptake and cost. The programme can be restricted, for instance, by firm size, by gender, by age of the owner, by type of activity (exporting, innovation, etc.), age of the business, location (rural/urban) and sector (industry/agriculture, etc.).
- Financing terms. Government programmes often have specific financing conditions and terms, such as:
  - maximum financing amount
  - interest rate
  - fees charged
  - maturity/term/amortisation
  - purpose of financing (e.g. working capital, expansion/investment, R&D)
  - collateral/security.

- Programme terms. Government programmes may have specific conditions and terms, including:
  - risk-sharing ratio (guaranteed percentage, investment matching, etc.)
  - total value of the fund/maximum liability/budget commitment
  - complementary requirements, incrementality
  - cost recovery/required return.

The reporting on the above parameters is generally easier than monitoring the costs and uptake. However, these other performance parameters are key to the policy assessment, and a specific effort should be made to report them in a timely and accurate fashion.

Among the costs of a programme are the total outstanding liability, the actual realised losses from defaults, and the administrative costs. Most interesting for policy makers is what has been the uptake of such programmes and the degree at which demand by target beneficiaries met the government supply. The uptake can be measured by looking at the number and value of outstanding transactions.

Table C.1. **Information sheet on national programmes promoting SME access to finance**

Date completed/updated:	
Programme name:	
Start date:	End date:
Objectives:	
Source of funding:	
Delivery agents and type:	
Eligibility:	
Financing terms:	
Programme terms:	
Actual cost:	
Uptake by beneficiaries:	
Evaluations undertaken: No ( ), if Yes ( ) link to review:	
Similar local or regional programmes (if independent):	

ANNEX D

Surveys and statistical resources on SME and entrepreneurship finance

Surveys represent an important source of information and data for monitoring the state of financing available and used by SMEs and entrepreneurs, as well as for assessing appropriateness and effectiveness of government policies in this area. A large number of supply-side and demand-side surveys are conducted at the national level by government agencies, national statistical offices, central banks and, in some cases, business associations and private organisations.

Survey-based evidence, on both the demand and the supply side, can complement the quantitative data collected from supply-side sources and improve the understanding of business financing needs. Survey data are particularly useful for assessing credit conditions when relevant data are not easily accessible or produced in a timely manner. This is the case, for instance, of information on collateral requirements for SME loans, which are treated as confidential by most banks.

However, harmonisation is urgently needed in the design and implementation of surveys. At present, there is little standardisation across countries in terms of the timing, the sample population, the sampling method, the interview method, and the questions asked. To address this issue, governments are encouraged to increase co-operative efforts between public and private institutions in order to increase coverage and comparability of results of different surveys covering the same phenomenon. The ECB/EC's survey on SME access to finance uses a standardised methodology and provides a good example of the benefits that can come from standardised definitions and methodology across countries.

The OECD can serve as a clearinghouse for national and multilateral efforts to improve the knowledge base on SME finance, by fostering international dialogue on this issue, and collecting and diffusing information on the statistical resources and survey practices and methodologies developed in OECD and non-OECD countries. The list below represents a first step in this direction, providing links to relevant sources for the countries in the Scoreboard on SME and entrepreneurship finance and at the international level.

Canada

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SME Financing Data Initiative (2013), "Survey on Credit Condition", Canada.
http://www.ic.gc.ca/eic/site/061.nsf/eng/h_02192.html

SME Financing Data Initiative (2012), "Survey of Suppliers of Business Financing", Canada.
http://www.ic.gc.ca/eic/site/061.nsf/eng/h_01569.html

SME Financing Data Initiative (2001), "Survey on Financing of Small and Medium Enterprises", Canada.
http://www.ic.gc.ca/eic/site/061.nsf/eng/h_01570.html

Statistics Canada (2013), "Biannual Survey of Suppliers of Business Financing Data Analysis, Second Half 2012", Canada.
www.ic.gc.ca/eic/site/061.nsf/eng/02771.html

Chile

Banco Central (2013), Encuesta de crédito bancario, Santiago.
http://www.bcentral.cl/estadisticas-economicas/credito-bancario/index.htm

Denmark

The Danish National Bank (2013), "Lending Survey", Copenhagen.
http://www.nationalbanken.dk/en/statistics/find_statistics/Pages/Danmarks-Nationalbank's-lending-survey.aspx

OECD (2013), Entrepreneurship at a Glance, OECD Publishing, Paris.
doi: http://dx.doi.org/10.1787/entrepreneur_aag-2013-en

European Commission

European Commission (2013), DG Enterprise and Industry's Survey on the Access to Finance of SMEs, Brussels.
http://ec.europa.eu/enterprise/policies/finance/data/

European Central Bank

European Central Bank, Euro Area Bank Lending Survey
www.ecb.int/stats/money/surveys/lend/html/index.en.html

Survey on the Access to Finance of SMEs in the euro Area
www.ecb.int/stats/money/surveys/sme/html/index.en.html

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European Investment Bank Group

European Investment Fund – Working Papers www.eif.org/news_centre/research/index.htm

Finland

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Statistics Finland, StatFin online service. http://www.stat.fi/tup/statfin/index_en.html

France

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http://www.cso.ie/en/index.html

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Ireland SME Factsheet 2010/2011.
http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/ireland_en.pdf

Italy

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Bank of Italy – Survey of Industrial and Service Firms
http://www.bancaditalia.it/statistiche/indcamp/indimpser/boll_stat;internal&action=_setlanguage.action?LANGUAGE=en

Bank of Italy – Business Outlook Survey of Industrial and Service Firms
http://www.bancaditalia.it/statistiche/indcamp/sondaggio;internal&action=_setlanguage.action?LANGUAGE=en

Bank of Italy – Survey of Banks
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Bank of Italy – Financial Stability Report,
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http://www.fss.or.kr/fss/kr/bbs/list.jsp?bbsid=1207396624018&url=/fss/kr/1207396624018

Financial Supervisory Service – Financial Statistics Information System
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Federal Reserve Board – Senior Loan Officer Opinion Survey on Bank Lending Practices
www.federalreserve.gov/boarddocs/snloansurvey/

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www.treasury.gov/initiatives/financial-stability/results/cpp/snapshot/Pages/default.aspx

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AN OECD SCOREBOARD

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