Financing SMEs and Entrepreneurs 2015

AN OECD SCOREBOARD

OECD

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BETTER POLICIES FOR BETTER LIVES

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Please cite this publication as:

OECD (2015), *Financing SMEs and Entrepreneurs 2015: An OECD Scoreboard*, OECD Publishing, Paris.

DOI: http://dx.doi.org/10.1787/fin_sme_ent-2015-en

ISBN 978-92-64-22896-2 (print)
ISBN 978-92-64-22897-9 (PDF)

Financing SMEs and Entrepreneurs

ISSN 2306-5257 (print)
ISSN 2306-5265 (online)

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Foreword

More than half a decade after the onset of the global economic and financial crisis, start-ups and small firms continue to face important challenges in obtaining finance, a key ingredient to their development. As governments around the world strive to achieve growth that is sustainable and inclusive, there is a pressing need to find solutions that enable small and medium-sized enterprises (SMEs) and entrepreneurs to fulfil their role in boosting investment, creating jobs and achieving social cohesion.

With Financing SMEs and Entrepreneurs 2015, *the OECD provides a solid foundation for evidence-based policies to foster SME access to finance. This fourth edition of the* Scoreboard *makes important progress in advancing this agenda. It provides information on debt, equity, asset-based finance and framework conditions for SME and entrepreneurship finance, complemented with a review of recent policy measures to support SME finance in 34 countries.*

The data show that access to finance remains problematic in many countries. Financing conditions generally improved, especially with respect to the average interest rates charged to SMEs, although they remain tight in most countries. However, despite this positive development, the total outstanding stock of SME loans shrank in a number of countries in 2013, and has still not recovered to 2007 levels in countries as diverse as Greece, Italy, Ireland, Portugal, the United Kingdom and the United States. The OECD is continuing to support governments as they seek to reverse this trend.

In 2013 and 2014, governments were particularly active in their efforts to foster SME access to finance. The provision of credit guarantees continues to be the most widely used policy instrument in this regard. In addition, many new programmes were introduced, with a noticeable shift of policy attention towards high-potential innovative firms. Indeed, many governments launched new initiatives to stimulate venture capital investments and foster innovation in SMEs through tax incentives; they have also modified existing direct lending or credit guarantee schemes to target innovative SMEs.

The thematic chapter of this edition of Financing SMEs and Entrepreneurs 2015 *focuses on SME non-performing loans (NPLs). It highlights the detrimental effects that high and increasing NPLs have on SME lending, GDP growth and job creation. In particular, NPLs pose important risks to economic recovery in countries that experienced severe economic difficulties in recent years, such as Greece, Hungary, Italy, Portugal, Serbia and Spain. The chapter underlines the difficulties of meaningful analysis of NPLs due to multiple definitions and widely different practices in the classification of loans. It emphasises the importance of making progress in harmonisation in order to better understand this phenomenon.*

This edition of the Scoreboard *also makes significant progress in data harmonisation and the expansion of coverage to alternative finance instruments for SMEs. The OECD will continue to assist* *governments in understanding SME finance trends, and to underpin the development of appropriate policy responses. Our common goal is a financial system that serves the needs of all enterprises, and enables them to invest, grow and contribute to sustainable and inclusive growth.*

Angel Gurría,
OECD Secretary-General

Acknowledgements

The development of *Financing SMEs and Entrepreneurs 2015* was made possible thanks to the efforts of country experts from participating OECD member and non-member countries, who provided information for the country profiles.

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The design of the Scoreboard benefits from the inputs of delegates of the OECD Working Party on SMEs and Entrepreneurship and members of its Informal Steering Group on SME and Entrepreneurship Financing, chaired by Professor Salvatore Zecchini. In particular, the contribution of Noritaka Akamatsu (Asian Development Bank), Helmut Kraemer-Eis (European Investment Fund), Michel Cottet and José Fernando Figueireido (European Association of Mutual Guarantee Societies), Gianluca Riccio (OECD Business and Industry Advisory Committee), Jeffrey Alves (International Council for Small Businesses) are acknowledged, as participants in the WSPMEE's Informal Steering Group on SME and Entrepreneurship Financing. The report was also enriched by exchange with Matthew Gamser, Head of the SME Finance Forum, a collaborative knowledge sharing platform managed by the International Finance Corporation, in the framework of the G20 Global Partnership for Financial Inclusion.

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Executive summary

Financing SMEs and Entrepreneurs 2015 monitors SMEs' and entrepreneurs' access to finance in 34 countries over the period 2007-13, based on data from central banks and national statistical agencies. The Scoreboard includes indicators of debt, equity, asset-based finance and framework conditions for SME and entrepreneurship finance, complemented by demand-side information and recent developments in public and private initiatives to support SME finance. Taken together, these indicators form a comprehensive framework for policy makers and other stakeholders to evaluate the financing needs of SMEs and determine whether they are being met. 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, the People's Republic of China, Colombia, the Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Japan, 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:

- **Access to finance to SMEs continues to be constrained by lacklustre macro-economic performance and continued bank deleveraging**. The economic recovery was uneven in 2013, and weak demand continued to weigh on the availability of internal funding for businesses. This was compounded by a decrease in both the outstanding stock of SME loans and new lending to SMEs in a majority of countries in 2013. As SMEs have fewer financing alternatives available than large firms, the former are impacted more by credit market conditions.
- **Credit conditions eased in some countries but generally remain tight, especially for SMEs**. There were some encouraging signs that credit standards were loosening in 2013, largely as a consequence of the unprecedented monetary easing in many parts of the world. These signs included the moderate easing of collateral requirements, the decrease of SME interest rates and the fall in the relative number of loan applications that were rejected. Nevertheless, credit conditions remained tight on average compared to the pre-crisis period, particularly for SMEs and in countries that were most affected by the financial crisis.
- **There are signs of a potential drop in demand for SME credit**. More accommodating credit conditions occurred alongside a drop in SME lending, suggesting possible weaker demand for SME credit. On the other hand, an easing of credit conditions might require some time to translate into increased SME lending. It is also possible that credit access

and conditions have improved only for some SMEs, while others are finding it even more difficult to access credit than in the past.

- **Payment delays were generally down, while bankruptcies showed a diverse picture in 2013**. In contrast with previous years, payment delays and bankruptcies were no longer on the rise in 2013. While bankruptcies remained at their 2012 levels on average, payment delays decreased in a majority of Scoreboard countries, suggesting an ease in cash flows constraints.
- **Non-performing loans (NPLs) pose a risk to the economic recovery in some European countries**. High levels of NPLs point to a deterioration of the overall quality of banks' asset sheets and result in bank losses. This impairs the willingness of banks to lend, especially to SMEs, and could potentially lead to a new banking crisis. There was a rapid increase of SME NPLs in some European countries up to and including 2013. However, the analysis of NPLs is currently hampered by the heterogeneity of definitions and differences in national practices in the classification of SME NPLs, and there is clear need for a harmonisation of data on NPLs.
- **Non-bank finance instruments are gaining some traction, but cannot compensate for a retrenchment of bank lending**. The development of alternatives to bank lending is of crucial importance given the persistence of credit constraints. These instruments, which include venture and growth capital, business angel investment, asset-based finance instruments such as leasing and factoring, mezzanine finance, and crowdfunding, are garnering increasing attention by policy makers. The uptake of some of these non-bank instruments is still relatively small, however, and offer viable finance solutions for only a small subset of SMEs, for example medium-sized firms or high-tech start-ups. More research is needed regarding the cyclical nature of non-bank finance opportunities. Indeed, recent experience suggests that that the availability of financing instruments such as venture capital and leasing dried up significantly in the aftermath of the financial crisis.
- **Securitisation of SME assets, although promising, has only a limited impact on SME financing**. A healthy, safe and high-quality securitisation market for SME assets might be able to provide alternative capital market funding and revive corporate lending by unlocking resources of the banking sector. However, despite a recent resurgence, especially in the United States, the SME securitisation market remains relatively underdeveloped in comparison to other securitisation markets and is only of limited importance to the overall access to finance of SMEs and entrepreneurs. Structural barriers, most notably a lack of credit data, the existence asymmetric information and low awareness among SMEs, must be addressed in order to strengthen the development of the SME securitisation market.
- **Loan guarantees remain the most widely used instrument at governments' disposal to ease SME access to finance**. Many loan guarantees programmes were created in the immediate aftermath of the financial crisis, and new initiatives, such as new counter-guarantee schemes, have been developed since 2012. Other public instruments to enhance SME finance included direct loans, micro loans, export guarantees, and tax exemptions and deferments.
- **Many government initiatives to further develop non-bank finance instruments were introduced in 2013 and the first half of 2014, in particular to foster equity investments**. These measures include setting up equity funds or taking participations in existing funds,

offering tax incentives to equity investments or adapting the regulatory framework. Moreover, there is a tentative shift of policies toward SMEs that are innovative and/or have high growth potential.

- **SME finance conditions will remain challenging in 2014-15**. Global economic growth in 2014 and 2015 is expected to surpass 2013 levels, but political developments may cast a shadow over this recovery, and recent growth forecasts have been revised downwards. Growth and demand are not expected to recover fully, bank deleveraging will continue and credit availability will remain a constraint for SMEs in 2014-15. This holds especially true in Europe, where economic data has not met expectations, but concerns are growing in many emerging economies as well.
- **This edition of the Scoreboard provides more extensive information on SME finance**. Better data on SME finance conditions and SME access to finance is needed for more informed policy discussions and, ultimately, better policies for SME finance. This edition of the Scoreboard has made significant progress, by integrating more information from quantitative demand-side surveys; reporting on both stocks and flows for loan variables; including information on asset-based financing; and offering more complete information on the definitions and sources of indicators.
- **Further steps to improve data collection are needed**. Further improvements should be pursued, however. In particular, the harmonisation of the data used in the Scoreboard and the standardisation of methods used should be pursued to improve the reliability of cross-country comparisons; this is the particularly the case for non-performing loans. Other recommended advancements include the distinction between employer and non-employer firms; increasing the granularity of the data by providing more information on the loan composition; a further breakdown of the data by firm size; a more complete and standardised overview of relevant government policies; the provision of more information on non-bank finance instruments and their uptake by SMEs; and the further exploration of the usefulness of survey data.

Acronyms and abbreviations

ADB	Asian Development Bank
AECM	European Association of Mutual Guarantee Societies
B2B	Business-to-Business
B2C	Business-to-Customer
B2G	Business-to-Government
BIS	Bank for International Settlements
BLS	Bank Lending Survey
CAD	Canadian dollar
CDS	Credit Default Swap
CGS	Credit Guarantee Scheme
CHF	Swiss franc
CLO	Collateralised debt obligation
CLP	Chilean peso
COP	Colombian peso
CZK	Czech koruna
DKK	Danish krone
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
EIF	European Investment Fund
ERP	European Rescue Programme
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
EVCA	European Venture Capital Association
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
IT	Information Technology
FCI	Factors Chain International
JPY	Japanese Yen
KRW	Korean won
MXN	Mexican peso

MSME	Micro, small and medium-sized enterprise
MFI	Micro Finance Institution
NFIB	National Federation of Independent Business
NIS	Israeli new shekel
NOK	Norwegian krone
NPL	Non-performing loan
NZD	New Zealand dollar
OECD	Organisation for Economic Co-operation and Development
PCS	Prime collateralised securities
PE	Private Equity
R&D	Research and development
RMB	Chinese Renminbi
RSD	Serbian dinar
RSI	Risk Sharing Instrument
RUB	New Russian ruble
SAFE	Survey on the Access to Finance of Enterprises
SBA	Small Business Act
SEK	Swedish krona
SME	Small and medium-sized enterprise
SKK	Slovak koruna
THB	Thai baht
TRY	Turkish lira
NYSE	New York Stock Exchange
UF	Unidad de Fomento
USAID	United States Agency for International Development
USD	United States dollar
VC	Venture capital
WPSMEE	Working Party on SMEs and Entrepreneurship

ISO Country Abbreviations

AUT	Austria	**ISR**	Israel
BEL	Belgium	**JPN**	Japan
CAN	Canada	**ITA**	Italy
CHE	Switzerland	**KOR**	Korea
CHN	People's Republic of China	**MEX**	Mexico
CHL	Chile	**NLD**	Netherlands
COL	Colombia	**NZL**	New Zealand
CZE	Czech Republic	**NOR**	Norway
DNK	Denmark	**PRT**	Portugal
ESP	Spain	**RUS**	Russian Federation
EST	Estonia	**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

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An OECD Scoreboard

Chapter 1

Reader's Guide: Indicators and methodology

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

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 fourth edition of the Scoreboard on SME and entrepreneurship finance contains profiles for 34 countries: Austria, Belgium, Canada, Chile, China Colombia, the Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Japan, 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 14 core indicators, listed in Table 1.1, 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 plays in SME financing.
- The role that asset-based finance plays in financing SMEs.
- The incidence of other cash flow constraints, such as payment delays, and the ability of SMEs to survive economic downturns and credit crunches.

Table 1.1. **Core indicators in financing SMEs and entrepreneurs 2015**

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 rejection rate	Tightness of credit conditions and willingness of banks to lend
SME loans used/SME loans authorised	Sometimes used in addition or instead of the rejection rate to gauge credit conditions. A decrease indicates that 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. Asset-based finance	The take-up of non-bank finance instruments such as leasing, hire purchases, factoring and invoice discounting by SMEs
13. Payment delays	Cash flow problems; difficulty in paying and being paid
14. 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.

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 2013, 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 (2010-13). Specific attention is placed on changes which occurred in SME financing conditions in 2012-13.

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 SME non-performing loans (NPLs) and their impact on SME lending and financial stability. It draws on findings from four editions of *Financing SMEs and Entrepreneurs*, the economic literature and country experiences. The chapter highlights the challenges in analysing NPLs, given the wide differences in definition and classification of these loans.

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 2015 edition of the Scoreboard looks at whether these policies and programmes were continued, phased out or altered in 2012-13 and early 2014. 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 1.1 (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 1.1. **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.
- Offer more comprehensive information on government programmes that ease SMEs' access to finance.
- 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.
- Compile more complete information on the uptake and use of non-bank financing instruments, asset-based finance in particular.
- 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.

- Work towards international harmonisation of data on non-performing loans.
- 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.

Chapter 2

Recent trends in SME and entrepreneurship finance

This chapter analyses trends in SME and entrepreneurship finance over 2007-13, 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 financing trends and conditions, focusing in particular on the changes which occurred in participating countries between 2012 and 2013. These recent developments are compared with trends during the 2008-09 crisis and early recovery stages. The pre-crisis year 2007 serves as a benchmark. The chapter concludes with an overview of government policy responses put in place to improve SMEs' access to finance in light of recent developments.

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Within the context of global macro-economic and financial conditions, this chapter examines the emerging trends in SMEs' and entrepreneurs' access to finance and financing conditions for 34 countries over 2007-13. Following the major financial and economic crisis in 2008, which severely impacted access to finance for SMEs, recovery has been very uneven, and has even reversed for some Scoreboard countries. 2007 serves as the benchmark year from which trends over the entire period are measured. Particular attention is devoted to developments in 2012, 2013 and early 2014.

Business environment and the macroeconomic context

The most severe financial and economic crisis in decades led to a contraction in GDP of 3.5% in 2009 for the OECD area. Since then, recovery paths have been uneven and increasingly divergent across countries. After a relatively robust growth of 3% for the OECD area in 2010, the recovery lost momentum and growth rates steadily decreased in most countries, up to and including 2013. While real GDP growth has been relatively robust in the United States, the United Kingdom and Japan, growth in the total Euro area remained negative in 2013, with several countries experiencing a double-dip recession. Compared with the pre-crisis period, the pace of growth in emerging economies such as China, Colombia or Turkey decelerated significantly in 2013, partly as a result of the recession in Europe.

Growth expectations for 2014 and 2015 are more optimistic (see Table 2.1). GDP growth in 2014 is expected to surpass growth in 2013 in all but five Scoreboard countries (Chile, Israel, Japan, Switzerland and Turkey). Every country except Finland and Italy is expected to experience positive growth in 2014. With the exception of the Czech Republic, Hungary, Ireland New Zealand, Slovenia and the United Kingdom, growth in 2015 is expected to further accelerate in all OECD Scoreboard countries. GDP growth for the OECD area for 2015 is forecast at 2.3%, not much below growth in the baseline year of 2007. These growth prospects, combined with increased consumer confidence in the Euro area, Japan and the United States, suggest that the major advanced economies are finally gaining momentum. Global growth and trade are expected to strengthen only at a moderate pace in 2014 and 2015, however. Growth is being boosted by accommodative monetary policies in many parts of the world, improving financial conditions and the receding drag of fiscal consolidation.

Due to weak demand; falling energy and food prices; subdued wage growth; and price adjustments in stressed countries, inflationary pressures decreased even further in 2013, both in the Euro area and in the United States, with inflation rates of 1.3% and 1.46% respectively. Japan's inflation rate remained low at 0.4%, while Greece, Sweden and Switzerland experienced negative inflation rates in 2013 (see Table 2.2) With the exception of emerging economies, inflation is expected to remain subdued in the next two years, with countries in the Euro area running the risk of persistent deflationary pressures.

Table 2.1. **Real GDP Growth in Scoreboard countries (%), 2007-13 and 2014-15 forecast**

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	3.5	1.3	-3.5	1.8	3.2	0.9	0.3	*0.5*	*0.9*
Belgium	3.0	1.0	-2.6	2.5	1.6	0.1	0.3	*1.0*	*1.4*
Canada	2.0	1.2	-2.7	3.4	3.0	1.9	2.0	*2.4*	*2.6*
Chile	5.2	3.2	-1.0	5.7	5.8	5.5	4.2	*1.9*	*3.2*
China*	14.2	9.6	9.2	10.4	9.3	7.7	7.7	...	...
Colombia*	6.9	3.5	1.7	4.0	6.6	4.0	4.3	..	..
Czech Republic	5.5	2.5	-4.7	2.1	2.0	-0.7	-0.7	*2.4*	*2.3*
Denmark	0.8	-0.7	-5.1	1.6	1.3	-0.8	-0.1	*0.8*	*1.4*
Estonia	7.9	-5.3	-14.7	2.5	8.3	4.7	1.6	*2.0*	*2.4*
Finland	5.2	0.7	-8.3	3.0	2.6	-1.5	-1.2	*-0.2*	*0.9*
France	2.3	0.1	-2.9	1.9	2.1	0.4	0.4	*0.4*	*0.8*
Greece	3.4	-0.4	-4.4	-5.3	-8.9	-6.6	-4.0	*0.8*	*2.3*
Hungary	0.5	0.9	-6.6	0.8	1.8	-1.5	1.5	*3.3*	*2.1*
Ireland	4.9	-2.7	-6.4	-0.3	2.8	-0.3	0.2	*4.3*	*3.3*
Israel	6.1	3.9	1.6	5.7	4.2	3.0	3.4	*2.5*	*3.1*
Italy	1.5	-1.0	-5.5	1.7	0.6	-2.3	-1.9	*-0.4*	*0.2*
Japan	2.2	-1.0	-5.5	4.7	-0.5	1.5	1.5	*0.4*	*0.8*
Korea	5.5	2.8	0.7	6.5	3.7	2.3	3.0	*3.5*	*3.8*
Mexico	3.1	1.2	-4.5	5.1	4.0	3.7	1.3	*2.6*	*3.9*
Netherlands	4.2	2.0	-3.3	1.0	1.7	-1.6	-0.7	*0.8*	*1.4*
New Zealand	3.4	-0.7	0.6	1.8	1.2	2.6	2.5	*3.2*	*3.0*
Norway	2.7	0.1	-1.6	0.5	1.3	2.9	0.6	*1.7*	*1.8*
Portugal	2.5	0.2	-3.0	1.9	-1.8	-3.3	-1.4	*0.8*	*1.3*
Russian Federation*	8.5	5.2	-7.8	4.5	4.3	3.4	1.3	..	..
Serbia*	4.5	3.8	-3.5	1.0	1.6	-1.5	2.5	..	..
Slovak Republic	10.7	5.4	-5.3	4.8	2.7	1.6	1.4	*2.6*	*2.8*
Slovenia	6.9	3.3	-7.8	1.2	0.6	-2.6	-1.0	*2.1*	*1.4*
Spain	3.8	1.1	-3.6	0.0	-0.6	-2.1	-1.2	*1.3*	*1.7*
Sweden	3.5	-0.7	-5.1	5.7	2.7	0.0	1.5	*2.1*	*2.8*
Switzerland	4.1	2.3	-2.1	3.0	1.8	1.1	1.9	*1.5*	*1.5*
Thailand*	5.0	2.5	-2.3	7.8	0.1	7.7	1.8	..	..
Turkey	4.7	0.7	-4.8	9.2	8.8	2.1	4.1	*3.0*	*3.2*
United Kingdom	2.6	-0.3	-4.3	1.9	1.6	0.7	1.7	*3.0*	*2.7*
United States	1.8	-0.3	-2.8	2.5	1.6	2.3	2.2	*2.2*	*3.1*
Euro area	**3.0**	**0.4**	**-4.4**	**2.0**	**1.6**	**-0.7**	**-0.4**	***0.8***	***1.1***
Total OECD	**2.7**	**0.2**	**-3.4**	**3.0**	**1.9**	**1.3**	**1.4**	***1.8***	***2.3***

Source: OECD Economic Outlook 2014d; * World Bank, World Development Indicators 2014.

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In general, demand continued to be weak in most countries, as households and businesses sought to improve balance sheets. The labour market is still depressed in many areas of the world, with unemployment remaining in the double digits in many countries, most notably in the Euro area, where the average unemployment rate stood at 11.7% in 2013 and is expected to remain high in the next two years. Consumer confidence increased in the second half of 2013 and the first half of 2014 (Composite Leading Indicators (MEI): *Confidence Indicators - OECD Standardised*). Meanwhile, monetary policy is still very expansionary in most OECD countries. The pace of fiscal consolidation is expected to decrease both in the United States and in the Euro area as a whole, while China's economy is expected to be buoyed by moderate fiscal stimulation. In contrast, the fiscal stance in Japan has shifted from fiscal easing to fiscal consolidation and is expected to remain contractionary in 2014 (OECD, 2014a).

Table 2.2. **Inflation in Scoreboard countries (%), 2007-13**

Country	2007	2008	2009	2010	2011	2012	2013
Austria	2.17	3.22	0.51	1.81	3.27	2.49	2.00
Belgium	1.82	4.49	-0.05	2.19	3.53	2.84	1.11
Canada	2.14	2.37	0.30	1.78	2.91	1.52	0.94
Chile	..	..	..	1.41	3.34	3.01	1.79
China	4.75	5.86	-0.70	3.31	5.41	2.65	2.63
Colombia	5.54	7.00	4.20	2.28	3.41	3.18	2.02
Czech Republic	2.93	6.35	1.04	1.41	1.94	3.30	1.43
Denmark	1.71	3.40	1.33	2.30	2.76	2.41	0.78
Estonia	6.60	10.37	-0.08	2.98	4.98	3.93	2.79
Finland	2.51	4.07	0.00	1.21	3.42	2.81	1.48
France	1.49	2.81	0.09	1.53	2.12	1.96	0.86
Greece	2.9	4.15	1.21	4.71	3.33	1.20	-0.92
Hungary	7.94	6.07	4.21	4.88	3.96	5.71	1.73
Ireland	4.88	4.05	-4.48	-0.95	2.58	1.69	0.50
Israel	0.51	4.60	3.32	2.63	3.46	1.71	1.53
Italy	1.82	3.38	0.75	1.54	2.74	3.04	1.22
Japan	0.06	1.37	-1.35	-0.72	-0.28	-0.03	0.36
Korea	2.53	4.67	2.76	2.96	4.00	2.19	1.31
Mexico	3.97	5.13	5.30	4.16	3.41	4.11	3.81
Netherlands	1.61	2.43	1.19	1.28	2.34	2.45	2.51
New Zealand	2.38	3.96	2.12	2.30	4.43	0.88	0.92
Norway	0.73	3.77	2.17	2.40	1.30	0.71	2.13
Portugal	2.81	2.59	-0.84	1.40	3.65	2.77	0.27
Russian Federation	9.01	14.11	11.65	6.86	8.44	5.07	6.76
Serbia	6.39	12.41	8.12	6.14	11.14	7.33	7.69
Slovak Republic	2.76	4.60	1.62	0.96	3.92	3.61	1.40
Slovenia	3.61	5.65	0.86	1.84	1.81	2.60	1.76
Spain	2.79	4.08	-0.29	1.80	3.20	2.45	1.41
Sweden	2.21	3.44	-0.49	1.16	2.96	0.89	-0.04
Switzerland	0.73	2.43	-0.48	0.70	0.23	-0.67	-0.24
Thailand	2.24	5.47	-0.85	3.27	3.81	3.01	2.18
Turkey	8.76	10.44	6.25	8.57	6.47	8.89	7.49
United Kingdom	2.32	3.61	2.17	3.29	4.48	2.82	2.55
United States	2.85	3.84	-0.36	1.64	3.16	2.07	1.46

Source: World Bank, World Development Indicators 2014.

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Financial conditions

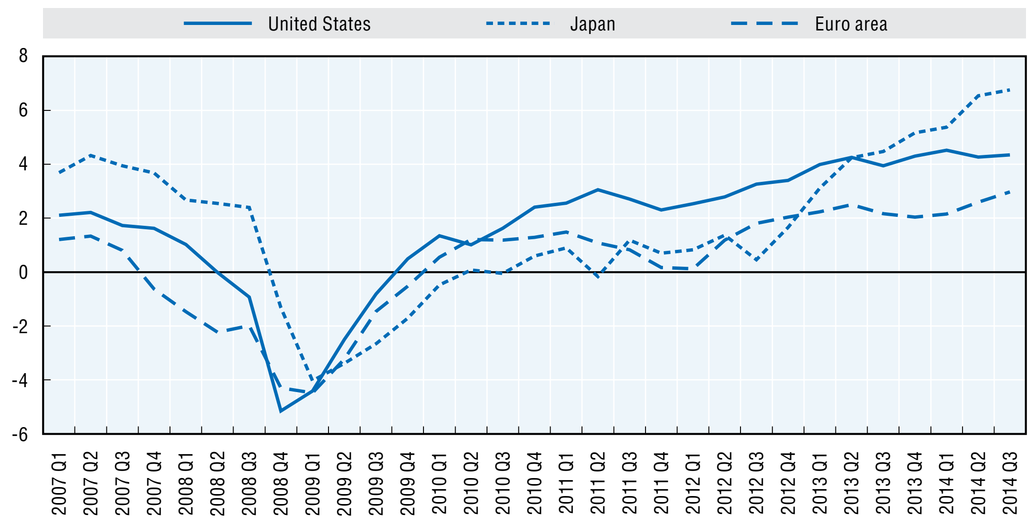
Financial conditions continued to support growth in the major advanced economies. The OECD financial conditions indices show that conditions improved significantly in the United States, where equity prices have risen to record levels, and the spread between corporate bonds and government bonds has stabilised close to pre-crisis levels (Figure 2.1).[1] Furthermore, credit standards have, on balance, been eased in the United States, and demand for credit is on the increase.

In Japan, financial conditions recovered from their low in the second quarter of 2009 and saw an improvement in 2013 and 2014, mainly as a consequence of continued quantitative easing, a rise in stock prices and a moderate expansion of credit.

In the Euro area, financial conditions were also generally favourable, remaining roughly unchanged in 2013, and improving in 2014. Moreover, in the most stressed countries, Ireland, Italy, Greece, Portugal and Spain, indices showed a marked improvement. For these countries, bond yields and CDS spreads[2] dropped significantly, as economic uncertainty receded, economic growth prospects improved, and reforms and rebalancing of weak economies started to take effect. Financial markets in the countries on the euro periphery also stabilised to a great extent thanks to the Outright Monetary Transaction (OMT) facility of the ECB (under which the central bank purchases government bonds issued by member states on the secondary market). As a result, financial fragmentation in the Euro area, although still significant at present, appears to be receding, and credit conditions for non-financial corporations are expected to converge across the Euro area gradually in the next few years (OECD, 2014a, d).[3]

Figure 2.1. **Financial conditions indices in the Euro area, Japan and the US, 2007-14**

Year-on-year growth rates, percentages



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. Based on available information up to 25 April 2014.

Source: OECD, 2014a.

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Lending to SMEs

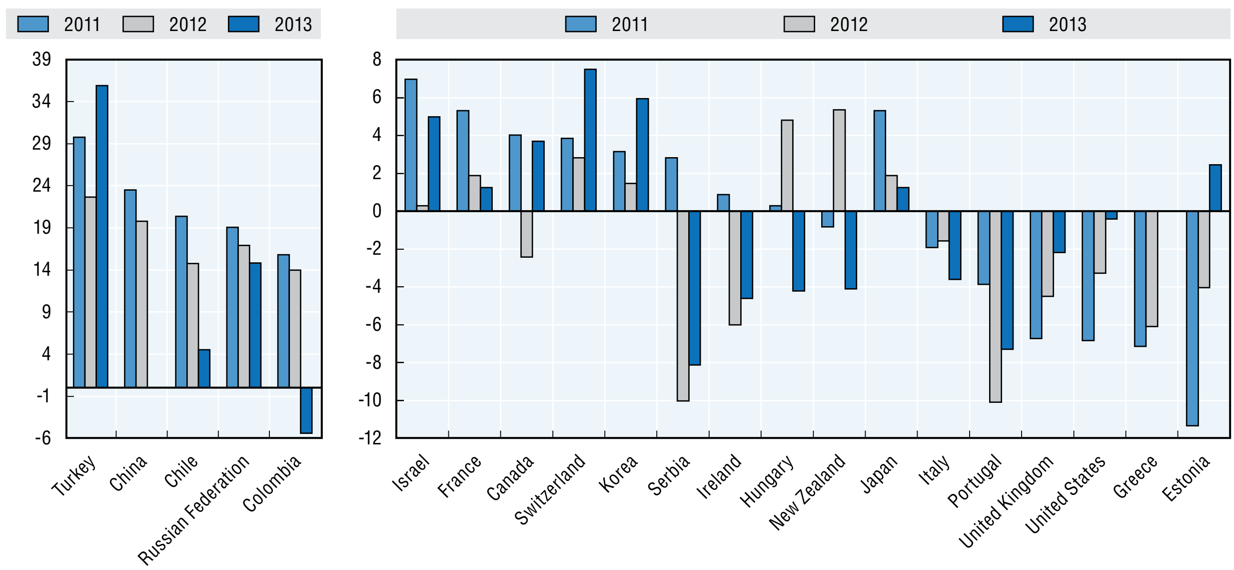
SME loans and SME loan shares

Since 2011, the data on SME loans have illustrated very divergent trends among the Scoreboard countries and documented an uneven and often weak recovery. What is notable in 2013 is that some countries showed a reversal the growth of SME loans. In particular, Colombia, Hungary, Ireland, New Zealand and Serbia all experienced negative loan growth in 2013, in contrast with 2011 (in the case of Ireland and Serbia) and 2012 (in the case of Colombia, Hungary and New Zealand). Other countries, such as Italy, Portugal and the United Kingdom showed a continuous decline of the outstanding stock of SME loans over 2011-13.

On the other hand, several countries seem to have turned a corner in 2013. Estonia, Japan and the United States experienced a marked uptick in outstanding SME loans after years of decline. A continuous, albeit modest, increase in SME loans over 2011-13 was observed in France, Korea and Switzerland. In emerging markets such as Chile, the Russian Federation and Turkey, loan growth was strong in 2011 and 2012 and continued to outpace other countries in 2013, although the pace of credit expansion appeared to decelerate. This is consistent with the slow-down in their GDP growth rates (see Figure 2.2).

Figure 2.2. **Trends in outstanding SME loans 2011-13**

Year-on-year growth, percentages



Notes: 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. 2. Countries with flow data only are not included. 3. Belgium and 2013 data for Greece are excluded because of methodological changes in the data in 2012 and 2013 respectively.

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

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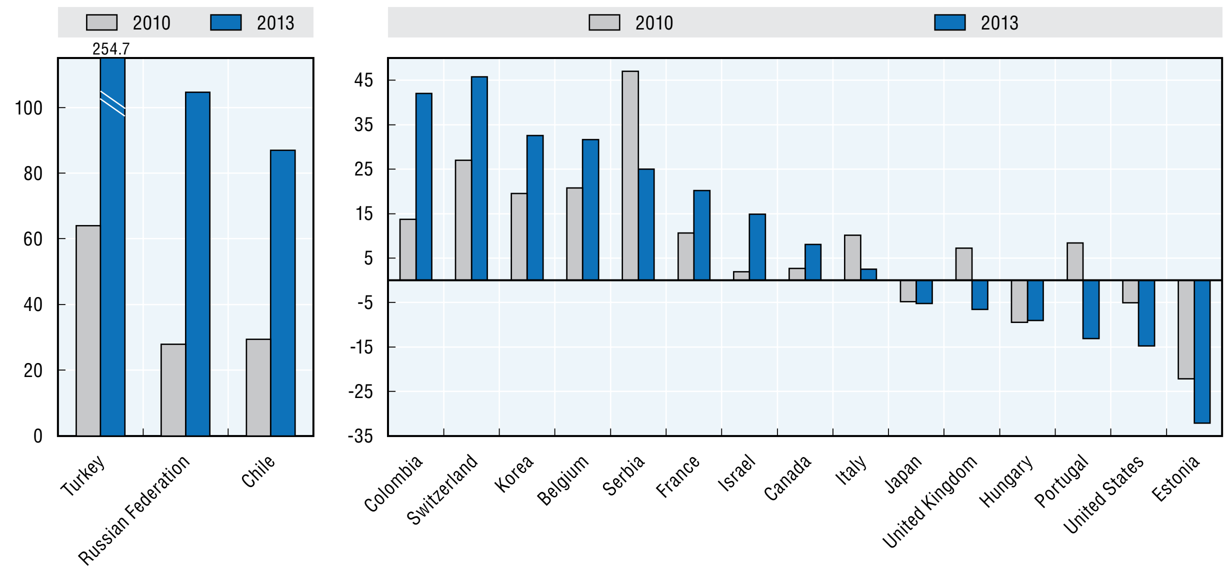
The outstanding stock of SME loans in 2013 was still below pre-crisis levels of 2007 in 6 out of the 18 countries for which comparable data was available (Estonia, Hungary, Japan, Portugal, the United Kingdom and the United States). Although economic growth in the OECD countries recovered in 2010, increasing year on year by 6.5 percentage points, SME lending in most countries did not follow, and often declined even further in the following years. In countries such as Hungary, Italy, Japan, Serbia, the United Kingdom and the United States, credit to SMEs decreased over the 2010-13 period. It is important to note that the data in Figure 2.3 does not take into account changes in general price levels. Therefore, in countries where credit was expanding, part of the increase is due to inflation, particularly in emerging economies like the Russian Federation and Turkey. Conversely, the credit contraction in other countries is even more substantial than it appears. In emerging markets such as Chile, Colombia, the Russian Federation and Turkey, loan growth was substantial in both the 2007-10 period, and the 2010-13 period.

Thirteen countries submitted data on new business loans. Figure 2.4 illustrates the very diverse situation across OECD countries. New SME business loans contracted for three consecutive years in Finland, Ireland and Spain, in contrast with relatively buoyant growth in Denmark, the Netherlands and the Russian Federation. New loan growth, however, seemed to be pick up, or at least decreased at a slower pace, in all the countries in Figure 2.4, with the exception of Austria, Finland and, most notably, the Czech Republic. Table 2.3 recaps the data on SME loan stocks and loan flows.

Figure 2.3. **Trends in outstanding SME loans 2007-13**

Relative to 2007, percentages (2007=0)



Notes. 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. 2. The Base year for Russia is 2008. 3. Countries with flow data only are not included. 4. Belgium is excluded because of methodological changes in the data in 2012.

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

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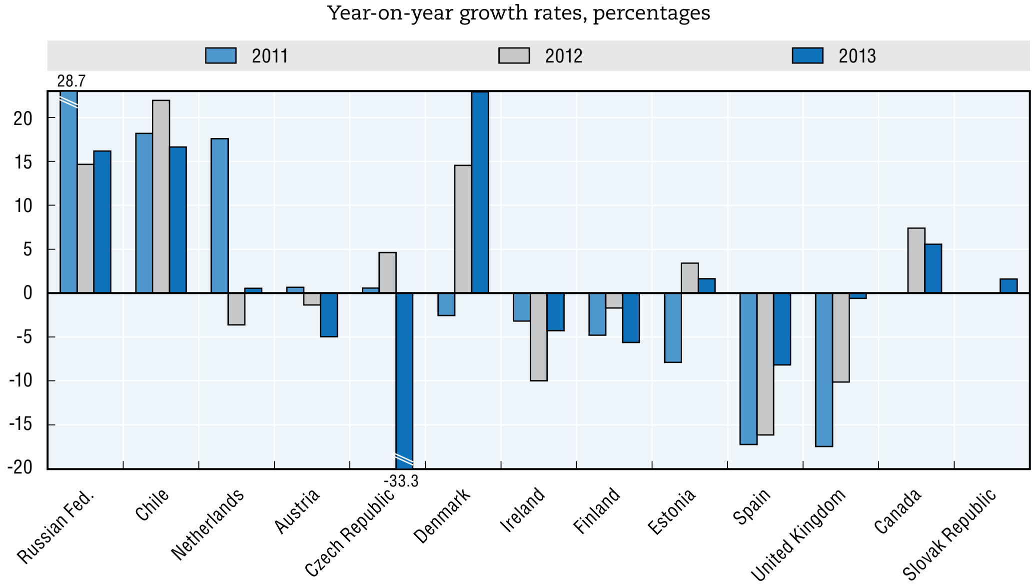
Figure 2.4. **Trends in new SME business loans, 2011-13**

Year-on-year growth rates, percentages



Notes. 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. 2. Countries with stock data only are not included. Data on the year-on-year growth rate for Canada in 2011 are not available. Data on the year-on-year growth rate for the Slovak Republic in 2011 and 2012 are not available.

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

StatLink http://dx.doi.org/10.1787/888933193420

Table 2.3. **Growth of SME business loans, 2007-13**

Year-on-year growth rate, as a percentage

Country	2008	2009	2010	2011	2012	2013
Outstanding SME business loans (stocks)						
Belgium	7.5	-0.2	5.6	6.5	9.6	-0.5
Canada	-0.1	3.7	-0.9	4	-2.4	3.7
Chile	11.3	6.9	8.8	20.4	14.7	4.5
China	n.a.	n.a.	25.9	23.5	19.8	n.a.
Colombia	12.7	-5.2	11.3	17.5	14.5	-5.4
Estonia	2.1	-14.5	-10.8	-11.3	-4	2.5
France	4.8	0.3	5.3	5.3	1.9	1.3
Greece	n.a.	n.a.	n.a.	-7.1	-6.1	n.a.
Hungary	10.3	-7.6	-11.1	0.3	4.5	-4.2
Ireland	n.a.	n.a.	n.a.	0.9	-6	-4.6
Israel	0.2	-5.1	7.3	7	0.3	5
Italy	2.1	1.2	6.6	-1.9	-1.6t	-3.6
Japan	-0.7	-2.3	-1.9	-1.1	-0.8	1.5
Korea	14.5	5	-0.6	3.1	1.5	5.9
Mexico	16.9	-1	18.4	18.9	29.7	n.a.
New Zealand	n.a.	n.a.	2.3	-0.8	5.4	-4.1
Norway	25.7	-7.7	4.2	4.7	-0.3	n.a.
Portugal	9.2	0.9	-1.6	-3.9	-10.1	-7.3
Russian Federation	n.a.	5	21.9	19.1	16.9	14.8
Serbia	39.7	-0.7	5.9	2.8	-10	-8.1
Slovak Republic	32.4	-0.5	0.1	-12	4.1	13.8
Slovenia	15.5	-0.3	11.9	1.8	-4	n.a.
Sweden	13.9	6.5	-4.7	2.8	-3.2	n.a.
Switzerland	5.9	5.3	13.9	3.9	2.8	7.5
Thailand	9.5	7.4	7.2	3.1	19.1	n.a
Turkey	10.6	-1.6	50.7	29.8	22.7	35.9
United Kingdom	11.3	-1.8	-1.8	-6.7	-4.5	-2.2
United States	3.6	-2.3	-6.2	-6.8	-3.3	-0.4
New SME business loans (flows)						
Austria	n.a.	n.a.	-6.4	0.7	-1.4	-5
Canada	n.a.	n.a.	n.a.	n.a.	8.9	7.8
Czech Republic	-0.5	-28.6	-16.6	0.6	4.6	-33.3
Denmark	-13.7	-19.2	23.2	-2.6	14.5	22.9
Estonia	-2.1	-39.6	-12.2	4.8	8.5	11.7
Finland	2.6	-16.3	-16.5	-4.8	-1.7	-5.6
Ireland	n.a.	n.a.	n.a.	-3.2	-10	-4.3
Netherlands	-5	-24.2	5.1	17.6	-3.6	0.5
Russian Federation	n.a.	n.a.	56.1	28.7	14.6	16.2
Slovak Republic	n.a.	n.a.	n.a.	n.a.	n.a.	1.6
Spain	-9.5	-26.3	-20	-17.2	-16.2	-8.2
United Kingdom	n.a.	-21.2	-6.1	-17.5	-10.1	-0.6

Notes. 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. 2. 28 countries reported outstanding SME loans (stocks), 11 countries reported new SME loans (flows).

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

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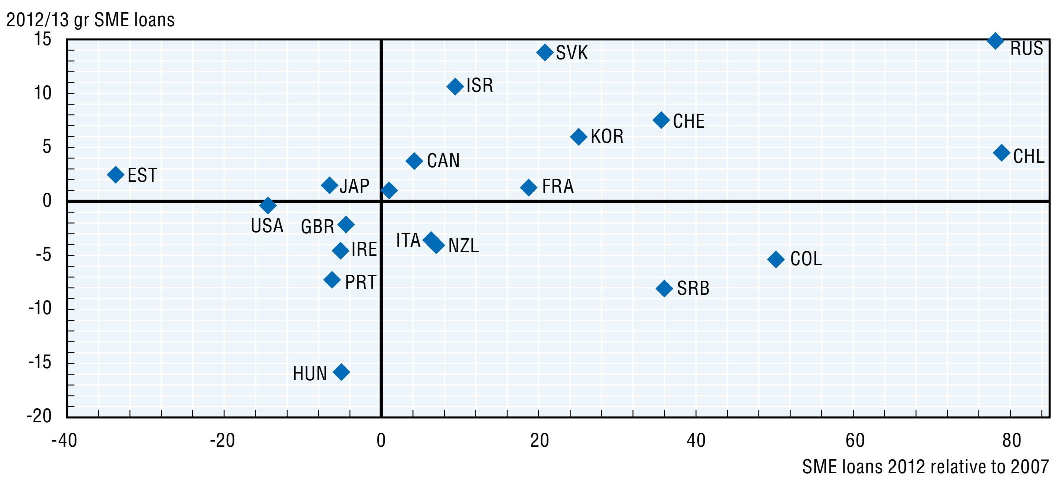
Figure 2.5 examines the consistency of growth patterns over time, by comparing the growth of outstanding SME loans between 2012 and 2013 with the growth trend recorded over the 2007-12 period. It illustrates that in Estonia, Hungary, Ireland, Japan, Portugal, the United Kingdom and the United States, the outstanding stock of SME loans in 2013 had not yet recovered from the financial crisis, as the amount of outstanding SME loans remained below the 2007 level, even in nominal terms. Greece and Portugal were still in recession in 2013; economic growth had recovered in the other countries, but lending to SMEs had not.

The graph also 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 2013. SME loan growth in 2013 was indeed stronger in countries which had not been affected as severely by the credit contraction of 2008-09, such as Israel, the Russian Federation or Turkey. On the other hand, countries which still struggled to recover to pre-crisis levels of SME lending, such as Ireland, Portugal and the United Kingdom, experienced negative growth rates in 2013.

Most countries where SME lending contracted during the financial crisis and its aftermath had thus not caught up to other countries in 2013. To a lesser extent, SME lending also rebounded in Estonia, Japan and Korea. Conversely, countries where outstanding loans in 2012 surpassed their 2007 levels generally did not revert to negative SME loan growth in 2013. Italy, where SME loan growth turned negative only in 2011, New Zealand and Serbia are notable exceptions.

Figure 2.5. **Growth patterns of outstanding SME loans, 2007-13**

In percentages



Notes. 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. 2. Includes only countries reporting stock data. 3. Excludes Turkey (161.0, 35.9).

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

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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. Table 2.4 summarises the evolution of loan shares over the 2007-13 period.

SME loan shares should be interpreted in tandem with the evolution of total business loans and SME business loans. Changes in SME loan shares could signal several developments. Rising shares might imply that SME loans were increasing more than business loans in general; that SME loans were stable or on the rise while business loans shrank; or that SME loans declined less than overall business loans. This indicator should be interpreted carefully and in proper context.

Table 2.5 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.

Table 2.4. **Share of SME loans in total business loans, 2007-13**

As a percentage of total business loans

Country	2007	2008	2009	2010	2011	2012	2013
SME business loans as stocks							
Belgium	61.7	59.6	62.7	62.3	65.1	65.4	67.2
Canada	17.4	15.6	17.9	17.5	17.7	15.9	15.3
Chile	17.4	15.2	17.5	18.2	18.2	18.5	17.5
Colombia	32.7	30.2	27.7	25.6	24.8	25	21.1
Estonia	35.8	34.5	31	29.4	28.3	26.2	26.5
France	20.7	20.3	20.2	20.5	20.7	21.2	21.1
Greece	..	..	..	38.5	36.8	38.8	..
Hungary	62.4	60.6	60	54.5	54.4	61.6	63.1
Ireland	..	..	..	63.9	67.8	67.5	66.9
Israel	40.4	36.6	37.4	38.9	39.8	40.7	44.3
Italy	18.8	17.9	18.3	19	18.3	18.4	18.7
Japan	69.6	67.3	66.7	67.8	66.9	65.8	65.3
Korea	86.8	82.6	83.5	81.5	77.7	74.7	74.7
Mexico	13	12.3	12	13	13.4	16.1	..
New Zealand	..	..	42.2	44	43	44.1	40.9
Norway	42.9	43.7	40.4	41	40.4	40	..
Portugal	78.3	77.7	77.4	77.3	77.1	74.7	73.9
Russian Federation	..	19.4	21.3	23.7	22.5	23	23.2
Serbia	21	21.6	21.1	21.7	22	19.3	..
Slovak Republic	65.7	77.1	79.4	79.4	65.8	..	..
Slovenia	54.8	53.4	53.4	57	60.1	62.2	..
Sweden	13.8	12.9	13.9	14.8	14.3	12.7	..
Switzerland	81.2	81.1	80.1	89.5	88.7	88.2	88.4
Thailand	28.1	26.6	26.9	38.4	36.8	37.6	..
Turkey	40.2	33.9	31.8	35.7	35.7	38.2	38.5
United Kingdom	19.8	18.1	20	21.4	21.1	21.5	22.1
United States	30.9	28.4	28.4	29	26.5	23.7	22.2
SME business loans as flows							
Austria	..	..	11.8	12.6	13	11.6	12.1
Canada	..	..	..	..	..	7.4	5.6
Czech Republic	24.4	23.9	19	18.5	20.7	18.7	17.3
Denmark	12.3	9.1	9	11.2	11.7	16.3	15
Estonia	42.1	48.2	47.7	43.8	38.6	37.8	38.4
Finland	27.1	21.9	19.6	15.3	21.1	22.3	18.5
Netherlands		6.8	5.0	5.1	5.7	5.3	5.4
Russian Federation	..	..	15.8	22.8	21.3	22.9	22.3
Spain	4	3.1	6.7	7	5.1	5	6.3
United Kingdom	..	..	..	..	..	14.1	12.5

Notes. 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. 2. The 2013 SME loan share of Greece is not comparable to previous levels due to changes in the methodology.

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

StatLink http://dx.doi.org/10.1787/888933194458

When interpreting the data on SME loan shares, it is important to keep in mind that large firms are generally less dependent on bank finance than SMEs and are able to finance themselves directly through the market, for example by launching public offerings for debt and equity. SMEs usually have far narrower financing sources available, making them more vulnerable to the changing conditions in credit markets, so an increasing SME loan share could be attributed to more favourable access to bank lending for SMEs vis-à-vis large firms, but also to the greater use of non-bank financing instruments of large enterprises. Hence, an increase in SME loan shares potentially reflects trends in financing opportunities and strategies by large firm rather than the increased access of SMEs, especially when

Table 2.5. **Trends in SME loan shares and credit market scenarios, 2012-13**

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

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

occurring at a time of general lending contraction when large enterprises are expected to be resorting to other forms of finance. This can be observed in Austria, Belgium, Italy, Spain and the United Kingdom, 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 case of Canada, Chile, Denmark, France and Japan, this decline took place in the framework of expanding loan activity over 2012-13; SME loans grew, but not as much as total business loans, with large enterprises getting a larger share of the expanding business credit market.

Box 2.1. **The maturity of bank lending to SMEs: short-term versus long-term lending since the financial crisis**

In the run-up to the financial crisis, bank lending volumes shot up in many areas of the world, fuelled by economic growth, cheap and abundant funding and the high profitability of the financial sector. The Great Recession changed the underlying dynamics dramatically. Funding, especially of the short-term and of the interbank kind, quickly dried up, economic growth soured and often turned negative, while many financial institutions suffered huge losses and had to be rescued by the government. New banking rules such as Basel III and Dodd-Frank further underlined the need for deleveraging. As the Scoreboard amply illustrates, bank lending to SMEs has come under stress in many countries as a consequence.

One would expect banks to restrict long-term lending more than short-term lending under such circumstances and a decrease of the average maturity of loans to SMEs. The Scoreboard data paints a more diverse picture, as can be judged from the data on the proportion of short-term loans to SMEs. Some countries, notably Colombia, Denmark, Estonia, Hungary and Finland, follow the expectations. In these countries, the proportion of short-term SME loans in the total SME loans spiked in 2008 or 2009 and declined afterwards, as the immediate effects of the financial crisis ebbed. Most other countries follow a different pattern however; in Austria, Belgium, France, Ireland, Italy, Korea, Portugal, Serbia and Spain the share of short-term loans showed a continuous decline since 2007, suggesting some structural evolution that trumps any potential effect of the financial crisis. In all these countries, SMEs systematically rely more on long term lending (see Table 2.6). This is an interesting venue for further research.

Box 2.1. **The maturity of bank lending to SMEs: short-term versus long-term lending since the financial crisis** *(cont.)*

Table 2.6. **The share of short term SME loans as a proportion of all SME loans, 2007-13**

Country	2007	2008	2009	2010	2011	2012	2013
Austria	…	…	59.82	54.59	52.17	52.43	51.06
Belgium	39	38	32	31	31	29	29
Canada	41.6	…	43.4	36.3	35.1	39.0	46.0
Colombia	19.44	26.3	23.11	22.02	16.19	21.73	22.16
Denmark	64.7	74.57	78.79	64.73	70.53	51.49	49.25
Estonia	59.98	74.94	84.62	83.92	78.07	73.94	71.19
Finland	12.96	16.83	21.12	19.42	17.92	23.24	23.06
France	23.85	22.55	19.78	19.07	19.17	19.18	19.75
Hungary	64.2	67.7	77.4	78.6	77.1	78.8	65.9
Ireland	30.82	25.22	20.82	14.26	9.46	8.03	8.25
Italy	31.62	29.55	26.76	24.31	23.57	23.41	21.97
Korea	75.06	73.39	70.24	68.76	66.21	63.92	61.93
Norway	19.26	18.6	16.79	16.82	16.72	18.87	…
Portugal	31.53	30.14	31.2	29.52	27.43	21.53	20.54
Serbia	34.98	31.67	34.2	34.17	30.28	27.21	29.77
Slovak Republic	50.45	39.67	41.4	41.4	39.51	40.6	…
Spain	96.16	96.98	93.69	93.43	95.14	95.24	94.03
Sweden	15.12	14.68	13.62	14.39	14.75	14.31	…

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

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In 2013, a (further) decline in the relative importance of short-term lending was observed for eight countries (Austria, Denmark, Estonia, Finland, Italy, Korea, Portugal and Spain), while only four (Colombia, France, Ireland and Serbia) witnessed an increase.

Credit conditions for SMEs

This section describes credit conditions for SMEs and entrepreneurs based on Scoreboard data on the cost of bank finance, collateral requirements and rejection rates. It complements this information with findings from supply-side and demand-side surveys.

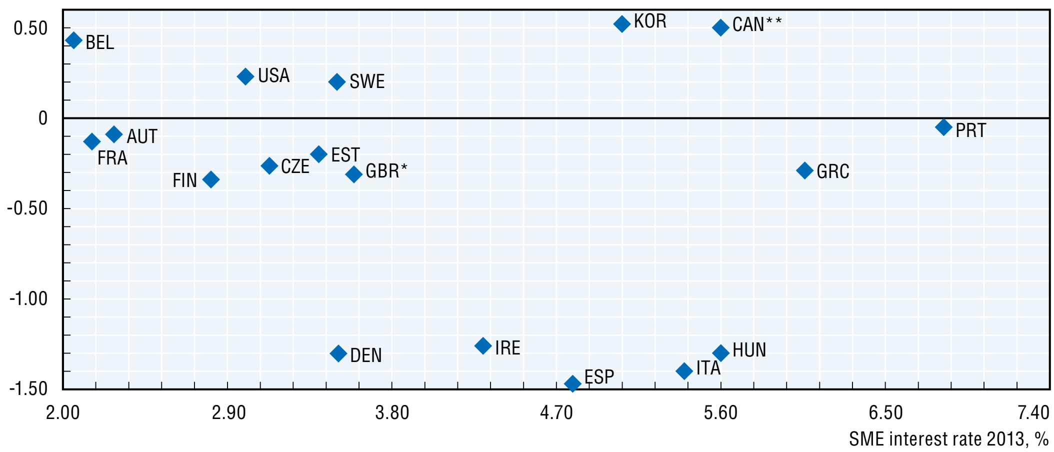
Cost of credit

In 2013, an easing of credit terms was observed in almost all Scoreboard countries, as monetary policy in most countries remained very loose and financial conditions often improved. This is in contrast to the 2007-10 period, when in most countries, SMEs faced more severe credit conditions than large enterprises, in the form of higher interest rates, shortened maturities and increased requests for collateral (OECD, 2012a).

Between 2007 and 2013, the interest rate spread between large firms and SMEs widened considerably for most Scoreboard countries for which data are available, with the exception of Belgium, Canada, Colombia, Korea, Serbia, Sweden and the United States. In Denmark, Hungary, Ireland, Italy, Spain and New Zealand, the interest rate spread widened by more than 100 basis points over this period. This suggests that the established practice of financial institutions lending to SMEs at less favourable conditions has worsened since the crisis. The perception of the riskiness of SME lending has changed over time, resulting in relatively higher average interest rates charged to SMEs. The graph also suggests a correlation between the level of the interest rate and the interest rate spread; in other words, higher average interest rates charged on SMEs often go hand in hand with a significant interest rate spread (see Figure 2.6).

Figure 2.6. **Trends in the interest rate spread, 2007-13, and the 2013 SME interest rate**

SME interest rate spread 2007-13, %



Notes: Excludes Colombia (19.77,-4.14) and New Zealand 9.59,-1.05). * Base year is 2008. ** Base year is 2009.

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

StatLink http://dx.doi.org/10.1787/888933193448

In 2013, the average interest rate charged on SME loans declined in 25 out of 26 countries for which data are available, with the exception of Canada. The average interest rate for large firms also declined in the majority of Scoreboard countries. Concerning the interest rate spread, that is the difference in the interest rate charged to large firms and SMEs, there is no clear pattern in its evolution; between 2012 and 2013, this spread increased in 11 countries, declined in 12 countries and remained constant in 3 countries.

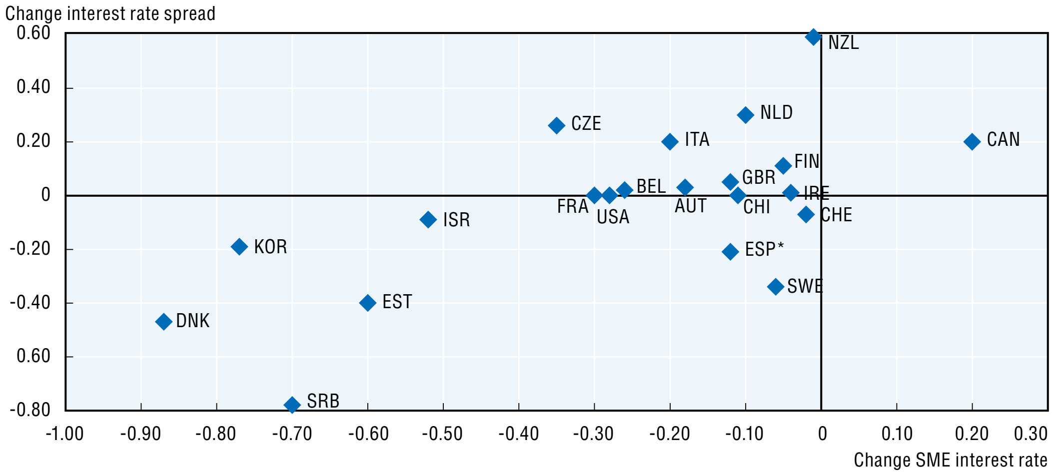
Figure 2.7 captures both the change in SME interest rates and the change in interest rate spreads between 2012 and 2013. Countries where the SME interest rate dropped substantially, i.e. Chile, Colombia, Denmark, Estonia, Korea, Portugal and Serbia, also recorded a decrease in the interest rate spread. Conversely, in Canada, both SME interest rates and the interest rate spread were up in 2013. Unsurprisingly, the interest rate spread remained positive for every country included over the whole period; large firms are consistently offered credit at lower average interest rates than SMEs.

Other fees associated with SME lending

Currently no data are available for Scoreboard countries on other costs associated with 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, in order to provide a more complete picture of the total costs of borrowing for SMEs. Available data are very sparse, however, as information on non-interest charges are usually privately held by the banking sector and are not collected on a systematic basis by authorities. This is an area which could be developed further in the future.

Figure 2.7. **Trends in SME nominal interest rates and interest rate spreads: 2012-13**

In percentage points



Notes: Chile (1.49,-1.05) and Colombia (-1.97,-0.63) are excluded. * Base year is 2008.

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

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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. 12 Scoreboard countries reported on collateral requirements between 2011 and 2013. As the data comes from demand-side surveys and the methodology, sample and questionnaire changes from one country to the other, some caution is advised when comparing countries.

In most countries, more than half of all SME loans were collateralised. The main exception is the United Kingdom, where only 30% of all loans were collateralised in 2013. In Switzerland, more than three out of four loans were collateralised, while in the Slovak Republic, the percentage of collateralised loans amounted to 100%, as it has a mandatory collateral requirement.[4]

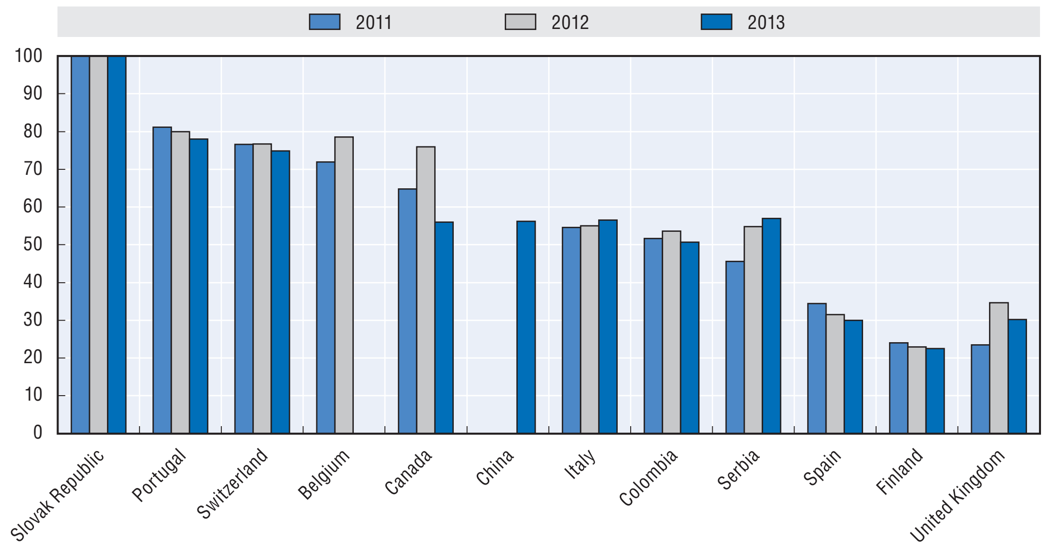
In 2013, collateral requirements decreased in seven out of ten countries, most notably in Canada. In the Slovak Republic, the requirements were stable, while Italy and Serbia reported that a higher percentage of SMEs had to provide collateral in order to access bank finance. Although the sample size is modest, these data suggest that collateral requirements were loosened in 2013, marking a deviation from the trend in previous years.

Rejection rates

As with data on collateral, rejection rates are usually gathered from demand-side surveys and are currently unavailable for almost half of Scoreboard countries. Nonetheless, this indicator helps gauge the financing conditions SMEs face. Higher rates of rejection are indicative of constraints in the credit supply, which are a particular concern for SMEs as rejection rates are traditionally lower for large enterprises. A high number of rejections of loan applications illustrates that loan demand is not being met, either because the terms and conditions of the loan offers are deemed unacceptable, the average creditworthiness of the loan applications have deteriorated or banks are rationing credit. The indicator sheds light on the supply of credit to SMEs.

Figure 2.8. **Trends in SME collateral requirements: 2011-13**

% of SME banks loans requiring collateral



Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. 2011 and 2012 data for China is unavailable.

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

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Table 2.7. **Trends in SME loan rejection rates: 2007-13**

	2007	2008	2009	2010	2011	2012	2013	change 2013/2012
Austria	n.a.	n.a.	7	n.a.	3	1	n.a.	n.a.
Belgium	n.a.	n.a.	n.a.	n.a.	10	18	10	-8
Canada	6	n.a.	n.a.	9	8	7	9	2
Finland	n.a.	n.a.	n.a.	n.a.	1	5	11	6
France	n.a.	n.a.	14	12	10	11	0	-11
Greece	n.a.	n.a.	n.a.	n.a.	29	38	36	-2
Ireland	n.a.	n.a.	n.a.	n.a.	28	28	19	-9
Italy	3.1	8.2	6.9	5.7	11.3	12.0	8.3	-4
Korea	41.5	47.2	40.7	48.7	43.4	41.7	39.8	-2
New Zealand	6	13	18	28	13	14	10	-4
Portugal	n.a.	n.a.	n.a.	n.a.	23	27	11	-16
Serbia	18.7	17.2	28.4	27.1	15.8	31.5	31.8	0
Slovak Republic	n.a.	n.a.	n.a.	n.a.	57.2	n.a.	53.2	n.a.
Spain	n.a.	n.a.	23	16	14	19	14	-5
United Kingdom	n.a.	n.a.	n.a.	38	32	31	36	5

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*; ECB Surveys on SME access to finance.

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The Scoreboard data show that the proportion of SMEs reporting a rejection of their credit application varies considerably across countries (see Table 2.8). In some countries, SME loan applications were seldom (e.g. Austria) or never (e.g. France) rejected in the sample of SMEs surveyed in 2013, suggesting relative easy access to bank finance in these countries. In Greece, Korea or the Slovak Republic, among others, rejections were much more common. However, the rejection rate decreased for nine out of 13 countries for which data was available in 2013 (and remained constant for Serbia), signalling an easing of access to finance for SMEs. Rejection rates dropped markedly in Belgium, France, Ireland and Portugal. In contrast, Canada, Finland and the United Kingdom witnessed an increase in the proportion of loans that were rejected in 2013. It should be noted that rejection rates in these countries were still at relatively low levels (with the exception of the United Kingdom).

It is noteworthy that declining loan rejection rates sometimes coincide with lower levels of SME lending, which suggests the drop in lending is mainly due to a lack of demand for credit from SMEs in these cases.

Table 2.8. **ECB Survey on SME access to finance**

As a percentage of total SMEs surveyed

Category	H1 2011	H2 2011	H1 2012	H2 2012	H1 2013	H2 2013	H1 2014
Availability of loans							
Deteriorated (net)	-14	-20	-22	-10	-11	-4	0
Willingness to lend							
Deteriorated (net)	-20	-23	-27	-21	-17	-11	-2
Applied for a loan	32	28	30	31	31	32	30
Granted in full	67	65	63	61	65	66	68
Rejected	9	12	14	10	11	10	12
Interest rate							
Increased (net)	54	42	27	17	19	9	-9
Collateral requirements							
Increased (net)	33	36	39	35	31	26	29

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 had increased and the percentage reporting that it has decreased.

Source: ECB (2014).

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Additional evidence on credit conditions from survey data

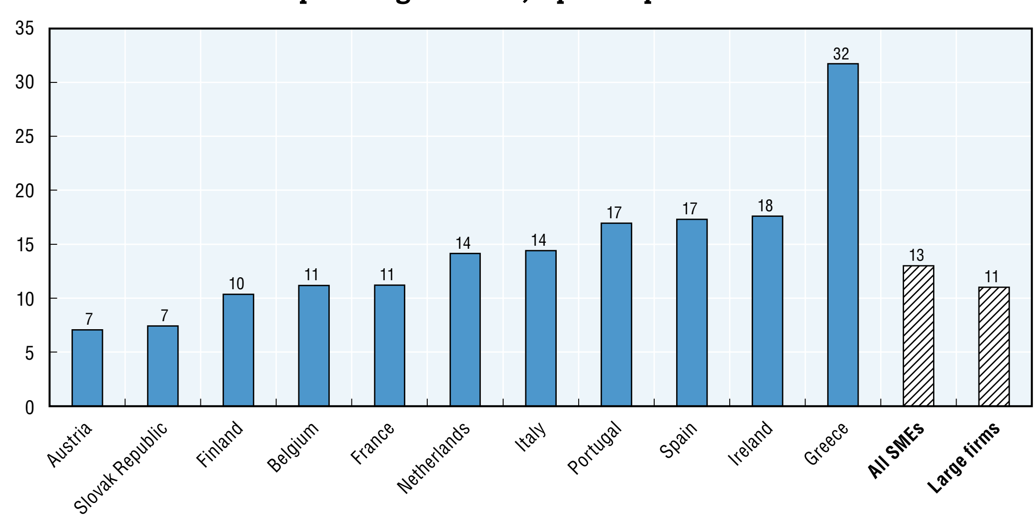
Survey data complements the evidence from the data reported in the Scoreboard and offers very useful insights into SME finance conditions that are hard to obtain otherwise. In particular, these data could shed some light on distinguishing between demand and supply factors behind changes in SME lending. If a tightening of credit conditions, as perceived by SMEs, coincides with a fall of SME lending, at least part of this fall can most likely be attributed to supply side factors. Conversely, a drop in SME lending is more likely due to a fall in the demand for credit from SMEs if perceived credit conditions remain unchanged. The evidence from demand-side surveys, where firms are surveyed to voice their opinion on perceived credit conditions, can be complemented with supply-side surveys, which are usually conducted by national banks to gauge the credit conditions and the demand for credit by surveying senior loan officials.

For Euro zone countries, the ECB Survey on SME access to finance, undertaken every six months, is of particular interest to gauge the perception of SMEs on how the credit conditions are evolving.[5] It shows a decrease in the net balance of SMEs stating that the availability of loans had deteriorated, for the second half of 2013 and the first half of 2014, when the number of respondents reporting a decrease in the availability of loans was similar to those stating an increase. There were similar results with respect to the willingness to lend; the net balance of responders reporting a deterioration peaked in the first half of 2012 and declined afterwards, with the pace gathering momentum in the first half of 2014. The number of loan applications granted in full rose to 68% in the first half of 2014, from a low of 61% in the second half of 2012. The net balance of respondents reporting an increase of the average interest rate also declined significantly over the last few years and even turned negative in the first half of 2014. The net balance stating an increase in collateral requirements also fell from its 2012 peak, although it increased again slightly according to the latest survey.

In the Euro area, the access to finance and finance conditions appear to be consistently more favourable for large enterprises than for SMEs, with a smaller percentage of large firms reporting supply restrictions in the provision of bank loans, consistently higher rates of success and lower rejection rates and a considerably lower net percentage of large firms reporting an increase in interest rates and collateral requirements (Table 2.8).

Access to finance was considered to be the most pressing concern for 13% of Euro zone SMEs in the April-September 2014 SAFE survey. This is down from 14% in the survey conducted 6 months earlier and from 16% in the April-September 2013 survey, suggesting an improvement of credit access for SMEs. The average number of 13% masks very wide cross-country differences, however, as Figure 2.9 shows that, while less than 10% of Austrian and Slovak SMEs rank access to finance as their most pressing concern, this proportion rises to 17% and more in countries such as Ireland and Greece, Portugal and Spain, with Greece the outlier at 32%. It should be noted, however, that the proportion of SMEs considering access to finance as their main concern fell most in these countries. More SMEs than large firms describe access to finance as their most pressing concern (13% and 11% respectively).

Figure 2.9. **The proportion of Euro zone SMEs reporting access to finance as their most pressing concern, April-September 2014**



Source: ECB (2014).

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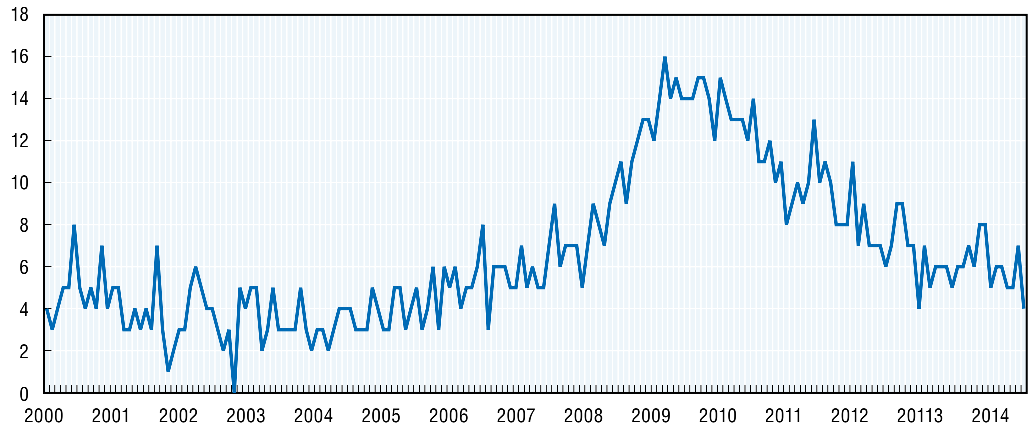
In the United States, the NFIB Research Foundation collects Small Business Economic Trends data on a monthly basis since 1986. Only 2% of small business owners considered finance to be their single most important problem according to the November 2014 survey. In addition, only 4% of respondents stated that their credit needs were not being met, which is a historic low. The reported loan availability dropped dramatically in 2007 and reached a low in 2009, after which it recovered in the following years. During 2013 and the first half of 2014, reported loan availability was broadly in line with the pre-crisis period (see Figure 2.10).

Figure 2.10. **Loan availability in the United States, 2000-14**



Note: Net Percent «Harder» minus «Easier» Compared to Three Months Ago.

Source: Dunkelberg and Wade (2014).

StatLink http://dx.doi.org/10.1787/888933193487

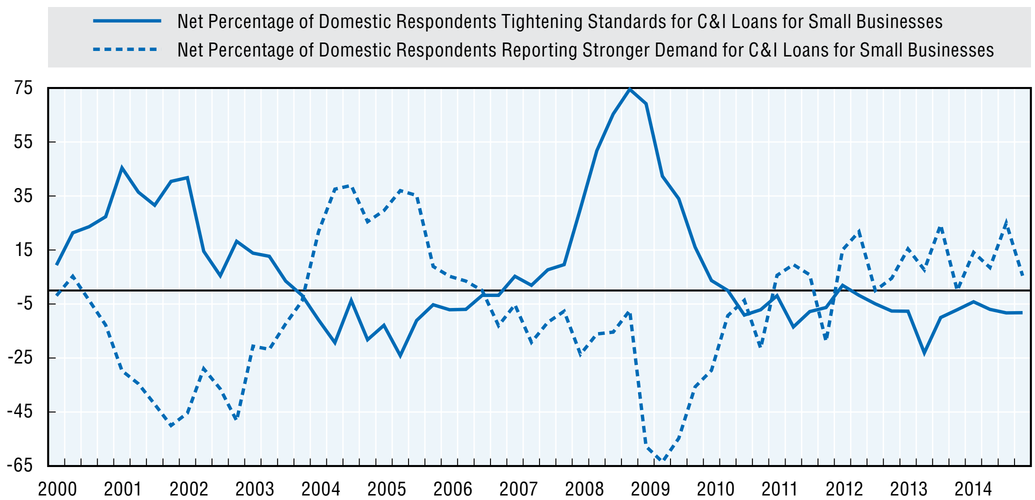
The United States Federal Reserve Board surveys senior loan officers on their banks' lending practices on a quarterly basis, including a question on the evolution of credit standards for approving small business loans or credit lines (where small businesses are businesses with annual sales of less than USD 50 million). According from this survey, credit standards for small businesses in the United States tightened dramatically between 2008 and 2010. This is very much in line with the experience in other OECD countries. Starting from 2011, senior loan officers report that conditions loosened somewhat, a trend that has picked up pace since 2013.

The same survey also includes a question regarding the demand for bank credit from small businesses. Senior loan officers are asked how the demand of small business loans changed over the last three months. Possible answers range from a "substantially stronger" demand to a "substantially weaker" demand. Subtracting the percentage of respondents who answered that demand was (substantially or moderately) weaker from the percentage who thought demand was (substantially or moderately) stronger, provides an indicator of overall demand for loans of small businesses (Figure 2.11). The reported demand for loans from small business broadly mirrors the tightness of lending standards; demand plummeted when the financial crisis hit the American economy and began a hesitant recovery in 2011.

In Japan, the TANKAN survey of Japanese businesses (literally translated as the Short-Period Economy Observation), is a quarterly poll of business confidence published by the Bank of Japan. In order to provide an accurate picture of business trends, a representative and large-scale sample of the Japanese business population is asked to choose between different alternatives to best describe prevailing business conditions. One question pertains to the "lending attitude of financial institutions", where the respondents can choose between "accommodative," "not so severe" and "severe" as best describing their view of lending attitudes. A single indicator is derived on the basis of these answers.

The TANKAN survey indicates a sharp tightening of the perceived lending attitudes between the first quarter of 2008 and the third quarter of 2009, as the financial crisis constricted the access of finance to Japanese businesses. After Q3 2009, perceived financial conditions improved steadily. In the second quarter of 2014, financing conditions as viewed by Japanese businesses were broadly in line with the pre-crisis period of 2005-2007. It is noteworthy that larger firms consistently describe financing conditions as more accommodative compared to medium-sized firms and especially small businesses, which regard the lending attitudes as the most restrictive (see Figure 2.12).

Figure 2.11. **Small business lending environment, 2000-14**



Source: Federal Reserve Board (2014).

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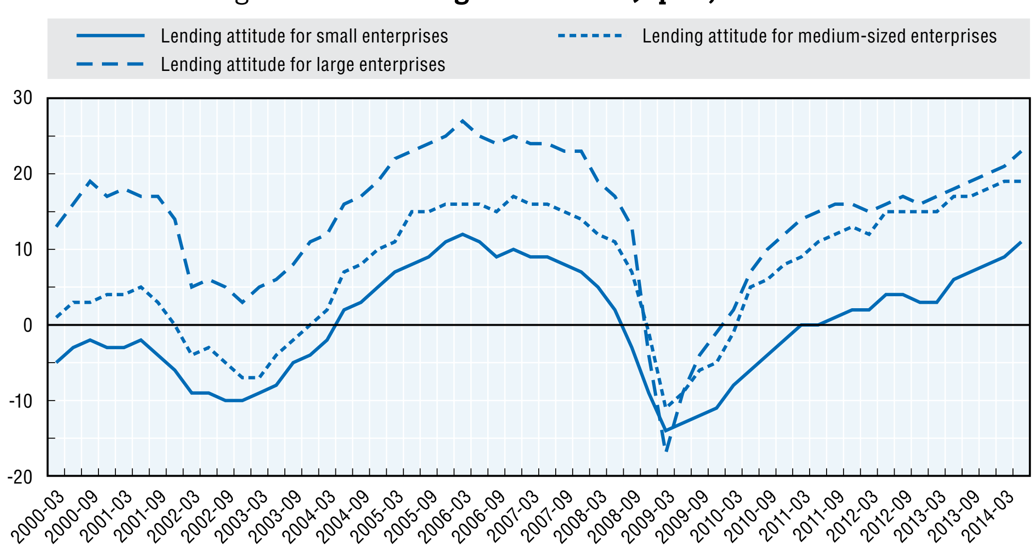
Figure 2.12. **Lending attitudes in Japan, 2000-14**



Source: Bank of Japan (2014b).

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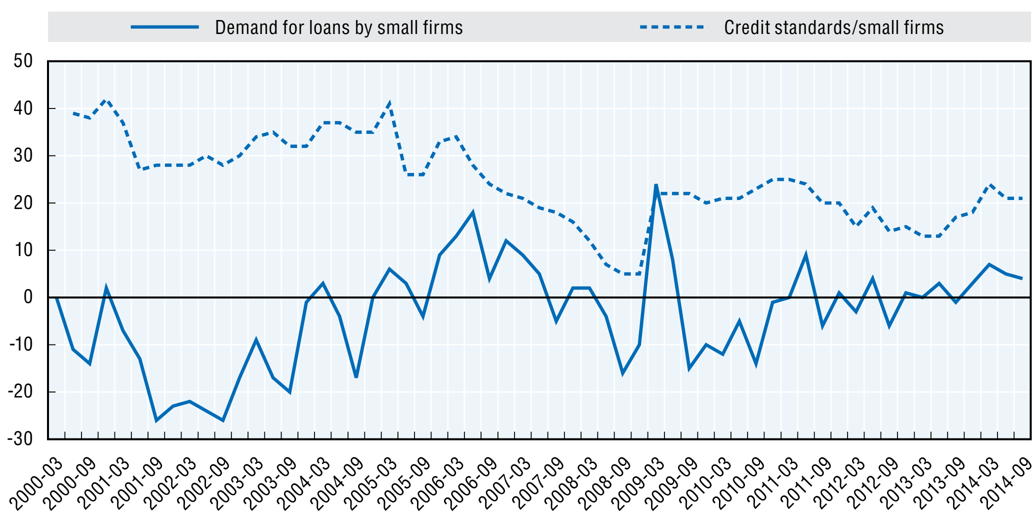
The Bank of Japan also initiated the quarterly "Senior Loan Officer Opinion Survey on Bank Lending Practices at Large Japanese Banks" in April 2000, broadly modelled on the survey from the American Federal Reserve Board. It aims to quantitatively measure the view of senior loan officials concerning the loan market, more particularly the demand for loans, standards and terms of loans, and other matters, on a scale from 1 to 5 or 1 to 3. The result of each question is then expressed as a percentage of the total response.

Demand for credit in Japan again suffered under the financial crisis, with the exception of a sharp spike in the demand in the first quarter of 2009. In the 2008-13 period, demand for loans by Japanese small firms remained mostly negative. Only data from the third quarter of 2013 indicates an uptick in the demand for loans from small firms. Somewhat remarkably, Japanese loan officials report a loosening of credit standards for small firms over the 2007-14 period, the financial crisis notwithstanding, credit standards have been reported to become less restrictive, although the pace of the reported loosening declined considerably (Figure 2.13).

Figure 2.13. **Credit standards for small firms and the demand for loans by small firms in Japan, 2000-14**



Source: Bank of Japan (2014a).

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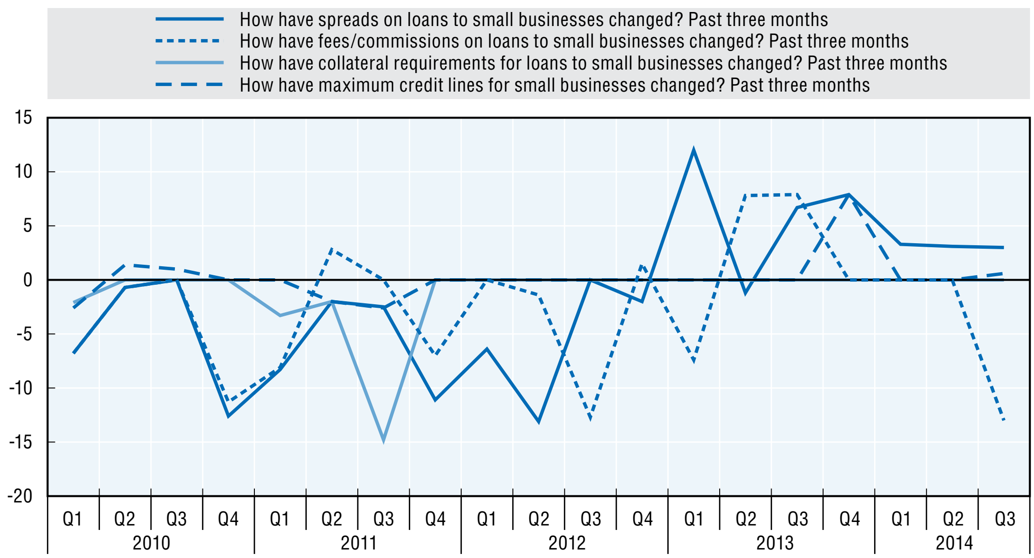
In the United Kingdom, the quarterly Credit Conditions Survey from the Bank of England surveys lenders about changes in trends. The survey covers secured and unsecured lending to households and small businesses; and lending to non-financial corporations, and to non-bank financial firms. Data for SMEs is available from the fourth quarter of 2009 up to the second quarter of 2014. During most of this period, lending conditions generally deteriorated (Figure 2.14). A reversal of this trend can be observed from the second quarter of 2013 as maximum credit lines, spreads on loans and especially fees/commission on loans all became more favourable since then, while collateral requirements remained flat according the UK lenders.

The evidence from this section illustrates a moderate easing of credit conditions and standards since 2010, which continued in 2013 and the first half of 2014. Similarly, the costs of bank credit have fallen in recent years as a result of loose monetary policy. Despite this trend, SME lending often decreased in 2013, often in the same countries where credit conditions improved. Portugal provides the most striking example of a country where easier credit conditions coincided with a fall in SME lending over the same period. Rejection rates in 2014, at 11%, were much lower than in 2013 (27%). Collateral requirements were also down in 2013 and 2014 in Portugal, although more modestly. The average interest rate charged for an SME loan also dropped by 10% year-on-year from 2013 to 2014. Whereas 21% of all SMEs described access to finance as their most pressing survey in the October 2012-March 2013 survey conducted by the ECB, that proportion fell to 18% one year later. Despite these four indications that credit conditions for Portuguese SMEs were indeed improving between 2012 and 2013, business lending to SMEs did not pick up in 2013. On the contrary, SME lending in Portugal shrank by 7.3% year-on year between 2013 and 2014. Greece, Spain, the United Kingdom and the United States all witnessed a similar (but not as clear-cut) coincidence of more accommodating credit conditions one the one hand and a fall in SME lending on the other over the 2012-13 period.

Figure 2.14. **Credit conditions in the United Kingdom, 2010-14**



Source: Bank of England (2014).

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The dual phenomenon of lower SME lending at a time of easing of costs and conditions may have several explanations. First, a lack of demand for bank loans rather than the unavailability of supply might explain the drop in SME lending observed in many countries. Second, an easing of credit conditions might not immediately translate into increased SME lending, and may involve a time lag. Third, it is possible that, credit has become easier to come by and cheaper only for some SMEs, while other SMEs still find it very difficult, potentially even more difficult, to access bank finance. It should also be noted that despite the recent easing, credit conditions remained relatively tight in many places, especially where economic growth was still weak in 2013 and 2014.

Equity financing

Equity financing markets were severely impacted by the financial crisis. Most Scoreboard countries experienced a sharp decline in venture capital and growth capital investments between 2008 and 2010. This decline was uniform over venture capital for seed and early growth investments, later stage venture capital investments and growth capital investments (see Table 2.9).

Table 2.9. **Seed and early stage venture capital investments, later stage venture capital investments and growth capital investments, 2008-13**

Year-on-year percentage changes

Changes in seed and early stage venture capital investments							
	2008	2009	2010	2011	2012	2013	2008-2013
Austria	-13	59	-60	164	-30	-1	17
Belgium	-23	53	-30	11	-11	-9	-4
Canada	-26	-21	-3	38	-22	6	-14
Czech Republic	-44	-100	…	-79	-95	1357	560
Denmark	-41	-26	-22	23	-9	2	-34
Estonia	758	48	-7	-59	258	-70	-40
Finland	16	-18	13	-18	19	11	-1
France	24	-33	4	-17	4	14	-31
Greece	4886	-76	20	91	-100	…	-95
Hungary	-3	-12	1094	123	66	-1	971
Ireland	20	53	-11	-11	-7	-9	3
Italy	75	-15	-9	-9	65	-39	-29
Netherlands	25	-36	-9	11	-22	48	-25
Norway	-32	-16	21	-7	-24	-23	-45
Portugal	82	-42	76	-81	29	77	-56
Russian Federation	…	-23	24	78	46	…	…
Spain	-1	-42	-13	49	-14	-27	-53
Sweden	16	-43	-4	-20	-26	1	-67
Switzerland	-10	41	-16	26	-49	79	37
United Kingdom	11	-33	-18	-6	32	-18	-44
United States of America	-1	-15	14	32	-9	19	39
TOTAL	0	-23	-7	6	-5	0	-27
Changes in later stage capital investments							
	2008	2009	2010	2011	2012	2013	2008-2013
Austria	-56	34	-9	73	-87	430	46
Belgium	-46	10	-74	6	69	4	-47
Canada	-66	-18	48	54	18	42	215
Czech Republic	754	-10	…	-21	-35	-82	-97
Denmark	51	-78	-2	190	-59	3	-74
Estonia	2	-100	…	-31	103	-42	-79
Finland	-32	-33	1	-3	-55	312	20
France	-3	-16	-19	-15	-21	25	-43
Greece	-17	-19	-100	…	-100	…	-74
Hungary	285	-98	556	-93	458	1276	-19
Ireland	-12	-58	156	-13	13	42	50
Italy	49	-41	1	90	1	-13	0
Netherlands	-11	-53	-23	28	60	-32	-50
Norway	-48	-35	82	-51	36	-61	-70
Portugal	-63	-71	3	-77	32	57	-86
Russian Federation	-76	138	-57	108	…	…	…
Spain	78	619	-39	13	-33	8	-88
Sweden	32	-28	-20	-4	-20	21	-46
Switzerland	-62	16	-28	-30	180	-56	-27
United Kingdom	-3	-58	14	11	-48	-11	-76
United States of America	286	-41	4	40	-1	-9	-22
TOTAL	-15	-42	-1	24	-8	12	-28

Table 2.9. **Seed and early stage venture capital investments, later stage venture capital investments and growth capital investments, 2008-13** *(cont.)*

Changes in growth capital investments

	2008	2009	2010	2011	2012	2013	2008-2013
Austria	28	34	-33	286	-77	-2	-22
Belgium	12	30	-30	-36	47	-13	-26
Canada	-23	-38	21	3	-7	18	-16
Czech Republic	-38	165	-39	-93	-45	5	-94
Denmark	38	48	14	-97	590	-73	-92
Estonia	-89	85	-100	-100	…	-100	-100
Finland	111	-61	412	-77	76	-60	-68
France	138	-25	24	40	-43	-18	-38
Greece	…	…	…	-99	-100	…	…
Italy	83	-18	-10	-39	7	-27	-65
Netherlands	-16	11	-53	202	-50	-16	-33
Norway	277	-28	-1	-4	33	11	2
Portugal	-18	31	-37	1590	-66	96	818
Spain	88	-36	6	-52	-7	6	-68
Sweden	-29	171	30	-56	-44	21	5
Switzerland	144	-44	178	-80	127	-63	-73
UK	35	-37	27	-21	-19	24	-36
TOTAL	39	-25	13	-11	-22	-1	-41

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*, European Venture Capital Association (2014).

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Seed and early stage venture capital investments only surpassed 2008 levels in six out of 20 countries, notably Austria, Czech Republic, Ireland, Korea, Switzerland and the United States. There are even fewer countries where later stage venture capital investments reached 2008 levels in 2012, with only Austria, Finland and Korea bucking the trend. Growth capital investments were also still below their 2008 peak in 2013 in most countries, with the exception of Norway, Portugal and Sweden.

Equity market developments in 2013 were very mixed; in approximately half of the countries covered, overall equity investments rose, while they fell in the other half. The increases in venture capital in some countries were encouraging, however. Indeed, 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, alongside direct government funding. Regulatory changes also contributed to stimulating equity investment, as was the case in Ireland, Finland and Turkey.

It should be noted that venture and growth capital investments continue to be very small compared with other funding sources such as bank lending, asset-based finance or trade credit. For example, in the United States, despite its vibrant equity market, data from the Small Business Administration shows that only around 300 of the 600,000 annual start-ups are funded by venture capitalists annually. Venture capital investments are also mostly limited to mature markets; around 85% of all venture capital investments in 2012 occurred in Europe and the United States and are thus relatively underdeveloped in many parts of the world (Ernst &Young, 2013).

For these reasons, trends in venture capital investment are difficult to analyse and interpret 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. Also, equity financing is only relevant to a small subset of SMEs with specific needs and characteristics. Nonetheless, the importance of venture and growth capital should not be understated, as they fund SMEs with very high growth potential.

Asset-based finance

It is widely acknowledged that SMEs are typically not able to finance themselves directly though the market and are more dependent on bank financing. As deleveraging of the financial sector continues, the reliability on bank finance is increasingly considered as problematic and alternatives to traditional bank lending are being explored and encouraged by governments. Asset-based finance, through which firms obtain financing based on the value of a particular asset generated in the course of its business, rather than on its own credit standing, is well-established, and widely used, alternative for many SMEs (see Box 2.2).

Box 2.2. **Asset-based finance for SMEs**

Asset-based finance is a widespread form of finance for SMEs, to monetise the value of specific assets and access working capital under more flexible terms than they could from conventional lending channels. It comprises instruments such as asset-based lending, factoring, purchase order finance, leasing and warehouse receipts. As firms obtain funding based on the value of specific assets, including accounts receivables, inventory, commodities stored at certified warehouses, machinery, equipment and real estate, rather than on their own credit standing, asset-based finance can serve the needs of young and small firms that have difficulties in accessing traditional lending, because they are informationally opaque, lack credit history or face temporarily shortfalls or losses. In addition, asset-based financiers do not generally require any personal guarantee from the entrepreneur, nor that s/he give up equity. On the other hand, the costs incurred and/or the complexity of procedures may be substantially higher that those associated with conventional bank loans, including asset appraisal, auditing, monitoring and up-front legal costs, which may reduce the firm's levels of profits. Also, funding limits are often lower than in the case of traditional debt.

In its long-established forms of factoring and leasing, asset-based finance is widely used across OECD economies. In Europe especially, the relevance of these instruments for SMEs is on par with conventional bank lending, and the specific financial segment has grown steadily over the last decade, in spite of repercussions of the global financial crisis on the supply side. Factoring and leasing are also broadly diffused across emerging economies, and increasingly so in supply chain arrangements and cross-border activities. Their diffusion is favored by less stringent requirements, in terms of an efficient legal and judicial system, than traditional and asset-based lending.

Indeed, a weak legal environment can be an important constraint to the development of asset-based lending, which has mainly taken place in economies characterised by a solid framework for the protection of secured interests and efficient bankruptcy laws. In fact, in countries where this form of financing had already developed, its demand by SMEs has significantly increased in the aftermath of the 2008-09 global financial crisis, as awareness rose and access to other financing channels have become more difficult, and also as a consequence of regulatory changes.

Source: OECD (2014c).

Asset-based finance comprises every form of finance that is based on the value of specific assets rather than on the credit standing and covers different instruments. Among these, leasing and factoring are most known and widely used in most parts of the OECD. In the case of leasing, the owner of an asset provides the right to use of the asset (like motor vehicles, equipment or real estate) for a specified period of time in exchange for a series of payments.

Analysis from Leaseurope,[6] which provides recent data for 18 Scoreboard countries, shows that new production of leasing increased in five countries between 2012 and 2013 (Austria, Denmark, Greece, Slovenia and the United Kingdom), while decreasing in ten others (Belgium, Estonia, Finland, France, Italy, the Netherlands, the Slovak Republic, Spain, Sweden and Switzerland). Leasing volumes, which dropped precipitously in many European countries in 2009 as a result of the financial crisis, thus generally fell even further in 2013, signalling a very patchy and uneven recovery of leasing volumes.

In 2013, new production had still not recovered to pre-crisis levels in 13 out of 18 countries for which leasing data are available, with the exception of Belgium, Norway, Sweden and Switzerland. Countries that suffered most under the financial crisis and where lending to SMEs contracted most, i.e. Italy, Greece, Portugal and Spain, witnessed a much more dramatic decline in leasing volumes over the 2007-13 period as well. For these countries, new leasing volumes in 2013 were only of fraction of the pre-crisis level (see Table 2.10). More analysis is needed to assess the relative importance of

Table 2.10. **New production in leasing: 2007-13**

Relative to 2007

Country	2007	2008	2009	2010	2011	2012	2013
Austria	1	1.08	0.71	0.77	0.83	0.65	0.73
Belgium	1	1.11	0.82	0.96	1.08	1.13	1.02
Czech Republic	1	0.98	0.5	0.56	0.59	0.54	0.54
Denmark	1	1.15	0.78	0.75	0.93	0.89	0.97
Estonia	1	0.78	0.26	0.31	0.51	0.65	0.61
Finland	1	0.97	0.77	0.78	0.91	0.91	0.86
France	1	1.04	0.84	0.92	1	0.98	0.94
Greece*	…	1	0.67	0.46	0.18	0.07	0.08
Hungary	1	0.98	0.35	…	…	…	…
Italy	1	0.86	0.58	0.61	0.56	0.38	0.34
Netherlands	1	0.99	0.68	0.6	0.72	0.8	0.74
Norway	1	1.02	0.72	0.84	1.03	1.11	1.11
Portugal	1	0.95	0.7	0.71	0.44	0.27	0.27
Slovak Republic	1	1.15	0.65	0.7	0.8	0.8	0.78
Slovenia	1	1.19	0.62	0.58	0.55	0.44	0.45
Spain	1	0.7	0.35	0.44	0.35	0.28	0.27
Sweden	1	1.05	0.76	0.96	1.02	1.23	1.2
Switzerland	1	1.17	0.97	1.13	1.32	1.29	1.15
United Kingdom*	…	1	0.65	0.71	0.75	0.89	0.96

*Base year is 2008.

Source: Leaseeurope (2014).

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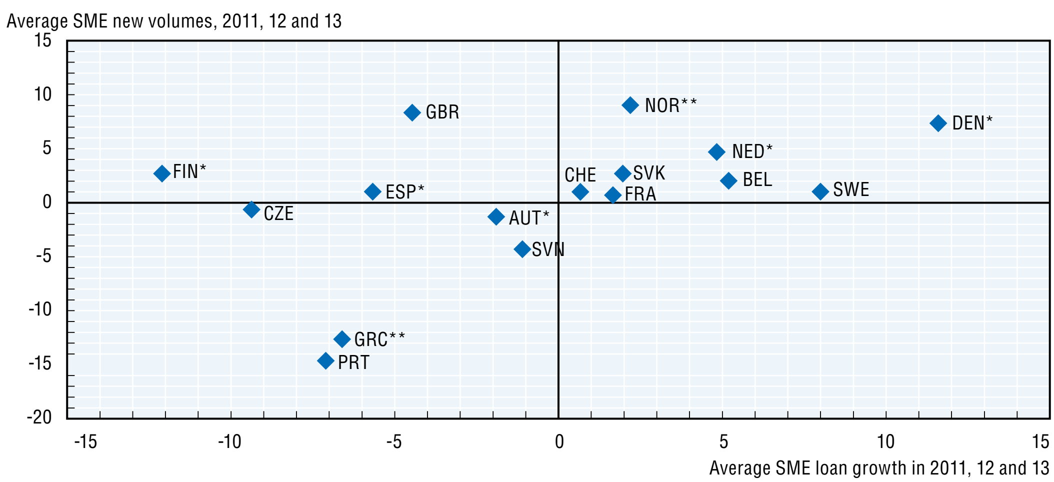
demand-side factors, especially the potential decline or postponement of new investments in equipment, real estate, automobiles and so on, and supply-side factors in order to explain these divergent trends.

Figure 2.15 provides further evidence supporting the positive correlation between leasing volumes and SME lending. Countries where SME lending expanded on average over the last three years, such as Belgium, Denmark, France, the Netherlands, Norway, the Slovak Republic and Switzerland, also experienced an uptick in the new production of leasing over the same period. In Austria, the Czech Republic, Greece and Portugal, both SME lending as well as new leasing volumes were down over the 2010-13 period. This suggests that leasing and potentially other sources of asset-based finance are pro-cyclical, like SME lending; when credit from banks dries up, the availability of leasing is also likely to decrease.

Figure 2.15. **Trends in the average SME loan growth and the new production of leasing, average year-on-year increase in 2011, 12 and 13**

In percentages



Notes: * Refers to countries with flow data on SME loans. ** Refers to countries where data on SME loans is limited to 2012 and 2013. Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4.

Source: Leaseeurope (2014) and data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

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With the exception of Hungary, Ireland, Japan, Norway, the Slovak Republic and the United States, factoring volumes have generally expanded since 2007; volumes have often doubled between 2007 and 2013, and increased more than tenfold in China and Korea, albeit from a relatively low base. This implies that factoring has generally become a more widely used and accepted alternative to liquidity-strapped SMEs over the last seven years. The data also suggest that the availability of factoring was not severely impeded by the outbreak of the financial crisis, in contrast with many other sources of finance. Table 2.11 summarises using data from Factors Chain International (FCI)[7].

Table 2.11. **Factoring volumes, 2007-13**

Relative to 2007

Country	2007	2008	2009	2010	2011	2012	2013
Austria	1	1.22	1.27	1.59	1.72	2.1	2.7
Belgium	1	1.17	1.25	1.68	1.99	2.21	2.48
Canada	1	0.7	0.76	0.87	1.24	1.66	1.33
Chile	1	1.08	0.99	1.12	1.47	1.64	1.74
China	1	1.67	2.04	4.69	8.3	10.42	11.47
Colombia	1	1.03	1.18	1.37	2.46	2.25	3.49
Czech Republic	1	1.05	0.79	0.92	1.07	1.09	1.11
Denmark	1	0.65	0.84	0.94	1.08	1.04	1.05
Estonia	1	1.1	0.77	0.94	0.9	1.44	1.46
Finland	1	1	0.85	0.98	1.03	1.34	1.4
France	1	1.11	1.05	1.26	1.43	1.53	1.65
Hungary	1	1.03	0.81	1.08	0.91	0.86	0.86
Ireland	1	1.05	0.84	0.88	0.8	0.87	0.93
Israel	1	1.75	1.75	2.06	2.06	1.78	1.33
Italy	1	1.04	1.01	1.17	1.43	1.48	1.45
Japan	1	1.37	1.08	1.27	1.43	1.25	0.99
Korea	1	0.94	3.08	5.32	8.47	8.38	12.92
Mexico	1	1.04	0.23	1.58	2.29	2.84	3.05
Netherlands	1	0.94	0.94	1.1	1.45	1.57	1.63
Norway	1	0.88	0.89	0.89	0.96	1.07	0.96
Portugal	1	1.07	1.05	1.23	1.65	1.36	1.32
Russian Federation	1	1.23	0.65	0.93	1.62	2.69	3.2
Serbia	1	1.64	1.81	2.21	4.1	4.2	3
Slovak Republic	1	1.16	0.82	0.71	0.85	0.74	0.77
Slovenia	1	1.43	1.43	1.43	1.21	1.43	1.38
Spain	1	1.19	1.25	1.35	1.46	1.48	1.39
Sweden	1	0.74	0.86	0.86	1.35	1.53	1.41
Switzerland	1	1.03	1.99	1.59	1.37	1.19	1.23
Thailand	1	1.06	0.94	0.94	1.38	1.94	1.49
Turkey	1	0.92	1.03	1.99	1.57	1.62	1.63
United Kingdom	1	0.66	0.68	0.79	0.94	1.02	1.08
United States	1	1.03	0.91	0.98	1.08	0.8	0.86

Source: Factors Chain International (2014).

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Payment delays, bankruptcies and non-performing loans

Statistics on payment delays, bankruptcies and non-performing loans 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 happened in many OECD countries after the financial crisis in 2008. This uneven recovery, and even reversal, in many places, is underlined by the decline SME loan shares, the increase in interest rates and collateral requirements.

Payment delays

Information on payment delays covers 26 countries, some only partially, usually for the B2B sector of all sizes. In 2013, payment delays generally decreased in most countries. This follows an increase which began in 2009, to reach a peak in 2011or 2012, albeit with some regional differences. Increases in payment delays are usually due to insufficient availability of funds, cash flow constraints in companies, liquidity constraints among clients, counterparties entering bankruptcy or going out of business, which are all affected by the economic environment with a considerable time lag. Of the 15 countries where data for both 2012 and 2013 is available, only two experienced an increase in payment delays in 2013, while 11 reported a decrease year on year, and the trend was flat in Denmark. In countries like Canada, Finland, Korea, New Zealand and the Slovak Republic, payment delays in 2013 were lower than at the pre-crisis level of 2007 (Table 2.12).

Table 2.12. **Trends in payment delays 2007-13**

	Definition	2007	2008	2009	2010	2011	2012	2013	2012-13 Growth rate (in %)
Austria	B2B average days overtime	8	8	11	12	11	12	13	8.3
Belgium	B2B average days overtime	..	..	17	17	15	19	18	-5.3
Canada	90-Day Delinquency Rate Small business	0.7	1	1.5	0.8	0.7	0.6	0.3	-45
Chile	B2B	…	…	…	…	45	43	41	-4.7
Colombia		48.8	50.2	60.8	62.3	66.4	25.6	18.7	-26.9
Denmark	B2B average days overtime	7.2	6.1	12	12	13	12	10	-16.7
Estonia	B2B average days overtime	9	8	13	13	10	10	9	-10
Finland	B2B average days overtime	6	5	7	7	7	7	6	-14.3
France	B2B, SMEs (accounts receivable - advances paid)/ sales	49.8	47.7	45.6	45.6	44.1	43.5	..	…
Greece	B2B average days overtime	4.6	4.3	6.7	8.7	14.1	23.4	…	…
Hungary	B2B average days overtime	16.3	19	19	15	22	20	…	…
Ireland	B2B average days overtime	n.a.	n.a.	22	25	30	31	…	…
Italy	B2B average days overtime	n.a.	23.6	24.6	20	18.6	20.2	19.9	-1.5
Korea	SMEs average days overtime	11	12.1	9.9	12.1	11.7	9.1	9.7	6.6
Netherlands	B2B average days		13.9	16	17	18	18	17	-5.6
New Zealand	B2B average days	43.1	50.8	44.5	44	45.6	40.1	39.6	-1.2
Norway	B2B average days overtime	7.4	7.3	11	8	9	9	…	…
Portugal	B2B average days overtime	39.9	33	35	37	41	40	35	-12.5
Serbia	% all businesses overtime			34	31	31	36	…	
Slovak republic	B2B average days overtime	19.7	8	13	17	20	21	19	-9.5
Slovenia		…	…	n.a.	n.a.	32	30	…	…
Spain	B2B average days overtime	6	4	15	12	6	11	..	…
Sweden	B2B average days overtime	6.9	7	8	8	8	7	7	0
Switzerland	B2B average days overtime	..	12	13	13	11	10	9	-12.5
United Kingdom	B2B average days overtime	..	..	22.8	22.6	25.7	24.7	24.6	-0.2
United States	% B2B	..	..	..	..	..	..	25.9	…

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

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Bankruptcies

The data on bankruptcies show a very diverse picture. 13 countries reported a decrease in the number bankruptcies in 2013, while 11 reported an increase. In a minority of countries, notably Austria, Canada, Chile, Greece, Japan, Korea and New Zealand, bankruptcies were below pre-crisis levels in 2013. Most of these countries, with the exception of Greece, were relatively sheltered from the financial crisis and the ensuing sovereign debt crisis. In contrast, in Denmark, Estonia, Hungary, Italy, Portugal, Serbia, the Slovak Republic and Spain, bankruptcies more than doubled over the 2007-13 period. Spain experienced an eightfold increase of the number of bankruptcies over the last seven years. In Belgium, the Czech Republic, Hungary, Ireland, Italy, the Netherlands, Portugal Serbia, the Slovak Republic, Spain, Sweden, Switzerland and Turkey, in 2013 the number of bankruptcies all exceeded their 2009 levels (see Table 2.13).

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. Comparisons across countries should therefore be treated with caution. 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 2.13. **Trends in bankruptcies 2007-13**

Relative to 2007 (2007=1)

		Relative to 2007 (2007=1)							2012/2013 Growth rate (in %)
		2007	2008	2009	2010	2011	2012	2013	
Austria	all firms	1	1	1.1	1.01	0.93	0.96	0.87	-9.6
Belgium	all firms	1	1.1	1.23	1.25	1.33	1.38	1.53	10.9
Canada	per 1 000 firms	1	1	0.94	0.71	0.65	0.58	0.52	-11.1
Chile	all firms	1	1.05	1.21	0.94	0.93	0.91	…	…
Colombia[1]	all firms	…	1	1.57	1.67	1.87	1.22	…	…
Czech Republic	all firms	1	1.04	1.53	1.55	1.51	1.6	1.64	2.5
Denmark	all firms	1	1.54	2.38	2.69	2.28	2.27	2.08	-8.5
Estonia	SMEs	1	2.09	5.22	5.09	3.08	2.45	2.27	-7.3
Finland	% of firms[3]	1	1.11	1.33	1.11	1.22	1.22	1.33	9.1
France	all firms	1	1.08	1.22	1.18	1.16	1.19	1.22	2.5
Greece	all firms	1	0.7	0.69	0.69	0.87	0.81	0.76	-5.5
Hungary	per 10 000 firms	1	1.1	1.39	1.52	1.83	1.97	2.46	24.9
Ireland	all firms	1	1.23	1.87	1.88	2.11	2.03	1.78	-12.4
Italy	all firms	1	1.22	1.52	1.83	1.97	2.04	2.3	12.8
Japan	all firms	1	1.11	1.1	0.95	0.91	0.86	0.77	-10.2
Korea	all firms	1	1.19	0.87	0.68	0.59	0.54	…	…
Netherlands[2]	all firms	..	..	1	0.89	0.88	1.05	1.18	12
New Zealand	all firms	1	0.69	0.7	0.85	0.76	0.68	0.61	-9.7
Norway	only SMEs	1	1.5	2.16	1.89	1.81	1.6	1.86	16.3
Portugal	all firms	1	1.35	1.46	1.57	1.82	2.56	2.31	-9.8
Russian Federation[1]	all firms	..	1	1.11	1.15	0.92	1.01	0.94	-6.6
Serbia	per 1 000 firms	1	0.68	1.06	1.22	1.42	2.41	…	…
Slovak Republic	all firms	1	1.49	1.63	2.04	2.22	2.13	2.33	9.4
Spain	only SMEs	1	2.83	4.92	4.7	5.37	7.5	8.05	7.4
Sweden	only SMEs	1	1.09	1.32	1.26	1.2	1.29	1.33	3.1
Switzerland	all firms	1	0.98	1.21	1.45	1.54	1.59	1.51	-5.1
Turkey	all firms	1	0.9	0.96	1.31	1.38	2.71	…	…
United Kingdom	all firms	1	1.23	1.51	1.32	1.4	1.34	1.21	-9.9
United States	all firms	1	1.54	2.15	1.99	1.69	1.41	1.17	-17.1

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

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

StatLink http://dx.doi.org/10.1787/888933194531

Non-performing loans

The evolution of SME NPLs between 2007 and 2013 shows provides a diverse picture across Scoreboard countries. With the exception of Thailand, NPLs increased dramatically between 2007 and 2009 in all 16 countries for which data are available. In Canada, Colombia, Estonia, Sweden, Thailand, Turkey and the United States, NPLs decreased sharply after 2009, often bottoming out at a level lower than was observed in the pre-crisis period. NPLs kept rising however in other countries; most notably those that experienced a double-dip recession, such as Italy, Greece, Portugal, Serbia and Spain (see Table 2.14). For these countries, 2013 did not mark a turning point, as NPLs kept increasing from already historically high levels.

Chapter 3 provides an in-depth look at the issue of non-performing loans for SMEs; it includes a discussion of the challenges of using this indicator for cross-country comparisons due to differing definitions. It also provides an analysis of the broader implications of NPLs for access to finance and economic growth.

Table 2.14. **Non-performing loans as a percentage of all SME loans, 2007-13**

Relative to 2007 (2007 = 1)

Country		2007	2008	2009	2010	2011	2012	2013
Canada	90-Day Delinquency Rate Small business	1	1.33	1.86	1.04	0.76	0.67	0.42
Chile**	SME loans impaired more than 30 days late	…	…	1	0.93	0.86	0.84	0.95
Colombia	SME loans impaired or more than 90 days late	1	1.4	1.92	1.4	1.08	1.08	1.22
Czech Republic	Business loans impaired or more than 90 days late	1	1.36	2.58	2.93	2.67	2.4	2.33
Estonia	SME loans impaired or more than 60 days late	1	3.78	7.76	8.61	6.65	5.45	3.44
Finland	Business loans more than 30 days late	1	1.34	2.31	2.2	2.18	2.08	2.19
Greece	SME loans impaired or more than 90 days late	1	0.93	1.46	1.89	3.07	5.09	6.91
Hungary*	SME loans more than 90 days late	…	1	1.65	2.37	2.94	4.13	3.44
Italy	SME loans being declared insolvent	1	1.06	1.25	1.38	1.54	1.75	2.1
Korea	SME loans more than 90 days late	1	1.97	1.66	2.44	1.87	1.76	1.76
Mexico**	SME loans impaired or more than 90 days late	…	…	1	0.8	0.77	0.64	…
New Zealand**	SME loans impaired or more than 90 days late	…	…	1	1.07	1.02	1	0.88
Portugal	SME loans impaired or more than 30 days late	1	1.34	2.31	2.55	3.84	5.86	7.41
Russian Federation*	SME loans more than 90 days late	…	1	1.77	2.06	1.92	1.96	1.66
Serbia	SME loans impaired or more than 90 days late	1	1.57	2.81	3.13	3.37	3.93	4.23
Slovak Republic**	SME loans impaired or more than 90 days late	…	…	1	1.23	1.22	1.15	1.21
Spain	SME loans impaired or more than 90 days late	1	4.96	8.45	10.93	15.73	21.7	…
Sweden	Business loans more than 60 days late	1	1.51	3.54	3.63	3.21	3.08	2.81
Thailand	SME loans more than 90 days late	1	0.86	0.96	0.57	0.46	0.42	…
Turkey	SME loans impaired or more than 90 days late	1	1.34	2.2	1.25	0.85	0.87	0.86
United States	Loan delinquencies, 30 days past due, all sizes	1	1.54	3.2	2.84	1.64	1.09	…

Notes: * Base year is 2008. ** Base year is 2009.

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

StatLink http://dx.doi.org/10.1787/888933194545

Government policy responses in 2013-14

Governments responded to the global financial crisis and its effects on SME financing with a variety of instruments. The use of government loan guarantees to secure bank lending to SMEs continued to be the most widespread measure among countries participating in the Scoreboard. As Table 2.15 illustrates, these instruments gained importance in many countries as SME lending came under duress. In 2013, government loan guarantees continued to be a prominent policy to support lending to SMEs. This comes after a major increase in the use of government loan guarantees in 2009 for countries such as Belgium, Chile, the Czech Republic, Estonia, France, Israel, Italy, the Netherlands, Spain and Turkey.

Although a majority of these countries decreased the scope of their loan guarantee schemes in the ensuing years, particularly in 2011, government loan guarantees most often remained much more important in scope in 2013 than in 2007. In 12 out of the 18 countries for which data are available, governments spent more resources on government loan guarantees in 2013 than they did in 2007, the amounts invested often increasing by a multiple over this period. 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. In 2013, new counter-guarantee programmes were introduced in Austria and Spain. Chile adopted a new mutual credit guarantee programme, and has decided to increase the budget for the existing programme. The Russian Federation established a new agency to provide guarantees to SMEs, which began operations in June 2014. Denmark granted more than DKK 1 billion in the first nine months of 2014, compared with DKK 920 million and DKK 496 million in 2013 and 2012 respectively.

Table 2.15. **Government loan guarantees for SMEs, 2007-13**

Country	Unit	2007	2008	2009	2010	2011	2012	2013	Change 2012-13	Change 2007-13
Austria	EUR million	341	164	214	173	143	158	167	6	-51
Belgium	EUR million	78	157	412	554	318	266	480	81	517
Canada	CAD billion	1.2	1.3	1.2	1.3	1.3	1.1	1.1	0	-8
Chile	CLP billion	203	190	529	896	994	1 829	1 622	-11	700
Colombia	COP billion	2 201	4 846	6 842	6 671	9 275	8 495	9 246	9	320
Czech Republic	CZK million	1 925	3 529	6 369	6 593	472	1 534	3 251	112	69
Denmark	EUR million	23	17	21	92	147	153	106	-31	354
Estonia	EUR million	17	19	36	41	31	43	31	-27	87
Finland	EUR million	416	438	474	447	497	408	379	-7	-9
France	EUR million	5 850	6 861	11 267	11 883	9 826	8 465	8 925	5	53
Greece	EUR million	1 657	1 788	1 564	1 254	1 805	688	610	-11	-63
Hungary	HUF million	308 800	352 100	409 200	377 100	343 400	251 850	350 009	39	13
Israel	NIS million	170	109	757	1 028	890	1 412	2 025	43	1 091
Italy	EUR billion	2	2	5	9	8	8	11	32	370
Japan	JPY billion	29 368	33 919	35 850	35 068	34 446	32 078	29 778	-7	1
Netherlands	EUR million	…	400	370	945	1 040	590	415	-30	4
Russia	RUB million	..	..	..	32 460	58 954	87 400	116 900	34	…
Slovak Republic	EUR million	82	99	81	70	84	87	38	-56	-53
Spain	EUR million	5 550	7 700	11 000	10 100	12 000	11 000	13 000	18	134
Turkey	TRY million	53	285	565	939	1 123	1 114	1 061	-5	1 906
United Kingdom	GBP million	..	..	94	79	49	43	51	17	-46
United States	USD billion	21	16	15	22	19	23	23	-1	9

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

StatLink http://dx.doi.org/10.1787/888933194552

In 2013 and the first half of 2014, many initiatives were introduced to stimulate innovative start-ups and high-potential SMEs. Most commonly, these initiatives sought to promote equity investments, mainly risk capital provided by venture capital funds and business angels. Austria introduced the *'Jungunternehmer-Offensive'* in January 2013, which should ease access to alternative financial instruments for SMEs. The Canadian Prime Minister announced the Venture Capital Action Plan in January 2013, a comprehensive strategy for deploying CAD 400 million in new capital over the next 7 to 10 years to reinvigorate the venture capital sector in Canada. Moreover, Canada will pilot its ‘immigration investor venture capital programme’ in 2015, whereby immigrants entering the country under this programme have to invest a significant amount of capital in seed and early stage companies over a long period of time. The Chilean Government created new funds of seed capital for early-stage start-ups and strengthened the Start-up Chile Program that offers equity-free financing to start-ups. A dedicated SME trading platform was created in France in May 2013: Enternext. This subsidiary of NYSE Euronext is dedicated to market capitalisations below EUR 1 billion and covers the existing markets (compartments B, C of NYSE Euronext and Alternext). In October 2014, France modified its regulatory framework to enable equity crowd funding. The Baltic innovation fund was set up in 2013, so as to create more equity investments in Estonia and the other Baltic countries. Finland introduced a growth financing programme in 2014, whereby the government will invest in growth start-ups and where every euro of private money will be matched by at least one euro of private investment. Greece set up the New Economic Development Fund (Taneo) in 2013, which will take minority participations in venture capital funds. The Italian Ministry of Economic Development opened the first call for the new Fund for Sustainable Growth. The endowment of the fund amounts to EUR 300 million, 60% of which is reserved for SMEs. The Swedish Government is also strengthening the budget for its current venture capital programmes.

Some governments have also recently introduced tax incentives to boost innovation and the creation and development of fast-growing SMEs. In Turkey, business angel investors are able to deduct up to 75% of capital invested in SMEs from the annual tax base since 2013. This deduction ratio can increase to 100% for those angel investors supported by the Ministry of Science, Industry and Technology, the Scientific and Technological Research Council of Turkey and the Small and Medium Enterprises Development Organization in the last five years. Since June 2013, Finnish SMEs are eligible to receive tax breaks for hiring R&D personnel. The tax breaks are restricted to the salaries of firms’ R&D personnel and are capped at a maximum tax deduction of EUR 400,000. In December 2013, Sweden introduced a tax break for private business angel investors. The government has set aside SEK 800 million annually, in order to allow for tax relief corresponding to up to 15% of investments. Sweden will also launch an Innovation Council in 2015, chaired by the Prime Minister, to explore ways to foster entrepreneurial innovation.

Other governments are encouraging the start-up and expansion of high-potential and innovative SMEs through explicitly targeted guarantee schemes, direct government lending programmes and advice and consulting services. For example, Austria changed the guidelines for its SME guarantee programme in July 2014 so as to focus more on innovative start-ups. In 2013, substantial new credit lines for Chile’s risk capital funds, for which only SMEs with high growth potential are eligible, were approved. The Czech Republic piloted its INOSTART programme, designed to ease the access to finance for innovative start-ups by providing guarantees and strategic advice. Hungary recently increased funding for innovative companies and tripled the amount of subsidised financial instruments, with a strong focus on the target group eligible for non-refundable grants, i.e. SMEs from the processing industry with the capacity for high growth. Starting from May 2013, New Zealand will distribute over NZD 31.3 million of repayable grants to high-growth early-stage enterprises commercialising intellectual property over a four-year period. Innovation Norway provides direct loans, guarantees and grants to innovative projects in Norway, both in established firms and in start-ups. Spain introduced several programmes in 2013 to finance innovation business project for an estimated total of EUR 1 billion. Turkey introduced its Venture Capital Fund with the explicit aim to foster SMEs with a potential to develop and produce innovative products, processes, information, or technology that can provide added value to the country's economy.

Table 2.16 summarises the broad types of measures undertaken in the Scoreboard countries between 2007 and 2013. 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. This table confirms that loan guarantees are the most widely used instrument employed by a large majority of Scoreboard countries, followed by venture capital, equity funding, business angel support and direct lending to SMEs.

Table 2.16. **Government policy responses to improve SME access to finance, 2007-13**

Policy response	Countries
Government loan guarantees	Austria, Belgium, Canada, Chile, Colombia, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Japan, Korea, Mexico, the Netherlands, Norway, Portugal, Russian Federation, Serbia, Slovak Republic, Slovenia, Spain, Switzerland, Thailand, Turkey, United Kingdom, United States
Special guarantees and loans for start ups	Austria, Canada, Czech Republic, Denmark, Estonia, Mexico, the Netherlands, New Zealand, Serbia, United Kingdom
Government export guarantees, trade credit	Austria, Belgium, Canada, Colombia, Czech Republic, Denmark, Estonia, Finland, Hungary, Greece, Korea, the Netherlands, New Zealand, Spain, Sweden
Direct lending to SMEs	Austria, Belgium, Canada, Chile, Czech Republic, Estonia, Finland, France, Greece, Hungary, Ireland, Israel, Japan, Korea, Norway, Portugal, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Turkey, United Kingdom
Subsidised interest rates	Hungary, Portugal, Russian Federation, Spain, Turkey, United Kingdom
Venture capital, equity funding, business angel support	Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Israel, Mexico, the Netherlands, New Zealand, Norway, Portugal, Slovak Republic Spain, Sweden, Turkey, United Kingdom
SME banks	Czech Republic, France, Portugal, Russian Federation, United Kingdom
Business advice, consultancy	Colombia, Czech Republic, 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 individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

As Table 2.16 illustrates, in most Scoreboard countries, there already are many programmes in place to facilitate access to finance for SMEs and entrepreneurs at all levels of government. Surveys and experience show that these are not always well known by their target audience, and hence often underused. Some governments are therefore working actively to promote awareness of already existing government initiatives. The Canadian and Dutch Governments, among others, are exploring ways to rationalise and popularise current schemes rather than develop new instruments. The Irish Government is taking the same approach and has developed an online tool for exactly this purpose. By answering eight questions, business owners and entrepreneurs are directed to the State supports for which their company may qualify.

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 finance. Indeed, many governments all over the world are also increasingly aware of the importance and relevance of policy evaluation, to adapt and improve existing SME finance policies. Canada, for example, is reviewing its loan guarantee scheme, the Small Business Financing Program. Israel, is similarly evaluating its broad SME policies with particular focus on its fast growing loan guarantee scheme. Chinese policy-makers are taking measures to cut charges and fees for SME bank loans, and exempt some relevant administrative fees in 2013; it will evaluate the effect of these efforts and adapt policies on this basis. This OECD Scoreboard is taking steps to harmonise the collection of information on government policies to promote SME access to finance by SMEs and entrepreneurs (see Annex C).

Summing up and looking ahead

Most OECD countries experienced negative GDP growth in 2008 and 2009. Since then, the recovery has been uneven across countries and mostly weak. In many European countries, the recession was quickly followed by another one as the sovereign debt crisis erupted. Even in 2013, six years after the start of the financial crisis, growth remained sluggish in many OECD countries and was too weak to bring unemployment levels close to the pre-crisis levels. Growth also decelerated in many emerging economies such as China, Mexico, the Russian Federation, and Thailand.

The Great Recession exerted a severe negative impact on the access to finance of SMEs. The slump in both domestic and foreign demand translated into a heightened risk aversion from banks, especially with regard to less creditworthy borrowers. Credit to business dried up as a consequence; this was particularly the case for SMEs.[8] This reduced supply of credit was exacerbated by a reduced availability of internal funding as a result of the challenging environment and declining profits. In 2013, the credit supply to SMEs had often not fully recovered from the financial crisis, stabilising at levels lower than observed in 2007 in some countries, and continuing to decline in others. It should be stressed that the figures in this chapter are nominal and thus underestimate the decline in SME lending in real terms.

Many central banks loosened monetary policy considerably, lowering their lending rates to levels close to zero and engaging in unprecedented monetary easing through the large-scale purchases of mortgage-based securities and long-term treasury bonds. These measures brought interest rates down for firms of all sizes, but mostly for larger enterprises. SMEs in countries under duress, in particular, still had to pay relatively high interest rates compared to their larger peers. Credit conditions were generally improving, but remained tight on average compared with the pre-crisis years, and they were generally much more favourable for large enterprises.

Another issue weighing on SME finance is the continued deleveraging of the banking system in many Scoreboard countries and the effect of financial regulation such as Basel III and similar regulation on the financial health of the financial sector and its willingness to expand credit to SMEs. In addition, the financial system in many countries is weakened by deterioration in asset quality as witnessed by the increase of the level of non-performing loans. Although the definition of non-performing loans (NPLs) differs across countries, the Scoreboard often shows an increasing trend in NPLs, after a protracted period of weak or even negative economic growth. This is a clear indication of the worsening of the asset portfolio in many banks, which will most likely weigh on credit expansion in the next years to come. 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 availability of bank lending will most likely remain subdued in the foreseeable future. Furthermore, the situation of venture and growth capital investments, which have fallen substantially since the financial crisis and proved to be even more pro-cyclical than traditional bank lending, is also of concern. Although most equity markets recovered somewhat in 2013, the level of investments generally remained well below pre-crisis levels. Venture capital funds nowadays are investing less, at a later stage and on tougher terms (Ernst&Young, 2013). Policy initiatives to foster equity investments have been developed or are being considered by many countries, as more governments identify venture and growth capital as a key area to improve the growth potential of their economies.

In addition, greater attention is being focused on the development of non-bank financing instruments such as asset-based finance, alternative debt, crowdfunding and hybrid instruments. Box 2.3 provides information on the phenomenon of crowdfunding along with some early trends of this new instrument. In addition, the securitisation market has seen resurgence in the last few years. Box 2.4 provides information on the SME securitisation market, which remains relatively undeveloped and is facing some specific barriers to its further expansion. The OECD Scoreboard will continue to monitor developments in these emerging instruments and their potential to fill the SME financing gap.

The economic prospects for 2014 and 2015 appear somewhat more promising than in recent years, as modest positive economic growth is expected and uncertainty subsides, although the prospects differ from one region to the other. Despite the recent downward revision of GDP forecasts in Europe, lending to SMEs is expected to pick up, albeit with many caveats. The ECB's quarterly lending survey indicated that banks relaxed credit standards for all types of loans in the three months to June 2014 in the Euro zone. Although the banking and financial markets remain fragmented, as financing conditions still evidence a high degree of heterogeneity, this fragmentation is expected to subside over

Box 2.3. **Crowdfunding and SMEs**

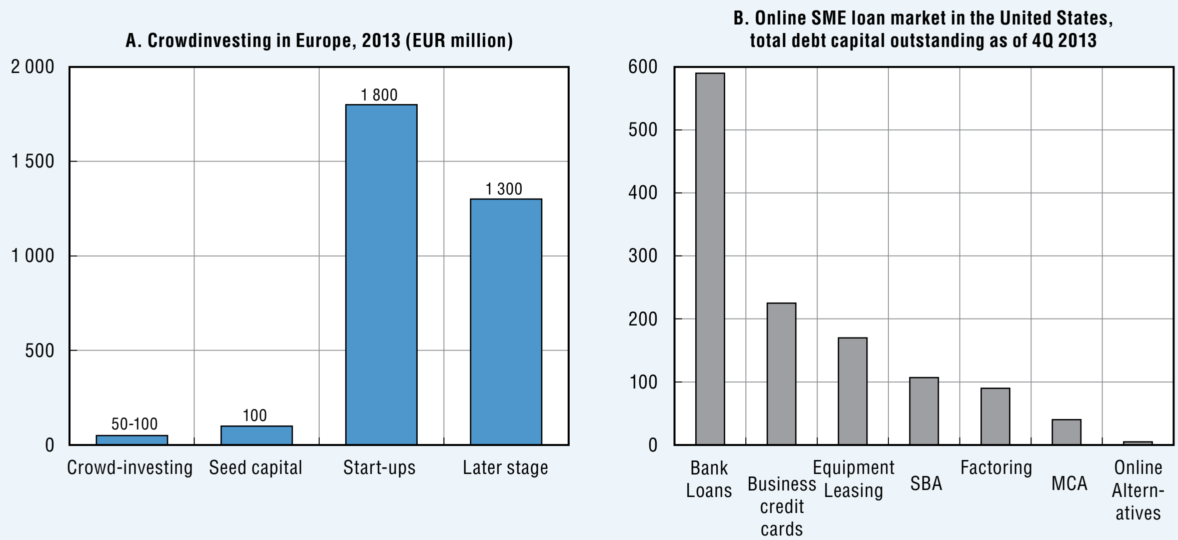
Crowdfunding is a finance technique that uses the internet to match investors and borrowers for projects of common interest. A social motivation is always present in this matching. In non-financial crowdfunding, investors are attracted by some characteristics of the project (e.g. their local engagement, possible job creation) and donate money without pro-quo, sometimes in exchange for a pre-order of a product, or a ticket to a show. In financial crowdfunding, there is also an expected monetary return.

Financial crowdfunding can be classified in peer-to-peer lending and crowdinvesting. The main benefit of crowdfunding is that it closes part of the finance gap that firms observe. It also brings non-financial benefits, such as validation of R&D outputs, an estimation of the potential demand for a product, and brings in knowledge, network and expertise from founders. Crowdfunding also presents some risks, notably, risk of failure, fraud, and lack of an exit option.

Crowdfunding as a funding source for projects has been increasing rapidly since 2009 (first year with records of activity), although total amounts still remain small when compared to bank finance or seed and early stage equity funding. The figures below show the amounts invested in Europe in 2013 through crowdinvesting (chart on the left) and the online SME loan market in the United States (chart on the right), which comprises peer-to-peer lending, but also some other online instruments for which lenders seek purely a financial return, and that are suited for working capital needs as well.

Box 2.3. **Crowdfunding and SMEs** *(cont.)*

Figure 2.16. **Crowd investments in the United States and Europe**



Source: A. EVCA (2014), B. Mills and McCarthy (2014).

StatLink http://dx.doi.org/10.1787/888933193544

There are a number of specificities to crowdfunding, which may impact its ability to finance SMEs. First, crowdfunding finances projects, not firms. It therefore alleviates only part of SME finance needs, but it is not suitable as the main funding source for firms and entrepreneurs, because it cannot cover working capital or growth needs unrelated to new projects.

Second, crowdfunding depends on well-functioning bank instruments. Bank accounts, credit cards, an online payment system and credit records are all necessary for crowdfunding to work. Amounts traded through crowdfunding are relatively small and, so far do not present a systemic risk. Moreover, there is no leveraging of finance, as the amounts lent go directly to project financing.

It will be necessary to monitor the evolution of this instrument, in order to assess the appropriate regulatory environment for crowdfunding. To do so, more information on this phenomenon is needed. At present, there is no publicly available data on the previous use of crowdfunding of the borrowers, to further assess their characteristics, the evolution of the amounts needed, and the projects financed. This information would be useful in identifying potential measure to support the use of crowdfunding as a finance instrument.

Source: OECD (2014b).

time. The relationship between sovereign debt and bank debt remains a concern, especially considering the fragile financial state and undercapitalisation of some European banks.

GDP growth in the United States is forecast at 2.2% in 2014 and 3.1% in 2015 and credit to small businesses will likely expand modestly over that period. Professional risk managers predict an increase in both the number of credits requested and, to a lesser extent, credits extended to small businesses, according to a recent survey.[9] It remains to be seen how the anticipated tightening of the US monetary policy will affect economic growth and SME access to finance.

The nascent and uneven global economic recovery could be derailed, however. Both the IMF and the OECD consider that geopolitical risks have recently increased, as evidenced by developments in Ukraine and the Middle East, which cast doubt on the economic recovery.

Box 2.4. **Non-bank debt financing for SMEs: The role of securitisation**

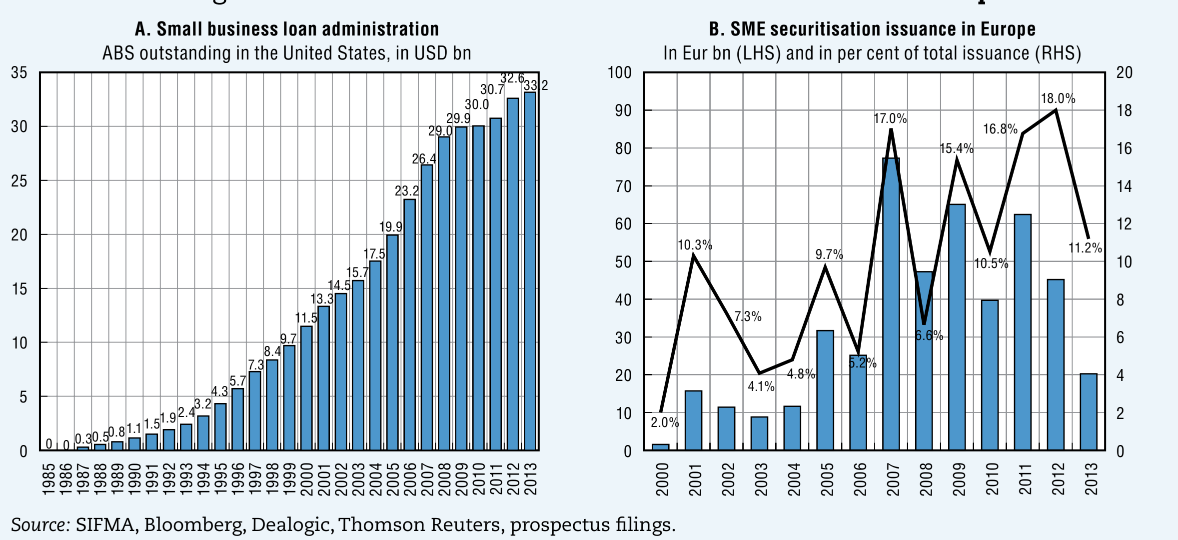
Securitisation is a structured finance instrument involving the pooling of assets, the risk-tranching of liabilities backed by the newly-created asset pool and the subsequent sale in the capital markets of tranched claims on the cash flows backed by this pool. SME-related securitisations are performed through the pooling of a large number of SME assets (e.g. claims, cash flows, loans, and leases) by a financial intermediary.

Taking the example of an SME loan securitisation (SME CLO, collateralised debt obligation), the ultimate goal of the transaction is the transformation of a portfolio of SME loans originated by a bank or another financial intermediary into a publicly issued debt security. The resulting security is not only tradable, transferrable and liquid but also ring-fenced and isolated from their originator.

Securitisation played a prominent role in the build-up to the 2008 financial crisis and was tarnished when highly complex and opaque securitisation structures, especially those related to the US subprime mortgage market, defaulted beyond expectations. While many other securitisations, especially in Europe, performed well, these events stigmatised the entire securitisation industry. Problems that the crisis brought to the fore, like potentially inadequate regulation for some types of securitisation, complex structuring, misalignments of interest between originators and investors leading to under-pricing of risk, as well as lenient practices by credit rating agencies have since been addressed by policy makers and the industry. Regulators are promoting “high quality securitisations”, the industry engaged in a Prime Collateralised Securities (PCS) labelling initiative, and credit rating regulations and methodologies for structured products were thoroughly overhauled.

Resurgence of securitisation in the aftermath of the financial crisis has been swift in the United States, although SME securitisation has remained relatively underdeveloped compared to other securitisation classes. SBA loans, partially guaranteed by the US Small Business Administration, have a leading role in US SME securitisation. In Europe, likewise, the share of SME securitisation in total securitisation issuance is small. It is driven to a large extent by the eligibility of the instrument as collateral for refinancing monetary operations with the ECB.

Figure 2.17. **SME Securitisation in the United States and Europe**



Source: SIFMA, Bloomberg, Dealogic, Thomson Reuters, prospectus filings.

StatLink http://dx.doi.org/10.1787/888933193556

The revival of a healthy, safe and high-quality securitisation market can be a way to generate alternative capital market funding for SMEs, while providing banks with capital relief that allows for the unlocking of resources and further on-lending to the real economy. Institutional and long-term investors who have the scale and resources available would be able to participate in SME financing through this market. Efforts

Box 2.4. **Non-bank debt financing for SMEs: The role of securitisation** *(cont.)*

for such revival should be underpinned by regulatory and policy support that should be well-balanced and avoid unintended consequences (e.g. crowding out, distortion of risk-pricing). Specific crisis measures like central banks' asset purchase programmes can help kick-starting the market, and sensible calibration of critical regulatory workstreams affecting securitisation (including harmonising regulatory treatment of similar instruments like covered bonds) can support long-term viability of securitisation especially in the SME segment. There is also a role for public financial intuitions (or the US government sponsored enterprises) to provide credit enhancements and liquidity to that market segment.

For SME securitisation in particular, there are specific structural impediments that need to be overcome, like a paucity of credit data and asymmetric information. Improving data availability and transparency, e.g. via DataWarehouse platforms, as well as standardisation can help to address some of these problems. In addition, raising awareness among SME entrepreneurs about available financing options should help enhance competition between (and innovation by) finance providers, and should also be among the issues to be addressed by public policymakers.

Source: Nassr and Wehinger (2014).

Structural reforms are also required in many countries in order to ensure the durability of the economic recovery (IMF, 2014, OECD, 2014d). Finally, downward pressures on already very low levels of inflation create deflationary risks in many Scoreboard countries.

All in all, credit to SMEs will remain challenging in the years to come. Despite some encouraging signals, credit conditions will remain strict in 2014 and 2015. Credit to SMEs is expected to recover only modestly due to both demand and supply factors in many Scoreboard countries. Since the financial crisis erupted, governments around the world have initiated policies to ease access to finance for SMEs. The Scoreboard shows that these policies are largely still in place in 2013, and are often expanding in scope and scale. In addition, new policies are being developed with a particular focus on innovative firms and equity instruments. The Scoreboard indicators will continue to gauge how financing conditions and access to SMEs and entrepreneurs evolve over time, and what effect policies will have on SME lending and the development of non-bank financing instruments.

Notes

1. Financial conditions indices are an extension of monetary policy indices, often used to evaluate the effect of monetary policy on economic activity. It does not only include changes in the exchange rate and short and long term interest rates, which are typical monetary policy indices, but also changes in credit availability for households and firms, corporate bond yields (or the spread with respect to government bonds) and household wealth, usually measured by equity and house prices. An increase in the financial conditions index implies that financial conditions have become more inductive for economic growth (see Guichard et al., 2009 for more information).
2. A credit default swap (CDS) is a financial instrument to hedge the exposure to credit risk, which could be considered an insurance against for a loan default (or another credit event specified in the contract). The CDS spread is the premium the buyer of the CDS has to pay to the seller, which will have to cover the losses in case of a default and is similar to an insurance fee. CDS spreads are proportional to the risk associated with the underlying asset; in this example, declining CDS spreads signal that financial markets deem a default of peripheral economies in the Eurozone as less likely.
3. See *http://www.ecb.europa.eu/pub/pdf/other/financialintegrationineurope201404en.pdf?761c6bda155e07247154d37621973262* for more information on how financial integration in the Euro area is measured.

4. As the percentage in Finland is proxied by the percentage of respondents reporting more stringent collateral requirements, and the Portuguese data only takes real estate into account, the data from these countries are not comparable at all with information gathered on the collateral requirement in other countries.

5. 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.

6. The European Federation of Leasing Company Associations (Leaseurope) is an umbrella company for both the leasing and automotive rental industries in Europe and is composed of 44 member associations in 34 countries. It publishes European-wide statistics on the leasing industry and covers approximately 92% of the European leasing market.

7. Factors Chain International is an umbrella organisation for factoring organisations and currently has over 275 members in 74 countries.

8. This is not uncommon. The economic literature points out that bank lending to SMEs is especially vulnerable in times of crisis (ECB, 2013).

9. Consumer credit risk – North America trends and expectations, second quarter 2014, A survey by the professional risk managers' international association, July 2014. *http://www.fico.com/en/wp-content/secure_upload/FICO-2nd-Quarter-July-2014-Survey.pdf*

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Financing SMEs and Entrepreneurs 2015
An OECD Scoreboard

Chapter 3

Non-performing loans: Insights from the scoreboard on SME finance

This chapter examines the issue of non-performing loans (NPLs) and their impact on SME lending and financial stability. It draws on findings from four editions of Financing SMEs and Entrepreneurs: An OECD Scoreboard, the economic literature and country experiences. The chapter highlights the challenges in analysing NPLs, given the wide differences in definition and classification of these loans. It includes case studies provided by experts from countries participating in the OECD Scoreboard.

The ratio of non-performing loans (NPLs) as a proportion to all business loans functions has long been used as a proxy to gauge the overall asset quality of the banking sector. A higher relative number of NPLs points to a lower asset quality on average, and an increase in the proportion of NPLs indicates a worsening of banks' balance sheets.

High ratios of non-performing loans have an important impact on lending. Weak bank balance sheets translate into a reduction in the availability of credit, at higher interest rates and more stringent conditions. Research by the European Central Bank and the IMF, among other, shows that factors impacting banks' balance sheet position significantly influence lending to firms (Hempel and Sorensen, 2010 and De Bock and Demyanets, 2012).

This is particularly the case for SMEs, which are more likely to be affected by a deterioration of banks' assets. This is because SMEs are seen as more risky and more likely to default than large firms. Furthermore, the ratio of non-performing SME loans is consistently higher for SMEs (see Beck et al., 2008).

However, analysis of the data on NPLs in *Financing SMEs and entrepreneurs* highlights the shortcomings of this indicator, particularly in the context of cross-country comparisons, but also within a single country over time. Indeed, differences in definition of NPLs and the level of stringency with which NPLs are calculated can have a significant impact on the resulting figures. There is therefore a need to improve the transparency surrounding this indicator as well as work towards better harmonisation.

This chapter provides a first discussion of the importance of improving the analysis of NPLs, which is critical for sound decision-making on the part of banks and for access to finance for SMEs. Section 2 of this chapter focuses on the different definitions of NPLs used in the OECD Scoreboard, which vary substantially from one country to the other, and offers some guidance on how to interpret the data. Section 3 describes the evolution of NPLs using Scoreboard data from 2007-13. This data shows very large cross-country differences, both in the absolute level of NPLs as well as changes over time since 2007. Section 4 offers possible explanations for these cross-country differences and discusses the potential impact on SME lending and economic growth. Sections 5 and 6 contain case studies with detailed information on Chile and Spain respectively. Section 7 concludes.

Defining non-performing loans

There is currently no international standard for the definition of non-performing loans, and the definition employed varies markedly across countries. Looking across countries, a loan is generally considered non-performing if at least one of the following three conditions is met:

1. The interest and/or the principal is overdue for more than a specific number of days, usually 90 days.

2. The lender has identified an underlying well-defined weakness of the borrower or the loan which is further defined in greater detail by the IIF (Institute of International Finance).
3. The loan has been classified as 'non-performing' according to the frequently applied quality credit quality categories, as proposed by the IIF which rank loans in different categories. These categories are: standard, watch/special mention, substandard, doubtful and loss/write-off. The sum of the latter three categories typically corresponds to non-performing loans.

As Table 3.1 illustrates, the data on (SME) NPLs from the OECD Scoreboard usually refer to loans that have been overdue for a given period time, varying from 30 days to 90 days. It should be noted, however, that loans that are not overdue (for more than 90 days), but whose repayment is considered as doubtful by their bank, are usually considered non-performing as well. Given the wide variance in definitions, it is challenging to make reliable cross-country comparisons.

Table 3.1. **Definitions of non-performing loans by country**

Country	Definition
Canada	90-Day Delinquency Rate Small business
Chile	SME loans impaired more than 30 days late
Colombia	SME loans impaired or more than 90 days late
Czech Republic	Business loans impaired or more than 90 days late
Estonia	SME loans impaired or more than 60 days late
Finland	Business loans more than 30 days late
France	Share of the outstanding loans of failing companies, SMEs except micro-enterprises
Greece	SME loans impaired or more than 90 days late
Hungary	SME loans more than 90 days late
Italy	SME loans being declared insolvent
Korea	SME loans more than 90 days late
Mexico	SME loans impaired or more than 90 days late
New Zealand	SME loans impaired or more than 90 days late
Portugal	SME loans impaired or more than 30 days late
Russian Federation	SME loans more than 90 days late
Serbia	SME loans impaired or more than 90 days late
Slovak Republic	SME loans impaired or more than 90 days late
Spain	SME loans impaired or more than 90 days late
Sweden	Business loans more than 60 days late
Thailand	SME loans more than 90 days late
Turkey	SME loans impaired or more than 90 days late
United States	Loan delinquencies, 30 days past due, all sizes

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

StatLink http://dx.doi.org/10.1787/888933194567

First, NPL data specific to SME loans are not always available (e.g. in the Czech Republic, Finland, Greece, Sweden and the United States), and the definition of an SME loan itself varies as well. This is problematic because SME NPL rates differ substantially from NPL rates for the overall business population. An analysis from the World Bank shows that among banks operating in developed markets, the average ratio of SME NPLs stood at 6.93% in 2007, more than double the proportion of 2.54% for large business loans (Beck et al, 2008), although this percentage differs from one country to the other and might also vary over time. Among banks operating in emerging markets, for example, the percentages were 6.5% and 4.1% respectively.

Moreover, the number of days the repayment is overdue before being classified as non-performing has the potential to impact the numbers significantly. For example, in Korea, Portugal and the United States, NPLs are defined as loans overdue for more than 30 days, while in Estonia and Sweden, the past due threshold lies at 60 days. The NPL ratios in countries with lower thresholds are therefore overestimated in comparison to others. In the United States, for example, 1.23% of all small business loans were overdue for more than 30 days, but less than 90 days, in June 2014 according to Paynet (a different data source than the one used in the Scoreboard). This figure changes to just 0.3% of small business loans overdue if the threshold is shifted to more than 90 days, but less than 180 days.

In addition, loans that are considered as doubtful by a bank are usually considered non-performing, even when they are not overdue (for a long period of time), which may substantially inflate numbers (Barisitz, 2013). In Chile, for instance, 5.8% of all SME loans were overdue by 90 days or more in 2013. By including loans that were not overdue, but defined as non-performing nonetheless, this figure increases by 0.5 percentage points. Including loans that are doubtful and overdue by more than 30 days, but less than 90 days, adds another 0.4 percentage points to the SME NPL ratio, bringing the total up to 6.7% (SBIF). On the other hand, until the end of 2008 in Chile, the NPL ratio was calculated based only on the share of a loan amount whose payment was behind for at least 90 days, and so the remaining part of the loan amount was classified as not having defaulted (see also below).

The second criterion of identifying a weakness on the part of the debtor and/or the loan leaves significant room for interpretation, both from regulators and from the banking sector. In Portugal, for example, this is limited for loans for which the debtor is bankrupt or in liquidation, whereas weaknesses are interpreted more broadly elsewhere. Additionally, the classification of "non-performing" may even vary from one bank to the other, as is the case in New Zealand. Many additional factors can lead to an overestimation or underestimation of official NPL ratios in one country compared to another even if both appear to employ similar definitions. Restructured loans, for example, may not always be considered to be NPLs, and may depend on the banks' discretion in some countries. Moreover, some banks do not consider loans to be non-performing if they are backed by collateral or guarantees, since they do not expect future losses on these types of loans. The question also arises whether the full outstanding value or only part of a doubtful loan is classified as non-performing, and whether a bank is required to downgrade all loans of a debtor with a loan that has been classified as non-performing. These factors all impact the level of absolute levels of NPLs and vary from one country to another, as Barisitz (2012) demonstrates.

Difficulties also exist when comparing trends in a given country over time. The definition of NPLs, and particularly how and when loans are considered as doubtful by the banking sector within a country, might evolve over time. For example, breaches of loan covenants may or may not lead to a default and foreclosure of a loan, and hence the classification of that loan as non-performing, depending on the enforcement of the bank. Similarly, common practices with respect of the use forbearance also vary internationally and from one bank to the other, which potentially impacts NPL rates and official estimates of the asset quality significantly (EBA, 2014). Although information on the enforcement of covenants or forbearance is very difficult to obtain, it is not unreasonable to assume that the business cycle and other factors play a role in this. Banks whose balance sheets are already burdened with many doubtful loans, for example, have more of an incentive to foreclose less quickly if covenants are breached. If that were the case, NPLs would be systematically underestimated in countries that have seen a sharp uptick of the NPL ratio. Bankruptcy and collateral foreclosure procedures also determine the period of time non-performing assets remain on banks' balance sheets and hence the data on NPLs. Not only can the procedures themselves change over time, but it is also likely that bankruptcies and foreclosures take even more time in economic recessions, leading to a potential overestimation of both the level and the increase of NPLs in countries with relatively lengthy bankruptcy and collateral foreclosure procedures. How much the tightening of collateral requirements (as generally occurs in times of crises) affects the evolution of NPLs also depends to a large extent on the regulatory regime, and may impair cross-country comparisons, even of trends. Box 3.1 illustrates some of these points by examining the case of Italy.

Box 3.1. **NPLs in Italy: the impact of the methodology on the data**

Even within Europe, cross-country comparisons of NPL ratios have to be treated with great care, as the example of Italy demonstrates. In contrast to most countries, Italian banks report their NPL 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 a more homogeneous cross-country comparison where Italian banks' NPL were recalculated with methods in line with those adopted by many foreign banks, i.e. excluding loans entirely covered by collateral or guarantees, the Italian banking system's stock of non-performing loans would be 32% lower than that shown in the financial statements. It should be noted that this simulation excludes partial coverage by collateral or guarantees so that it reduces but does not fully eliminates the overestimation of Italian non-performing loans in the international comparison (Bank of Italy, 2013). Also, over the last few years, Italian banks have increased collateral requirements and reduced loan-to-value ratios. This has not resulted in a slowdown of the NPL rate, due to the strict definition of NPLs.

In addition, credit recovery procedures are particularly slow in Italy, extending the period during which NPLs remain at the banks' balance sheet which further increasing the reported NPL ratios. The slowness of bankruptcy and foreclosure proceedings is greater in Italy than in most other countries and has probably increased during the recession, partly explaining both the rise of NPLs in Italy, as well as the large stock of NPLs as a fraction of total corporate loans for Italian banks. A confirmation of the relevance of this issue for Italy is presented also in a recent IMF Report on Italy: "NPLs disposal is also hindered by the slow recovery process (three years to foreclose on collateral and seven years to complete a bankruptcy)".

Thus, as a result of these two features which differ from those prevailing at the European level, Italian NPL ratios reported are significantly overestimated.

Source: Bank of Italy (2013), IMF (2014).

Recognising the importance of this issue, the European Central Bank has undertaken an exercise which will help advance the harmonisation of NPL data (see Box 3.2).

Trends in NPLs over 2007-13: evidence from the Scoreboard

Keeping in mind the issues raised in the previous section, Table 3.2 summarises the data on SME NPLs taken from *Financing SMEs and Entrepreneurs*. In 2013, whereas the level of SME NPLs remained below 1% in countries like Canada, Finland and Sweden, NPL ratios reached levels above 10% in Hungary, Italy, Greece, Portugal, Serbia and Spain. In Greece and Serbia, even more than one in four SME loans was non-performing in 2013. Although great

Box 3.2. **The Asset Quality Review of the ECB**

The lack of comparable data to assess banks' asset quality, and the need for greater transparency, is well acknowledged. In its new role of direct supervisor of 'significant European banks,' the European Central Bank (ECB) has conducted an Asset Quality Review (AQR) of 131 banks in the Euro area. This review feeds into the stress tests by the ECB. The AQR and the stress tests together form the Comprehensive Assessment, a health check for the major banks in the Euro area. The ECB considers that restoring confidence in the Euro-wide banking system and strengthening banks that fail the stress tests is instrumental for financial and economic growth prospects in the Euro area.

Streamlining the definition of non-performing loans and improving the comparability of asset quality measures across Euro zone banks is an important component of this review. A simplified version of the European Banking Authority's definition of non-performing loans will be used for this exercise. The standards on non-performing exposures and forbearance provide common definitions and reporting templates to allow supervisors to assess the level of forbearance activities and non-performing loans on a comparable basis across the European Union, which should contribute to a coordinated approach of competent authorities to evaluate banks' credit portfolios.

This exercise revealed that 28% of all reviewed banks employed definitions that were less conservative than the AQR estimates. The internal definition was stricter than the AQR definition for 15% of all reviewed banks. Implementing unified definitions and checking on a file-by-file basis whether exposures are correctly classified (by the so-called credit file review), significantly pushes up estimates of non-performing exposures with large regional variation. The estimated stock of non-performing exposures increased between 7% and 116% amongst debtor geographies by adhering to the relatively strict definition of the EBA. This result further underscores the need for a harmonisation of the definition of SME non-performing loans in order to allow meaningful cross-country comparisons.

Source: EBA (2014), ECB (2014).

care has to be exercised in interpreting these data, given the large variation in definitions across countries, they broadly suggest a negative correlation between economic growth and the incidence of NPLs, in line with the economic literature (see Section 4).

Table 3.2 illustrates that, with the exception of Chile and Thailand, NPLs increased in every country for which data are available between 2007 and 2010 as a consequence of the weak economic environment in 2008 and 2009. In 10 countries (Czech Republic, Estonia, Finland, Korea, Portugal, Russian Federation, Serbia, Spain, Sweden and the United Kingdom), the SME NPL rate more than doubled over this period.

Figure 3.1 captures the year-on-year percentage change in NPLs in 2011, 2012 and 2013, which can be considered more comparable across countries than data on absolute levels, although this data also has it weaknesses as described in the previous section. As financial institutions tightened their credit standards after 2010, and economic growth began to recover from the financial crisis, albeit patchily and hesitantly, SME NPLs bottomed out from their 2010 peak in a majority of countries. In Canada, Colombia, Estonia, France, Mexico, Russian Federation, Sweden, Thailand, Turkey and the United States, NPLs dropped significantly between 2010 and 2013, sometimes even to lower levels than observed during the pre-crisis period. In contrast, in Hungary, Italy, Greece, Portugal, Serbia and Spain, however, NPLs continued to rise after 2010 from already historically high levels, with only Hungary witnessing a reversal of trends in 2013.

Table 3.2. **NPLs as a percentage of loans, 2007-13**

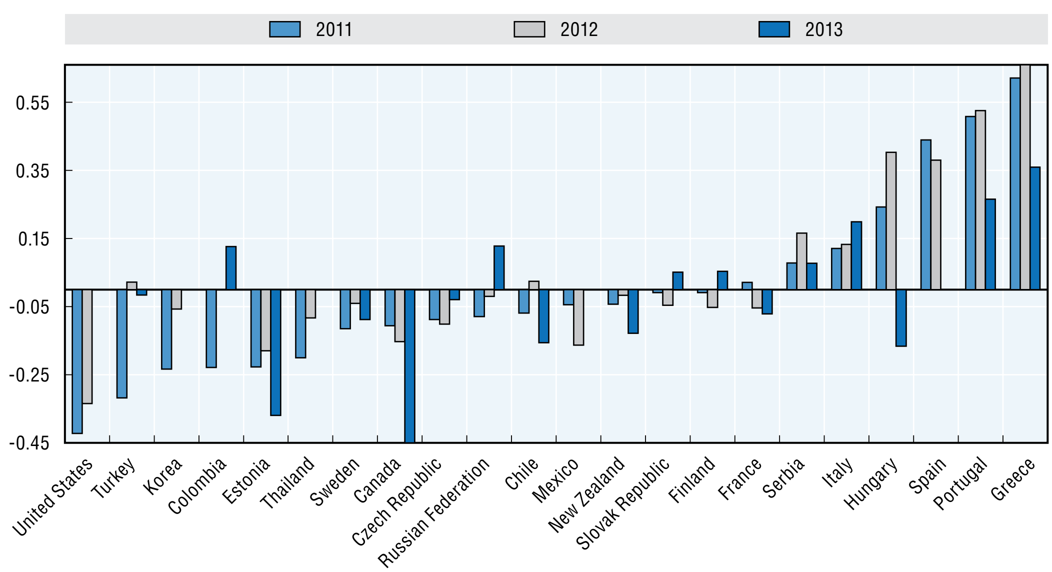
Country	2007	2008	2009	2010	2011	2012	2013
Canada	0.69	1.01	1.47	0.79	0.71	0.6	0.33
Chile	…	…	7.12	6.61	6.09	5.97	6.73
Colombia	2.5	3.5	4.8	3.5	2.7	2.7	3.04
Czech Republic	3.07	4.17	7.91	8.99	8.2	7.36	7.15
Estonia	0.95	3.59	7.36	8.17	6.31	5.18	3.27
Finland	0.27	0.36	0.63	0.6	0.59	0.57	0.6
France	0.93	1.31	1.64	1.45	1.48	1.4	1.3
Greece	4.6	4.3	6.7	8.7	14.1	23.4	31.8
Hungary		5.4	8.9	12.8	15.9	22.3	18.6
Italy	6.83	7.27	8.53	9.42	10.55	11.95	14.33
Korea	0.93	1.83	1.54	2.27	1.74	1.64	1.64
Mexico	…	…	5.6	4.5	4.3	3.6	…
New Zealand	…	…	2.73	2.91	2.79	2.74	2.39
Portugal	2.12	2.84	4.9	5.4	8.15	12.43	15.73
Russian Federation	…	4.27	7.56	8.8	8.19	8.39	7.08
Serbia	6.72	10.56	18.86	21	22.64	26.39	28.43
Slovak Republic		…	6.81	8.36	8.29	7.85	8.27
Spain	0.74	3.67	6.25	8.09	11.64	16.06	…
Sweden	0.24	0.37	0.85	0.88	0.78	0.74	0.68
Thailand	7.9	6.8	7.6	4.5	3.6	3.3	…
Turkey	3.75	5.04	8.28	4.7	3.2	3.27	3.22
United States	1.22	1.88	3.91	3.46	2	1.33	…

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

StatLink http://dx.doi.org/10.1787/888933194573

Figure 3.1. **SME non-performing loans, 2011-13**

Year-on-year percentage change



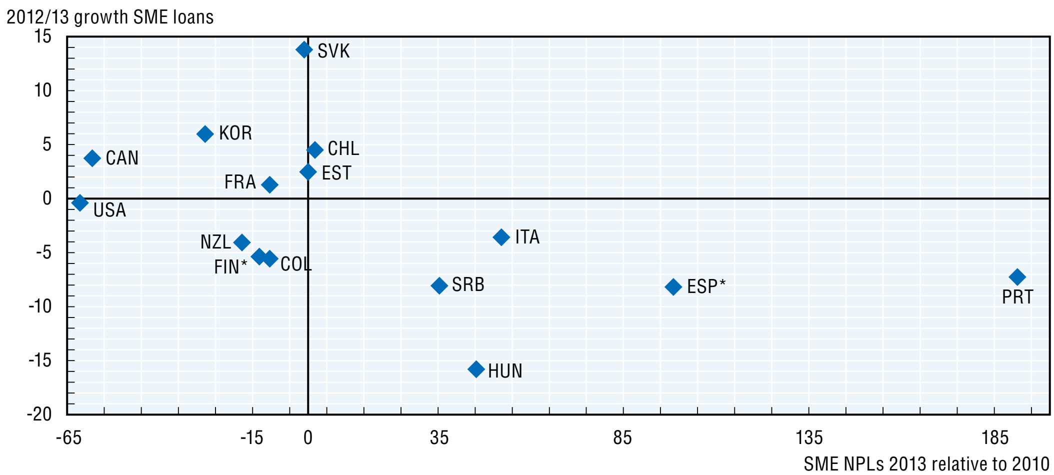
Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

StatLink http://dx.doi.org/10.1787/888933193561

Evidence suggests there is a strong negative relationship between SME lending and SME NPLs in Scoreboard countries (Figure 3.2). SME loan growth between 2012 and 2013 is negative for all countries that witnessed an increase in non-performing SME loans between 2010 and 2013, i.e. Hungary, Italy, Portugal, Serbia and Spain. Chile, where NPLs increased only very modestly, is the only exception. Conversely, SME loan growth was positive in every country where the proportion of NPLs fell with the exception of the Colombia, the Czech Republic, Finland and the United States. In Greece, the sharp contraction of overall business lending and additional information from the Central Bank of Greece point to a further and sizeable fall in SME lending in 2013. As the fact that Greek SME NPLs surged by 266% between 2010 and 2013, this supports the hypothesis of a negative correlation between SME lending and SME NPLs, in line with the economic literature (see Section 4).

Figure 3.2. **Trends in SME loan growth in 2013 and SME NPLs, 2010-13**

In percentages



*Notes:** Refers to countries with flow data on SME loans. Definitions differ across countries. Excludes Turkey (-31.5, 35.9). Data for Greece for 2013 is not included due to changes in methodology.

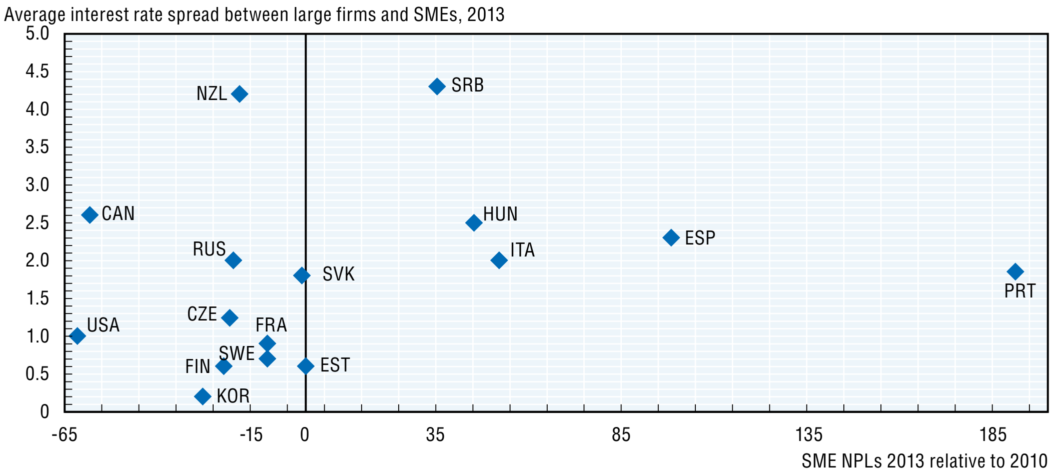
Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

StatLink http://dx.doi.org/10.1787/888933193578

Sustained increases in the level of non-performing loans can also potentially impact credit conditions for SMEs and entrepreneurs, although evidence is patchy due to the scarcity of internationally comparable data on lending standards. Survey data from the European Central Bank indicate that within the Euro area, it is in places where NPL rates have increased most, such as Greece, Italy, Portugal and Spain, that credit conditions are most restrictive and entrepreneurs consider access to finance as their most pressing concern.

The interest rate spread, that is the difference between the average interest rate charged to an SME and to a large enterprise, also captures the tightness of credit conditions for SMEs and entrepreneurs. Figure 3.3 illustrates that there is a positive correlation between the interest rate spread in 2013 and the percentage increase in NPLs between 2010 and 2013, confirming the hypothesis that banks are more hesitant to supply credit to SMEs if an increasing proportion of the existing stock of SME loans are non-performing. The relationship between NPLs and interest rate spreads is strongest within the Europe. Outside the European Union, Canada, New Zealand and the Russian Federation also experience relatively high interest rate spreads, despite a falling proportion of NPLs; this may be attributed to their different institutional settings and business cycles. Chile and Colombia are also outliers, with Colombia experiencing a coincidence of declining NPLs and very high interest rate spreads. Similarly, the high interest rates charged to SMEs in these two countries most likely reflect deep-rooted characteristics common to many Latin-American countries, such as the relative lack of depth in the region's financial system, the low average productivity of the SME sector and relatively high inflation rates, rather than any evolution in the quality of their banks' balance sheets (OECD/ECLAC, 2012).

Figure 3.3. **Trends in the interest rate spread in 2013 and SME NPLs over 2010-13**



Notes: Definitions differ across countries. Excludes Chile (1.8, 6.2) and Colombia (-13.1, 11.7)

Source: Data compiled from the individual country profiles of *Financing SMEs and Entrepreneurs 2015*.

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Evidence from the economic literature

There is an extensive literature on how the financial sector interacts with the real economy. Many models operate through a balance sheet effect: increases in asset prices improve the capacity to borrow for households, SMEs and large firms, which often leads to asset prices rising further, potentially resulting in a credit boom, boosting economic growth. Conversely, a deterioration of banks' balance sheets decreases the willingness to lend, weighing on the real economy. This in turn worsens their average asset quality even more and hence may trigger a banking crisis and a downward economic spiral. This section explores the possible causes of increasing NPLs, as well as their economic consequences.

Causes of increases of NPLs

Non-performing loans can be the result of misfortune due to an unforeseen event (such as the unexpected failure of a borrower) or of dubious decisions on the part of the lender. One strand of the literature explores the latter avenue and emphasises the role of bank-specific characteristics in problem loans. The prevalence of NPLs varies from one bank to another depending on variables such as the efficiency of the bank and the quality of management (Louzis et al., 2012).

The total level of non-performing loans in a country is mainly driven by real GDP growth with a time lag of one or two years; non-performing loans become more prevalent in times of crisis when GDP output contracts. A sharp drop in the level of economic activity is the most pronounced risk for bank asset quality (Beck et al., 2013). This is both because more firms are unable to repay their loans in times of economic hardship, and because loan growth stalls (or even turns negative) under these circumstances, causing the denominator of NPL to business loans to decrease (and thus for the NPL ratio to increase).

Other factors driving NPLs include share prices, especially in countries where stock markets are well developed, and the interest rate. A decline in the former or an increase in the latter makes repayment of loans more difficult for some borrowers, pushing up the

NPL ratio. The exchange rate also significantly impacts the level of NPLs in countries with pegged or managed exchange rates where lending in foreign currency without hedge is common (Beck et al., 2013).

Keeton (1999) was among the first to establish a clear and positive empirical relationship between loan growth and the delinquency ratio of business loans with a time lag of several years, using data from the United States. Critically, this relationship remains, even after controlling for the business cycle[1]; however, it only holds true when the loan growth is due to supply shifts (and thus not because of demand-side factors). This relationship is somewhat complex, however, and depends on the reasons behind the credit growth. More specifically, credit booms that are fuelled by an excessive easing of credit standards, as a result of increased competition in the banking sector or financial deregulation for example, are usually followed by an uptick of loan delinquencies a few years later. This empirical relationship has been confirmed for different regions and periods.[2]

In Europe especially, the asset quality on banks' balance sheets has generally deteriorated as a consequence of the macro-economic environment since the 2007 financial crisis and the ensuing sovereign debt crisis. The European Scoreboard countries currently facing the highest increase of NPLs also witnessed a pronounced deterioration in growth figures between 2008 and 2012. Credit-to-GDP ratios in the run-up to the financial crisis were also stronger than average according to World Bank data, most likely also contributing to the high levels of NPLs currently observed. In Serbia, the exchange rate was a major contributing factor in the recent rise of NPLs (Vukovic and Domazet, 2013). Exchange rate evolutions also lie at the heart of the deterioration of banks' asset quality in Hungary and other countries in Central and Eastern Europe where borrowing in foreign currency is or was common.

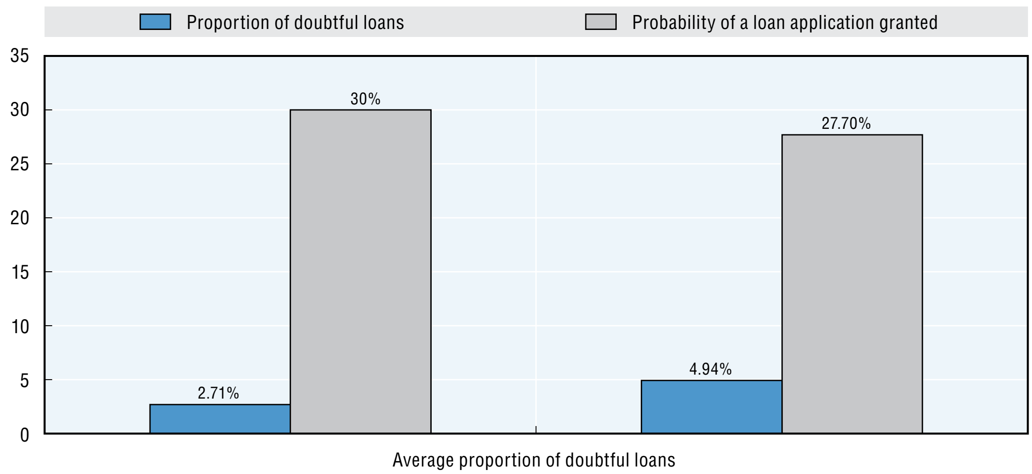
Economic consequences of NPLs

There is strong empirical evidence suggesting that high levels of non-performing loans affect new lending. Using Spanish data, Jiménez et al. (2012a) conclude that a higher proportion of doubtful loans[3] on banks' balance sheets significantly and sizably lowers the probability of a bank's approval of loan applications from businesses, even when controlling for other factors such as the size or capitalisation of the bank (see Figure 3.4).

Data from the United States corroborates this picture; if average NPLs increase, firms that are able to finance themselves through the bond market will be more likely to do so and will rely less heavily on bank credit as a result (Becker and Ivashina, 2011, see Figure 3.5). Although they mainly focus on larger firms that are able to substitute bank finance with market financing, their results strongly suggests that small firms without access to the bond market are more likely to be credit-constrained when the average level of NPL in the banking sector rises.[4]

Although empirical studies on the impact of SME non-performing loans on SME lending are rare, it is reasonable to assume that credit to SMEs suffers disproportionally. An increase in the relative proportion of non-performing loans on the balance sheets incentivises banks to a flight to quality. As banks experience more non-performing loans from lending to SMEs[5], and SME lending is generally considered to be more risky than lending to large businesses, this flight for quality clearly favours large enterprises. Indeed, empirical research illustrates that less-capitalised banks with weak assets cut down their lending activities to small firms more than to the business sector in general (Albertazzi and Marchetti, 2010). Banks will most likely cut back lending to segments within the SME sector that are deemed especially risky, such as micro-enterprises or start-ups.

Figure 3.4. **The impact of a one standard deviation increase in the average proportion of doubtful loans on the probability of loan applications granted, Spain 2002-10**



Source: Jiménez et al. (2012a).

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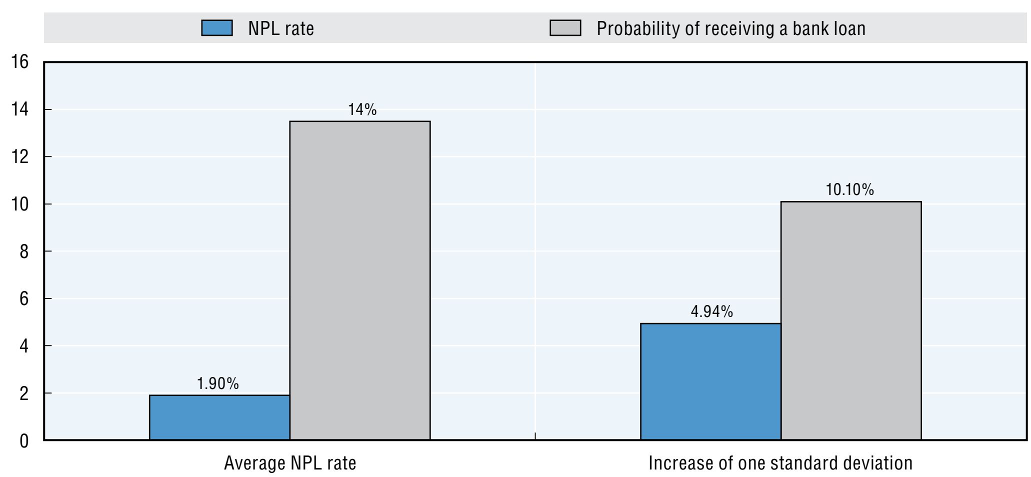
Figure 3.5. **The impact of a one standard deviation increase in the average NPL rate on the probability of receiving a bank loan, United States, 1990-2010**



Source: Becker and Ivashina (2011).

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Moreover, banks often extend further credit to existing borrowers with a high probability of default in order to avoid or postpone credit losses in the short term when faced with a deterioration of the quality of their balance sheet, a practice known as evergreening. Smaller banks, where the discretion on lending decisions is usually higher and who rely less on automatic procedures are especially prone to evergreening (Albertazzi and Marchetti, 2010). This does only often deteriorate banks' balance sheets further in the long run, but also locks up resources in unproductive sectors and companies, thereby impairing an efficient allocation of scarce funds and dragging economic growth.

Recent circumstantial evidence suggests that the relationship between business lending and NPLs also hold true in the aftermath of the 2007 financial crisis: financial institutions with impaired balance sheets, weak capital positions and a large amount of dubious claims cut back on lending more than financial institutions. The three largest banks participating in the United Kingdom Funding for Lending Scheme (Lloyds, Royal Bank of Scotland and Santander), for example, all had major capital shortfalls and all cut back on lending to SMEs. This is in contrast to most of the other participating financial institutions whose balance sheets were sounder and where credit to SMEs expanded (Darvas, 2013).

The European Banking Authority (EBA) considers that a clean-up of bank balance sheets is a prerequisite for new lending and hence economic growth (EBA, 2014). This is particularly relevant for countries with high rates of NPLs where, partly as a consequence, lending to SMEs declined the most. The IMF also attributes tight lending standards and challenging conditions for new business lending in the Euro area to a combination of weak bank profits and a decline in the overall quality of bank assets. They estimate that non-performing loans have approximately doubled between 2009 and 2014 in the Euro area, mostly due to evolutions in "stressed countries" and expect that credit growth will remain weak as long as the legacy debt burden is not addressed (Kerry et al., 2014).

However, it should be noted that aggregate ratios such as the NPL rate are a limited tool to assess the asset quality and overall health of the financial sector, and other tools may be a useful complement. For example, the NPL rate may disguise problems in one particular bank, bank group, or segment of the market. Moreover, the risks NPLs pose for financial stability also depend on the capitalisation of the banking sector; well-capitalised banks are more able to set aside sufficient provisions to cover potential losses. NPL ratios are thus only one of the indicators to be considered for assessing the overall quality and riskiness of banks' asset sheets; others may include assessing the riskiness of the sector of activity of the borrower or the credit history of the borrower.

Nevertheless, rising non-performing loans are indicative of a deterioration of asset quality in general.[6] It is widely recognised that banking crises are usually preceded by a deterioration of the asset quality of banks and a sharp increase of the level of NPLs and loan defaults. Given the link between loan growth and NPLs on the one hand, and the relationship between the prevalence of NPLs and the heath of the banking system on the other, the Bank for International Settlements (BIS) has identified the credit-to-GDP ratio as one of the best performing early warning indicators to predict banking crises. More precisely, the so-called credit-to-GDP gap, i.e. the difference between the credit-to-GDP ratio and its long-term trend, is used as a guide for setting up counter-cyclical capital buffers by Basel 3 (Drehmann and Juselius, 2013).

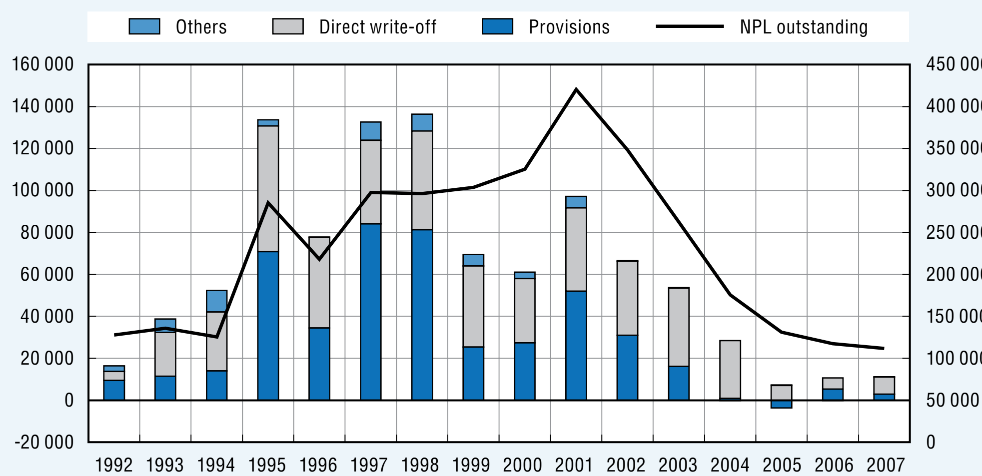
In addition, financial crises are usually protracted events that exert a sizeable negative impact on output, employment and government finances for several years. Using a very extensive database of financial crises, Reinhart and Rogoff (2009) estimate that, on average, unemployment rises by seven percentage points over the down phase of the cycle, GDP declines by 9% and government debt expands by 86% following a bank crisis. There is also strong evidence that banking crises have a deeper impact on developed countries, possibly reflecting deeper banking systems in these economies and hence greater scope for disruption (Laeven and Valencia, 2012).

The sharp uptick of NPLs currently observed in some countries therefore runs the risk of hampering economic growth and even of a renewed financial crisis, this time triggered by weakening of the asset quality in recent years. As weak banks become less willing to lend, a vicious cycle of further weakened banks and contracting credit supply might undermine any potential economic recovery for the period to come. The weak economic performance of Japan starting from the early 90s, can be attributed to the high level of non-performing loans and overall poor quality of the balance sheets of many of its banks, among other factors, and holds lessons for other countries which have witnessed a deterioration of bank assets (see Box 3.3).

Box 3.3. **Japan's banking crisis**

In the late 1980s, early 1990s, Japan experienced a rapid expansion of credits, in part due to inadequate supervision and regulation in risky property-related businesses such as real estate, construction and non-bank financial services. This fuelled an asset-price bubble which, when it burst, burdened banks' balance sheets with high historical levels of non-performing loans and a severely weakened and undercapitalised banking sector (see Figure 3.6).

Figure 3.6. **Outstanding NPLs and losses on disposals on NPLs (in billions of yen)**



Source: Fujii and Kawai (2010).

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As using public funds to address banks' balance sheet problems proved very unpopular with the general public, the government was hesitant to take decisive actions until 2002. This was in part due to methodological problems in the measurement of NPLs. Because official data was largely based of banks' own assessments, official NPL figures in 2000 and 2001 were consistently underestimated by an estimated level of 25 to 37% and necessary provisions and write-offs by 30 to 50% (Fujii and Kawai, 2010).

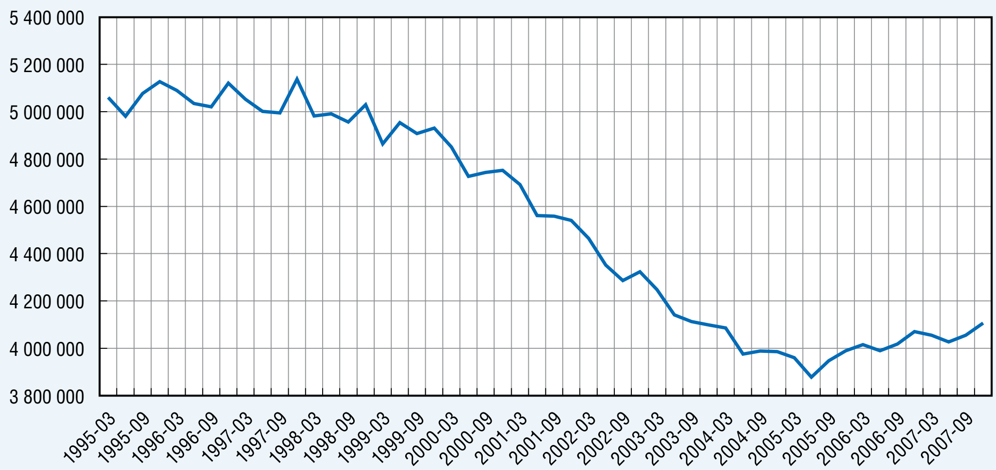
The misallocation of lending, the rapid increase of non-performing loans on banks' balance sheets, and the inability to deal decisively and timely with this deterioration of banks' asset quality are considered to be at the center of the Japanese banking crisis in the early 1990s, and the ensuing "lost decades" of negative growth in absolute terms. The cumulated output loss of the banking crisis is estimated to stand at 45 % of GDP between 1997 and 2001 (Laeven and Valencia, 2012).

The Japanese experience underlines the need to take decisive actions to clean out banks' balance sheets when NPLs increase to an unsustainable level. Financial institutions otherwise have the incentive to 'evergreen loans;' that is extending further credits to troubled firms, enabling them to repay due interest payments and avoiding (or usually postponing) a bankruptcy, which might trigger a need for a recapitalisation of the bank. By keeping insolvent firms afloat, balance sheets are further weakened in the long term. Empirical research indeed shows that Japanese banks increased lending to their most troubled borrowers during the 1990s, who usually performed badly after receiving additional funding. Banks with reported capital ratios close to the required minimum had the highest incentives to evergreen and, consequently, were especially prone to misallocate loans in that manner (Peek and Rosengren, 2003).

Box 3.3. **Japan's banking crisis** *(cont.)*

While banks were prone to continue lending to troubled borrowers, the continued weak state of Japanese bank balance sheets had a pronounced impact on corporate lending, further illustrating the strong link between NPLs and business lending. Between 1997 and 2005, corporate lending shrank by almost a quarter in nominal terms. By March 2005, NPL rates for major Japanese banks dropped to a low of 2.9%. Partly as a consequence, 2005 also marked the first year when the decline of corporate lending was reversed (see Figure 3.7).

Figure 3.7. **Corporate lending in Japan (in 100 million yen), 1995-2007**



Source: Bank of Japan (2014).

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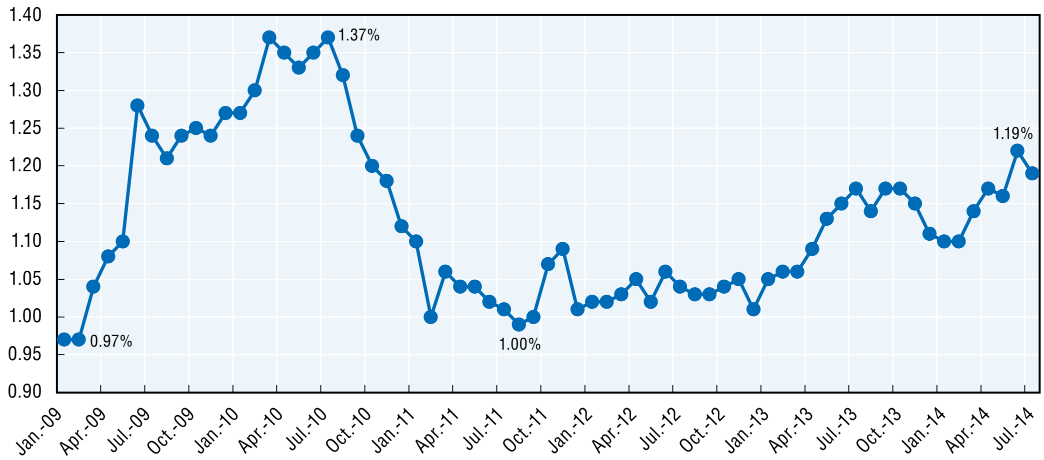
Finally, the Japanese experience also highlights the importance of accurate measurement of NPL levels and the need for a thorough assessment of the quality of bank balance sheets. Unreliable data proved to be very detrimental to the overall trust in the banking sector, and led to the postponement of policy measures to restore financial health. In 2001, a renewed inspection of bank loans by the FSA (Financial Services Agency) resulted to the reclassification of a quarter of all "normal" or "need attention" loans examined to "bankrupt" or "in danger of bankruptcy" (Fujii and Kawai, 2010).

Source: Bank of Japan (2014); Fujii and Kawai (2010); Laeven and Valencia (2012); Peek and Rosengren (2003).

Non-performing loans: the case of Chile

In order to monitor the stability of the banking system, the Chilean Central Bank reports an NPL Ratio (or *Indicador de Cartera Vencida*) in its Financial Stability Report (FSR). The NPL ratio[7] measures the share of the loan portfolio with payment delays for more than 90 days according to the conditions set forth by the International Monetary Fund (IMF).[8] The definition includes the total amount of loans that have defaulted on their payments. For loans contracted in installment payments that include acceleration clauses, the full amount a loan can only be considered on default 90 days after a judicial action has been lodged. It is worth mentioning that up to December 2008, there were difficulties in comparing the NPL ratio of the Chilean banking system with respect other economies. At the time, the NPL ratio was calculated based only on the share of a loan amount whose payment was behind for at least 90 days and so the remaining part of the loan amount was classified as not having defaulted.

Figure 3.8. **Non-performing loan index for all commercial loans in Chile, 2009-14**



Source: Central Bank of Chile (2014a).

StatLink http://dx.doi.org/10.1787/888933193632

The Commercial Debt NPL Ratio provided by the Chilean Central Bank for businesses of all sizes, with available data as of January 2009, shows that the NPL ratio for the overall portfolio started at 0.97% in 2009, increased afterward reaching a high level of 1.37% in mid-2010 then decreased and has slowly edged up since 2011. However, since January 2014 this indicator has registered an upward trend consistent with a strong slowdown in the economic activity of the Chilean economy. Despite the increase, the FSR of the Chilean Central Bank explains that the NPL Ratio level has been stable since the last report. However, it also shows that when the service sector is excluded of the analysis the Aggregate Paid Installment Ratio increases (see Graph II: Default Ratios on Commercial Loans).

As for SMEs[9] NPLs, the June 2014 edition of the FSR the Chilean Central Bank shows that delays in commercial loan payments for debt of an amount ranging from CLP 500 to CLP 18,000 have increased in the last two years. It also indicates that during 2013 there was an increase in default rates across sectors, excluding services sector, reaching the highest level in five years. The FSR explains that there has not been a significant increase in commercial debt default due to the stability of payment behavior in the service sector that accounts for a large share of the commercial loan portfolio.

The FSR also indicates a rise of NPLs in sectors that are most exposed to the overall business cycle and the construction sector (in contrast to the service sector). Moreover, NPLs increased more for SME loans than for business loans in general.

Recently, the Chilean Committee of Financial Stability, comprised of the main regulators and the Ministry of Finance, in its July 2014 meeting[10] addressed NPL data in the commercial portfolio in the construction and real estate development industry. With regard to the construction and Real Estate Development sector, the data explain a lower exposure of the banking system to these sectors, reaching 6.4% of the total commercial portfolio. The construction sector indicator NPL ratio has increased since the middle of the year 2012. The FSR points out that it is not observed that the banking system is applying lax lending approval standards and no risk for the overall financial stability is perceived.

The SME NPL Ratio, reported by the Superintendency of Banks and Financial Institutions (SBIF), is included in *Financing SMEs and Entrepreneurs*. This indicator is calculated as the share of a loan whose payment is behind for one day or more over the total amount of the commercial debt portfolio. The methodology reported for SMEs does not accelerate nor extrapolate the share of a loan that has defaulted to the total amount of the loan. Hence, this methodology is not necessarily consistent with the NPL provided in the Report of Financial Stability elaborated by the Central Bank. The information makes a distinction between the parts of the amount of a loan that are overdue for less than 30 days, between 30 to 90 days, and more than 90 days. In Chile, the ratio of non-performing loans dropped between 2009 (7.1%) and 2012 (6.1%). 2013 saw an uptick of the ratio of NPLs, however, as economic growth dipped (Figure 3.9 and Table 3.3).

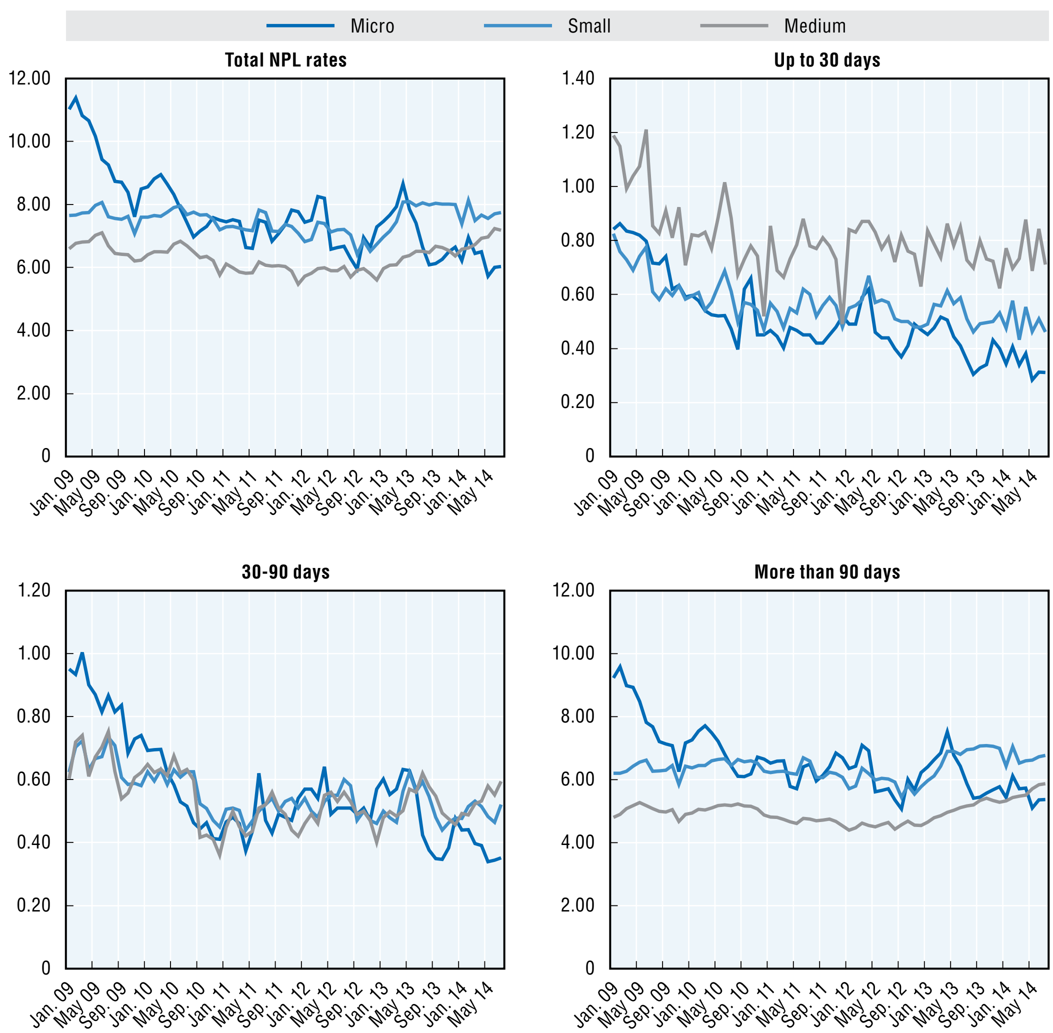
Table 3.3. **A break-up of NPLs in Chile**

	2009	2010	2011	2012	2013
Up to 30 days	0,60%	0,50%	0,50%	0,50%	0,50%
Between 30 and 90 days	0,60%	0,40%	0,40%	0,40%	0,40%
More than 90 days	5,90%	5,70%	5,20%	5,00%	5,80%
Total non-performing loans for SMEs	7,10%	6,60%	6,10%	6,00%	6,70%

Source: SBIF

StatLink http://dx.doi.org/10.1787/888933194586

Figure 3.9. **Break-up of NPLs in Chile, 2009-14**



Source: SBIF

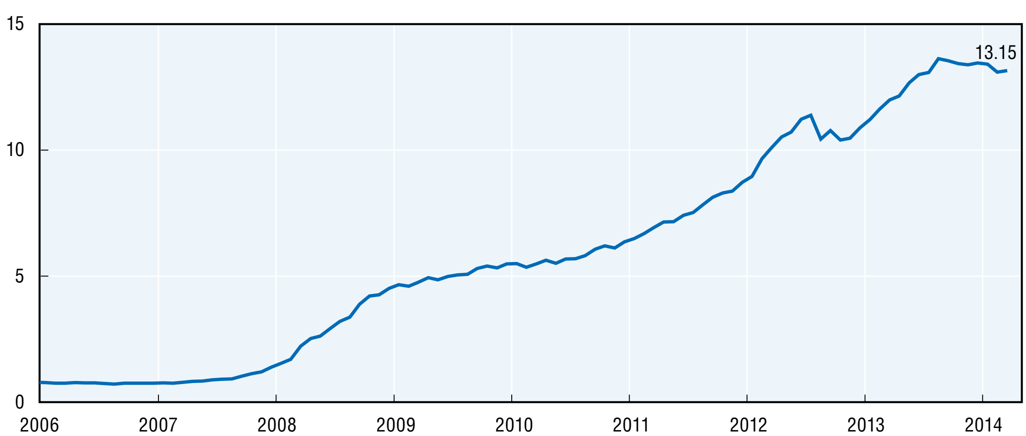
StatLink http://dx.doi.org/10.1787/888933193645

Non-performing loans: the case of Spain

Non-performing loans have risen in many countries since the financial crisis erupted. Within OECD countries, the increase in NPLs has been particularly dramatic for Southern European countries and in particular in Spain, where NPLs have risen from low levels by international comparison in 2007, to one of the highest levels in the OECD by 2013. Data on NPLs in Spain are published on a monthly basis by the Bank of Spain (i.e. general NPL data) and additional breakdowns are published quarterly, providing data on NPLs divided into nine economic sectors. The general evolution of NPLs in Spain mirrored its economic growth: until the beginning of the financial crisis, when Spain's economy was expanding, a very low and descending NPL ratio (NPL/Overall Credit) was observed. As growth rates turned negative in 2008 and 2009, the proportion of non-performing loans quickly spiralled.

The graph shows that until 2008, the NPL ratio remained very stable and low at a level under 1% of all business loans (the average of 2005, 2006 and 2007 was 0.8%). It was after the financial uncertainty that began in the summer of 2007 (and the growth in the interest rates of that year) when this ratio began to pick up. At the beginning of 2008, the NPL ratio started to grow and reached a level of 5% during 2009. The growth was slower in 2010 but remained positive and accelerated in 2011 and 2012. In 2012, the decision to transfer the real state assets coming from the nationalised banks to a "bad bank" (the SAREB), caused a slight fall in the ratio, but after that decrease, which was technical in nature, the NPL ratio continued to grow until the last months of 2013. It was during the last months of 2013 and the first half of 2014 that a relative stabilisation and even a very modest decline of the ratio could be observed (slightly above 13%). 2014 witnessed a decline in the NPL ration for two consecutive months, which had not been seen since 2006.

Figure 3.10. **Non-performing loans (% of credits) in Spain, all credit institutions**



Source: Bank of Spain.

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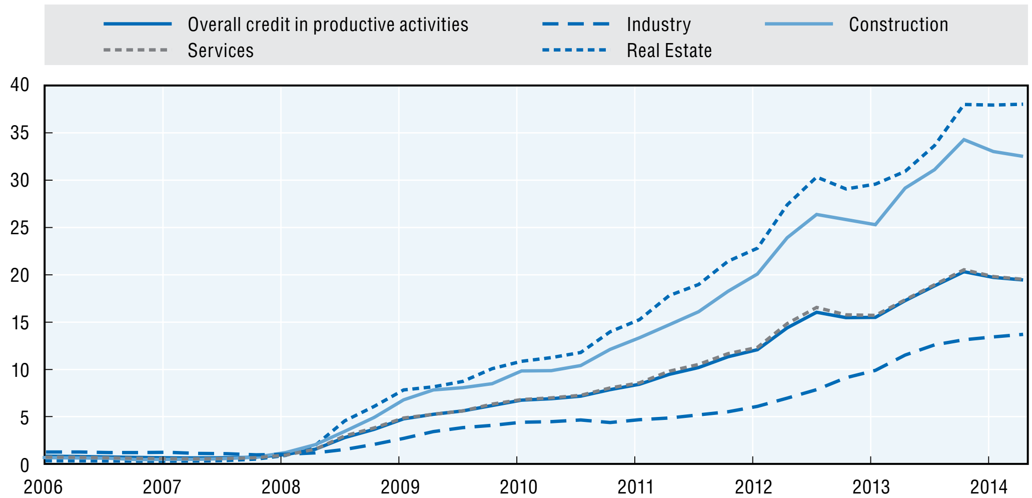
Data by sector show NPL ratios increased markedly in all sectors of the economy, but the levels vary substantially. Not surprisingly, sectors related to real estate activity show a significantly higher NPL ratio, while NPL ratios are smaller than average in services and industry. So, the overall NPL ratio to productive activities remains around 20% (NPL ratios for credit to consumers are slightly lower and are excluded in this graph), and is in line with the behaviour of the productive credit to services firms. Loans to real estate companies and to construction firms have the biggest NPL ratios; around 35% of all credits are non-performing. On the other hand, the industrial sector performs better than average, with a NPL ratio around 13% at the beginning of 2014.

Figure 3.11. **NPL ratio by sector in Spain**



Source: Bank of Spain.

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The ratio of NPLs to all loans also varies considerably across Spanish banks and across firms of different size. Loans to SMEs are more likely to be non-performing than loans to large enterprises. Whereas NPLs for large companies average just below 10%, this proportion rises to over 30% for the worst affected. A similar dispersion between the best performing bank and the worst performing can be observed for NPLs of SMEs.

FEDEA, a Spanish think tank publishes periodically a forecast of the NPL ratio for the next months in its Observatory of the NPLs. They foresee a stabilisation of the NPL ratio around its current level for the third quarter of 2014 as a consequence of the Spanish economic recovery, and a progressive and slow way down of this NPL ratio beginning in the last months of 2014. The National Bank of Spain expects persistently high NPL ratio's in the next few years as NPLs lag economic growth, which has been only recovering very recently.[11] The ratio of NPLs will therefore most likely remain significantly higher in the next years than in the pre-crisis period or even at the height of the financial crisis in the early 1990s (when NPLs in Spain reached a peak of 9%).

Several measures have been taken to mitigate the risks such a high level of NPLs pose for the financial stability. Provisional requirements for the banking sector have been stepped up, resulting in a coverage ratio (i.e. provisions reserved to NPLs) that has outpaced the rise of NPLs in 2013. A report from the International Monetary Fund indicates that the coverage ratio stood at 44% at the end of September 2013, up from 38% a year earlier and very close to the threshold of 45% that the regulator requires (IMF, 2014).

As a consequence as the European rescue plan for banks, backed by the IMF, the financial sector is being recapitalised, increasing the asset-to-equity ratio from 5.8% in 2010 to 7.9% in the first quarter of 2014 and the lending to deposits ratio from 173.7% in 2007 to 125.4% in the first quarter of 2014. According to the bank of Spain, the early signs of a recovery of lending operations to non-financial firms can be attributed in part to the improved health of the financial sector.

In addition, the disclosure requirements of financial institutions have been strengthened: they are now required to provide detailed information on restructured and refinanced loans, NPLs, asset quality across different parts of their loan portfolio, the concentration by sector of their portfolio and so on, in order to detect potential problems related with a deteriorating of asset quality at an earlier stage.

Conclusions

The Scoreboard data show that SME NPLs increased almost invariably in the years following the economic crisis of 2007. NPLs peaked for a majority of Scoreboard countries in 2010, the stabilised, and were often close to or below pre-crisis levels in 2013. However, NPLs continued to rise in Italy, Greece, Portugal, Serbia and Spain after 2010, to levels high both by historical and international standards. This was mainly due to high credit growth in the pre-crisis period, persistent weak economic performance in the aftermath of the 2007 recession and, in the case of Serbia, the exchange rate evolution.

High and rising NPLs are indicative of a deterioration of overall asset quality and hold economic risks, as an overview of the literature suggests. One risk is the potential impact on business lending, as banks become less inclined to lend when burdened by a high proportion of doubtful assets. The Scoreboard data indeed suggest that there is a clear and negative relationship between the evolution of SME NPLs and SME lending. Credit conditions also tend to be the tightest in countries where SME NPLs have increased over the last few years. This in turn imperils the economic recovery and, in the worst case scenario, could trigger a renewed financial crisis.

When available, the SME NPL ratio is a useful instrument to evaluate the creditworthiness of the SME sector. Moreover and although not perfect, it serves as a proxy to assess the overall quality of banks' SME loan portfolio, which has clear implications for SME loan growth. However, as evidence from this chapter has shown, even when data for SME NPLs are available, definitions vary markedly across countries and over time, making comparisons within and between countries extremely difficult.

There is a clear need to focus attention on harmonisation of NPL data, given the importance of this indicator for SME lending, and for economic growth more broadly. A necessary first step in addressing a deteriorating in banks' balance sheets is a reliable assessment of the problem, which relies on a correct measurement of NPLs. This would enable a better understanding of the role NPLs play in SME access to finance and greater comparability and analysis of the Scoreboard data. It would therefore be useful to adopt a single definition of NPLS and to collect data on the NPL ratio for both SMEs and the overall business loan portfolio, or alternatively the NPL ratio for large firms. The Scoreboard will continue to monitor developments in this area and work towards data harmonisation of NPLs.

Notes

1. Loan growth tends to be strong during economic contractions while NPLs tend to increase in downturns.
2. See, for example, Drees and Pazarbasioglu (2006) on the banking crisis in the early 1990s in the Nordics or Dell'Arricia et al. (2012) on the subprime mortgage market crisis in the United States that triggered the worldwide financial crisis in 2007.
3. Doubtful loans are usually considered to be a subset of all NPLs and both terms are conceptually very close.
4. Note that the above studies disentangle demand and supply effects; lending is thus not only down because the demand for business credit declines when more enterprises struggle to repay their loans, but also because banks become less inclined to lend to businesses under these circumstances given all other things equal.

5. See Beck et al. (2008), for an analysis of NPL rates for 91 banks in 45 countries.
6. See, for example, Cihak and Schaeck (2007) for information on the usefulness of non-performing loans as an indicator for the overall asset quality of banks.
7. Sagner (2011) proposes that the non-performing loans (NPL) ratio, defined as the change in the stock of NPL adjusted by write-offs and standardized by loans, as the main measure to be used for modelling the credit risk of the Chilean banking system with certain statistical and conceptual advantages of the NPL ratio with respect to loan loss provisions (LLP or Gasto en Provisiones). Sagner also points out, based on an econometrical model, that the only variables with statistical significance that helps to explain increases in the commercial NPL ratio are the quarterly variation of the Chilean Peso- US Dollar Exchange rate and economic growth. *http://www.bcentral.cl/eng/studies/working-papers/618.htm*
8. The IMF classifies a credit obligation as a non-performing loan when the following conditions are met: "A loan is nonperforming when payments of interest and/or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons—such as a debtor filing for bankruptcy—to doubt that payments will be made in full. After a loan is classified as nonperforming, it (and, possibly, replacement loan(s)) should remain classified as such until written off or payments of interest and/or principal are received" *http://www.imf.org/external/pubs/ft/bop/2005/05-29.pdf*
9. The Commercial loan portfolio of SBIF is classified into size categories ((a) Micro borrowers: debt of up to UF 500 U.F.; (b) Small borrowers: debt ranging from UF 500 and up to UF 4000; (c) Medium-sized borrowers: debt from UF 4000 and up to UF 18.000.; (d) Large borrowers : debt of an amount larger tan UF 18000 and of up to UF 200,000 ; y (e) Mega borrowers: debt larger than UF 200 000.and excludes credit operations that fall in some of the following categories: (a) NPL whose payments are behind for more than 90 days and no effort is shown in order to collect the debt; y (b) when more than six years have elapsed since the date the total payment was due. Therefore, SME loans are those of an amount not greater than UF 18000.
10. *http://www.hacienda.cl/consejo-de-estabilidad-financiera/actas-de-sesiones/celebrada-el-30-de-julio-de-2014.html*
11. *http://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/InformesEstabilidadFinancera/14/IEF-Ing-Mayo2014.pdf*

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Financing SMEs and Entrepreneurs 2015
An OECD Scoreboard

Chapter 4

Country profiles of SME and entrepreneurship financing 2007-13

These chapters present data for debt and equity financing in 34 countries: Austria, Belgium, Canada, Chile, the People's Republic of China, Colombia, the Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Japan, 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. It is structured around individual country profiles, which analyse the core indicators which monitor SME access to finance, and their definitions which are specific for each country. The statistical information is complemented by a description of government policies which respond to the current financing constraints facing SMEs.

Austria

SMEs in the national economy

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

Table 4.1. **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 (1-9)	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 (2013).

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SME lending

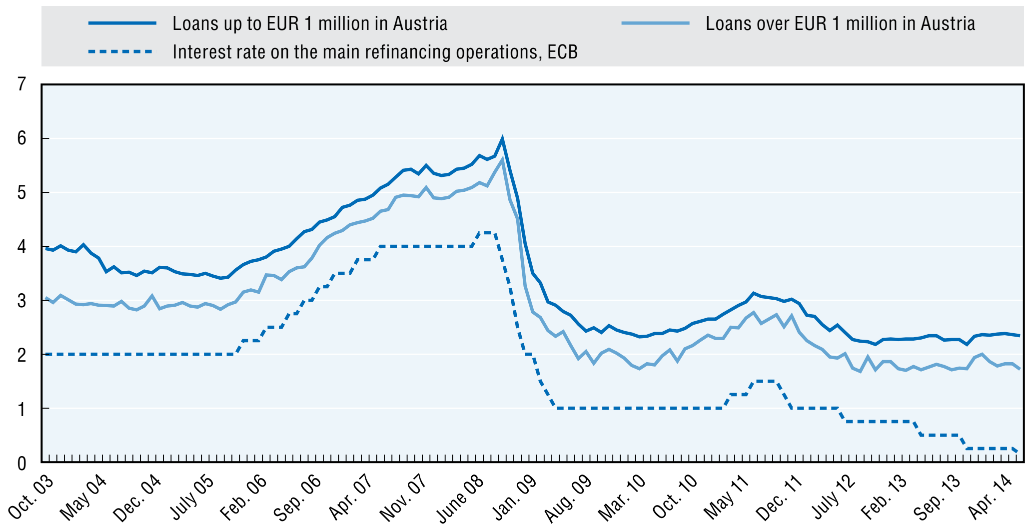
Data on SME loans are approximated by new business loans up to EUR 1 million euros (excluding loans granted to sole proprietors) and are provided by the Austrian National Bank for the period 2009-13. Data for previous years and data on the stock of outstanding loans are not available. The 2013 data show a decline of 5% of new loans to SMEs. This indicator has been in decline since 2009, a very small increase in 2011 being the sole exception. New loans to all enterprises decreased even more sharply, i.e. by 9.2% from 2012 to 2013. The share of new SME loans to all loans has therefore increased to 12.1%. The share of short-term loans (maturity up to 6 month) has been decreasing since 2009 from almost 60% to 51.1% in 2013.

The decrease in loans to the corporate sector is to a great extent due to demand side factors. GDP growth totaled to a mere 0.3% and gross fixed capital formation declined by 1.4% in 2013, resulting in a lower demand for credit. Moreover, economic uncertainties still prevail and the deleveraging needs of the corporate sector further restrict demand for credit. On the supply side, the decrease in new loans may be, in part, also explained by developments in the banking sector. In 2013, it has reinforced its capital ratio and reported a negative consolidated return on assets.

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 4.1 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.

Figure 4.1. **Growth rates of business loans to non-financial corporations in Austria, 2004-14**



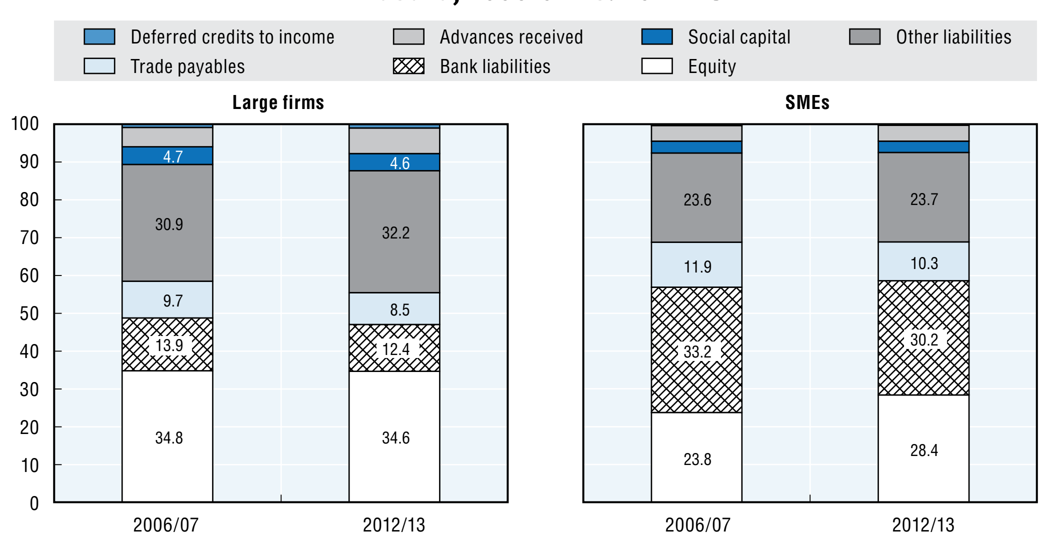
Note: Annual change in stocks adjusted by exchange rate effects, write-offs and reclassification

Source: Austrian National Bank.

StatLink http://dx.doi.org/10.1787/888933193675

According to the data collected by the Austrian Institute for SME Research, 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 2012-13, the share of equity increased to 28.4%, whereas the share of bank liabilities totaled to 30.2%. Moreover, as indicated in Figure 4.2, large firms are less dependent on loans provided by the banking sector than SMEs.

Figure 4.2. **Financial structure of SMEs and large firms in Austria, 2006-07 vs. 2012-13**



Source: Austrian Institute for SME Research.

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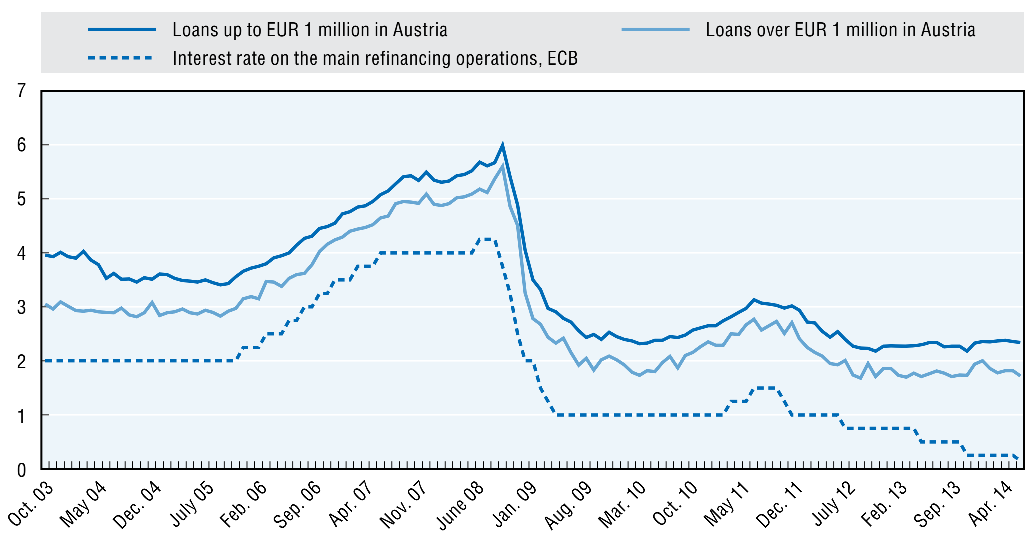
Credit conditions

As a result of the ECB´s reduction in official lending rates in 2008, lower interest rates were passed on to the corporate sector, both for SMEs and for large firms. Average SME interest rates were at a historical low in 2013 and more than halved since 2007 from a level of 5.11% to 2.28% in 2013, the lowest level since 2007. Although the interest rate spread increased to 0.51% in 2013, this is still low compared to most other OECD countries. Interest rates for new loans to non-financial corporations up to EUR 1 million with an initial rate fixation up to 1 year (including variable interest rates) stood at 2.23% in 2013, compared to 2.40% in 2012. Interest rates for new loans up to EUR 1 million with an initial rate fixation over 5 years amounted to 3.39 % in 2013, down from 3.61 % in 2012. The most recent reductions in the ECB's lending rates have not translated into lower interest rates for the corporate sector. This might be due to an increase in the EURIBOR, causing banks to partly pass on the burden of higher refinancing costs to its customers.

Figure 4.3. **Interest rates for new business loans to non-financial corporations in Austria compared to the ECB interest rate for the main refinancing operations, 2003-14**

Monthly data, as a percentage



Source: Austrian National Bank.

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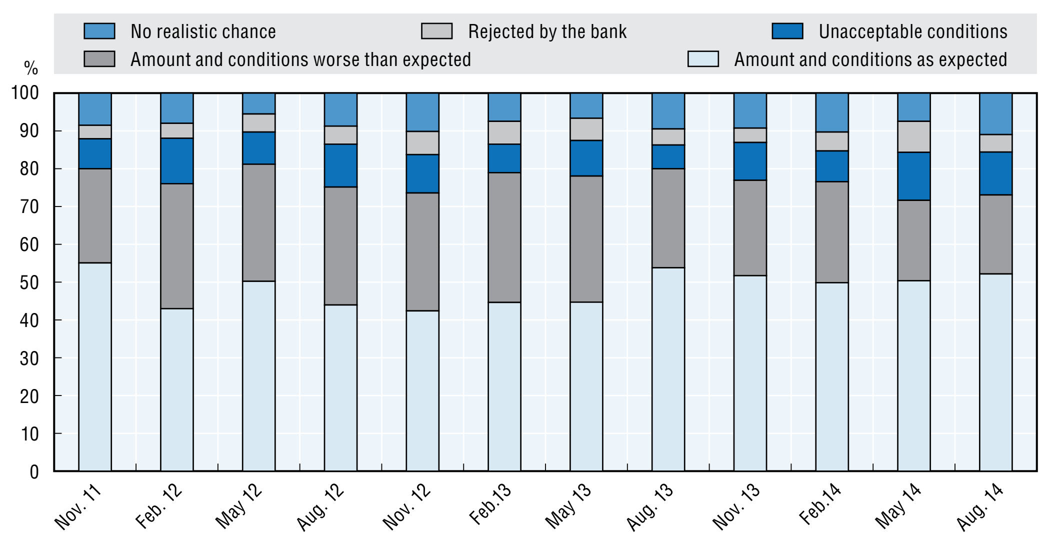
The turmoil in the financial markets following the bursting of the housing bubble caused a tightening of the lending criteria applied by the Austrian banks in 2008. Results from the quarterly Euro area Bank Lending Survey (BLS) indicate a tightening of the conditions applied by Austrian banks for approving 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) from 2008 on. Between the first quarter of 2010 and the second quarter of 2011, credit conditions for SMEs stagnated and afterwards deteriorated again. The latest survey results highlighted a slight improvement in lending conditions in Q2 2014.

BLS results for credit standards (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.

In line with this trend, results from the European Central Bank/European Commission Survey on the access to finance of SMEs in the Euro area (SAFE) reveal that SMEs perceived a tightening of lending conditions in 2009. The survey from October 2013-March 2014 indicates an increase in the cost of bank loans. Collateral requirements remain restrictive, although SMEs report a slight improvement in this respect. The same holds true for the availability of bank lending. According to the Business Survey conducted by the Austrian Institute of Economic Research (WIFO) of 1 250 enterprises (mostly SMEs), approximately 25% of all surveyed firms show a demand for credit in the last quarter. The share of firms with a demand for credit that did not get a bank loan increased from 20% (5% of all surveyed firms) in August 2013 to 27% (6% of all surveyed firms) in August 2014. This development is mainly driven by the increasing share of firms that deemed terms and conditions unacceptable, as depicted in Figure 4.4.

Figure 4.4. **Access to bank lending of Austrian Enterprises**
Share of all firms with demand for credit in %



Source: WIFO Konjunkturtest

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Equity financing

As in many countries, venture and growth capital investments in Austria are very volatile. One major investment can make a big difference in the data. This volatility is clearly visible in table 4.2, where total venture and growth capital slumped in 2012 to less than EUR 70 million after a peak of EUR 206 million in 2011. At EUR 90.3 million in 2013, this figure recently increased again, mainly due to a pick-up in later stage venture capital.

Table 4.2. **Venture and growth capital investments in Austria, 2007-13**

By stage of investment, in EUR million

Stage	2007	2008	2009	2010	2011	2012	2013
Seed	7.6	5.1	6.4	6.0	14.4	9.2	11.2
Start-up	28.6	26.5	43.7	14.2	39.0	28.1	25.8
Later stage venture	43.7	19.2	25.8	23.4	40.4	5.3	28.1
Total venture	**79.9**	**50.8**	**75.9**	**43.6**	**93.8**	**42.5**	**65.1**
Growth	25.2	32.3	43.3	29.0	112.0	25.8	25.2

Source: EVCA; PEREP Analytics

StatLink http://dx.doi.org/10.1787/888933194603

Other indicators

The European Payment Index shows that the average number of payment delays increased for business to business from 12 days in 2012 to 13 days in 2013, the highest figure since keeping track of the data in 2007. The average number of payment delays for business to consumer remained unchanged at 9 days. 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 in Austria stood at 5,459 in 2013, reaching the lowest level in the period 2007-13. Compared with 2012, the indicator decreased by 9.6% or 582 firms. This development is even more pronounced when compared with the 2009 figure (6 902 firms went bankrupt). In terms of bankruptcies per 1,000 firms, the indicator declined to 12 compared with 18 in 2009. This illustrates the strength of the Austrian economy, which is recovering more quickly than most other countries within the Euro zone.

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. The Austria Wirtschaftsservice GmbH (aws) serves as the federal small and medium 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 GmbH (FFG)* is the national funding institution for applied research and development and provides grants, loans, guarantees and consulting services. The *Oesterreichische Hotel- und Tourismusbank (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. The *Oesterreichische 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 organised as a separate legal entity and was organisationally integrated into the aws in 2002. The ÖHT serves as the trust bank of the ERP Fund in the tourism sector. 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%, which currently stands at 1.0%. In response, SME loans provided by the ERP Fund increased by 43.5% from 2008 to 2011 to a total of EUR 399 million. In 2013, erp-loans to SMEs amounted to EUR 387 million.

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) under the EU microfinance programme in order to increase the micro lending activity to start ups. From the beginning of 2010 to 30th of June 2014 loans in the amount of EUR 3.41 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. In 2013, the OHT granted Top-A loans in the total volume of EUR 116.2 million. In the course of 2014, new guidelines for the ÖHT programmes were established. For investments between EUR 100 000 and EUR 700 000 the government offers a grant of up to 5% and a government guarantee. For investments between EUR 700 000 and EUR 1 million, loans at low interest rates will be granted, which can be combined with a government guarantee. The respective state government (regional level) has the possibility to subsidise the interest rate on the loan. For investments between EUR 1 million and EUR 8.3 million, the government subsidises the interest rate of the loan with 2%.

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 and increased in 2013 to EUR 594 million.

Loan guarantees

Aws guarantees up to 80% of the total loan amount. The guarantees are funded by the state budget complemented by a counter-guarantee of the EU CIP programme 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. In response to the crisis the government increased the guarantee capacity by EUR 400 million over the period 2009-10. Reaching EUR 184 million in 2009, guarantees provided by the aws dropped to EUR 131 million in 2013. Due to a change in the guidelines starting in July 2014, SME loan guarantees provided by aws have a stronger focus on young innovative entrepreneurs. Within this new framework a number of measures have been implemented for the period 2014-16:

- Turning failure into success - the principle of 2nd chance: failed entrepreneurs shall not be excluded from subsidies and gain support for restructuring and re-launch.

- Shift from grants to guarantee programmes as well as the combination with EU financial instruments increases the attractiveness of aws loan guarantees (e.g. reduced guarantee fees).
- Reduced administrative burden due to a harmonisation between existing aws guidelines.

In December 2013, aws signed a RSI loan counter-guarantee agreement under the EU CIF programme with the EIF for two years. One basic element of this agreement is that the aws has to ensure additionally, which means that all benefits resulting from this agreement have to be transferred to the respective company. Under the terms of this agreement, the 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 fees will be reduced by 0.6 percentage points on average. The EU financial instruments are therefore an important tool for Austria to facilitate access to finance for SMEs.

Loan guarantees granted by OHT 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 OHT. 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. In 2013, loan guarantees provided by ÖHT amounted to EUR 34.2 million. As illustrated in Table 4.3, loan guarantees are also provided to a lesser extent by the FFG.

Table 4.3. **Government Loan Guarantees in Austria, 2007-13**

EUR million, flows

Institution	2007	2008	2009	2010	2011	2012	2013
aws	330.0	149.0	184.0	152.0	127.0	139.0	131
OHT	7.5	13.9	26.4	20.4	14.1	18.3	34.2
FFG	3.4	0.7	3.5	0.6	1.5	0.5	2.1
Total	**340.9**	**163.6**	**213.9**	**173.0**	**142.6**	**157.8**	**167,3**

Source: Administrative data from aws, OHT, FFG

StatLink http://dx.doi.org/10.1787/888933194618

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 2013, a total volume of EUR 1.027 million was made available to 1,762 SMEs.

Table 4.4. **Financing for exporting SMEs by Oesterreichische Exportfonds GmbH**

EUR million, stocks

	2007	2008	2009	2010	2011	2012	2013
Financing for exporting SMEs in EUR million	863	834	804	793	824	1 039	1 027
Number of SMEs	1 782	1 669	1 599	1 569	1 541	1 771	1 762

Source: Federal Ministry of Finance.

StatLink http://dx.doi.org/10.1787/888933194625

Risk capital

In order to stimulate the development of a well-functioning market for risk capital, the government has created innovative incentives since 2009. 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 4.5 lists the major initiatives of the government.

Table 4.5. **Risk capital initiatives, Austria**

EUR million

<table>
<tr><th colspan="2">Instrument</th><th>start</th><th>Target group</th><th>aws share</th></tr>
<tr><td colspan="2">aws Mittelstandsfonds</td><td>01-09-2009</td><td>companies in the growth stage</td><td>EUR 80 000 000</td></tr>
<tr><td rowspan="5">Venture Capital Initiative</td><td>1. Tranche</td><td>17-12-2010</td><td rowspan="5">companies in the seed/start-up or initial growth stage</td><td>EUR 6 250 000</td></tr>
<tr><td>2. Tranche</td><td>29-03-2012</td><td>EUR 4 800 000</td></tr>
<tr><td>3. Tranche</td><td>20-12-2012</td><td>EUR 2 900 000</td></tr>
<tr><td>4. Tranche</td><td>25-06-2013
26-03-2014</td><td>EUR 8 600 000</td></tr>
<tr><td>5. Tranche</td><td>call</td><td>EUR 7 000 000</td></tr>
<tr><td colspan="2">Cleantech Initiative</td><td>01-01-2011</td><td>companies in the seed/start-up or growth stage with special focus on cleantech sector (energy and environment)</td><td>EUR 5 780 000</td></tr>
<tr><td rowspan="2">Jungunternehmer-Offensive</td><td>aws Business Angel Fonds</td><td rowspan="2">02-01-2013</td><td>young entrepreneurs (via selected Business Angels)</td><td>Federal government:
EUR 15 000 000
EIF: EUR 7 500 000</td></tr>
<tr><td>aws Gründerfonds</td><td>companies in the seed/start-up or initial growth stage</td><td>Federal government:
EUR 65 000 000
Erste Bank: EUR 3 500 000</td></tr>
</table>

Source: Austria Wirtschaftsservice GmbH

StatLink http://dx.doi.org/10.1787/888933194634

As illustrated in Table 4.5, 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 Funds") provide equity financing (e.g. venture capital) to start-ups and young, growth-oriented SMEs.

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 addition to the above mentioned regulatory improvements, the Austrian Government launched via the federal promotional bank aws two new initiatives to facilitate access to capital markets for SME. The "aws Equity Finder" was established in August 2014 and is designed as a contact platform which enables both start-ups and SMEs to gain simple access to risk capital, business angels, crowdfunding or other alternative forms of financing. To ease the external costs of publishing a capital market prospectus the aws supports SMEs with additional subsidies up to 50% (or: EUR 50,000). This will reduce the barrier to raise funds via capital markets above the regulatory threshold and is therefore targeted especially on SMEs.

Other measures

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. Since March 2014 the above mentioned temporary reduction of the allowance is no longer limited to the fiscal periods 2013 to 2016, but became temporarily unlimited. Furthermore, since March 2014 the required acquisition of qualified securities is restricted to some qualified mortgage bonds for the fiscal periods from 2014 to 2016. During this period, the acquisition of qualified securities (except the mortgage bonds mentioned) will no longer qualify for the benefit.

Box 4.1. **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.

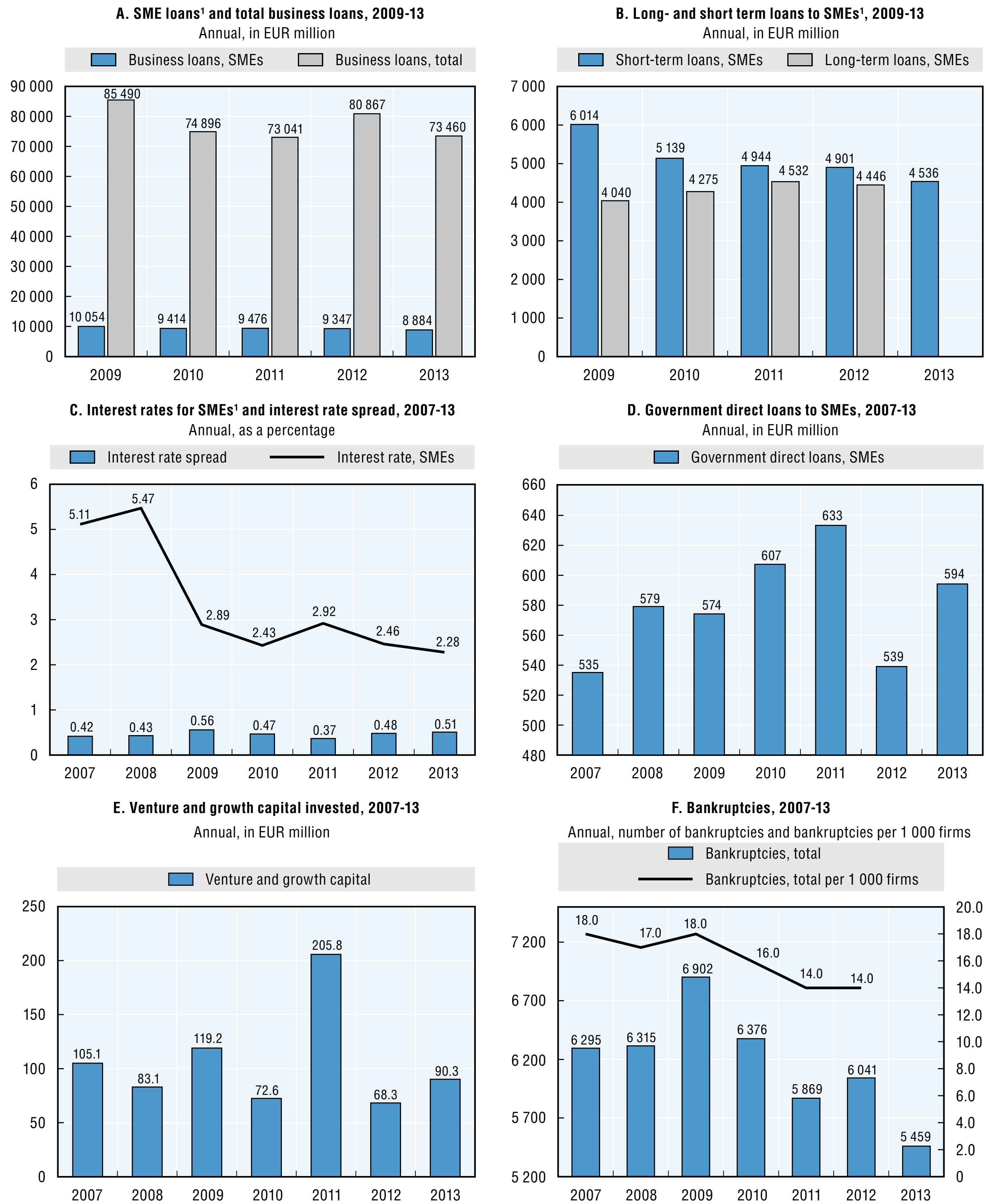
Table 4.6. **Scoreboard for Austria, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
New business loans, SMEs (flows)	EUR million	..	..	10 054	9 414	9 476	9 347	8 884
New business loans, total (flows)	EUR million	..	..	85 490	74 896	73 041	80 867	73 460
SME loan share	% of total business loans	..	..	11.76	12.57	12.97	11.56	12.09
New long -term loans, SMEs (flow)	EUR million			4 040	4 275	4 532	4 446	4 348
New short-term loans, SMEs (flow)	EUR million	..	..	6 014	5 139	4 944	4 901	4 536
Government loan guarantees, SMEs	EUR million	341	164	214	173	143	158	167
Government guaranteed loans, SMEs	EUR million	429	211	279	226	185	207	211
Government direct loans, SMEs	EUR million	535	579	574	607	633	539	594
Interest rate, SMEs	%	5.11	5.47	2.89	2.43	2.92	2.46	2.28
Interest rate, large firms	%	4.69	5.04	2.33	1.96	2.55	1.98	1.77
Interest rate spread	%	0.42	0.43	0.56	0.47	0.37	0.48	0.51
Equity								
Venture and growth capital (seed, early and later stage)	EUR million	79.9	50.8	75.9	43.6	93.8	42.5	65.1
Venture and growth capital (growth capital)	EUR million	25.2	32.2	43.2	29	112	25.8	25.2
Other								
Payment delays, B2B	days	8	8	11	12	11	12	13
Payment delays, B2C	days	20	16	6	11	11	9	9
Bankruptcies, total	number	6 295	6 315	6 902	6 376	5 869	6 041	5 459
Bankruptcies, per 1 000 firms	Number	18	17	18	16	14	14	12

Source: Table 4.7.

StatLink http://dx.doi.org/10.1787/888933194649

Figure 4.5. **Trends in SME and entrepreneurship finance in Austria**



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/10.1787/888933193715

Table 4.7. **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 6 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 6 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, four regional institutions and one body belonging to the public sector
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). Partial loan rejections are not included.	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
Equity		
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
Other		
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

Notes

1. It is a government-run service organization which is funded by grants given to Austria under the Marshall Plan by the United States of America.
2. Loans up to EUR 1 million.

Reference

OECD (2013), *Entrepreneurship at a Glance 2013*, OECD Publishing, 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 (94.0%). Only 0.2% are large enterprises.

Table 5.1. **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	**539 411**	**100.0**

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

Source: OECD (2013a).

StatLink http://dx.doi.org/10.1787/888933194656

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. In 2012, the National Bank has changed its methodology regarding data collection and analysis. Before 2012, credits lower than EUR 25 000 were not included in the NBB database. On top of that, the reporting of banks has improved and is now more complete. The data illustrate that, except for a small decrease in the business loans to SMEs in 2009, business loans to SMEs continually increased between 2007 and 2012. Over this period, the loan growth averaged at 9% each year, which is higher than in most countries in the Eurozone. In 2013, the outstanding stock of SME loans decreased slightly by 0.5% however.

Since 2008, business loans to SMEs generally increased at a faster pace than business loans to all firms. The business loans to SMEs as a share of all business loans has therefore increased from 59.6% in 2008 to 67.2% in 2013. Between 2007 and 2013, SMEs make relatively more use of long term loans and less of short term loans. The share of short term loans to SMEs has declined from 38.5% in 2007 to 28.4 in 2013. After an increase to 80.7% in 2009, the share of SME loans used to SME loans authorised has decreased again to 77.5% in 2012. At 77.6 in 2013, the degree of utilisation of available credits, has remained roughly constant over the 2012-13 period.

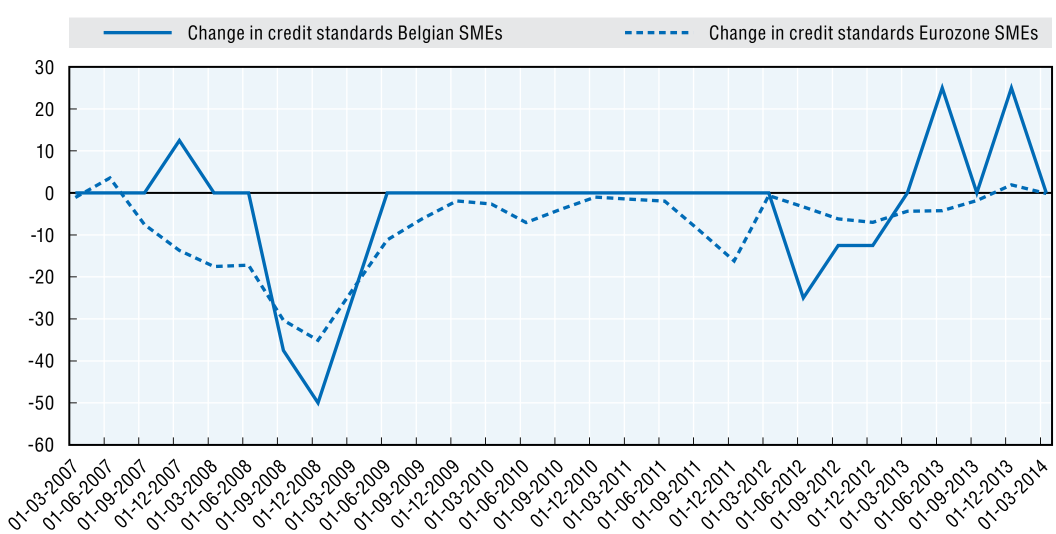
SME loan growth during Belgium's weak economic recovery might be explained in part by the fact that banks were refocusing on the domestic market as the default rate on domestic loans was relatively low (OECD, 2014b). They were also given incentives to engage in SME lending by various government programmes which are described in the section on policy responses.

Credit conditions

SME loans are proxied by loans of less than EUR 1 million. The interest rate charged to SMEs has lowered from a peak of 5.7 in 2008 to 2.06 in 2013. The interest rate on these loans are consistently higher than for loans of more than EUR 1 million, a proxy for loans to large enterprises, but the gap has narrowed to just 30 base points in 2013 up from 58 in 2012 and 92 in 2009, which is below the level seen in most other OECD countries and suggests that Belgian SMEs and larger Belgian firms benefitted equally from the drop of the lending rates of the European Central Bank.

According to the SAFE survey from the ECB, the percentage of SMEs that applied for a loan, but were rejected or refused because the costs were too high, were back at 2011 levels (10%) in 2013 after spiking to 18% in 2012. The quarterly Bank Lending survey illustrates the dramatic tightening of credit standards for Belgian SMEs during the crisis years of 2008 and 2009 and the loosening of conditions since the first quarter of 2013 up to the first quarter of 2014. This recent loosening contrasts with the evolution of the Eurozone average where credit standards have more or less remained constant over the last year (see Figure 5.1).

Figure 5.1. **Change in credit standards for SMEs in Belgium and the Euro zone, 2007-14**



Source: National Bank of Belgium.

StatLink http://dx.doi.org/10.1787/888933193723

Mid 2014, a survey was held for the Belgian Federal SME Observatory with respect to the demand for financing by SMEs during the previous 12 months. Most of the respondents (around 900) were from SMEs aged 5 years or older (further called "mature SMEs"). Microenterprises were defined as having 1-9 employees with a yearly turnover of less than EUR 2 million, small enterprises having 10-49 employees and less than EUR 10 million turnover and medium sized enterprises having 50-249 employees with a turnover of

EUR 10-50 million. A smaller part of the survey was held among around 100 SMEs less than 5 years old (further called "start-ups"). Although the limited number of responses affects the reliability of the results, some interesting comparisons with the mature SMEs could be made nonetheless.

As Table 5.2 shows, in 2014 a bit less than one quarter of SMEs older than 4 years were requesting bank finance for operational uses. About 40% of them requested a bank loan for investment purposes. For the starters, the proportion stood at 52 % and 35 % respectively, underlying their dependence on bank finance for operational uses.

Table 5.2. **Demand for bank finance during previous 12 months in Belgium, percentage of SMEs**

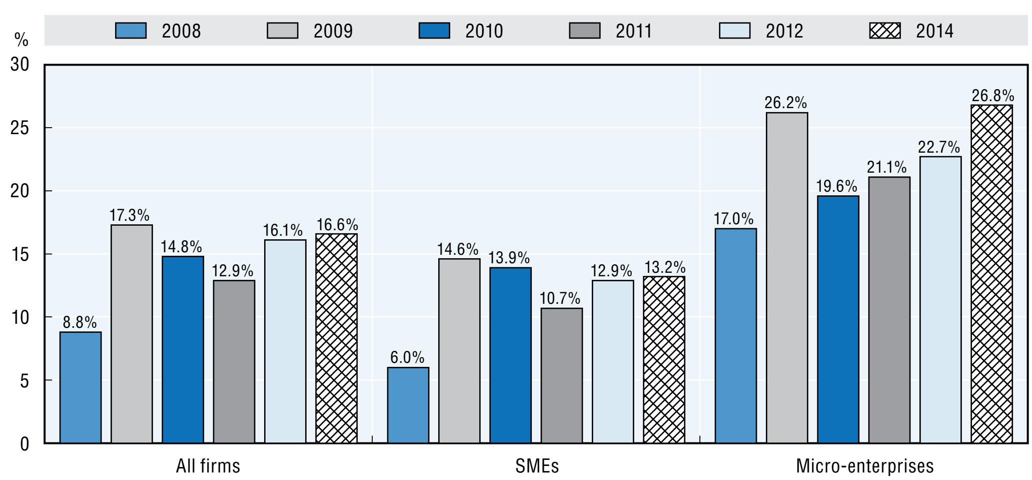
		2012	2014
Operational uses	SMEs > 4 yrs	27	23.4
	SMEs =< 4yrs		52.3
Investments purposes	SMEs > 4 yrs	44.4	39.7
	SMEs =< 4yrs		34.6

Source: Belgian Federal Public Service of Economy, SMEs, Self-employed and Energy - SME Observatory

StatLink http://dx.doi.org/10.1787/888933194664

Mature micro-enterprises experienced a much higher rejection rate than the larger ones. On average, SMEs' rejection rate remained at a similar level in 2014 as in 2009 (around 17%), and a much higher rejection rate than in 2008 (9%). Microenterprises experienced a serious increase between 2010 (20%) and 2014 (27%). For larger SMEs, the rejection rates since 2009 stabilised to some extent (see Figure 5.2). Start-ups face much higher rejection rates, amounting to 66.6% in 2014 (not depicted in Figure 5.2).

Figure 5.2. **Rejection rates broken down by the size of enterprises in Belgium, 2008-14**



Source: Belgian Federal Public Service of Economy, SMEs, Self-employed and Energy - SME Observatory

StatLink http://dx.doi.org/10.1787/888933193738

SMEs were also asked to give different reasons why they experienced problems, if any, when applying for bank financing in the previous 12 months. The request for guarantees, the lack of transparency concerning the criteria for bank lending, the high price for short and long term loans and the request for more information by the bank were considered as problematic by the respondents (see Table 5.3).

Table 5.3. **Problems encountered when applying for a bank loan in Belgium, percentage of SMEs**

	No problems at all	Not many problems	Some problems	Many problems
The bank demanded real guarantees (N = 45)	13.3	20.0	13.3	53.3
The bank demanded personal guarantees (N = 53)	7.5	15.0	9.4	67.9
The bank demanded more information (N = 45)	11.1	20.0	22.2	46.6
The bank took a long decision period (N = 46)	15.2	23.9	26.1	34.7
A high cost price for a short or long-term credit (N = 41)	12.2	19.5	17.1	51.2
A decrease in profitability (N = 29)	27.6	44.8	13.8	13.7
A decrease in the repayment capacity (N = 31)	29.0	38.8	9.7	22.6
The opacity of the criteria (N = 42) used	16.7	14.2	14.3	54.8
The proposed business plan convinced insufficiently (N = 39)	30.8	41.0	23.9	15.4
Lack of knowledge regarding alternative financing (N = 40)	30.0	27.5	15.0	27.5
Risk capital proposed to strict conditions (N = 23)	21.7	26.1	8.7	43.4
Loss of control by capital contributions from third parties (N = 16)	37.5	18.8	12.5	31.3

Source: Belgian Federal Public Service of Economy, SMEs, Self-employed and Energy - SME Observatory

StatLink http://dx.doi.org/10.1787/888933194676

80% of mature SMEs that did not request bank finance expressed no need for loans; for start-ups just over half gave this reason. Start-ups indicated much more frequently than mature SMEs that they had tried non-bank financing (21% against 7%) or did not apply for bank loans because they were discouraged (19% against 5%).Table 5.4 summarises.

Table 5.4. **Reasons why some firms did not request bank finance in the previous 12 months in Belgium**

	Start-ups (N=43)	Mature SMEs (N=270)
I had no need for credits	53.5%	80.1%
I have postponed the investment	11.6%	10.0%
Reliance on alternative financing *	20.9%	7.0%
Credit would still not be obtained *	18.6%	4.8%
Other	4.7%	3.7%

Note: * Significant difference between start-ups and mature SMEs

Source: Belgian Federal Public Service of Economy, SMEs, Self-employed and Energy - SME Observatory

StatLink http://dx.doi.org/10.1787/888933194687

For SMEs that requested and obtained bank finance, start-ups often rely more heavily on bank overdrafts (40% of them used overdrafts versus 19% for mature SMEs) and less on credit for investments (40% versus 59% for mature SMEs).

Mature SMEs used non-bank financing sources less frequently compared with start-ups (54% against 34%). Finance from associates of the company and from friends and family were particularly popular for mature SMEs (respectively 47% and 19% versus 13% and 5% for start-ups). The amount of internal financing from retained profits appeared to be much less prevalent for start-ups than for mature SMEs (9% against 22%).

Asset-based financing and equity financing

Both leasing and factoring are important sources of finance for Belgian businesses. In 2008, the new production of leasing stood at close to 10% (9.73%) of all fixed capital investments, for a total amount of EUR 4405.9 million. This amount fell by 22.65% in 2009 and recovered somewhat afterwards. In 2013, total production of leasing declined again by 7.38%, which means that 8.43% of all gross fixed capital investments were financed by leasing. Although this is the lowest figure since 2007, the amounts involved remain substantial.

Table 5.5. **The take-up of non-bank financing instruments in Belgium**

	Start-ups (N=97)	Mature SMEs (N=826)
None *	34.0%	54.1%
Internal financing with retained earnings	9.3%	21.5%
Capital contributions from existing partners *	35.1%	6.2%
Capital contributions of new partners *	6.2%	0.5%
Advances from partners	5.2%	6.7%
Loans from friends and family *	18.6%	5.0%
Financing through group or holding *	1.0%	6.9%
Risk capital *	1.0%	0.1%
Subordinated loans *	8.2%	1.5%
Business angel *	4.1%	0.2%
Supplier Credit	8.2%	5.0%
Financial or operational leasing	7.2%	10.2%
factoring	0.0%	2.2%
crowdfunding	0.0%	0.1%
other *	4.1%	1.5%

Note: * Significant difference between start-ups and mature SMEs

Source: Belgian Federal Public Service of Economy, SMEs, Self-employed and Energy - SME Observatory

StatLink http://dx.doi.org/10.1787/888933194694

Table 5.6. **Outstanding stock of leasing (based on the customer portfolio of the Belgian Leasing Association) and factoring turnover, 2007-13**

EUR million

	2007	2008	2009	2010	2011	2012	2013
LEASING							
Non-real estate leasing (financial et operational)	3 917	4 293	3 366	3 591	4 083	4 088	3 683
Real estate leasing	489	563	391	415	356	362	438
Total production	4 406	4 856	3 756	4 006	4 439	4 450	4 122
Year-on-year growth, %	3.07	10.22	-22.65	6.63	10.82	0.25	-7.38
Gross fixed capital formation	46 659	49 886	44 743	44 245	48 928	48 751	48 912
Relative importance of leasing in capital formation	9	9.73	8.40	9.05	9.07	9.13	8.43
Outstanding stock of leasing (at end of the year)	10 368	12 212	11 637	11 958	12 214	12 656	12 784
FACTORING							
Factoring turnover (domestic and international)	19 200	22 500	23 921	32 200	36 871	42 352	47 684
Year-on-year growth, %		17.19	6.32	34.61	14.51	14.87	12.59
GDP	335 815	346 375	340 669	355 791	369 258	375 852	382 692
Factoring as a proportion of GDP	5.72	6.50	7.02	9.05	9.99	11.27	12.46

Source: Belgian Leasing Association, EUF Factoring & Commercial Finance

StatLink http://dx.doi.org/10.1787/888933194707

Factoring turnover, in contrast, grew very strongly since 2007, and has more than doubled between 2007 and 2013. In 2013, the total turnover of the factoring industry in Belgium totalled EUR 47,684 million. This is 12.46% of GDP, which is up from the 2012 level (at 11.27%) and marks a dramatic increase from the pre-crisis level of 2007 (at 5.72%).

As in most other countries, equity financing displays a lot of volatility. Whereas equity financing totalled EUR 380 million in 2007, it levelled off to EUR 286 million in 2012 and contracted further to EUR 256 million in 2013, the latter mainly due to a large decline in growth capital (see Table 5.7).

Table 5.7. **Venture and growth capital in Belgium, 2007-13**

EUR thousand

Stage	2007	2008	2009	2010	2011	2012	2013
Seed	8 021	10 166	5 889	4 833	450	2 126	500
Start-up	73 953	53 202	90 983	62 801	74 510	64 883	60 613
Later	98 871	53 763	59 012	15 280	16 153	27 232	28 385
Growth	199 279	223 474	290 415	202 229	130 396	192 054	166 329
Total	380 123	340 604	446 298	285 143	221 509	286 295	255 827

Source: European Venture Capital Association (2014).

StatLink http://dx.doi.org/10.1787/888933194710

Other indicators

Intrum Justitia provides data on payment delays from firms active in business to business, business to consumer and business to government. In 2013, all these delays decreased, from 19 to 18 days in the business to business segment, from 16 to 14 in the business to consumer segment and from 28 to 24 in the business to government segment. The evolution of bankruptcies paints a more sobering picture and increased with 11% in 2013, which is a similar increase as in 2009 and 2010. The number of bankruptcies has increased from a total of 7 713 in 2007 to 12 306 six years later.

Government policy response

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.

Table 5.8. **Direct loans, government guarantees and guaranteed loans in Belgium, 2007-13**

EUR

Level	2007	2008	2009	2010	2011	2012	2013
Federal							
Dir loans,LT	100 432 509	89 075 983	93 114 589	75 019 066	54 087 344	48 489 998	43 663 724
Dir loans,ST	0	0	5 430 831	5 005 000	2 644 728	4 095 000	3 794 250
Regions							
Brussels-Capital							
Dir loans	22 784 995	12 316 159	17 905 793	12 504 653	12 271 775	8 327 117	6 300 792
Guarantees	..	12 021 086	15 387 771	14 024 864	14 399 592	12 474 473	9 413 111
G.loans	..	17 997 482	23 786 463	20 955 954	21 967 483	26 109 245	17 473 364
Leverage	..	1.50	1.55	1.49	1.53	2.09	1.86
Wallonia							
Dir loans	..	89 537 272	92 516 412	113 151 978	113 409 807	132 288 068	33 808 576
Guarantees	..	44 399 308	68 151 126	52 784 111	68 666 269	66 992 172	68 012 470
G.loans	..	114 901 779	157 182 924	138 385 845	179 661 690	163 235 137	166 037 193
Leverage	..	2.59	2.31	2.62	2.62	2.44	2.44
Flemish Region							
Dir loans	9 249 135	11 859 037	31 777 975	16 211 171	22 608 946	29 928 660	42 842 909
Guarantees	77 842 621	100 115 854	328 403 564	487 128 668	234 440 304	186 540 982	402 781 929
G. loans	128 156 937	179 774 387	651 733 957	729 034 739	360 108 369	294 994 032	642 558 584
Total							
Dir loans	132 466 639	202 788 451	240 745 600	221 891 868	205 022 600	223 128 843	130 410 251
Guarantees	77 842 621	156 536 248	411 942 461	553 937 643	317 506 165	266 007 627	480 207 510
G. loans	128 156 937	312 673 648	832 703 344	888 376 538	561 737 542	484 338 414	826 069 140
Leverage	1.65	2.00	2.02	1.60	1.77	1.82	1.72

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

StatLink http://dx.doi.org/10.1787/888933194725

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 and 2012, although they still remained well above pre-crisis levels. 2013 saw a reversal of this trend with marked increase of loan guarantees and guaranteed loans, solely driven by the government of Flanders. Direct government loans from the federal government more than halved between 2007 and 2013. Total direct government loans decreased strongly in 2013, compared to 2012, mainly due to a sharp drop of direct loans from the Walloon Government. Direct loans and equity in the Walloon Region do not include in 2013 the financings made by the investments companies, which explains the decrease observed.

The following policy measures were adopted for the period 2009-13 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
- 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 Brussels "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. Access to finance at each stage of SME's life cycle is therefore a major priority. 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 has commanded a study on crowd funding. That study has been presented on the 2nd of August 2013".

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/ Prêts citoyens".

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.

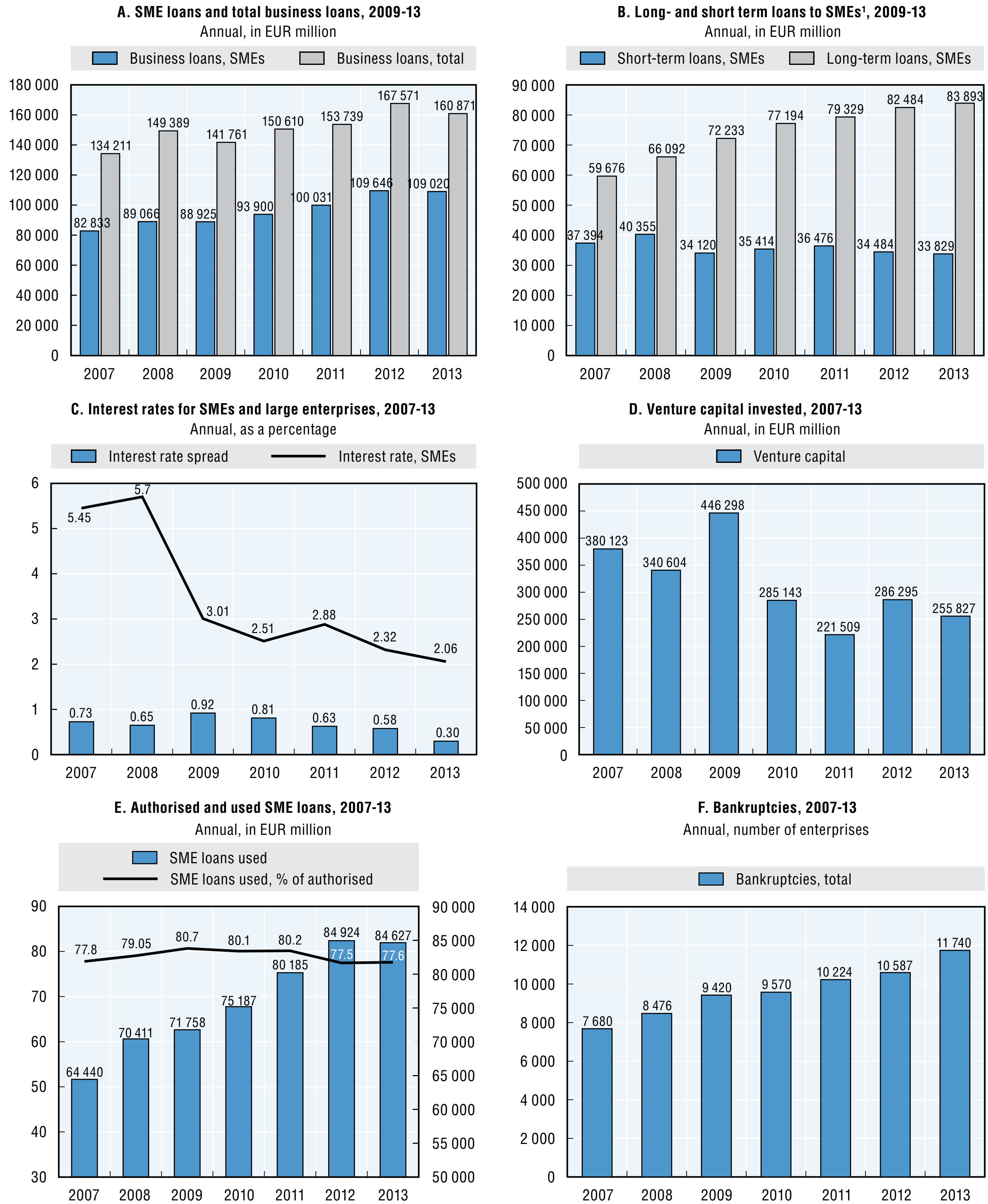
Table 5.9. **Scoreboard for Belgium, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Business loans, SMEs	EUR million	82 833	89 066	88 925	93 900	100 031	109 646	109 020
Business loans, total	EUR million	134 211	149 389	141 761	150 610	153 739	167 571	160 871
Business loans, SMEs	% of total business loans	61.72%	59.62%	62.73%	62.35%	65.07%	65.43%	67.77%
Short-term loans, SMEs	EUR million	37 394	40 355	34 120	35 414	36 476	34 484	33 829
Long-term loans, SMEs	EUR million	59 676	66 092	72 233	77 194	79 329	82 484	83 893
Total short and long-term loans, SMEs	EUR million	97 070	106 447	106 353	112 608	115 805	116 968	117 722
Short-term loans, SMEs	% of total SME loans	38.52%	37.91%	32.08%	31.45%	31.50%	29.48%	28.74%
Government loan guarantees, SMEs	EUR million	77.84	156.54	411.94	553.94	317.51	266.01	480.21
Government guaranteed loans, SMEs	EUR million	128.16	312.67	832.70	888.38	561.74	484.34	826.07
Direct government loans	EUR million	132.47	202.79	240.75	221.89	205.02	223.13	130.41
SME loans used	EUR million	64 440	70 411	71 758	75 187	80 185	84 924	84 627
SME loans authorised	EUR million	82 833	89 066	88 925	93 900	100 031	109 646	109 020
SME loans used	% of authorized loans	77.80%	79.05%	80.69%	80.07%	80.16%	77.45%	77.63%
Interest rate, SMEs		5.45%	5.70%	3.01%	2.51%	2.88%	2.32%	2.06%
Interest rate, large firms		4.72%	5.05%	2.09%	1.70%	2.25%	1.74%	1.76%
Interest rate spread		0.73%	0.65%	0.92%	0.81%	0.63%	0.58%	0.30%
Rejection rate		..	..	..		10%	18%	10%
Collateral, SMEs		..	..	..	74.30%	71.90%	78.60%	..
Equity								
Venture and growth capital	EUR	380 123	340 604	446 298	285 143	221 509	286 295	255 827
Venture and growth capital	%, year-on-year growth rate		-10.40%	31.03%	-36.11%	-22.32%	29.25%	-10.64%
Other								
Payment delays, B2B	number of days	..	..	17	17	15	19	18
Payment delays, B2C	number of days	..	..	12	12	16	16	14
Payment delays, B2G	number of days	..	..	31	31	27	28	24
Bankruptcies, total	number	7 731	8 525	9 511	9 951	10 531	11 083	12 306
Bankruptcies, total	%, year-on-year growth rate	0.51%	10.27%	11.57%	4.63%	5.83%	5.24%	11.03%
Bankruptcies, total	number	7 680	8 476	9 420	9 570	10 224	10 587	11 740
Bankruptcies, total	%, year-on-year growth rate	0.84%	10.36%	11.14%	1.59%	6.83%	3.55%	10.89%

Source: Refer to Table 5.10.

StatLink http://dx.doi.org/10.1787/888933194738

Figure 5.3. **Trends in SME and entrepreneurship finance in Belgium**



1. Loans up to EUR 1 million.
Source: Refer to table 5.10.

StatLink http://dx.doi.org/10.1787/888933193746

Table 5.10. **Definitions and sources of indicators for Belgium's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Authorised credits to SMEs, outstanding amounts, end of December.	National Bank of Belgium (NBB): the Central Corporate Credit Register (CCCR)
Business loans, total	Authorised credits to SMEs 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 authorised	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 2013
Bankruptcies, total	Bankruptcies on annual basis	Federal Public Service Economy.

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Canada

SMEs in the national economy

In 2013, Canadian small businesses (1-99 employees) constituted 98.0% of all businesses and employed over 8.0 million individuals, which translates into 70.2% of the private sector labour force. Among those individuals, 76.0% were employed in the services sector and 24.0% in the goods sector.

Table 6.1. **Distribution of firms in Canada, 2013**

By firm size

Firm size (employees)	Number of firms	% of employer firms
1-4	664 770	55.4
5-9	232 441	19.4
10-19	148 139	12.3
20-49	99 685	8.3
50-99	32 176	2.7
100-199	13 830	1.2
200-499	6 585	0.5
500 +	2 731	0.2
Total	**1 200 357**	**100.0**

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

Source: Statistics Canada, Business Register, December 2013.

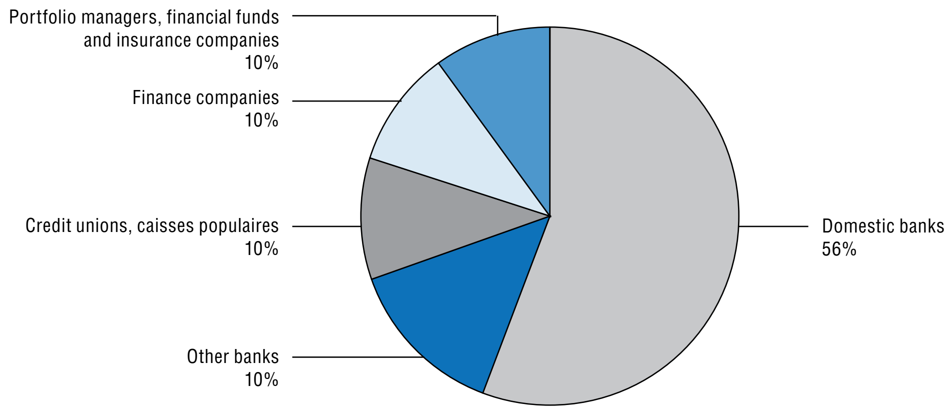
StatLink http://dx.doi.org/10.1787/888933194748

Small business lending

Figure 6.1 shows the major suppliers of small business financing in 2013. Most small business financing (80.0%) was provided by banks (domestic and foreign) and credit unions and *caisses populaires*. The remainder came from finance companies, financial funds and insurance companies. This distribution has remained fairly stable since 2012.

Figure 6.1. **Debt financing by source of financing in Canada, 2013**

As a percentage



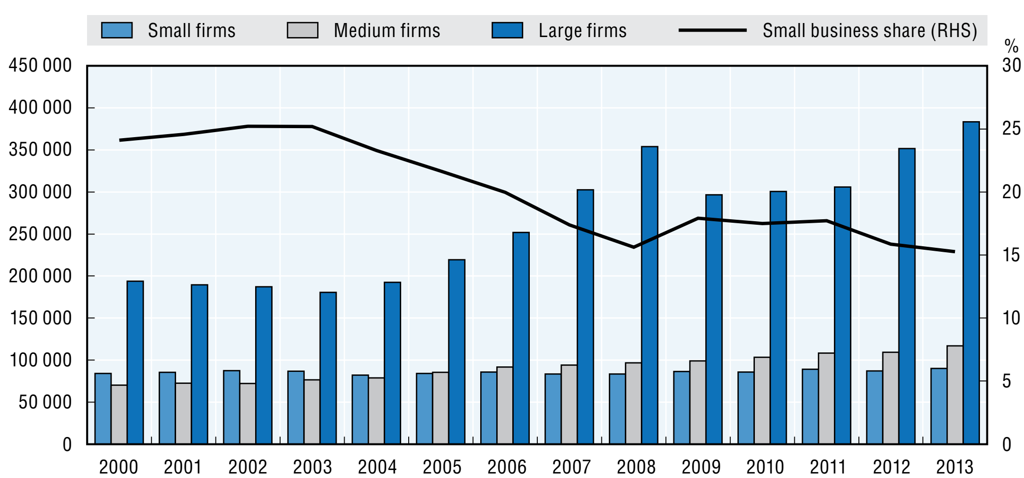
Source: Statistics Canada, Survey of Suppliers of Business Financing 2013.

StatLink http://dx.doi.org/10.1787/888933193758

Data from the supply-side survey show that debt outstanding to all businesses increased 7.8% in 2013 to CAD 591 billion, while lending to small businesses increased 3.7% to CAD 90.2 billion. Small businesses' share of total outstanding business loans decreased by 0.6 percentage points to 15.3% in 2013—its lowest level since 2000. Over the 2007-13 period, SME loans and loans to large firms increased by 16.8% and 52.3% respectively. Over the longer 2000-13 period, debt financing to large businesses grew while debt financing to small businesses remained flat (Figure 6.2). SME's share of total outstanding business loans hence declined continually over the 2000-13 period.

Figure 6.2. **Business debt outstanding in Canada, 2000-13**

CAD million (LHS) and percentage (RHS)



Note: Firm size is proxies by loan authorisation level. 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 are proxied by loans with an authorisation level greater than CAD 5 million.

Source: Statistics Canada, Survey of Suppliers of Business Financing, 2000–2013; and Industry Canada.

StatLink http://dx.doi.org/10.1787/888933193763

Supply-side survey results indicate that lending activity for businesses of all sizes increased in the second half of 2013. The increase was significant among large businesses to which lenders disbursed approximately CAD 52 billion in new loans. This represented a 7.8% increase in disbursals compared with the first half of 2013. Similarly, lending activity increased for small businesses and medium-sized businesses, with loan disbursals rising by about 2.8% and 9.9% respectively. Total lending activity in 2013 compared to 2012 increased by 5.6%, 4.5%, and 8.2% for small, medium-sized and large businesses respectively.

Table 6.2. **Value of disbursements in Canada, 2012-13**

CAD million

Business Size	Half 1 2012	Half 2 2012	Half 1 2013	Half 2 2013
Large (authorisation levels of CAD 5 million or more)	45 994	46 307	48 071	51 803
Change %	*11.2*	*0.7*	*3.8*	*7.8*
Medium (authorisation levels between CAD 1 million and CAD 5 million)	13 676	13 646	13 605	14 954
Change %	*4.7*	*-0.2*	*-0.3*	*9.9*
Small (authorisation levels below CAD 1 million)	10 709	10 960	11 281	11 594
Change %	*4.6*	*2.3*	*2.9*	*2.8*
Total	**70 379**	**70 913**	**72 957**	**78 351**
Change %	*8.9*	*0.8*	*2.9*	*7.4*

Source: Statistics Canada, Survey of Suppliers of Business Financing, 2013; and Industry Canada.

StatLink http://dx.doi.org/10.1787/888933194752

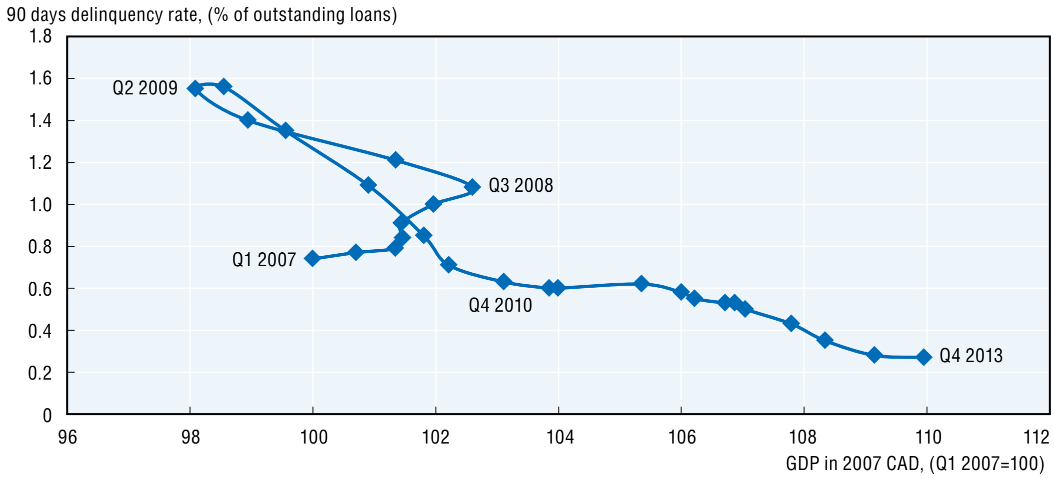
Small business credit conditions

The 2013 Credit Conditions Survey results showed that credit conditions remained stable in 2013 after having recovered from the 2009 recession. Request rates for debt financing decreased from 25.7% in 2012 to 22.6% in 2013. Also, the 2013 ratio of funds authorised to funds requested was 89.0%, relatively unchanged from 91.0% in 2012.

Indicators show that small business credit conditions have remained stable since 2011. The average interest rate charged to small businesses increased 0.3 percentage points since 2011, reaching 5.6%. The average business prime rate (the rate charged to the most creditworthy borrowers) stayed flat at 3%. The business risk premium (measured as the difference between the average small business interest rate and the business prime rate) increased from 2.3% in 2011 to 2.6% in 2013. This reflects stable access for financing for small businesses in Canada. The percentage of small businesses asked to pledge collateral to secure their loans returned to 2009 levels (56%), which suggests that lender underwriting standards have loosened.

The small business 90-day loan delinquency rate (amount of loan interest and principle payments more than 90 days past due divided by the total loan balance outstanding) is now better than pre-recession levels. Specifically, the 90-day delinquency rate rose from 0.8% in the first quarter of 2007 to 1.1% in the third quarter of 2008, and then as the economy contracted it reached a high of 1.6% in the second quarter of 2009. This declined to 0.6% in the fourth quarter of 2010 as the economy recovered and fell to 0.3% by the end of 2013.

Figure 6.3. **90-day delinquency rate (%) and GDP in Canada, 2007-13**



Sources: PayNet inc; Statistics Canada and Industry Canada calculation.

StatLink http://dx.doi.org/10.1787/888933193776

Equity financing

Equity financing (provided in the form of venture capital) increased by 26.5% in 2013 to reach CAD 1.9 billion but remained below the 2007 level. Between 2012 and 2013, seed capital decreased by 1.8% and early stage capital increased by 6.9%. Expansion capital and later and other stages venture capital increased by 17.7% and 41.8%, respectively.

Table 6.3. **Venture and growth capital in Canada, 2007-13**

In CAD million

Stage	2007	2008	2009	2010	2011	2012	2013
Seed	98.2	71.0	116.3	54.0	44.6	44.1	43.3
Early stage	491.0	364.5	226.1	277.2	412.6	311.2	332.5
Expansion	795.5	616.1	379.5	460.7	472.8	438.8	516.5
Later and other stages	966.3	329.2	271.4	401.9	618.3	731.5	1 037.3
Total	**2 350.9**	**1 380.9**	**993.4**	**1 193.8**	**1 548.3**	**1 525.5**	**1 929.5**

Source: Thomson Reuters, VC Reporter, 2013.

StatLink http://dx.doi.org/10.1787/888933194767

Other indicators

The declining trend in business insolvencies continued into 2013. Specifically, the incidence of insolvencies per thousand businesses fell from 1.8 in 2012 to 1.6 in 2013. 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 2.9% between the third quarter of 2009 and the fourth quarter of 2013. In addition, the business prime rate remains at a historical low. This helps keep small business financing costs low and, as a result, allows them to maintain healthy and more manageable balance sheets.

Government policy response

In 2013, the government undertook a number of financing policy measures to help strengthen Canada's small businesses.

The Hiring Credit for Small Business, introduced in 2011, was extended to 2013. This measure provided up to CAD 1 000 against a small firm's increase in its 2013 Employment Insurance (EI) premiums over those paid in 2012. It was available to an estimated 560 000 employers with total EI premiums of CAD 15 000 or less in 2012, allowing these small businesses to reinvest approximately CAD 225 million in job creation in 2013.

Through Budgets 2013 and 2014, the government announced its intention to renew and transform the Labour Market Agreements (LMAs) with provinces and territories in 2014, with investments of CAD 500 million per year for 6 years (2014-15 to 2019-20). The LMAs are being transformed into Canada Job Fund Agreements, which includes the introduction of the Canada Job Grant (CJG) with a focus on increasing employers' participation in skills training decisions to ensure that the training provided to workers will be better aligned with job opportunities, particularly in sectors facing skills mismatches and labour shortages. Through the CJG, businesses and employer organisations will be eligible for Grants of up to CAD 15,000, cost-shared by employers toward eligible training costs, which includes up to CAD 10,000 in government contributions.

The Lifetime Capital Gains Exemption was increased to CAD 800,000 from CAD 750,000 and the new limit was indexed to inflation. This new limit will apply to dispositions in 2014 of qualified small business corporation shares, and qualified farm and qualified fishing property. The first indexation adjustment will occur for the 2015 taxation year. It is estimated that these measures will provide federal tax relief of CAD 5 million in 2013-14 and CAD 15 million in 2014-15.

In order to help the manufacturing and processing sector accelerate and undertake additional investment, the government provided CAD 1.4 billion in tax relief over the 2014-15 to 2017-18 period through a two-year extension of the temporary accelerated capital cost allowance for new investment in machinery and equipment.

The government also provided CAD 920 million to renew the Federal Economic Development Agency for Southern Ontario (FedDev Ontario) for five years, starting on April 1, 2014. Of this funding, CAD 200 million was allocated for a new Advanced Manufacturing Fund (AMF) in Ontario for five years, starting on April 1, 2014. The AMF supports investments that create new and innovative products or production methods, with market entry or commercialisation within five years. The renewal provides new opportunities to create and grow businesses, cultivate partnerships and build strong communities across southern Ontario. The Agency continues to deliver programs that strengthen the economy and position the region to compete globally. In December 2013, FedDev Ontario launched a new suite of initiatives, the Southern Ontario Prosperity Initiatives:

- Investing in Business Growth and Productivity: Assists existing southern Ontario businesses to adopt new technologies that have the potential to improve productivity and expand their operations.
- Investing in Business Innovation: Fosters a more competitive southern Ontario economy by encouraging the development of partnerships between entrepreneurs and investors to support early-stage, globally-oriented businesses with the ability to become world-leading innovators.
- Investing in Commercialisation Partnerships: Addresses innovation and commercialisation, and encourages collaboration to improve Ontario's productivity performance so that the region can compete on an international platform.

- Investing in Regional Diversification: Designed to build stronger, more diverse economies in southern Ontario communities in the long term by leveraging unique assets and local expertise, and by creating opportunities for economic growth and development in communities across southern Ontario.

Recognising the importance of helping smaller companies go global, Export Development Canada (EDC) introduced a "Stretch credit" philosophy in their Accounts Receivable Insurance programme, under which the approval guidelines for credit request of up to CAD 50K (for high risk buyers) and CAD 100,000 (for moderate risk buyers|) have been simplified. This is expected to result in both an increase in the number of credit approvals for Canadian SMEs on their foreign buyers, and overall a faster turnaround for the customer.

New regulations governing EDC's domestic activities were implemented on March 11, 2014. A government review found that while EDC's temporary domestic powers had contributed positively to providing additional credit and insurance capacity since 2009, these broad powers were no longer required. In line with EDC's export-related mandate, the regulatory amendments allow EDC to provide domestic support (financing, guarantees and insurance) to companies that have at least 50% of their total annual sales in the export and foreign markets. The regulations also require that EDC's domestic transactions complement those of the Business Development Bank of Canada (BDC) and private sector institutions.

In recognition of the important role that young, high-potential firms play in promoting economic growth and job creation, Economic Action Plan 2013:

- Provided CAD 20 million, over three years, for a new pilot programme, the Business Innovation Access Programme, to be delivered through the National Research Council's Industrial Research Assistance Programme (NRC-IRAP). This funding will be available to SMEs starting in 2014, to help them access business services or technical assistance at Canada's learning institutions and publicly-funded research organisations to bring bigger and better innovations to market faster.
- Provided CAD 325 million over eight years to Sustainable Development Technology Canada to continue support for the development and demonstration of new, clean technologies that create efficiencies for businesses and contribute to sustainable economic development.
- Provided CAD 60 million over five years, through the Canada Accelerator and Incubator Programme (CAIP) delivered through NRC-IRAP[1]. CAIP aims to help outstanding and high-potential incubator and accelerator organisations in Canada expand their services to entrepreneurs. Funding will be provided to a limited number of accelerators and incubators over a five year period in the form of non-repayable contributions. Contributions will support incremental activities that expand the overall service offerings to early-stage firms and entrepreneurs, and promote a higher output of SMEs that are investment-ready and able to develop into sustainable, high-growth businesses.
- Made available CAD 100 million through the BDC for strategic partnerships with business accelerators and co-investments in graduate firms, which will be distributed over 5 years at a projected CAD 20 million a year.
- Established the BDC Entrepreneurship Awards, which celebrate the achievements, mentorship, risk-taking, and resilience of Canadian entrepreneurs while rewarding recipients with monetary and non-monetary prizes.

- Provided CAD 18 million in support over two years to the Canadian Youth Business Foundation (now Futurpreneur Canada). Futurpreneur Canada is a non-profit organisation that provides young entrepreneurs with loans, mentoring and business services.

In addition, the Prime Minister announced the Venture Capital Action Plan in January 2013, a comprehensive strategy for deploying CAD 400 million in new capital over the next 7 to 10 years to reinvigorate the venture capital sector in Canada. The Plan recognises the need to demonstrate that Canada's innovative firms represent superior return opportunities, and that private sector investment and decision-making is central to long-term success. In particular, the Venture Capital Action Plan is making available:

- CAD 350 million to establish or recapitalise up to four large scale private sector-led funds of funds (a funds of funds portfolio consists of investments in several venture capital funds) in partnership with institutional and corporate strategic investors, as well as interested provinces and
- an aggregate investment of CAD 50 million in a few high-performing venture capital funds in Canada.

Significant progress has been made in implementing the VCAP. Following a rigorous selection process and based on the recommendations of a private sector Venture Capital Expert Panel, the government announced in fall 2013 the selection of high-performing venture capital funds in Canada to receive an aggregate investment of CAD 50 million from the government.

The government is also continuing to advance the establishment of up to four private sector-led large scale funds of funds, which is expected to attract close to CAD 1 billion in private sector investments. On January 21, 2014, the Government announced the first closing of the Northleaf Venture Catalyst Fund with CAD 217 million in commitments, in

Box 6.1. **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, 1 to 99.

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.

partnership with private sector investors and the Government of Ontario. This is the first private sector-led fund of funds under the VCAP. With an overall target fund size of CAD 300 million, this fund has a generalist investment strategy and will invest primarily in Canadian-based venture capital funds.

The government is continuing discussions with private sector lead investors and interested provinces, as well as potential private sector General Partners with the goal of establishing three additional funds of funds. Two other funds, Teralys Capital and Kensington Capital Partners, were announced in 2014.

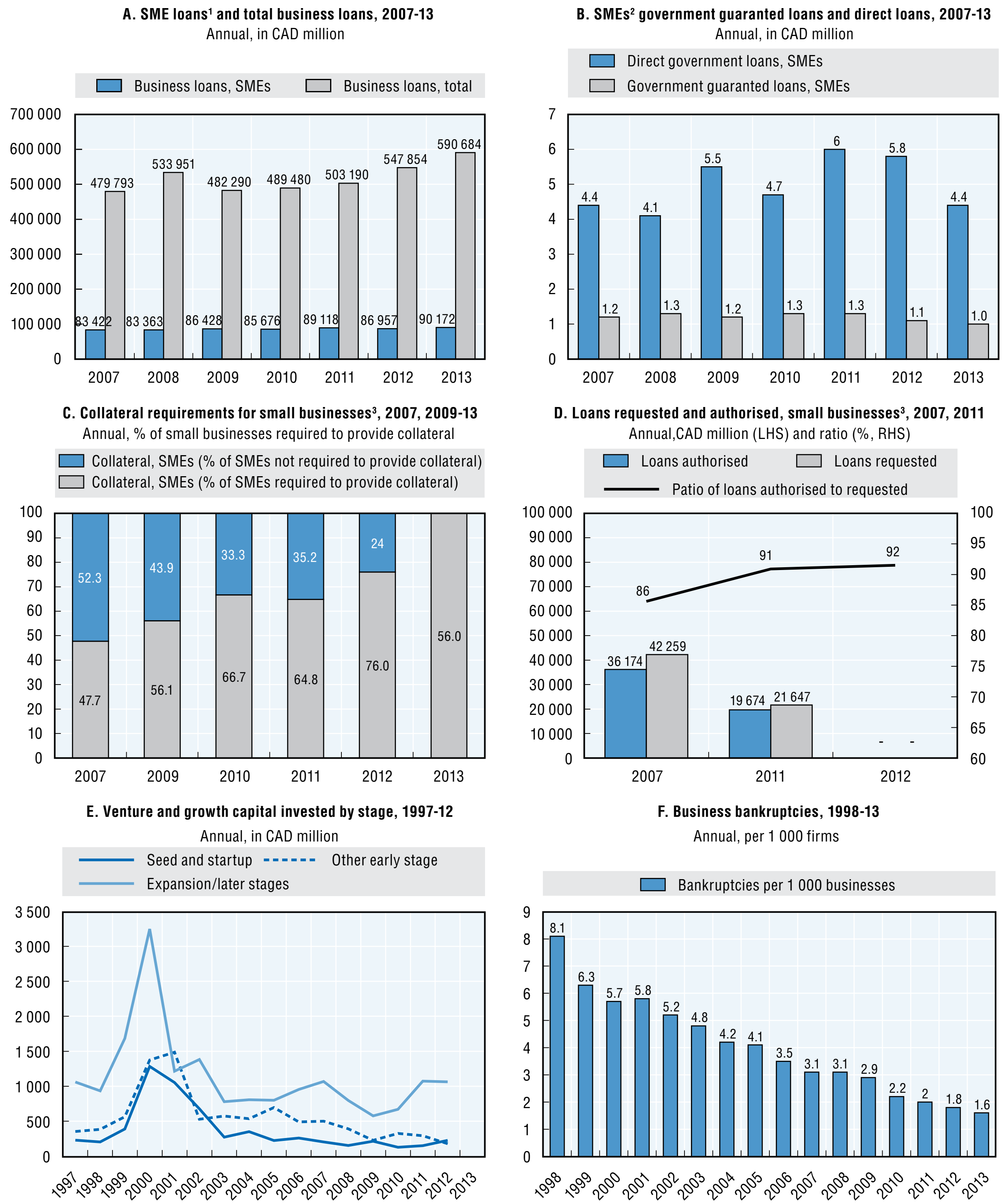
Table 6.4. **Scoreboard for Canada, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Business loans, SMEs	CAD million	83 422	83 363	86 428	85 676	89 118	86 957	90 172
Business loans, total	CAD million	479 793	533 951	482 290	489 480	503 190	547 854	590 684
Business loans, SMEs	% of total business loans	17.4	15.6	17.9	17.5	17.7	15.9	15.3
Business loans, SMEs (flow)	CAD million	..	..	..	..	20 176	21 669	22 875
Business loans, total (flow)	CAD million	..	..	..	..	126 181	141 294	151 307
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	46.0
Government guaranteed loans, SMEs	CAD billion	1.2	1.3	1.2	1.3	1.3	1.1	1.1
Direct government loans, SMEs	CAD billion	4.4	4.1	5.5	4.7	6.0	5.8	4.6
Loans authorised, small businesses	CAD million	36 174	..	..	..	19 674	..	..
Loans requested, small businesses	CAD million	42 259	..	..	..	21 647	..	..
Ratio of loans authorised to requested, small businesses	%	85.6	..	72.1	87.9	90.9	91.5	88.6
Interest rate, average	%	7.5	..	6.2	5.8	5.3	5.4	5.6
Interest rate, business prime	%	6.1	..	3.1	2.6	3.0	3.0	3.0
Risk premium for small businesses	%	1.4	..	3.1	3.2	2.3	2.4	2.6
Collateral, small businesses	% of SMEs required to provide collateral on last loan	47.7	..	56.1	66.7	64.8	76.0	56.0
Equity								
Venture and growth capital, Investments	CAD billion	2.4	1.4	1.0	1.2	1.5	1.5	1.9
Venture and growth capital, Investments	Year-on-year growth rate, %	..	-41.3	-28.1	20.2	29.7	-1.5	26.5
Other								
90-Day Delinquency Rate Small business	% of loans outstanding	0.79	1.05	1.47	0.82	0.60	0.53	0.33
90-Day Delinquency Rate Medium business	% of loans outstanding	0.10	0.15	0.49	0.24	0.02	0.01	0.01
Bankruptcies, total	per 1 000 firms	3.1	3.1	2.9	2.2	2.0	1.8	1.6

Source: Refer to Table 6.5.

StatLink http://dx.doi.org/10.1787/888933194779

Figure 6.4. **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 Programme. Chart E: Thompson Reuters Canada, Industry Canada VC Monitor. Chart F: Office of the Superintendent of Bankruptcy Canada.

StatLink http://dx.doi.org/10.1787/888933193780

Table 6.5. **Definitions 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, 2007-2011 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, 2007-2011 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 C 5 million) and Small (authorisation lower than CAD 1 million).	Statistics Canada, 2011 Survey of Suppliers of Business Financing
Short-term loans, Small businesses	Operating line (short-terms loans, 12 months or less, lines of credit, credit cards), flows. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009, 2010, 2012 and 2013 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, 2012 and 2013 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 Programme (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 Programme
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, 2012 and 2013 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, 2012 and 2013 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, 2012 and 2013 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 Survey on Financing and Growth of Small and Medium Enterprises
Interest rate, business prime	The chartered banks' rates on prime business loans are the interest rates charged to the most creditworthy borrowers.	Bank of Canada, Banking and Financial Statistics
Risk premium for Small businesses	Difference between interest rate paid by small business and business prime.	Bank of Canada, Banking and Financial Statistics
Collateral, Small businesses	Percentage of small businesses that were required to provide collateral to secure their latest loan. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009 and 2010 Supplementary Survey on Credit Conditions
Equity		
Venture and growth capital	Actual amounts of venture and growth capital invested. Includes seed, start up, early stage and expansion. All enterprises.	Thompson Reuters Canada, Industry Canada VC Monitor

Table 6.5. **Definitions 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 CAD 500,000 and Medium-sized borrowers are those with high credit of more than CAD 500,000 but less than CAD 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

Note

1. Economic Action Plan 2014 provided an additional CAD 40 million, bringing the total available to help outstanding and high-potential incubator and accelerator organizations through the CAIP to CAD 100 million.

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Chile

SMEs in the national economy

In Chile, SMEs account for the overwhelming majority of the total number of enterprises. In the commercial year 2012, 98.5% of the firms were classified as SMEs, including employer and non-employer enterprises in all industries. Microenterprises made up 75.2% of the total number of firms; whereas small and medium accounted for 20.2% and 3% of the total respectively. Although SMEs represent almost all of the enterprises, they only account for 16% of the total amount of annual sales. Likewise, according to the statistics of the Internal Revenue Service (Servicio de Impuestos Internos, SII) SMEs accounted for 46% of the payroll of Chilean firms in the commercial year 2012.

The more accepted definition of SMEs in Chile is based on the annual turnover criterion according to law 20,416[1], the financial industry makes use of a different definition based on the size of the loan amount, as indicated in Box 7.1.

Table 7.1. **Distribution of firms in Chile, commercial year 2012**

By firm size

Firm size (annual turnover)	Number	%
All enterprises	**846 809**	**100.0**
SMEs (up to CLP 100 000)	**834 805**	**98.5**
Micro (up to CLP 2 400)	637 111	75.2
Small (CLP 2 400 to CLP 25 000)	171 237	20.2
Medium (CLP 25 000 to CLP 100 000)	25 737	3.0
Large (CLP 100 000+)	**12 724**	**1.5**

Note: data includes employer and non-employer enterprises in all industries; UF (Unidad de Fomento) is an indexed unit of account that incorporates adjustments based on increases in the general level of prices in the Chilean economy in order to preserve the purchasing power (real value) of assets denominated or indexed to this unit of account. The UF of July 31, 2014 stood at CLP 24,060.07. SMEs in Chile are firms with annual sales of up to CLP 100 000.

Source: Internal revenue office of Chile.

StatLink http://dx.doi.org/10.1787/888933194789

Macroeconomic context

The economic activity of the Chilean economy moderated in 2013 with an annual growth rate of 4.1% compared to a 5.4% in 2012. The downward trend of the economic activity has continued in the months leading up to July 2014. The last edition[2] of the Chilean Central Bank (CHCB) Monetary Policy Report (*Informe de Política Monetaria*, IPOM) points out to a slower evolution of the economic activity and the domestic demand during the first half of 2014. The IPOM explains that the rate of investment, especially accumulation of fixed assets, has fallen over the past three quarters, which in combination with a greater than expected fall in private consumption, played a major role in explaining this downward trend. In the first half of 2014, the economy grew at an annual rate 2.6% reinforcing the perspectives of a slowdown. At the same time, since May 2013 a slower international demand for copper, the country's main export, has put downward pressure on the exchange rate. The higher costs of imports resulting from the depreciation of the Chilean peso have been passed on the general level of prices. As a result, inflation peaked in May 2014, with a 4.7% year-on-year variation[3].

As a response to a slower economic activity the Central Bank Monetary Policy Board has edged down the benchmark interest rate (*Tasa de Política Monetaria*, TPM) by 125 basis points since October 2013 with the latest reduction in the meeting of July 2014 according to the closing date of this report. The CHCB reports that the reduction of the TPM has been translated into lower short-term interest rates and lower cost financing for long-term operations, which would be currently at the lowest point in a decade. In addition, the CHCB reports that the rate at which loans are being extended to the private sector has decreased in recent months, especially for commercial loans, which are associated with financing for inventory, working capital and fixed-assets in line with a decline in investment by firms.

SME lending

Over the period 2007-13, the stock of total business loans increased[4] by 75 %. The stock of total outstanding business loans fell over the period 2008-09 by 7.21% and recovered the next year with a 4.51% year-on-year increase (see table 7.2). During the period 2010-11, the total growth rate of the portfolio of outstanding business loans bounced back reaching almost pre-crisis growth rate levels with a year-on-year growth of 20.4%. Since that point the rate of growth of business loans has steeply reduced with growth rates of 14.75 % (2011-12) and 4.5% (2012-13) respectively during the next following year-on-year variations.

Table 7.2. **Rate of growth of the stock of total business loans in Chile**

Growth of the Stock of Commercial Loans (with respect to base year 2007)	2008	2009	2010	2011	2012	2013
	21.96	13.17	18.27	42.77	61.41	75.08
Annual Growth of the Stock of Commercial Loans	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
	21.96	-7.21	4.51	20.71	13.06	8.47

Source: Own elaboration, with SBIF business loan portfolio data.

StatLink http://dx.doi.org/10.1787/888933194796

The stock of outstanding SME business loans has registered an 87% increase over the period 2007-13. However, in a year-on-year growth basis, the stock of SME business loans grew by only 4.5% (see Table 7.3) which amounts to the lowest year-year on variation since the period 2008-09. The rate of growth of the total outstanding commercial loan portfolio slightly declined during the first quarter of 2013 according to data from the Financial Stability Report (*Informe de Estabilidad Financiera*, IEF)[5], published by the Chilean Central Bank.

The IEF Report of the first semester of 2013 mentioned that a decrease in loan fees, which accounts for about 20% of the operational costs of banks[6,] and low inflation during the first months of 2013 had an impact on the earnings of the banking system. The report explains that the banking industry might have looked for profits in other segments including SMEs that were supported by a major increase in the State-managed credit guarantee scheme programme. During the second semester of 2013, the IEF Report points out that the rate of expansion of the total stock of loans slowed down in line with a slower pace of the economic activity, then stabilised before declining a lot in the first semester of 2014 due to the effects of a more sluggish economic activity.

The share of SME loans in total business loans increased over the period 2007-12, from 16.7% to 18.5% and then declined to 17.8% in 2013. The share of short-term loans in the total flow of new SME loans stood at 58% in 2013, indicating that loans were mainly being used to resolve cash flow imbalances. The annual growth rate of the stock of SME business loans has consistently declined from the peak reached in the period 2011 (see Table 7.3).

Table 7.3. **Rate of growth of the stock of SME business loans in Chile**

Rate of growth of the Stock of SME loans (with respect to base year 2007)	2008 (2007)	2009 (2007)	2010 (2007)	2011 (2007)	2012 (2007)	2013 (2007)
	11.26	18.94	29.46	55.86	78.85	86.90
Year-on-year rate of growth of the stock of SME loans	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
	11.26	6.90	8.84	20.40	14.75	4.50

Source: Own elaboration, with SBIF business loan portfolio data.

StatLink http://dx.doi.org/10.1787/888933194805

Credit conditions

In addition to the effects on the demand for credit explained by demand-side factors, credit approval standards have tightened according to the Quarterly Survey of Banking Credit Conditions of the Chilean Central Bank (*Encuesta Trimestral de Crédito Bancario*) of July 2014.The latest data from this survey where executives at banking credit departments are being asked about perceptions on credit approval standards, shows an increase in the number of banks that report tighter lending approval standards, most notably since the second half of 2013.

The survey also illustrates a weakening in the overall demand for loans for both SMEs and large companies with 50% of the banking institutions reporting sluggish demand for finance from SMEs- Part of the reduction in the demand is explained by a decrease in financing needs for investment in fixed asset in line with the evolution of investment in the second half of 2013 and the first semester of 2014. A major decrease is reported in the demand of credit from real estate developers and construction companies in the second quarter of 2014.[7]

Data on interest rates was only available since 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[8]. The spread of interest rates between the average rates provided to SME vs large firms in 2011 was 7.2% for short-term and Chilean peso-denominated 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%. In 2013, the spreads reduced for both short-term and long-term peso-denominated loans with 6.2% and 8.5% respectively.

SME loans authorised vs. requested

The indicator "loans authorised vs loans requested" is calculated from data of the *Second Longitudinal Survey of Enterprises, ELE*[9] whose sampling frame includes only businesses with annual sales greater than CLP 800. Businesses are asked whether they obtained any loan over the period 2009-11 and in case the business did not receive any loan the reasons why. With this information the ratio of SME loans authorised over loan applications is calculated. According to the ELE survey, the ratio of loans authorised to loans requested for SMEs was 61.1%, and for large firms stood at 98.8%. As for the collateral requirements to firms that obtained credit, the survey asks about different types of collateral that were used (it was possible to provide more than one type). In general, land is the most used asset for all firms and buildings are a major source of collateral for large firms. Vehicles are more important for SMEs than for large companies.

Asset-based finance and equity financing

Equity financing

Since 1997, CORFO promotes the development of the risk capital industry in Chile by fostering the creation of investment funds that in turn invest in SMEs. CORFO offers long-term credit lines to risk capital fund managers. One time exception to the credit-line approach or the tradional way CORFO supports the venture capital industry, is the K1 Fund[10]. Under this specific program, CORFO was allowed by law to invest, for a given period of time, directly in risk capital through the acquisition of minority participations in investment funds.

In 2012, CORFO launched two new risk capital fund programs: the Early-Stage Fund (*Fondo de Etapa Temprana, FT*) and the Development and Growth Fund (*Fondo de Desarrollo y Crecimiento, FC*). The Early-Stage Fund is designed to foster new investment funds that provide high-growth small and medium sized firms with financing at an early-stage. The investment fund management firms acquire stake in SMEs and get involved in the operations of the firm. Among the major requirements for eligible SMEs are the following: having a concrete early-stage business project (innovate and high-growth potential), having difficulties to carry out the project by themselves due to insufficient capital, having a low level of management skills; and finally having other needs where the investment fund managers can be beneficial to their growth. The Development and Growth Fund programme is aimed at promoting the creation of investment funds that invest in firms with a maximum initial equity of USD 9 million with high-growth potential and that are currently at an expansion stage.

During 2013, the CORFO Risk Capital Committee approved new risk capital credit lines worth USD 87.7 million for five early-stage funds and one Development and Growth Fund. In total, 28 new firms received financing during 2013. The most important sector in the risk capital investment portfolio was Information Technologies (IT) which overtook retailing (trade) sector in 2013.

Table 7.4. **CORFO Long-term Credit Line Programs for Risk Capital Fund Managers (up to December 2013)**

Name of credit line	F1	F2	F3	K1	Fenix	FT	FC
	Risk capital	Risk capital	Risk capital	Emerging firms	Mining exploration	Early stage	Growth and Development
Year of creation of the credit line	1997	2005	2006	2008	2011	2012	2012
Number of beneficiary fund managers	5 funds, 3 closed	6 funds 1 closed	17 funds 1 closed	1 fund	6 funds	6 funds	1 fund

Source: CORFO.

StatLink http://dx.doi.org/10.1787/888933194817

The total amount of long-term credit lines approved by CORFO since the first risk capital fund credit line was created in 1997 and up to December 2013 stands at CLP 14,851,030 million (USD 660.8 million). From that total of the credit lines, a total amount of CLP 8,181,057 million (USD 364 million) has been invested in 173 firms totaling CLP 11,196,744 (USD 498 million) worth of capital invested in different firms. The latter amount includes private resources and the credit line funding from CORFO. There were still resources available in the credit lines for an amount worth CLP 5,594,991 (USD 249 million) by December 2013.

Considering the period 2007-13 only, CORFO has made possible that CLP 9.24 million worth of capital has been invested in SMEs. Up to December 2013, 173 firms had received financing from risk capital investment funds. SMEs accounted for 152 (88%) of that total (see details in table 7.5.)

Table 7.5. **CORFO Venture Capital Fund Programs**

	2007	2008	2009	2010	2011	2012	2013
Number of SME beneficiaries	17	13	11	21	18	20	28
Amount invested in SMEs (in thousands of UF)	1 274	1 016	1 218	1 486	1 505	1 572	1 170

Source: Own elaboration, with data from CORFO.

StatLink http://dx.doi.org/10.1787/888933194820

In December 2013, Chile passed a law creating a unique regulatory framework for managing investment funds (*Ley Única de Fondos, or LUF*). This law brings together several investment vehicles that were scattered in different acts[11]. Although those investment vehicles had similar objectives and purposes, previous legislation established technically unjustified differences that created confusion among investors and fostered regulatory arbitrage.

CORFO offers seed capital financing and grants support for angel investors. In 2010, CORFO launched a programme a programme called Start-Up Chile aimed at attracting world-class entrepreneurs with early-phase business projects so they can start their businesses in Chile. The programme helps strengthen the entrepreneurial environment, fostering the culture of innovation and connecting local entrepreneurs with the rest of the world. The programme provides entrepreneurs with capital worth USD 40,000 through a reimbursement process. A one-year working visa is granted to the founder and to a team of up to three people included in the formal application

Factoring and invoice discounting

In Chile the factoring industry is composed of a large number of firms offering these services. Some factoring companies are associated to the major banking institutions, others firms are independent; and finally there other of a smaller scale operating in this industry which are not associated.

In Chile there are two major associations of financial institutions offering factoring services, the largest business group is the Chilean Association of Factoring (*Asociación Chilena de Factoring, ACHEF*), which was established in 1994 and has 14 financial institutions providing factoring services, is comprised overwhelmingly by firms running factoring operations of the major banks Only two of its members are non-bank financial institutions. During 2013, ACHEF statistics[12] show that its associated firms had in total 18,190 clients and a net volume of the stock of acquired documents of CLP 2,611,793 million (USD 4,987 million). The volume of cumulated documents held by the firms associated to ACHEF stood at CLP 13,733,976 million (USD 26 000 million).

In addition to ACHEF, the National Association of Factoring Enterprises of Chile (*Asociación Nacional de Empresas de Factoring AG*, *ANFAC*), which is comprised of 18 financial institutions (only two of them are owned by banking institutions), offers factoring financing. By December 2013, firms associated to ANFAC[13] had 4,192 clients with outstanding operations (an 11% year-on-year increase), 10,796 debtors and invoices accounted for 65% of their document portfolio. By December 2013, ANFAC also had CLP 225,755 million worth of outstanding operations and the volume of business operations stood at CLP 134,533 million (with a 29% year-on-year increase), that is documents valued at the amount of financing.

Another player in the invoice discounting industry is the Product Exchange (*Bolsa de Productos*). The Product Exchange is a public market, created under the law N°19,220, and regulated by the Superintendency of Securities and Insurances (*Superintendencia de Valores y Seguros, SVS*) that trades in several products among them invoices. The Product Exchange operates as an alternative source of financing, allowing invoices from different sectors of the economy to be discounted without liability for the issuer by offering an alternative to the traditional factoring services. Both invoices with payer-based risk and secured by credit guarantees are traded. The Product Exchange is also an alternative to short term fixed income investment by offering a higher return, at different levels of risks, than traditional fixed income instruments. In 2013, the Exchange traded an amount of invoices worth CLP 320,934 million (306% more than in 2008). The amount of invoices traded grew 78% in 2013 with respect to the previous year. SMEs accounted for 44.3% of the total number of firms that traded their receivables in the exchange in 2013. In 2013, the number of payers registered in the exchange stood at 236 and the average 30-day discount rate on invoices stood at 0.76%[14]

As a development in the invoice-discounting industry, a new bill (current law 20,727) making it compulsory to adopt electronic invoicing for all firms was passed in early 2014. The law provides for a gradual phase-in of this requirement on SMEs and will apply for large companies as of November 1st 2014[15]. According to the Internal Revenue Service (*Servicio de Impuestos Internos*, SII), by February 2014, electronic invoices accounted for half of the total stock of invoices issued in Chile[16].

Leasing

Leasing services offered in Chile are classified into the following categories: real estate, movable assets (machinery, vehicles, computing equipment, medical equipment, etc.) as well as leaseback services. According to the Chilean Association of Leasing Enterprises (*Asociación Chilena del Leasing, ACHEL*)[17], a business union primarily composed of leasing firms affiliated to the major banks operating in Chile, in 2013 the leasing industry had an annual turnover of USD 4,653 million (with a year-on-year increase of 5.6%). The stock of outstanding operations by December 2013 reached a total worth USD 11,888 million (with an annual increase of 8.9 %) and the number of contracts formalised during 2013 stood at 26,361 (with an annual 7.6% increase). By December 2013 the total number of outstanding contracts stood at 80,335 (with an annual 13.8 % increase). From the total stock of outstanding operations the main types of goods on the operations are: 46.7% real estate, 14.8% transportation equipment, 9.3% Earth moving equipment, 8.1% industrial equipment, 7.7% vehicles, 3.1% computing equipment, 3% material-handling equipment, etc.

Other indicators

In Chile, there is no business to business payment delays data available. However, considering that the objective of this indicator is to understand the effect of payment delays on SMEs cash flow it is worth mentioning that according to data from the Agricultural Product Exchange that, among other products, trades in discounted invoices the average business-to-business payment term in 2013 reached 71 days. The law regulating invoices and the assignment of account receivables (Law 19,983)[18] provides that in case the payment terms are not agreed in the contract, the deadline for the payment will be within 30 days from the reception of the invoice by the buyer. Therefore, it is possible to use the 30-day payment term as a benchmark to get an average delay term of 41 days. The exchange data are a proxy and so there are caveats on the interpretation. First, the exchange is a very small fraction of the overall market and; and second, the payers registered in the exchange (debtors) are more likely to be companies that already have a good payment culture.

Official Bankruptcies in Chile peaked in 2009 with 172 cases of liquidations processes published in the Official Gazette, declined during the 2010-12 period, but were on the rise again in 2013 with an annual increase of 11.7% (i.e. 143 bankruptcies more than in 2012). The bankruptcy procedure in Chile has been described as slow and inefficient in comparison to the same procedures in other OECD economies. For instance, Chile ranked 98th in the "Resolving Insolvency Indicator" of the 2013 Doing Business Report (see details in Table 7.6) that considers the time, cost, recovery rate and outcome of an insolvency process.

Table 7.6. **CORFO Resolving Insolvency Indicator, Doing Business Report**

Indicator	Chile	OECD
Time (years)	3.2	1.7
Cost (% of estate)	15	9
Outcome (0 as piecemeal sale and 1 as going concern)	0	1
Recovery rate (cents on the dollar)	29.1	70.6

Source: World Bank (2013).

StatLink http://dx.doi.org/10.1787/888933194839

Considering the characteristics of the insolvency procedure system in place in Chile for the period 2007-13, data on the number of businesses that filed for the closure procedure for tax purposes (so called "*Término de Giro*" in Spanish) might be a better estimate to determine the extent to which firms have gone out of business or about their ability to survive a crisis[19] According to this source, in 2012 there were 3,592 taxpayers, classified by the Internal Revenue Service (SII)[20] as existing firms, that filed for the "*Término de Giro*" procedure during the same year[21]. From that total, 2 256 were microenterprises, 1 270 were inactive (did not register sales), 43 were small, 13 medium sized and 10 were large firms. The number of firms that filed for the procedure increased in 2013 in comparison with years 2012 and 2011, that showed the following numbers: 3 562 in 2012 (2 227 micro/58 small/ 1 250 inactive/13 small) and 3 287 in 2011 (2028 micro/1181 inactive/51 small/10 medium) respectively.

As new development, in December 30th 2013 Chile signed into law a reform to its existing bankruptcy legislation. The new Law N° 20,720, titled Law of Reorganisation and Liquidation For Businesses and Individuals ("*Ley de Reorganización y Liquidación de Empresas y Personas*"), makes it easier for firms to go through a restructuring process and liquidate assets in a more efficient way when restructuring is not feasible.

There was a noticeable decrease in the share of SMEs' non-performing loans over total SME loans, from 7.1% (2009) to 6.0% (2012). However, in 2013 the share of non-performing loans increased especially for SME loans behind for 90 days or more that rose by 80 basis points from the previous year. The total non-performing rate for SMEs increased to 6.7% in 2013 (see Table 7.7).

Table 7.7. **Ratio of non-performing SMEs business loans in Chile**

	2009	2010	2011	2012	2013
Up to 30 days	0.60%	0.50%	0.50%	0.50%	0.50%
Between 30 and 90 days	0.60%	0.40%	0.40%	0.40%	0.40%
More than 90 days	5.90%	5.70%	5.20%	5.00%	5.80%
Total non-performing loans for SMEs	7.10%	6.60%	6.10%	6.00%	6.70%

Source: own elaboration with data from SBIF.

StatLink http://dx.doi.org/10.1787/888933194840

During the first half of 2013, the ratio of non-performing loans of Chilean firms remained steady with worsening perspectives due to the projected slowdown in the economic activity. In June 2013, the Financial Stability Report warned about the long-terms risks for the economy of a drive for short-term higher margins of the banking system referring specifically to SMEs. A major warning for financial stability during the first semester of 2013 was the projected slowdown in the economic activity. In the second semester of 2013, the IEF Report also warned about deteriorating conditions in the commercial loan portfolio explaining that the ratio of "more than 90 days" payment delays on loans had increased since the June report even though the levels of non-performing loans were lower than in 2009. The IEF stressed on the deteriorating evolution of the payment behaviour of SME. Finally, the IEF Report of June 2014 informed that the level of non-performing loans had remained stable, even though there was an increase in defaults for some economic sectors firms with annual sales ranging from CLP 500 to 18 000 falling in the SME definition. The IEF report mentioned an increase in commercial loan payment delays of firms across the board, which led to a higher rate of commercial debt defaulting.

Government policy response

State-backed credit guarantees for SMEs are provided by two institutions: Banco Estado, the State-owned bank that manages the FOGAPE Guarantee Fund for Small Business (F*ondo de Garantía para la Pequeña Empresa*) established by the Decree Law 3 472, of 1980, and CORFO that runs the programs FOGAIN (Credit guarantee fund for security loan obligations for investment and working capital), COBEX (guarantee fund for financing exports and imports) and Reprogramacion[22] (fund that supports SMEs with guarantees for refinancing and restructuring their existing loans).

In the case of the FOGAPE Credit Guarantee Scheme, Banco Estado manages the fund[23] and provides guarantee rights to financial intermediaries through an auction system[24] that is based on the level of coverage ratio for SME loans[25]. FOGAPE provides funding for working capital and investment. According to information for the period 2013, the number of operations with respect to the previous year fell 24.5% (in 2013, there were 48 485 clients), the amount of the total stock of loans secured by FOGAPE fell 28.2% (in 2003, CLP 24 859 893) and as a result the total amount of guarantees fell accordingly 27.8% (in 2003, CLP 19 551 804) as well.

As for the CORFO Credit Guarantee Schemes, between 2010 and 2013 the number of guarantee operations increased significantly. This was largely due to a tenfold increase in CORFO's activity. During 2012 CORFO provided 79 494 loan guarantees to SMEs worth CLP 1.7 trillion (USD 3.4 billion). The guaranteed loans had an average duration of 26 months. During 2013, CORFO provided 92 417 loan guarantees to SMEs, which were worth CLP 2.19 trillion (USD 4.15 billion). The guaranteed loans had an average maturity of 27.62 months and an average amount of CLP 24 618 151 Most of these loans (83%) were for investment and working capital. 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 was 1.87 times[26]. The share of the amount of SME loans with CORFO (Fogain, Cobex, Reprogramacion)[27] and FOGAPE guarantees with respect to the total amount of SME loans in the banking system reached 22% in 2013.

In addition to the support for SMEs by the provision of direct Stated-backed credit guarantees, CORFO also has fostered the development of Mutual Guarantee Societies (*Instituciones de Garantía Recíproca*, or IGR), which are private financial institutions created under the law 20 179, that help SMEs get financing by issuing certificates of guarantee that SMEs can offer in turn as collateral to secure loan obligations; reducing the potential loss lenders face from loan defaults. In this regard, IGRs enhance the divisibility and mobility of collateral that SMEs offer for access to finance.

Since the inception of the programme supporting Mutual Guarantee Societies, CORFO has operated three different funds: IGR 1 (2008), IGR II (2010) and IGR III (2011). There are technical differences in the operation of the different schemes (coverage ratio, requirement of counter-guarantees, etc.) As a short explanation, in the IGR I scheme CORFO offered a credit line that was matched by private capital in a 1:10 ratio and the fund allowed for a leverage of up to 3 times worth of certificates. The IGR II programme was very similar and was created especially for financing the infrastructure rebuilding efforts that followed the devastating 8.8-magnitude earthquake that rocked central Chile in 2010. On the other hand, the IGR III scheme started requiring counter-guarantees. In this regard, the management of counter-guarantees became the focus of the operations of the mutual guarantee societies. The IGR III scheme also reduced the maximum value of the certificate (coverage ratio) that IGRs could issue for every operation down to a maximum of 80% of the operation and allowed for certificates securing 100% of the amount of the loans in cases where the SMEs provided a counter-guarantee worth at least 70% of the total amount of the operation.

In 2013, there were 12 mutual guarantee societies with outstanding credit lines (IGR I and IGR III) from CORFO. Those mutual guarantee societies registered 3 059 operations and had 12 925 clients with outstanding certificates during 2013. From the total number of certificates, 63% were granted to micro and small businesses. The certificates issued by IGRs secured CLP 8.1 million worth of business loans (SMEs accounted for 91% of the total amount). The average certificate of guarantee was worth UF 2,642 and the average loan had a maturity of 30.3 months. The programme IGR III made possible a rise in the number of SMEs offering counter-guarantees (66.1% for IGR III). From the onset of the programs that support IGRS and up to December 2013, CORFO has made possible the issuance of 29 539 certificates.

As a new development, CORFO approved in November 2013 a new mutual credit guarantee programme called "IGR IV". The new programme seeks to better align the incentives of the mutual guarantee institutions. CORFO creates a State-managed fund including a liquidity facility that will help IGRs to have promptly access to cash for making payment on defaulted certificates. The direct backing by CORFO will bolster the certainty of the certificates.

As part of the campaign commitments of the new administration that was inaugurated in Chile in March 2014, the Ministry launched on May 16 a set of measures aimed at spurring economic growth in Chile[28] titled, "Agenda of Productivity, Innovation and Growth" (or "*Agenda de Productividad, Innovación y Crecimiento*") As part of this initiative, the following measures related to financing for SME and entrepreneurship will be implemented:

- A USD 50 million capital increase for the Small Business Guarantee Fund (*FOGAPE*) in order to increase financing opportunities for SMEs. At the same time, the eligibility requirements will be modified. Specifically the maximum annual sales threshold will be increased in order to give more businesses access to the guarantees offered by the programme.
- A USD 450 million capital increase for Banco Estado, the State-owned bank, in order to increase financing opportunities for small businesses and entrepreneurs. In addition to the capitalisation, Banco Estado will implement a programme named "*Banca Mujer Emprendedora*" that will ease financing conditions for entrepreneurial women.
- An agenda for changes to existing regulation related to financial instruments will be proposed in order to allow for new alternative instruments of financing for SMEs and entrepreneurs (e.g. crowdfunding, asset-based financing, etc.).
- A programme to implement an electronic collateral registry in order to enhance the use of different kinds of movable assets as collateral to secure SME loan obligations. This initiative is expected to increase the mobility and divisibility of collateral and as result is expected to boost financing for SMEs and entrepreneurs.
- The following measures will be implemented by CORFO under the agenda: an increase in resources for early-stage startups by creating new funds of seed capital, strengthening of the Startup Chile Programme that offers equity-free financing to startups, creation of a business innovation programme aimed at improving management practices of SMEs, creating of a programme of technological diffusion focused on helping groups of associated SMEs to bring technological advances to the country that improve their competitiveness.
- The implementation by the Service of Technical Cooperation (*Servicio de Cooperación Técnica, SERCOTEC*), as of 2015, of 50 Business Development Centers for SMEs and entrepreneurship where business owners and entrepreneurs will have the opportunity to get advice on a wide array of topics including financing and government support programs.
- Creation of an Advisory Commission on Financial Inclusion that will support the Executive on the design of an agenda of financial inclusion and education to guide policymaking.

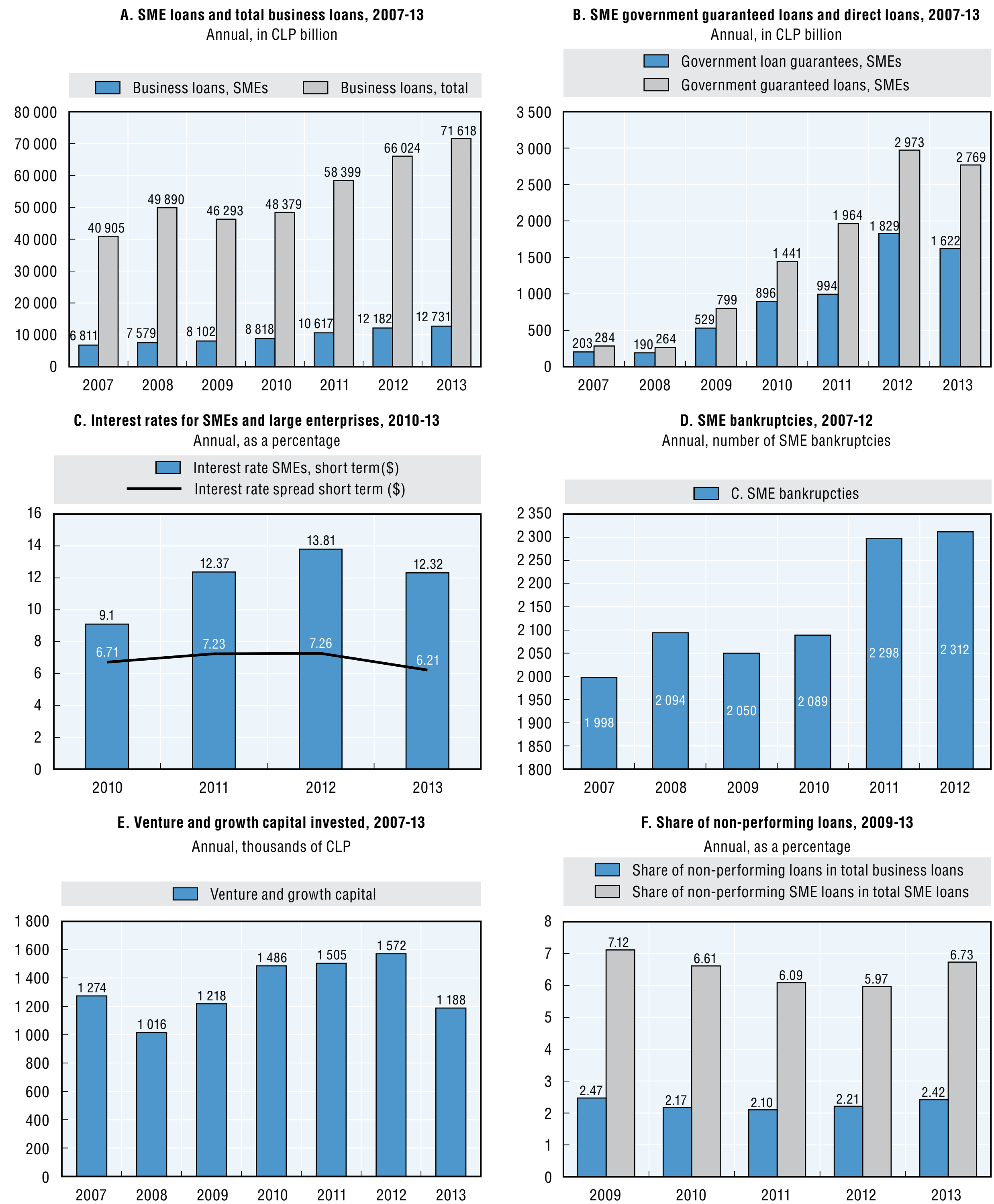
Table 7.8. **Scoreboard for Chile, 2007-13**

Indicator	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	CLP billion	6 811	7 579	8 102	8 818	10 617	12 182	12 731
Outstanding business loans, total (stock)	CLP billion	40 905	49 890	46 293	48 379	58 399	66 024	71 618
SME loans in total business loans	%	16.7	15.2	17.5	18.2	18.2	18.5	17.8
New business loans, SMEs (flows)	CLP billion	N/A	N/A	N/A	2 610	3 085	3 762	4 389
New business loans, total (flows)	CLP billion	N/A	N/A	N/A	75 059	90 943	84 517	96 396
Outstanding short-term loans, SMEs (stock)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
New short-term loans, SMEs (flow)	CLP billion	N/A	N/A	N/A	1 571	1 952	2 268	2 550
Government loan guarantees, SMEs	CLP billion	203	190	529	896	994	1 829	1 622
Government guaranteed loans, SMEs	CLP billion	284	264	799	1 441	1 964	2 973	2 769
SME loans authorized/SME loans requested	%	79.10%	79.10%	61.10%	61.10%	N/A	N/A	N/A
Non-performing loans, SMEs	CLP million	N/A	N/A	577	583	647	727	857
Non-performing loans, total	CLP million	N/A	N/A	1 145	1 051	1 226	1 460	1 730
Share of non-performing loans in total business loans	%	N/A	N/A	2.47	2.17	2.1	2.21	2.42
Share of non-performing SME loans in total SME loans	%	N/A	N/A	7.12	6.61	6.09	5.97	6.73
Interest Rate SMEs, Short Term ($)	%	N/A	N/A	N/A	9.1	12.37	13.81	12.32
Interest Rate large Firms ,Short Term ($)	%	N/A	N/A	N/A	2.39	5.15	6.54	6.11
Interest Rate spread Short Term ($)	%	N/A	N/A	N/A	6.71	7.23	7.26	6.21
Equity								
Venture and growth capital	Thousands of UF	1 274	1 016	1 218	1 486	1 505	1 572	1 188
Other								
Payment delays, B2B	N/A	N/A	N/A	N/A	N/A	45	43	41
Bankruptcies, SMEs	N/A	1 998	2 094	2 050	2 089	2 298	2 312	N/A
Bankruptcies, total	Total number	2 025	2 112	2 062	2 106	2 312	2 322	N/A

Source: See Table 7.9

StatLink http://dx.doi.org/10.1787/888933194855

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



Source: See Table 7.9

StatLink http://dx.doi.org/10.1787/888933193798

Table 7.9. **Definitions of indicators for Chile's Scoreboard**

Indicator	Definition	Source
Debt		
Outstanding business loans, total (stock)	Business loans to all non-financial enterprises originated by banks and credit unions under the supervision of SBIF (outstanding amount, stock)	Superintendency of Banks and Financial Institutions (SBIF)
Outstanding business loans, SMEs (Stock)	Business loans to SMEs (defined as loans of an amount of up to CLP 18 000) originated by banks and credit unions under the supervision of SBIF (total outstanding amount, stock)	Superintendency of Banks and Financial Institutions (SBIF)
SME loans in total business loans	Percentage of the amount of business loans to SMEs (defined as loans of an amount of up to CLP 18 000) over the total amount of business loans to all non-financial enterprises originated by banks and credit unions.	Superintendency of Banks and Financial Institutions (SBIF)
New business loans, SME (flow)	New business loans to SMEs (defined as loans of an amount of up to CLP 18,000) originated by banks and credit unions under the supervision of SBIF during 2013 (flow)	Superintendency of Banks and Financial Institutions (SBIF)
New business loans, total (flow)	New business loans to all non-financial enterprises originated by banks and credit unions under the supervision of SBI during 2013 (flow)	Superintendency of Banks and Financial Institutions (SBIF)
Outstanding short-term SME loans (stock)	Total outstanding business loans to SMEs (defined as loans of an amount of up to CLP 18 000) with a maturity equal to or lesser than one year(stock)	Superintendency of Banks and Financial Institutions (SBIF)
New Short-term loans, SMEs (flow)	New business loans to SMEs (defined as loans up to CLP 18 000) with a maturity of up to or lesser than one year (flow)	Superintendency of Banks and Financial Institutions (SBIF)
Government loan guarantees, SMEs	Total value of the credit guarantees issued to SMEs. The credit guarantee programs that were included are the following: FOGAIN and COBEX credit guarantee schemes provided by CORFO; and FOGAPE that is managed by the State-owned bank Banco Estado. SMEs are defined by these institutions as enterprises with annual sales amount of up to CLP 100 000 or annual exports of an amount up to CLP 400 000.	CORFO (Chilean Development Agency) and Banco Estado
Government guaranteed loans, SMEs	Total amount worth of loans secured by the State-issued credit guarantee programs. This amount of loans is guaranteed by different types of schemes provided by CORFO (Production Promotion Corporation) and Banco Estado. SMEs are defined as enterprises with annual sales up to CLP 100 000 or annual exports up to CLP 400 000.	CORFO and Banco Estado
Percentage of SME Loans authorised over SME loans requested.	Percentage of SMEs (defined as businesses with annual sales of an amount of up to CLP 100 000) that received one or more loans during the years 2006-2008. This indicator does not include the fishing industry and education and health and social work sectors. The Second wave of the survey included businesses with an amount of annual sales greater than 800 UF as a threshold.	First and Second Longitudinal Survey of Enterprises (Ministry of Economy)
Non-performing loans, total	The indicator includes all business loans that are on default (by one day or more), from banks and credit unions under supervision of SBIF.	Superintendency of Banks and Financial Institutions (SBIF)
Non-performing loans, SMEs	The indicator includes SMEs loans (defined as loans with an amount of up to CLP 18 000) that defaulted for(one day or more, from banks and credit unions under the supervision of SBIF.	Superintendency of Banks and Financial Institutions (SBIF)
Short-term interest rate, SMEs	Average annual nominal rate for new loans with a maturity not greater than 1 year and amount of up to CLP 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 with a maturity not greater than one year (This is a weighted average by amount of the loan).	Superintendency of Banks and Financial Institutions (SBIF)
Short-term interest rate spread	Short-term interest rate spread between small and large enterprises; for loans with a maturity not greater than one year.	Superintendency of Banks and Financial Institutions (SBIF)

Table 7.9. **Definitions of indicators for Chile's Scoreboard** *(cont.)*

Indicator	Definition	Source
Equity		
Venture and growth capital	Annual amount invested in new and high growth businesses (venture capital funds FT and FE). All enterprises.	CORFO
Other		
Payment delays, total enterprises	Business-to-business payment term data from the Agricultural Product Exchange that, among other products, trades in discounted invoices. In addition, the law regulating invoices and the assignment of account receivables (Law 19,983) provides that in case the payment terms are not agreed in the contract, the deadline for the payment is 30 days from the reception of the invoice by the buyer. Therefore, it is possible to use the 30-day payment term as a benchmark to get the average delay term.	Agricultural Product Exchange
Bankruptcies	Number of businesses that filed for the closing procedure for tax purposes over the commercial year 2012.	Chilean Internal Revenue Service

Box 7.1. **Definition of SME used in Chile's SME and Entrepreneurship Financing Scoreboard**

Definition of SME using the debt size criterion

This definition was created by projecting a classification of sales, proposed by CORFO, to the volumes of commercial debt reported to SBIF by financial institutions. The amount of debt used for the classification is the maximum value of available historical commercial debt. The latter adjustment is made in order to guarantee stability in the definition criterion.

To give a major stability to the debt segmentation scheme.

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

Note: UF (*Unidad de Fomento*) is an indexed unit of account that incorporates adjustments based on increases in the general level of prices in the Chilean economy in order to preserve the purchasing power (real value) of assets denominated or indexed to this unit of account. The UF of July 31, 2014 is CLP 24,060.07

Notes

1. Law 20,416 establishes the definition of SMEs according to the annual turnover as general rule and the payroll criterion for labour legislation.
2. June 2014. The IPOM is published semi-annually (June and December). English versions for the latest and past issues are available on the following link: *http://www.bcentral.cl/eng/publications/policies/polit02.htm*
3. The spike in inflation is deemed temporary by the Chilean Central Bank CHCB whose expectations are that the rate will converge toward the 3% centered target range for the inflation rate in the 24 month horizon of its monetary policy.
4. Data reported is information on direct credit. The figures included account for: commercial credit in the strict sense, financial operations and contingent credit other than lines of credit that are tapped at the borrower's discretion which amounts to the share that has not been used by the client. Business credit information comes from data based on the Chapter 18-5 of SBIF Norm (Recopilación Actualizada de Normas, RAN) that governs the implementation of article 14 on

reporting of debt information to SBIF of the General Banking Act (Ley General de Bancos) and the Instructive of the Archive 10. Therefore, leasing and factoring operations are excluded. Chapter 18-5 SBIF Norm *http://www.sbif.cl/sbifweb3/internet/archivos/norma_105_1.pdf/ Instructive of the Archive 10 http://www.sbif.cl/sbifweb/internet/archivos/norma_204_1.pdf*

5. The IEF Report is published semi-annually (June and December). English versions are available on the following link *http://www.bcentral.cl/eng/publications/policies/polit01.htm*
6. According to the CHCB the impact on loans and financial services might be explained by the law (N°20,555) that created new rights for the financial service consumers and curbed on selling bundled financial services and requires financial institutions to report more information about costs of services.
7. More information on the questionnaire of the survey, reports and historical data series can be found in the following link: *http://www.bcentral.cl/estadisticas-economicas/credito-bancario/.*
8. This is for nominal interest rates. The spread for real interest rates is: 1.6% for short-term and 0.8% for long-term loans.
9. Data for third wave of the Longitudinal Survey of Enterprises covering the period 2011-2012 could not be obtained on time for the report.
10. Under the article 19 of the law 20,190 (or so called Capital Market Reform II), which was passed in 2007, CORFO was allowed to invest directly in risk capital through the acquisition of minority participations in investment funds (K1 Fund).
11. LUF incorporated the following types of funds: Investment funds (Law 18,815), Mutual Funds (Law 1,328), Foreign Capital Investment Funds (FICE) /Foreign Risk Capital Investment Fund (FICER) (Law 18,657), Real Estate Funds (Law 19,821).
12. *http://www.achef.cl/*
13. Statistics about factoring from ANFAC can be found on: *http://empresasdefactoring.cl/?page_id=288*
14. Transactions costs are not included.
15. *http://www.sii.cl/factura_electronica/ley/ley_fe_20727.htm*
16. SII statistics on electronic invoicing can be found on: *http://www.sii.cl/portales/efactura/estadistic.htm*
17. Achel statistics on outstanding operations and number of contracts as of 2009 can be found on the following link: *http://www.achel.cl/site/index.php/cifras-de-la-industria.html*
18. *http://www.leychile.cl/Navegar?idNorma=233421*
19. Unfortunately, due to the ongoing tax year in Chile at the time of the closing of this report, data was not available for the tax year 2013. Benavente and Crespi in "La Dinámica Empresarial en Chile 1999-2006", conduct an analysis of the dynamic of firms in Chile based on data from the Internal Revenue Service over the period 1999-2006, they find that the destruction rate on micro, small and medium sized businesses are 12.11%, 2.02% and 1.06% respectively. For those firms in the category inactive (with no sales in a given a year) the average annual rate was 27.71 %. The authors explain that these findings prove the hypothesis of a "revolving door" where most of the newly incorporated firms are not able to survive even in the very short term going out of business very quickly.

    http://www.economia.gob.cl/1540/articles-186970_recurso_1.pdf
20. *http://www.sii.cl/estadisticas/empresas_segun_vigencia.htm*
21. Number of taxpayers classified as existing businesses during a given year and that file for "Término de giro".
22. In August 2013 this programme was temporarily suspended and later on cancelled.
23. The Fund FOGAPE started in 1980 with an initial capital of UF 500,000 since then it has had two capital contributions USD 10 million (Law 20,202) in 2007 and USD 130 million (Law 20,318) in 2009.
24. A brief explanation on the FOGAPE auction system can be found on page 30 of the OECD Report titled "SME and Entrepreneurship Financing: The Role of Credit Guarantee Schemes and Mutual Guarantee Societies in supporting finance for small and medium-sized enterprises"
25. Banks, factoring firms, saving and credit cooperatives (credit unions), mutual credit guarantee societies, etc.

26. At the time of the closing of this report, CORFO is conducting a review of its SME support programs in order to maximize the impact of resources allocated to finance SMEs and entrepreneurship. Special emphasis has been put on conducting an evaluation of their Credit guarantee Scheme (FOGAIN and COBEX).
27. Operations granted to firms in the category "others" are excluded given that under that group are included import and export firms with annuals sales greater than UF 100 000 and that received COBEX guarantees. Hence, those firms are left out of the analysis.
28. *http://www.agendaproductividad.cl/*

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China (People's Republic of)

SMEs in the national economy

In China, micro, small and medium enterprises (SMEs) comprise 97% of all firms and account for 80 %of total employment. The SME contribution to GDP was 59% in 2011 (OECD, 2013a). The majority of SMEs are in the services sector (including 24% on health education and social services; 20% governments, parties, social organisations and communities; 4% construction and real estate; 1% technical, scientific and professional); wholesale, retail and catering comprise 19% and manufacturing and processing also 19%.

As of 2014, there is no harmonised definition of what constitutes an SME in China. The classification varies by sector, and is contingent on both the production value and on the number of employees (see Box 8.1 for details).

According to China Economic Census in 2008, the total number of Chinese firms amounted to nearly 7.1 million. The detailed distribution (illustrated in Table 8.1) shows that micro and small firms are fundamental for the economic development of China. 44.20% of total Chinese firms are typical micro firms (with less than 7 employees), and at least 87.45% are typical small firms (with less than 7 employees). Based on the Chinese SME definition (illustrated in Box 8.1), the percentage of micro and small firms totals more than 97%.

Table 8.1. **Distribution of firms in China, 2008**

By firm size

Firm size (employees)	Number of firms	% of employer firms
01-07	3 137 540	44.20%
08-19	1 918 977	27.03%
20-49	1 152 260	16.23%
50-99	451 206	6.36%
100-299	317 180	4.47%
300-499	58 021	0.82%
500-999	37 419	0.53%
1000-4999	23 805	0.34%
5000-9999	1 576	0.02%
10000+	781	0.01%
Total	**7 098 765**	**100%**

Source: China Economic Census Yearbook 2008, edited by The National Bureau of Statistics (NBS), Beijing: China Statistics Press, 2010.

StatLink http://dx.doi.org/10.1787/888933194863

Box 8.1. **The definition of an SME in China**

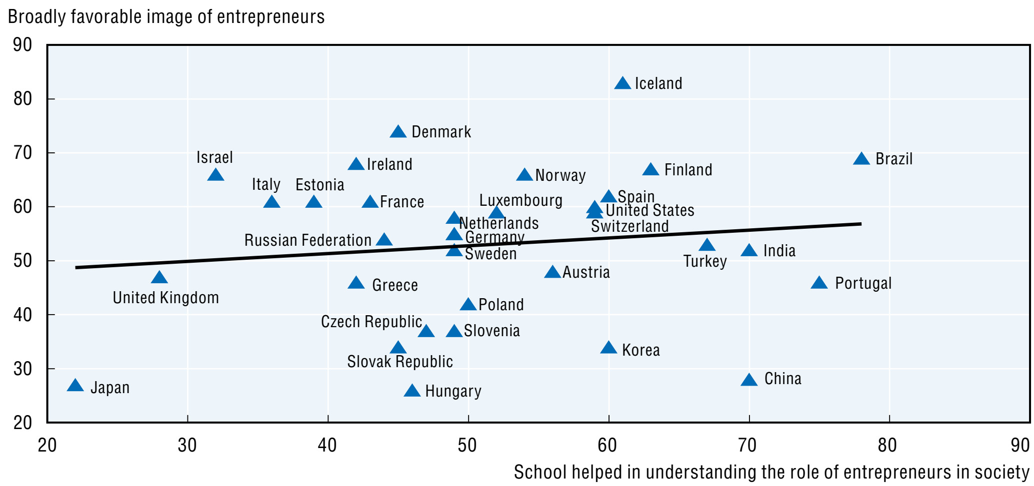
Sector	SMEs		Medium Business		Small Business		Micro-enterprises	
	No of Workers	Operating income	No of Workers	Operating income	No of Workers	Operating income	No of Workers	Operating income
Agriculture, Forestry, Animal husbandry and Fishery	n.a.	RMD 20m or less	n.a.	RMD 5m or more	n.a.	RMD 500k or more	n.a.	RMD 500k or less
Manufacturing Industry	Less than 1,000	RMD 400m or less	300 or more	RMD 20m or more	20 or more	RMD 3m or more	Less than 20	RMD 3m or less
Construction Industry	n.a.	RMD 800m or less	n.a.	RMD 60m or more	n.a.	RMD 50m or more	Less than 10	RMD 50m or less
Wholesale Businesses	Less than 200	RMD 400m or less	20 or more	RMD 50m or more	5 or more	RMD 10m or more	Less than 5	RMD 10m or less
Retail Industry	Less than 300	RMD 200m or less	50 or more	RMD 5m or more	10 or more	RMD 1m or more	Less than 10	RMD 1m or less
Transportation Industry	Less than 1,000	RMD 300m or less	300 or more	RMD 30m or more	20 or more	RMD 2m or more	Less than 20	RMD 2m or less
Warehousing Industry	Less than 200	RMD 300m or less	100 or more	RMD 10m or more	20 or more	RMD 1m or more	Less than 20	RMD 1m or less
Postal Industry	Less than 1,000	RMD 300m or less	100 or more	RMD 10m or more	20 or more	RMD 1m or more	Less than 20	RMD 1m or less
Hotel Service Industry, Catering industry	Less than 300	RMD 100m or less	100 or more	RMD 20m or more	10 or more	RMD 1m or more	Less than 10	RMD 1m or less
Information Transmission Industry	Less than 2,000	RMD 1B or less	100 or more	RMD 10m or more	10 or more	RMD 1m or more	Less than 10	RMD 1m or less
Software and Information Service Industry	Less than 300	RMD 100m or less	100 or more	RMD 10m or more	10 or more	RMD 500k or more	Less than 10	RMD 500k or less
Real Estate Industry	n.a.	RMD 2B or less	n.a.	RMD 10m or more	n.a.	RMD 1m or more	n.a.	RMD 1m or less
Estate Management	Less than 1,000	RMD 50m or less	300 or more	RMD 10m or more	100 or more	RMD 5m or more	Less than 100	RMD 5m or less
Leasing and Business Service Industry	Less than 300	RMD 1.2B or less	100 or more	RMD 80m or more	10 or more	RMD 1m or more	Less than 10	RMD 1m or less

Source: On 18 June 2011, the China's Ministry of Industry and Information Technology (MIIT), the National Bureau of Statistics (NBS), the National Development and Reform Commission (NDRC) and the Ministry of Finance (MOF) jointly issued a notice entitled "On The Issuance of Classification Standards for SMEs", which provides industry standards for the designated types.

New business creation is keeping strong in China. After a short dip in 2008, the number of company registrations is growing steadily during 2009-11. In terms of the companies with registered capital of RMB 0.10-1.0 million, annual growth rates of company registration were -1.93%, 20.86%, 15.84% and 10.47% in the 2008-11 period. In terms of the companies with a registered capital of RMB 1.0-5.0 million, the annual growth rates were 3.76%, 26.79%, 23.62% and 15.42% in the 2008-11 period. In 2008, due to the international financial crisis and some other factors, there is a clear decline in terms of new business creations. However, the growth rate of the firm number and registered capital recovered quickly in following years, as a result of a series of national stimulus policies.

Entrepreneurship as a career path does not have a favourable image, affecting the likelihood that young workers will choose this option, or that they will obtain financial support from friends and family to start new businesses. Figure 8.1 shows that China ranks among the lowest-scoring countries in the sample, with 28% of favourable opinions regarding the image of entrepreneurs, before only Japan and Hungary. However, the Chinese education system is increasingly willing to offer necessary training for young entrepreneurs, and gradually taking on more responsibilities to foster entrepreneurship. E-commerce and entrepreneurship in general is growing more popular in eastern coastal areas, in part of these government initiatives. The development of a new generation of start-ups, especially in hi-tech and innovative fields, is also promising.

Figure 8.1. **Entrepreneurship education and the image of entrepreneurs, percentages 2012**



Notes: 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.

Source: OECD (2013b).

StatLink http://dx.doi.org/10.1787/888933193803

The main obstacle respondents in China cite to becoming self-employed in the next five years is lack of access to finance (27% of answers).

Small business lending

The stock of SME loans has increased on average 19% since 2009 (first data available on the Scoreboard), comprising a cumulative increase of 67% for the period 2009-12.[1] Both figures are larger than the growth of total business loans. The main reason that explains the increase in SME lending is general credit relaxation, broad financial policy supports specific to SMEs, and change of credit structure. The Chinese Government implemented relatively loose credit policy in general since global financial crisis, and issued broad incentive policies to encourage state-owned banks to support SMEs. In addition, credit controls targeted to heavy industries, such as steel industry and real estate industry, restrained credit flowing into large-scale companies, and reshaped credit structure in latest year. In 2012, new business loans decreased 9% in real terms with respect to the previous year.

In China, standard loans from public banks are the most widespread source of finance for small firms (ADB-OECD, 2013). Compare this appreciation with the figure from the Scoreboard table (SME government direct loans) where only 7% of total SME loans are given by the Chinese Development Bank. In China, both development bank and other state-owned commercial banks are policy instruments in providing financial support to SMEs. Partial efforts are conducted by comprehensive development bank, and more efforts are implemented by other State-owned commercial banks. There is still not a specific development bank for SMEs in China. After tightened guidance and incentive to support SME credit by central government, Chinese state-owned public banks provide expanded credit scale specific to SME.

Small business credit conditions

SMEs face additional constraints on access to finance compared to large firms. The interest rate that small firms pay was 7.4% in 2013, on average 0.4 percentage points larger than the interest rate paid by bigger firms, a difference maintained throughout the period 2009-13, according the supply-side survey in China. But according to the demand-side survey, both the interest rate for small firms and larger firms are higher, with an interest rate for small firms of 8.39%, for larger firms with 7.72%, and an interest rate spread of 0.67%.

In addition to interest cost, there are extra loan fees for obtaining a bank loan in many occasions. In 2013, SMEs were charged about 3.70% of the total value of bank loans as extra loan fees on average. Compared to large firms, SMEs are charged such extra fees more often. Taking into account the existence of these extra fees, the gap of comprehensive cost of bank lending between SMEs and large firms would be even bigger.

SMEs are more likely to be required to provide collateral, and have less access to credit and overdraft facilities than in other countries. During the period, about half of SME bank loans have had collateral requirements, with an increase from 50.6% in 2011 to 53.0% in 2013. And SMEs have more difficulties in obtaining long-term bank lending. The ratio of short-term loan to total loan in SMEs is about 56.1%. In some occasions, only short-term loans are available even when applying for long-term lending, which potentially increases SMEs' liquidity risks.

In general, SMEs' access to bank loan is gradually improving in China, due to targeted government policy intervention. The average yearly loan rejection rate amounted to 6.19%. Nearly 65.07% SMEs reported their loan applications were never rejected in latest 3 years. And 26.93% SMEs reported their rejection ratio is less than 20% in latest 3 years. Only 3.63% SMEs reported that their loan applications were often rejected by bank (rejection ratio is more than 40% in latest 3 years).

Equity financing

Equity financing for SMEs represents a marginal share of all SME finance, accounting for less than 1% of SME loans. In 2013, direct financing only contribute 11.7% of total social financing scale. China securities market is not well developed comparing with its GDP scale, and favours large-scaled and state-owned companies. Small companies have still many difficult to get access into securities market. And, China Securities Regulatory Commission practically suspended IPO audit for protecting gloomy stock market during September 2012 to January 2014. The suspension also affected equity financing for SMEs.

There are three institutions that provide alternative finance instruments, which are suited for the needs of SMEs seeking expansion or internationalisation: a SME Board in the Shenzhen Stock Exchange (since 2004), a Venture Board (since 2009), and another National Equities Exchange and Quotations (NEEQ, since 2013). Both the SME Board and Venture Board provide bonds and equity finance for high-growth SMEs and/or start-ups. In 2012, there were more than 1 000 firms listed and a market capitalisation of over USD 500 billion in both markets (ADB-OECD, 2013). The NEEQ transfer system, is another national securities exchange approved by the State Council in September 2012, which shows high-speed growth rate with the number of listed companies over 1 000 by August 2014.

Other indicators

Regarding alternative financing sources, medium-sized company has more advantage to access more kinds of credit-derives financial products offered by shadow financial system as alternative sources. Small company is more likely to seek trade credit and private loan as alternatives. Factoring, leasing and supply chain finance represent an important share of SME finance. Among Asian economies, China recorded the largest factoring turnover value in 2012 at EUR 343 billion (ADB-OECD, 2013). In addition, micro companies prefer to internal financing and family loan, and other interpersonal loan. Finance leases, also known as equipment rental or modern lease, refers to the transfer of substantially all or substantially all the risks and rewards of ownership of the assets related to the lease, which integrates financing and financial goods, trade and technical updates. Due to its characteristics of combination the financing and financial of goods, when there is a problem between the parties, leasing company can be recycled, treated the lease; thus in the process of financing it requires less corporate credit and guarantees, it is very suitable for SME financing. After 2007, the domestic financial leasing industry has entered a period of geometric growth. Total business by 2006 was about 8 billion RMB, but it amounts to about 930 billion RMB in 2011. By the end of 2012, the number of registered finance leasing companies is about 560, including 20 financial leasing companies, 80 domestic leasing companies and another 460 foreign leasing companies in China. Total registered capital amounts to 182 billion RMB, and the balance of the lease contract is about RMB 1.55 trillion. Supply chain financing is similar to the "logistics bank" and "FTW", which provides a comprehensive financing service for SMEs with severe shortage of funds, i.e., it provides financing services to "one" core businesses, with the combination of the right spot pledge and pledge of future goods, integrating the suppliers, manufacturers, distributors, retailers, and the end users together, providing a full range of financial services for the "n" enterprises in the value chain, in order to realise the constant value in the entire supply chain.

In addition to low entrepreneurial aspirations and constraints in access to finance, small firms and entrepreneurs face other challenges. The institutional environment, along with the inequality of opportunity across geographic areas within China mean that firms in rural areas have less access to services and training opportunities than urban areas. The household registration system (known as the *hukou*) also erects barriers for internal migrants to set up and expand their businesses. This system has not been cancelled until the earlier of August 2014.

Firms seeking to internationalise confront additional problems, such as exchange risk and macroeconomic volatility. SME exports noticeably influence international trade; in 2012 they comprised 41% of total export values, with a year-on-year growth of 6.8% (ADB-OECD, 2013).

Government policy response

Due to serious impact of global financial crisis, lots of export-oriented SMEs were stuck in stagnation and even bankruptcy in parts of China during 2008-09. As a response, the government of China adopted broader policies to support SME financing with particular attention to the access to bank lending, addressing the high comprehensive cost of bank lending, alleviating the liquidity risk of SMEs and tackling the prevalence of shadow banking.

China's central government enhanced policy interventions to increase the share of SME loan provided by large banks. The central bank of China also implemented a series of guidelines to facilitate SME financing and relevant finance innovations. In this context, specific SME financing divisions or departments are established in larger banks to increase SMEs' access to bank lending. State-owned banks are required to increase the ratio of SME credit; as a result the stock of SME loans increased from RMB 13.62 trillion to RMB 25.36 trillion for the period 2009-12 in real terms.

Another effort is centred at reforming the current bank system to broaden SME financing channels. Small and medium-scaled commercial banks are supported to establish branches, especially in Western China and North-Eastern China, and previous policy restrictions are removed. More small-scale town bank and small credit companies are currently allowed to set up. In 2013, 7 839 small credit companies in total were in operation, providing about RMB 819 billion loan for SMEs. 5 private banks were approved to establish in 2014. In addition, with the rise of internet finance, China central bank put forward supervision and regulation policies as well as encouragements to enhance the micro-financing system.

Innovations concerning finance products and financing operations are encouraged by the government to facilitate SME financing. In doing so, some barriers impeding SME financing are removed or relieved. For example, collateral is broadened to include accounts receivable, inventory, property rights, equipment and patents. Pledge loans of real estate, intellectual property rights, equity, letter of guarantee, and export tax rebate pool are encouraged. Factoring, forfeiting, bill discounting, supply chain financing and other innovative financial products are also developed to enhance SME financing.

The higher level of comprehensive cost of SME financing was noted by Chinese policy-makers. The Chinese state council takes measures to cut off unreasonable charges and fees involving SME bank loans, and exempt some relevant administrative fees in 2013. The effect of these measures should be evaluated in following years.

As a response to the expansion of SME bond-financing, the government designed SME collective bonds, which are jointly issued by three or more SMEs in the inter-bank market, in order to facilitate SME to access bond market. Other similar products include SME private bonds, SME collective bills and SME collective preferred bills and so on. The total amount of SME collective bonds, SME private bonds, SME collective bills and SME collective preferred bills issued in 2013 is only about RMB 0.400, 29.435, 0.777, 3.992 billion respectively. The conditions to issue bonds in the market are rigid for many SMEs, so the total issue scale was very limited in 2013.

The Chinese Government tries to expand equity financing by establishing a "new third market" for exchanging non-public SME equities. In 2013, equities totalling 658 SMEs are exchanged in the "new third market" with RMB 814 million exchange volume. The reforming of equities, including "the new third market", is still work in progress.

In China, the broader shadow banking system is important to SME financing. SMEs that cannot access the formal bank system and rely on the shadow banking system instead, have to accept about 20% of annual interests. The Chinese Government is aware of the potential risk of shadow banking system, agrees on the need for more supervision, regulation and controls by the government, which is also implementing a nation-wide survey about shadow lending and governmental debt in 2013.

Table 8.2. **Scoreboard for China, 2007-13**

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	100million RMB	-	-	136 164	171 389	211 675	253 555	N.A.
Outstanding business loans, total (stock)	100million RMB	-	-	249 397	302 915	350 169	392 830	N.A.
SME loan shares	%			54.6	56.68	60.45	64.55	N.A.
New business loans, SMEs (flows)	100million RMB	-	-	-	35 051	47 898	44 701	N.A.
New business loans, total (flows)	100million RMB	-	-	-	52 856	32 025	33 895	N.A.
Government loan guarantees, SMEs	100million RMB	-	-	-	-	-	6 210.3	N.A.
SME government direct loans (Stock)	100million RMB				12 226	15 500	18 134	20 824
SME government direct loans (Flow)	100million RMB				2 161	3 091	2 477	2 690
SME loans authorised/SME loans requested (supply side survey)	%	-	-	-	-	92.00%	91.00%	89.60%
SME loans authorised/SME loans requested (demand side survey)	%	-	-	-	-	-	-	59.67%
SME loans used/SME loans authorised(demand side survey)	%	-	-	-	-	-	-	93.51%
Non-performing loans, SMEs	100million RMB		-	5 217.62	4 318.29	3 699.69	4 178.14	N.A.
Non-performing loans, total	100million RMB		-	6 424.55	5 320.43	4 425.5	4 771.2	N.A.
Interest rate, SMEs (supply side survey)	%	-	-	-	-	7.37%	7.50%	7.39%
Interest rate, large firms (supply side survey)	%	-	-	-	-	6.99%	7.12%	7.01%
Interest rate spread (supply side survey)	%	-	-	-	-	0.38%	0.38%	0.38%
Interest rate, SMEs (demand side survey)	%	-	-	-	-	-	-	8.39%
Interest rate, large firms (demand side survey)	%	-	-	-	-	-	-	7.72%
Interest rate spread (demand side survey)	%	-	-	-	-	-	-	0.67%
Collateral, SMEs (supply side data)	%	-	-	50.55%	51.64%	51.59%	52.98%	N.A.
Collateral, SMEs (demand side survey)	%	-	-	-	-	-	-	56.19%
loan fee, SME (demand side survey)	%	-	-	-	-	-	-	3.70%
Short-term loans,% of total loans, SMEs (demand side survey)	%	-	-	-	-	-	-	56.10%
Equity								
Venture and growth capital (seed and early stage)	100million RMB	240.39	413.42	524.87	664.22	610.82	858.04	N.A.
Venture and growth capital (growth capital)	100million RMB	872.51	1 042.28	1 080.23	1 742.38	2 587.18	2 454.86	N.A.
Other								
Loan rejection rate (%)	%	-	-	-	-	-	-	6.19%
Payment delays, B2B	days	-	-	-	-	-	-	95.91
Payment delays, B2C	days	-	-	-	-	-	-	48.38
Bankruptcies, SMEs	%	-	-	-	-	-	-	7.57%
Bankruptcies, total	%	-	-	-	-	-	-	8.11%

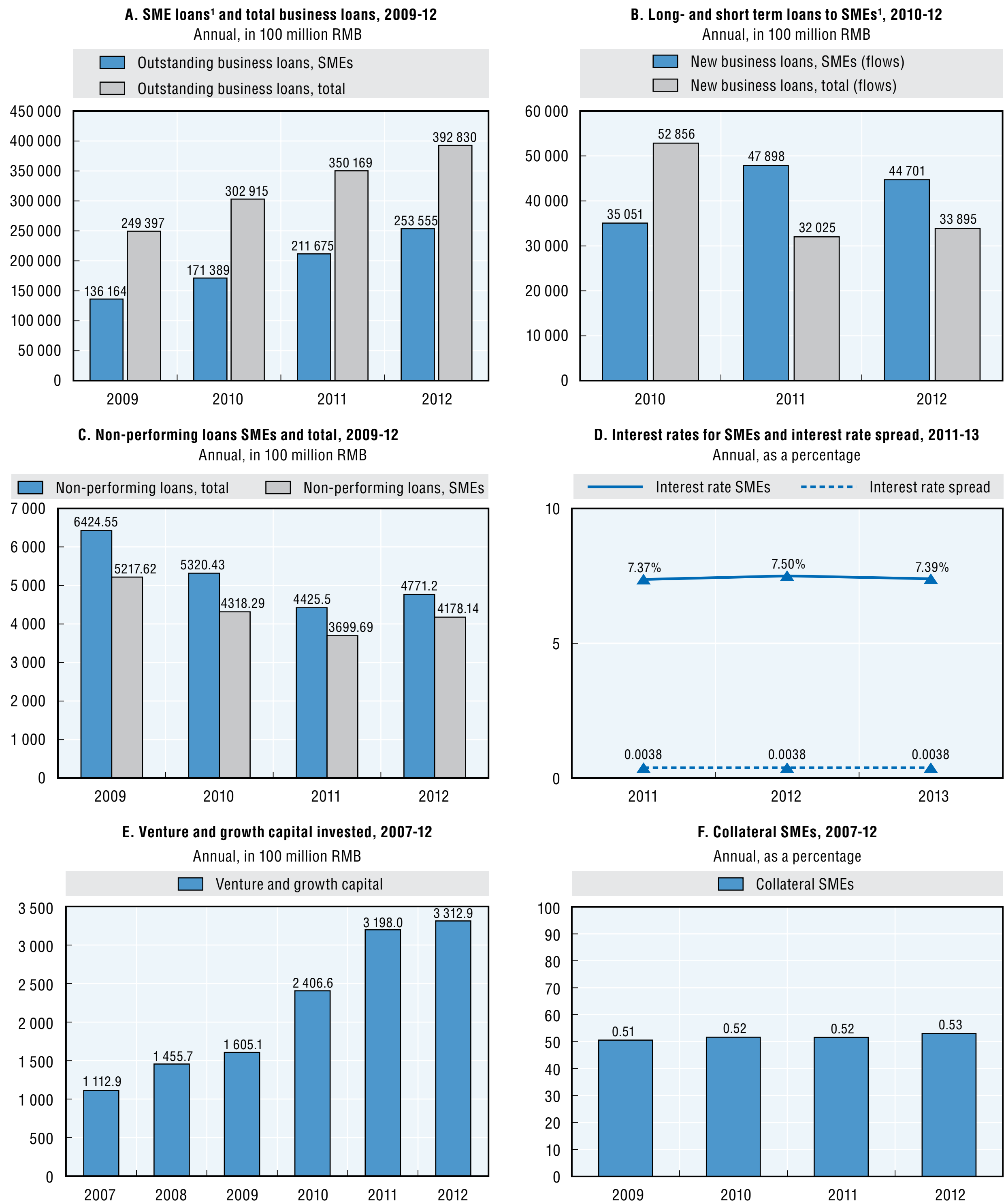
Source: See Table 8.3.

StatLink http://dx.doi.org/10.1787/888933194873

Table 8.3. **Definitions of indicators for China's Scoreboard**

Indicator	Definition	Source
Debt		
Outstanding business loans, SMEs (stock)	Business loans to SMEs from banks (including foreign banks) and financing agencies under the supervision of the People's Bank of China (amount outstanding, stock)	*Almanac of China's Finance and Banking*, released by People's Bank of China
Outstanding business loans, total (stock)	Business loans to all business sectors from banks (including foreign banks) and financing agencies under the supervision of the People's Bank of China (amount outstanding, stock)	*Almanac of China's Finance and Banking*, released by People's Bank of China
New business loans, SMEs (flows)	Business loans to SMEs from banks (including foreign banks) and financing agencies under the supervision of the People's Bank of China (incremental amount during a calendar year)	*Almanac of China's Finance and Banking*, released by People's Bank of China
New business loans, total (flows)	Business loans to all business sectors from banks (including foreign banks) and financing agencies under the supervision of the People's Bank of China (incremental amount during a calendar year)	*Almanac of China's Finance and Banking*, released by People's Bank of China
Government loan guarantees, SMEs	Loan guarantee (flow) to SMEs from State-owned or state-holding guarantee agencies and the amount excludes loan guarantee to individuals provided by these agencies.	Ministry of Industry and Information Technology (MIIT) of China
SME government direct loans (Stock)	Policy-related loans to SMEs from China Development Bank. (amount outstanding, stock)	China Development Bank
SME government direct loans (Flow)	Policy-related loans to SMEs from China Development Bank. (incremental amount during a calendar year)	China Development Bank
SME loans authorised /SME loans requested (supply side survey)	The ratio of the amount authorised by bank to the amount applied by firm in its latest application for bank loan	Supply-side survey
SME loans authorised/SME loans requested (demand side survey)	The ratio of the amount authorised by bank to the amount applied by firm in its latest application for bank loan	Demand-side survey
SME loans used/SME loans authorised (demand side survey)	The ratio of loan used (deducted by the part remaining in account as reserves) to latest bank loan after 3 month from authorised date	Demand-side survey
Non-performing loans, SMEs	SME non-performing loans to as defined by The People's Bank of China (stock)	*Almanac of China's Finance and Banking*, released by People's Bank of China
Non-performing loans, total	All non-performing loans as defined by The People's Bank of China (stock)	*Almanac of China's Finance and Banking*, released by People's Bank of China
Interest rate, SMEs (supply side survey)	Average interest rate of SME bank loans	Supply-side survey
Interest rate, large firms (supply side survey)	Average interest rate of all bank loans	Supply-side survey
Interest rate, SMEs (demand side survey)	Average interest rate of latest bank loans of SMEs	Demand-side survey
Interest rate, large firms (demand side survey)	Average interest rate of latest bank loans of large companies	Demand-side survey
Collateral, SMEs (supply side data)	Percentage of SME loans that were required to provide collateral in all SME loans (calculated by annual amount)	*Almanac of China's Finance and Banking*, released by People's Bank of China
Collateral, SMEs (demand side survey)	Percentage of SMEs that were required to provide collateral in latest bank loan	Demand-side survey
loan fee, SME (demand side survey)	The ratio of extra fees for obtaining bank loan to the total amount of latest bank loan, SME (%)	Demand-side survey
Short-term loans,% of total loans, SMEs (demand side survey)	The ratio of short-term loans to the total amount of bank loans in latest year, SME (%)	Demand-side survey
Equity		
Venture and growth capital (seed and early stage)	The sum of VC investments of projects in seed stage and early stage	Ministry of Science and Technology
Venture and growth capital (growth capital)	The sum of VC investments of projects in growth stage, mature stage and restructure stage	Ministry of Science and Technology
Other		Demand-side survey
Loan rejection rate (%)	Comprehensive rejection probability, calculated as weighted average of SME's rejection ratio in latest 3 years (%)	Demand-side survey
Payment delays, B2B	The average number of days that a B2B company can collect delayed payment from clients after the contract date	Demand-side survey

Figure 8.2. **Trends in SME and entrepreneurship finance in China**



1. Loans up to EUR 1 million.
Source: See Table 8.3.

StatLink http://dx.doi.org/10.1787/888933193816

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Colombia

SMEs in the national economy

In Colombia, microenterprises and SMEs (MSMEs) represent an important part of the economy, The latest 2005 Census records of the National Bureau of Statistics indicate that employing 80.8% of the country's workforce[2], contributing to 40% of GDP[3] and representing 9% of total manufacturing exports[4]. 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. Also, informality is common and formalisation is constrained by the family nature of businesses, which are typically limited in their managerial capacity and corporate governance.

Table 9.1. **Distribution of firms in Colombia, 2008**

% Breakdown by number of employees Firm size (employees)	%
All enterprises	**100.0**
SMEs (up to 200)	**99.74**
Microenterprise (up to 10)	83.02
Small (11-50)	3.44
Medium (51-200)	0.85
Large	**0.26**

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

Source: Calculations MinCIT - SMs based solely Business and Social Register - RUES. Includes corporations and individuals.

StatLink http://dx.doi.org/10.1787/888933194880

Financial deepening and lending activity

The share of credit in the total Gross Domestic Product (GDP) recorded an increase of 3.42 percentage points (pp) going from 37.28% in December 2012 to 40.70 % in the same month of 2013 and 42.32% in June 2014.[5] This continued growth reflects the financial deepening occurring in Colombia.

At the end of 2013, the banking index rose to 71.5%, indicating that 22.6 million adults Colombians have at least one financial product.[6]

During 2013 the portfolio remained stable, over 11% annually, mainly motivated by the portfolio of housing and commercial real growth mode. As of December, the gross portfolio reached USD 139 109 million, registering a real annual rate of 11.42%, equivalent to an increase of USD 16 683 million.[7]

SME lending

In Colombia, bank credit is the main financing source for SMEs: bank lending accounts on average for 45% of total financing received, followed by suppliers' finance (which represents 20% for the industrial SME sector, 25% for the commercial SME sector and 18% for the services SME sector[8]) and own resources or internal funding (12%).[9] The stock market, on the other hand, represents a marginal source of financing for SMEs. Moreover, according to the SME Survey by the National Association of Financial Institutions (ANIF), in H1 2014, 33% of the SME population had sought credit and the approval rates for credit is around 93% of total requests on average in 2013.

In Colombia, credit to SMEs represented on average 26.7% of the total credit portfolio over 2007-13. In the same period, the value of loans to MSMEs experienced an increase of 6% on average year-on-year . However, total business loans grew at a higher rate, so that the SME loan share decreased from 32.67% in 2007 to 21.12% in 2013.

Short-term credit grew at a higher average rate of 8.36% compared with long-term credit (15.42%). As of 2013, short-term SME loans represented 22.16% of total SME lending, having rebound from 21.73% in 2012.

Microcredit portfolio

Microcredit in Colombia is defined as the set of credit operations with a productive destination, granted to micro-enterprises and whose individual amount does not exceed the 120 current legal monthly minimal wages. Microenterprises are firms with up to 10 employees and who hold assets not superior to 501 current legal monthly minimal wages.

Although microcredit from the Bank of opportunities by only represented 4,63% of total lending in 2013, a considerable increase was recorded over 2010-13, both in the number of operations and in the amount of microcredits granted (Table 9.2).

The total number of microcredit operations by Bank of opportunities increased by 11% over 2010-13, from about 1.8 million to about 2.4 million, and in value 19% in the same period from USD 2 325 million in 2010 to USD 3 950 million in 2013).[10]

In 2013, the microcredit portfolio presented an annual growth trend close to 13.33% year-on-year, for a total balance of about USD 4 billion.

Table 9.2. **Evolution of Microcredit in Colombia, 2010-13**

Number of operations, amounts in USD million

Type of Entity	2010		2011		2012		2013	
	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	1 312	967 343	2 015	1 031 661	2 301	1 112 339	2 641
Cooperatives	68 943	146	8 366	193	9 369	244	94 858	247
NGO	1 077 393	867	1 085 551	818	1 170 308	940	1 227 400	1 062
Total	1 794 477	2 325	2 136 554	3 026	2 295 659	3 485	2 434 597	3 950

Source: Bancoldex - The Bank of Opportunities. Sept 2014.

StatLink http://dx.doi.org/10.1787/888933194898

Credit conditions

According to the SMEs–Anif survey, on average 50% of MSMEs do not apply for credit and for those who request one, the approval rate is high.[11] The main reason why MSMEs do not apply for credit is because they don't require it. The barriers identified, 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 of formal financing for microenterprises with credit conditions not adjusting to the requirements of the micro-entrepreneur. Alternative financial sources are not being used by SMEs, only 9% use leasing, and factoring use is even lower with only 5%.

Credit conditions for SMEs over the period 2007-13, with the average interest rate charged on SME loans decreased from 20.09% in 2007 to 19.77% in 2013. 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 1 100 basis points throughout the period.

Equity financing

Colombia has advanced in recent years on structuring financing instruments that address needs at 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 2005-August 2014, supported of 3 985 projects and allocated USD 129 937 811 in seed capital resources, generating 14 266 jobs.

A number of new financing instruments are also being introduced, with the creation of networks of angel investors and capital funds. Currently, there are 37 close funds of private capital at 2014. These funds have mobilised more than USD 4.3 billion to date.

Other indicators

The average payment delay in days has dropped significantly from 48.83 days in 2007 to 18.73 days in 2013. This important decline can be attributed to a significant economic growth in recent years and has reinforced its banking provisions, which causes a less number of bankruptcies among the country enterprises.

The bankruptcy figure, measured as the number of businesses that begin bargaining processes registered at the Superintendencia de Sociedades, has raised 34.5% from 2012 to 2013 year-on-year. This is due to an increase in the number of processes of reorganisation in the services, commercial and mining sectors. This last one, particularly, has been highly affected by the decreases in international prices and by the stopping of transport operations in mineral areas during important strikes in the last year.

Government policy response

The mechanisms on which Colombia has been working to improve access to finance by MSMEs are:

- Reduction of financial services costs.
- Improved effectiveness and efficiency of the financial sector and improved credit availability. In particular (Recommendations by the Private Council of Competitiveness):
  - ❖ 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" and

  - "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".
- Developing further: 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[12] and leasing mechanisms; and security interests.[13]
- Fostering the use and funding of TICs by SMEs, to improve their relation with financial entities.
- Permanent innovation to offer credit lines which foster the strengthening of the company on the medium and long term.
- Increased coverage 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 microbusiness 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 approaching 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 programs as well as the provision of guarantees for SMEs.

Bancoldex 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 2013, Bancoldex conducted credit disbursements to MSMEs through financial institutions, for a total amount of USD 1 881 188 119, out of which 56% (USD 1 039 603 960) was granted to MSMEs.[14]

Besides offering traditional credit, Bancoldex has special programmes, such as iNNpulsa Colombia, iNNpulsa Mipyme, the Bank of Opportunities and the Productive Transformation Programme. 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. From its creation in February 2012 to December 2013, the programme reported disbursements of non-refundable resources for the MSMEs close to USD 57 million (close to USD 40 million directly from the Fund iNNpulsa Mipymes) which supported more than 24 000 Colombian SMEs.

With regard to the financing of innovation and innovative dynamic entrepreneurship, the Unity for Development and Innovation – UDI – was created in Bancoldex by the National Development Plan, to provide non-refundable resources to projects focused on innovation.

From its creation (February 2012) to December 2013, the UDI has allocated close to USD 41 million, supporting 2 515 SMEs.

Bancoldex has also been providing support for the development of factoring (representing on average 0.42% of the commercial portfolio, a percentage that has been rising). Factoring offers clear advantages to SMEs improving their cash flow and reducing the risk of credit exposure. To that end, Bancoldex has designed a financial product called Liquidex COP – USD. Through this, the enterprise can buy at a discount and without resource up to 80% of the sale exchange bills originated in domestic or international transactions, protected by the credit insurance issued by two specific insurance companies predefined by Bancoldex. Over the last two years, Bancoldex has mobilised resources up to USD 172. 6 million to develop the factoring industry. These funds are placed in financial institutions supervised by the Superfinanciera, through a short-term line of low rates for the industry.

FINAGRO is a public financial institution through which public programs 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 programs 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 service of rural microcredit and finance the needs for working capital and investment of rural micro-entrepreneurs.

Banco Agrario develops the operations of a commercial banking establishment, mainly, but not exclusively, financing the activities related to the rural, agricultural, cattle, fishery, forestry and agro-industrial sector.

Credit Guarantees

The National Fund of Guarantees supports the MSMEs nationwide by addressing their lack of guarantees. The request for guarantees is carried out through a financial intermediary, to whom the company asks for the loan and the guaranteed portion is on average 50% of the loan.

The new regulation on movable guarantees 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 businessmen since they can support their obligations on 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 in their majority 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 9.1. **Classification of MSMEs in Colombia according to the parameters contained in the Law 905 of 2004**

Size	Occupied Personnel	Assets in SMMLV[15]	Assets in COP (Million)	Dollars[16] (thousands of USD)
Micro	≤ 10	≤ 500	≤308	152.6
Small	11 up to 50	Between 501 up to 5 000	308.6 to 3.080	152.9 to 1 525.9
Medium	51 up to 200	Between 5 001 up to 30 000	3.080 to 18.480	1 526.2 to 9 155.4
Large	≥ 200	≥ 30 000	≥18.480.6	9 155.7

Source: National Fund of Guarantees.

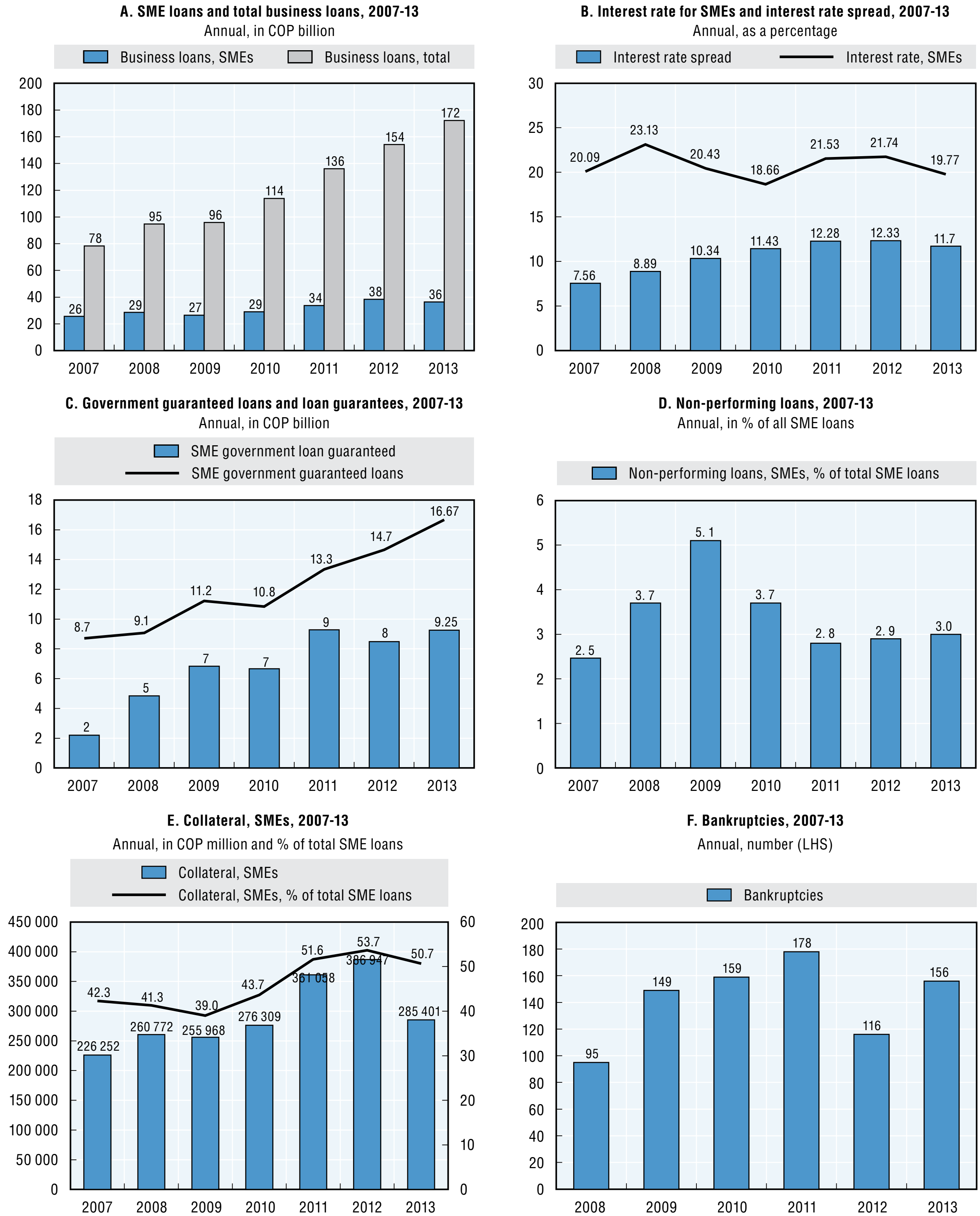
Table 9.3. **Scoreboard for Colombia, 2007-13**

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013
SME loans	COP Billions	25.61	28.59	26.58	29.12	33.73	38.45	36.38
Business loans	COP Billions	78.39	94.7	95.94	113.84	136	154.23	172.22
Share of SME loans in total business loans	(%)	32.67	30.18	27.7	25.58	24.8	24.93	21.12
SME long term loans	COP Billions	20.63	21.07	20.44	22.71	28.27	30.1	28.32
SME short-term loans / SME loans	(%)	19.44	26.3	23.11	22.02	16.19	21.73	22.16
SME government loan guarantees	COP Billions	2.2	4.85	6.84	6.67	9.28	8.49	9.25
SME government guaranteed loans	COP Billions	0.56	1.39	1.82	1.94	3.13	3.27	3.36
SME loans authorised/SME loans requested or SME loans used/ SME loans authorised	(%)	2.23	2.59	2.98	3.16	4.5	5.64	6.06
SME non-performing loans	(%)	2.52	3.66	5.05	3.68	2.8	2.91	3.04
SME interest rates	(%)	20.09	23.13	20.43	18.66	21.53	21.74	19.77
Interest rate spread between SMEs and large enterprises	Basis points	7.56	8.89	10.34	11.43	12.28	12.33	11.7
SMEs (%) required to provide collateral	(%)	42.31	41.3	39.02	43.66	51.64	53.65	50.65
Payment delays (Days)	Days	48.83	50.2	60.77	62.32	66.44	25.64	18.73
Bankruptcies	Number	33	95	149	153	178	116	156

Source: Table 9.4

StatLink http://dx.doi.org/10.1787/888933194903

Figure 9.1. **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/10.1787/888933193828

Table 9.4. **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 1 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 efective 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, and/or 1 = Non valable	Banco de la Republica, Superintendencia Financiera de Colombia.
Other		
Payment delays	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. Figures adjusted for inflation using data from *http://www.inflation.eu/inflation-rates/china/historic-inflation/cpi-inflation-china.aspx*.
2. Economic Census of 2005, DANE
3. The participation of MSMEs in the GDP is inferred from an estimate of the Association of Micro and Small Entrepreneur (ACOPI)
4. The estimates about MSMEs'contribution to exports are based on a 2003 study by FUNDES.
5. Superintendency of Finance – Stregthening and development Financial Sistem: vision of supervisor - Gerardo Hernandez Correa Financial Superintendent of Colombia XLIX Bancaria Convention Cartagena de Indias, August 21, 2014
6. Superintendency of Finance – Stregthening and development Financial Sistem: vision of supervisor - Gerardo Hernandez Correa Financial Superintendent of Colombia XLIX Bancaria Convention Cartagena de Indias, August 21, 2014

7. FINANCIAL SUPERVISION OF COLOMBIA – EVOLUTION COLOMBIAN FINANCIAL SYSTEM 2013 - Gerardo Hernandez Correa Financial Superintendent of Colombia XLIX Bancaria Convention Cartagena de Indias, August 21, 2014
8. Gran Encuesta Pyme, Anif, 2014 (1st Semester)
9. 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.
10. Average annual rate
11. Source: Gran Encuesta Pyme ANIF
12. The 1231 law July 2008 and Decree 2269 of 2012, unifies the invoice value as a title as a funding mechanism for MSMEs. Make a legal basis for expanding operations acceptance of vendor invoices with companies of different sizes.
13. Law 1676 of August 20, 2013 , through which it promotes access to credit and secured transactions rules dictate . This new instrument opens up possibilities of credit for smaller businesses as these will support its obligations on a vast universe of movable property
14. For these and the following paragraphs on Bancoldex, the source is "Informe de la Junta Directiva y del Presidente a la Asamblea General de Accionistas 2013".
15. SMMLV in 2014: USD 616.00
16. TRM sept. 30 de 2014: 2.018

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Superintendency of Finance – Strengthening and development Financial Sistem: vision of supervisor - Gerardo Hernandez Correa Financial Superintendent of Colombia XLIX Bancaria Convention Cartagena de Indias, August 21, 2014.

Czech Republic

SMEs in the national economy

There are roughly 1.1 million active enterprises in the Czech Republic, most of them being SMEs with less than 250 employees (99.8% of all enterprises as of 2013), employing almost 1.8 million people (60.0 % of Czech Republic's workforce employed in enterprises regardless size). The bulk of them are micro firms, covering 92.7% of SMEs.

Table 10.1. **Distribution of firms in the Czech Republic, 2013**

By firm size

Firm size (employees)	Number	%
All firms	**1 115 053**	**100.0**
SMEs (1-249)	**1 112 281**	**99.8**
Micro (1-9)	1 031 325	92.5
Small (10-49)	58 884	5.3
Medium (50-249)	22 072	2.0
Large (250+)	**2 772**	**0.2**

Note: Data includes active enterprises (businesses) registered in statistical Business Register. Activity is indicated by existence of employers or income. Non-employer and non-income enterprises are not included.

Source: Czech Statistical Office (2014).

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SME lending

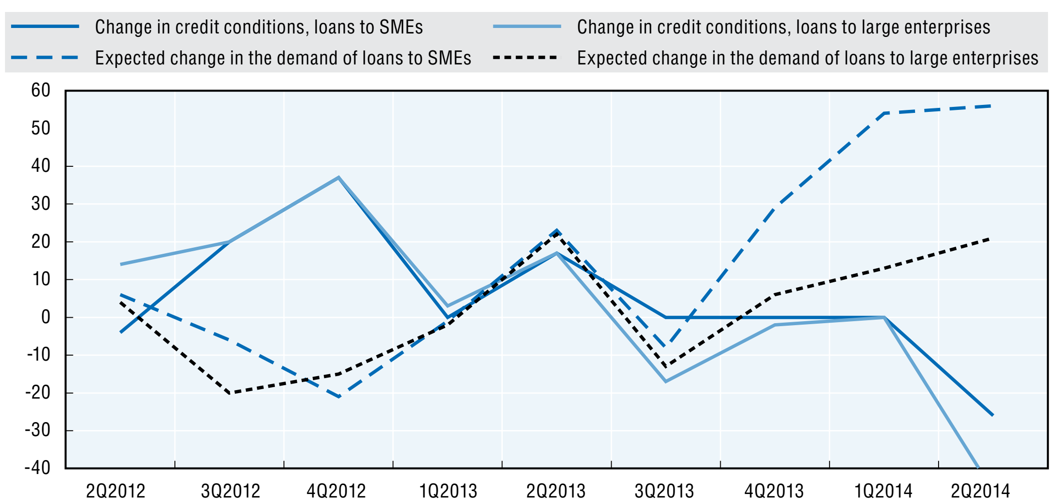
New SME loans declined continuously between 2007 and 2010, in total by 41% over this period, and recovered afterwards with 0.6% and 4.6% in 2011 and 2012 respectively. In 2013, this upward trend came to a halt as new SME loans fell sharply by 33% year-on-year. New business loans peaked in 2008 and then contracted by 31% over the 2008-11 period. In 2012, a recovery of business loans was observed, which proved to be short-lived, however, as the amount of new loans plummeted by 28% in 2013 year-on-year. As SME loans shrank more than business loans in general, the SME loan share in total business loans decreased from 24% in 2007 to 17% in 2013. This trend is caused by two factors: on the side of banks stricter rules for credit risk management placed higher demands on financial health of borrowers and higher loan collateral; on the side of entrepreneurs, the lower volume of orders and fears of an uncertain economic development lead to prudence in lending money and finding more efficient ways of using their own resources.

Credit conditions

SME interest rates were down by 35 base points in 2013 vis-à-vis 2012, reaching a new record low and thereby continuing their decline since 2007. Over the 2007-13 period, SME interest rates dropped by 38% in total. The average interest rate charged to large enterprises also decreased from a peak of 4.84% in 2008 to 1.89% in 2013. The interest rate spread follows an erratic pattern between 2007 and 2013, increasing one year and decreasing the other. In 2013, the interest rate spread rose by 26 base points to 1.24%, more than in any other year since 2007. That means that cost of credit is higher for SMEs then for large enterprises.

The Czech National Bank first conducted the quarterly Bank Lending Survey in 2012. According to the surveyed bank officials, credit conditions have tightened up to the third quarter of 2013, both for SMEs as well as for large enterprises. Very recent data indicates, however, that standards have been relaxed since then, in particular in the second quarter of 2014, and senior loan officials expect further loosening. Loan officials also expect the demand for loans to strongly pick up since the third quarter of 2013, mostly by large enterprises, but also by SMEs to a lesser extent (see Figure 10.1).

Figure 10.1. **Change in credit conditions and the expected demand of credit in the Czech Republic, 2012-14**



Source: Bank Lending Survey, Czech National Bank

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Equity financing

Venture capital peaked in 2008, and then declined dramatically up to and including 2013 by a factor of more than ten. Growth capital declined even faster; whereas more than EUR 191 million of growth capital was invested in 2010, this amount plummeted to EUR 4 million in 2012. Equity investments shrank further in 2013, as growth capital investments were only slightly up and venture capital investments almost halved year-on-year (see table 10.2).

Table 10.2. **Venture capital and growth capital in the Czech Republic, 2007-13**

By stage of investment, in EUR thousand

	2007	2008	2009	2010	2011	2012	2013
Seed	0	0	0	0	0	0	516
Start-up	500	281	0	13 139	2 713	127	1 341
Later stage venture	3 692	31 543	28 248	9 910	7 811	5 101	924
Total venture	**4 192**	**31 825**	**28 248**	**23 048**	**10 523**	**5 229**	**2 781**
Growth	116 238	72 121	191 347	116 142	7 733	4 220	4 440

Source: European Venture Capital Association (2014).

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Other indicators

The proportion of non-performing loans to all loans almost tripled between 2007 (3.06%) and 2010 (8.96%) as the Czech economic climate soured, and modestly decreased afterwards. 7.11% of all loans were non-performing in 2013, down by 2.8% year-on-year, but still well above the pre-crisis level. It should also be noted that the quality of loans categorised as non-performing is deteriorating and that Czech banks face an elevated credit risk. Credit risks are also expected to increase significantly if growth disappoints in the near future (CNB, 2014).

SME bankruptcies increased every year between 2007 and 2013, a decline of 3% in 2011 the sole exception. Over the 2007-13 period, SME bankruptcies were up by 64%. The pace of this increase has abating, however; only a year-on-year uptick of 2.5% in the number of SME bankruptcies was observed in 2013.

Government policy response

The SMEs support government policy is based on the Act No. 47/2002 Coll., on support to small and medium-sized enterprises and the document Small and Medium-sized Enterprises Support Strategy 2014-20. The issue of financing small and medium-sized enterprises is one of the key themes of Czech Government in recent years. Aftermath of the financial crisis and subsequent economic recession the government is looking for ways how to facilitate access to finance for SMEs. The Czech-Moravian Guarantee and Development Bank, Czech Export Bank and the Export Guarantee and Insurance Corporation are state-owned institutions. Given the decline in SME lending with its impact on employment, investment and export, guarantee activities were stepped up. In the framework of anti-crisis measures, the Ministry of Industry and Trade provided assistance under the following programmes.

Operational Programme Enterprise and Innovation 2007 – 14 (OPEI)

Operational Programme Enterprise and Innovation (OPEI) is an essential tool for the Ministry of Industry and Trade to draw financial resources from the EU Structural Funds 2007-13. The main objective of the OPEI is the support and the increase the competitiveness of the Czech Republic (and its regions) in the industry, promoting innovation, rapid implementation of research and development in the manufacturing sector, especially stimulate demand for research and development, commercialisation of research and development, promotion of entrepreneurship and the growth of the knowledge economy. OPEI reflects an EU strategy focusing on indirect and direct support for entrepreneurs, especially SMEs (more than 80% of this support is dedicated to SMEs), and in general to overcome existing barriers of access to capital. Support is provided primarily to businesses with higher innovation potential, to stimulate R&D in enterprises, to establish co-operation between academia and business and to encourage starting-up new businesses as well as further development of existing businesses seeking to increase their competitiveness with an emphasis on regions with structural problems and high unemployment. OPEI is composed of 6 priority axes designed for business and it is further divided into areas of support and individual programmes. It is co-financed by EU Structural Funds, namely the European Regional Development Fund, and the state budget, the percentage ratio of 85/15. Allocation for the whole programming period 2007-14 achieved EUR 3 671 billion. The support was distributed to enterprises through grants, preferential loans and preferential guarantees.

Table 10.3. **Operational Programme Enterprise and Innovation – amount of funds paid, 2007-13**

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013
Amount of funds paid to beneficiaries	CZK million	1 330	2 200	5 059	7 025	10 650	14 724	14 500

Source: Czech Ministry of Industry and Trade

StatLink http://dx.doi.org/10.1787/888933194931

The GUARANTEE programme

National guarantee programme for small businesses (GUARANTEE) uses the resources from terminated former guarantees and repaid loans. Guarantee fund is administered and managed by Czech-Moravian Guarantee and Development Bank (CMZRB) that is under full control of the Czech Republic from 2012. The guarantee fund achieved a sum of CZK 634 million. During 2013, the guarantee fund granted 1 544 guarantees in total amount of CZK 3.2 million that corresponded to credits in the amount of CZK 4.6 billion which enabled entrepreneurs to finance their operating needs. During 2013, the programme was extended to support entrepreneurs affected by the floods. The business renewal projects got 23 guarantees amounted to CZK 176 million to credits totalling CZK 220 million. At the same time, three businesses affected by the floods received a financial contribution of CZK 2.5 million. In this programme, the CMZRB cooperates on the contractual bases with partner private banks and provides SMEs with partial guarantees (between 60-80% of the loan provided by the private bank).

Table 10.4. **Guarantees issued and loans guaranteed in the Czech Republic, 2007-13**

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013
Guarantees issued	Number	482	1 043	878	1 224	111	697	1 544
Guarantees issued	CZK million	1 925	3 529	6 369	6 593	472	1 534	3 243
Loans guaranteed	CZK million	2 959	5 094	9 550	10 070	630	2 215	4 603
% guaranteed	%	65	69	67	65	75	69	70

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

StatLink http://dx.doi.org/10.1787/888933194942

The REVIT programme

Framework programme REVIT is focused on support of SMEs operating in regions with lower and declining economic activity and high unemployment (i.e. structurally disadvantaged regions) or in regions affected by natural disaster. The programme enables SMEs to gain preferential loans (usable for covering investment or operational costs) and financial contribution. SMEs in regions affected by natural disaster can additionally gain preferential guarantees and financial contribution to guaranteed loan. The programme is funded from national sources (state budget) and is administered and managed by CMZRB.

The INOSTART programme

Program INOSTART is focused on supporting small business innovative start-ups that have difficulties to raise funds to finance their business activities due to the large risk, short financial history and low collateral. Program allows novice innovative entrepreneurs (within 3 years of the business activity) to gain access to credit so that they are given support in the form of guarantees for loans up to 60% of the outstanding loan principal. The program also includes advisory service related to the strategic direction of the company and the implementation of business plans. A pilot program was implemented in two regions, in the Moravian-Silesian and Olomouc. The programme is funded by Swiss-Czech Cooperation fund. Loans are provided by private bank Česká spořitelna, guarantees by Czech Moravian Guarantee and Development Bank and advisory by consulting company Erste GRANTIKA Advisory. The loan (ranging from CZK 0.5 million to CZK 15 million) can be used for the purchase of tangible and intangible investment and non-investment assets and cover operating costs. Grants to counselling are provided up to 10% of the relevant loan, up to CZK 150 thousand. After the pilot phase in 2013, parameters of programme were redesigned according to interest of SMEs. Starting from May 2014 the programme was extended also to medium-sized enterprises and to all regions of the Czech Republic.

Czech Export Bank and the Export Guarantee and Insurance Company

In 2013, Czech Export Bank (CEB) continued to support small and medium-sized enterprises in the form of special programs for SMEs to obtain financing for direct export activities or subcontracts for Czech exporters. The volume of contracts between CEB and exporters from SMEs segment amounted to CZK 371 million. In 2013, 32 new contracts including amendments were signed.

CEB also continued to implement the programme in support of subcontractors – SMEs and continued in developing cooperation with the commercial banking sector, which already contains agreement with 4 private banks most active if financing SMEs.

Another form of support for small and medium-sized enterprises realised by CEB flowed through financing of factoring companies. This funding represented a major support distribution channel for this business segment. The volume of aid granted in the form of refinancing factoring companies for purchase of receivables accounted for 2 593 billion CZK. Through factoring CEB supported 127 Czech exporters, financed 15 798 pieces receivables of 748 foreign buyers. Cooperation with factoring companies will remain crucial form of support for small and medium businesses in the future. The Export Guarantee and Insurance Company (EGAP) continued its activities in support of SMEs. In 2013, the volume of new contracts for insurance of export supplier credits, loans to finance production for export (pre-financing) and exporters´ bank guarantees who meet the criteria for small and medium-sized enterprises reached above CZK 593 million and was divided into 40 new contracts. EGAP created (especially for small and medium-sized enterprises) very simplified version of the insurance, which is to reduce the administrative demands of the entire process of insurance and time of negotiations (currently it is possible to execute an application for insurance within three calendar days).

In the second half of 2013, EGAP focused on marketing and educational activities supporting just the segment of SMEs. The feed-back of these training courses were used for creation of a package of 8 new insurance products designed and tailored precisely to exporters that are small and medium-sized enterprises.

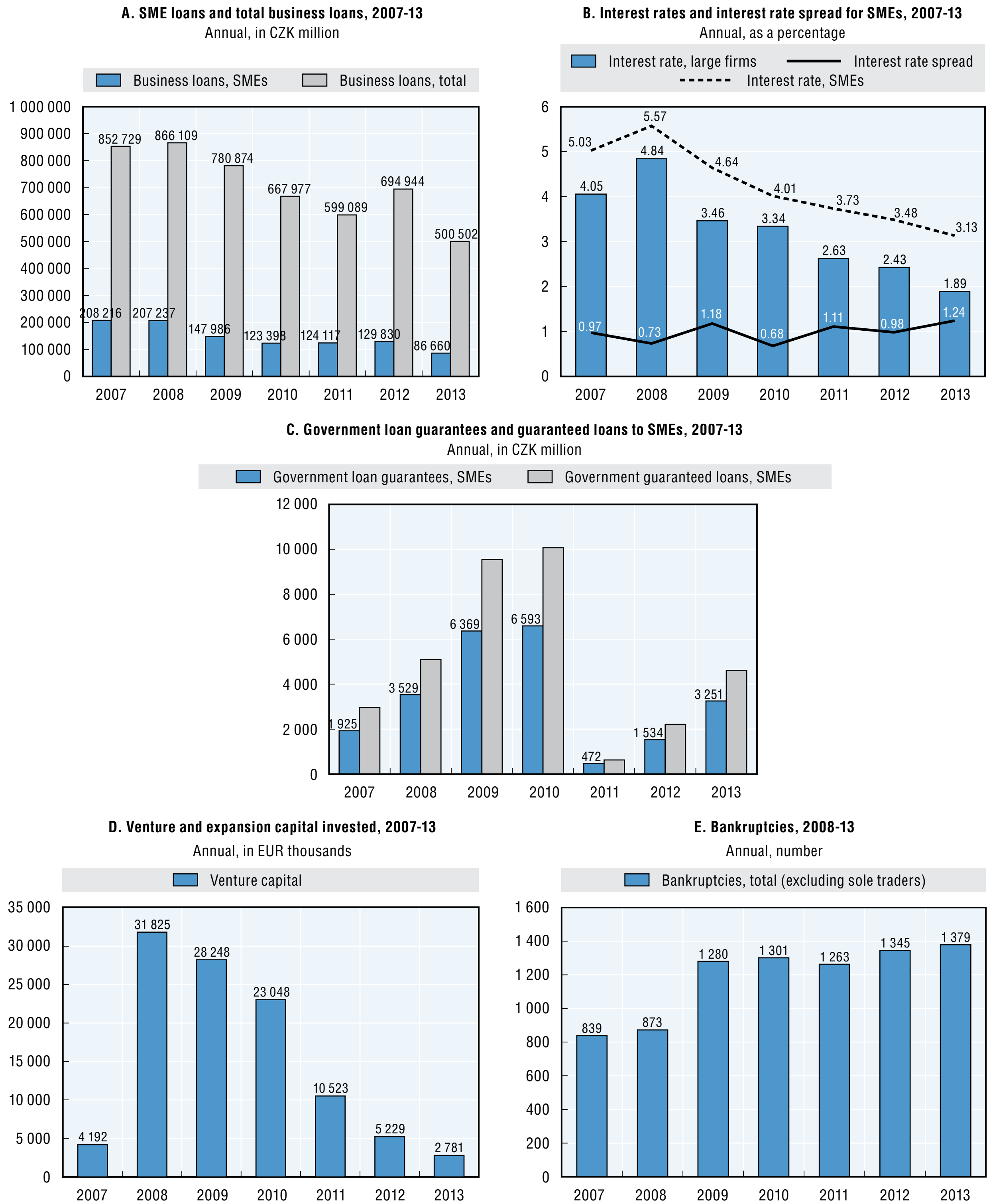
Table 10.5. **Scoreboard for the Czech Republic, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
New business loans, SMEs (flows)	CZK Million	208 216	207 237	147 986	123 398	124 117	129 830	86 660
New business loans, total (flows)	CZK Million	852 729	866 109	780 874	667 977	599 089	694 944	500 502
SME loan share	%	0.24	0.24	0.19	0.18	0.21	0.19	0.17
Government loan guarantees, SMEs	CZK Million	1 925	3 529	6 369	6 593	472	1 534	3 251
Government guaranteed loans, SMEs	CZK Million	2 959	5 094	9 550	10 070	630	2 215	4 616
Non-performing loans, total	CZK Million	22 816	35 340	61 904	70 166	67 876	61 520	61 990
Business loans, total	CZK Million	745 797	850 765	784 069	783 538	831 206	840 593	871 578
Interest rate, SMEs	%	5.03%	5.57%	4.64%	4.01%	3.73%	3.48%	3.13%
Interest rate, large firms	%	4.05%	4.84%	3.46%	3.34%	2.63%	2.43%	1.89%
Interest rate spread (SME - Large)	basis points	0.97	0.73	1.18	0.68	1.11	0.98	1.24
Equity								
Venture capital	EUR thousand	4 192	31 825	28 248	23 048	10 523	5 229	2 781
Growth capital	EUR thousand	116 238	72 121	191 347	116 142	7 733	4 220	4 440
Other								
Bankruptcies, SMEs	number of ent.	839	873	1 280	1 301	1 263	1 345	1 379
Bankruptcies, total (business entities)	number of ent.	1 000	1 074	1 486	1 621	1 778	1 946	2 245

Source: Table 10.6.

StatLink http://dx.doi.org/10.1787/888933194952

Figure 10.2. **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/10.1787/888933193841

Table 10.6. **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 capital	Growth capital investments into business entities in the Czech Republic	European Private Equity and Venture Capital Association (EVCA)
Growth capital	Seed, start-up, later-stage 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 accounted for 99.4% of all enterprises in Denmark according to Statistics Denmark.

Table 11.1. **Distribution of firms in Denmark, 2011**

By firm size

Firm size (employees)	Number	%
All firms	**137 686**	**100.0**
SMEs (1-249)	**136 803**	**99.4**
Micro (1-9)	107 243	77.9
Small (10-49)	25 480	18.5
Medium (50-249)	4 080	3.0
Large (250+)	**883**	**0.6**

Note: Non-employer enterprises are not included.

Source: Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888933194969

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 and recovered afterwards. 2013 in particular, saw a large increase by 23% of new SME loans and marked the first year where new SME loans surpassed the pre-crisis level of 2007. Total new business loans increased in 2008 and then declined over the period 2009-12. 2013 saw a reversal of this downward trend, with an increase in new business loans by 33%. The share of new SME loans in total new business loans was small (12%) in Denmark and it declined even further to 9% during the recession in 2008 and 2009, suggesting SMEs suffered disproportionately. As could be expected, the share of SME short-term loans in total SME loans increased in 2008 and 2009 as SMEs sought financing to remedy liquidity problems and financial institutions preferred short term loans. After 2009, the share of short term loans decreased again, in particular in 2012 and 2013, fewer liquidity problems (ECB Statistical Warehouse).

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

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

Table 11.2. **Share of firms that applied for financing in Denmark, 2007 and 2010**

As a 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: Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888933194975

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 (Abildgren, Drejer and Kuchler, 2012).

Table 11.3. **Result of loan applications by size of firm in Denmark, 2010**

As a percentage

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

Source: Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888933194985

Credit conditions

Both interest rates for SMEs and for large firms have been steadily declining since 2008, the former almost halving from 6.65% in 2008 to 3.51% in 2013. Interest rates for large firms have fallen much faster over this period, however, resulting in a widening interest rate spread, from 0.82% in 2008 to 2.54% in 2012. This confirms the notion the crisis affected Danish SMEs more than large firms regarding access to credit. This trend was reversed in 2013, marking a decline in the interest rate spread to 2.16% (Danmarks Nationalbank). According to the Danish Central Bank's bank lending survey, financial institutions have imposed higher prices and increased collateral requirements in late 2008 and the beginning of 2009. This is also reflected in bank reports from 2009 and 2010, which stated that in performing a credit assessment of enterprises focus has been enhanced on the security provided for the loans and the development in the value of the security. They also stated that they have increased their monitoring of SMEs' financial statements and their ability to generate the cash required to continue their operations. In addition, SMEs' clients demanded extended credit during the year. Thus, SMEs' liquidity was squeezed, on the one hand, by their clients and, on the other hand, by the financial institutions which offered poorer loan terms on renegotiation of loans. The Danish Chamber of Commerce surveyed its members during the second half of 2011 and 46% said they were paying higher interest on new or existing loans.

The quarterly credit conditions survey of the central bank of Denmark shows that credit standards have been relaxed in 2013, as in 2011 and 2012. According to the same source, the demand for loans, both for new costumers and existing customers decreased in 2011, recovered slightly in 2012 and more robustly in 2013.

Equity financing

According to the European Venture Capital Association database, venture capital financing in Denmark was about three times lower in 2010 compared with the 2007 figures. Venture capital financing recovered somewhat since, but continue to remain very well below the pre-crisis level, which may have been too high. In contrast, growth capital more than doubled between 2007 and 2010, and then plummeted to almost non-negligible levels afterwards (see Table 11.4).

Table 11.4. **Venture capital and growth capital in Denmark, 2007-13**

By stage of investment, in EUR thousand

	2007	2008	2009	2010	2011	2012	2013
Seed	4 659	9 612	6 778	9 909	4 570	419	2 222
Start-up	128 168	68 189	50 495	34 525	50 042	49 396	48 785
Later stage venture	74 898	112 868	24 950	24 388	70 651	28 812	29 707
Total venture	**207 725**	**190 669**	**82 223**	**68 822**	**125 263**	**78 628**	**80 714**
Growth	51 797	71 298	105 303	119 895	3 030	20 893	5 537

Source: European Venture Capital Association (2014).

StatLink http://dx.doi.org/10.1787/888933194996

Other indicators

Both the data on bankruptcies and on payment delays illustrate the stress SMEs were under during and in the aftermath of the financial crisis, and the improving business climate in 2012 and 2013. B2B (business-to-business) payment delays more than doubled between 2008 (6.1 days) and 2011 (13 days), and declined afterward to 10 days in 2013. Bankruptcies followed a very similar pattern; increasing dramatically from 2,401 bankruptcies in 2007 to 6,461 in 2010, and then falling steadily to 4,993 in 2013 (Statistics Denmark).

Government policy response

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

Although the financing situation of SMEs shows signs of improvement, access to finance for SMEs remains a policy concern in Denmark, which explains why many new initiatives have been developed in the last few years and why the current programmes have largely been extended. Schemes such as direct loans and growth guarantees have been introduced and strengthened to give SMEs improved access to funding.

Growth loans "Vaekstlån"

Growth loans are issued by Vaekstfonden directly to SMEs seeking capital for business development or change of ownership. The financial assessment is based on the company's current and past performance, its potential for growth and profitability as well as the capabilities of management. All loans are granted as part of a funding package including other financial partners such as banks or mortgage institutions. Only loans above DKK 2 million are issued. The interest rate is set at least 30%. above the comparable market rate to ensure minimal market distortion, avoid crowding out of the private sector and because, in case of default, all collateral accrues to banks and other secured creditors before Vaekstfonden.

Growth loan guarantee "Vaekstkautioner"

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

The number of growth loan guarantees issued has increased from a total commitment of DKK 131 million (EUR 17 million) in 2007 to DKK 825 million in 2011. 84 guarantees with a total guarantee volume of DKK 294m were issued in 2013. In the first quarter of 2014, 124 guarantees have been issued with a total volume of DKK 108m. The development can partly be attributed to increased knowledge of the scheme and partly to the fact that the scheme is attractive to banks, as it will not only reduce the risk of lending, but also release parts of the tied-up capital for the banks. The varying take-up is also most likely influenced by the difficulties businesses face to access loans on normal terms.

Growth Loans for Entrepreneurs (Vækstlån for iværksættere)

In 2014, a new programme was introduced to provide debt finance to entrepreneurs, which lack sufficient collateral to finance their plans for start-up, expansion and growth. Government funding of DKK 45m annually for loss coverage is available for this initiative, in addition to an explicit state guarantee for the Danish public investment fund, The Danish Growth Fund (Vækstfonden).

The loan amount is a minimum of DKK 2m. The Danish Growth Fund charges a fixed fee of EUR 5K plus 0.5% of the principal. The loans are junior secured, which means that in case of default any collateral goes to other creditors (i.e. the commercial bank) before The Danish Growth Fund. The expected volume is DKK 350m annually.

Green growth loans (Grønne Vækstlån)

The objective of this programme, introduced in 2013, is to provide debt capital to large environmental-improving investments such as investments made to improve resource efficiency. Government funding amounts to DKK 45m annually for loss coverage, in addition to an explicit state guarantee for the Danish public investment fund, The Danish Growth Fund (Vækstfonden). The loan amount is a minimum of DKK 2m. The Danish Growth Fund charges a fixed fee of EUR 5k plus 0.5% of the principal. The loans are junior secured.

Danish Growth Capital (Dansk Vækst Kapital, DGC)

The aim of this programme is to improve the access to risk capital for entrepreneurs and SMEs by creating a fund-of-funds that invests in small cap-, mid cap-, venture- and mezzanine funds. The aim is to create more growth companies as well as delivering competitive, double-digit returns to the investors.

The capital base – a total of DKK 4.8b – has been sourced entirely from the Danish pension funds. One-quarter is invested directly in DGC by the pension funds, and three-quarters is provided as a loan to the Danish public investment fund, The Growth Fund (Vækstfonden), which subsequently invests it for equity in DGC. This essentially creates two asset classes and alleviates the risk-based funding requirements of the pension funds. The interest rate of the loan is the government bond rate plus an illiquidity premium. Accordingly, The Growth Fund bears the risk of three-quarters of the fund-of-funds' investments.

Table 11.5. **Investments of Dansk Vaekstkapital, 2013**

	Government commitments	Size of Fund	Ownership
Major Invest Equity 4	DKK 400 million	DKK 1,200 million	33.00%
Capidea Kapital II	DKK 362 million	DKK 724 million	50.00%
Sunstone Technology Ventures Fund III	DKK 175 million	DKK 626 million	27.90%
Sunstone Life Science Ventures Fund III	DKK 200 million	DKK 662 million	30.20%
SEED Capital	DKK 150 million	DKK 682 million	22.00%
Procuritas Capital Investors V	EUR 5 million	EUR 204 million	2.50%
IK VII	EUR 40 million	EUR 1,400 million	3.00%
Cata Cap	DKK 250 million	DKK 500 million	50.00%
Erhvervsinvest III	DKK 300 million	DKK 871 million	34.00%
FSN Capital IV	SEK 335 million	SEK 5,250 million	6.40%
Danish Climate Investment Fund	DKK 150 million	DKK 1,290 million	11.60%
NCP-IVS Fund III	DKK 125 million	DKK 524 million	24.00%

Source: Dansk Vaekstkapital.

StatLink http://dx.doi.org/10.1787/888933195003

Syndication Loans (Syndikeringslån)

Syndication loans match venture capital investment from private investors with loan capital to encourage investments in knowledge- and capital-intensive growth companies that are in the early stages of development. Their purpose is to make it more attractive for venture capitalists to invest in early-stage growth companies, bringing more capital to a segment that traditionally has difficulty obtaining it. The syndication loans enable the private venture capital funds to broaden their portfolio in early-stage businesses. Given the high risk of financing early stage high-tech companies, the interest rate of 12% does not cover the total cost of the scheme. Therefore, the programme includes a government subsidy. Since its introduction in 2010, a total of 8 venture capital funds have been approved by The Growth Fund as partners. These funds have used the credit line for a total of 23 loans committing a total of DKK 110m.

Export guarantee

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

The export credit facility

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

The export credit facility has been supplemented by two agreements concluded by the Export Credit Fund with Pension Danmark 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.

Table 11.6. **Scoreboard for Denmark, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, total (stock)	MM DKK	731 728	809 360	814 120	812 007	808 650	829 687	913 083
New business loans, SMEs (flows)	MM DKK	40 847	35 235	28 458	35 062	34 165	39 136	48 111
New business loans, total (flows)	MM DKK	332 336	385 286	317 537	312 736	291 909	240 774	320 273
share of SME loans		0.12	0.09	0.09	0.11	0.12	0.16	0.15
New short-term loans, SMEs (flow)	MM DKK	26 426	26 274	22 423	22 697	24 098	20 152	23 696
Government loan guarantees, SMEs	Thousands EUR	23 364	16 896	21 320	92 301	147 076	152 962	106 041
Government guaranteed loans, SMEs	Thousands EUR	4 704	6 900	6 709	10 767	12 415	12 813	33 557
SME loans authorised/SME loans requested	percentage of successful loan applications	92	..	..	69	..	..	..
Interest rate, SMEs	Percentage points	5.994	6.653	5.427	4.465	4.574	4.381	3.508
Interest rate, large firms	Percentage points	5.162	5.585	3.408	2.266	2.184	1.838	1.373
Interest rate spread	Percentage points	0.832	1.069	2.019	2.199	2.389	2.543	2.135
Equity								
Venture and growth capital (seed and early stage)	Thousands EUR	132 827	77 801	57 273	44 434	54 612	49 815	51 007
Venture and growth capital (growth capital)	Thousands EUR	74 898	112 868	24 950	24 388	70 651	28 812	29 707
Other								
Payment delays, B2B	Days	7	6	12	12	13	12	10
Payment delays, B2C	Days	7	7	10	10	12	10	9
Bankruptcies, total	Number of companies	2 401	3 709	5 710	6 461	5 468	5 456	4 993

Source: see Table 11.7.

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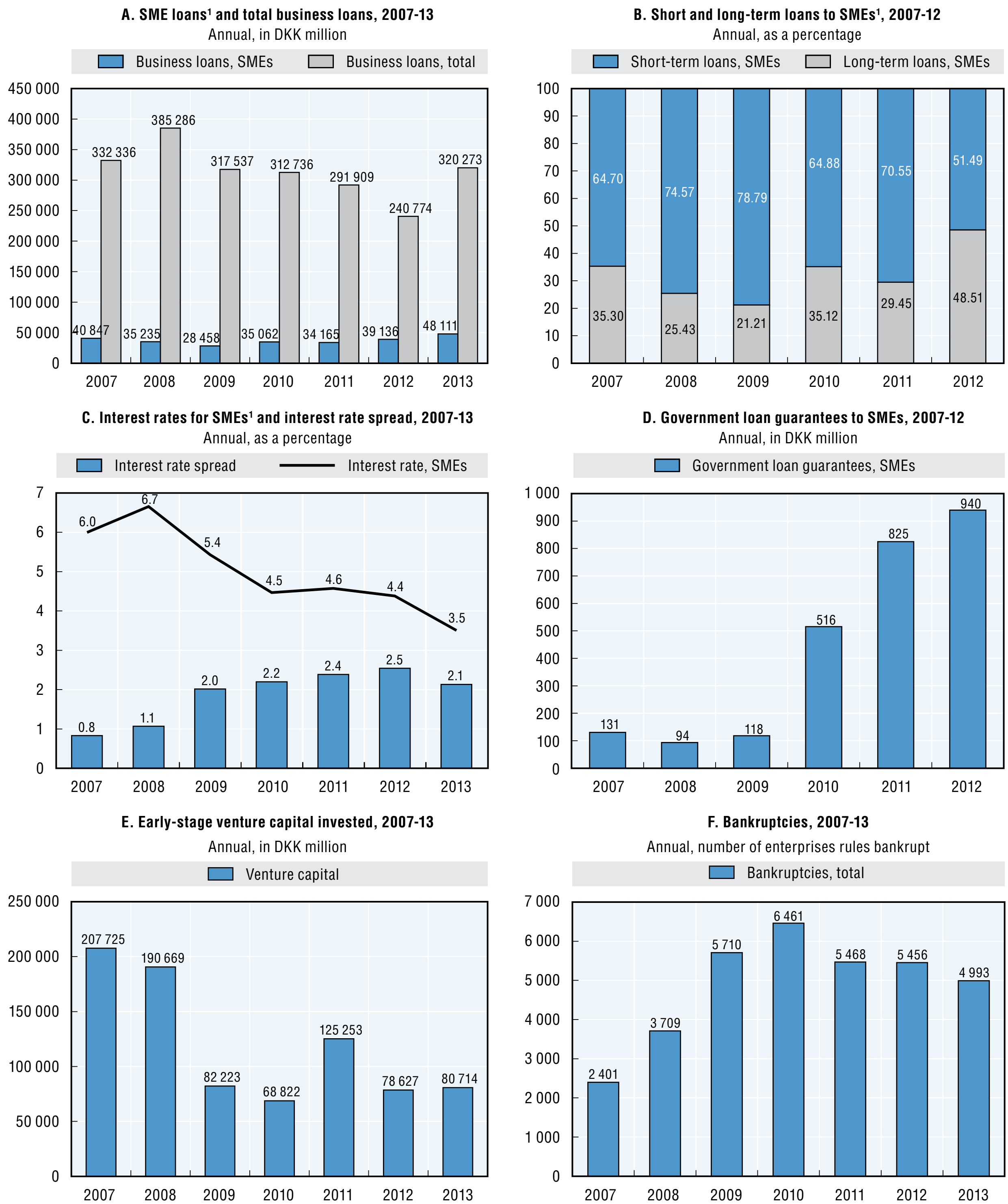
Figure 11.1. **Trends in SME and entrepreneurship finance in Denmark**



Notes: 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/10.1787/888933193851

Table 11.7. **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

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Estonia

SMEs in the national economy

Of all Estonian firms in 2012, only 0.3% were large enterprises, employing more than 250. SMEs employed 78.3% of the workforce and accounted for 74.4% of the value added. 87.8% of all firms were micro-enterprises, i.e. firms with less than 10 employees, employing 28% of the workforce and accounting for 21% of the value added in 2012.

Table 12.1. **Distribution of firms in Estonia, 2012**

By firm size

Firm size (employees)	Number	%
All firms	52 018	100.0
SMEs (1-249)	51 872	99.7
Micro (1-9)	45 697	87.8
Small (10-49)	5 151	9.9
Medium (50-249)	1 025	2.0
Large (250+)	146	0.3

Notes: Data excludes enterprises in agriculture, forestry and fisheries and largely non-market service sectors such as health or education. Non-employer enterprises are not included.

Source: European Commission (2013).

StatLink http://dx.doi.org/10.1787/888933195027

SME lending

The Estonian GDP contracted severely as a result of the 2007-08 financial crisis and this had its repercussions for bank lending to SMEs. New loans to SMEs almost halved between 2007 and 2010, dropping from a level of EUR 3 600 million in 2007 to EUR 1 866 million in 2010. This partly reflected the slump of the Estonian economy, and partly the rapid credit growth and (credit to deposits ratio) prior to 2007, which the OECD described as excessive in its Economic Survey (OECD, 2012). Lending to SMEs suffered particularly in this period as the difficulties to assess the riskiness of an SME bank loan made banks reluctant to lend. Also, many SMEs were overleveraged and over indebted in that time.

Lending to SMEs picked up in the following years, thereby tracking the rebound of the Estonian economy, the falling leverage ratios (which neared the levels observed for large firms) and the increased liquidity of Estonian SMEs. Nonetheless, both the outstanding stock and the value of new bank loans remained under the levels observed at 2007-08. In 2007, bank loans to SMEs accounted for 35,8% of all bank loans. This percentage has since steady decreased to 26.4% in 2013. The figures for 2013 were especially stark, as new loans to SMEs increased by a modest 1.7%, whereas the loans to all business (thus including large firms) increased by 10%. This suggests that access to finance remains more problematic for SMEs than for larger enterprises.

In terms of maturity, 40% of all new SME loans were long-term in 2007, falling sharply to 15.4% in 2009, most likely due the decline in availability of long term finance. After 2009, the proportion of new long-term SME lending recovered year after year, up to 28.8% in 2013. A similar evolution can be observed for the proportion of long-term loans of all business, although businesses in general make more use of long term financing than SMEs throughout the 2007-13 period.

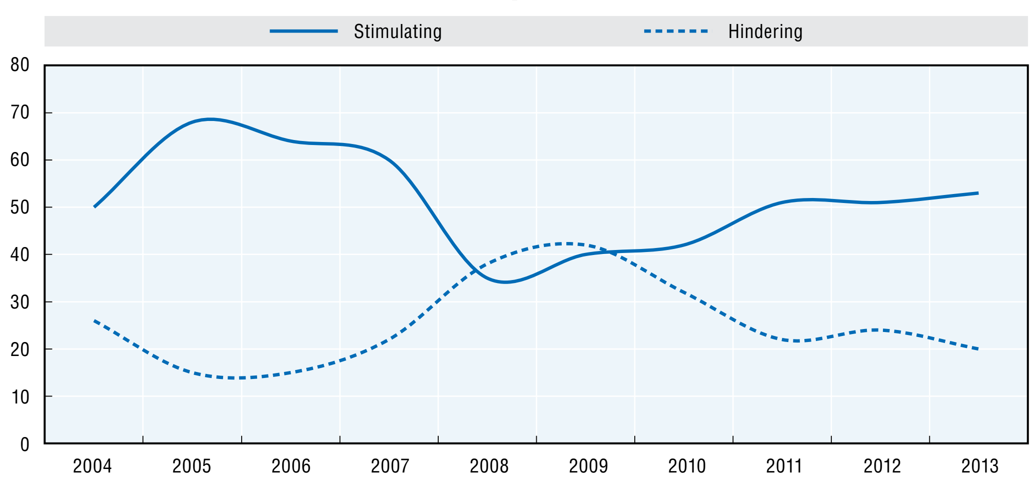
Credit conditions

The base rate for the interest rate on small loans up to EUR 1 million has decreased from 4% in 2012 to 3.4% in 2013. For larger loans, this interest rate declined from 3% to 2.8%. Therefore, the interest rate spread between loans over EUR 1 million and loans up to EUR 1 million has narrowed to 60 basis points, the lowest figure since 2007. This observation suggests that credit conditions for SMEs have improved in 2013.

Other indicators show a similar picture. Access to finance is considered to be an extremely pressing problem for 4.1% of all firms surveyed one of the lowest figures in the EU28 and well below the average of 18.9%. Compared to the previous years, more SMEs also report their financial conditions as relatively good. The survey on manufacturing[1] from the Estonian Institute for Economic Research, for example, shows a clear improvement of the perceived financial situation of firms in Estonia. An increasing share of all firms declares to have sufficient funds for their investment needs see Figure 12.1).

Figure 12.1. **Impact of the financial situation on investments in Estonia, 2004-13**

% of respondents



Source: Eesti Pank (2014).

StatLink http://dx.doi.org/10.1787/888933193868

Equity and asset-based financing

Venture capital investments in a small country like Estonia are very volatile and should be treated with a lot of caution. Venture and growth capital peaked in 2007 and 2008 and fell sharply in the following years, dropping to a low point in 2011. This trend is broadly in line with the experience in other European countries, and can therefore probably not be solely contributed to variance. In 2012, both venture and growth capitals both surged to pre-crisis levels, but returned to depressed levels again in 2013.

Table 12.2. **Venture and growth capital investment in Estonia, 2007-13**

By stage of investment, in EUR thousand

	2007	2008	2009	2010	2011	2012	2013
Seed	0	178	251	514	137	421	0
Start-up	322	2 583	3 825	3 291	1 425	5 165	1 655
Later stage venture	3 350	3 410	0	889	615	1 251	725
Total venture	**3 672**	**6 171**	**4 076**	**4 694**	**2 177**	**6 837**	**2 380**
Growth	9 000	1 000	1 848	1	0	4 474	0

Note: Total excludes buyout, turnaround and replacement capital.

Source: Estonian Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933195035

Leasing and factoring are relatively important sources of financing for Estonian firms, as table 12.3 illustrates. Both new leasing and the outstanding stock of leasing declined sharply between 2008 and 2009 and only recovered somewhat in 2011. In 2013, leasing remains underused compared to the pre-crisis period. New factoring was also substantially down in 2009, but recovered to unprecedented levels in 2012 and 2013.

Table 12.3. **Leasing and factoring in Estonia, 2007-13**

		2007	2008	2009	2010	2011	2012	2013
Outstanding leasing , total (stock)	million EUR	1730	1709	1311	1023	1058	1153	1179
Outstanding factoring, total (stock)	million EUR	226	227	230	245	228	224	210
New leasing , total (flow)	million EUR	891	710	223	281	519	650	546
New factoring, total (flow)	million EUR	1290	1406	989	909	1129	1924	1981

Source: National bank of Estonia

StatLink http://dx.doi.org/10.1787/888933195044

Other indicators

The payment delays for the business to business sector peaked in 2009 and 2010, reflecting the harsh economic environment SMEs were facing in these years. Afterwards, the payment delays levelled off, shortening to 9.4 days on average in 2013, down from 10.1 days in 2012. Average payment delays of 9.4 are broadly comparable with the levels observed before 2009.

The severity of the financial crisis is also highlighted by the increase of the number of SME bankruptcies. In 2007, just 202 Estonian SMEs went bankrupt. This number exceeded one thousand in 2009 and 2010. Since then, the number of bankruptcies declined, levelling out at 459 in 2013. This was a decrease of 7.3% vis-à-vis the number of bankruptcies in 2012, but still well above the levels observed in 2007.

Non-performing loans show a similar evolution. In 2007, SME non-performing loans, here defined as loans of less than EUR 1 million that are overdue for more than 60 days at the end of the year, stood at EUR 23 million. In 2009, SME non-performing loans peaked to a level of EUR 157 million. Since then, the value of SME non-performing loans decreased year after year. The most recent data show a marked decline from EUR 84 million in 2012 to EUR 54 in 2013.

Government policy response

Some new government programmes were introduced in 2008, such as the start-up and credit loan guarantee from KredEx. The start-up loan helps if there are difficulties in starting a company due to a lack of start-up capital, and there are no sufficient guarantees for bank loans or operational history. Unlike a conventional bank loan, fewer guarantees are required from an entrepreneur in the event of a start-up loan. Since the introduction of this programme and up to the end of 2013, 304 projects have been financed for a total amount of EUR 7.7 million.

Subordinated loans (including export loans) also saw the light in 2008 in response to the financial crisis. Subordinated loan help the financing needs if the quick growth of a company needs to be financed with loan capital, but the level of self-financing is too low to obtain a bank loan, or the guarantees are insufficient. KredEx provides capital at the disposal of the entrepreneur, which, by increasing the solvability of the firm involved, augments the chances of obtaining additional financing, such bank loans or leasing. The export loan is meant for companies wishing to finance large-scale export transactions of goods manufactured in Estonia. The export loan helps if a company wishes to offer a long payment term to a foreign buyer, pay a credit insurance premium or finance the production of goods to be sold to a foreign buyer. Up to and including 2013, Subordinated loans financed 33 projects for a total amount of EUR 10.8 million.

Business loan guarantees have been in place since 2001 and draws upon both KredEx own resources and on the Regional European Development Fund. The total amount of guarantees decreased from EUR 43 million in 2012 to EUR 31 million in 2013, guaranteeing SME loans worth of EUR 50 million.

In 2013, the "Baltic Innovation Fund" was set up. This is a fund created by Estonia, Latvia and Lithuania and the European Investment Fund (EIF) with a purpose to increase equity investments into the enterprises of the Baltic States. The EIF is investing 40 million euros alongside investments of EUR 20 million each from the national agencies of Estonia (KredEx), Latvia (LGA) and Lithuania (Invega). In years 2013–16, BIF will invest EUR 100 million into private equity and venture capital funds in the three Baltic countries to which an at least equal amount of investments shall be added by private investors and pension funds. Sub-funds shall invest into enterprises according to the investment policy of each particular fund, but the general target group includes Baltic companies with good international development potential.

Table 12.4. **Scoreboard for Estonia, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	million EUR	2 436	2 488	2 126	1 896	1 681	1 613	1 653
Outstanding business loans, total (stock)	million EUR	6 800	7 203	6 858	6 455	5 945	6 148	6 249
SME loan share	%	0.36	0.35	0.31	0.29	0.28	0.26	0.26
New business loans, SMEs (flows)	million EUR	3 600	3 523	2 126	1 866	1 955	2 122	2 370
New business loans, total (flows)	million EUR	8 553	7 307	4 457	4 258	5 062	5 612	6 168
Outstanding short-term loans, SMEs (stock)	million EUR	481	475	377	318	326	302	317
New short-term loans, SMEs (flow)	million EUR	2 159	2 640	1 799	1 566	1 526	1 569	1 687
Government loan guarantees, SMEs	million EUR	17	19	36	41	31	43	31
Government guaranteed loans, SMEs	million EUR	30	31	55	63	49	66	50
Non-performing loans, SMEs	million EUR	23	89	157	155	106	84	54
Non-performing loans, total	million EUR	41	267	601	551	351	233	126
Interest rate, SMEs	%	6.1%	6.7%	5.3%	5.0%	4.9%	4.0%	3.4%
Interest rate, large firms	%	5.7%	6.0%	4.2%	3.9%	3.8%	3.0%	2.8%
Interest rate spread	%	0.4%	0.7%	1.1%	1.1%	1.1%	1.0%	0.6%
Equity								
Venture and growth capital	thousand EUR	10 922	4 744	4 507	17 745	5 529	17 631	27 054
Other								
Payment delays, B2B	number of days	9	8	13	13	10	10	9
Bankruptcies, SMEs	number	202	423	1 055	1 028	623	495	459
Bankruptcies, total	number	202	423	1 055	1 029	623	495	459

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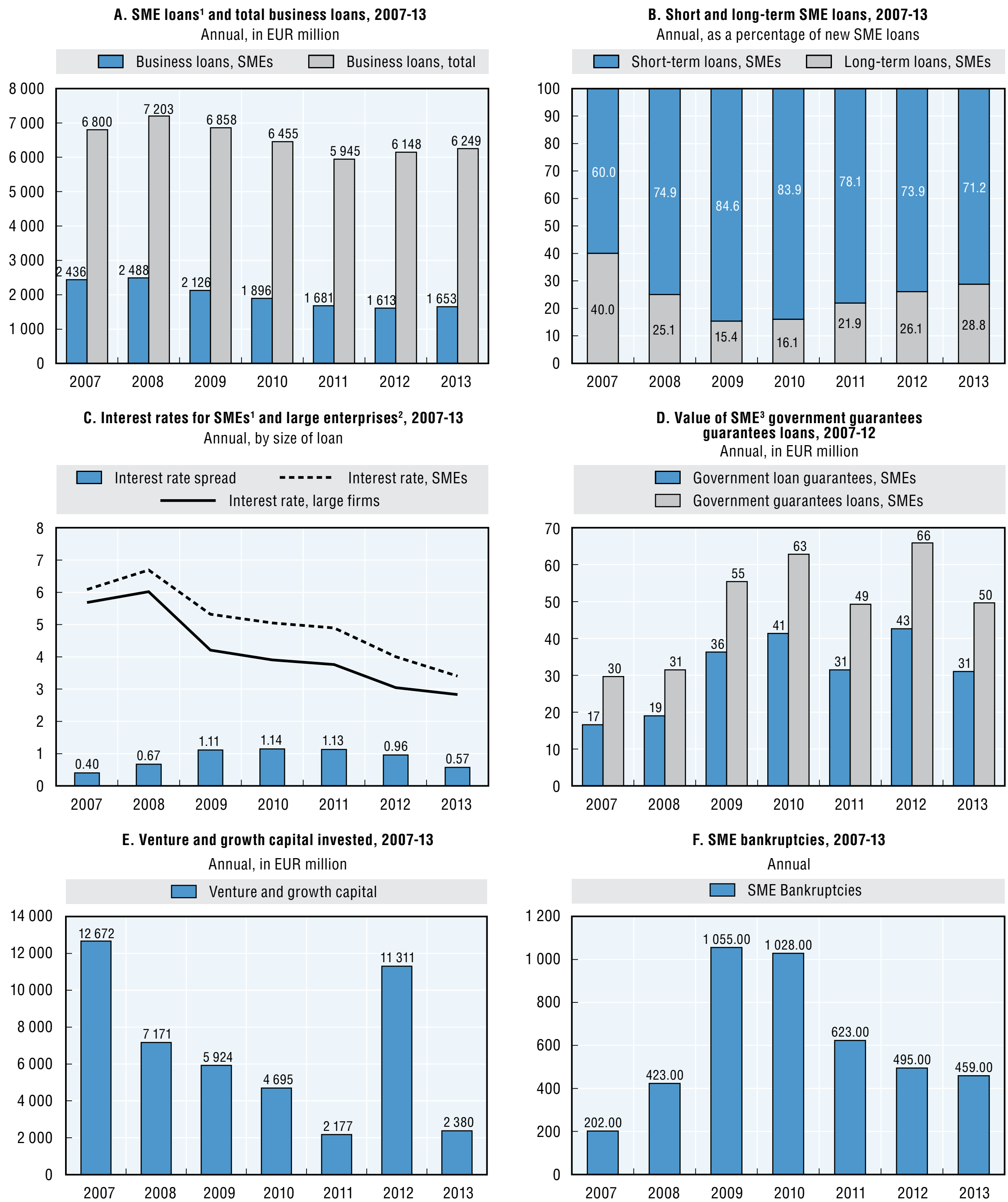
Figure 12.2. **Trends in SME and entrepreneurship finance in Estonia**



Notes: 1. For loans up to EUR 1 million. 2. For loans greater than EUR 1 million. 3. Value of guarantees on loans of less than EUR 1 million by Fund KredEx.

Sources: Charts A, B and C: Bank of Estonia.Chart D: Fund KredEx. Chart E: Estonian Venture Capital Association. Chart F: Krediidiinfo

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Table 12.5. **Definitions and sources of indicators for Estonia's Scoreboard**

Indicator	Definition	Source
Debt		
Outstanding business loans, SMEs (stock)	Loan stock in the end of the year. Does not include leasing and factoring, includes overdrafts. Loans smaller than 1 million euros are used as proxy for SMEs' loans.	Bank of Estonia
Outstanding business loans, total (stock)	Loan stock in the end of the year. Does not include leasing and factoring, includes overdrafts.	Bank of Estonia
New business loans, SMEs (flows)	New bank loans within the year. Does not include leasing and factoring, includes overdrafts. Loans smaller than 1 million euros are used as proxy for SMEs' loans.	Bank of Estonia
New business loans, total (flows)	New bank loans within the year. Does not include leasing and factoring, includes overdrafts.	Bank of Estonia
Outstanding short-term loans, SMEs (stock)	Loan stock in the end of the year. Does not include leasing and factoring, includes overdrafts. Maturity less than 1 year. Loans smaller than 1 million euros are used as proxy for SMEs' loans.	Bank of Estonia
New short-term loans, SMEs (flow)	New bank loans within the year. Does not include leasing and factoring, includes overdrafts. Loans smaller than 1 million euros are used as proxy for SMEs' loans.	Bank of Estonia
Government loan guarantees, SMEs	Loans smaller than 1 million euros are used as proxy for SMEs' loans.	Fund KredEx
Government guaranteed loans, SMEs	Loans smaller than 1 million euros are used as proxy for SMEs' loans.	Fund KredEx
Non-performing loans, SMEs	Bank loans overdue by more than 60 days in the end of the year. Does not include leasing and factoring, includes overdrafts. Loans smaller than 1 million euros are used as proxy for SMEs' loans.	Bank of Estonia
Non-performing loans, total	Bank loans overdue by more than 60 days in the end of the year. Does not include leasing and factoring, includes overdrafts.	Bank of Estonia
Interest rate, SMEs	Interest rate of new long-term bank loans (flows). Does not include leasing and factoring, includes overdrafts. Loans smaller than 1 million euros are used as proxy for SMEs' loans.	Bank of Estonia
Interest rate, large firms	Interest rate of new long-term bank loans (flows). Does not include leasing and factoring, includes overdrafts.	Bank of Estonia
Interest rate spread	Interest rate spread between small and large enterprises, includes overdrafts.	Bank of Estonia
Equity		
Venture and growth capital investments	Venture and growth capital	Estonian Venture Capital Assocation
Other		
Payment delays, B2B	Average payment delay measured in days. Surveyd 5000 companies, 99,99% SME-s	Krediidiinfo AS
Bankruptcies, SMEs	Bankruptcies, SMEs	Krediidiinfo AS
Bankruptcies, total	Bankruptcies, total	Krediidiinfo AS

Note

1. This survey included both SMEs and larger firms.

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Finland

SMEs in the national economy

In Finland, 99.4 % of all firms were SMEs in 2011 (102,439 SMEs), and they employed 63.0 % of the labour force. The vast majority of them (82.3%) were micro-enterprises with less than 10 employees, employing 25.3% of the county's workforce.

Table 13.1. **Distribution of firms in Finland, 2012**

By firm size

Firm size (employees)	Number	%
All firms	97 910	**100.0**
SMEs (1-249)	97 290	99.4
Micro (1-9)	79 998	81.7
Small (10-49)	14 769	15.1
Medium (50-249)	2 523	2.6
Large (250+)	620	**0.6**

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

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

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SME lending

New SME loans reached a peak in 2008, and contracted substantially in 2009 and 2010. This decline showed some signs of stabilisation in 2011 and especially 2012, when SME loans decreased only slightly by 1.7% year-on-year, while total business loans decreased by 6.8% in the same year. In 2013, a reversal of this trend was observed as SME lending further dropped by 5.6% year-on-year. Over the 2009-13 period, SME lending has dropped by 38.3% in total. This may be a result of increased solvency problems among SMEs, lower demand for loans, as well as tightened credit conditions. New business loans were at their highest level in 2010, and dropped sharply in 2011, and less dramatically in 2012.[1] New business loans recovered by 13.3% in 2013, in stark contrast with the evolution of SME loans. The SME loan share dropped from 22% in 2012 to 18% in 2013 for this reason. In terms of maturity, less than one-fourth of all new SME loans are of short-term nature. The share of new short-term SME lending has increased, however, from 13% in 2007 to 23% in 2013 (and has remained constant over the 2012-13 period), potentially signalling a decreasing willingness from the financial sector to lend on longer terms.

Credit conditions

The base rate on small loans of up to EUR 1 million, used as a proxy for loans to the SME sector, more than halved from a peak of 5.58% in 2008 to 2.66% in 2010. In 2013, the average interest rate charged to SMEs lowered by 5 basis points year-on-year. The interest rate spread between small and large loans increased from 64 basis points in 2011 to 79 basis points in 2012 and to 90 basis points in 2013, suggesting a tightening in credit terms for SMEs compared to large firms.

According to the Confederation of Finnish Industries, 5% of all SMEs have faced major financing difficulties in the first quarter of 2014. The share has remained relatively stagnant in 2011-14 and is still twice as high as in the end of 2008. In addition, based on the findings presented in the Annual Financing Surveys, the proportion of firms which perceived increased collateral requirements shot up to 28% in 2009 and remained roughly constant al just below a quarter in the following years. However, most recent findings indicates that the percentage of SMEs reporting less favourable terms in accessing new loans has slightly increased in 2013 and 2014.

Based on the surveys by Confederation of Finnish Industries, the number of "discouraged borrowers" has also increased during the last couple of years. It is estimated that around 3% of all SMEs needing external financing do not apply bank loans because of their weak financial status and/or increased loan costs and credit terms (in addition to those 5% who have major financing difficulties).

According to the Survey on the Access to Finance of SMEs (SAFE) by the ECB, the proportion of loan applications that have been rejected grew strongly from 1% in 2011, the first year for which data are available, to 5% in 2012 and 11% in 2013.[2]

Equity financing

As in many other countries, venture and growth capital investments plummeted between 2007 and 2009. Later stage venture capital was most severely impacted, more than halving over this period. Although venture capital investments recovered somewhat in 2010, this recovery proved short-lived and total investments declined again in 2011 and 2012. In 2013, an increase of 63% in the level of total venture capital investments was observed, mostly due later stage venture capital (see Table 13.2).

Table 13.2. **Venture and growth capital investment, 2007-13**

By stage of investment, EUR thousand

	2007	2008	2009	2010	2011	2012	2013
Seed	17 160	9 480	9 174	5 350	3 272	3 950	7 443
Start-up	46 040	63 628	50 449	62 101	51 847	61 445	65 060
Later stage venture	68 973	46 907	31 287	31 535	30 572	13 670	56 251
Total venture	**132 173**	**120 015**	**90 910**	**98 986**	**85 691**	**79 064**	**128 753**
Growth	60 575	127 801	49 390	252 796	58 858	103 644	41 088

Note: Total excludes buyout, turnaround and replacement capital.

Source: European Venture Capital Association (2014).

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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, although the average payment delay increased from 5 days in 2008 to 7 days in 2009. From 2010 onwards, average payment delays remained constant at 7 days, dropping to 6 days in 2013. The strict payment behaviour was reinforced by a law which requires late paying companies or public institutions to pay a debtor fee and interest on the unpaid amount.

The proportion of firms in bankruptcy proceedings increased during the crisis from 0.9% in 2007 to 1.2% in 2009, although both this increase and the absolute level of bankruptcies is relatively modest by international standards. The percentage of firms in bankruptcy proceedings then dropped to 1.0% in 2010, remained at 1.1% in 2011 and 2012, before rising to 1.2% again in 2013.

Non-performing loans as a proportion of all business loans more than doubled from 0.27% in 2007 to 0.63% in 2009, and remained broadly constant afterwards. It should be noted that this level of NPLs is still well below the average in the European Union.

The proportion of SMEs that requested a bank loan in the previous 12 months rose from 23% in 2007 to close to 30% in 2008 and remained relatively stable in the following years. The amount of SME new loans authorised declined over the 2009-13 period. The total amount of new SME loans authorised was EUR 9.9 billion in 2009 and EUR 7.3 billion in 2013. Also the demand of public financing has been slightly declined. Although the finance granted by TEKES (the Finnish Funding Agency for Technology and Innovation) for SMEs has been rather stable in 2010-13, the finance authorised by Finnvera has declined from 914 million in 2010 to 757 million in 2013.

During the years 2009-13, the Confederation of Finnish Industries EK has investigated the prevalence of financing difficulties and solvency problems among SMEs in different phases of the crisis. The findings revealed that a peak in the crisis was reached in September 2009 when 10% of SMEs reported major financing difficulties and 21% 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 in many SMEs.

According to the survey of EK conducted in April 2014, 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 tail end of 2008 and is going to stabilise around 4-6% (2-3% in 2008). Moreover, the high incidence of solvency problems (16 % of all SMEs) restrains the recovery. Solvency problems in the case of Finnish SMEs are the most common among firms with less than 10 employees.

Table 13.3. **Incidence of solvency problems in Finland, June 2009 – April 2014**

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

<table>
<tr><th>Size of firm, employees</th><th>6/09</th><th>9/ 09</th><th>1/10</th><th>8/10</th><th>1/11</th><th>11/11</th><th>5/12</th><th>11/12</th><th>5/13</th><th>11/13</th><th>4/14</th></tr>
<tr><td>1-4</td><td>33</td><td>39</td><td>31</td><td>36</td><td>27</td><td>22</td><td>21</td><td>16</td><td rowspan="2">22</td><td rowspan="2">20</td><td rowspan="2">24</td></tr>
<tr><td>5-9</td><td>23</td><td>21</td><td>16</td><td>16</td><td>14</td><td>14</td><td>17</td><td>18</td></tr>
<tr><td>10-49</td><td>19</td><td>19</td><td>20</td><td>17</td><td>14</td><td>19</td><td>21</td><td>21</td><td>16</td><td>18</td><td>16</td></tr>
<tr><td>50-249</td><td>13</td><td>12</td><td>10</td><td>8</td><td>10</td><td>12</td><td>11</td><td>15</td><td>16</td><td>9</td><td>11</td></tr>
<tr><td>Average</td><td>21</td><td>21</td><td>20</td><td>17</td><td>15</td><td>17</td><td>17</td><td>20</td><td>17</td><td>16</td><td>16</td></tr>
</table>

Source: Confederation of Finnish Industries.

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Based on the newest EK survey published in May 2013, about 7 % of all SMEs has severe financing difficulties (5% in November 2011). Interestingly, although the average payment duration was slightly expanded (28 day in EK survey compared to 27 day in 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 for the entire business loan portfolio remains at very low levels with EUR 350 million as of 2012, stable since 2011. The vast majority of these non-performing loans are loans to micro enterprises loans with turnover less than EUR 200,000.

Government policy responses

SME counter-cyclical loans and guarantees

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

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). Since, the amount of SME financing authorised by Finnvera has declined and ended up in lowest level in reference period in 2013 when total sum of financing was EUR 663 million. This implies that the demand of bank financing as well as demand of public financing has weakened during the year 2013. On the other hand, the drop of SME financing could be partly explained by the discouraged borrowers' phenomenon described above.

Table 13.4. **SME loans and guarantees granted by Finnvera, 2007-13**

In EUR million

Instrument	2007	2008	2009	2010	2011	2012	2013
Loans	385	468	593	397	369	342	284
Guarantees	416	438	474	447	497	408	379
Subtotal	*801*	*906*	*1 067*	*844*	*866*	*750*	*663*
Export guarantees	96	122	127	71	111	104	93
Total	**897**	**1 028**	**1 194**	**915**	**977**	**853**	**757**

Source: Finnvera, Annual Reports 2009, 2010, 2011, 2012, 2013.

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Finnvera's authorisation to grant counter-cyclical loans expired in the end of the 2012. The total amount of counter-cyclical financing granted by Finnvera was EUR 589 million in 2009-12 (EUR 119 million in 2012). Finnvera's counter-cyclical loans were intended for enterprises with less than 1,000 employees and 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 in Finland. According to EK´s rough estimation, without public financing the number of job losses could have been twice as high as the actual realised job losses in 2009. In practice, this means that over 20,000 positions were maintained with the help of finance granted by public organisations such as Finnvera and Centre for Economic Development, Transport and the Environment[4].

According to the data provided by Statistics Finland, only a small minority of all loan guarantees are reserved to SMEs. Total government guarantees to SMEs expanded from EUR 416 million in 2007 to EUR 474 million in 2009. As the financial crisis receded, government loan guarantees to SMEs began declining, reaching a low of EUR 379 million in 2013.

Finnvera offers both export guarantees and export credit guarantees. An export guarantee allows exporters to acquire pre- or post-delivery financing from a bank for working capital. An export credit guarantee covers the risks related to buyers' defaults. Finnvera's export credit guarantee programme dwarfs its other forms of assistance to enterprises. Export credit guarantees offered amounted to 82% (EUR 3 398 million) of total assistance compared to 18% (EUR 757 million) for loans, domestic guarantees and export guarantees offered. Export credit guarantees cover 6% of Finland's total exports. Of the total export credit guarantees offered, SMEs accounted for EUR 78.3 million.

Table 13.5. **SME export credit guarantees in Finland, 2007-13**

In EUR million

Year	2007	2008	2009	2010	2011	2012	2013
Offered	38.3	76.8	79.6	100.3	79.1	60.4	78.3
In effect	43.3	43.0	73.8	79.7	42.8	31.9	80.3

Source: Finnvera, Annual Reports 2010, 2011, 2012,.2013

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

Other policy measures

In the beginning of 2012, the corporate tax rate lowered by 1.5 percentages to 24.5%. At the same time, the tax rate for capital income rose to 30% (previously 28%) and to 32% for capital income exceeding EUR 50,000. Starting from March 2013, the corporate tax rate has been further reduced to 20 % within some adjustments also in the tax rate for capital income.

In 2014, the Finnish Government introduced a growth financing programme, which aims to consolidate the capital investment market and support SME growth. Financing will be used to hire new, highly competent staff for starting growth companies. The most significant investment target of the financing programme is the new growth fund being created by Finnish Industry Investment Ltd. The state investment, combined with at least an equal amount of private capital, will create approximately ten capital funds, which would finance roughly one hundred companies in total. A total yearly budget of EUR 55 million will be allocated for this purpose. These venture capital investments are supplied on a long-term basis of ten years to alleviate uncertainty.

The Vigo Acceleration programme, introduced in 2009, is designed to complement the internationally acclaimed Finnish innovation ecosystem. The programme bridges the gap between early stage technology firms and international venture funding. In four years, the programme has acquired 160 million from foreign private investors and business angels. In addition to this, more than EUR 70 million of public equity has been spent on the target companies during the Vigo Accelerator Programme.

Starting from June 2013, SMEs are offered tax breaks from the R&D personnel costs. To support growth-oriented product development, and to increase investment, the depreciation allowances for industrial production investments will be doubled. The tax breaks are restricted on the salaries of firms R&D personnel and is capped at a maximum tax deduction of EUR 400 000.

Private investors are offered tax reductions in 2013-15 from their capital gains, as if the money is invested to new growth companies. A private investor may deduct 50% of an investment into a start-up from his/her capital income. The minimum deduction is EUR 5 000 and the maximum deduction is EUR 75 000.

Growth Track is a service model for SMEs that pursue rapid growth and internationalisation. Each company selected to Growth Track is given an account manager, a Growth Pilot, who finds the best suited public expertise and financing services for the company and coordinates the cooperation between the various parties.

Box 13.1. **Definition of SMEs used in Finland's Scoreboard**

Country definition

SMEs in Finland are firms with less than 250 employees.

The SME definition used by financial institutions

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

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

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

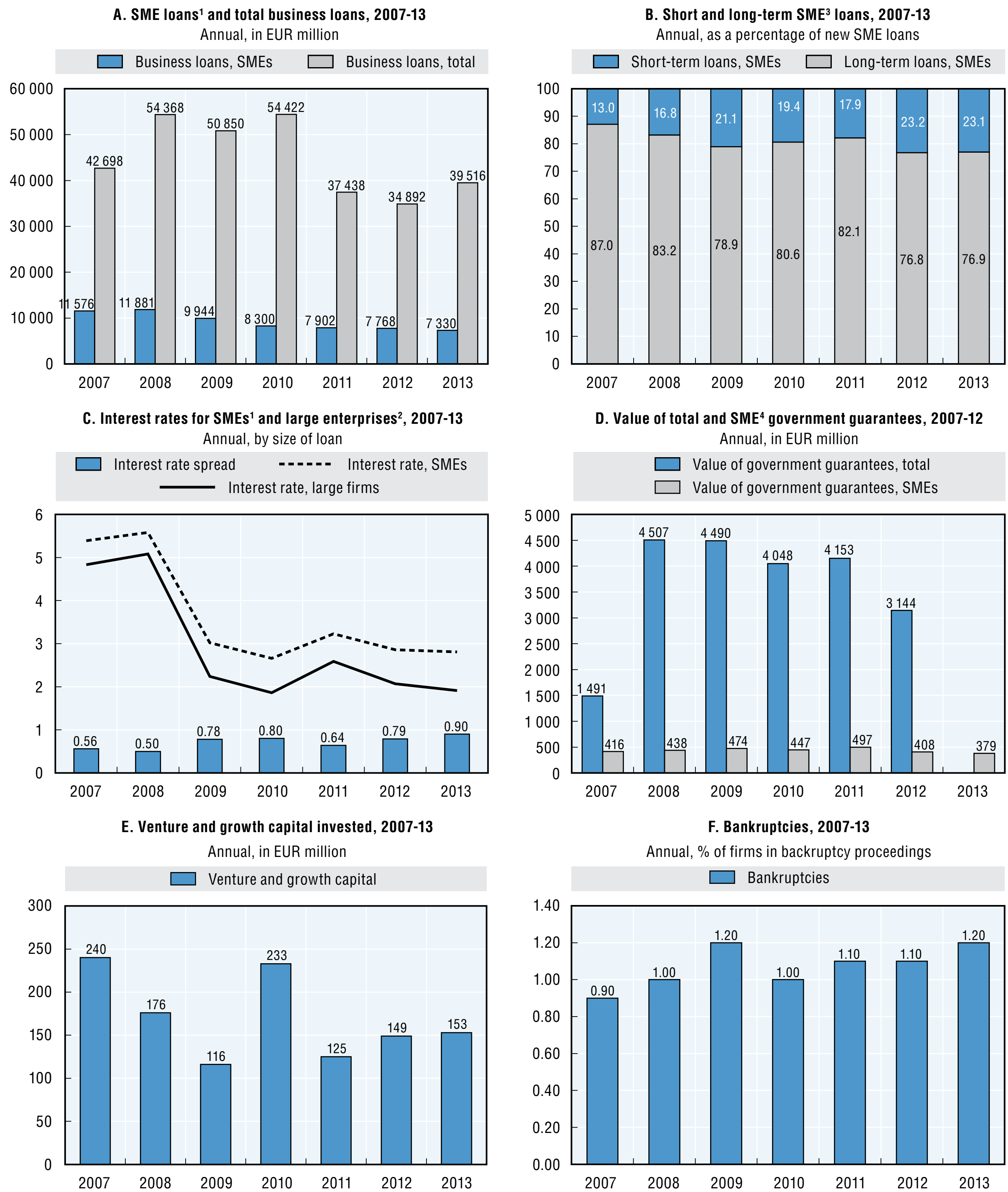
Table 13.6. **Scoreboard for Finland, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, total (stock)	EUR million	48 386	57 594	54 093	56 471	60 361	63 282	66 724
New business loans, SMEs (flows)	EUR million	11 576	11 881	9 944	8 300	7 902	7 768	7 330
New business loans, total (flows)	EUR million	42 698	54 368	50 850	54 422	37 438	34 892	39 516
New business loans, SMEs (flows): alternative data set	EUR million	..	..	..	..	6 512	6 453	6 073
New business loans, total (flows): alternative data set	EUR million	..	..	..	..	33 110	29 968	34 210
		0.27	0.22	0.20	0.15	0.21	0.22	0.19
Outstanding short-term loans, SMEs (stock)	EUR million	7 833	11 626	6 759	6 842	7 873	8 132	8 790
New short-term loans, SMEs (flow)	EUR million	1 500	2 000.00	2 100.00	1 612	1 416	1 805	1 690
Government loan guarantees, SMEs	EUR million	416.000	438.000	474.000	447.000	497.000	408.000	379.000
Government guaranteed loans, SMEs	%	3.600	3.700	4.800	5.400	6.300	5.200	5.200
SME loans requested	% of SMEs requesting loans during last 12 months	23	26-31	29-30	0.290	26-29	28	27
Rejection rate	% of all loans requested	..	..	..	..	1	5	11
Non-performing loans, total	EUR million	132	210	341	339	359	359	398
Interest rate, SMEs	%	5.39	5.58	3.02	2.66	3.23	2.86	2.81
Interest rate, large firms	%	4.83	5.08	2.24	1.86	2.59	2.07	1.91
Interest rate spread	%	0.56	0.50	0.78	0.80	0.64	0.79	0.90
Collateral, SMEs	% SMEs reporting an increase in collateral requirements	5	16	28	24	24	23	20-25
Equity								
Venture capital	EUR million	132	120	91	99	86	79	129
Growth capital	EUR million	61	128	49	253	59	104	41
Other								
Payment delays, B2B	Average number of days	6	5	7	7	7	7	6
Bankruptcies, total	% of all businesses	0.9	1.0	1.2	1.0	1.1	1.1	1.2

Source: Refer to Table 13.7.

StatLink http://dx.doi.org/10.1787/888933195118

Figure 13.1. **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/10.1787/888933193882*

Table 13.7. **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 supply-side surveys)
Business loans, total	New business loans from all financial institutions.	Bank of Finland (supply-side survey)
Short-term loans, SMEs	Working capital loans for up to one year. Estimate of SME loans, which are defined as loans to firms with less than 250 employees. Excludes loans to housing corporations.	Estimate by Confederation of Finnish Industries EK based on the joint survey undertaken by EK, Bank of Finland & 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; SME-Barometer 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. Loan applications that were refused because of too high costs are included in the data. Partial rejections, where the applicant receives most or only a limited part of the amount requested, are not.
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. They account for 99.8% of all enterprises excluding approximately 0.5 million of non-employer enterprises.

Table 14.1. **Distribution of firms in France, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**2 513 679**	**100.0**
SMEs (1-249)	**2 509 345**	**99.8**
Micro (1-9)	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 includes financial enterprises with the exception of holding companies (ISIC Rev.4 sector 642). Non-employer enterprises are not included.

Source: OECD (2013).

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SME lending

The Central Credit Register of the National Bank of 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. They have data both on loans to all firms and on loans to SMEs (both independent and belonging to a group, but excluding individual entrepreneurs). The stock of outstanding business loans, both to SMEs and to the business sector in general steadily rose between 2007 and 2013 by about 2% on average. Adjusting for inflation, the outstanding stock of loans has thus increased very little over this period. Loan growth has been below average in 2009 and in 2012 and 2013. The share of SME loans in the total outstanding loan stock has remained roughly constant over the last seven years at 20-21%. The share of short term loans to SMEs has declined from 23.8% in 2007 to 19% in 2010 and has remained below 20% since.

Credit conditions

France has detailed data on drawn loans and undrawn loans. An increase in the proportion of all drawn loans to all loans (both drawn and undrawn) indicates a higher degree of utilisation and hence tighter lending conditions and a worsening of credit availability as has been observed in 2008-09, when the amount of undrawn loans plummeted much more than the amount of drawn loans. This situation reversed at the end of 2009 up to the end of 2011. Since then, the growth rate of undrawn loans has become negative, while the growth rate of drawn loans remained broadly positive. This suggests that credit conditions have worsened again since 2011-12, but not as much as in 2009.

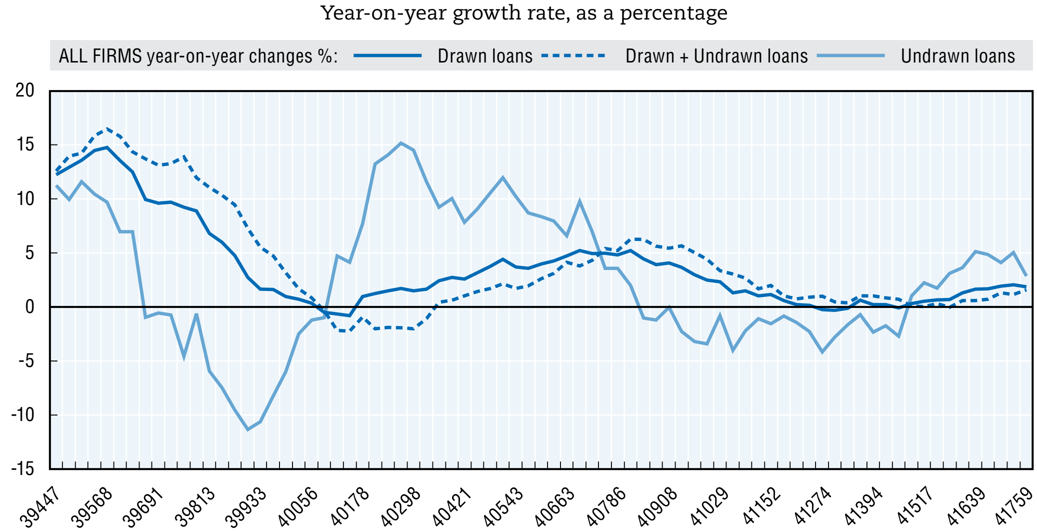
As in most European countries, interest rates for all firms dropped steeply in 2009, as a response to the monetary easing of the European Central Bank. Whereas interest rates for firms of all sizes averaged between 4.5% and 5.5% in 2007 and 2008, they dropped steeply afterwards to a level of below 2 in 2010. After a slight uptick in the interest rates in 2011, interest rates decreased once more in 2012 and 2013. Although interest for firms of all sizes declined over this period, this evolution was much more pronounced for large firms than for micro-enterprises (employing ten employees or less), with larger SMEs not including micro-enterprises in between. The interest rate gap between large firms and micro-enterprises increased sharply between January 2007 and the middle of 2009. This suggests that the monetary easing disproportionately affected larger firms and did not have a pronounced impact on the financing conditions of smaller enterprises. The spread between interest rates charged to SMEs (excluding micro-enterprises) and to large firms is much less pronounced.

We can add some information on credit conditions from supply-side surveys such as the Bank Lending Survey from the ECB. Between 2007 and 2010, SMEs both in the Eurozone and in France, perceived a dramatic tightening in the lending conditions of theirs banks. Since 2010, however, perceptions have remained broadly constant in France, except for a sudden deterioration in early 2012. This contrasts with the perception in the Eurozone as a whole, where perceived credit conditions worsened still in most quarters between 2010 and 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 (see further) was bearing positive results.

Figure 14.1. **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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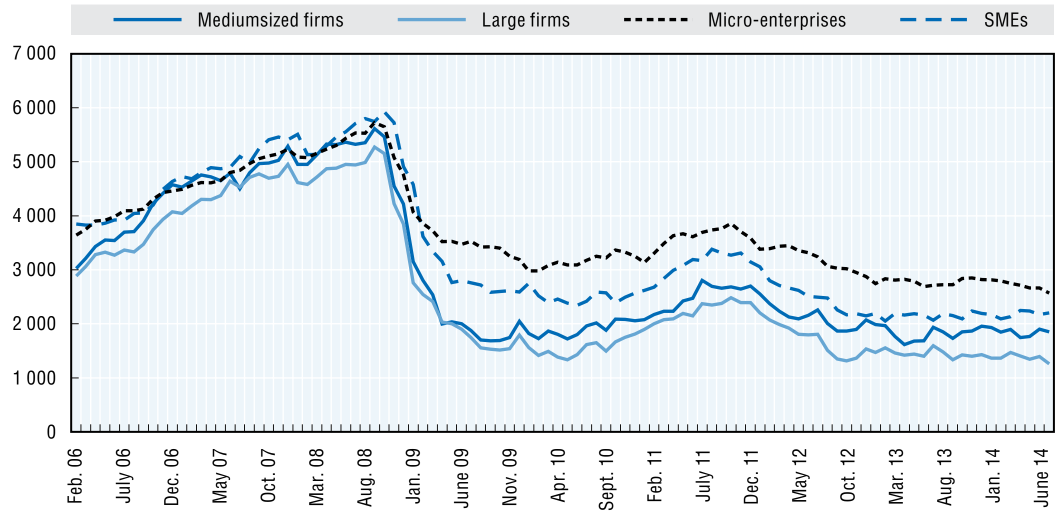
Figure 14.2. **Credit to firms according to size in France, 2007-14**

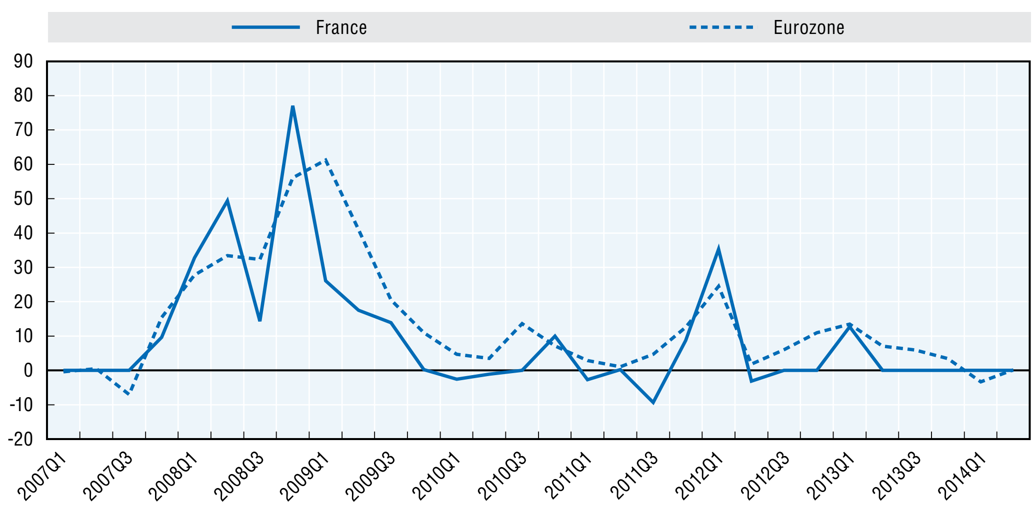


Source: Banque de France

StatLink http://dx.doi.org/10.1787/888933193904

Figure 14.3. **Credit conditions for SMEs in France and the Eurozone (supply side survey), 2007-14**

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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Equity financing

The value of venture and expansion capital invested had followed a consistently 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% year-on-year. 2013 saw a modest increase of 3.3% of the overall investment of equity financing. It should be noted, however, that this constitutes a mere fraction of SME debt financing.

Table 14.2. **Private equity investment in France, 2005-13**

By stage of investment, in EUR million

Stage	2005	2006	2007	2008*	2009	2010	2011	2012	2013
Venture capital	481	536	677	758	587	605	597	443	642
Expansion capital	895	1 057	1 310	1 653	1 798	2 310	2 940	1 946	1 827
Sub-total	1 376	1 593	1 987	2 411	2 385	2 915	3 537	2 389	2 469
LBO	6 287	8 075	10 340	7 399	1 605	3 512	6 015	3 568	3 910
Turnaround capital	59	95	84	99	84	90	118	115	103
Total investment	8 071	10 164	12 554	10 009	4 100	6 597	9 750	6 072	6 482

Notes: * 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/10.1787/888933195132

Other indicators

Payment periods measured in terms of the duration of the suppliers' payment period, taking into account advances and payments on account, decreased year after year. Between 2007 and 2012, the latest year for which we have data, this indicator declined by more than 12%. This is potentially due to the so-called Modernisation of the Economy Act of 2008, which required the reduction of payment periods. Intrum Justitia provides some additional indicators on payment delays, i.e. the average number of days beyond the agreed date that payment occurred, both for business-to-business and business-to-consumer. These indicators decreased in 2013 to 16 and 15 days respectively.

SME bankruptcies peaked during the Great Recession and decreased again in 2010 and 2011. 2012 and 2013 again saw an uptick of the bankruptcy rate for SMEs. In 2013, 58,544 SMEs went bust, almost as many as in the record year of 2009. As SMEs are responsible for the bulk of all bankruptcies, the evolution of total bankruptcies follows the same pattern.

Government policy response

In spite of the continuous progression of credit loans to SMEs throughout the period under review, the financial situation of SMEs remained a concern for public authorities because of the global economic situation and some difficulties for SMEs to finance their operations in such a context.

Public support to SMEs is mainly managed through the newly created Bpifrance, the public development bank[1] created at the start of 2013 through the fusion of several public operators (OSEO, CDC Entreprises, Fonds stratégique d'investissement). Bpifrance is able to offer businesses a local financing service supported by an extended portfolio of financial instruments and consultation options that can be called upon at all points of the business development process; following on the activity of the former OSEO, it provides guarantees, co-financing, direct loans, and manages, on behalf of public authorities government support for innovation and services. It also guarantees risk capital funds. On the equity side, Bpifrance manages several funds of funds and direct funds, mostly targeting SMEs needs.

In 2013, thanks to Bpifrance intermediation, SMEs had access to around EUR9.7 bl guaranteed loans[2], EUR 16 billion of public and private co lending, EUR 7 billion of trade receivables financing, around EUR 800 million support to innovation. On the equity side, Bpifrance invested directly EUR 121 million in SMEs through its growth capital activity, and EUR 111 million in innovative SMEs through its venture capital branch, and subscribed around EUR 400 million indirectly in firms through its fund of funds activity.

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 the financing landscape for French 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 coordinate 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 2013,

- 41 831 enterprises had sought mediation
- 33 658 enterprises had been accepted for mediation; and
- the rate of successful mediation was 62%.

To date, the credit mediation scheme has reinforced 18 151 firms of all sizes; unblocked EUR 5.6 billion in credit; and preserved 341 169 jobs (Médiateur du Crédit, 2013).

Since 2011-12, SMEs have been facing the financial Euro zone turmoil, and since then an uncertain economic situation, that put a lot on constraints on these firms which have low margins, since the 2008-09 crisis. They are facing two challenges, with financial consequences:

- They have to ensure their daily operations while banks are undergoing some drastic changes, and reducing their balance sheet: access to short term finance has thus become more difficult for SMEs during this period.
- They also have to prepare for the future and consider investing while the economic situation remains uncertain, without having internal means to do so.

One of the guidelines, of the five year roadmap for enhancing competitiveness, the "National Pact for growth, competitiveness and employment", adopted in November 2012 was to facilitate SMEs' access to finance. For that purpose, government initiatives in 2013 were organised in several key areas:

Supporting the liquidity position of enterprises

The mediation service for credit to enterprises was extended for two years (up to 31 December 2014). Various new financing and guarantee initiatives have been set up by Bpifrance for this purpose.

The establishment of a new credit guarantee fund cash to improve the cash flow of businesses: Since January 2013, Bpifrance set up a specific fund which guarantees loans granted by private banks to micro firms and SMEs. The eligible loans are intended to consolidate the existing short term loans dedicated for working capital purposes. They have a medium term maturity (between 2 and 7 years). The guarantee fund was endowed with EUR 50 million, which allows guaranteeing bank loans for a value of up to EUR 570 million.

Box 14.1. **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 Modernisation of the Economy (LME) of 4 August 2008 established categories of companies consistent with the European Commission's definition of size.

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

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

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

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

Source: Banque de France (2010).

The establishment of a system of pre-financing the tax credit for competitiveness and employment

Following the introduction of the tax credit for competitiveness and employment ("credit d'impôt competitivité emploi"), 6% of gross payroll of SMEs can be transferred to a credit institution, or seek pre-financing directly from Bpifrance or from commercial banks guaranteed by Bpifrance.

Supporting more equity investments

A dedicated SME trading platform was created in May 2013: Enternext. This subsidiary of NYSE Euronext is dedicated to market capitalisations below EUR 1 billion and covers the existing markets (compartments B, C of NYSE Euronext and Alternext).

A new saving plan dedicated to SME asset was adopted in the financial bill for 2014: it is called the Plan d'Epargne en Actions-PME (PEA PME). The ceiling of the common saving plan (PEA) increased from EUR 132 000 to EUR 150 000: a new pocket of EUR 75 000, dedicated to SME, is being installed, allowing the holders of shares and other securities giving access to capital directly or through investment funds investing 75% in SMEs, including debt securities (investment funds must be less than 50% equity).

A measure of special depreciation was introduced for companies subject to corporation tax for their direct or indirect investments in innovative SMEs (with a limitation that such detention may not exceed 20%). A firm can depreciate over five years (in the limitation of a maximum of 1% of its assets), the payments for cash subscription in innovative SMEs or subscription in funds owning at least 60 % exposure to innovative SMEs.

Foster the emergence of alternative financing instruments beyond bank credit

A relaxation of the legal framework for crowdfunding has just been adopted allowing crowdfunding platforms to operate under a new status. This status ("conseiller en financement participatif" / "intermédiaire en financement participatif") alleviates the capital requirement usually requested for financial services providers. Under this status, platforms can raise up to EUR 1 million in equity or debt for the projects they present, with a limitation for the lenders to limit their exposure by project to EUR 1 000. To benefit from this status, platform operators have to be accredited by regulators and to respect demanding information and transparency conditions.

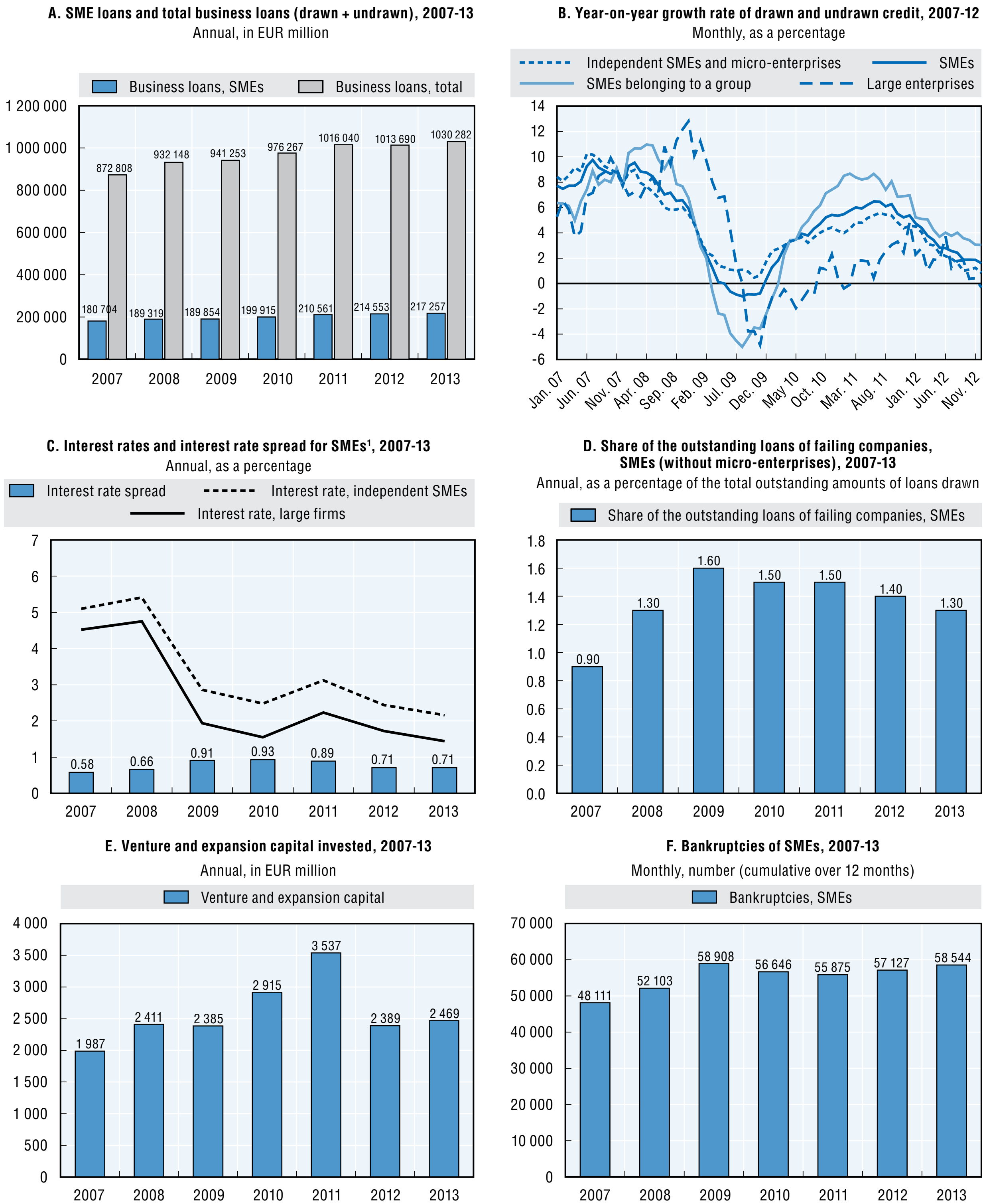
Table 14.3. **Scoreboard for France, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	EUR millions	180 704	189 319	189 854	199 915	210 561	214 553	217 257
Outstanding business loans, total (stock)	EUR millions	872 808	932 148	941 253	976 267	1 016 040	1 013 690	1 030 282
SME loan shares		0.21	0.20	0.20	0.20	0.21	0.21	0.21
Outstanding short-term loans, SMEs (stock)	EUR millions	43 095	42 688	37 556	38 125	40 363	41 160	42 899
(Government loan guarantees, SMEs) - OSEO/Bpifrance amounts of guaranteed funding	EUR millions	5 850	6 861	11 267	11 883	9 826	8 465	8 925
(Government guaranteed loans, SMEs) - OSEO/Bpifrance net amounts of hedged risks	EUR millions	2 707	3 219	5 752	5 326	4 231	4 157	4 394
share of SME business loans drawn as a percentage of all SME business loans	%	88	88	87	86	87	88	87
short term loans, SMEs (drawn)	EUR millions	43 095	42 688	37 556	38 125	40 363	41 160	42 899
Medium and long-term loans	EUR millions	115 357	123 501	127 956	134 574	142 874	146 841	146 886
Share of the outstanding loans of failing companies, SMEs except micro-enterprises	%	0.93	1.31	1.64	1.45	1.48	1.40	1.30
Interest rate, SMEs	%	5.10	5.41	2.86	2.48	3.12	2.44	2.16
Interest rate, large firms	%	4.52	4.75	1.94	1.55	2.23	1.72	1.44
Interest rate spread	percentage points	0.58	0.66	0.91	0.93	0.89	0.71	0.71
Equity								
Venture and growth capital investments	EUR millions	1 987	2 411	2 385	2 915	3 537	2 389	2 469
Total investments, annual growth rate	%	24.7	21.3	-1.1	22.2	21.3	-32.5	3.3
Other								
Payment delays, B2B, SMEs	DSO - average of ratios	49.80	47.70	45.60	45.60	44.10	43.50	..
Bankruptcies, SMEs	Number	48 111	52 103	58 908	56 646	55 875	57 127	58 544
Bankruptcies, total	Number	51 343	55 562	63 205	60 330	59 493	61 150	62 629

Source: Table 14.4.

StatLink http://dx.doi.org/10.1787/888933195143

Figure 14.4. **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/10.1787/888933193924

Table 14.4. **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

Notes

1. Equally owned by the State and the *Caisse des Depots et Consignations*.
2. 8.9bl at central level and + 0.7bl at regional level.

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Greece

SMEs in the national economy

99.9% of Greek enterprises are defined as SMEs, according to a demand-side survey of the Hellenic Confederation of Professionals, Craftsmen & Merchants (GSEVEE). 96.7% of them are defined as very small enterprises, 2.8% are defined as small enterprises and only 0.4% as medium-sized enterprises and only 0.1% as large enterprises. More than half of the workforce is employed by micro-enterprises and 84.9% by SMEs, accounting for 34.6% and 69%, respectively, of the value added in the economy. Compared with the EU-27 average, SMEs and especially micro-enterprises are more in number and more important to the Greek economy (see Table 15.1).[1]

Table 15.1. **Distribution of operating firms in Greece, 2012**

% share	Number of enterprises		Number of employees		Value added	
	Greece	EU-27	Greece	EU-27	Greece	EU-27
Micro	96.7	92.3	54.5	28.9	34.6	21.1
Small	2.8	6.5	16.8	20.2	18.1	18.1
Medium	0.4	1.1	13.6	17.3	16.3	18.2
SMEs	99.9	99.9	84.9	66.4	69	57.4
Large	0.1	0.1	15.1	33.7	31	42.6
Total:	100	100	100	100	100	100

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

StatLink http://dx.doi.org/10.1787/888933195155

SME lending

Few countries suffered as much under the Great Recession and the ensuing sovereign debt crisis as Greece. While many other OECD economies are recovering, Greece has continuously been in recession since 2008. The global recession, the high debt/GDP ratio, a collapse in tax revenues and serious weaknesses in government accounting, all contributed to a fall in real GDP by almost 25% between the beginning of 2008 and the end of 2013, and an unemployment rate of more than 27% by mid-2013.

The Greek banks' financing capacity has been severely constrained by their impaired access to international funding sources and mass outflows of deposits, as well as the impairment of the value of their holdings of Greek sovereign bonds. The banks' exposure to Greek Government debt exceeded other OECD member countries' exposure and amounted to 25% of GDP. Business lending, in particular lending to SMEs, was negatively affected by i) the aforementioned constraints of the financial sector; ii) the receding economic output and iii) the concomitant rise in borrowers' credit risk; and iv) borrowers' unwillingness to assume more debt. The level (stock) of total business loans declined by 22.2% between 2008 and 2013, although adjusted for exchange rate variations, loan reclassifications and write-offs the corresponding figure for the cumulative rate of decline in loans was 3.0%. The share of SME loans in total business loans stood at 50% in 2013. The level of SME loans recorded an annual rise in 2013, however this is due to the substantial reclassification of existing loans as SME (rather than large firm) loans in 2013. Adjusting for this effect the annual growth rate of SME loans was negative.

A study from the Bank of Greece indicates that small and medium-sized enterprises faced greater difficulties in obtaining funding during the financial crisis, and to the extent possible, tried to replace the external financing with internal financing using their equity. However, empirical evidence shows that the financing of the development of Greek enterprises using only internal resources is extremely difficult. Therefore the effects of the credit squeeze on the sustainability of Greek businesses are particularly important. Furthermore, the analysis shows that the most important factors for maintaining access to funding in an environment of increased risk aversion and scarcity of financial resources are (a) the size of firm' (b) profits; and (c) low operating costs. As the lack of funding and the accumulation of losses compress the capabilities of enterprises to implement their business plans and meet their cash needs, a number of companies could be threatened with bankruptcy. Since the potential for short-term credit growth remains limited, companies will have to turn to other sources (e.g. bonds, shares, private placements and other financial instruments) to finance their growth (Dimitropoulou et al., 2014).

This shortage of finance for SMEs, however, does not stem exclusively from the decline in bank credit. Rather, it is due to a combination of factors, many of which predating the crisis, had shaped a growth model excessively dependent on bank lending. Greek businesses failed to take advantage of the conditions of recurring profitability and improve their financing structure, and thus to reduce their dependence on bank lending. In fact, for as long as they had access to relatively cheap money, they had no real incentive to do so. Against the backdrop of the fiscal crisis in 2009, banks' lending capacity was inevitably constrained, as the fiscal crisis strongly affected the credit ratings of the country and by extension of the domestic banking system. Thus, bank credit to the private sector and to businesses in particular gradually declined, causing a large number of businesses to have difficulty financing their production activities. Subsequently, the banking landscape in Greece has changed. Recapitalisation and restructuring of the banking system are gradually restoring confidence and creating the conditions necessary for the supply of bank credit to the economy to increase over the medium term (Bank of Greece, 2014).

However, several factors continue to limit loan supply in the short term. First, net deposit inflows, a critical determinant of banks' capacity to supply credit to the economy, remain low. Second, the loan-to-deposit ratio needs to be kept at a conservative level. This ratio has risen largely because of the loss of deposits during the crisis. Third, the reliance of Greek banks on short term financing from the Eurosystem has recently fallen but must continue to remain at reasonable levels. Fourth, despite the boost in confidence achieved after the recapitalisation, the accumulation of non-performing loans gives rise to concern. This accumulation makes banks reluctant to extend new credit, as it signals a high level of credit risk. Moreover, the non-servicing of loans deprives banks of income that could otherwise be recycled into new loans. Accumulating non-performing loans force banks to tie up more capital for future loan-loss provisions. The improvement in macroeconomic aggregates, if it continues, will bolster confidence in Greece and its banking system and will pave the way to a gradual normalisation of credit expansion in the medium term. In the short term, however, the capacity for credit expansion will remain limited. This credit squeeze can be offset by companies turning to alternative sources of funds, such as internal capital generation, corporate bond markets, equity markets, private placements and other modern financing tools, as well as resources available from EU Structural Funds and the European Investment Bank (Bank of Greece, 2014).

Moreover, the demand for credit is likely to remain weak in the near future, despite signs of improvement from recent survey evidence (Bank Lending Survey of the Bank of Greece). According to the financial data released by companies, the liquidity ratio and investment activity remain historically low. These developments are indicative of the continuation of a self-reinforcing vicious circle of disinvestment and lack of liquidity, which substantially reduces the private sector's scope for dynamic and self-reliant recovery.

Asset-based financing

The total outstanding amount of financing from leasing companies reached its peak at 2008 and was, at an amount of EUR 7 873 million, an important source of financing for Greek enterprises. Between 2008 and 2012, this amount dropped by 21% and further by 46% in 2013.

The total outstanding amount of loans from factoring companies to all companies increased to EUR 1 767 million in 2009. Between 2009 and 2013, financing from factoring companies is down by 13%.

Credit conditions

Interest rates for SME loans are high compared to other Eurozone countries and have not responded to the monetary easing by the European Central Bank (ECB), incorporating risk premia that are particularly high for Greek banks (credit risk of Greek firms, bank capital requirements given provisions for NPLs, bank funding costs). The average SME interest rate increased between 2007 and 2011, as the sovereign debt crisis erupted in 2009, and reached 7.26% in 2001. Both 2012 and 2013 saw a decline in the SME interest rate, which stood at 6.06% in 2013. The interest rate spread between large firms and SMEs rose between 2007 and 2009, reaching 1.46% and then decreased to 0.39% in 2012. In 2013, the interest rate spread again increased to 1.33%.

Other indicators

Bankruptcies for all businesses declined dramatically by 30% in 2008 against 2007, remaining more or less stable in 2009 and 2010. Between 2010 and 2011, bankruptcies surged by 25.4% reaching their peak in 2011. In 2012, the trend was reversed with a 6.7% decline in the total number of bankruptcies, further falling in 2013 with a 5.5% decrease on a year-on-year basis.

Non-performing loans have increased rapidly in Greece. In 2007, 4.6% of all business loans were non-performing, defined as loans past-due 90 days plus loan exposures to companies with negative net worth. In 2010, this percentage was already up to 14.1%, rising further to 23.4% in 2012 and 31.8% in 2013. Almost one third of all business loans were thus non-performing in Greece, which is much higher than in other OECD countries and constitutes a serious impediment to the recovery of the financial sector and, ultimately, to the Greek economy.

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 15.2. **Entrepreneurship Fund in Greece, 2011-14**

Component/beneficiary	Period	Max. loan amount EUR	Interest Rate %	Loan duration years	Beneficiaries number	Uptake EUR million
Extroversion	2011-13	300 000	3.175	12-31-14	74	27.7
Tourism, Desalination, Waste Management, Green Infrastructure, Green Applications, Renewable Energy Sources	2011-13	500 000	3.67	12-31-14	371	75.7
Business Restarting: investment	2011-13	800 000	0% I.R. offered by ETEAN SA and I.R. offered by participating Banks	12-31-14	2 111	224.9
Business Restarting: working capital	2011-13	300 000		12-31-14		

Source: Hellenic Republic, Ministry of Finance, 2013 Budget.

StatLink http://dx.doi.org/10.1787/888933195164

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 sectorial 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 15.3).

Table 15.3. **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

Note: *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/10.1787/888933195172

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%.

On 21 March 2012 a Funding Agreement between the Hellenic Ministry for Development and Competitiveness, the European Commission and the European Investment Bank (EIB) was entered into force for the establishment of the Guarantee Fund for Greek SMEs. The Guarantee Fund was established under this Agreement as a first loss portfolio guarantee scheme using NSRF funds up to EUR 500 million by way of gradual payments, so that the European Investment Bank will grant favourable loans of EUR 1 billion to Greek banks for on-lending to SMEs by the end of 2015. During 2013, EIB signed four Finance Contracts with the following Greek Banks:

- Eurobank: contract amount EUR 100 million
- Alpha Bank: contract amount: EUR 100 million
- Pancretan Bank: contract amount: EUR 50 million
- Piraeus Bank: contract amount EUR 50 million.

During the first quarter of 2014, EIB is expected to sign a new contract with the National Bank of Greece for an amount of EUR 100 million. The leverage ratio for the provision of loans to Greek SMEs under the above contracts is agreed to be 1:2.

An additional funding instrument for SMEs and Midcaps is the State Guarantee Facility, whereby EIB provides funding via partner banks for loans that are backed by an explicit Greek Government guarantee. The State Guarantee Facility supports investments in tangible assets and working capital by SMEs and Midcaps in the fields of manufacturing, tourism and services. SMEs can benefit from these funds for projects with total costs below EUR 25 million each. The EIB has signed agreements with National Bank of Greece-NBG (EUR 250 million), Alpha Bank (EUR 140 million) and Pancretan Cooperative Bank (EUR 50 million). As of July 2013, EUR 250 million had been already disbursed to SMEs, with Alpha Bank having fully allocated and disbursed its amount. It was anticipated that the disbursed amount would reach EUR 385 million by end-2013.

Support to venture capital (New Economy Development Fund S.A., TANEO)

The aim of the Company, starting in 2003, is minority participation in venture capital funds, venture capital companies, and similar schemes to provide venture capital which shall be established specifically for this purpose and which are governed by the legislation of the Member States of the European Union. These investment schemes shall be managed by agencies from the private sector according to private economy criteria and should invest exclusively in innovative, small and medium sized enterprises in Greece. The total value of the fund amounts to EUR 280 million.

Provision of guarantee for letters of guarantee

The programme, financed by the government, aims at guaranteeing portfolio of letters of guarantee (Bid bonds, Advance payment bonds, Performance bonds, Payment bonds, Withheld amount bonds) issued by the banks in favour of small and very small enterprises, addressed to the private sector. EUR 2 million has been guaranteed by 47 beneficiaries

Trade Finance Enhancement Programme

In December 2012 the EIB Board approved a new financing instrument in support of international trade with a first pilot project designed for Greece. The "Trade Finance Enhancement Programme" is a short-term credit support instrument that will address the gap left by retreating commercial banks. EIB will provide guarantees to the commercial banks for trade financing for an amount up to EUR 500 million, and as these guarantees will be utilised on a revolving basis, they are expected to support a volume of transactions in the order of EUR 1,500 million per year. Through the Trade Finance facility, the EIB will provide foreign banks with appropriate guarantees in favour of the Greek banks for letters of credit and other trade finance instruments. This will both alleviate cash collateral constraints otherwise imposed on most SMEs and increase access to international trade instruments, at a time when Greece needs it in order to pursue export-led growth for its economic recovery.

The JEREMIE initiative

The initiative "Joint European Resources for Micro to Medium Enterprises" ("JEREMIE") has been jointly developed by the European Commission and the European Investment Fund (EIF), the EIB subsidiary dedicated to SME support. Its objective is to support financial engineering instruments, such as venture capital funds, guarantee funds and loan funds, primarily, to SMEs. In October 2010, EIF and the Hellenic Republic had entered into an agreement to allocate funds in the amount of EUR 250 million for the funding of the JEREMIE Holding Fund. The JEREMIE Holding Fund currently deploys two instruments:

- Funded Risk Sharing, with six agreements signed with three banks: Alpha Bank, National Bank of Greece and Eurobank, for a total EUR 180 million, thus channelling in aggregate EUR 360 million to Greek SMEs in the form of loans. These funds aim to support microfinance as well as investments in the Information and Communication Technology (ICT) sector. Absorption is accelerating and stands at approximately EUR 90 million, with some 1,600 new loans to SMEs.
- Risk Capital, with four venture capital funds undertaking early and seed stage ICT sector investments in SMEs. The total size of the funds is expected to settle at EUR 70 million, of which EUR 49 million from the JEREMIE Holding Fund and EUR 21 million from private investors. Three of those four funds are already operational (with more than 21 private investors), while the first closing of the fourth is anticipated soon. Solutions are being sought jointly by the EIF, the Ministry of Development, the Task Force for Greece (so-called "Reichenbach Task Force") and Directorate-General for Regional Policy and Urban Policy to shift at least a part of the ICT-focused funds into general entrepreneurship and particularly to support the Attica and Central Macedonia regions, which show the highest demand.

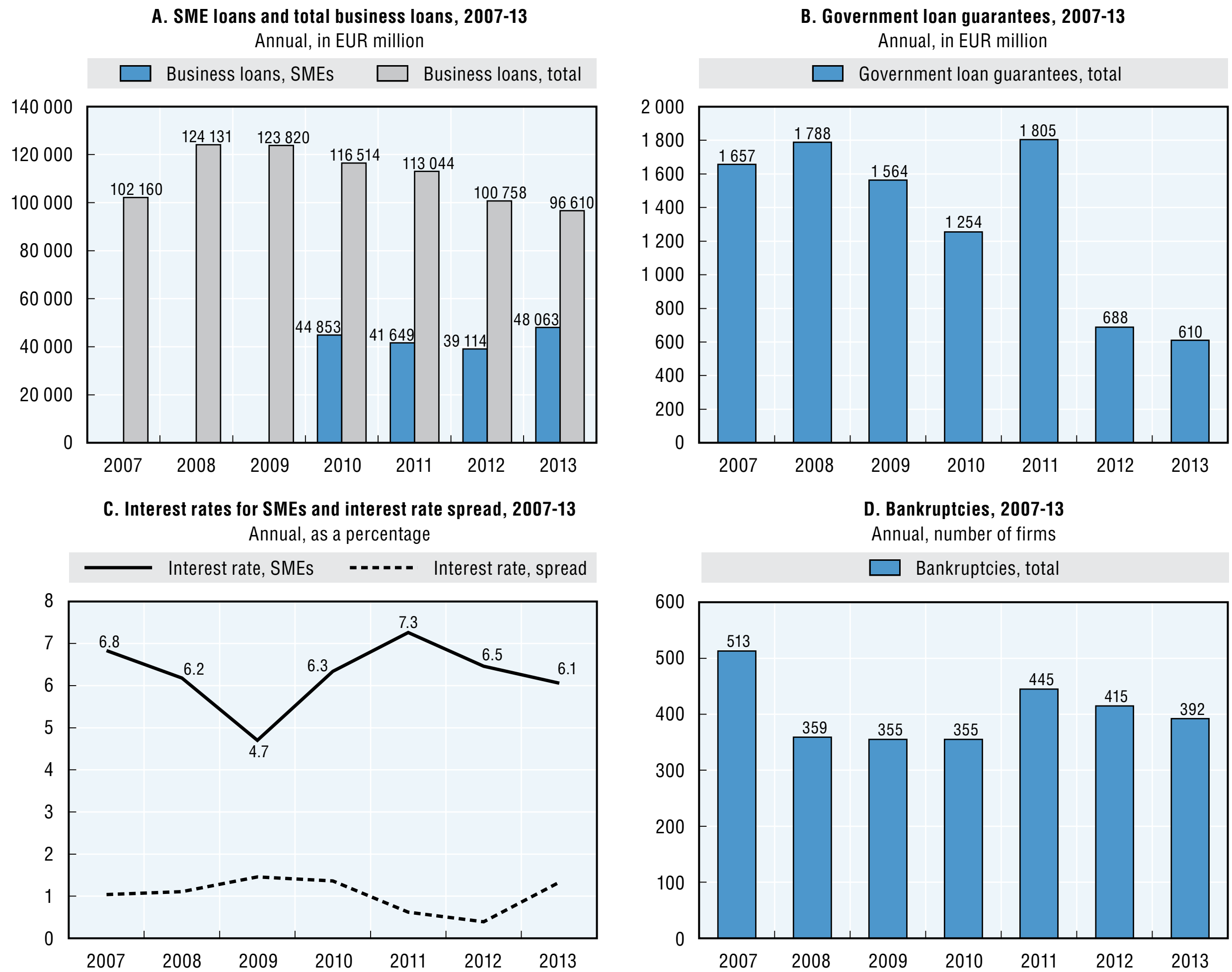
Table 15.4. **Scoreboard for Greece, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	EUR million	..	..	..	44 853	41 649	39 114	48 063
Outstanding business loans, total (stock)	EUR million	102 160	124 131	123 820	116 514	113 044	100 758	96 610
SME loan shares	% of total business loans	..	..	..	0.38	0.37	0.39	0.50
Outstanding short-term loans, total (stock)	EUR million	46 071.7	53 572.9	49 369.4	44 413	42 007	40 394	35 659
Government loan guarantees, total	EUR million	1 657	1 788	1 564	1 254	1 805	688	610
Government loan guarantees, total	EUR million	19 929	23 232	25 586.6	22 438.2	19 950.8	19 314.7	17 863.6
Non-performing loans, total	% of total business loans	4.60	4.30	6.70	8.70	14.10	23.40	31.80
Interest rate, SMEs	% of total loans	6.83	6.18	4.70	6.34	7.26	6.46	6.06
Interest rate, large firms	%	5.79	5.07	3.24	4.98	6.64	6.07	4.73
Interest rate spread	%	1.04	1.11	1.46	1.36	0.62	0.39	1.33
Other								
Bankruptcies, total	Numbers	513	359	355	355	445	415	392
Asset-based finance								
Leasing, loans total (outstanding amounts at the end of period)	EUR million	7 277.85	7 873.57	7 495.52	7 284.50	6 845.50	6 215.37	3 362.13
Factoring, loans total (outstanding amounts at the end of period)	EUR million	1 279.48	1 725.25	1 766.68	1 729.51	1 492.70	1 534.06	1 409.63

Source: Table 15.5.

StatLink http://dx.doi.org/10.1787/888933195181

Figure 15.1. **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/10.1787/888933193936

Table 15.5. **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, securitised loans and securitised 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
Other		
Non-performing loans	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

Note

1. According to the European Union standard definition (2003/361/EC), SMEs are firms with less than 250 employees and annual turnover below EUR 50 million and/or balance sheet below EUR 43 million. A small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

   Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

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Hungary

SMEs in the national economy

Hungary defines SMEs using the standard criteria provided by the European Union. An SME is an enterprise with fewer than 250 employees and which has an annual turnover not exceeding EUR 50 million. (The definition is stipulated in Law No. XXXIV. of 2004 on the small and medium–sized enterprises and on the support of their development).

The total number of active enterprises in Hungary was 629 585 at the end of 2012 of which 628 707 were classified as active SME. The basic figures on SMEs in Hungary (the number of enterprises, employees and value added) are compared to the relevant EU average data in table 16.1.

In Hungary the SME sector is dominated by micro firms (including self-employed persons). The share of active SMEs within the total number of enterprises is as high as 99.9% and accounts to a lower share of value added and a considerably higher share of employment compared to the EU average. SMEs play an important role in job creation. In 2012, about 629,000 enterprises were active in Hungary, 99.9% of them SMEs. The latter created 73.2% of all private jobs in Hungary and more than 50% of value-added (see Table 16.1).

Table 16.1. **Distribution of firms in Hungary, 2013**

	Number of enterprises			Number of employees			Value added		
	Hungary		EU27	Hungary		EU27	Hungary		EU27
	Number	Share	Share	Number	Share	Share	Billion EUR	Share	Share
Micro	521 981	94.6%	92.1%	885 167	35.5%	28.7%	9	18.7%	21.1%
Small	24 883	4.5%	6.6%	472 316	18.9%	20.4%	8	15.8%	18.3%
Medium-sized	4 212	0.8%	1.1%	420 215	18.8%	17.3%	9	18.6%	18.3%
SMEs	**551 076**	**99.9%**	**99.8%**	**1 777.7**	**71.2%**	**66.5%**	**26**	**53.2%**	**57.6%**
Large	800	0.1%	0.2%	718 304	28.8%	33.5%	23	46.8%	42.4%
Total	**551 876**	**100%**	**100%**	**2 496 001**	**100%**	**100%**	**49**	**100%**	**100%**

Source: London Economics

StatLink http://dx.doi.org/10.1787/888933195195

SME lending

The financial and economic crisis has affected Hungary deeper and longer than other EU members. The SME sector has been stagnating since 2005 and began to decline since 2008. The crisis prevailed longer than in most other EU members, and modest signs of recovery were only observed in 2011. Statistical data show that large enterprises could better manage the crisis than the SME sector. In 2012, the value-added generating capacities of the Hungarian SMEs were at their 2008 level, whereas large firms performed better in this respect.

The prevailing financing problem has been recognised and measures were introduced by the National Bank of Hungary. In April 2013, the Bank announced the "Funding for Growth Scheme" (FGS). The programme comprises three pillars. Two of them aim to promote financing the SME sector by "stimulating" the participating banks' lending activity towards SMEs in national currency. As a consequence of the crisis access to financing has worsened especially for SMEs having limited access to alternative sources of financing.

Though it might be too early to form judgement over the effects of the FGS however the scheme, at least in short term, achieved its goal. It contributed to an increase the lending activity of the participating banks, it helped to realise delayed investments with the favourable credit conditions (interest rate fixed at 2.5%). It was stimulating both on the demand and on the supply side and the economic (investment) activity received positive impetus. The amount of outstanding business loans showed an increase until 2011, decreased significantly in 2012 and a modest drop can be observed also in 2013.

In 2013, the decline in loans outstanding in the corporate segment decelerated significantly. In the preceding years, loans outstanding in the corporate segment had contracted by 3to 4% on a year-on-year basis, whereas the annual decline was 1.2% in 2013 Q4. Forint loans outstanding in the corporate segment expanded mainly as a result of the first phase of the Funding for Growth Scheme, while foreign currency loans outstanding contracted significantly. In the final quarter of 2013, based on transactional data, repayments of corporate loans exceeded disbursements by nearly HUF 181 billion. One-off and typical end-of-year seasonal effects both contributed significantly to the negative transactional data observed at the end of the year. New contracts under the Funding for Growth Scheme were subdued at the end of 2013, with an upswing in lending within the framework of the FGS expected from 2014 Q2. In the SME segment, the annual growth rate remained positive in the last quarter of 2013.

Credit conditions

Interest rates have traditionally been 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 corporate loans have started to ease during the second half of 2012, with a consistent declining trend in interest rates to corporates. Having peaked during the first months of 2012, price conditions for new and outstanding loans eased further as a result of the Hungarian National Bank's (MNB) policy rate cuts. The policy rate cuts of the National Bank continued throughout 2013, which resulted in a remarkable reduction of average interest rates on a year-to-year basis compared to 2012. (from 9.7% to 5.6%) .The interest rate spread equalled 2,5 percentage points in 2013, down from its 2012 peak of 3.2%, but still relatively high in a historical context.

According to the MNB survey, banks continuously 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; in 2010 this proportion increased to 17.1% and 19% in 2012Banks continued to tighten their collateral requirements in 2013. However, the government was taking some other measures which were not helping banks out of this risk aversive behaviour, but also started the Funding For Growth Scheme in order to provide sources for banks on the rate of 0% for lending.

Based on survey data, the overwhelming majority of banks did not change the existing tight credit conditions. Lending rates on forint loans continued to decline in parallel with central bank policy rate cuts and thus the average interest rate spread remained at the 2 percentage point level, which is considered favorable in a regional comparison. It should be emphasised, however, that the favorable interest rate conditions primarily reflect the credit conditions typically offered to larger companies which are considered to be more creditworthy by banks.

Non-performing loans

The FGS significantly reduced the interest burden on enterprises participating in the scheme in terms of both new loans and loan redemptions, which helped to improve their profitability. In addition, the scheme eliminated the exchange rate exposure of enterprises participating in Pillar II, which creates a predictable operating environment for them. The substantial, gradual decline in outstanding corporate foreign currency loans is also important in terms of the national economy, as it reduces financial stability risks. The share of non-performing business loans in the portfolio declined in 2013, after rising strongly since 2007.

Equity financing

In 2011, the amount of Hungarian venture capital investments recovered to earlier levels, jumping by 62% year-on-year, following another major increase of 71% in 2012. This was mainly due to the activities of the 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 6th within the EU regarding the value of early -stage venture capital investments compared to their 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 2013, the JEREMIE programme allocated HUF 15.8 billion of funds to risk capital investments in the framework of venture capital programmes.

Table 16.2. **Venture capital in Hungary, 2007-13**

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
2013	5 130	10 750	15 880

Note: The total excludes buy-outs.

Source: Hungarian venture capital association

StatLink http://dx.doi.org/10.1787/888933195203

Other indicators

The number of bankruptcies shows a year-on-year decrease of 41% from 2012 to 2013. (178.1 per 10 000 firms) The data has to be corrected, however, given the highly increased number of forced cancellation processes, which increased in 2013, due to insolvent firms usually choosing this new method of liquidation rather than the old ones. As there are more than 14 000 such methods in process, the corrected indicator value is 375.9 per 10 000 firms.

Government policy responses

Hungary has a loan guarantee programme, as well as direct loans for SMEs. The guarantee programme, is run by Guarantee Institutes controlled by the State (Garantiqa Plc, Agricultural Loan-Guarantee Foundation), which provide guarantees for 50-80% of an SME loan. Their guarantees are counter-guaranteed by the state budget for an 85% coverage. In 2013, 9,8% of SME loans had a government guarantee, with the total uptake by SMEs reaching HUFs 457,9 billion.

The Szechenyi Card Programme was launched in 2002 and is run by the domestic credit institution Kavosz Plc. The programme allows banks to provide standardised loans to SMEs with subsidised interest rates. The main facility in the programme is an overdraft loan that requires no tangible collateral. There is evidence that both businesses and banks prefer this standardised, simplified and state sponsored product compared to the pure banking products on the market. At the end of 2013 the Szechenyi Card Programme had supported 18,134 loans worth HUF 145 billion.

The Hungarian Development Bank (MFB) provides direct loans and loans to refinance banks, with financing sourced from EIB bonds guaranteed by the State. Some of the above mentioned programmes are scheduled to phase out by the end of 2013, but there are some currently existing ones such as MFB Corporate Financing Program, MFB Small Enterprise Loan, MFB Public Transport Development Funding Program, etc.). 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 and 2010 period. There are also micro-loans disbursed by microcredit institutions financed from the state or EU budget.

A 3-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% rate, provided that they 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 325 billion in its second.

Owing to the active interest shown by enterprises, credit institutions concluded contracts for 93.5 % of the overall amount, which means approximately HUF 701 billion, and related to roughly 10 000 contracts. In light of higher demand for Pillar I, as of 1 August, the MNB enabled credit institutions to use their credit line allocated under Pillar II within the framework of Pillar I to improve the effective use of the overall amount. As a result, borrowing under Pillar I reached 112%, i.e. HUF 472 billion, of the allocated amount in this pillar. Under Pillar II, i.e. for the redemption of foreign currency loans, credit institutions contracted in the amount of approximately HUF 229 billion, which means 70 % utilisation of Pillar II.

Venture Finance Hungary Plc, a publicly owned company managing JEREMIE funds for the country, has launched in 2007 a 9-year programme of low-cost refinancing facility for loans, whereby it co-invests with private investors on risk capital investments. In 2013, 4,797 SMEs received loans of more than HUF 50 billion, while HUF 15.8 billion were invested in venture capital programmes.

The policy of monetary easing followed by MNB and the drop of the central bank policy rate are expected to positively influence corporate lending, both directly, through the availability of lower financing and the subsequent increase in credit demand, 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 of the coming years tackling both supply constraints and the lacklustre demand for credit.

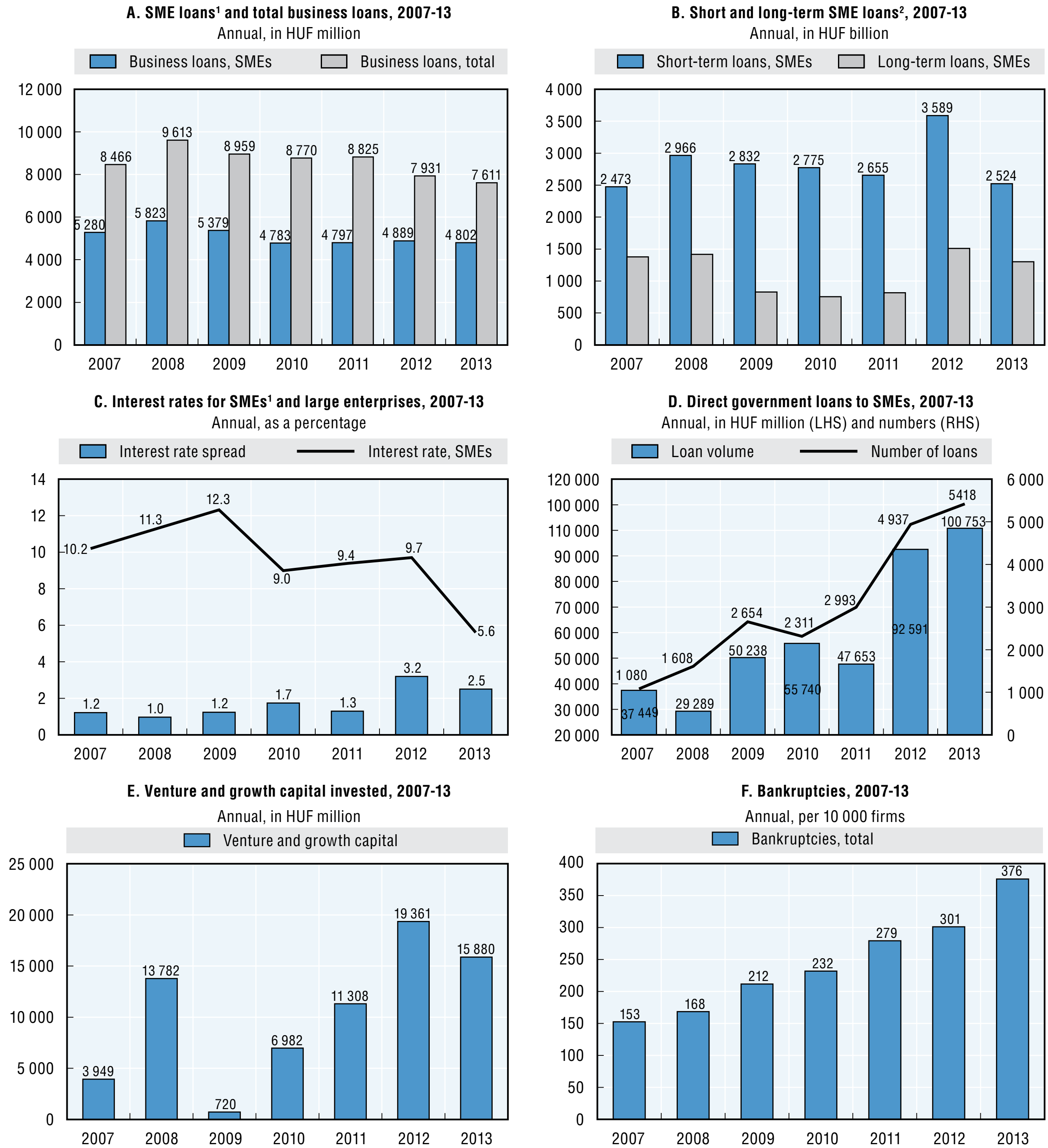
Table 16.3. **Scoreboard for Hungary, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Business loans, SMEs	HUF million	5 279 722	5 823 289	5 379 295	4 782 676	4 796 982	5 013 917	4 802 452
Business loans, total	HUF million	8 466 015	9 612 649	8 958 573	8 769 596	8 825 160	7 892 281	7 611 947
Business loans, SMEs	% of total business loans	62.4	60.6	60.0	54.5	54.4	63.5	63.1
Short-term loans, SMEs	HUF million	2 473 389	2 965 962	2 832 008	2 774 744	2 767 147	3 051 599	2 524 477
Long-term loans, SMEs	HUF million	1 377 444	1 417 538	828 430	756 021	817 982	818 220	1 302 422
Total short and long-term loans, SMEs	HUF million	3 850 833	4 383 500	3 660 438	3 530 765	3 585 129	3 869 819	3 826 899
Short-term loans, SMEs	% of total short and long-term SME loans	64.2	67.7	77.4	78.6	77.1	78.8	65.9
Government loan guarantees, SMEs	HUF million	308 800	352 100	409 200	377 100	343 400	251 850	350 009
Government guaranteed loans, SMEs	HUF million	381 400	436 400	600 300	472 019	437 200	314 813	457 992
Direct government loans, SMEs	HUF million	37 449	29 289	50 238	55 740	47 653	92 591	100 753
Direct government loans, SMEs	Number	1 080	1 608	2 654	2 311	2 993	4 937	5 418
Bank loans with subsidised interest rates	HUF million	129 391	124 049	128 366	130 935	137 425	152 880	144 924
Bank loans with subsidised interest rates	Number	19 411	17 789	17 517	17 405	18 148	19 545	18 134
Ratio of non-performing business loans within total business loan portfolio	%	3.1	4.7	10.1	12.8	17.4	19.1	17.5
Ratio of SME non-performing loans within total SME loan portfolio	%	…	5.4	8.9	12.8	15.9	22.3	18.6
Average interest rate, SMEs	%	10.2	11.3	12.3	9.0	9.38	9.7	5.6
Interest rate spread	Percentage point	1.2	1.0	1.2	1.7	1.3	3.2	2.5
Equity								
Venture and growth capital	HUF million	3 949	13 782	720	6 982	11 308	19 361	15 880
Venture and growth capital	Year-on-year growth rate, %	..	249.0	-94.8	869.7	62.0	71.2	-18.0
Other								
Payment delays	Days	16.3	19	19	15	22.0	20	…
Bankruptcies, total	per 10 000 firms	152.6	168.4	211.6	231.8	279.2	301.3	375.9
Bankruptcies, total	Year-on-year growth rate, %	..	10.3	25.6	9.5	20.4	7.9	24.7

Source: See Table 16.4.

StatLink http://dx.doi.org/10.1787/888933195214

Figure 16.1. **Trends in SME and entrepreneurship finance in Hungary**



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

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

StatLink http://dx.doi.org/10.1787/888933193949

Table 16.4. **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 National Bank (From 1 October 2013 the Hungarian Financial Supervisory Authority works within the Hungarian National Bank)
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 National Bank (From 1 October 2013 the Hungarian Financial Supervisory Authority works within the Hungarian National Bank)
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 National Bank (From 1 October 2013 the Hungarian Financial Supervisory Authority works within the Hungarian National Bank)
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 National Bank (From 1 October 2013 the Hungarian Financial Supervisory Authority works within the Hungarian National Bank)
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 subsidised int. rates	Sum and number of new bank loans with subsidised int. rates (Szechenyi Card Programme).	KA-VOSZ Co. (Intermediary corporation of the Programme.)
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 National Bank (From 1 October 2013 the Hungarian Financial Supervisory Authority works within the Hungarian National Bank)
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 1 year; amounts less than EUR 1 million and equal to or greater than EUR 1 million.	Hungarian National Bank
Equity		
Venture capital	Venture and growth capital, total amount invested. Includes seed, start-up, early and later stage expansion capital (excludes buyouts, turnarounds, replacements).	Hungarian Venture Capital Association
Other		
Payment delays	Average number of days beyond the agreed date for business-to-business in 2008 and 2009. For 2007, average number of days beyond the agreed date for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia, European Payment Index
Bankruptcy	Number of officially published bankruptcies and liquidations per 10 000 taxpayer enterprises.	National Tax and Customs Administration

Ireland

SMEs in the national economy

SMEs comprised 99.6% of all employer firms in 2012 and employed approximately 68% of the labour force, whereas large enterprises comprised just 0.4% of the labour force but accounted for approximately 32% of the employment.

Table 17.1. **Distribution of operating firms in Ireland, 2012**

Firm size (employees)	Number of enterprises	% of total	Number of employees	% of employees
All active enterprises	**179 845**			
Non-employer firms	84 273			
All active enterprises *(excluding non-employer firms)*	**95 580**	**100.0**	**1 023 834**	**100.0**
SMEs	**95 161**	**99.6**		
micro (1-9)	79 509	83.2	224 352	21.9
small (10-49)	13 348	14.0	257 838	25.2
medium (50-249)	2 296	2.4	218 532	21.3
Large (250+)	**419**	**0.4**	**323 112**	**31.6**

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

Source: Central Statistics Office.

StatLink http://dx.doi.org/10.1787/888933195229

SME lending

The financial and economic crisis in Ireland can be largely attributed to a decade of unsustainable construction-led growth up to 2008. 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.

Ireland was hit very hard by the financial crisis and this shows in the data on business lending and SME lending. Total business lending (outstanding loan balances) declined every year between 2008 and 2013, with the rate of decline easing considerably in the recovery period. Business lending dropped more than 38% over this period. SME loan data are available only since 2010. SME loans showed minimal growth between 2010 and 2011. They reduced by 6.4% in 2012 and by another 5% in 2013. New SME loans were also down between 2010 and 2013. Nevertheless, SME lending declined less than overall business lending, leading to a rise of the SME loan share in total business loans from 63.9% in 2010 to 66.9% in 2013.

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 SME loans fell 83% between 2007 and 2013 from EUR 17.3 billion to EUR 3 billion.

Credit conditions

A number of independent surveys of credit conditions have been conducted on behalf of the Irish Government. They covered the period April 2011 to September 2014. Loan approval rates have increased from 70% to 86%, the highest percentage since the inception of the survey. These included applications which were both fully approved and those which were partially approved, the latter accounting for between 2% and 6% of all the applications in the period involved.

The independent surveys also covered collateral requirements. About 41% of the SMEs were asked for specific collateral for their loans, according to the most recent survey, most often buildings and personal assets of the owner. The data from these surveys is also broken down according to the size of the SME, distinguishing between micro-enterprises with less than 10 employees, small firms with a number of employees between 10 and 49, and medium-sized enterprises with a total number of employees between 50 and 250. One recurring finding throughout the survey is that micro-enterprises consistently report facing more difficulties in accessing bank finance and financing conditions.

Data for interest rates are available by loan size. SME interest rates fell sharply from 2008 to 2009 and modestly in 2010, increasing again in 2011. 2012 and 2013 saw falling interest rates, although the 2013 rate of 4.35% is still relatively high, both compared with 2010 data and with interest rates in other European countries, where interest rates usually continue to decline over the 2010-13 period. The spread between large and small loans increased throughout the 2007-13 period from 0.28% in 2007 to 1.54% in 2013. The drop of the ECB's interest rates thus appeared to benefit large firms.

Equity financing

The data for venture capital was provided by the Irish Venture Capital Association and included both funding by business angels as well as venture capital funds. Total venture capital increased over most of the period but declined in 2011 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 and modestly in 2013. Growth capital fell drastically between 2008 and 2009 and only recovered to its 2007 level in 2013, where it rose by more than 40%.

Table 17.2. **Venture capital raised by Irish SMEs, 2007-13**

EUR million

Stage	2007	2008	2009	2010	2011	2012	2013
Seed	20.4	51.1	71.2	53.6	104.9	53.7	51.6
Early	119.8	116.5	185.4	175.9	99.2	135.6	120.2
Growth/ Expansion	85.7	75.3	31.5	80.7	70.3	79.6	113.1
Total	**225.9**	**242.9**	**288.1**	**310.2**	**274.4**	**268.9**	**284.9**

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

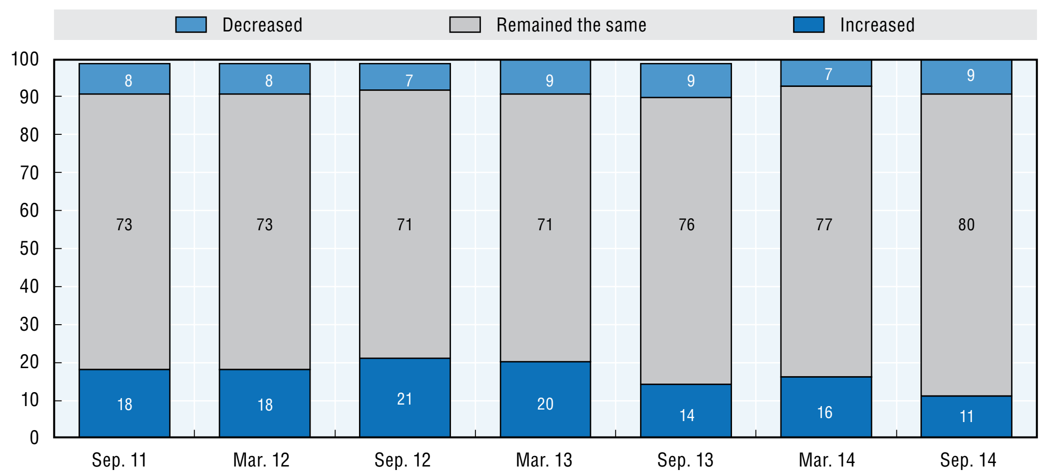
Source: Irish Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933195238

Other indicators

The demand 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. Since then, the number of respondents who reported an increase in payment days dropped slowly, with the largest drop occurring in the latest survey of March 2014, where just 22% of all surveyed SMEs communicated an increase of the average number of payment days.

Figure 17.1. **Average number of payment days from Customers to SMEs in Ireland**
% of SMEs' responses



Source: Red C SME Credit Demand Survey April 2014 – September 2014

StatLink http://dx.doi.org/10.1787/888933193956

Bankruptcies increased in the period to 2011, but have fallen in 2012 and 2013. 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 17.3. **Bankruptcies in Ireland, 2007-13**

	2007	2008	2009	2010	2011	2012	2013
Examinership	19	49	84	28	31	32	41
Receivership	14	59	205	388	533	654	553
Liquidation	1 389	1 664	2 403	2 285	2 464	2 236	1 967
All processes	1 422	1 772	2 692	2 701	3 028	2 922	2 561

Source: Department of Jobs, Enterprise and Innovation.

StatLink http://dx.doi.org/10.1787/888933195246

Government policy response

The government imposed SME lending targets on the two main domestic banks for the three calendar years, 2011 to 2013. Each bank was required to sanction lending 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. Having completed a process of deleveraging, both AIB and Bank of Ireland are now concentrating on growing their balance sheets. In this context, both banks recognise the need to increase business lending in the period up to 2016, and have put on record their commitment to the SME sector. Although the targets were a useful policy intervention, the focus is now shifting towards the collation and examination, on a monthly basis, of more granular data on the funding of the activities of SMEs from both AIB and Bank of Ireland, the wider banking sector and increasingly the non-bank funding sector.

The SME State Bodies Group, chaired by the Department of Finance and attended by State bodies with an interest in access to finance for SMEs, 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. There is a chapter on access to finance contained in the annual "Action Plan for Jobs" and the SME State Bodies Group ensures that the commitments contained therein are implemented. The Group engages intensively in addressing issues associated with SME funding and financing in conjunction with the relevant stakeholders through the SME Funding Consultation Committee.

Credit Guarantee Scheme

In October 2012, the government introduced a Credit Guarantee Scheme to address the situation where the SME is outside the risk appetite of the banks. This can arise because of the SME's 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 objective is to provide an additional EUR 150 million in lending per annum, which would lead to over 1 000 new jobs.

From 24 October 2012 to 31 December 2013, 94 loans were sanctioned under the Credit Guarantee Scheme with a value of EUR 12 689 500. The Department of Jobs, Enterprise and Innovation have conducted a review of this scheme and will shortly introduce a revised scheme that is more user-friendly with broader parameters which should increase the utilisation of the scheme.

Micro-enterprise loan fund scheme

The Microenterprise Loan Fund was established to lend up to EUR 25 000 to viable microenterprises that had been declined bank credit, have commercially viable proposals to sustain and create jobs. From 1 October 2012 to 31 March 2014 the Fund has provided loans to 192 microenterprises to the value of EUR 3 million. A review of this scheme will be completed by the end of 2014.

Innovation Fund Ireland

Innovation Fund Ireland is a government initiative designed to attract leading international venture capital fund managers to Ireland. Innovation Fund Ireland funding involves Enterprise Ireland (EI) and the National Pension Reserve Fund (NPRF) working in partnership. Both EI and NPRF bring approximately EUR 125m each to the table and make commitments to international Venture Fund Managers. These commit to establishing a presence in the Irish market and agree to invest, at a minimum, the equivalent of EI's contribution in Irish companies or companies 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 companies.
- Attract top-tier venture capital fund managers to Ireland.
- Attract, leverage and develop entrepreneurial talent.

Credit Review Office

The Credit Review Office (CRO) was established in 2010 to review cases where credit facilities up to EUR 3m are refused, withdrawn, or offered to SMEs with unreasonable conditions by the two main banks. In Budget 2013, the Minister for Finance sanctioned the appointment of additional reviewers to the CRO to ensure that SMEs appealing the banks' decisions to decline credit receive a considered and timely response to their application. Up to March 2014, 55% of appeals have been found in favour of borrowers and this has resulted in EUR 21.6m in credit being made available to SMEs and farms, helping to protect /create 1 725 jobs.

NPRF SME Funds

In 2013, the National Pensions Reserve Fund (NPRF) launched a suite 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 make a total of EUR 850m available for investment in the Irish SME sector.

Enterprise Ireland Seed & Venture Capital Scheme

To develop the domestic venture capital system, the government commitment of EUR 175 million under the Seed and Venture Capital Scheme 2013-18 aims to leverage a further EUR 525 million from the private sector, for investment in high potential start-up and scaling companies.

Development Capital Scheme

The Development Capital Scheme is aimed at addressing a funding gap for mid-sized, high-growth, indigenous companies with significant prospects for jobs and export growth. The Scheme was established to create funds that would invest between EUR 2 million and EUR 5 million in medium sized established companies 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 is targeted to 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. 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 of the funds.

"Supporting SMEs" Online Tool

SMEs and entrepreneurs are often unaware of all the existing State supports available to them. This online tool consists of eight questions which, when answered, directs the business to the State supports for which they may qualify. Members of the SME State Bodies Group are attending relevant events nationwide to promote this valuable guide. The tool is available at: *https://www.localenterprise.ie/smeonlinetool/*

Building Financial Capability in SMEs

This is a programme managed by a government funded body (Skillnets Ltd) and delivered by private sector trainers and mentors to upskill owner managers of SMEs in relation to the sources of finance available, the various assessment processes being applied by providers of finance and how to make an application for funds through a training and mentoring programme.

Strategic Banking Corporation of Ireland

The Strategic Banking Corporation of Ireland (SBCI) will be a key part of Ireland's financial infrastructure and will play an important role in Ireland's recovery by improving funding mechanisms for the real economy, including access to finance for Irish SMEs. The core purpose of the SBCI is to enhance the supply of credit to SMEs by using existing channels and also encouraging new entrants to the market. It will achieve this by using its capital (up to EUR 800m initially) to lend to SMEs via other financial institutions called "on-lenders". These on-lenders, which can be retail banks or other organisations that have capital and the ability to assess SMEs' loan proposals, will then lend the money on to SMEs. The key advantage of the SBCI is its better more flexible products and lower cost of funding, which will be passed onto SMEs via its on-lending partners. The SBCI is expected to be able to facilitate loans of longer duration and with more flexible terms — such as payment holidays —than are typically available at present. It is anticipated that the SBCI will be operational in late 2014.

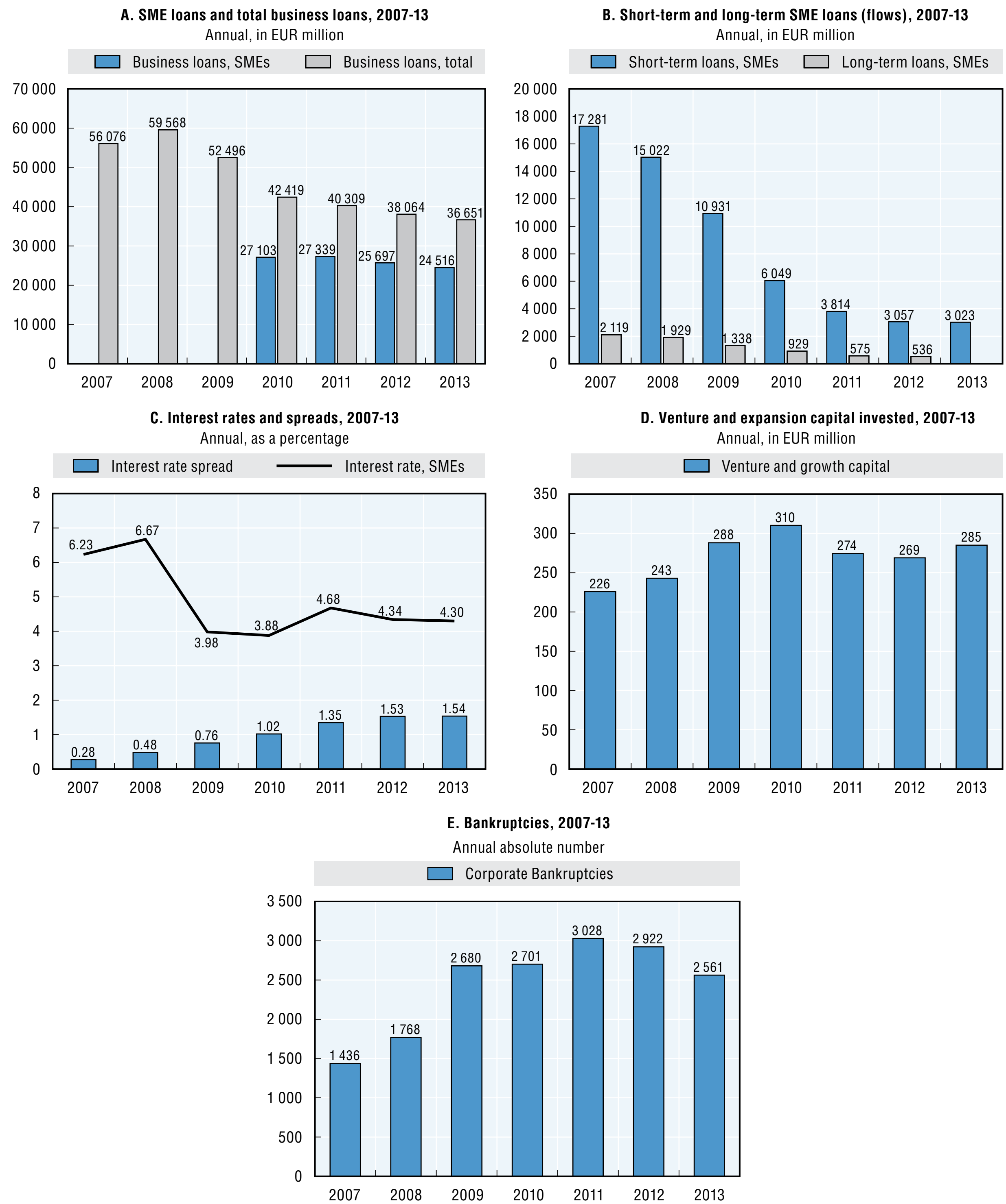
Table 17.4. **Scoreboard for Ireland, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	EUR m	..	..	..	27 103	27 339	25 697	24 516
Outstanding business loans, total (stock)	EUR m	56 076	59 568	52 496	42 419	40 309	38 064	36 651
SME loan share		..	..	..	0.64	0.68	0.68	0.67
New business loans, SMEs (flows)	EUR m	..	..	..	2 284	2 211	1 990	1 905
New short-term loans, SMEs (flow)	EUR m	17 281	15 022	10 931	6 049	3 814	3 057	3 023
Interest rate, SMEs	%	6.23	6.67	3.98	3.88	4.68	4.34	4.30
Interest rate, large firms	%	5.95	6.19	3.22	2.86	3.33	2.81	2.76
Interest rate spread	%	0.28	0.48	0.76	1.02	1.35	1.53	1.54
Equity								
Venture and growth capital (seed and early stage)	EUR m	140.20	167.60	256.60	229.50	204.10	189.30	171.80
Venture and growth capital (growth capital)	EUR m	85.70	75.30	31.50	80.70	70.30	79.60	113.10
Other								
Bankruptcies, total		1 436	1 768	2 680	2 701	3 028	2 922	2 561

Source: See Table 17.5.

StatLink *http://dx.doi.org/10.1787/888933195257*

Figure 17.2. **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/10.1787/888933193963

Table 17.5. **Definitions and sources of indicators for Ireland's Scoreboard**

Indicator	Definition/Description	Source
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	SME Demand Survey
Interest rate, SME	Average annual rates for new loans, base rate plus risk premium; for maturity less than 1 year; and amounts less than EUR 1 million	Central Bank of Ireland
Interest rate spread	Between small & large enterprises; for maturity less than 1 year; amounts less than EUR 1 million and equal to or greater than EUR 1 million	Central Bank 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[1]

SMEs in the national economy

Government decision no. 2190[2] set definitions for small, medium and large business as follows:

- **Micro business**: up to 5 employees and an annual turnover of up to 10 million NIS.
- **Small business**: up to 50 employees and an annual turnover of up to 25 million NIS.
- **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.

Despite the existence of these settings, it is not binding and uniform definitions for all entities involved in the sector of SMEs.

Small and micro 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. (We need the number of firms with no employees and those with 1-4 employees)

Table 18.1. **Distribution of firms in Israel, 2011-12**

Firm size	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**

Source: Israel Central Bureau of Statistics.

StatLink http://dx.doi.org/10.1787/888933195268

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 small and medium businesses, over 80% of SMEs credit is provided by banks. Over 95% of the bank credit to SMEs in Israel was made by the five major banking groups in the country. The Central bank (Bank of Israel) requires banks to list the credit data by type of business, each bank has different definition for business type (see annex A).

The Bank of Israel requires banks to list the credit data by type of business (small, medium and large businesses). The definition of the business type varies among the different bank groups[3] - but it is assumed that the aggregate figures from all the major banks provide a reasonable estimate for the credit given to the various business groups. The total credit of the five main banking groups given to SMEs, as listed in December of the years 2007 to 2013 (in billion NIS).

The data indicate a consistent increase in the volume of bank credit to SMEs. Since 2007 there has been a combined increase of 15% of bank credit to these sectors (note- this includes a sharp decrease in 2009). Credit to all businesses followed a similar pattern up to and including 2011; a decline in 2009 (by 7.3%) and a recovery afterwards. In contrast to SME lending, however, total business loans declined in 2012 and 2013 by 1.9% and 3.6% respectively. This means that the share of SME loans in total business lending increased in 2012 and 2013 to a peak of 44% in 2013 (up from 37% in 2008 and 2009).

Credit conditions

Data on average interest rates charged to the various segments of businesses are not officially published. The data presented here were extracted and calculated from the financial statements of the five major banking groups, who constitute about 95% of the business credit in Israel and who are required to publish a breakdown of the nominal credit that they distributed, by the various business segments. The quality of data necessary to correctly calculate this indicator was satisfactory from 2010 onwards.

The estimated interest rate for each of the 3 relevant sectors (small businesses, medium sized businesses and large businesses) was obtained by calculating the gross interest income received by each sector divided by the total credit given to that sector. Since the financial statements of the five largest banking groups in Israel include data of gross interest income but the data on various sectors is according to by net interest income, it is assumed that the proportional share of each sector in the net interest income is equal to its share in the gross interest income. The total gross interest income for each sector is calculated by using the ratio between the margin credit activity for each sector and the total net interest income of all sectors, and then multiplying that ratio by the gross interest income of all sectors.

Table 18.2. **Average interest rates in Israel according to the size of the lender, 2010-13**

	Units	2010	2011	2012	2013
Interest rate, small firms	%	6.65	7.79	7.21	6.49
Interest rate, medium firms	%	4.03	4.47	4.55	4.11
Interest rate, SMEs	%	5	5.62	5.52	5
Interest rate, large firms	%	3	3.15	3.62	3.51
Interest rate, spread	%	2	2.47	1.91	1.5

Source: financial statement of the big five banks in Israel. Note that each bank has a different definition for each sector (see Annex A).

StatLink http://dx.doi.org/10.1787/888933195276

Interest rate spreads between SMEs and large business reached a maximum in 2011 and seem to decrease afterwards to 150 basis points in 2013. This trend shows that the small business risk factor seems to be lower, and attracting bank financing at reasonable conditions has become easier for SMEs. Also noteworthy is that small firms are charged significantly higher interest rates than medium-sized firms. The interest rate spread between small and medium-sized countries is actually much more pronounced than the interest rate spread between medium-sized and large firms. 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 receiving bank finance was a more difficult task for this category.

Israel has detailed information for the handling fee on credit and collaterals for loans that are not for housing purpose, referring to loans over NIS 50,000 until 2012 and over NIS 100,000 in 2013 and 2014. The analysis shows that there are differences between the fees charged by each bank, but in the last five years they remained stable with no changes (see Table 18.3).

Table 18.3. **Loan fees in Israel, 2009-13**

Loan over 100,000 NIS	Units	2009	2010	2011	2012	2013
Bank Leumi	%	N.A	N.A	N.A	N.A	**1.5** Max fee 10 000 NIS
Bank Hapoalim	%	N.A	N.A	**1** Max fee 15 000 NIS	N.A	**1** Max fee 15 000 NIS
Bank Mizrahi	%	N.A	N.A	N.A	N.A	**1.25** Max fee 10 000 NIS
Bank Discount	%	**2.5** Max fee 30 000 NIS	N.A	N.A	**2.5** Max fee 30 000 NIS	**2.5** Max fee 30 000 NIS
First International Bank	%	**2** Max fee 12 000 NIS	**2** Max fee 12 000 NIS	**2** Max fee 12 000 NIS	**2** Max fee 12 000 NIS	**2** Max fee 12 000 NIS

Source: financial statement of the big five banks in Israel.

StatLink http://dx.doi.org/10.1787/888933195281

Credit allocation fees in the big five commercial banks in Israel are fees that small businesses must pay on their credit lines. It seems that on average, during the last five years, the "credit allocation fees" tend to decrease in all the banks (see Table 18.4).

Table 18.4. **Credit allocation fees in Israel, 2008-13**

	Units	2008	2009	2010	2011	2012	2013
Bank Leumi	%	2.01 (0.5% per quarter)					1.812 (0.45% per quarter)
Bank Hapoalim	%	1.75[1]					1.75
Bank Mizrahi	%		2.25	2.45			2.45
Bank Discount	%	2.5				2.5	2.16
First International Bank	%	2.5	2.5		2.5	2.3	2.1

Source: Financial statement of the big five banks in Israel.

StatLink http://dx.doi.org/10.1787/888933195290

Equity financing

There are approximately 70 venture capital funds in Israel, including 14 offices,[4] of international funds (there is also a foreign activity without official office in Israel). Investments by venture capital funds in 2013 rose by 18% in comparison to the previous year, amounting to approximately USD 2 296 million, of which about one fourth was by Israeli funds and three fourths by foreign funds and other deposits. The share of the foreign funds rose consistently during the last decade from 50% to 76%.

Among the Israeli VC's there is stability in the number of new investments (i.e. first investment in a new start-up company); approximately 40 active Israeli VC make a new investment each year since 2009. The foreign VC's have shown a bigger involvement at early stage investments and the number of active funds that invest a new investment rose from 26 at 2009 to 84 at 2013.

Investments in 2007 amounted to USD 1 759 million, and declined during the economic crisis in 2009 to 1 122 million USD. In the years 2011 and 2012 the level of investments climbed back up to the pre-crisis level. In 2013, the level of investment reached a new record high of USD 2 296 million. This trend continued also at the first half of 2014[5]. Also noteworthy is that a bigger amount of capital is being raised in each round, which might imply that the number of beneficiaries from the bigger amount of capital invested by VC's in Israel is limited and even reducing over time.

Table 18.5. **Israeli VC's investments, 2007-13**

	Units	2007	2008	2009	2010	2011	2012	2013
Number of transaction by Israeli VC funds	Million USD	546	561	394	398	465	421	423
Total investment by Israeli VC's	Million USD	678	780	410	461	639	532	546
Investment per transaction	Million USD	1.24	1.39	1.04	1.16	1.37	1.26	1.29

Source: IVC updated the data for 2010-2012 in the 2013 annual report. Information courtesy of IVC Research Center *http://www.ivc-online.com/language/en-US/Home.aspx*

StatLink http://dx.doi.org/10.1787/888933195305

Table 18.6. **Total VC's Investments in Israel**

	Units	2007	2008	2009	2010	2011	2012	2013
Total investment Venture capital (seed, early stage , and growth capital)	**Million USD**	1759	2076	1122	1250	2135	1944	2296
Total investment, annual growth rate	**%**	8.45	18.02	-45.95	11.41	70.8	-8.95	18.11
Total investment by Israeli VC's	**Million USD**	678	780	410	461	639	532	546
Percentage of Israeli VC's out of the Total investment	**%**	39	38	37	37	30	27	24

Source: IVC updated the data for 2010-2012 in the 2013 annual report. Information courtesy of IVC Research Center.

StatLink http://dx.doi.org/10.1787/888933195312

The leading industry that enjoys venture capital investments is the High-Tech, which receives almost all of this equity. Equity capital is thus not very well suited to other industries, which have to rely on alternatives financing sources.

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 18.7. **Percentage of businesses that continued to operate in Israel, according to year of establishment**

Year of establishment	Operating after 1 year	Operating after 2 year	Operating after 3 year	Operating after 4 year	Operating after 5 year	Operating after 6 year	Operating after 7 year
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	-	-	-
2009	87	72.9	63.2	-	-	-	-
2010	88	74.3	-	-	-	-	-
2011	88.1	-	-	-	-	-	-

Source: Central Bureau of Statistics, press release: Business Demography 2010-12.

StatLink http://dx.doi.org/10.1787/888933195326

Government policy response

The Small and Medium Business Agency (SMBA) in the Ministry of Economy is the governmental agency responsible for SME policy, as well as for directing aid to small and medium enterprises. The SMBS facilitate a number of programmes benefiting SMEs.

Loan guarantees

During the years 2007-13 there were number of government guaranteed loan funds for small and medium businesses, which operated in Israel.

- The small businesses fund.
- The medium sized businesses fund.
- The exporters fund.
- The independent immigrant fund.

In 2012, funds no. 1-3 were merged into one fund, which is since then called the SME's fund The SME's fund is based on loans executed by the banks that were selected in a tender. The banks' leverage the budget assigned to them by the government up to a factor of 10. The individual guarantee for each loan is between 60% to 100%, depending on the fund terms at the year of the execution and the type of the business.

The data indicates that the amounts of guaranteed loans in 2013 are 12 times larger than the amount of loans made in 2007. In 2013, guaranteed loans of a value of NIS 2 025 million were distributed, in comparison to 170 million NIS in 2007. A significant increase in loans occurred during 2009, following the global economic crisis and establishment of the fund for medium businesses. Another large increase took place during 2012-13 following the establishment of the new fund for SMEs.

Government loan individual guarantees stand at 70% of the loan for veteran businesses and up to 85% for new businesses. The government loan individual guarantee refers to each loan separately. The calculation of the government loan individual guarantees was done by taking 70% for the years 2007-10 out of the credit that was executed, 71% for the year 2011 and 72% for the years 2012-13, due to the growth of loans to new businesses.

Government loan comprehensive guarantees were 16% up to the year 2011 and from 2012 the percentage is different for each bank (for the main banks the leverage is 10%).

Table 18.8. **Government guarantee funds for SMEs in Israel, 2007-13**

		2007	2008	2009	2010	2011	2012	2013
Small and medium businesses fund	Maximum annual turnover	-	-	-	-	-	100 million NIS	100 million NIS
	Maximum loan amount	-	-	-	-	-	500 000 NIS or 8% of the annual turnover. Higher of the two	500 000 NIS or 8% of the annual turnover. Higher of the two
	Government loan individual guarantees	-	-	-	-	-	60%-85% depends on the type of the business	60%-85% depends on the type of the business
Small businesses fund	Maximum annual turnover	22 million NIS	22 million NIS	22 million NIS	22 million NIS	22 million NIS	-	-
	Maximum loan amount	500 000 NIS	500 000 NIS	750 000 NIS	5% of the annual turnover or 750 000 NIS. The higher of the two	5% of the annual turnover or 750 000 NIS. The higher of the two	-	-
	Government loan individual guarantees	70%	70%	70%	70%	70%	-	-
Medium businesses fund	Maximum annual turnover	-	-	400 million NIS	400 million NIS	100 million NIS	-	-
	Maximum loan amount	-	-	8% of the annual turnover up to 16 million NIS.	8% of the annual turnover up to 16 million NIS.	8% of the annual turnover	-	-
	Government loan individual guarantees	70%	70%	70%	70%	70%	-	-
Exporters fund	Maximum annual turnover	15 million USD	15 million USD	15 million USD	15 million USD	15 million USD	-	-
	Maximum loan amount	1 million USD or 20% of the annual turnover. The higher of the two	1 million USD or 20% of the annual turnover. The higher of the two	1 million USD or 20% of the annual turnover. The higher of the two	1 million USD or 20% of the annual turnover. The higher of the two	1 million USD or 20% of the annual turnover. The higher of the two	-	-
	Government loan individual guarantees	70%	70%	70%	70%	70%	-	-

Source: Central Bureau of Statistics, press release: Business Demography 2010-12.

StatLink http://dx.doi.org/10.1787/888933195337

The government loan comprehensive guarantee refers to residual guarantee of the full portfolio.

The calculation of the government loan comprehensive guarantees was done by taking 16% in years 2007-10 out of the credit that was executed. In 2011 the percentage was 13% and in years 2012-13 there is different percentage for each bank.

Table 18.9. **Details of credit volumes approved and executed 2007-13 in Israel**

	Units	2007	2008	2009	2010	2011	2012	2013	Sum
Government loan guarantees, SMEs	Million NIS	170	109	757	1 028	890	1 412	2 025	**6 391**
Government loan individual guarantees	Million NIS	119	76	530	720	632	1 017	1 458	**4 664**
Government loan comprehensive guarantees	Million NIS	27	17	121	164	116	155	223	**823**

Source: accountant general, Israeli Ministry of Finance.

StatLink http://dx.doi.org/10.1787/888933195348

Table 18.10. **Scoreboard for Israel 2007-13**

Indicator	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	NIS Billions	162.9	163.2	154.8	166.1	177.7	178.2	187.1
Outstanding business loans, total (stock)	NIS Billions	402.8	446.4	413.8	426.9	446.1	437.6	421.9
Government loan guarantees, SMEs	Million NIS	170	109	757	1 028	890	1 412	2 025
Government loan individual guarantees	Million NIS	119	76	530	720	632	1 017	1 458
Government loan comprehensive guarantees	Million NIS	17	27	121	164	116	155	223
Interest rate, SMEs	%	-	-	-	5	5.62	5.52	5
Interest rate, large firms	%	-	-	-	3	3.15	3.62	3.51
Interest rate spread	%	-	-	-	2	2.47	1.91	1.5
Equity								
Total investment Venture capital (seed ,early stage , and growth capital)	USD Millions	1 759	2 076	1 122	1 250	2 135	1 944	2 296
Total investment, annual growth rate	% Year-on-year growth rate	8.45	18.02	-45.95	11.41	70.8	-8.95	18.11

Source: Table 18.11.

StatLink http://dx.doi.org/10.1787/888933195352

Table 18.11. **Definitions and sources of indicators for Israel's 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

Table 18.12. **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 6 million NIS	Up to 5 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 20 million NIS	Up to 30 million NIS	Up to 30 million NIS	Up to 15 million NIS	
Medium Business	**Credit**	10 to 120 million NIS	6 to 100 million NIS	6 to 25 million NIS	5 to 50 million NIS	Up to 40 million NIS
("Trade sector")	**Annual Turnover**	20 to 400 million NIS	30 to 400 million NIS	30 to 120 million NIS	15 to 150 million NIS	
Large Business	**Credit**	Over 120 million NIS	Over 100 million NIS	Over 25 million NIS	Over 50 million NIS	Over 40 million NIS
("Business sector")	**Annual Turnover**	Over 400 million NIS	Over 400 million NIS	Over 120 million NIS	Over 150 million NIS	

Source: Financial statement of the big five banks in Israel.

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. *http://www.pmo.gov.il/Secretary/GovDecisions/2007/Pages/des2190.aspx*
3. See Annex A
4. *http://www.investinisrael.gov.il/NR/exeres/A19A138D-87A7-416B-8D62-1C968E035E13.htm*
5. *http://www.themarker.com/technation/1.2377360*

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 19.1. **Distribution of firms in Italy, 2011**

By firm size

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

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

Source: Istat, Statistical Business Register.

StatLink http://dx.doi.org/10.1787/888933195363

SME lending

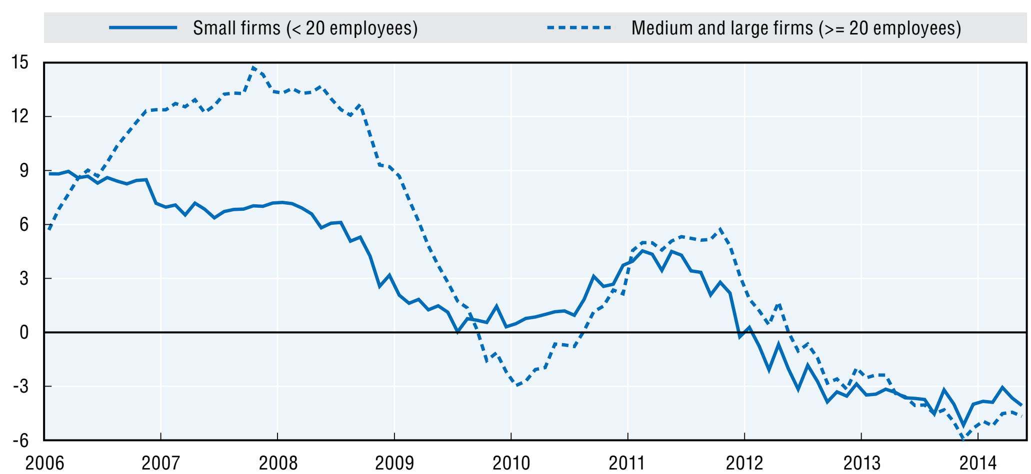
In Italy, the impact of the 2007-08 crisis and the subsequent recession on the national banking system was cushioned by a sound model of intermediation, more oriented towards direct lending than to transactions on capital markets. This meant that there was less exposure to toxic assets arising from collateralised debt obligations. After a short recovery, the country entered a new recession in the second half of 2011. 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.

The two economic recessions had a deep impact on domestic activities: industrial production contracted by 25% over the period, for example. Generally, the effects have been larger for SME sector, also because they relied less on external demand, which in part mitigated the decrease in domestic demand.

Two recessions in the span of few years also adversely affected credit trends and the figures for 2013 indicate protracted difficulties in the access to finance for SMEs. Total business loans declined in absolute terms in 2009 and experienced a short-lived improvement in the subsequent two years, after which they declined sharply again in 2012 and particularly in 2013. The 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.

Figure 19.1. **Lending in Italy, 2006-14**

Year-on-year change, %



Source: National Bank of Italy

StatLink http://dx.doi.org/10.1787/888933193972

While the credit to SME continued to grow throughout the first recession, during the second downturn that hit the economy in mid-2011, the credit decrease was stronger for SMEs than for larger enterprises. Throughout the 2007-13, the share of SME loans has remained remarkably stable at between 18% and 19% of all business loans. It is worth noting, however, that large companies have easier access to alternative sources of finance and partially offset the drop in bank credit by issuing debt securities, whereas most SMEs are heavily reliant on bank lending. SME short-term loans showed a marked slowdown as the financial crisis intensified, lending conditions tightened and credit demand from firms shrank. The share of short term SME loans in total short and long-term SME loans declined from 31.6% in 2007 to 22.0% in 2013.

SME loans used vs. authorised

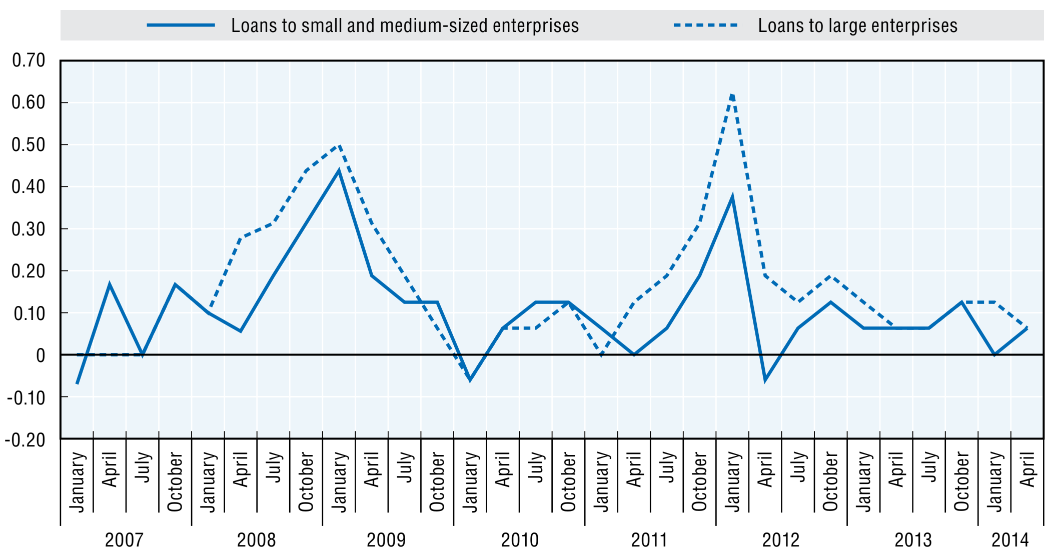
The ratio of loans used to loans authorised continually rose from 79.7% in 2007 to 86.3% in 2013, showing an increased need for liquidity. A more in-depth analysis – disaggregating data by type of loan – reveals in fact that credit use for overdrafts intensified significantly in 2012, reaching 69.1%, nearly 7 percentage points higher than the previous year. This evidence suggests that firms met their liquidity needs through greater recourse to still available short-term credit lines.

Credit conditions

The diffusion index of the Eurosystem quarterly Bank Lending Survey (BLS) captures the changes in Italian bank's credit standards for approving loans or credit lines to both SMEs and large firms.[1] Figure 19.2 shows that there are spikes, indicating a sharp tightening in the credit conditions, for SMEs and even more so for large firms. Following the turmoil in the financial markets in mid-2007 and the failure of Lehman Brothers in the autumn of 2008, the answers of the Italian banks participating to the survey highlighted a tightening of the criteria applied for loan approvals and the opening of credit lines to enterprises. During the second half of 2011, the strains on the sovereign debt market were reflected in a progressive stiffening of lending standards mainly due to banks' fund-raising difficulties and worsened liquidity position. The tensions were less acute in 2012, after the long term refinancing operations of ECB, even though the survey does not suggest an easing of the credit standards since then. The effects of the recession on credit quality were reflected in tight credit standards up to and including April 2014.

Figure 19.2. **Credit conditions for SMEs and large firms in Italy, 2007-14**

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/10.1787/888933193984

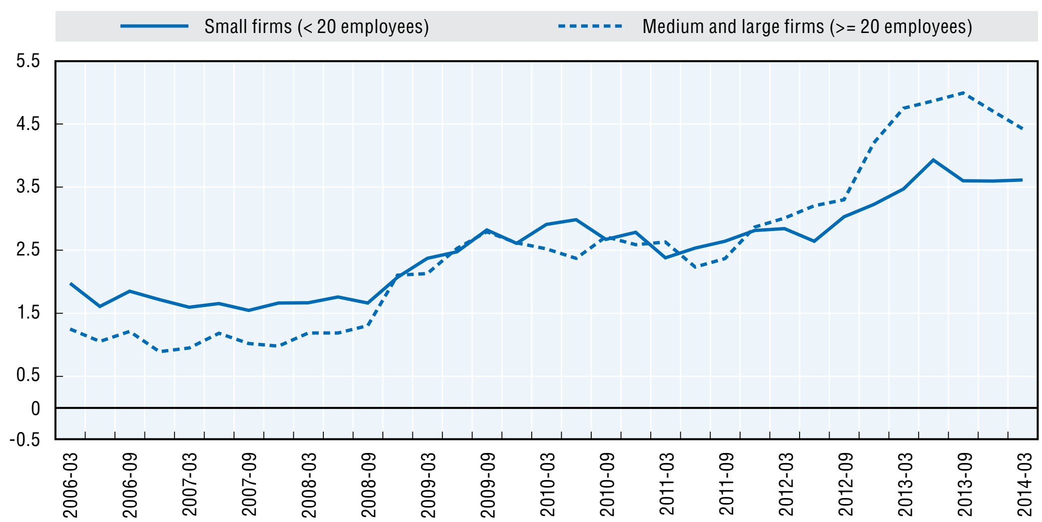
By autumn 2008 reductions in official interest rates were gradually being passed on to bank customers. SME interest rates declined from 6.3% in 2008 to 3.6% in 2009. During the sovereign debt crisis, interest rates were again on the increase and this effect was much more pronounced for SMEs than for large firms: at the end of 2012, the average SME rate stood at 5.6%, and the average interest rate for large firms at 3.8%. 2013 saw a small decrease of the average SME interest rate by 0.2 percentage points. As the interest rate for large firms declined more, the interest rate spread widened to 2%, its highest level since the beginning of the crisis, compared with 0.6% in 2007. Banks thus continue to adopt a risk discriminating approach in the pricing of SME loans.

The decrease in collateral requirements between 2008 and 2009 followed the lowering of the Central Credit Register reporting threshold and the inclusion of small, less secured loans. However, since the end of 2010 the request of guarantees was on the rise. In 2013, 56.6% of bank loans were collateralised, up from 51.9% in 2009. This finding is confirmed by the ECB's Survey on the access to finance of SMEs in the Euro area: both in the first half of 2013 and in the first half of 2014, SMEs were requested more guarantees with respect to the same period of the previous year, whereas only a small improvement in the collateral requirements was observed in the second half of 2013. Credit quality worsened further: the ratio of new bad debts to outstanding loans, annualised and seasonally adjusted, rose significantly: for SMEs the indicator peaked at 3.9% in mid-2013, the highest level in recent years, but has since started declining.

The rejection rate, i.e. the number of SMEs applying for credit that have not obtained the requested amount in full, stood at just 3.1% in 2007 and soared to 8.2% in 2008. 2009 and 2010 saw a decline of the number of rejections as the economy recovered from the financial crisis. Due to the renewed economic turmoil in 2011, the rejection rate again rose, reaching a peak of 12% in 2012. At 8.3%, the 2013 data show a marked contraction of the number of credit requests refused, although the number remains almost three times as high as in 2007.

Figure 19.3. **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/10.1787/888933193996

Equity financing

Table 19.2 contains detailed information on venture capital investments in Italy, broken down by size and stage of investment. As in many countries, both venture and growth capital plummeted between 2008 and 2009 as a result of the financial crisis and recovered afterwards. Although early stage venture capital is reserved for SMEs, it is interesting to note that expansion venture capital investments in Italy are often directed to large firms. Expansion capital investments in large firms also rebounded much stronger after the slump in 2009.In 2009, 70% of all expansion capital investments took place in SMEs, a percentage that dropped to 48% in 2013, notwithstanding a very robust growth of investments in micro-enterprises in 2013. In order to promote SME access to alternative sources of finance, in 2011 and 2012 specific tax incentives were introduced for seed and early stage investments in venture capital funds and 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 February 2014, it had approved direct investments – addressed to the acquisition of minority stakes - amounting to EUR 360 million and indirect investments in third party managed funds totalling EUR 425 million.

Table 19.2. **Early stage and expansion capital in Italy, 2007-13**

EUR thousands

Early stage in Italy, 2007-13							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
0-9	43 319	78 676	66 951	60 415	72 587	122 449	73 161
10-19	15 761	15 952	13 036	7 876	8 117	9 942	7 035
20-99	6 895	20 785	17 811	21 145	1 119	2 537	1 502
SMEs sub-total	**65 975**	**115 413**	**97 798**	**89 436**	**81 823**	**134 928**	**81 698**
Total	**65 975**	**115 413**	**97 798**	**89 436**	**81 823**	**134 928**	**81 698**
Expansion in Italy, 2007-13							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
0-9	67 153	32 673	31 795	81 009	22 660	33 478	217 060
10-19	23 672	104 715	16 556	15 750	26 468	18 726	19 452
20-99	72 720	222 652	118 233	92 078	180 701	323 835	114 084
100-199	113 513	56 684	65 459	72 645	211 564	62 477	64 653
200-249	17 554	23 602	28 089	1 500	58 674	65 218	23 000
SMEs sub-total	**294 612**	**440 326**	**260 132**	**262 981**	**500 067**	**503 734**	**438 250**
Total	**641 333**	**795 655**	**370 862**	**582 784**	**674 366**	**925 903**	**913 808**
Early stage and expansion in Italy, 2007-13							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
0-9	110 472	111 349	98 746	141 424	95 247	155 927	290 221
10-19	39 433	120 667	29 592	23 626	34 585	28 668	26 487
20-99	79 615	243 437	136 044	113 223	181 820	326 372	115 586
100-199	113 513	56 684	65 459	72 644	211 564	62 477	64 653
200-249	17 554	23 602	28 089	1 500	58 674	65 218	23 000
SMEs sub-total	**360 587**	**555 739**	**357 930**	**352 417**	**581 890**	**638 662**	**519 947**
Total	**707 308**	**911 068**	**468 660**	**672 220**	**756 189**	**1 060 831**	**995 506**

Source: AIFI-PwC.

StatLink http://dx.doi.org/10.1787/888933195370

Other indicators

The slump in sales, the tightening of credit conditions and the demand for suppliers to be paid faster contributed to SME cash flow problems, which were reflected in the increase in payment delays. They peaked in 2009, both for large firms and for SMEs alike; after 2009, payment delays followed a downward trend for two years, and increased again in 2012 as a result of the new recession and worse financing conditions. 2013 saw a rise in payment delays for SMEs (at 18.6 days) and a stabilisation for large enterprises (22.6 days).

Given the weak economic climate in which Italian economies operate, it is no surprise that bankruptcies rose dramatically since 2007. Despite a weak economic recovery in 2010, bankruptcies continued to increase in this year as well. In 2013, 14 129 Italian SMEs went bankrupt, more than double the number of 6 154 and well more than the 12 528 bankruptcies witnessed in 2012.

Table 19.3. **Payment delays in Italy, 2008-13**

Average number of days

		2008	2009	2010	2011	2012	2013
Payment delays, SMEs	Average number of days	19.4	22.1	19	16.9	17.9	18.6
Payment delays, large firms	Average number of days	26.2	27.1	22.1	21	23.5	22.6

Source: Cerved Group, Payline database.

StatLink http://dx.doi.org/10.1787/888933195383

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 on the pace of economic recovery has suggested stepping up 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 represented the chief instrument aimed at easing SME credit constraints. Between 2009 and 2013 it provided guarantees for EUR 41 billion worth of loans. The increase in its endowment and the provision of a government backtop guarantee, which relieves 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 three debt moratoria, signed in 2009, 2012, and 2013 that allowed firms (with no bad debts, restructured loans or ongoing foreclosures) to suspend for a year the repayment of the loan principal on some forms of debts contracted by SMEs, including provisions aimed at facilitating 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 2009-13 around EUR 23 billion worth of debts rolled over. Assessments referred to the first two rounds of SME moratorium showed that the measure had proven effective in helping firms, while limiting forbearance risks.

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 earmarked funds derived from postal savings at convenient 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 3 billion had been absorbed by the banking system in 2013.

Several initiatives were undertaken in 2012 to relieve firms' liquidity strains stemming from public administration payment delays; however, the resources released to enterprises were rather modest. In 2013-14 new measures were approved for the payment of general government overdue debts, mainly commercial, amounting to EUR 47 billion in these two years: through March 2014 around half of this amount had already been paid.

In order to promote a more diversified corporate capital structure, thus reducing the vulnerabilities to adverse bank loan supply shocks, in 2012 the government regulated the issuance of short- and medium- term debt instruments by unlisted firms other than banks and micro enterprises. The measure has been deployed by larger companies at the beginning, but SMEs started to use it in 2014.

The above mentioned initiatives, mainly targeted at 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 2013, 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 76 billion.

Box 19.1. **Definition of SMEs used in Italy's Scoreboard**

Country definition

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

The SME definition used by financial institutions

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

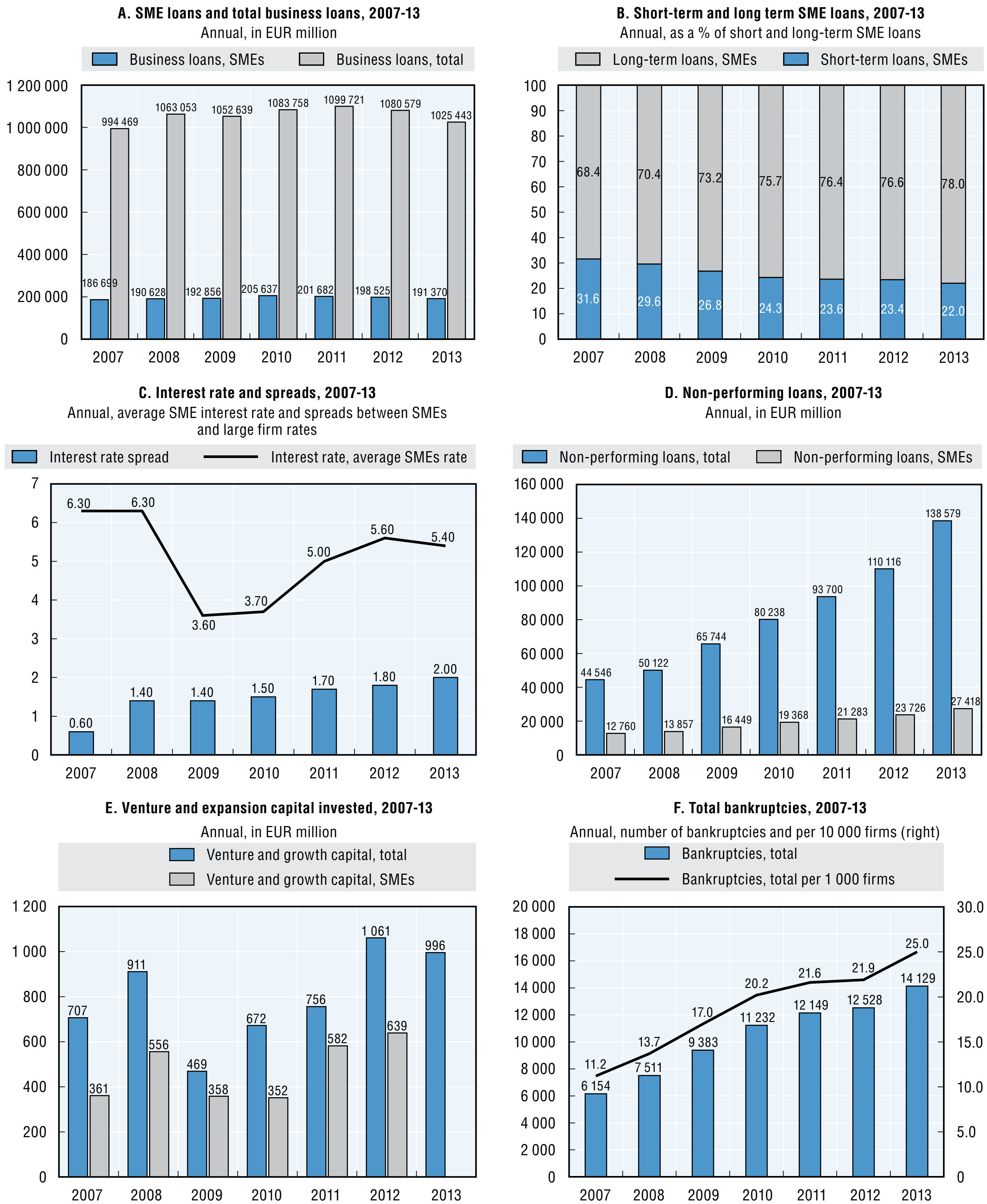
Table 19.4. **Scoreboard for Italy, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	EUR millions	186 699	190 628	192 856	205 637	201 682	198 525	191 370
Outstanding business loans, total (stock)	EUR millions	994 469	1 063 053	1 052 639	1 083 758	1 099 721	1 080 579	1 025 443
SME loan shares	%	18.77%	17.93%	18.32%	18.97%	18.33%	18.37%	18.66%
Outstanding short-term loans, SMEs (stock)	EUR millions	59 026	56 335	51 607	49 984	47 532	46 476	42 052
Government loan guarantees, SMEs	EUR billions	2.3	2.3	4.9	9.1	8.4	8.2	10.8
SME rejection rate	%	3.10%	8.20%	6.90%	5.70%	11.30%	12.00%	8.30%
SME loans used/SME loans authorised	%	79.70%	80.70%	80.70%	82.80%	83.60%	85.70%	86.30%
Non-performing loans, total	EUR millions	44 546	50 122	65 744	80 238	93 700	110 116	138 579
Non-performing loans, SMEs	EUR millions	12 760	13 857	16 449	19 368	21 283	23 726	27 418
Interest rate, SMEs	%	6.3%	6.3%	3.6%	3.7%	5.0%	5.6%	5.4%
Interest rate, large firms	%	5.70%	4.90%	2.20%	2.20%	3.30%	3.80%	3.30%
Interest rate spread	%	0.6%	1.4%	1.4%	1.5%	1.7%	1.8%	2.0%
Collateral, SMEs	% of collateralised loans	54.4%	54.3%	51.9%	53.3%	54.6%	55.0%	56.6%
Equity								
Venture and growth capital (seed and early stage)	EUR millions	66	115	98	89	82	135	82
Venture and growth capital (growth capital)	EUR millions	641	796	371	583	674	926	914
Other								
Payment delays, B2B	Average number of days	..	23.6	24.6	20.0	18.6	20.2	19.9
Bankruptcies, SMEs	Number	6 154	7 511	9 383	11 232	12 149	12 528	14 129
Bankruptcies, total	Number	11.2	13.7	17.0	20.2	21.6	21.9	25.0

Source: Table 19.5.

StatLink http://dx.doi.org/10.1787/888933195394

Figure 19.4. **Trends in SME and entrepreneurship finance in Italy, 2007-13**



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/10.1787/888933194003

Table 19.5. **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 intermediary's loans: performing loans (including repos) excluding factoring; bad debts including factoring. As of June 2010, loans include securitised, or otherwise transferred, loans which do not satisfy the criteria for derecognition as established in the international accounting standard IAS 39.	Bank of Italy, *Supervisory returns* (for bank loans) and Central Credit Register (for other financial intermediaries loans; subject to reporting threshold: as of January 2009, the reporting threshold for loans and guarantees, which was previously set to EUR 75 000, has been lowered to EUR 30 000; no threshold applies for reporting bad debts); supply side data sets
Business loans, total	Performing and non-performing loans (bad debts) outstanding (stocks) by banks and other financial institutions. For bank loans: performing loans (including repos) and excluding factoring; bad debts excluding factoring from Q408 only. For other financial intermediaries loans: performing loans (including repos) excluding factoring; bad debts including factoring. As of June 2010, loans include securitised, or otherwise transferred, loans which do not satisfy the criteria for derecognition as established in the international accounting standard IAS 39.	Bank of Italy, *Supervisory returns* (for bank loans) and Central Credit Register (for other financial intermediaries loans; subject to reporting threshold)
Short-term loans, SMEs	Performing loans (including repos) excluding factoring; maturity up to 12 months (up to 18 months until Q308 for data drawn from supervisory returns and until Q109 for data drawn from the Central Credit Register).	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)
SME rejection rate	SMEs which did not obtained the entire amount of the credit s/total SMEs	Bank of Italy, *Survey of Industrial and Service Firms*
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 intermediary's loans backed by real guarantees.	Central Credit Register, subject to reporting threshold

Table 19.5. **Definitions and sources of indicators for Italy's Scoreboard** *(cont.)*

Indicators	Definition	Source
Equity		
Venture and expansion capital, total	Investment in all enterprises. Data include early stage and expansion phases, not turnaround or buyout/replacement.	A I F I – Italian Private Equity and Venture Capital Association; (supply-side survey)
Venture and expansion capital, SMEs	Amounts invested in SMEs (defined as firms with less than 250 employees). Data include early stage and expansion phases, not turnaround or buyout/replacement stages.	A I F I – Italian Private Equity and Venture Capital Association; (supply-side survey)
Other		
Payment delays, all firms	Average payment delay in days for business-to-business, all firms	Cerved Group, *Payline database*
Payment delays, SMEs	Average payment delay in days for business-to-business, SMEs (defined as firms with turnover of up to EUR 50 million)	Cerved Group, *Payline database*
Payment delays, large firms	Average payment delays in days for business-to-business, large firms (with turnover exceeding EUR 50 million)	Cerved Group, *Payline database*
Bankruptcies, total	The judicial procedure through which the property of an insolvent entrepreneur is removed and destined to the equal satisfaction of the creditors. The bankruptcy closing is declared by the court with a justified decree, on the request of the trustee, the creditor or also officially. The closing decree could be claimed within 15 days, in front of the Court of Appeal, from every admitted creditor. All enterprises.	Cerved Group

Note

1. The largest 8 Italian banks participate to the BLS. As smaller banks represented an important source of lending to SMEs during the crisis, the tightening of the conditions could be partly overestimated.

Japan

SMEs in the national economy

Only a very small fraction of Japanese enterprises are large (see Table 20.1). Within the SME sector, micro-enterprises predominate, both in the number of firms and in the number of employees.

Table 20.1. **Number of business establishments and enterprises by industry and size in Japan (private, non-primary industry, 2012)**

Industry	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Mining and quarrying of stone and gravel	1 676	99.9	1 489	88.7	2	0.1	1 678	100
Construction	467 119	99.9	448 293	95.9	291	0.1	467 410	100
Manufacturing	429 468	99.5	373 766	86.6	2 044	0.5	431 512	100
Electricity, gas, heat supply and water	657	96.1	410	59.9	27	3.9	684	100
Information and communications	44 332	98.9	29 558	65.9	508	1.1	44 840	100
Transportation and postal services	74 316	99.7	55 287	74.2	245	0.3	74 561	100
Wholesaling/retailing	919 671	99.6	751 845	81.4	3 917	0.4	923 588	100
Finance and insurance	30 184	99.2	29 187	95.9	253	0.8	30 437	100
Real estate and goods rental and leasing	325 803	99.9	318 962	97.8	276	0.1	326 079	100
Scientific research and professional and technical services	185 730	99.7	159 400	85.6	550	0.3	186 280	100
Accommodations and food services	543 543	99.9	475 183	87.3	718	0.1	544 261	100
Life-related, entertainment and recreation services	383 059	99.9	357 806	93.3	512	0.1	383 571	100
Education and learning support	103 867	99.9	92 619	89.1	121	0.1	103 988	100
Medical, healthcare and welfare	195 088	99.9	140 484	71.9	232	0.1	195 320	100
Compound services	3 476	100	3 461	99.5	1	0.0	3 477	100
Services (not otherwise classified)	144 945	99.4	105 064	72.0	899	0.6	145 844	100
Non-primary industry total	3 852 934	99.7	3 342 814	86.5	10 596	0.3	3 863 530	100

Notes: 1. Number of enterprises = Number of companies + Business establishments of sole proprietors (independent establishments and head offices).

Source: METI, SME Agency, 2014 *White Paper on Small and Medium Enterprises in Japa*

StatLink http://dx.doi.org/10.1787/888933195409

SME lending

Since 2007, Japan faced two major economic shocks, i.e. the global financial crisis in 2008 and the earthquake in 2011. As a consequence, the economy dipped into recession in the last 8 years. The rapid ageing of the population, the deflationary spiral, and the high public debt are three systemic risks that weigh on economic growth (OECD 2014). Lending to SMEs decreased under these macro-economic conditions, slightly, but continuously decreasing every year between 2007 and 2012 with 6.6% in total. 2013 saw a reversal of this trend, SME lending picking up by 1.5%. The SME loan stock still remained below the level of 2007 however.

SME lending declined more than all business lending between 2007 and 2012. As a result, the share of SME lending to all enterprises has decreased over that period. Although enterprises encountered difficulties in accessing bond markets after the financial crisis, the outstanding business loans to all enterprises have reached a bottom in 2010 because lending to large firms increased. In particular since 2013, the growth has accelerated. In contrast, loans to SMEs reduced in part because SMEs' demand for funds declined and they encountered difficulties in accessing finance, against backdrop of global recession.

The reduction of the lending to SMEs has several causes, such as the drop in loan demand and tightening credit standards. The recent decline in the number of SMEs can be also considered to be one of the main causes (see Table 20.2).

Table 20.2. **The transition of the number of SMEs and micro enterprises in Japan**

Preliminary results of the tabulation (Unit: million)

	2009 (percentage of total enterprises)	2012 (percentage of total enterprises)	Change from 2009 (%)
SMEs and micro enterprises (all industries)	4.20 (99.7%)	3.85 (99.7%)	-0.35 (-8.3%)
Micro enterprises (all industries) alone	3.66 (87.0%)	3.34 (86.5%)	-0.32 (-8.8%)
Enterprises as a whole (large enterprises + SMEs + micro enterprises) (all industries)	4.21	3.86	-0.35 (-8.3%)

Notes: 1. the disclosed number of enterprises indicates the tabulation as of February 2012. 2. The figures are the total of the non-primary industry.

Source: METI, SME Agency, Announcement of the Tabulation of the Number of SMEs and Micro Enterprises (as of February 2012)

StatLink http://dx.doi.org/10.1787/888933195411

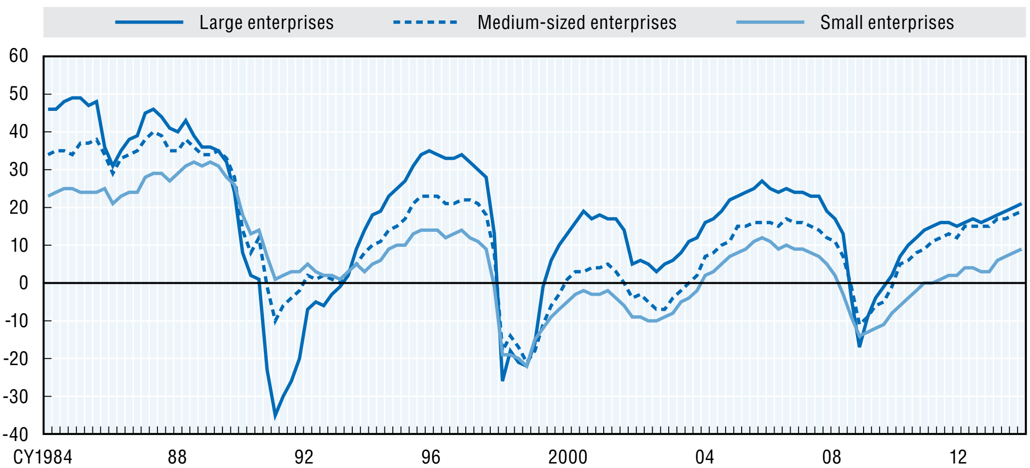
Credit conditions

Average interest rates on new short-term interest rates in Japan are very low and continuously declined between 2007 (1.64%) to 0.88% in 2013. Long-term interest rates on new loans followed a broadly similar pattern, declining from 1.73% in 2007 to 0.92% in 2013, and are only slightly higher than short-term interest rates.

According to the TANKAN survey of Japanese businesses, a quarterly poll of business confidence reported by the Bank of Japan, the attitudes to credit risks of enterprises became more severe and the perceived lending attitudes between the first quarter of 2008 and the 3rd quarter of 2009 has sharply tightened against the backdrop of the trend of Japanese stock prices and firms' profits. After Q3 2009, conditions in accessing finance improved continuously. In the second quarter of 2014, financing conditions, as viewed by Japanese businesses, were broadly in line with the pre-crisis period of 2005-07. Most recent "lending attitude of financial institutions cited by enterprises" recovered almost to the level of the before 2008. It should be noted that "the lending attitudes cited by SMEs" has been tightened more severely, compared with large enterprises, but such a tendency had been seen before the financial crisis and it also did not further expand after that (see Figure 20.1).

According to DI of credit standards of "Senior loan officer opinion survey on bank lending practices at large Japanese banks" (BOJ), most recent credit standards to SMEs have eased more than for large enterprises (see figure 20.2). This suggests that credit has become more available to SMEs in demand for bank credit, depending on their credit risks.

Figure 20.1. **DI of lending attitudes of financial institutions in Japan, 1984-2014**

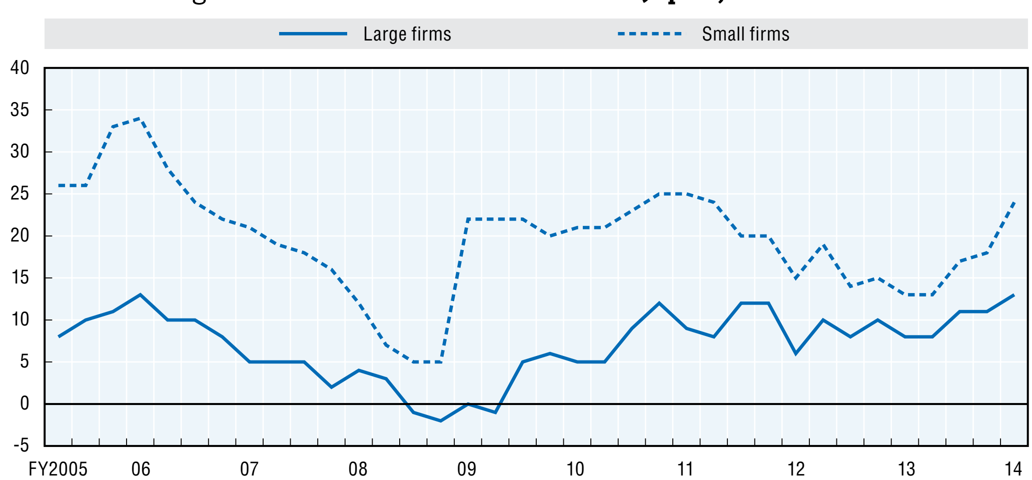


Notes: The latest data are as of March 2014

Source: BOJ, "*Tankan.*"

StatLink http://dx.doi.org/10.1787/888933194019

Figure 20.2. **DI of credit standards in Japan, FY2005-14**



Notes: The latest data are as of January 2014 2. DI of credit standards = (percentage of respondents selecting "eased considerably" + percentage of respondents selecting "eased somewhat" * 0.5) - (percentage of respondents selecting "tightened considerably" + percentage of respondents selecting "tightened somewhat" * 0.5).

Source: BOJ, "Senior loan officer opinion survey on bank lending practices at large Japanese banks"

StatLink http://dx.doi.org/10.1787/888933194025

Equity financing

Japanese venture capital investments were at a height in 2007 at JPY 193 billion, and decreased by 29.5% and 36% in 2008 and 2009 respectively. Total investments recovered in 2010 and 2011 and were down again in 2012. In FY 2013, venture capital investment added up JPY 181 billion, which was about to reach the level of the pre-crisis. The proportion of venture capital invested in the seed and early stage, rose from 36.8% in 2009 to 64.5% in 2013.

Other indicators

SME bankruptcies, which account for more than 99% of all bankruptcies, increased by 10.8% in 2008 to 15 523. As the financial crisis subsided, the number of bankruptcies also dropped, reaching a low of 10 848 in 2013, 30% below the 2008 level.

Government policy responses

The Japanese Government offers substantial financial support for SMEs' financing needs such as a loan guarantee programme and direct loans for SMEs. In March 2014, while the total amount of lending outstanding for SMEs is approximated JPY 226 trillion (provided by the following financial institutions: domestically licensed banks, credit associations, and credit cooperatives), which consists of 44.0% of total amount of lending outstanding (including non-business loans, etc.), the outstanding of credit guarantee programme amounted to JPY 29.8 trillion and the outstanding of direct loan programme is JPY 22.2 trillion (see figure 20.3). As for the number of SMEs, Credit guarantee programme covers 1.46 million SMEs and direct loan programme covers 1.00 million out of 3.85 million SMEs. The government programme makes up for the gap of asymmetry of information in SME finance.

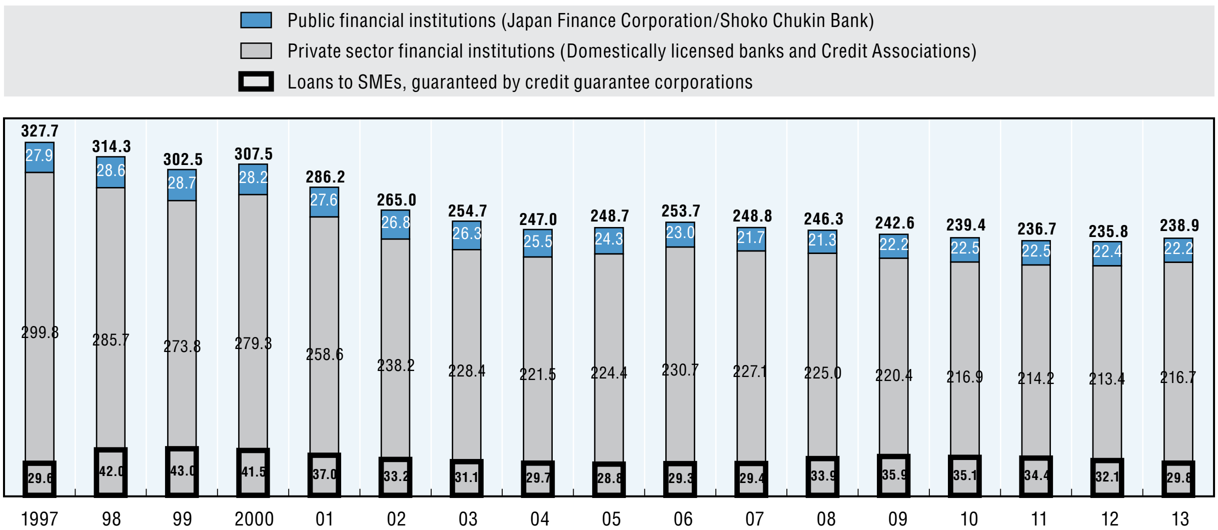
Due to the dire economic circumstances and the earthquake in 2011, lending to SMEs, which is supplied by private-sector financial institutions, decreased since 2008 to 2012 consecutively, despite an increase in scope of the guarantee programme and direct loans by the government over the same period.

The Japanese Government rapidly prepared a safety-net for SMEs since 2007. In 2008, the covered ratio of credit guarantee system increased from 80% to 100% in many sectors. The interest rate of direct loan programme was reduced by about 0.6% in the same year. SMEs, which were directly damaged by the 2011 earthquake, tsunami and nuclear accident, can borrow additional funds from the direct loan programme at almost zero interest rate.

Since 2013, the government has changed these policies and encouraged banks to take more risks. For example, Japanese Government shifted to the regular operation of safety-net guarantees and reduced the targeted sectors to which 100%-guarantee was applied since March 2014.. Also, when SMEs negotiate a change of lending condition with their main banks, the government subsidises the expense of developing turnaround plans. These policies do not only provide liquidity, but also encourage a healthy relationship between SMEs and banks.

Figure 20.3. **Changes in outstanding loans to SMEs in Japan**

JPY trillion



Notes 1: The outstanding amount is respectively the figure at the end of fiscal year. The figures in parentheses indicates component ratio. 2: "Private sector financial institutions" includes domestically-licensed banks and credit associations. It excludes the lending to individuals and local governments.

Source: Compiled by the SME Agency from sources including BOJ, JFC, Shoko Chukin Bank, and Japan Federation of Credit Guarantee Corporations.

StatLink http://dx.doi.org/10.1787/888933194039

Box 20.1. **Definition of SMEs used in Japan's Scoreboard**

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

	Definitions of SME Basic Act If one or more conditions are met			Definition under the Corporation Tax Act
	SMEs		Of which Micro- Enterprises	
Industry	Capital	No. of employees	No. of employees	Capital
Manufacturing	**Up to 300 million JPY**	**Up to 300**	**Up to 20**	**Up to 100 million JPY**
Wholesale	**Up to 100 million JPY**	**Up to 100**	**Up to 5**	
Services	**Up to 50 million JPY**	**Up to 100**	**Up to 5**	
Retail	**Up to 50 million JPY**	**Up to 50**	**Up to 5**	

Table 20.3. **Scoreboard for Japan, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	JPY trillion	260.8	259.1	253.1	248.3	245.6	243.6	247.2
Outstanding business loans, total (stock)	JPY trillion	374.5	385.0	379.3	366.1	366.9	370.4	378.4
SME loan shares	%	0.6964	0.6730	0.6673	0.6782	0.6694	0.6577	0.65
Outstanding loans for fixed investment, total(stock)	JPY trillion	111.8	112.3	113.9	112.1	110.0	110.3	112.0
New loans for fixed investment, total(flows)	JPY trillion	28.6	27.7	23.9	24.3	23.9	25.5	28.1
Value of CGCs loan guarantees (Government loan guarantees, SMEs)	JPY billion	29,368	33,919	35,850	35,068	34,446	32,078	..
Non-performing loans, total	JPY billion	17,494	17,349	17,141	16,628	17,186	17,274	..
Prime lending rate for short-term loans	%	1.875%	1.675%	1.475%	1.475%	1.475%	1.48%	1.48%
Prime lending rate for long-term loans	%	2.30%	2.40%	1.65%	1.60%	1.40%	1.20%	1.20%
New short-term interest rate	%	1.641%	1.527%	1.233%	1.100%	1.035%	0.996%	0.881%
New long-term interest rate	%	1.730%	1.665%	1.458%	1.286%	1.148%	1.002%	92.100%
Outstanding short-term interest rate	%	1.673%	1.494%	1.256%	1.187%	1.102%	1.034%	0.881%
Outstanding long-term interest rate	%	2.046%	1.989%	1.761%	1.646%	1.538%	1.424%	1.297%
Equity								
Venture capital (all stage total)	JPY billion	193	136	87	113	124	102	..
Venture capital (seed and early stage)	%	..	..	36.8%	32.5%	44.3%	57.8%	..
Venture capital (expansion and later stage)	%	..	..	63.2%	67.5%	55.7%	42.2%	..
Other								
Bankruptcies, SMEs	Number of firms	14 015	15 523	15 395	13 246	12 687	12 077	10 848
Bankruptcies, total	Number of firms	14 091	15 646	15 480	13 321	12 734	12 124	10 855

Source: See Table 20.4.

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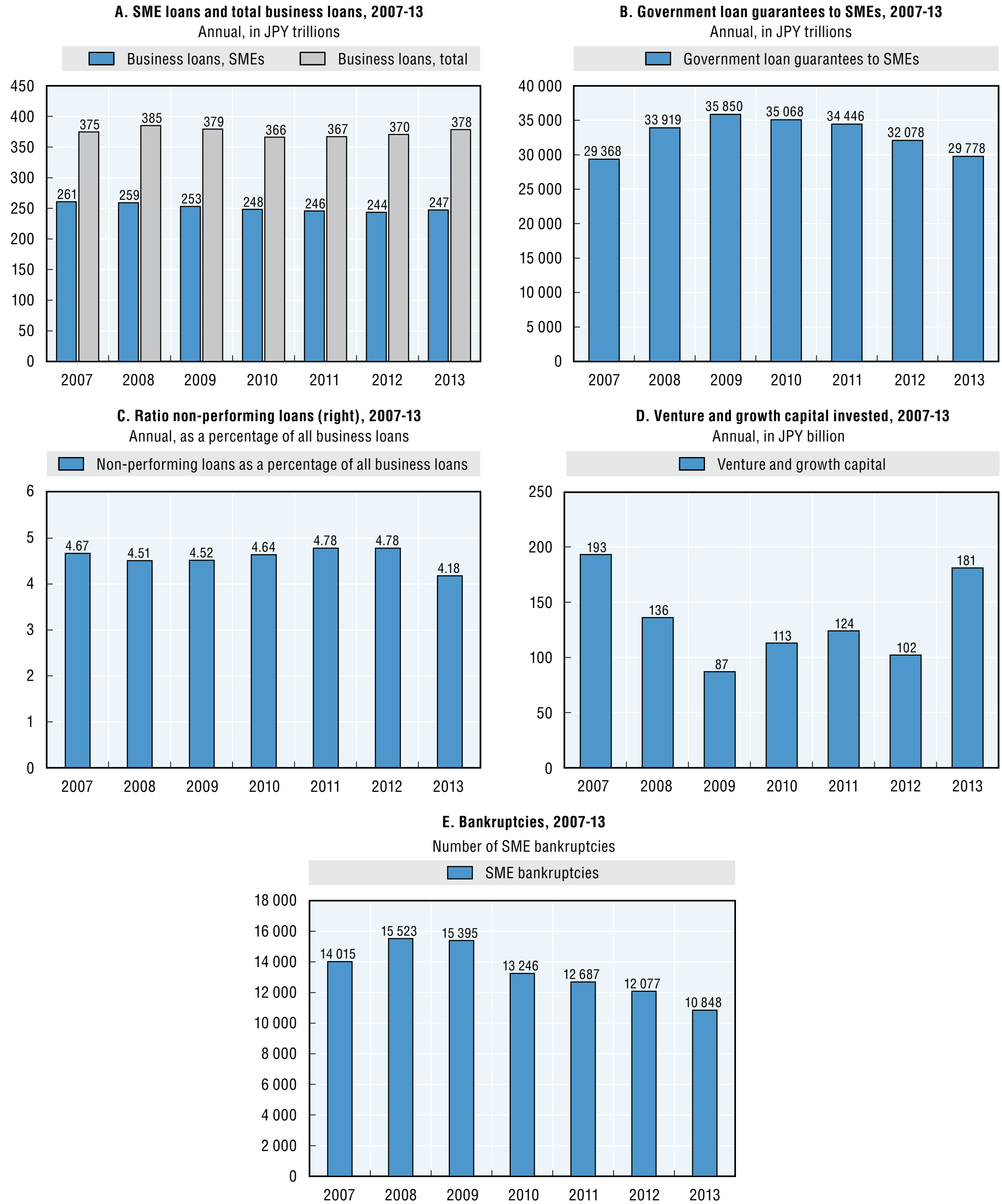
Figure 20.4. **Trends in SME and entrepreneurship finance in Japan**



Source: Table 20.4.

StatLink http://dx.doi.org/10.1787/888933194048

Table 20.4. **Definitions and sources of indicators for Japan's Scoreboard**

Indicator	Definition	Source
Debt		
Outstanding business loans, SMEs (stock)	Figures include lending to SMEs from domestically licensed banks, credit associations, credit cooperatives, Shoko Chukin Bank, and JFC (Micro Business and Individual Unit and SME Unit). Loans supplied by credit cooperatives include lending to individuals and local governments, etc.	SME Agency, White Paper Small and Medium Enterprises in Japan
Outstanding business loans, total (stock)	Figures include lending to all enterprises from domestically licensed banks, credit associations, credit cooperatives, Shoko Chukin Bank, JFC (Agriculture, Forestry, Fisheries and Food Business Unit) as well as JFC (Micro Business and Individual Unit and SME Unit), and other financial institutions, which are all but credit cooperatives surveyed by BOJ. Loans supplied by credit cooperatives include lending to individuals and local governments, etc. As mentioned above, institutions surveyed are different in outstanding business loans, SMEs and total, thus, "SME loan shares" in Table 20.3 is simply a reference indicator.	Office for International Cooperation, SME Agency
Outstanding loans for fixed investment, total(stock)	Loans for fixed investment as percentage of the lending to all enterprises by domestically licensed banks, credit associations, Shoko Chukin Bank, JFC (Agriculture, Forestry, Fisheries and Food Business Unit) as well as JFC (Micro Business and Individual Unit and SME Unit), and other financial institutions	Office for International Cooperation, SME Agency
New loans for fixed investment, total(flows)	Loans for fixed investment as percentage of the lending to all enterprises by domestically licensed banks, credit associations, Shoko Chukin Bank, JFC (Agriculture, Forestry, Fisheries and Food Business Unit) as well as JFC (Micro Business and Individual Unit and SME Unit), and other financial institutions	Office for International Cooperation, SME Agency
Value of CGCs loan guarantees (Government loan guarantees, SMEs)		Japan Federation of Credit Guarantee Corporations, Credit Guarantee System In Japan
Non-performing loans, total	Non-performing loans, total are proxied by the amount of " Risk Management Loans" by deposit-taking financial institutions. "Risk Management Loans" are based on the Banking Act. "Non-performing loans" includes lending to individuals and local governments, etc. as well as to enterprises, while "Outstanding business loans" only lending to enterprises. Institutions surveyed in "Non-performing loans" are deposit-taking financial institutions, while those in "Outstanding business loans" include not only deposit-taking financial institutions, but also some institutions which do NOT. Thus, "the Ratio non-performing loans" in figure 20.4. (c) is simply a reference indicator.	Financial Services Agency
Prime lending rate for short-term loans	Short-term Prime Lending Rates of Banks is the prime lending rate that has been applied by city banks as applicable to short-term to blue-chip companies	BOJ, Financial and Economic Statistics Monthly
Prime lending rate for long-term loans	Long-term Prime Lending Rate is the prime rate adopted and released by Mizuho Bank as applicable to long-term loans provided to blue-chip companies.	BOJ, Financial and Economic Statistics Monthly
New short-term interest rate	Figures are "Average contract interest rate on New short-term loans and discounts" which is published by BOJ. Surveyed from the data of domestically licensed banks, not including credit associations, credit cooperatives, and other financial institutions. The figures are average rates which are arithmetically calculated from the monthly data. Of which the month-end outstanding loan balance, new loans are all loans that are provided during the month. Short-term lending rates apply to shorter-than-1-year contractual loans. Figures are taken into consideration lending rates on loans to households (including housing loans), the central government, and local governments, in addition to loans to all enterprises.	BOJ, Financial and Economic Statistics Monthly
New long-term interest rate	Figures are "Average contract interest rate on New long-term loans" which is published by BOJ. Surveyed from the data of domestically licensed banks, not including credit associations, credit cooperatives, and other financial institutions. The figures are average rates which are arithmetically calculated from the monthly data. Of which the month-end outstanding loan balance, new loans are all loans that are provided during the month. Long-term lending rates apply to 1-year-or-longer contractual loans. Figures are taken into consideration lending rates on loans to households (including housing loans), the central government, and local governments, in addition to loans to all enterprises.	BOJ, Financial and Economic Statistics Monthly
Outstanding short-term interest rate	Figures are "Average contract interest rate on Outstanding short-term loans and bills discounted" which is published by BOJ. Surveyed from the data of domestically licensed banks, not including credit associations, credit cooperatives, and other financial institutions. Outstanding means all loans outstanding as of the end of the month. Short-term lending rates apply to shorter-than-1-year contractual loans. Figures are taken into consideration lending rates on loans to households (including housing loans), the central government, and local governments, in addition to loans to all enterprises.	BOJ, Financial and Economic Statistics Monthly

Table 20.4. **Definitions and sources of indicators for Japan's Scoreboard** *(cont.)*

Indicator	Definition	Source
Outstanding long-term interest rate	Figures are "Average contract interest rate on Outstanding long-term loans" which is published by BOJ. Surveyed from the data of domestically licensed banks, not including credit associations, credit cooperatives, and other financial institutions. Outstanding means all loans outstanding as of the end of the month. Long-term lending rates apply to 1-year-or-longer contractual loans. Figures are taken into consideration lending rates on loans to households (including housing loans), the central government, and local governments, in addition to loans to all enterprises.	BOJ, Financial and Economic Statistics Monthly
Equity		
Venture capital(all stage total)	Seed, early, expansion, and later stage investments are all included. Both domestic and foreign investments are included. Data covers information for the final balance at the end of each fiscal year. In Japan, a fiscal year is from April to March (e.g. 2012: April 2012-March 2013).	Venture Enterprise Center, Japan., 2014. Survey on Venture Capital Investment Trends in Japan(Venture White Paper)
Other		
Bankruptcies, SMEs	Only enterprises with debts of at least JPY10 million are included.	Tokyo Shoko Research, Ltd., State of Corporate Bankruptcies
Bankruptcies, total	Only enterprises with debts of at least JPY10 million are included.	Tokyo Shoko Research, Ltd., State of Corporate Bankruptcies

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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 9 employees (96.4% of employer enterprises). Small and medium enterprises accounted for another 3.5% of all employer enterprises. The large enterprises with more than 250 employees are only 0.1% of all employer enterprises.

Table 21.1. **Distribution of firms in Korea, 2010**

By firm size

Firm size (employees)	Number	%
All firms	**5 146 659**	**100.0**
SMEs (1-249)	**5 143 696**	**99.9**
Micro (1-9)	4 963 546	96.4
Small (10-49)	170 707	3.3
Medium (50-249)	9 443	0.2
Large (250+)	**2 963**	**0.1**

Note: Data includes financial enterprises with the exception of holding companies (ISIC Rev.4 sector 642).

Source: OECD, Entrepreneurship at a Glance, 2013.

StatLink http://dx.doi.org/10.1787/888933195430

With the services industry in Korea growing at a high pace, and with the government focusing its efforts on nurturing and supporting SMEs, the status 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 standing at 1.26 million according to Statistics Korea. SMEs employees stood at 39.2% in 2000 and grew to 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 21.1). SME and total business loans increased over the period 2007-13 by 32.6% and 54.0% respectively. SME loan shares were calculated on the basis of total business loans outstanding (i.e. stocks). As loan growth for all business loans outpaced SME loan growth, the SME share of business loans declined from 86.8% (2007) to 74.7% (2013), which is still a high percentage by international standards. The proportion of short term lending of total business lending continuously declined from 2007 (75.0%) to 63.9% in 2012 and further to 61.9% in 2013.

The above 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, which roughly doubled from 0.93% of all SME loans to 1.83% in 2008 and even further to 2.27% in 2010 (which is still well below the levels observed in many other OECD countries). The proportion of NPLs decreased sharply in 2011, modestly in 2012 and remained constant at 1.64% in 2013. Data for non-performing loans include domestic and foreign currency loans.

Credit conditions

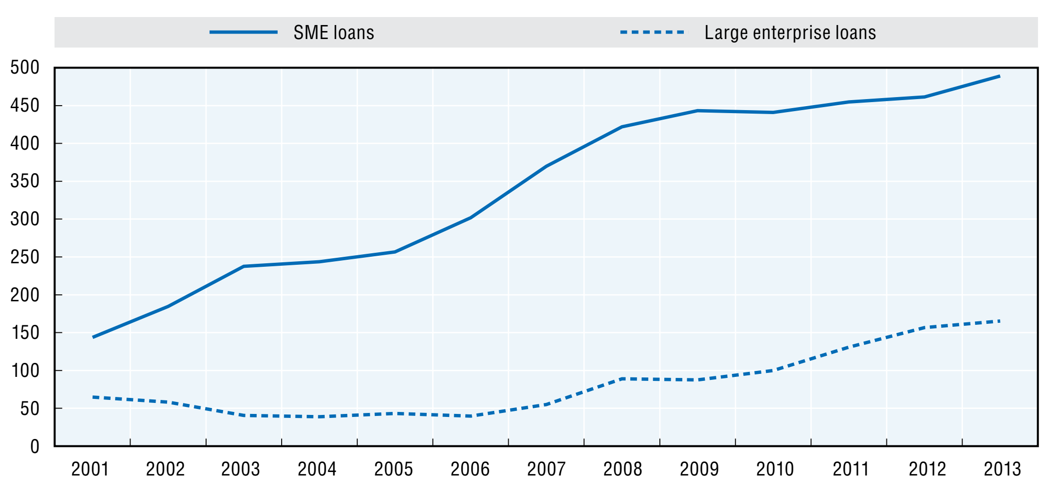
The average interest rate charged on outstanding SME loans peaked in 2008 at 7.49%, but then declined steadily to 5.83% in 2012 and 5.06% in 2013, which is still a relatively high interest rate compared with western economies, which had assumed loose monetary stances, in contrast to Korea. The higher rates probably reflected the greater risks faced by Korean banks and inflation. The interest rate spread between SMEs and large firms also reached a maximum in 2008 at 79 basis points, and dropped substantially in following years to a low of 24 basis points in 2013 (compared with 43 basis points in 2012), which is low by international comparison. 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.

The ratio between loans requested and loans authorised declined sharply between 2007 and 2008, when almost half of all loans applications (47.2%) were rejected. The relative number of rejections improved in 2009, before reaching a low of 48.7% in 2010. Rejection rates have since dropped significantly to 39.8% in 2013.

After the Korean currency crisis in 1997, the large corporations (conglomerates) accessed financing through direct financing rather than bank loans. Meanwhile, the banking sector focused on household loans and SME loans covered by government guarantees as well. Thus, SME loans increased dramatically over 15 years. However, the trend of lending to large enterprises increased recently according to the increase of concerns about SMEs credit risk and household debt problem.

Figure 21.1. **Large enterprise and SME loans in Korea, 2001-13**

KRW trillions



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

StatLink http://dx.doi.org/10.1787/888933194056

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 2013, venture capital investment increased by 12.2% year-on-year.

Venture capital was concentrated in the early and expansion stages in 2007. By 2013 venture capital investment was concentrated in the later-stage firms (49.7%) whereas the early and expansion stages were 26.7% and 23.5%, respectively.

Table 21.2. **Venture and growth capital in Korea, 2007-13**

KRW billion

Stage	2007	2008	2009	2010	2011	2012	2013
Early	365.0	290.8	247.6	319.2	372.2	369.6	369.9
Expansion	377.4	255.3	260.1	290.4	329.6	313.7	325.9
Later	249.3	178.6	359.4	481.4	559.0	550.0	688.7
Total	991.7	724.7	867.1	1 091.0	1 260.8	1 233.3	1 384.5

Source: Small and Medium Business Administration (SMBA).

StatLink http://dx.doi.org/10.1787/888933195449

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 to a low in 2012 (22.2% decrease compared to 2011). In 2013, payment delays again rose somewhat to 9.7 days, still well below the 12.1 level observed in 2008 and 2010. 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 more than halved between 2007 (2 492 bankruptcies) and 2013 (1 001). It should be said that while SMEs avoided bankruptcy because of the policies of the central and regional governments, they still were financially stressed.

Government policy response

There was a 42% increase in the amount of government guaranteed loans during the crisis (2007-2009). Also, the guarantee coverage ratio was raised temporarily from 85% to 95%, or even 100% in the case of export credit guarantees. While the Small Business Corporation (SBC) increased its direct lending by only 6.2% between 2007 and 2008; there was a dramatic jump in 2009 (83%). During the recovery, direct loans declined indicating this type of government assistance was easing off. But at the same time, the SBC loan authorisation rate remained well above 50%. However, the SBC increased its direct loans of 2013 by 17.9% year-on-year.

In 2013, the outstanding government guaranteed loans were KRW 75.5 trillion which included loans that were backed by both national and regional funds. Policy direct loans provided by the SBC totalled KRW 3.7 trillion in 2013. They try to remedy 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 has a plan to improve the policy-based financial system in order to intensively support the innovative small and medium enterprises in terms of the high-quality policy rather than the quantitative expansion.

Box 21.1. **Definition of SMEs used in Korea's 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

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.

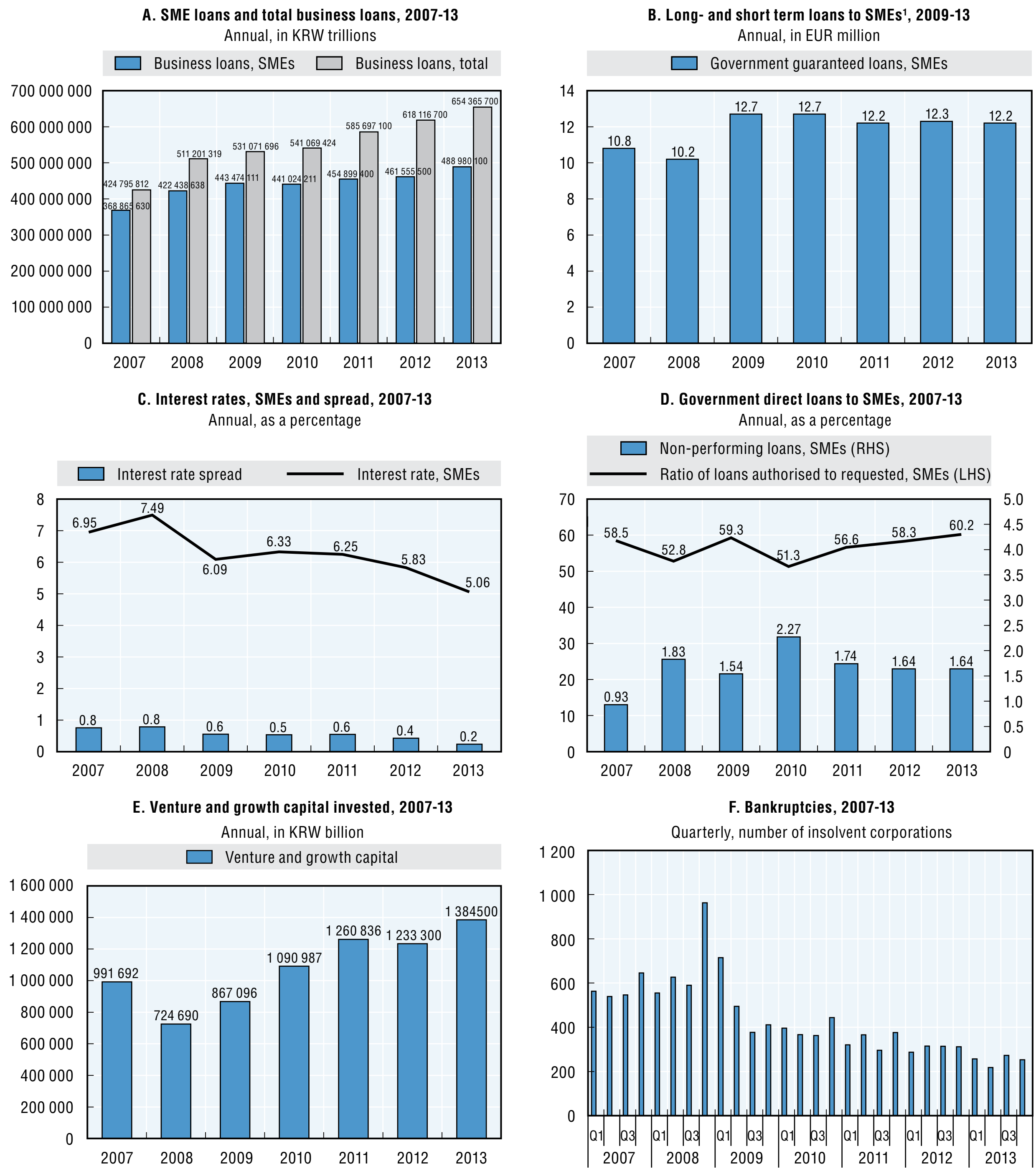
Table 21.3. **Scoreboard for Korea, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Business loans, SMEs	KRW millions	368 865 630	422 438 638	443 474 111	441 024 211	245.6	454 899 400	488 980 100
Business loans, SMEs	KRW millions	424 795 812	511 201 319	531 071 696	541 069 424	585 697 100	618 116 700	654 365 700
Business loans, SMEs	% of total business loans	86.8%	82.6%	83.5%	81.5%	77.7%	74.7%	74.7%
Short-term loans, total (KRW trillions); loans for operation	KRW trillions	319	375	373	372	388	395	405
Long-term loans, total (KRW trillions); loans for equipment	KRW trillions	106	136	158	169	197	223	249
Total short and long-term loans, total (KRW trillions)	KRW trillions	425	511	531	541	586	618	654
Short-term loans ; loans for operation	% of total business loans	86.38	88.85	84.16	84.31	85.38	85.58	82.83
Government loan guarantees, SMEs (KRW millions)	KRW millions	39 729 667	42 961 344	56 381 029	56 195 455	55 456 660	56 939 620	59 516 586
Government guaranteed loans, SMEs	% of SME business loans	10.8%	10.2%	12.7%	12.7%	12.2%	12.3%	12.2%
Direct government loans, SMEs (KRW millions)	KRW millions	2 480 319	2 634 900	4 811 597	3 098 350	2 956 530	3 149 270	3 715 184
Loans authorised, SMEs (KRW millions)	KRW millions	2 721 365	3 201 214	5 821 329	3 415 856	3 353 335	3 344 901	4 177 588
Loans requested, SMEs (KRW millions)	KRW millions	4 653 212	6 057 369	9 819 052	6 657 082	5 927 739	5 737 913	6 936 698
Ratio of loans authorised to requested, SMEs		58.5	52.8	59.3	51.3	56.6	58.3	60.2
Non-performing loans, SMEs (KRW millions)	KRW millions	3 445 872	7 711 192	6 851 186	9 996 913	7 903 498	7 547 111	8 007 628
Non-performing loans, SMEs	% of SME business loans	0.93%	1.83%	1.54%	2.27%	1.74%	1.64%	1.64%
Average interest rate	%	6.95%	7.49%	6.09%	6.33%	6.25%	5.83%	5.06%
Interest rate spread (between average rate for SMEs and large firms)	%	0.8%	0.8%	0.6%	0.5%	0.6%	0.4%	0.2%
Equity								
Venture capital, total amount invested (KRW millions)	KRW millions	991 692	724 690	867 096	1 090 987	1 260 836	1 233 300	1 384 500
Venture capital (% rate of change)	Year-on-year growth rate, %	0.0%	-26.9%	19.7%	25.8%	15.6%	-2.2%	12.3%
Other								
Payment delays, SMEs	Number of days past due date	11	12	10	12	12	9	10
Bankruptcies, total (number)	Number	2 294	2 735	1 998	1 570	1 359	1 228	1 001
Bankruptcies (% rate of change)	Year-on-year growth rate, %	0.00%	19.20%	-26.90%	-21.40%	-13.40%	-9.60%	-18.50%

Source: Refer to Table 21.4.

StatLink http://dx.doi.org/10.1787/888933195456

Figure 21.2. **Trends in SME and entrepreneurship finance in Korea**



1. Loans up to EUR 1 million.

Source: 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). Financing SMEs and entrepreneurs: Definitions and sources of indicators for Korea's Scoreboard TC \f t \l 2 "Table 4. Financing SMEs and entrepreneurs: Definitions and sources of indicators for Korea's Scoreboard"

StatLink http://dx.doi.org/10.1787/888933194060

Table 21.4. **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)

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 22.1. **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 (2013a), Entrepreneurship at a Glance.

StatLink http://dx.doi.org/10.1787/888933195466

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 2013, 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 2013).

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 1 170 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 two. It expects to create 15 new funds that will invest equity in high impact firms.

Table 22.2. **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.

Source: Mexican Venture Capital Association

StatLink http://dx.doi.org/10.1787/888933195472

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 22.3. **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/10.1787/888933195485

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 22.4. **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.

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 22.5. **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

Notes: * Estimated goals for 2013.

Source: Mexican Ministry of Economy, Mexican Entrepreneur Institute (INADEM).

StatLink http://dx.doi.org/10.1787/888933195496

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 22.6. **National credit guarantee system in Mexico, 2007-14**

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
2013	3 679	115 126
2014[1]	4 265[1]	57 918[1]

1. Preliminary January- August 2014

Source: Ministry of Economy, Mexican Entrepreneur Institute (INADEM).

StatLink http://dx.doi.org/10.1787/888933195500

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 Corporación 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.

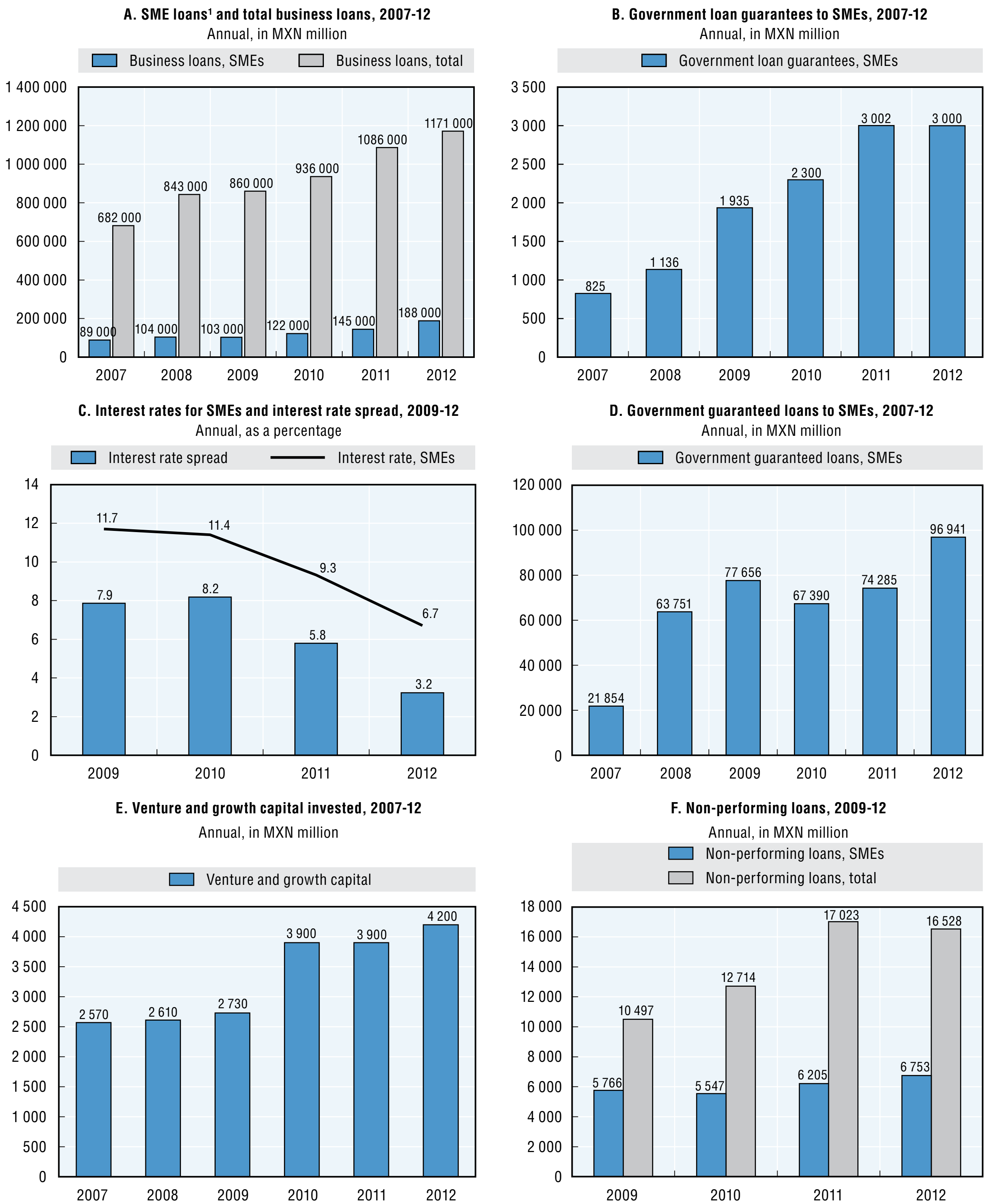
Table 22.7. **Scoreboard for Mexico, 2007-12**

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	1171000
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: Table 22.8.

StatLink http://dx.doi.org/10.1787/888933195510

Figure 22.1. **Trends in SME and entrepreneurship finance in Mexico**



Source: Table 22.8.

StatLink http://dx.doi.org/10.1787/888933194075

Table 22.8. **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 authorised	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

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

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The Netherlands

SMEs in the national economy

SMEs comprised 99.8% of enterprises and employed 67% of the labour force in 2013.

Table 23.1. **Distribution of firms in the Netherlands, 2013**
By firm size

Firm size (full time employees)	Number	%
All firms	**803 522**	**100.0**
SMEs (0-250)	**802 087**	**99.8**
Micro (0-10)	752 444	92.3
Small (10-49)	41 339	6.5
Medium (50-250)	8 304	1.1
Large (250+)	**1 435**	**0.2**

Note: Number of employees refers to full-time employees. All industries are included, as are non-employer enterprises.
Source: European Commission

StatLink http://dx.doi.org/10.1787/888933195525

SME lending

The Dutch Central Bank uses loan size to define an SME loan[1]. Furthermore, each bank uses its own reporting system, constituting a challenge to the aggregation of loan data. The economy was recovering in 2013. Up until 2013, new SME loans were considered reasonably maintained, although they did not recover to their 2008 level. Some SMEs such as start-ups, high growth and innovative SMEs had particular difficulties in accessing finance. In 2013, new loans to SMEs increased by 0.5% on a year-to-year basis. Total business loans outstanding increased over the entire period 2008-13 by 13.7%, registering a 1% decrease in 2013 compared to 2012[2]. The share of SME short-term loans in total SME loans rose from 49.2% in 2012 to 49.8% in 2013.

SME loans authorised vs. requested

The percentage of SMEs seeking loans fluctuated over the last couple of years (19% in 2008, 29% in 2009, 22% in 2010, 18% in 2011 and 21% in 2013). Of those SME seeking finance in 2013 only 54% obtained all they requested compared to 72% in 2008. The percentage of small businesses (less than 50 employees) that did get all the requested funding in 2011 was 36% compared to 85% for larger companies (more than 250 employees). Thus, more SMEs had difficulty in attracting the required funding. 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 in 2013, in that the interest rate for small firms (2-49 employees) dropped by 10 basis points compared to 2012, standing at 4.30% in 2013. In addition, large firms' interest rate decreased by 40 basis points, standing at 3.80% in 2013.

Collateral requirements to SMEs, however, increased in 2013, with 50% of SMEs required to provide it (compared to 44% in 2011 and 45% in 2010).

Equity financing

There was a turnaround in equity investments in 2011, in that firms, both small and large, were seeking alternative sources of finance. Venture capital investment increased by 48.2% between 2010 and 2011 but did not quite reach its 2008 high. In 2013, the trend was reversed with a 15.6% decline in venture and growth capital investment on a year-to-year basis.

Other indicators

Over 2008-13, payment delays increased from 13.9 days to 17 days. However, 2013 marked a year-to-year improvement, for the first time over the entire period, as payment delays decreased with respect to their 2012 level (18 days).

Bankruptcies in 2013 increased to 8,275 companies, with a 12% increase compared to 2012.

Government policy response

Government loan guarantees increased from EUR 647 million (2008) to over EUR 1,161 million (2011) but dropped to EUR 415 million in 2013. This reduction is mainly attributed to loss in demand of SMEs (delay of investments) and the stricter assessment of loans by banks, which led to the reduction of the size of some of the facilities offered. The importance of new SME finance institutions like SME funds, credit unions and crowdfunding, were increasing in 2013.

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. During the crisis the features of the scheme were adjusted several times. In 2013 the features were: a maximum amount of EUR1.5 million (was EUR 1 million), maximum guarantee for start-ups and small non start-ups of 67.5%. Because of the losses on the scheme the guarantee premium is increased with 20% in 2013 to on average 3.6%.

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 150 million. GO substantially lowers the bank risk when issuing credit to entrepreneurs applying for new bank loans.

Table 23.2. **Scoreboard for the Netherlands, 2007-13**

Indicators	Units	2008	2009	2010	2011	2012	2013
Debt							
Business loans, SMEs (new loans)	EUR billion	20.7	15.7	16.5	19.4	18.7	18.8
Business loans, total (outstanding amounts)	EUR billion	304.8	313.5	325.7	341.1	350.0	346.5
Short-term loans, SMEs	EUR billion	11.3	8.9	7.9	10.2	9.2	9.4
Long-term loans, SMEs	EUR billion	9.4	6.7	8.6	9.2	9.5	9.4
Short-term loans, SMEs	% of total SME business loans	54.6	57.1	47.9	52.6	49.2	49.8
Government loan guarantees, total	EUR million	647	1 060	1 318	1 161	687	415
Government loans guarantees, SMEs	EUR million	400	370	945	1 040	590	415
Loans authorised, SMEs	% of SMEs which requested a bank loan and received it in full	72	49	60	66	60	54
Loans requested, SMEs	% of SMEs requesting a bank loan	19	29	22	18	22	21
Interest rate, SMEs	%	5.70	4.50	6.00	6.40	4.40	4.3
Interest rate, large firms		..	..	..	3.50	4.20	3.8
Collateral, SMEs	% of SMEs required to provide collateral for last bank loan	..	47.0	45.0	44	47	50
Equity							
Venture capital	EUR million	643	418	388	575	391	330
Venture capital	Year-on-year growth rate, %	49.9	-35.0	-7.2	48.2	-32	-15.6
Other							
Payment delays	Average number of days	13.9	16.0	17.0	18.0	18.0	17.0
Bankruptcies, SMEs	Number	..	6 995	6 225	6 175	7 373	8 275
Bankruptcies, SMEs	Year-on-year growth rate, %	..	..	-11.0	-0.8	19.4	12
Bankruptcies, total	Per 10 000 firms	56	87	83.5	..	..	

Source: see Table 23.3.

StatLink http://dx.doi.org/10.1787/888933195536

Table 23.3. **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.	De Nederlandsche Bank
Business loans, total (outstanding amounts)	Total business loan amount outstanding for all firms.	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.	Min EA
Government guaranteed loans, SMEs	Government guaranteed loans to SMEs (defined as loans guaranteed under BMKB, GFAC and part of GO: companies under 250 employees).	Min EA
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.	EIM
Collateral, SMEs	The proportion of SME's 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.	NVP
Other		
Payment delays	Average number of days for business-to-business. For 2007, average number of days for business-to-business, business-to-customer and public entities. All enterprises.	Intrum Justitia European Payment Index
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)

In 2009, a successful microcredit institution, Qredits, was launched, supported by the government and the banks. A programme to support coaching and advice for micro-entrepreneurs was also recently funded by the government.

In 2013, the government introduced, in cooperation with the EIF, a fund of funds for later stage venture capital investment. Together with banks, the government is promoting the diffusion of information to SME's with regards to finance.

In April 2014 a credit desk has been established for entrepreneurs as a central information point for financial questions. In 2014 the government has introduced an action plan to promote SME financing. This plan contains of three goals. Firstly, to increase the amount of risk capital available for SMEs. Secondly, to increase the number of (alternative) suppliers of SME financing. Thirdly, to enhance the cost efficiency of SME financing.

Notes

1. The Dutch Central Bank started using a different statistics for business loans to SMEs. These statistics showed that a large part of the loans to SMEs are larger than EUR 1 million. Source: *http://www.dnb.nl/nieuws/nieuwsoverzicht-en-archief/dnbulletin-2014/dnb309784.jsp*
2. 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.

New Zealand

SME in the national economy

Small businesses in New Zealand dominate the scene with 99.0% of New Zealand enterprises being classified as SMEs in 2013. They had 716 965 employees, almost 70% of the country's workforce.

Table 24.1. **Distribution of firms in New Zealand, 2013**

By firm size

	Number	%
Zero employees	325 747	68.9
Micro (1-5)	97 366	20.6
Small (6-19)	35 922	7.6
Small-medium (20-49)	8 801	1.9
Medium (50-99)	2 642	0.6
Large (100+)	2 123	0.4
Total	**472 601**	**100**

Source: Statistics New Zealand Business Demography, February 2013.

StatLink http://dx.doi.org/10.1787/888933195541

SME lending

New Zealand's SMEs have access to a range of debt and equity finance options, including registered bank lending, finance companies, and the private capital markets, including angel investors and venture capital. Bank lending to businesses reached a peak in 2008 (NZD 81.7 billion), declined to a low of NZD 75.7 billion in 2010 before returning to positive growth in following years. Between 2010 and 2013, total business lending expanded by 7.7% in total, almost regaining the 2008 level.

Data on lending to SMEs is available from 2009 onwards. Lending declined in 2011 by almost one percentage point, followed by a 5.3% year-on-year increase in 2012. In 2013, outstanding loans to SME declined by 4.1% to USD 32.4 billion. In 2012, the share of SME loans in the total business loan portfolio reached a 4-year high at 44% of total business lending, but declined to 41% in 2013.

Credit conditions

The Reserve Bank of New Zealand's May 2014 Financial Stability Report noted the financial position of the business sector has improved over the past few years. In the period following the GFC, businesses reduced debt levels in an environment of subdued aggregate demand and weak investment. An increase in business investment, initially funded largely by firms' internal resources, led to strengthening credit demand over the course of 2013. In the year to March 2014, total business credit grew 3.2 percent. Improved access to funding has accommodated the increase in business credit demand. There was a particularly large easing in lending standards for smaller firms in 2013.

In 2007 SME interest rates, defined as the base interest rate for new overdrafts, stood at 12.15%. In 2009 and 2010, the average SME interest rate lowered to 11.19% and 9.88% respectively. 2010 saw an uptick of the SME interest rate by 31 basis points and declined afterwards. At 9.59% in 2013, the SME base rate was at its lowest level for 7 years. The spread between the interest rate charged on SMEs and the one charged on large firms peaked in 2009 at 425 basis points with a 124 basis point rise from 2008, dropped to 360 basis points in 2012 and at 420 basis points in 2013 almost regained its 2009 level.

Data on the proportion of non-performing SME loans to all SME loans is available from 2009 onwards. After an increase from 2.7% to 2.9% in 2010, the proportion of non-performing is decline up to and including 2013 when non-performing loans were down to 2.4% from 2.7% in 2012. Non-performing loans as a proportion of all business loans (and thus not only to SMEs) are consistently lower, confirming the higher risk profile of SME lending. In 2013, for example, 1% of all business loans were non-performing loans, less than half the proportion as for SME loans.[1]

Twenty-eight % of SMEs with six to 18 employees requested debt finance in the years 2007-09. Of those requesting finance in 2007, 94% obtained it, a number that continuously declined to a low of 78% in 2010. The proportion of those SMEs requesting debt finance also dropped to 22% in 2011. Both indicators illustrate the increasing reluctance of banks to lend over that period. 2011 marked a turning point in the data. Although the number of debt requests dropped, the acceptance rate increased markedly to 87%, likely to reflecting a change in lenders' appetite for risk and the terms they offered. The acceptance rate fell only slightly to 86% in 2012 and increased again to 90% in 2013, the highest rate since 2007. Table 24.2 summarises SMEs requesting and obtaining finance in New Zealand, 2007-13.

Table 24.2. **SME requesting and obtaining finance in New Zealand, 2007-13**

As a percentage of SMEs with between 6 and 19 employees

SMEs	2007	2008	2009	2010	2011	2012	2013
Requesting debt finance	28	28	28	26	22	26	24
Of which obtaining debt finance	94	87	82	78	87	86	90

Source: Statistics New Zealand, Business Operations Survey.

StatLink http://dx.doi.org/10.1787/888933195556

Equity financing

The global financial crisis had an adverse effect on New Zealand's venture and growth capital market. The reported amounts invested by venture capital and angel investors fell by 725 and 43% respectively from 2010 to 2012, before recovering to NZD 53 million in 2013. The 2010 venture capital data, however, included two international deals totalling NZD 45 million. Consistent with the trend observed in recent years, health and biosciences and IT/software companies were the beneficiary of the majority of VC funding in 2013. There was a marked surge in angel investment into software and services in 2013. Companies in the sector attracted NZD 25.4 million of investment (almost half total reported angel investment) – an increase of over 140 % on the NZD 10.5m invested in 2012. Health sector companies also saw a large rise, with NZD 6.9 million of investment in 2013 compared with NZD 1.7 million the previous year.

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 companies. 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

B2B payment delays reached a 7-year low in 2013 according to a survey by 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 GFC, before trending downwards over the next few years. B2B payment delays averaged 39.6 days in 2013, half a day lower than in 2012 and more than 22% down from their peak in 2008.

Bankruptcies were at a peak of 3 593 firms in 2007, almost doubling from 2006. Since then bankruptcies have fallen and, while fluctuating over the period, totalled 2 199 in 2013. Alternatives to bankruptcy introduced by the government in 2008, such as No Asset Procedures and Summary Instalment Orders, provide companies with debt of less than NZD 40 000 with some flexibility and have contributed to the decrease of 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. A 2009 small business relief package is still in force. The New Zealand Export Credit Office's Short Term Trade Credit Guarantee was extended in May 2009, bringing the total available to NZD 150 million.

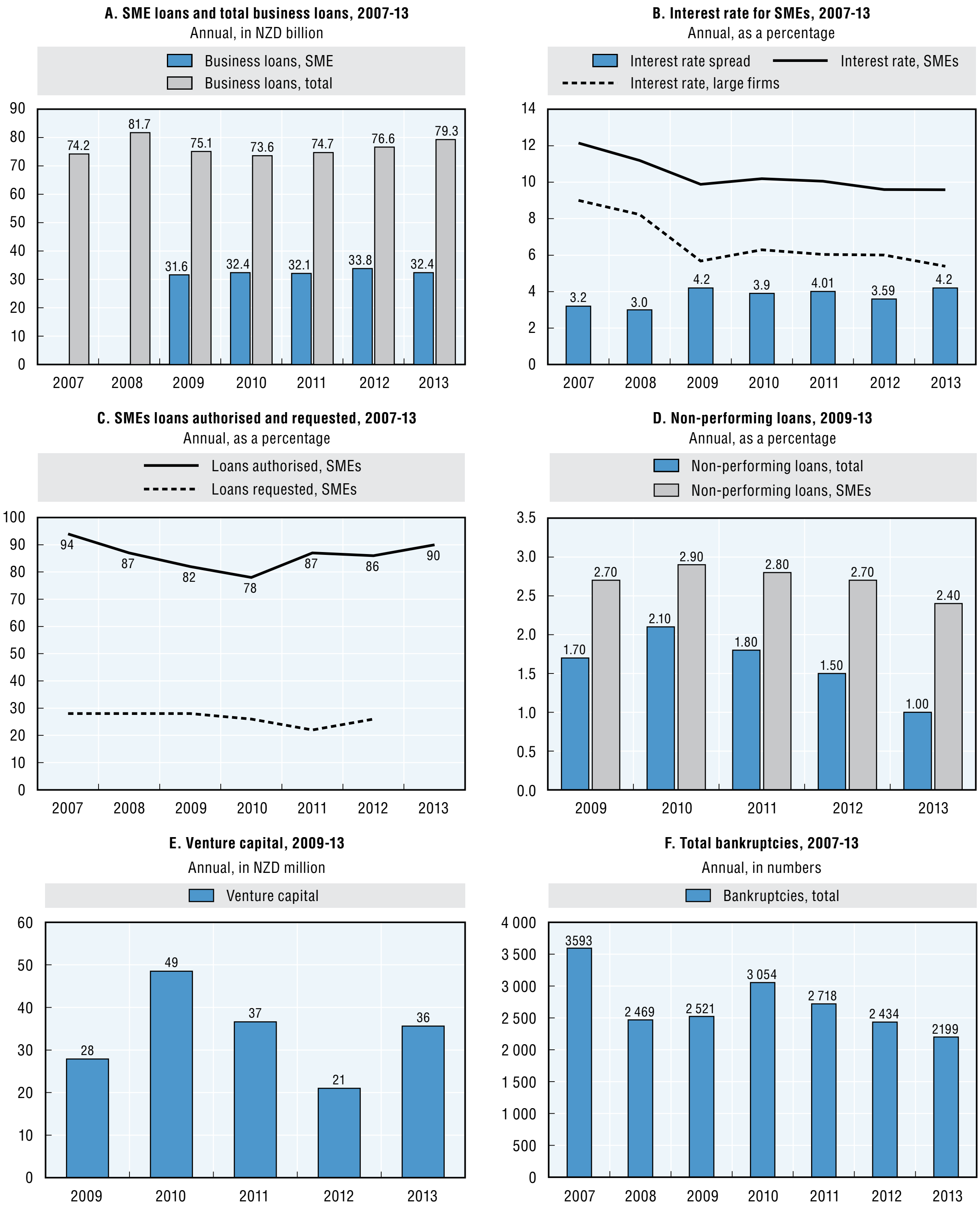
Table 24.3. **Scoreboard for New Zealand, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	NZD billion	..	..	31.6	32.4	32.1	33.8	32.4
Outstanding business loans, total (stock)	NZD billion	74.2	81.7	75.1	73.6	74.7	76.6	79.3
SME loans share	%			0.42	0.44	0.43	0.44	0.41
Rejection rate	% of SMEs	6%	13%	18%	22%	13%	14%	10%
Non-performing loans, SMEs	% SME loans	..	..	2.7%	2.9%	2.8%	2.7%	2.4%
Non-performing loans, total	% total loans	..	..	1.7%	2.1%	1.8%	1.5%	1.0%
Interest rate, SMEs	% pa	12.15	11.19	9.88	10.19	10.05	9.60	9.59
Interest rate, large firms	% pa	9.00%	8.23%	5.68%	6.29%	6.04%	6.01%	5.39%
Interest rate spread	% points	3.15%	2.96%	4.20%	3.90%	4.01%	3.59%	4.20%
Equity								
Venture and growth capital (seed and early stage)	NZD million	29.5	32.6	43.2	53.1	34.8	29.9	53.2
Venture and growth capital (growth capital)	NZD million	81.9	66.1	34.0	94.4	36.6	26.8	54.8
Other								
Payment delays, B2B	Average no. days	43.1	50.8	44.5	44.0	45.6	40.1	39.6
Bankruptcies, total	Number	3 593	2 469	2 521	3 054	2 718	2 434	2 199

Source: Table 24.4.

StatLink http://dx.doi.org/10.1787/888933195567

Figure 24.1. **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/10.1787/888933194082

Table 24.4. **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 are not standardised and definitions may vary across banks.	Reserve Bank of New Zealand
Rejection rate, SMEs	Percentage of SMEs (firms with 6-19 employees) requesting debt finance that did not received it on reasonable terms.	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, B2B	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

The Financial Markets Conduct Act came into force in April 2014 and will help improve access to capital by raising investor confidence. It will also reduce compliance costs for some SME's through clearer disclosure regulations, including exemptions from full disclosure requirements for some firms. It also permits new forms of capital-raising, such as peer-to-peer lending and crowd-funding, and there has already been activity in these areas with the first two equity crowd funding licences and a peer to peer lending licence issued in July 2014.

A new programme for technology-focussed incubators with repayable grants for start-ups in those incubators was introduced in July 2014 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 4-year period. The grants will provide funding in the range of NZD 250 000-500 000 per business per year for 2-3 years, repayable contingent on the success of the business and with the incubator owner vehicle receiving a negotiated equity stake of 30-50% in the business.

Note

1. 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 2014, Financial Stability Report, Reserve Bank of New Zealand.

Norway

SMEs in the national economy

There was a total of 426 220 enterprises in Norway in 2011, out of which 278 360 non-employer firms. The bulk of the employer firms are SMEs, employing between 1 and 249 employees and accounting for 99.5% of total firms with employees. Of the enterprises with at least one employee, 81.8% were microenterprises.

Table 25.1. **Distribution of firms in Norway, 2011**

By firm size

Firm size (employees)	Number	%
Total firms with employees	**147 860**	**100.0**
SMEs (1-249)	**147 189**	**99.5**
Micro (1-9)	120 921	81.8
Small (10-49)	22 917	15.6
Medium (50-249)	3 351	2.3
Large (250+)	**671**	**0.5**

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/10.1787/888933195579

Using 250 employees as the cut-off for an SME follows the definition used in many EU countries but it would be too high with respect to the structure of Norwegian business. In order to produce indicators relevant to Norway, Statistics Norway classified its data as firms with less than 250 as well as those with less than 50 employees (97.6%) to report on the indicators for SMEs in the OECD Scoreboard. The distribution of employees in groups of companies, however, is not obvious. Some enterprises in large groups have therefore been included in the SME population, even though they belong to groups of companies 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 35.1% over the period 2007-12 from NOK 837 193 million in 2007 to NOK 1 131 028 million in 2011. The pace of this increase has been declining in recent years, however. 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 on a year-to-year basis. In 2012, SME lending declined slightly. The share of SME loans in total business loans dipped somewhat over the 2008-12 period from 43.7% in 2008 to 40.0% in 2012. SME lending nevertheless accounts for a very important part of the overall business lending activity.

In 2007, short term SME loans accounted for 19.3% of all SME loans, a proportion that steadily declined to 16.7% in 2011. In 2012, short term lending increased sharply by 12.6% year-on-year, while long term lending to SMEs contracted, resulting in a short term SME loan share of 18.9%. The strength of legal rights and the depth of credit information, as conditions that support creditors' confidence towards 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 increase in demand was 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 are expected to take most of the hit, given that large enterprises are expected to be offset by the issuance of bonds. Credit standards for enterprises remained approximately unchanged in 2012 Q1, but loan conditions for enterprises have tightened and credit demand for enterprises was approximately unchanged. Banks reported somewhat tighter credit standards for enterprises in 2012 Q2. Corporate credit demand increased slightly in 2012 Q2. Banks reported higher lending margins in 2012 Q3. The changes in banks' credit standards for enterprises overall were small. Credit demand was broadly unchanged. Banks reported higher lending margins in 2012 Q4. Changes in banks' overall credit standards were small for enterprises and corporate credit demand increased somewhat.

Equity financing

According to data from the European Venture Capital Association, venture capital investments more than halved between 2007 and 2009. Although the total amounts invested recovered in 2010, this recovery proved to be short-lived, as venture capital investments further decreased from EUR 171 million in 2010 to a low of EUR 71 million in 2013. Later stage venture capital in particular decreased dramatically over this period and seed investing is nearly unavailable throughout this period. Growth capital investments, in contrast, are on the increase since 2011 and reached a peak in 2013. 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 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 25.2. **SME equity financing in Norway 2007–13**

	2007	2008	2009	2010	2011	2012	2013
Amounts in EUR thousands	Amount	Amount	Amount	Amount	Amount	Amount	Amount
Seed	25 209	17 151	4 408	3 162	780	992	1 844
Start-up	111 533	76 184	73 577	91 149	86 862	66 014	49 704
Later stage venture	123 833	64 966	42 425	77 092	37 460	50 868	19 675
Total venture	**260 575**	**158 300**	**120 410**	**171 403**	**125 102**	**117 874**	**71 223**
Growth	50 099	188 818	136 574	134 924	130 151	173 671	192 189

Source: European Venture Capital Association (2014).

StatLink http://dx.doi.org/10.1787/888933195587

Other indicators

Business-to-business payment delays peaked in 2009 to 11 days and declined to an average of days in 2010. In 2012 and 2013, B2B payment delays slightly picked up, but are still well below 2009 levels and 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 more than doubled between 2007 and 2009 as a result of the deterioration of the economic environment. Bankruptcies of SMEs then declined for 3 consecutive years, registering a 4.4% and an 11.6% drop in 2011 and 2012 respectively. In 2013, a reversal of this trend was observed, as SME bankruptcies picked up by 16.3%.

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 SME's in particular. The instruments include loans, guarantees, grants and tax incentives. There are relatively more funds available in rural than in central areas.

Since 2009, Innovation Norway provides grants for entrepreneurs and innovative start-ups up to three years old. The grants are generally small (about NOK 300,000), but in rare cases the grants may be as high as EU's de minimise regulation allows (EUR 200,000). The grants can finance a variety of activities in the firm such as product development and market introduction.

Innovation Norway provides "Innovation Loans," grants and guarantees to innovative projects in new or established firms of all sizes. The loans are priced at above market interest rates (with varying premiums depending on the risk), are up to ten years maturity (corresponding to the duration of the project) and below market collateral. The grants normally amount to 1/3th of project costs, but vary depending on the size of the firm without an upper limit and require contractual cooperation between the two companies or a company and a public sector costumer.

The Norwegian Government is very active in stimulating venture capital investments. The most important new initiative in 2012 was NOK 500 million in state funding for two new seed capital funds which will be established in cooperation with private investors. The funding comes at market based terms, but with a 15 % initial bonus for the private investors. The government offers 50 % of the funding, but receives only 42.5 % ownership in the funds. Investinor is an evergreen venture investment company funded by the

Norwegian Government, that invests in promising unlisted (private) companies aiming for international growth and expansion and has NOK 4,7 billion as committed capital.

In March 2012, the Norwegian Government launched a SME strategy with a target and a programme for regulatory burden reduction. The target is to be reached by 2015, and the main instruments are cutting red tape, simplification of official forms and reductions to the need for reporting.

Among these measures, there are several concerning "starting a business" such as:

- As the new Limited Liability Companies Act becomes valid from 1 July 2013, it will be possible to start a business fully by electronic means.
- The equity requirements for private limited companies have been reduced by 70%, from 14 000 to 4 000. This significantly reduces the cost of establishing new businesses.
- The 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 are significantly simplified.

In addition, there are numerous measures which aim 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 services for business.

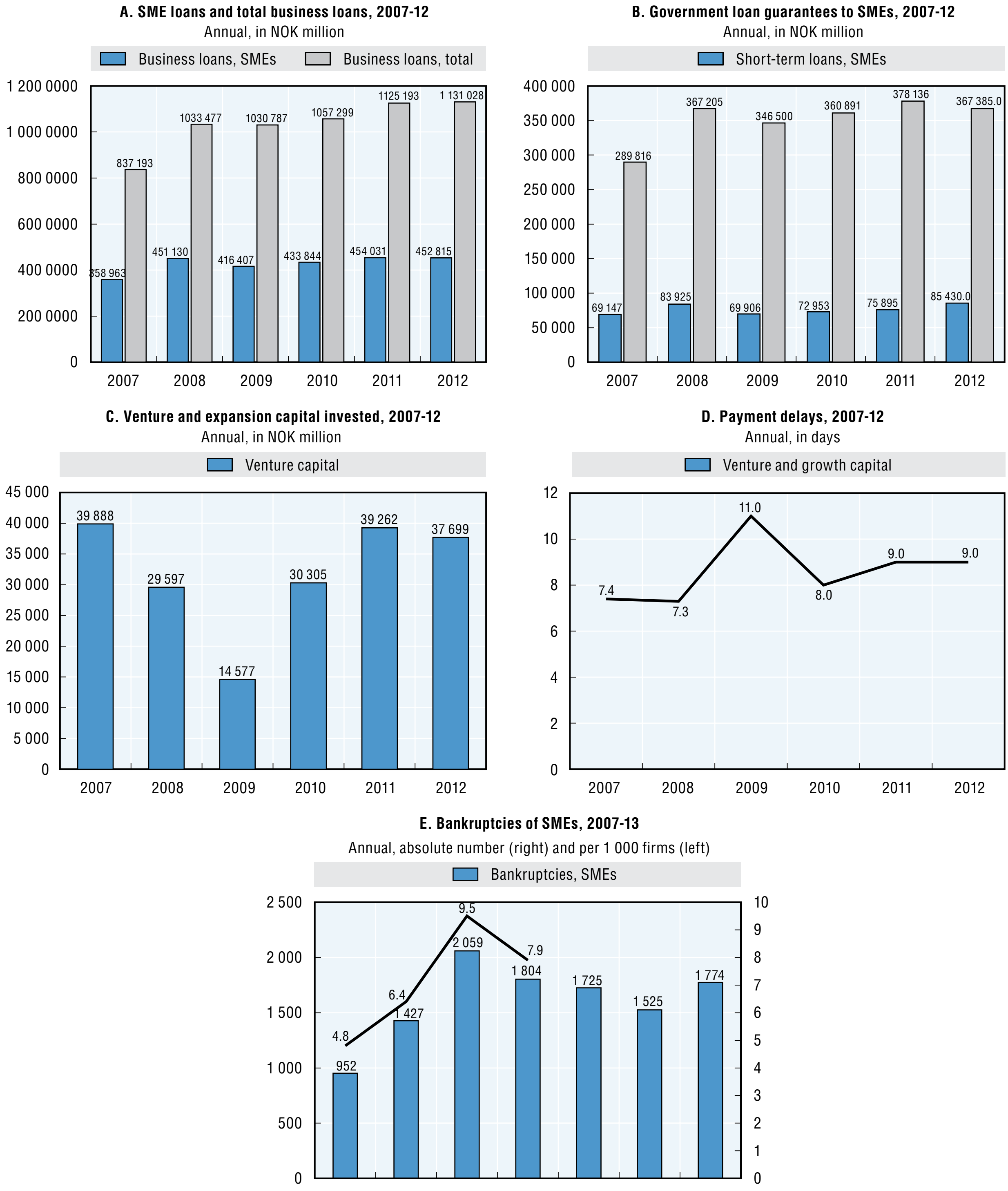
Table 25.3. **Scoreboard for Norway, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Business loans, SMEs	NOK millions	358 963	451 130	416 407	433 844	454 031	452 815	..
Business loans, total	NOK millions	837 193	1 033 477	1 030 787	1 057 299	1 125 193	1 131 028	..
Short-term loans, SMEs	NOK millions	69 147	83 925	69 906	72 953	75 895	85 430	..
Equity								
Venture and growth capital	NOK millions	39 888	29 597	14 577	30 305	39 262	37 699	..
Venture and growth capital (growth capital)	%, Year-on-year growth rate	..	-25.8%	-50.7%	107.9%	29.6%	-4.0%	..
Other								
Bankruptcies, SMEs	Enterprise	952	1 427	2 059	1 804	1 725	1 525	1 774
Bankruptcies, total	Enterprise	952	1 427	2 060	1 806	1 725	1 527	1 776

Source: Table 25.4.

StatLink http://dx.doi.org/10.1787/888933195593

Figure 25.1. **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/10.1787/888933194096

Table 25.4. **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 2011. 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 2012, SMEs comprised 99.7% of enterprises in Portugal and employed 78.1% of the business sector labour force. The vast majority of enterprises (87.8%) were micro-enterprises employing 44.8% of the country's workforce, 10.4% were small and 1.6% were medium-sized.

Table 26.1. **Distribution of firms in Portugal, 2012**

By firm size

Firm size (employees)	Number	%
All enterprises	**353.611**	**100.0**
SMEs (1-249)	**352.596**	**99.7**
Micro (1-9)	310.323	87.8
Small (10-49)	36.654	10.4
Medium (50-249)	5.628	1.6
Large (250+)	**1.015**	**0.3**

Note: Companies with up to one employee were excluded (there were 709 171 companies with up to one employee). Includes the non-financial business economy.

Source: Statistics Portugal (2014).

StatLink http://dx.doi.org/10.1787/888933195604

SME lending

The recent evolution in lending policy over the period 2010-13, 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 lending stocks since 2010. In 2013, the global stock of business loans decreased by 6.3% year-on-year, with most of the decline been attributed to the decrease in SME lending, which recorded a 7.3% drop, reaching a new 7-year low. The share of SME loans in total business loans also declined from 78.3% (2007) to 74.7% (2012), further declining to 73.9% in 2013.

Over the period 2007-13, SME lending declined by 13.1% while total business loans dropped by 7.8%. This decline was more pronounced in short-term SME lending, having dropped by 43.4% over the period 2007-13 and registering a 11.5% decrease in 2013 compared to a year before, whereas long-term SME loans decreased by 10.5% year-on-year. SMEs are particularly affected by difficulties in accessing short-term financing to cover for their short-term liquidity management with short-term lending accounting for 24.4% of the entire SME loan portfolio in 2013, down from 24.6% in 2012, reaching a 7-year low level.

The share of government guaranteed loans in total SME loans grew significantly from 0.9% in 2007 to 7.8% in 2013, 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% to total SME loans in 2012 and 7.8% in 2013.

Credit conditions

Over the period 2009-13, banks have significantly tightened lending conditions to corporates, with restrictive financing terms coupled with a sharp drop in investments by non-financial corporations, reflecting depressed levels of domestic demand and resulting in a decrease in borrowing requirements and lending demand by enterprises.

The average interest rate for SME loans has increased by 111 basis points, from 5.71% in 2009 to 6.82% in 2013, however there was a decline of 77 basis points between 2012 and 2013. The interest rate spread between SMEs and large firms has also increased from 1.87% in 2009 to 2.16% in 2012 and decreasing to 1.85% in 2013, indicating a small improvement on the SMEs conditions. 78% of collateralised loans were SME loans in 2013, at almost constant levels throughout the past 6 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.

Equity financing

The global amount of venture capital invested in SMEs fell significantly over the 2007-13 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. However, between 2012 and 2013, there were signs of recovery, with total venture capital investment increasing by 123% since 2011.

Table 26.2. **Equity capital invested by stage in Portugal, 2007-13**

EUR million

Stage	2007	2008	2009	2010	2011	2012	2013
Early stage	28.5	52.0	30.2	53.2	10.0	12.9	22.8
Seed	0.2	0.0	0.2	0.0	0.5	0.6	5.4
Start up	28.3	52.0	30.0	53.2	9.5	12.3	17.4
Later stage	108.6	40.1	11.8	12.1	2.8	3.7	5.8
Total	**137.1**	**92.1**	**42.0**	**65.4**	**12.8**	**17.4**	**28.6**

Source: Portuguese Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933195617

Other indicators

An increasing trend of deterioration of asset quality has been noted over the period 2007-13, with default and non-performing rates progressively increasing, reaching successive maximum levels. Both total non-performing loans and non-performing SME loans have increased fivefold over the course of 2007-13, both recording an almost 18% increase in 2013 on a year-to-year basis. Non-performing loans to large firms have registered a more significant increase of 23.6% in 2013 year-on-year. SME loans, however, account for the lion's share of the total non-performing loans of the system, covering more than 90% of those.

The drop in sales and the difficulties in accessing finance had a negative impact on SME cash flow, causing an increase in payment delays, which rose from 33 days in 2008 to 41 days in 2011, reducing from 40 days in 2012 to 35 days in 2013. The number of business bankruptcies has more than doubled over the period 2007-13, with total bankruptcies increasing from 2 612 (2007) to 4 746 (2011), reaching new heights in 2012 with 6 688 registered bankruptcies, up 40.9% year-on-year. This significant increase, although universal in most sectors of activity, can be mainly attributed to the construction, real estate and trade sectors, translating into divergences in the evolution of lending across sectors of activity, with companies active in the above sectors facing more challenges when trying to access bank financing. After 5 years of increasing bankruptcy number, 2013 ended with a reduction of almost 10%, which potentially marks a turning point for the years to come.

Government policy response

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

In the framework of the Anti-Crisis Measures adopted by Portugal, SMEs' access to finance has been a major priority for the government. In this context, 12 "SME Invest and SME Growth" credit lines to facilitate SME access to credit were launched. These credit lines, with a total stock of bank credit of EUR 12.2 billion, have long-term maturities (up to 7 years) and preferential conditions, namely, partially subsidised interest rates and risk-sharing public guarantees, which cover between 50% and 75% of the loan. These credit lines aim to support fixed investment and also SME working capital.

As of 30 May 2014, about 133 000 projects were eligible for the "SME Invest and SME Growth" credit lines. EUR 12 billion in finance was provided to about 69 000 SMEs (20% of SMEs), supporting more than 907 000 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 that were implemented in 2012 to reinforce SMEs' recovery like "The Revitalizar Programme", had a positive impact this year. The Revitalizar Programme has several measures. One improves the legal framework by creating a Special Revitalisation Procedure within the scope of the Insolvency and Corporate Recovery Code, which is similar to "Chapter 11" in the United States. Another measure is an out-of-court credit restructuring system between companies and their creditors. The Revitalizar Programme also strengthens other financial solutions through three Revitalizar Funds totalling EUR 220 million for venture capital investment in the expansion phase. With the help of Revitalizar Funds, the investments in venture capital have increased significantly in 2013.

Table 26.3. **Scoreboard for Portugal, 2007-13**

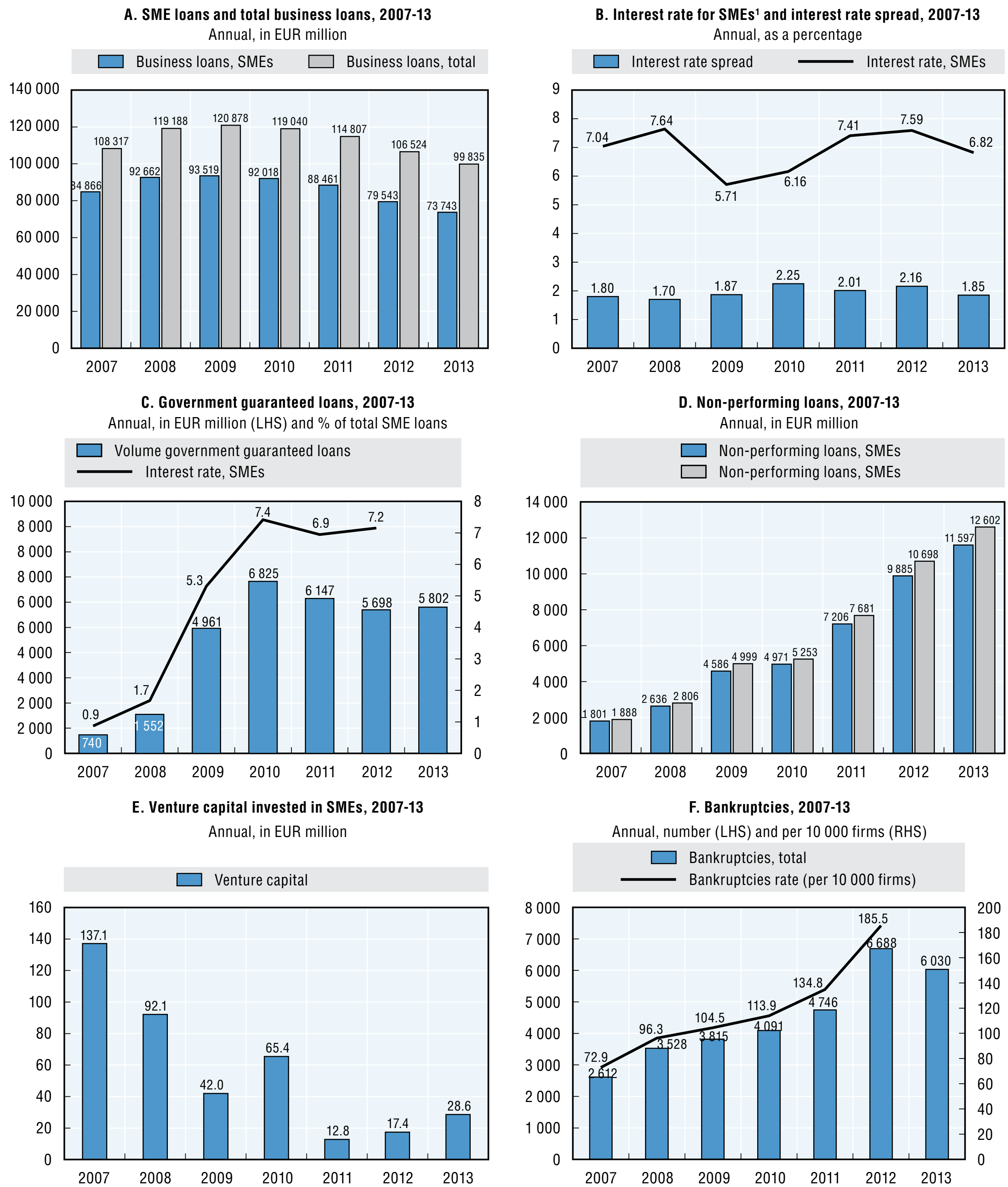
Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Business loans, SMEs	EUR million	84 866	92 662	93 519	92 018	88 461	79 543	73 743
Business loans, total	EUR million	108 317	119 188	120 878	119 040	114 807	106 524	99 835
Business loans, SMEs	% of total business loans	78.3	77.7	77.4	77.3	77.1	74.7	73.9
Short-term loans, SMEs	EUR million	26 758	27 928	29 178	27 166	24 267	17 122	15 149
Long-term loans, SMEs	EUR million	56 308	62 098	59 754	59 882	56 988	52 536	46 998
Total short and long-term loans, SMEs	EUR million	83 066	90 026	88 933	87 048	81 255	69 658	62 147
Short-term loans, SMEs	% of total SME loans	32.2	31.0	32.8	31.2	29.9	24.6	24.4
Government guaranteed loans, CGF	EUR million	740	1 552	4 961	6 825	6 147	5 698	5 802
Government guaranteed loans, CGF	% of SME business loans	0.9	1.7	5.3	7.4	6.9	7.2	7.8
Non-performing loans, total	EUR million	1 888	2 806	4 999	5 253	7 681	10 698	12 602
Non-performing loans, SMEs	EUR million	1 801	2 636	4 586	4 971	7 206	9 885	11 597
Non-performing loans, large	EUR million	87	170	412	282	474	813	1 005
Interest rate, average SME rate[1]	%	7.04	7.64	5.71	6.16	7.41	7.59	6.82
Interest rate spread (between average SME rate and large firm rate)	%	1.80	1.70	1.87	2.25	2.01	2.16	1.85
Collateral, SMEs	% of collateralised loans granted to SMEs in total collateralised loans	..	..	82.1	81.8	81.2	80.0	78.0
Equity								
Venture capital, SMEs	EUR million	137.1	92.1	42.0	65.4	12.8	17.4	28.6
Venture capital	Year-on-year growth rate, %	..	-32.8	-54.4	55.7	-80.4	35.9	64.4
Other								
Payment delays	Days	39.9	33.0	35.0	37.0	41.0	40.0	35.0
Bankruptcies, total	Number	2 612	3 528	3 815	4 091	4 746	6 688	6 030
Bankruptcies, total	Year-on-year growth rate, %	..	35.1	8.1	7.2	16.0	40.9	-9.8
Incidence of insolvency, total	per 10 000 enterprises	72.9	96.3	104.5	113.9	134.8	185.5	170.5

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: Table 26.4.

StatLink http://dx.doi.org/10.1787/888933195628

Figure 26.1. **Trends in SME and entrepreneurship finance in Portugal, 2007-13**



Note: 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/10.1787/888933194103

Table 26.4. **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 27.1). 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 current 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 27.1. **Distribution of firms in the Russian Federation, 2013**

By firm size

Firm size (employees)	On 1 January 2014 (thousands)
SMEs (up to 250)	
Individual entrepreneurs	3511.8
Micro (up to 15)	1 827.9
Small (16-100)	234.5
Medium (101-250)	15.8
Total	**5 590.0**

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/10.1787/888933195638

SME lending

Outstanding SME loans in Russia roughly doubled between 2008 and 2013, although the pace is somewhat decelerating in 2012 and 2013. Total outstanding business loans were also buoyant, increasing by 71% over the same period. As the total amount of the SME loans expanded more dynamic than business loans in general, the SME share of total loans rose from 19% in 2008 to 23% in 2013. New SME loans also expanded very rapidly over the 2009-13 period, with average yearly growth figures of 17.5% for all business loans and 28% for SME loans respectively.

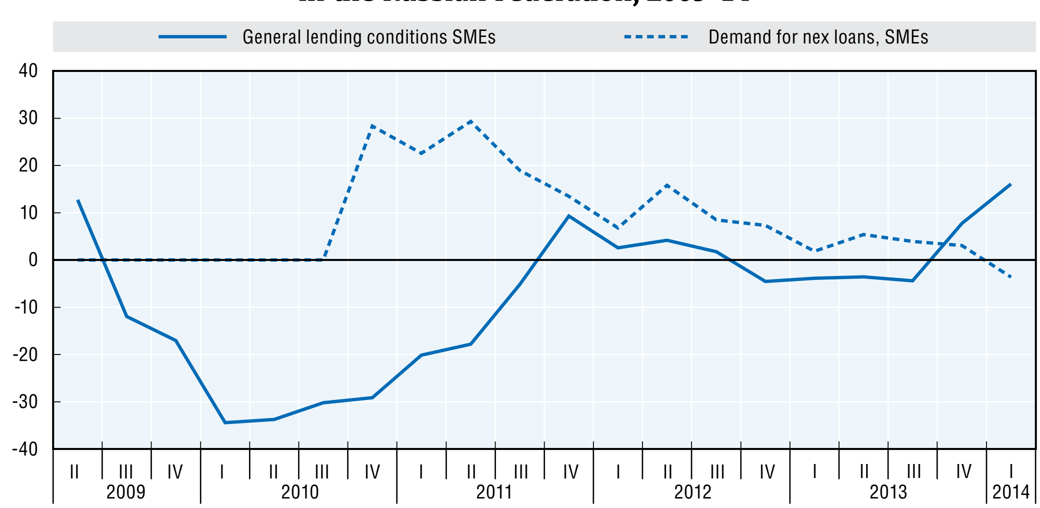
Despite this rapid expansion of credit to businesses, especially to the SME segment, the European Investment Bank (EIB) identifies the insufficient availability of financing as one of the major constraints to SME development. Mature industrial SMEs, SMEs that lack access to bank finance (due to a lack of collateral or high borrowing costs and beginning individual entrepreneurs are key groups who, in particular, require financial support (EIB, 2014).

Although the credit boom the Russian economy was experiencing in 2010-13 carried some risks to the financial stability of the country, these risks were at that time mitigated by the surge of deposits between 2010 and 2013, cushioning potential losses for the banking sector, and the economic growth that broadly kept pace with the expansion of businesses loans over the 2008-12 period. As already in 2013 the economic growth was below the initial expectations, the recent slowing down of business loan growth suggests a "soft landing" of the credit boom (Barisitz, 2013).

Credit conditions

The Central Bank of Russia conducts a quarterly Bank Lending Conditions survey, where senior loan officials from the main banks are asked questions regarding their view on lending conditions and the demand for credit. Separate data for SMEs are available from the second quarter of 2009 onwards. Between 2009 and 2011, lending conditions were thought to worsen, and remained broadly constant between the last quarter of 2011 and the third quarter of 2013. In the last quarter of 2013 and the first quarter of 2014, however, an improvement in the lending conditions has been observed. The interviewed loan officers also expect credit conditions to loosen further in the next three to six months. Loan officials reported a large increase in the demand for new loans by SMEs between the third quarter of 2010 and the second quarter of 2011. Since then, the demand for new loans is considered to be increasing at a slower pace. In the first quarter of 2014, demand for new SME loans turned negative according to the respondents.

Figure 27.1. **Bank lending conditions, SMEs, and demand for new loans in the Russian Federation, 2009-14**



Source: Central Bank of Russia

StatLink http://dx.doi.org/10.1787/888933194119

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 the result of the uneven level of the country's banking industry that is still underrepresented outside of the biggest cities, low level of usage of new lending technologies as well as of the lack of SME financial transparency and the information asymmetries between the suppliers and users of capital. Lending to SMEs is seen by many bank institutions as a high-risk activity, and such information asymmetries exacerbate the risks and can explain the predominance of short-term financing to SMEs.

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, 2013). 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.

The average interest rate charged in 2013 amounted to 13.1%, exactly 200 base points more than for large enterprises. This is relatively high even if the level of inflation is taken into account, but down from the levels observed by the OPORA study. Interest rates for large enterprises were on the increase between 2010 (9.8%) and 2013 (11.1%). On the side of the Russian banks, there are the volatility and short term nature of the most deposits which limit their ability to extend good credit terms to borrowers.

Equity financing

After the break-up of the former Soviet Union, international donors such as EBRD, IFC and USAID were active in starting the development of venture capital in Russia. The Russian Venture Capital Association was established in 1995. The venture capital sector initially experienced difficulties in attracting investors from the traditional sources such as insurance companies and pension funds due to legal restrictions. In 2006 the Ministry of Economic Development launched a programme for regional venture capital funds in 19 Russian regions. The Russian Venture Company (RVC) was also established in 2006 and was financed from the federal budget. RVC is a federal fund-of-funds stimulating venture capital investment in the hi-tech sector (OECD, 2010).

Venture capital has grown steadily over the period 2008-13. 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.

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.

Table 27.2. **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/10.1787/888933195642

Other indicators

The number of bankruptcies reached a peak in 2010, but sharply declined in 2011, as the economy recovered from the 2008-2009 economic crisis. In 2013, an increase by 10% was observed, again dropping by 7% year-on year in 2013 with a total of 13,144 bankruptcies registered, well below the number observed in 2010 and even below the pre-crisis period.

SME non-performing loans as a proportion of all SME loans more than doubled between 2008 (4.3%) and 2010 (8.8%). Since then, the NPL rate has declined to 7.1% in 2013, down from 8.4% in 2012. Total NPL's have seen a more modest increase, peaking to 5.8% in 2010 and then continuously falling to a low of 4.3% in 2013. 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. The weight of SME NPL's has declined somewhat in 2012 to 31.1%

There is evidence that NPL's might be underreported and both the level of non-performing loans as well as its increase since 2007 would be much higher if a broader definition were used. A similar problem relates to connected lending in the corporate sector. It is estimated that 10% of Russian banks' loan portfolio is made up by loans to related parties (Biaritz, 2013).

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.

The Russian Government has identified entrepreneurship and the further development of the SME sector as a key priority. According to the 2014 Doing Business Report of the World Bank, Russia is one of the countries where the regulatory environment has improved most between June 2012 and May 2013.

Government loan guarantees increased by a factor of 2.6 over the 2010-13 period. The value of loan guarantees backed just over twice the value of the loans in that period.

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, 2012).

The prevalence of micro finance institutions (MFIs) is growing. In 2008 there were ca. 2,300 MFIs with an aggregate loan portfolio of approximately 25 billion RUR (Russian Microfinance Center, 2013). By comparison, in 2012, there were 3,570 registered non-bank microfinance providers in Russia, collectively managing a portfolio of approximately 35 billion RUR. These MFIs include membership-based institutions such as credit cooperatives (approximately 1,200, the largest category), specialised NGO-type microfinance institutions, public funds (ca. 15% of portfolio), payday loan operations and commercial non-bank companies. Approximately 70% of MFIs loan to SMEs with approximately 20 % of loans to start-ups and 80 % to more established small enterprises.

Loan sizes range between 60 thousand RUR to 900 thousand RUR with maturities of less than one year, typically to finance working capital. Interest rates are between 16 and 30 percent annually for private sector MFIs but are lower, as low as 10% annually, for state-supported MFIs (which tend to employ stricter criteria than do private sector MFIs).

In 2014, the Russian Government established the Credit Guarantee Agency. The new agency aims to render guarantee support to SMEs. Its authorized capital totals RUB 50 billion (USD 1.4 billion) in budget funds. The Agency began operations on June 30 and has already signed agreements with the biggest banks working in lending to small and medium-sized business, including Sberbank, VTB-24 and Bank of Moscow. This Agency complements the system of the existing regional organisations through coordinating their activities and is working now in practically every region throughout the country. These organisations have put together a portfolio worth around RUB 120 billion and have accorded around RUB 250 billion in loans on acceptable terms for SMEs. The Agency provides counter-guarantees to regional guarantee organisations and direct guarantees to medium-sized businesses. A plan to make an additional 50 billion in guarantees available through the Agency in 2014 is on the table. Over the coming five years, it is expected to accord around 350 billion in loans under these guarantees, concentrate mainly on investment loans in a variety of sectors, including agriculture, the food industry, light industry, timber processing, machine-building, and innovation sectors.

Private sector MFIs receive funds from private investors (often the founder) who operate on a for-profit basis. Private sector MFIs also include credit cooperatives funded by members who are also the eligible loan recipients. Private sector loans from MFIs to SMEs average approximately RUB 120 thousand with interest rates typically of the order of 25 to 30%. Micro loans were usually given for periods from 6-12 months. Other sponsors of MFIs include international development banks.

Since 2007 Vnesheconombank, through its subsidiary SME Bank, has been implementing the SME Lending Support Programme, and acts as the conduit of government funding for SMEs throughout Russia. The strategic goal of the Programme is to support the development of SMEs, in those segments which enable development of the country or a specific region. These are primarily manufacturing, modernisation, innovation, and energy efficiency projects. It also includes companies which are especially important for the economy and social development of the area.

The SME Bank provides its assistance to SMEs via a number of regional commercial banks and non-bank financial institutions: leasing companies, micro-financing organisations, regional SME support funds, factoring companies and other organisations. Most of the banks participating in the Programme are small regional lending institutions, which are more active in the SME segment than other banks. The volume of total loans under the Programme as of January 1, 2014 reached RUB 96.2 billion. SME Bank partners comprise 137 banks and 150 infrastructure organisations, including leasing and factoring companies, microfinancing companies, and regional SME support foundations. In SME Bank's debt structure, banks dominate, with 80%. The share of factoring companies accounts of a tenth of the total debt, and the highest share is held by the infrastructure companies.

Box 27.1. **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

Legal frame: the Federal Law No 209-FZ dated July 24, 2007 "On the small and medium-sized enterprise development in the Russian Federation".

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.

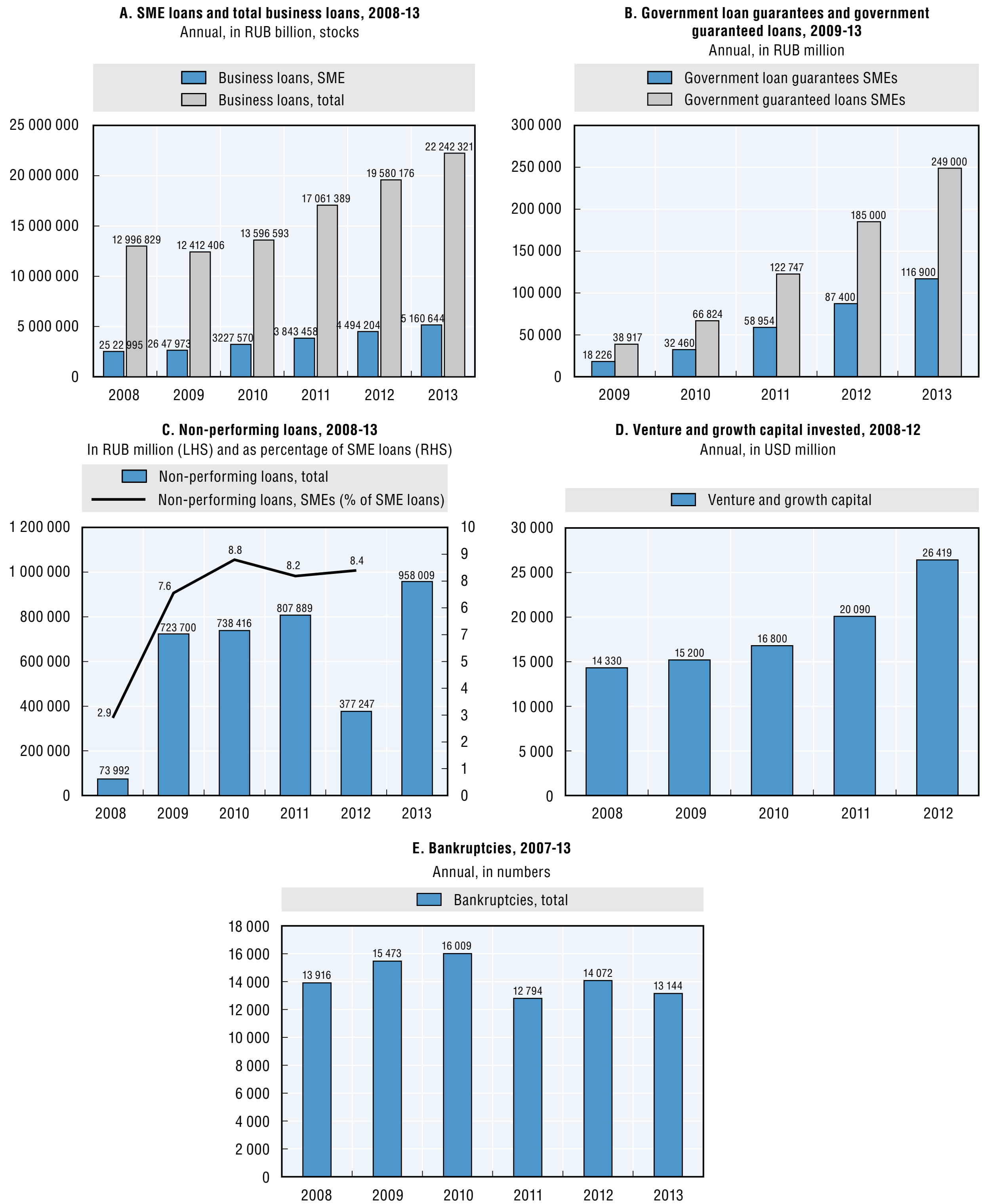
Table 27.3. **Scoreboard for the Russian Federation, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	RUB million	..	2 522 995	2 647 973	3 227 570	3 843 458	4 494 204	5 160 644
Outstanding business loans, total (stock)	RUB million	..	12 996 829	12 412 406	13 596 593	17 061 389	19 580 176	22 242 321
SME loan share	%	..	0.19	0.21	0.24	0.23	0.23	0.23
New business loans, SMEs (flows)	RUB million	..	..	3 014 572	4 704 715	6 055 744	6 942 525	8 064 759
New business loans, total (flows)	RUB million	..	..	19 091 541	20 662 219	28 412 267	30 255 044	36 224 567
Government loan guarantees, SMEs	RUB million	..	..		32 460	58 954	87 400	116 900
Government guaranteed loans, SMEs	RUB million	..	..	..	66 824	122 747	185 000	249 000
Non-performing loans, SMEs	%	..	4.27	7.56	8.80	8.19	8.39	7.08
Non-performing loans, total	%	..	…	5.83	5.43	4.74	4.57	4.31
Interest rate, SMEs	%	..	..	..	..	..	..	13.10%
Interest rate, large firms	%	11.5%	14.1%	13.8%	9.8%	10.6%	10.6%	11.1%
Equity								
Venture and growth capital (seed and early stage)	mln USD	1 625	2 408	2 687	2 854	3 450	4 557	5 211 (at the end of 1Q)
Other								
Bankruptcies, total	Number	..	13 916	15 473.0	16 009.0	12 794.0	14 072.0	13 144.0

Source: Table 27.4.

StatLink http://dx.doi.org/10.1787/888933195655

Figure 27.2. **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/10.1787/888933194129

Table 27.4. **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, including overdrafts, business mortgages, lines of credit and business cards. Non-employer firms are excluded.	Bank of Russia
Business loans, SMEs (flows)	Amount of new loans for SMEs are granted during the year. Lines of credit, overdrafts, business mortgages and business cards are included. Non-employer firms are excluded.	Bank of Russia
Business loans, total (stocks)	Bank and other credit institution loans to all enterprises outstanding, including overdrafts, business mortgages, lines of credit and business cards. Non-employer firms are excluded.	Bank of Russia
Business loans, total (flows)	Amount of total business new loans are granted during the year. Lines of credit, overdrafts, business mortgages and business cards are included. Non-employer firms are excluded.	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, defined as the amount of business loans that are more than 90 days late out of all business loans	Bank of Russia
Non-performing loans, SMEs	Non-performing loans, defined as the amount of SME loans that are more than 90 days late out of all SME 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

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Serbia

SMEs in the national economy

Serbia does not use the standard EU definition for an SME. The Serbian Accounting and Auditing Law (2006) defines an SME as an enterprise which fulfils 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. 99.8% of all Serbian enterprises are SMEs and employ over 65% of the labour force.

Table 28.1. **Distribution of firms in Serbia, 2012**

By firm size

Firm size (employees)	No. firms	%	No. employees	%
All enterprises	**317 668**	**100.0**	**1 202 045**	**100.0**
SMEs (1-249)	**317 162**	**99.8**	**782 026**	**65.1**
micro (1-9)	305 321	96.1	361 311	30.1
small (10-49)	9 699	3.0	196 492	16.3
medium (50-249)	2 142	0.7	224 223	18.7
Large (250+)	**506**	**0.2**	**420 019**	**34.9**

Note: Non-employer enterprises are not included.

Source: Ministry for Economy and Regional Development, Report on SMEs, 2012.

StatLink http://dx.doi.org/10.1787/888933195665

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% (2012) whereas the percentage of microenterprises grew.

SME lending

In order to obtain the data necessary to calculate the core indicators on SME access to finance, the National Bank of Serbia regularly undertakes a special annual survey on SME financing among commercial banks residing in Serbia (in 2014, 26 banks took part).

SME loans increased by 51.2% over the 2007-11 period, but declined afterwards by 10.0% in 2012 and 8.1% in 2013 year-on-year. Total outstanding business loans grew by 36.1% year-on-year between 2007 and 2008 and much more slowly afterwards by 9.1% over the 2008-12 period, while in 2013 a decrease by 6.2% was recorded. The SME loan share increased from 21.0% to almost 22.0% over the 2007-11 period and dropped to 19.3% and 18.9% in 2012 and 2013, respectively, suggesting a worsening of the credit supply for SMEs. Short-term loans account for a large part of SME lending, at a slightly downward path since 2007 (35.0% of total SME loans being short-term ones in 2007, against 27.2% in 2012). 2013 saw a reversal of this trend as the share of short-term SME loans grew to 29.8%.

Credit conditions

SME credit conditions reflected the banks' perception of risk, but have sent contradicting signals for the different currency denominations of the loans (national vs. foreign currency), which can be attributed to the influence of domestic macroeconomic indicators on lending. The average interest rate charged to SME loans in foreign currency declined somewhat in 2013 by 10 basis points year-on-year, standing at 8.5 % compared to a 6.9% equivalent rate charged to large enterprises in 2013, marking a risk premium for SMEs of 1.61%, a significant jump after three years of decline. On the contrary, interest rates for SME loans in national currency recorded a drop of 70 basis points in 2013 year-on-year to 18.3%, while the equivalent for large enterprises remained constant at 13.9%. The interest rate spread for loans in national currency therefore lowered substantially vis-à-vis 2012.

More and more SMEs are required to provide collateral in order to receive bank financing. In 2013, 57.0% of all SMEs stated that they needed additional collateral (as Bills of exchange are obligatory for each loan), up from 31.6% in 2007 and 54.9% in 2012. At the same time, the loans authorised to requested ratio dropped from 81.3% in 2007 to 68.2% in 2013. This means that banks reject for more loan applications and have thus become more selective.

Other indicators

The percentage of SMEs waiting for more than 60 days for payment rose from 31% in 2011 to 36 in 2012 (indicator for 2013 is not yet available). The number of bankruptcies per 1,000 firms (of all sizes) increased dramatically from 25.9 in 2011 to 43.5 in 2013, pointing to a worsening of the economic climate in Serbia.

Over the 2007-13 period, the relative number of SME non-performing loans increased dramatically from 6.7% in 2007 to 28.4% in 2013, one of the highest among countries participating in the Scoreboard. This increase is much more spectacular than the number of non-performing loans as a proportion of all business loans.

Government policy response

The Serbian Ministry of Finance has the responsibility for entrepreneurship and SME development. The framework for SME development policy has been comprised in the Development Strategy of Competitive and Innovative Small and Medium-Sized Enterprises. The Strategy is based on 5 pillars which include: Promotion and support of entrepreneurship and establishment of new enterprises, Human resources for competitive SME sector, Financing and taxation of SMEs, Competitive advantages of SMEs in export markets, and Legal, institutional and business environment for Serbian SMEs.

Main achievements of the implementation of the Strategy for the Development of Competitive and Innovative SMEs in 2012 in the field of promotion and support of entrepreneurship and establishment of new enterprises were as following. The Serbian Development Fund (SDF) implemented a Credit Support for Start-ups. Within the programme, 53 start-up loans were approved, with the total amount of 110 371 437.00 dinars. Legal entities were approved 32 loans with the total value of 84 326 915.00 dinars, and sole traders 21 loans with the value of 26 004 522.00 dinars. Also, the National Employment Service signed 1,948 contracts with the unemployed within the Self-Employment Support Programme in 2012. In total, 362 contracts were signed with unemployed people for single payment compensations for self-employment. On the basis of subsidies for new jobs 768 contracts were signed with employers for the employment of 1 081 people registered with the National Employment Service.

In the field of financing and taxation of SMEs in 2012, SDF realised long-term loans for legal entities from their own funds, as well as short-term loans for promotion of competitiveness and liquidity. In 2012, 132 programmes/long-term loans were approved in total for legal entities, with a total value of 10 788 757 507.80 dinars and 15 short-term loans for promotion of competitiveness and liquidity, with a total value of 670 489 188 dinars. As a part of the Programme for financing the development of undeveloped municipalities in 2012, SDF approved 122 loans with the total value of 4 199 932 690 dinars. In total, 19 loans were approved to sole traders with the value of 54 200 000 dinars, and 103 loans to legal entities with the value of 4 145 732 690 dinars. Through SDF, Ministry of Finance implemented a credit line to promote the quality of catering services in the tourism industry with 9 loans approved, with the total value of 41 619 582.95 dinars. The Programme for subsidised loans for liquidity of companies was launched with the goal to help enterprises to sustain the level of employment, liquidity and the necessary level of working capital. Loans are provided in dinars, and indexed in euro. Liquidity loans in dinars had an annual interest rate equal to the NBS reference rate for loan users, and foreign exchange loans in euro had a maximum annual rate of 3.5% for the user. In 2012, banks approved EUR 1.1 billion of loans to companies for liquidity with subsidised interest rate. In 2012, The Export Credit and Insurance Agency (AOFI) realised 180 short-term loans with the total value of EUR 77 432 000, of which EUR 21 475 000 for SMEs (27.7%). The value of realised loans is 1.5% higher than in 2011. In 2012, AOFI purchased EUR 53.23 million of receivables, which is 2.6% higher than in 2011. Of that amount, EUR 20.38 million or 38.29% was related to SMEs. On the basis of the insurance from commercial risks, in 2012, AOFI signed 61 contracts which insured 938 buyers, and the total value of insured contracts was EUR 126 893 423. Measures for support to development of SMEs with fast growth potential – gazelles – 30 000 000 was allocated through this measure, and funds were approved for projects of 40 business entities, with the total value of 22 492 000 dinars.

Box 28.1. **Definition of an SME in Serbia**

The Serbian Accounting and Auditing Law (2006) defines an SME as an enterprise which fulfils 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 28.2. **Scoreboard for Serbia, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Business loans, SMEs	million EUR	2 858	3 994	3 966	4 202	4 320	3 887	3 572
Business loans, total	million EUR	13 598	18 501	18 779	19 348	19 619	20 184	18 940
Business loans, SMEs	% of total business loans	21.0%	21.6%	21.1%	21.7%	22.0%	19.3%	18.9%
Short-term loans, SMEs	million EUR	1 000	1 265	1 356	1 436	1 308	1 058	1 063
Long-term loans, SMEs	million EUR	1 858	2 729	2 610	2 766	3 012	2 829	2 509
Total short and long-term loans, SMEs	million EUR	2 858	3 994	3 966	4 202	4 320	3 887	3 572
Short-term loans, SMEs	% of total SME loans	35.0%	31.7%	34.2%	34.2%	30.3%	27.2%	29.8%
Government guaranteed loans, SMEs	million EUR	0.2	0.2	297.9	522.7	390.3	540.9	316.4
Loans requested (new loans total)	million EUR	3 472	5 045	4 776	6 460	4 705	4 810	3 896
Loans used (new loans total)	million EUR	2 027	3 409	3 015	3 190	3 323	2 847	2 326
Loans authorised (new loans total)	million EUR	2 825	4 175	3 419	4 708	3 963	3 294	2 659
Non-performing loans, total	% of total loans	..	14.6%	19.8%	20.7%	22.3%	19.2%	24.5
Non-performing loans, SMEs	million EUR	192	422	748	882	978	1 026	1 016
Non-performing loans, SMEs	% of total SME loans	6.7%	10.6%	18.9%	21.0%	22.6%	26.4%	28.4%
Interest rate, SMEs (loans in foreign currency)	percentage	10.7%	10.9%	10.6%	10.1%	9.7%	8.6%	8.5%
Interest rate, large firms (loans in foreign currency)	percentage	6.3%	8.0%	7.2%	7.4%	7.9%	7.2%	6.9%
Interest rate spread (loans in foreign currency)	percentage point	4.37%	2.85%	3.35%	2.70%	1.85%	1.39%	1.61%
Interest rate, SMEs (loans in national currency)	percentage	18.9%	21.3%	20.5%	16.5%	17.9%	19.0%	18.3%
Interest rate, large firms (loans in national currency)	percentage	13.8%	16.3%	15.3%	13.4%	14.4%	13.9%	13.9%
Interest rate spread (loans in national currency)	percentage point	5.09%	5.02%	5.21%	3.07%	3.54%	5.11%	4.33%
Collateral, SMEs	percentage	31.6%	38.8%	43.1%	44.5%	45.6%	54.9%	57.0%
Equity								
Venture and growth capital		0.1	1.3	..	13.2	..	..	..
Other								
Payment delays		..	..	34%	31%	31%	36%	..
Bankruptcies, total	per 1,000 firms	18.3	12.5	19.4	22.3	25.9	44.0	43.5
Bankruptcies, total	%, Year-on-year growth rate	..	-32%	55%	15%	16%	69%	..

Source: See Table 28.3

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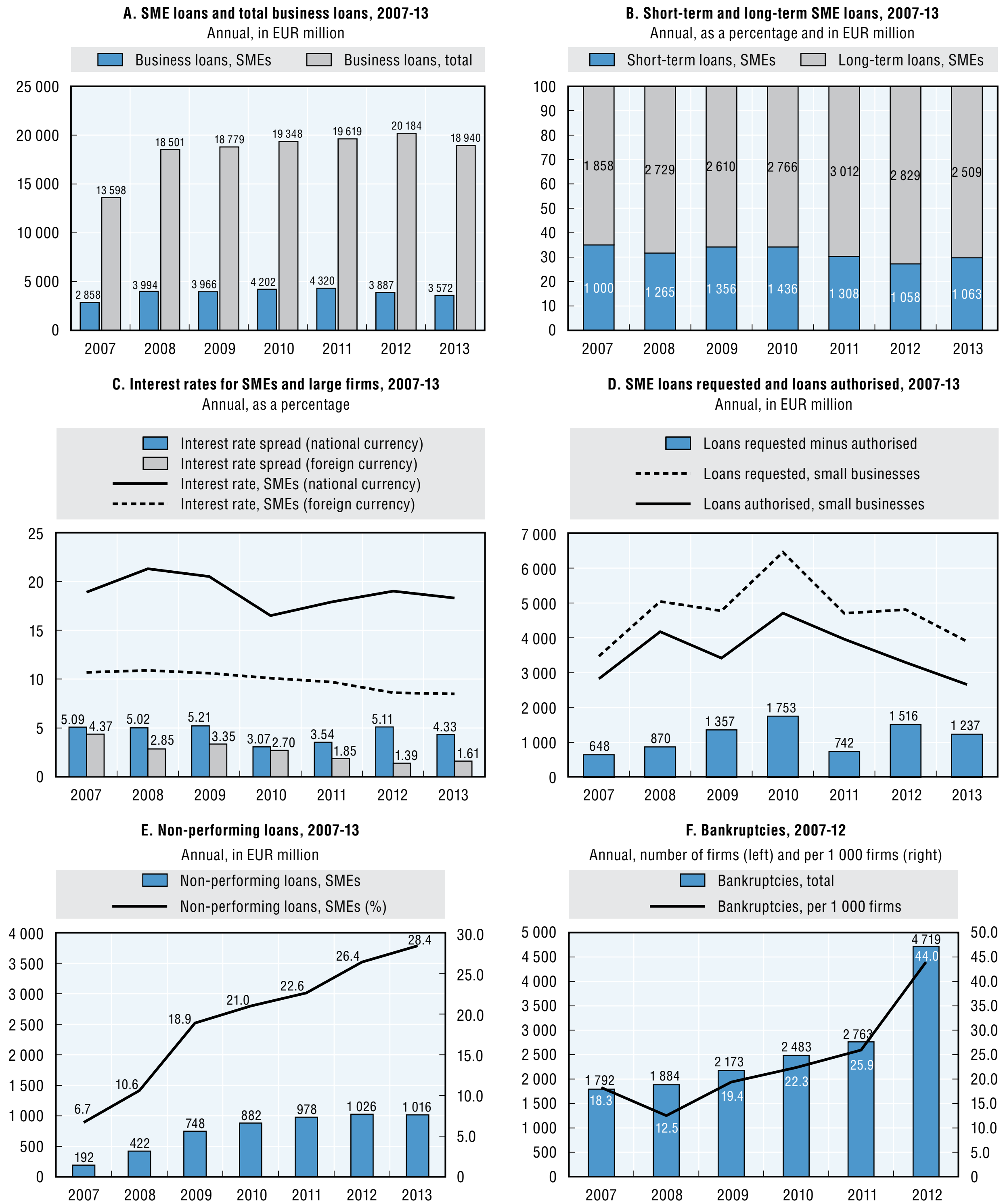
Figure 28.1. **Trends in SME and entrepreneurship finance in Serbia**



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/10.1787/888933194139

Table 28.3. **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, long-term, 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, long-term, 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 SMEs by the government through commercial banks.	National Bank of Serbia, Bank Survey on SMEs
SME loans requested	Flows	National Bank of Serbia
SME loans authorised	Flows	National Bank of Serbia
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 Bills of exchange excluded as collateral.	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	Average number of days delay beyond the contract period for Business to Business (B2B) and Business to Customer (B2C).	Statistical Office of Republic of Serbia
Bankruptcy	Number of enterprises ruled bankrupt; enterprises of all size.	Survey of the Agency for Business Registry of Serbia
Bankruptcy, per 1 000 firms	Number of enterprises ruled bankrupt per 1 000 firms; enterprises of all size.	National Bank of Serbia's calculation based on survey of the Agency for Business Registry of Serbia

Slovak Republic

SMEs in the national economy

SMEs dominate the Slovak economy, covering 99.5% of the enterprise population as of 2012. The vast majority of SMEs (87.7%) were micro enterprises, employing up to 9 employees. Self-entrepreneurs are an important component of the enterprise population in the Slovak Republic, a significant part of which are employing firms. In 2013, there were altogether 39 531 self-entrepreneurs with at least 1 employee, with the exception of 2 all of them are part of the SME population.

Table 29.1. **Distribution of firms in the Slovak Republic, 2012**

By firm size

Firm size (employees)	Number	%
All firms (with minimum of 1 employee)	136 772	100.0
SMEs (1-249)	***136 146***	***99.5***
Micro (1-9)	118 504	86.6
Small (10-49)	14 898	10.9
Medium (50-249)	2 744	2.0
Large (250+)	***626***	***0.5***

Note: Data include non-financial enterprises

Source: Database of Statistical Office of the Slovak Republic.

StatLink http://dx.doi.org/10.1787/888933195680

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 harmonised 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 harmonised

SME data are made available from banking statistics, these will be used for both natural and legal persons.

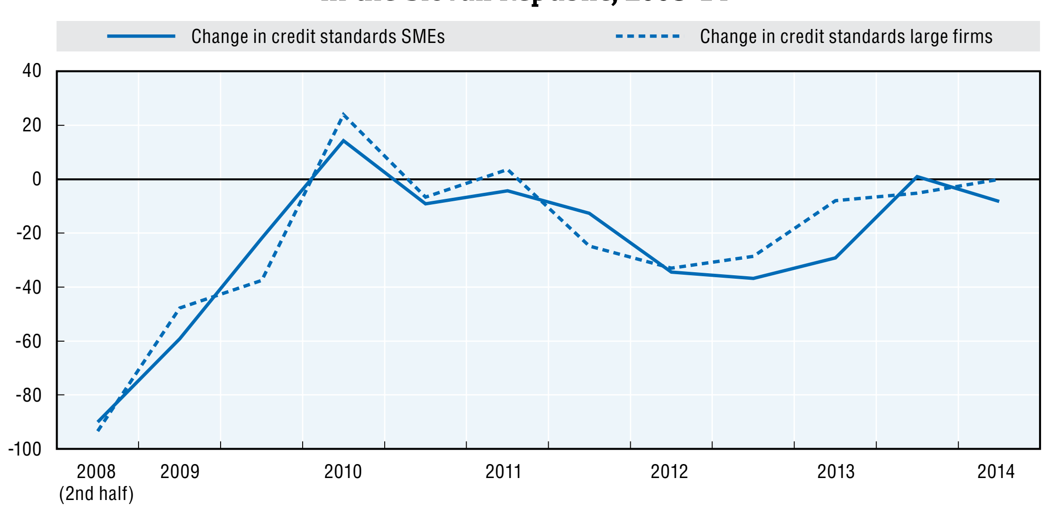
Total SME lending surged in 2008 by 32% year-on-year, and remained broadly constant up to 2010. In 2011, SME lending fell by 12%, again picking up in 2012 and 2013 by 4.1% and 11.7% respectively. Total SME lending increased in 2008 and stagnated in 2009-10, decreasing by 12.0% in 2011. The decline in SME lending in 2011 was more pronounced in short-term loans (-16.0%) than in long-term lending (-9.2%). There was a modest growth in total business lending in 2011 of 6.2% year-on-year. In 2012 and 2013, total lending to enterprises slowed down recording a 3.7% and 2.7% decrease respectively. Nevertheless, lending in 2013 is still above the 2007 level.

Credit conditions

SME interest rates plummeted from 5.5% (2007) to 3.0% (2009) but rose again in 2010 to 3.2%, remaining constant in 2011. In 2012 and 2013, SME interest rates stood at 3.8% and 3.6% respectively, above the 2009 level, but well below the pre-crisis level observed in 2007. Interest rates for self-entrepreneurs decreased somewhat from 6.2% in 2012 to 6% in 2013.

According to the Central Bank of the Slovak Republic's Lending Surveys, published twice each year, credit surveys tightened dramatically in the second half of 2008, as the recession hit the Slovak economy. Although credit conditions for SMEs eased somewhat in 2010, they again tightened in 2011 and in the next few years. The most recent information indicates that credit standards for SMEs have not been relaxed since, and even became more restrictive in the first half of 2014. The banks' liquidity position and cost associated with their capital position were the main factors behind the recent tightening (see Figure 29.1).

Figure 29.1. **Change in credit standards for SMEs and large firms in the Slovak Republic, 2008-14**

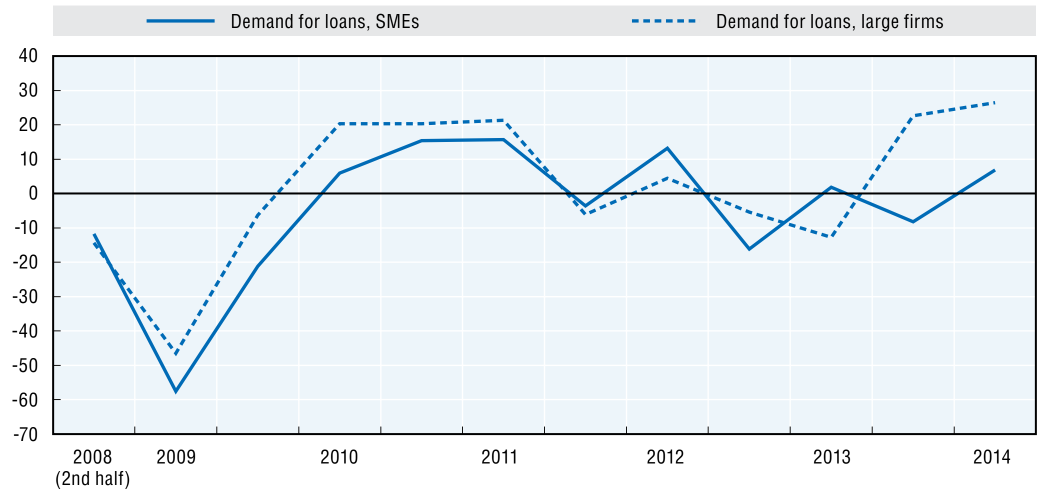


Source: National Bank of Slovakia

StatLink http://dx.doi.org/10.1787/888933194147

After a severe contraction in 2008 and 2009, the demand for bank loans, both by SMEs and large firms as reported by the Bank Lending Survey, turned positive in 2010 and remained so in 2011. Since then, demand by SMEs has been relatively stable, falling and rising from one period to the other. In the second half of 2013 and the first half of 2014, the demand for bank loans by large firms picked up, however.

Figure 29.2. **Change in the demand for bank lending by SMEs and large firms in the Slovak Republic, 2008-14**



Source: National Bank of Slovakia

StatLink http://dx.doi.org/10.1787/888933194151

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 in 2013 rose almost 29% comparing to the previous year, but they were still far from their peak in 2009. Total funding over the period was very marginal. In 2013, Venture capital investment was concentrated into development phase with 60% increase from the previous year, while investment into other investment stages was marginal. Decline of investment into seed and start-up phase was influenced by the preparation of venture capital instruments under JEREMIE initiative, which were supposed to focus on these investment stages. As a consequence other VC funds targeted their investments at development stage.

Table 29.2. **Venture capital investments in SMEs in the Slovak Republic, by investment stage, 2007-13**

In EUR

	2007	2008	2009	2010	2011	2012	2013
Seed	215 760	3 845 847	2 099 247	61 988	872 467	1 183 805	60 000
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	8 931 786
Total	**7 033 791**	**7 990 872**	**14 365 613**	**11 417 998**	**11 470 545**	**6 978 337**	**8 991 786**

Source: Slovak Business Agency.

StatLink http://dx.doi.org/10.1787/888933195693

Other indicators

Average B2B payment delays were at a low in 2008, amounting to 8 days and rose sharply in the next few years, reaching 22 days in 2012. Suppliers' payment delays remained high so that this allowed SMEs to retain cash and is evidence of liquidity problems. 2013 marked a turning point as the average payment dropped for the first time in 5 years to 19 days.

Total bankruptcies increased continuously over the 2007-11 period, standing at 169 in 2007 and increasing by 2.45 times by 2011. The decrease of the number of bankruptcies of 4% year on year in 2012, was followed by an uptick of 9.4%, reaching a new high of 394 bankruptcies in 2013. SMEs account for the lion's share of total bankruptcies, covering 95.7% of the total in 2013, up from 94.2% in 2012.

Government policy response

There are government SME loan and guarantee programmes operated by specialised state banks and the Slovak Business Agency (SBA). During the financial crisis government loan guarantees increased by 20.1% to EUR 99 million (2008), similarly SME government direct loans increased by 37% between 2007 and 2008 to EUR 160 million. Between 2008 and 2010, loan guarantees declined to EUR 70 million and rose again to 87 million in 2012. In 2013, however, government loan guarantees more than halved and stood at EUR 38 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. Remarkably, government guaranteed loans went up by 15.4% in 2013. The leverage ratio, i.e. the proportion of guaranteed loans that are covered by loan guarantees, swelled from 1.6 to 4.1 year-on-year in 2013. On the other hand direct government loans funding increased significantly by 30% reaching EUR 219 million. The total number of direct government loans provided in 2013 was EUR 158.2 million.

Activities of the Slovak Guarantee and Development Bank

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.

The *MICRO Loans* programme, launched in 2004, is implemented by the Slovak Guarantee and Development Bank and provides short-term and medium-term loans for target enterprises for an amount between EUR 2 500 and EUR 50 000 at low interest rates. The businesswomen loan and the young enterprise credit, are targeted lending schemes by the Slovak Guarantee and Development bank and are open to female and young entrepreneurs respectively.

Loan guarantees of the Slovak Guarantee and Development Bank support the exploitation of new technologies, small craftsmanship and small family businesses, businesses operating in the processing of national raw materials and materials, secondary materials, fuel and energy savings and renewable energy sources, as well as agriculture and food industry.

Activities of the Eximbank

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.

EU-JEREMIE initiative

Another government response, in cooperation with EIF, is the EU-JEREMIE initiative that represents 3 financing instruments: First Loss Portfolio Guarantee - FLPG (guarantee scheme) with the allocation of EUR 43 million, Portfolio Risk Sharing Loan - PRSL (loan scheme) with the allocation of EUR 20 million and Risk Capital Instruments (venture capital) with the allocation of EUR 31 million. Leverage effect generated by these financing instruments should provide minimum of EUR 306.6 million for SMEs under favourable conditions. In 2013 only FLPG was launched with 4 participating commercial banks.

Operational Programme Competitiveness and Economic Growth

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). In 2013 altogether 189 entrepreneurs were supported from the Operational Programme Competitiveness and Economic Growth, out of them 49.9% were SMEs.

Risk Capital Programme

The objectives of this programme are to facilitate access for SMEs to development capital through venture investments. The programme is implemented by 7 venture capital funds, the most significant are:

- Slovak Growth Capital Fund
- Slovak Development Fund
- Innovation and Technologies Fund.

These funds are operated by investment managers. Funds provide equity or quasi-equity investments into target companies, alternatively complemented by loans. The total cost of realised investments amounted to 77.3 EUR million so far, supporting 198 companies.

Micro Credit Programme

This scheme, originating in 1997 and suspended in 2010, was re-launched in 2013 and provides credits between EUR 2,500 and EUR 50,000 to Slovak SMEs for equipment or operating premises. Since the restart of the programme, EUR 1.25 million has been lending.

Table 29.3. **Scoreboard for the Slovak Republic, 2007-13**

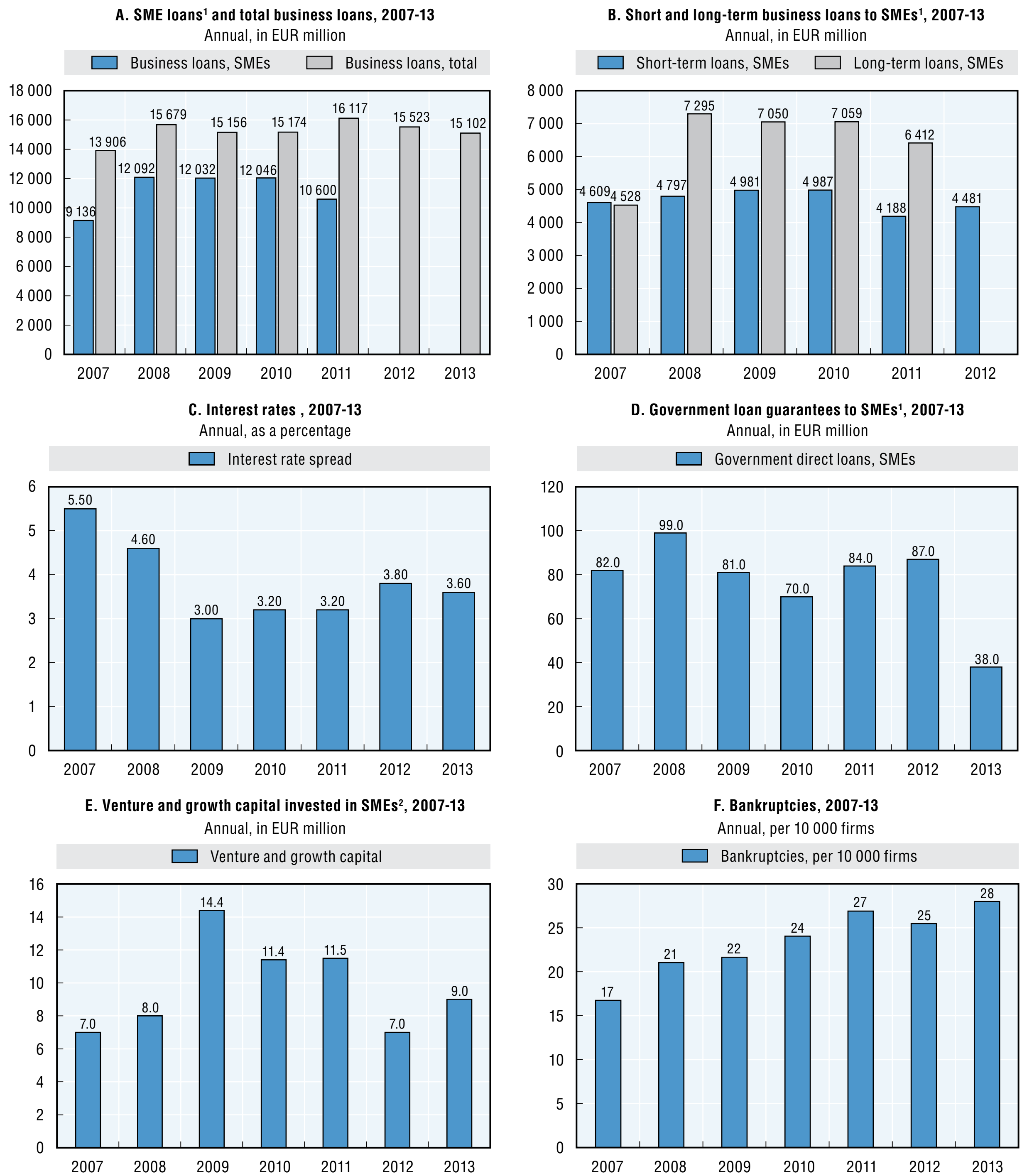
Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	EUR millions	9 136	12 092	12 032	12 046	10 600	(1) 11 038; (2) 5 893	(2) 6 704
Outstanding business loans, total (stock)	EUR millions	13 906	15 679	15 156	15 174	16 117	15 523	15 102
New business loans, total (flows)	EUR millions	..	..	..	..	..	11 687	11 876
Outstanding short-term loans, SMEs (stock)	EUR millions	4 609	4 797	4 981	4 987	4 188	4 481	
Government loan guarantees, SMEs	EUR millions	82	99	81	70	84	87	38
Government guaranteed loans, SMEs	EUR millions	115	157	143	139	167	136	157
SME loans authorised/SME loans requested	%	..	..	..	..	57.2%	..	53.2%
Non-performing loans, SMEs		..	..	..	..	..	613	666
Non-performing loans, total	EUR millions	..	..	1 032	1 269	1 336	1 219	1 249
Interest rate, SMEs	%	5.5%	4.6%	3.0%	3.2%	3.2%	3.8%	3.6%
Interest rate, natural persons – entrepreneurs	%	..	..	..	..	..	6.0%	6.2%
Interest rate spread		..	..	..	..	..	(1) 1.9; (2) 3.7	(1) 1.8; (2) 2.2
Collateral, SMEs (3)	% of SMEs required to provide collateral on latest bank loan	100%	100%	100%	100%	100%	100%	100%
Equity								
Venture and growth capital (seed and early stage)	EUR millions	7.0	8.0	14.4	11.4	11.5	7.0	9.0
Other								
Payment delays, B2B	Days	19.7%	8%	13%	17%	20%	21%	19.0%
Payment delays, B2C	Days	21.8	8	10	15	13	13	12
Bankruptcies, SMEs	Number	..	..	..	..	363	339	377
Bankruptcies, total	Number	169	251	276	344	375	360	394

Notes: 1. Defined by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – entrepreneurs), 2. Defined by firm size using banking sector definition, 3. Figures relate to development loans, for working capital loans collateral is usually not requested.

Source: Table 29.4.

StatLink http://dx.doi.org/10.1787/888933195703

Figure 29.3. **Trends in SME and entrepreneurship finance in the Slovak Republic, 2007-13**



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: Slovak Business Agency, Slovak Guarantee and Development Bank, Export-Import Bank. Chart E: Slovak Business Agency. Chart F: Statistical Office of the Slovak Republic.

StatLink http://dx.doi.org/10.1787/888933194167

Table 29.4. **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: (1) by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – entrepreneurs). (2) by firm size using banking sector definition	Tax Authority/ financial statements (balance sheets) database, National Bank of Slovakia
Business loans, total	Bank and financial institution business loans to all non-financial enterprises, including natural persons – entrepreneurs, stocks.	National Bank of Slovakia
New business loans	Bank and financial institution new business loans to SMEs, including natural persons – entrepreneurs.	National Bank of Slovakia
SMEs	- by firm size using banking sector definition	
Short-term loans, SMEs	Loans equal to or less than one year by firm size using the national definition of SME (enterprises with less than 250 employees, including natural persons – entrepreneurs).	Financial Directorate/ financial statements (balance sheets) database for the period 2007-2011, 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 2007-2011, National Bank of Slovakia
Non-performing loans	Non-performing SMEs loans classified	National Bank of Slovakia
SMEs	- by firm size using banking sector definition	
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 2007-2011.	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	National Bank of Slovakia
Collateral, SMEs	Percentage of SMEs that were required to provide collateral on latest development bank loan. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).	National Bank of Slovakia, National Agency for Development of Small and Medium Enterprises survey,
Equity		
Venture capital, SMEs	Actual amounts invested in SMEs: seed and start-up phase. SMEs defined following the EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC).	Annual reports on the state of SMEs in the Slovak Republic (National Agency for Development of Small and Medium Enterprises)
Other		
Payment delays	Average number of days delay beyond the contract period for Business to Business (B2B) and Business to Customer (B2C).	European Payment Index reports (Intrum Justitia)
Bankruptcies, total (number)	Number of enterprises ruled bankrupt.	Statistics of the Ministry of Justice
Bankruptcies, SMEs	Number of SMEs ruled bankrupt.	CRIF - Slovak Credit Bureau for the period 2011-2012
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

Spain

SMEs in the national economy

In Spain, 99.9% of all enterprises were SMEs in 2010, employing 75.5% of the business labour force. Out of these, 93.8% were microenterprises, 5.4% were small and 0.7% were medium sized enterprises.

Table 30.1. **Distribution of firms in Spain, 2010**

By firm size

Size	No. enterprises	%	No. employees	%
All Firms	**2 500 574**	**100.0**	**11 989 150**	**100.0**
SMEs (up to 249 employees)	2 497 654	9.9	9 048 236	75.5
Micro enterprises (1 to 9 employees)	2 345 329	93.8	4 832 688	40.3
Small enterprises (10-49 employees)	135 413	5.4	2 564 134	1.4
Medium enterprises (50-249 employees)	16 912	0.7	1 651 414	13.8
Large enterprises (250 employees and over)	2 920	0.1	2 940 914	24.5

Note: Data includes financial enterprises with the exception of holding companies (ISIC Rev.4 sector 642). Non-employer enterprises are not included.

Source: OECD (2013).

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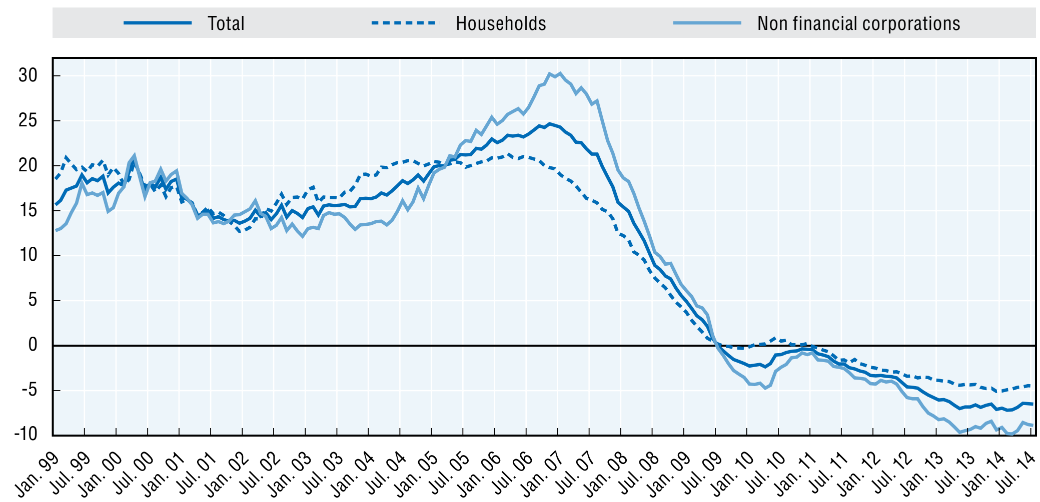
SME lending

In the years leading up to the financial crisis, lending to businesses expanded rapidly in Spain, leading to a high level of indebtness of non-financial enterprises compared with other OECD countries (see Figure 31.1). The stark contraction of credit since the financial crisis, could thus, at least in part, seen as a correction the high levels of credit expansion and overindebtness. 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 2013, with a persisting contraction in lending, although from mid-2013 its rate of decline has moderate. The Central Balance Sheet Data Office's (CBSO) databases (CBA and CBB) can be used to study the main characteristics of non-financial corporations' deleveraging process in Spain for firms of different sizes.[2] The size breakdown shows the differences in debt and leverage developments for smaller and larger companies from year 2007 onwards. According to the latest statistics available, the level of debt for SME, decrease from 100 in 2007 to 96.8 at the end of 2011 in contrast with large firms which registered an increase from 100 in 2007 to 105.4 in 2011. As regards the leverage ratio, SME perceived a reduction from 42.3 in 2007 to 40.3 in 2011 whereas large firms increase slightly (42.9 in 2007 to 43.1 in 2011).

Figure 30.1. **Credit to non-financial private sector adjusted for securitisation and sale in Spain, 1999-2014**

year-on-year growth



Source: Reuters, ECB, and Bank of Spain.

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Spain's economy suffered disproportionately under the financial crisis, with a significant contraction in 2009 and 2010. After a very modest GPD growth of 0.1% in 2011, GDP growth turned negative again in 2012 and 2013. This affected both SME and overall business loan growth; new business more than halved between 2007 (EUR 991 million) and 2013 (EUR 393 million). New SME loans decreased even more from EUR 394 million in 2007 to EUR 134 million in 2013. The SME loan share (proxied by the ratio of new loans less than EUR 1 million over total new business loans) has declined significantly from almost 40% (2007) to 30% (2012) and rose again in 2013 to 34%.

Since the second half of 2013 and continuing in the first quarter of 2014, economic activity in almost all sectors of the economy is picking up, as a result of buoyant growth in export and a strengthening internal consumption. Nevertheless, both new SME loans, as well as new overall business loans slumped further in 2013, by 8.2% and 19% respectively.

The ratio of loans used to loans authorised rose from 77% in 2009 (the first year for which there is data available) to 86% in 2013. This showcases an increasing need for liquidity and a more difficult access to finance for Spanish SMEs.

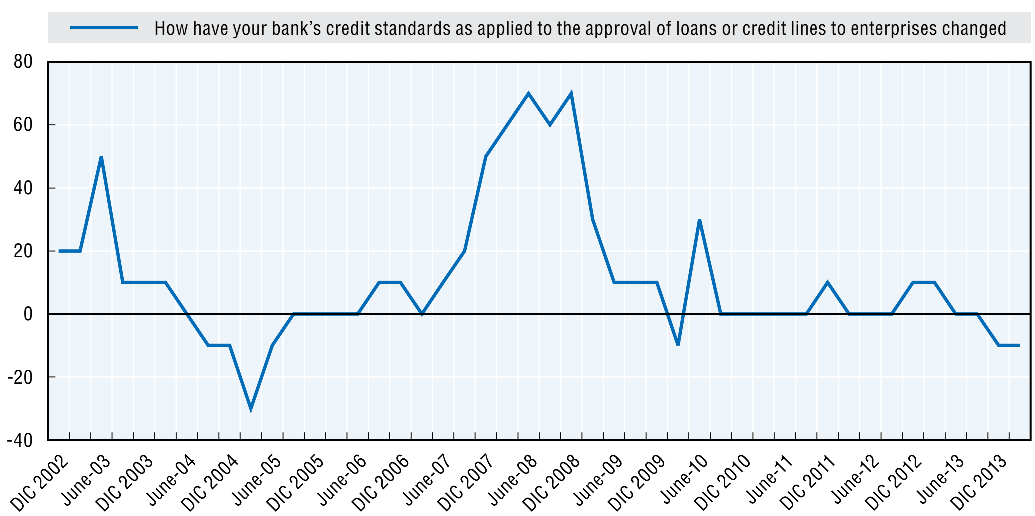
Spanish SMEs predominantly use short-term loans; the new short-term loans to SMEs over all SME loans ratio exceeds 90% for all years covered. As short term lending plummeted even more than long term lending over the 2007-13 period, this ratio has declined somewhat, however, from 96% in 2007 to 94% in 2013.

Credit conditions

Interest rates on loans to non-financial enterprises showed a downward trend between 2007 and 2009; the average for SMEs dropped from 5.96% in 2007 to 3.63%. The average interest rate for all firms stood at 5.33% and 2.16% respectively. Interest rates, both for all SMEs and large firms again started to rise from 2010 onwards as the sovereign debt crisis erupted. In 2011, the interest rate for SMEs amounted to 4.95%, only moderately decreasing to 4.79% in 2013. The interest rate spread between loans to small and medium-sized enterprises and large firms widened dramatically between 2007 and 2012, from 0.63 in 2007 to 2.31% in 2012 although has decreased afterwards. In particular, 2013 (2.10%) and July 2014 (1.74%) saw a reversal of this trend as the interest rate spread charged to SMEs.

According to the Bank Lending Survey, credit institutions considerably tightened credit standards applied to business loans between mid-2007 and mid-2010, which affected both SMEs and large companies. Since then, these standards have remained basically stable, with only occasional and much more limited additional tightening at end-2011 and end-2012-early-2013. Credit conditions for SMEs have loosened only in the last quarter of 2013 and the first quarter of 2014 and only moderately so (see figure 30.2). Therefore, credit standards remained strict.

Figure 30.2. **Credit standards in Spain, 2002-13**



Source: Bank of Spain (2014).

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In line with this trend, the evidence in the ECB/EC Survey on the access to finance of SMEs in the Euro area (SAFE) showed that SMEs perceived a stronger tightening of credit standards than large firms during the crisis and, also, more than SMEs in most other Eurozone countries. 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. The latest SAFE survey, dating from October 2013- March 2014 shows an improvement in Spanish SMEs perception regarding their access to finance, and a moderation in the degree of tightening in credit conditions.

The allocation rate has also increased from 77% in 2009, the first year for which data are available, to 81% in 2012 and 86% in 2013. The collateral requirements, as proxied by the percentage of SMEs backed by real estate guarantees, declined over the period 2009 to 2013 however, from 35% to 30%.

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 9 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 is very much in parallel to the evolution of the Spanish economy. In 2012, a decline of 23.5% in investment volume was recorded for the sector, reaching EUR 2,472 million, down from EUR 3,616 million in 2010. The environment was characterised by scarce new fund raising and a low divestment volume for 2012. Nevertheless, according to the Spanish Association of Venture Capital (ASCRI), venture capital and private equity companies remain especially focused on SMEs, having financed 543 companies in 2012, out of which 90% were transactions of less than EUR 5 million to start-ups and early-phase expansion companies. 2013 witnessed a further decline in investment at EUR 1 453 million, due to EUR 320 million for seed capital, EUR 215 million for early stage and EUR 918 million for growth capital.

Fiscal incentives are used to promote venture capital investment. Venture capital companies registered with the CNMV only have to pay a 1% corporate income tax. In July 2011 a national tax incentive scheme to encourage direct investment by third parties in small, early stage companies was introduced. Third parties investing in shares of unlisted companies are exempt from capital gains. At the time of the investment the companies must be no more than three year old, with equity of no more than EUR 200 000. Investments eligible for relief may not exceed EUR 25 000 a year or EUR 75 000 in three consecutive years. Furthermore, individual investors may not hold over 40% of the company's share capital and must hold the shares for a period of between three and seven years.

Other indicators

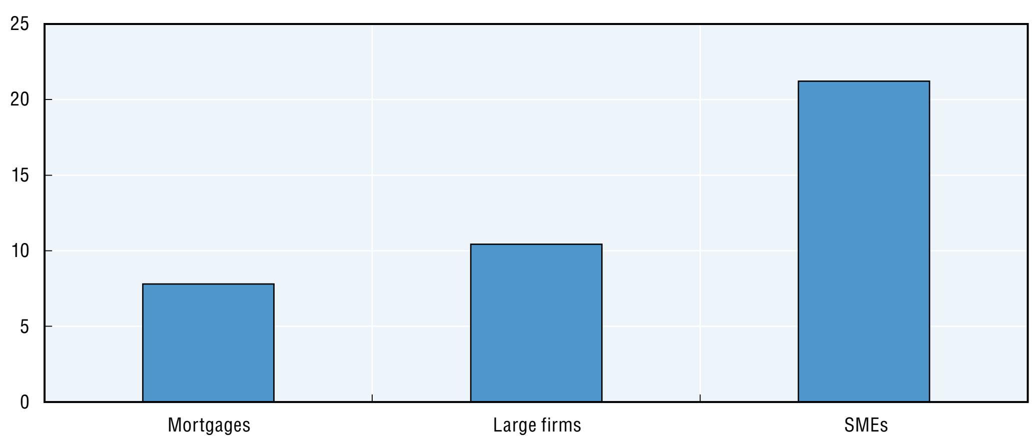
Payment delays were reduced in the years previous to the crisis but rose again in 2009 (from 12 to 26 days). The modification in 2010 of the former Law against the delays (Law 15/2010, modifying Law 3/2004) has reduced delays of B2B from 26 to 14 days (2011). In any case, it should be stressed that the data obtained from accounting data are approximations. They are useful for analysing changes and trends but they cannot verify the degree of compliance with the legal limits set for payment periods. During 2012 payment delays for B2B increased to 11 days due to a reduction in the legal maximum average payment period prescribed in the law.

The number of SME bankruptcies increased by a factor of more than 8 between 2007 and 2013, in part driven by an explosion in the number of companies in construction and property development that have gone bankrupt.

The volume figures of non-performing loans (NPL) also swelled dramatically. NPL ratio remained very stable and low at a level under 1% of private non-financial resident loans (the average of 2005, 2006 and 2007 was 0.8%). It was after the financial incertitude that began in the summer of 2007 (and the growth in the interest rates of that year) when this ratio began to pick up. At the beginning of 2008 the NPL ratio started to grow and reached a level of 5% during 2009. The growth was slower in 2010 but remained positive and accelerated in 2011 and 2012. In 2012 the decision of transferring to a "bad bank" (the SAREB) the real state assets coming from the nationalised banks, caused a slight fall in the ratio, but after that decrease, technical in nature, the NPL ratio continued to grow until the last months of 2013. It was during the last months of 2013 and the first half of 2014 that a relative stabilisation, and even a very modest decline, of the ratio could be observed (slightly above 13%). 2014 witnessed a decline in the NPL ration for two consecutive months, which has not been observed since 2006.

Asset quality has significantly deteriorated over the period 2007-13, with non-performing loans for the entire business loan portfolio standing at 20.86% in 2013 compared to 15.96% in 2012. According to a study by the Central Bank of Spain, the likelihood of a default of an SME stands at more than 20% in the 2012-14 period, more than twice as high as for large firms and about three times as high as a probability of a default of a mortgage loan to households.

Figure 30.3. **Probability of default, mortgages in Spain, large firms and SMEs, 2012-14**



Source: Bank of Spain (2013).

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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:

- 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.
- During 2013 ICO financed EUR 13.8 billion, more than 15% for second-floor facilities to SME and individual entrepreneurs, along more than 190 thousand transactions. The amount for ICO SME and entrepreneurs' facility stood at 12.1 EUR billion for more than 175 thousand operations and ICO Internationalisation facility reached 1.7 EUR billion for almost 14 thousand deals.
- ICO SMEs and Entrepreneurs Facility, is designed to provide financing to Spanish self-employed people and companies to make investments in Spain and meet their liquidity needs. The developments for this facility including improved financing conditions for liquidity and the differentiation of interest rates depending on the repayment periods of transactions. The maximum amount of funding is 10 million euros per client, granted via loans or leasing and with repayment terms of up to 20 years.
- ICO International Facility, seeks to provide financing to Spanish companies and self-employed people to undertake investment abroad and to cover the liquidity needs that these investments require. At present ICO strongly supports internationalisation.

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 12-180 months for investments, R&D and working capital financing. This is a counterguarantee programme, funded by the Ministry of Industry Energy and Tourism. The maximum financing allowed is EUR 1 million per SME or group and the counterguarantee coverage reaches 50%. The programme targets involve the provision of guarantees to 10 000 SMEs with a corresponding amount of EUR 400 million in loans guaranteed.

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 State budget, some of which drawing also by EU budgets (ERDF) and are delivered through a public agent (CDTI). The estimated corresponding cost for these programmes stands at 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 30.1. **Definition of an SMEs used in Spain's 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.

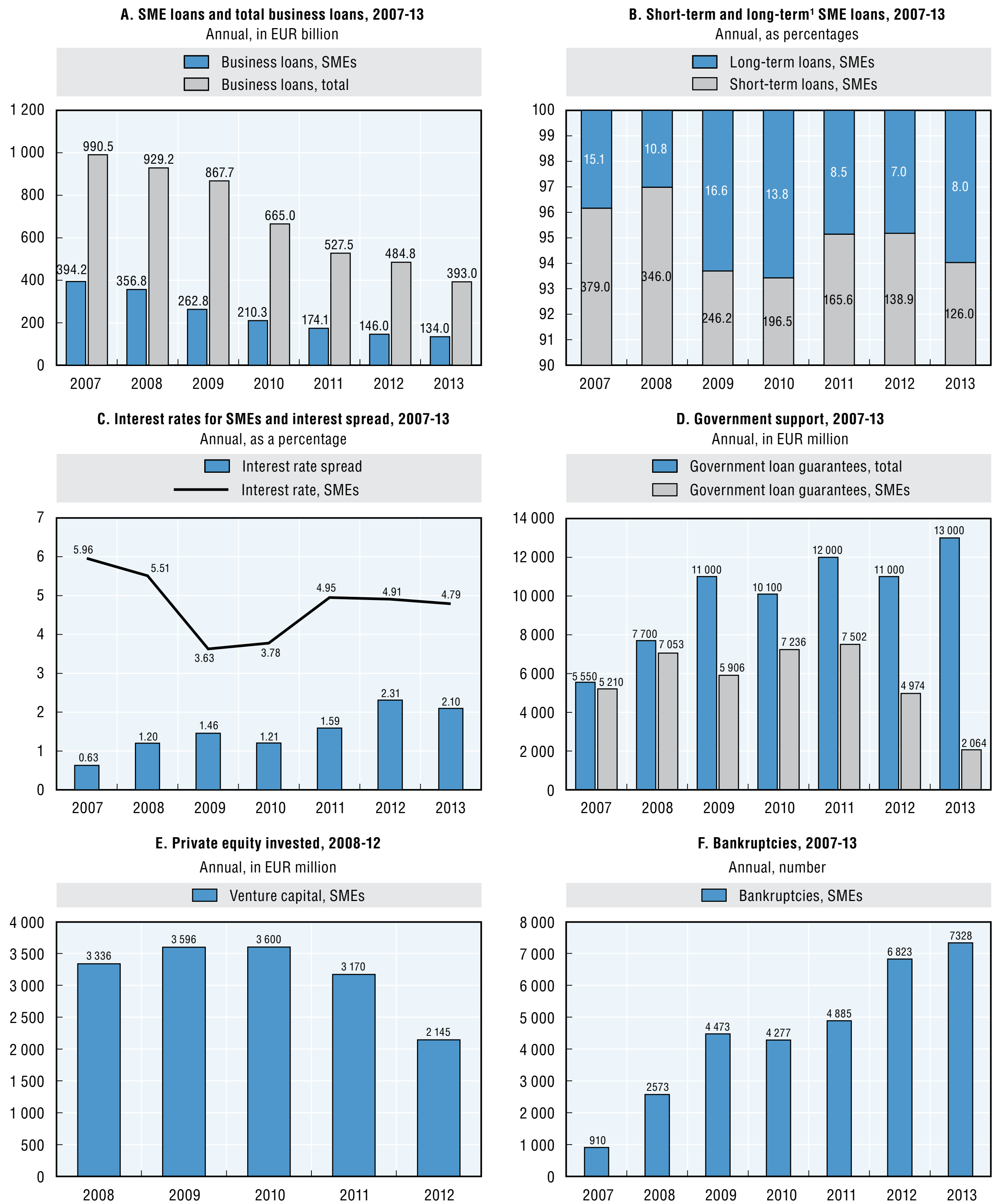
Table 30.2. **Scoreboard for Spain, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Business loans, SMEs	EUR billion	394	357	263	210	174	146	134
Business loans, total	EUR billion	991	929	868	665	528	485	393
Business loans, SMEs	% of total business loans	40	38	30	32	33	30	34
Short-term loans, SMEs	EUR billion	379	346	246.2	196.5	165.6	138.9	138.9
Long-term loans, SMEs	EUR billion	15.1	10.8	16.6	13.8	8.5	7	7
Short-term loans, SMEs	% of total SME loans	96.2	97	93.7	93.4	95.1	95.2	95.2
Government loan guarantees, total	EUR million	5 550	7 700	11 000	10 100	12 000	11 000	11 000
Government guaranteed loans, SMEs.	EUR million	5 210	7 053	5 906	7 236	7 502	4 974	4 974
Direct government loans, total (stocks)	EUR million	15 929	17 630	24 470	26 262	27 045	26 205	26 205
Direct government loans	Year-on-year growth rate, %	..	10.7	38.8	7.3	3	-3.1	-3.1
SME loans authorised/SME loans requested	%			0.772	0.84	0.857	0.805	0.86
Interest rate, SMEs	%	5.96	5.51	3.63	3.78	4.95	4.91	4.91
Interest rate, large firms	%	5.33	4.3	2.16	2.57	3.36	2.61	2.61
Interest rate spread	%	0.63	1.2	1.46	1.21	1.59	2.3	2.3
Collateral, total	% of collateralised loans	..	..	..	..	34.4	31.5	31.5
Equity								
Venture and growth capital (seed)	EUR millions		838	830	725	465	432	320
Venture and growth capital (early stage)	EUR millions		326	367	522	352	314	215
Venture and growth capital (growth capital)	EUR millions		2,172	2,399	2,353	1,858	1,399	918
Other								
Payment delays, SMEs	Days	27	12	26	23	14	11	11
Bankruptcies, SMEs	Number of enterprises	910	2 573	4 473	4 277	4 885	6 370	6 370

Source: Table 30.3

StatLink http://dx.doi.org/10.1787/888933195725

Figure 30.4. **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/10.1787/888933194200

Table 30.3. **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.

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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Slovenia

SMEs in the national economy

In 2011, 99.5% of all firms in Slovenia were SMEs.

Table 31.1. **Distribution of firms in Slovenia, 2011**

By firm size

Firm size (employees)	Number of firms	%
All firms	**54 707**	**100.0**
SMEs (0-249)	**54 459**	**99.5**
Micro (0-9)	48 218	88.1
Small (10-49)	5 025	9.2
Medium (50-249)	1 216	2.2
Large (250+)	***248***	***0.5***

Source: Statistical Office of the Republic of Slovenia

Notes: Data include enterprises in all industries and excludes non-employer enterprises.

StatLink http://dx.doi.org/10.1787/888933195735

SME lending

Enterprises with more than EUR 2 million in assets have to report their debt, but sole proprietors are excluded. Data on business loans are collected by the Bank of Slovenia, but SME loans are not disaggregated by firm size or loan size. Information on SME loans comes from the balance sheets of enterprises (S11 enterprises) with assets between EUR 2 million and EUR 17.5 million. Thus, many smaller SMEs are omitted from the loan data. Total new business loans stagnated between 2008-2011while outstanding SME loans increased 32%. SME short-term loans remained at 32%. Large enterprises were hit hard by the recession and SMEs which were their suppliers suffered the knock-on effects.

Credit conditions

SME interest rates declined from 6.7% (2008) to 6.4% (2011), but the spread between interest rates for SMEs and large enterprises grew. Large enterprises enjoyed better credit terms.

Government policy response

Direct loans are mostly provided by public funds such as the Slovene Enterprise Fund (SEF), the Slovenian Regional Development Fund and the Housing Fund. Government direct loans to SMEs declined by almost half between 2007 and 2010. The Ministry of the Economy provides credit guarantees and interest rate subsidies through the Slovene Enterprise

Fund. The programme for interest rate subsidies started in the beginning of 2009, but the guarantees for bank loans were provided prior to this by the SEF. The Ministry has two guarantee funds for SMEs. Guarantees are also provided by Slovenian Investment and Development Bank (SID) which is responsible for developing, providing and promoting innovative and long-term financial services which are designed to supplement financial markets for the sustainable development of Slovenia. SID Bank provides funds to banks to on-lend and it also provides direct loans to SMEs in case of market failure.

Box 31.1. **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.

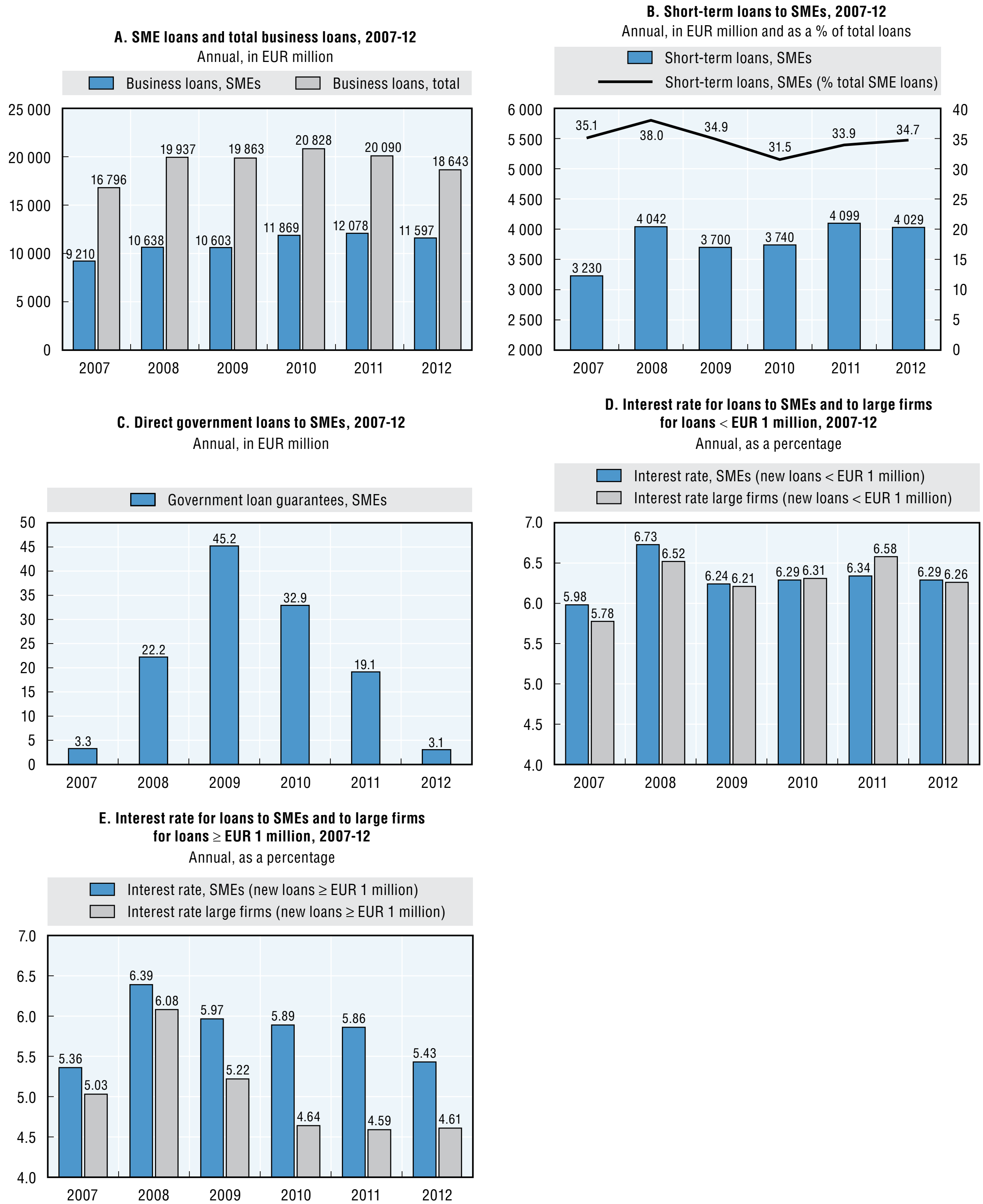
Table 31.2. **Scoreboard for Slovenia, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	EUR million	8 246	9618	9 338	10 779	10 919
Business loans total	EUR million	16 796	19 937	19 863	20 828	20 090
Business loans, SMEs	% of total business loans	49.1	48.2	47.0	51.8	54.3
Short -term loans, SMEs	EUR million	2 631	3 336	3 055	3 221	3 576
Long-term loans, SMEs	EUR million	5 615	6 282	6 283	7 558	7 343
Short-term loans, SMEs	% of total SME loans	31.9	34.7	32.7	29.9	32.8
Direct government loans SMEs, (stocks)	EUR million	243	242	110	126	..
Interest rate SMEs (new loans < EUR 1 million)	%	5.98	6.73	6.24	6.10	6.38
Interest rate large firms (new loans >= EUR 1 million)	%	5.05	5.93	5.35	4.68	4.66
Interest rate spread (between SME and large firms)	%	0.93	0.80	0.89	1.42	1.72

Source: Table 31.3

StatLink http://dx.doi.org/10.1787/888933195749

Figure 31.1. **Trends in SME and entrepreneurship finance in Slovenia**



Source: Bank of Slovenia.

StatLink http://dx.doi.org/10.1787/888933194215

Table 31.3. **Definitions and sources of indicators for Slovenia's Scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Sum of short and long-term loans, stocks	Bank of Slovenia
Business loans total	Business loans from bank and financial institutions, amount outstanding, stocks.	Bank of Slovenia
Short-term loans SMEs	Estimated from the balance sheets, amount outstanding, with a due date less than 12 months includes financial firms. SMEs are defined as enterprises with less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.	Bank of Slovenia
Long-term loans SMEs	Estimated from the balance sheets, amount outstanding with a due date more than 12 months includes financial firms. SMEs are defined as enterprises with less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.	Bank of Slovenia
Direct government loans SMEs	Direct loans from government to SMEs, stocks. SMEs are defined as enterprises with less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.	Bank of Slovenia
Interest rate, SMEs	Weighted average annual interest rates for new loans to enterprises with less than 250 employees; for maturity less than 1 year; and amounts less than EUR 1 million	Bank of Slovenia
Interest rate, SMEs	Weighted average annual interest rates for new loans to enterprises with less than 250 employees; for maturity less than 1 year; and amounts more than or equal to EUR 1 million	Bank of Slovenia
Interest rate, large firms	Weighted average annual interest rates for new loans to enterprises with more than or equal to 250 employees; for maturity less than 1 year; and amounts less than EUR 1 million	Bank of Slovenia
Interest rate large firms	Weighted average annual interest rates for new loans to enterprises with more than or equal to 250 employees; for maturity less than 1 year; and amounts more than or equal to EUR 1 million	Bank of Slovenia
Interest rate spread, SMEs	Interest rate spread between amounts less than EUR 1 million and equal to or greater than EUR 1 million; for enterprises with less than 250 employees	Bank of Slovenia
Interest rate spread, between SME and large firms	Interest rate spread between amounts less than EUR 1 million and equal to or greater than EUR 1 million; for enterprises with more than or equal to 250 employees	Bank of Slovenia

Sweden

SMEs in the national economy

A large part of Swedish enterprises is non-employer, amounting to 739,870 firms in 2010. The number of employer firms equalled 623,087 in 2012, and a huge majority (99.8% of them) were SMEs. SMEs employed 65.4% of the labour force in Sweden.

Table 32.1. **Distribution of firms in Sweden, 2010**

By firm size

Firm size	Firms		Employees	
	Number	%	Number	%
Total firms with employees	**623 087**	**100.0**	**2 890 808**	**100.0**
SMEs (1-249)	**622 106**	**99.8**	**1 890 319**	**65.4**
Micro (1-9)	*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 includes financial enterprises with the exception of holding companies (ISIC Rev.4 sector 642). Non-employer enterprises are not included.

Source: OECD (2013).

StatLink http://dx.doi.org/10.1787/888933195750

SME lending

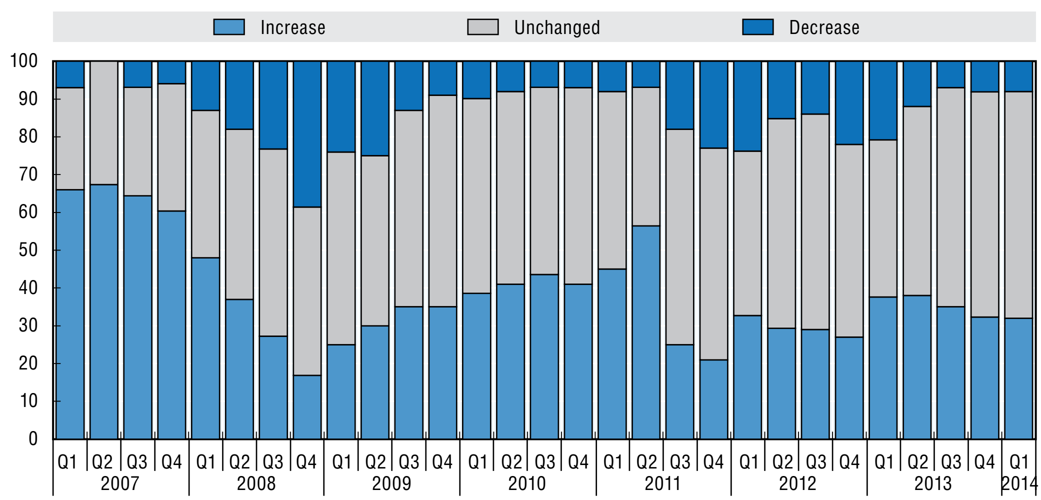
The majority of SMEs use the commercial banking sector when seeking external finance. Total business loans and SME loans increased between 2007 and 2009, but since then, the evolution has been less clear. 2010 witnessed a reduction in both total business loans and SME loans, while both recovered afterwards in 2011, still at lower levels of SME and business lending than during 2009. In 2012, SME loans went down again but total business loans increased, reaching a high point. Among SMEs, the short-term debt stock decreased considerably between 2011 and 2012, most so among firms without any employees. This has led to a drop in the SME share of the total loan stock between 2011 and 2012, most visible in the short-term debt.

These data on SME loans are based on a revised methodology, using improved definitions. The measure of the loan stock divided by firm size is based on financial balance sheet records on outstanding debt to commercial credit institutions. Most importantly, the new methodology excludes small firms belonging to large company groups from the SME category, enabling a more accurate picture of the loan stock composition and its change over time. Because of a time lag in data reporting, there are no data available for 2013 yet.

The quarterly surveys of the Swedish Governmental finance company, ALMI, show that the share of bank managers who reported an increase in loan volumes to businesses reached a low in the last quarter of 2008, at the most critical moment of the financial crisis. After that moment, lending experienced a sustained recovery until the second half of 2011, reaching levels similar to those of 2007. After the second half of 2011, however, the proportion of managers reporting an increase in loan volumes fell again almost to the low levels recorded in 2008, as a result of the financial incertitude in the European Union. The levels remained below early 2011 levels throughout 2013 and the first quarter of 2014. The share of bank managers who reported a decrease in loan volumes also reached a maximum during the last quarter of 2008 and decreased afterwards until the 3rd quarter of 2011, when the share increased again, maintaining a similar level until the 2nd quarter of 2013, when the number of managers who report a decrease in lending diminished again. The most recent data from the survey show a business loan development that is gradually improving, as managers reporting an increase have climbed somewhat from the 2011 low, and fewer managers' report decreases (see Figure 32.1).

Figure 32.1. **Share of bank managers reporting increased loan volumes to businesses in Sweden, 2007-14**

In percentages



Source: Almi Företagspartner AB (March 2014).

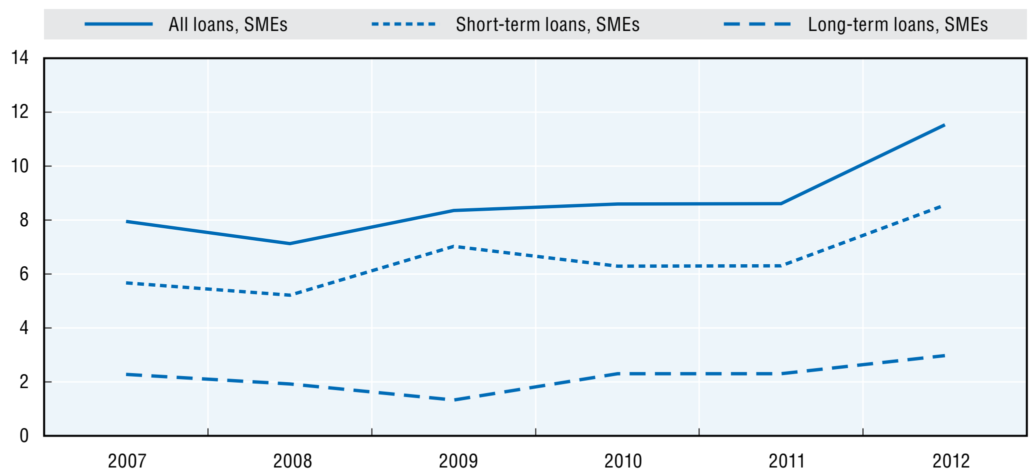
StatLink http://dx.doi.org/10.1787/888933194225

In 2012, the weak economic climate led companies to reduce their level of investment and as a result corporate lending decreased. This reduction may have reached a low according to the Financial Stability Report of the Riksbank of May 2014, which foresees increases in lending for the period 2014-16: by around 4% per year on average. This growth is held back (and is outpaced by lending to households) by to the weak economic situation in Sweden and the Euro Area, requiring limited volumes of new investment. Additionally, borrowing is growing more in the form of market funding rather than in banks' borrowing, partly due to a desire to diversify funding sources.

SME lending can also be approximated by the share of new (and renegotiated) loans of less than SEK 10 million (about EUR 0.9 million), as smaller firms tend to lend smaller amounts. Over the period of 2007 to 2012, the year of 2008 marked a low point where SME loans accounted for only 7% of all business lending, a proportion that has since climbed to almost 12 % in 2012. The increase is explained primarily by an increase in the share of short-term loans (see Figure 32.2). This increase in the share of new (and renegotiated) short-term loans to SMEs, taking place simultaneously as the SME share of short-term debt decreases (see paragraph 2) may indicate a rebalancing of the bank loan portfolios by denying some firms short-term debt, causing the decrease, while at the same time allowing more credit-worthy SMEs to access this form of credit to alleviate liquidity issues.

Figure 32.2. **Share of loans to SMEs in Sweden, 2007-12**

In 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/10.1787/888933194239

Credit conditions

Interest rates reached a peak in 3Q08 as in many other EU countries and declined afterwards due to monetary easing. The average interest rate for SME loans grew from 4.86% in 2007 to 5.66% in 2008, declining to 2.42% in 2009 and to 2.58% in 2010. In 2011, interest rates rose again (to 4.15%) because of a new tightening of monetary policy, remaining quite stable in 2012 (4.03%) and reducing in 2013 (3.26%). The average interest rate charged to SMEs broadly followed the repo rate of the Swedish Riksbank, set at 0.25% at the beginning of 2010, gradually increased to 2% by mid-2011, after which this interest rate again declined to a new low of 0.25% in July 2014.

The interest rate spread between small and large enterprises (proxied by loans below and above EUR 1 million) reached a maximum of 1.14% in 2011, and almost halved in the next two years, reaching a seven year minimum of 0.64% in 2013.

Equity financing

Venture and growth capital declined in 2009 as a result of the recession, and decreased further in the following years. Total venture capital investments in 2012 were about a third of the level in 2008. Seed venture capital was particularly hard hit and dropped 90% to 2011. Data includes investments from private and government financed venture capital organisations. The negative trend has carried on in 2012. The market is characterised by relatively low activity despite good supply of interesting investment opportunities and limited competition. This is mainly attributed to the venture capital market being considered a sub-established market with few venture capital players. 2013 possibly marks a turning point as the grand total of capital invested was up by 15% year-on-year. Moreover, this increase was observed for all categories of venture capital and growth capital investments.

The number of investments did decrease, but not nearly as much as the capital invested, indicating a drop in the average amount invested. Since 2011, publicly funded investments in seed and early stage have outnumbered private, and continue to do so in 2013. This difference is due to the large number of publicly funded investments in seed and start-up stages. Despite the large number of investments by public actors, private investors have still invested more money in these stages in each year since the beginning of measurements in 2007.

Table 32.2. **Capital invested by stage of development in Sweden, 2007–13**

Value in SEK million

YEAR	Start-up and early stage	Later stage venture capital	Growth Capital	Grand Total
2007	2 313	1 603	1 371	5 288
2008	2 673	2 117	968	5 758
2009	1 535	1 522	2 628	5 685
2010	1 474	1 222	3 411	6 107
2011	1 180	1 174	1 490	3 843
2012	872	945	839	2 656
2013	879	1 148	1 017	3 044
Grand Total	**10 925**	**9 731**	**11 724**	**32 380**
No. of investments				
YEAR	Start-up and early stage	Later stage venture capital	Growth Capital	Grand Total
2007	467	184	20	671
2008	382	169	46	597
2009	360	120	59	539
2010	441	123	82	646
2011	325	177	58	560
2012	297	154	30	481
2013	306	231	36	573
Grand Total	**2 578**	**1 158**	**331**	**4 067**

Source: Swedish Venture Capital Association (SVCA), special data extraction 2013-05-06.

StatLink http://dx.doi.org/10.1787/888933195767

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, caused problems of payment ability for these enterprises. 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, the average increase in the B2B sector was very limited (from 6.9 days in 2007 to 8 days in 2009) and remained among the lowest in Europe. Furthermore, the average number of B2B payment delays again stood at 7 days in 2012 and remained at this low point in 2013.

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.This decline halted in 2012 and 2013 when 7,692 SMEs declared bankruptcy, 3% more than in 2012. 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 would otherwise appear. SMEs account for nearly all recorded bankruptcies in the country.

With regards to asset quality, loan losses for the major Swedish banks have remained at low levels in 2012 and 2013, given that the banks have continued to roll back earlier provisions as loan losses have not been as high as expected. According to the Riksbank, loan losses are expected to continue to be low in 2014 and beyond as the economic outlook is improving.

Non-performing loans are low by international standards, but have increased significantly between 2007 (at just 0.24% of all business loans) and 2010 (at 0.88% of all business loans). Although the proportion of non-performing loans declined again in the following years to 0.68% in 2013, this lies still well above the pre-crisis level.

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 in 2010 and thereafter (the 2010 volume was about 65% of the 2009 level and 120% of the 2008 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. The direct loan volume from ALMI increased slightly in 2012 and 2013 to SEK 2 161 million and SEK 2 200 million respectively.

ALMI authorised loans

The number of ALMI authorised loans grew up to 2009 and then declined in both 2010 and 2011, but turned to increase in 2012 and 2013 to SEK 3 921 million, still well below the 2009 level of SEK 5 100 million. The increase in number of loans authorised grew in parallel to the loan volumes, thereby not affecting average loan size much. 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 companies with a turnover of less than SEK 1 billion and fewer than 500 employees. This business category was called "small and medium sized exporting companies" (although inconsistent with the normal Swedish SME definition). Efforts to support this set of companies were subsequently intensified and the volume of yearly guarantees given has almost doubled since 2007. During 2012 the volume of guarantees reached SEK 2.2 billion, continuing the decrease seen in previous years, from

SEK 2.9 billion in 2010 to SEK 2.6 billion in 2011. A contributing factor was the expiration of a temporary permit that EKN had received from the EU to guarantee short credit risks during 2010.[1]

Update on government response

In December 2013, a tax break for private business angel investors was launched. The government has set aside SEK 800 million annually to fund the relief, which will allow for a tax relief corresponding to up to 15 %of the investments. Private individuals purchasing shares in a small company can under the scheme be eligible for a deduction of their capital income of up to 50 % of the cost of acquiring the shares, with a limit of SEK 650 000 in deduction per year for a maximum of SEK 1.3 million. As capital income tax otherwise is at 30 percent, the tax relief corresponds to a maximum of 15 % of the investment. A number of different conditions have to be met by the target firm and the investment for the deduction to be available, such as a minimum holding period of 5 years.

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 SME. Nevertheless the drop in market demand forced many struggling businesses into default, illustrated by the increase in bankruptcies. In the face of the current euro crisis and the dip in SME lending, the Riksbank lowered its interest rate to both stimulate lending and weaken the Krona to help exports.

Table 32.3. **Scoreboard for Sweden, 2007-13**

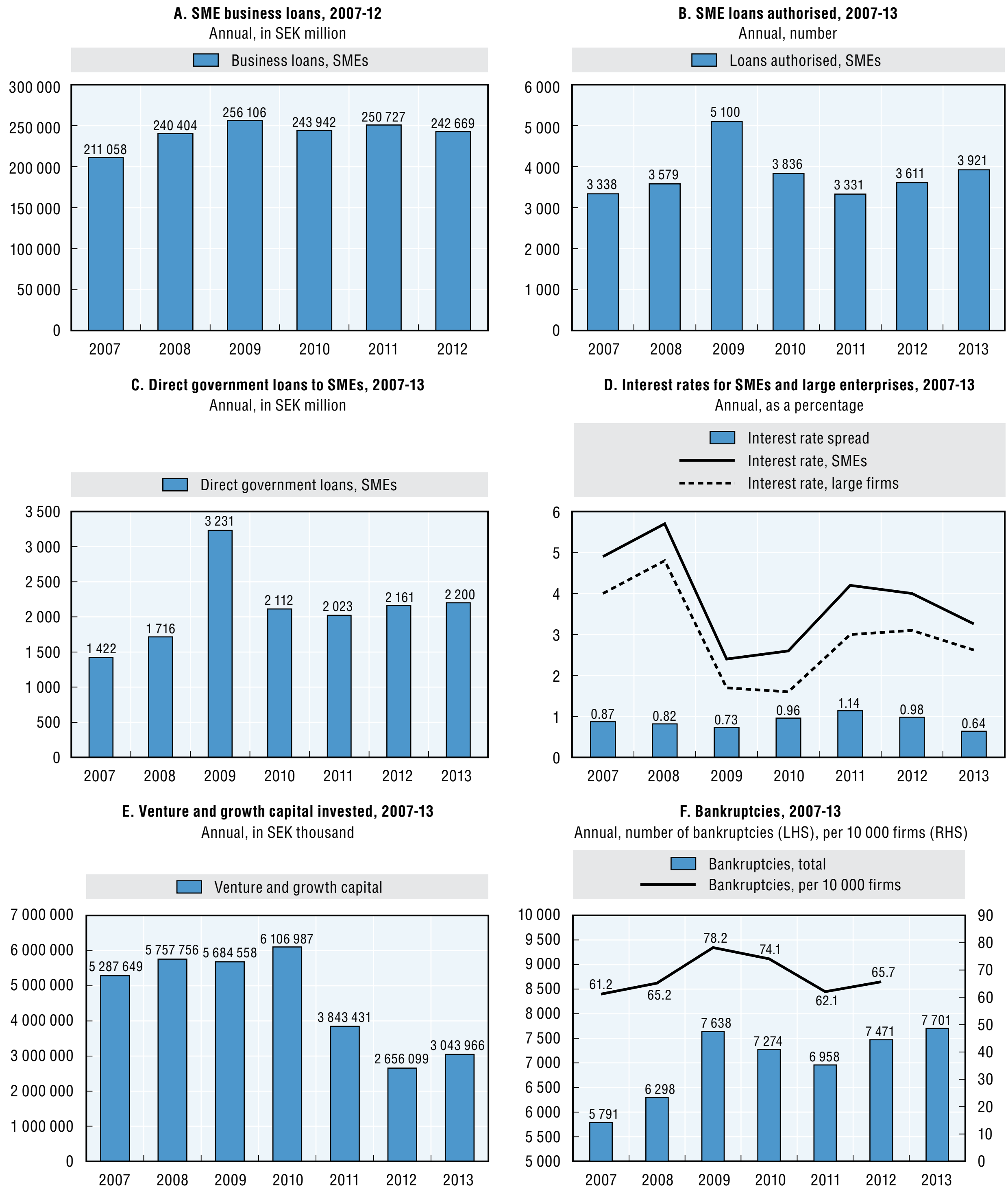
Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	SEK Million	211 058	240 404	256 106	243 942	250 727	242 669	..
Outstanding business loans, total (stock)	SEK Million	1 527 922	1 865 641	1 840 318	1 649 419	1 756 960	1 910 718	..
SME loan share	%	0.14	0.13	0.14	0.15	0.14	0.13	..
Outstanding short-term loans, SMEs (stock)	SEK Million	31 915	35 294	34 880	35 114	36 976	34 723	..
Non-performing loans, total	%	0.24%	0.37%	0.85%	0.88%	0.78%	0.74%	0.68%
Interest rate, SMEs	%	4.9%	5.7%	2.4%	2.6%	4.2%	4.0%	3.26%
Interest rate, large firms	%	4.0%	4.8%	1.7%	1.6%	3.0%	3.1%	2.62%
Interest rate spread	Percentage points	0.87	0.82	0.73	0.96	1.14	0.98	0.64
Equity								
Venture capital	SEK Million	3 917	4 790	3 057	2 696	2 354	1 817	2 026
Growth capital	SEK Million	1 371	968	2 628	3 411	1 490	839	1 017
Other								
Payment delays, B2B	Days	7	7	8	8	8	7	7
Bankruptcies, SMEs	Number of firms	5 791	6 296	7 632	7 273	6 955	7 464	7 696
Bankruptcies, total	Number of firms	5 791	6 298	7 638	7 274	6 958	7 471	7 701
Additional indicators								
Direct government loans, SMEs	SEK Million	1 422	1 716	3 231	2 112	2 023	2 161	2 200
Direct government loans authorised, SMEs	SMEs, number	3 338	3 579	5 100	3 836	3 331	3 611	3 921

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: Table 32.4.

StatLink http://dx.doi.org/10.1787/888933195777

Figure 32.3. **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/10.1787/888933194245

Table 32.4. **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
Business loans, total	Total sum of business liabilities from credit institutions.	Statistics Sweden, Structural Business Statistics. Based on administrative data on liabilities collected from the National Tax Agency. Supply side data broken down by SMEs not available
Short-term loans, SMEs	Sum of SME debts (liabilities) with a due date less than 12 months from closing day (includes overdraft facilities and other loans from credit institutions).	Statistics Sweden, Structural Business Statistics. Based on administrative data on liabilities collected from the National Tax Agency. Supply side data broken down by SMEs not available
Long-term loans, SMEs	Sum of SME debts (liabilities) with a due date 12 months or longer from closing day (includes bond loans, overdraft facilities and other loans from credit institutions).	Statistics Sweden, Structural Business Statistics. Based on administrative data on liabilities collected from the National Tax Agency. Supply side data broken down by SMEs not available
Government guaranteed loans, SMEs	Total value of guaranteed loans. No new government guaranteed loans for SMEs were issued during 2010 by SKGF (Swedish Credit Guarantee Association). However, SKGF is and has not been the only provider of government guaranteed loans for SMEs.	Swedish Credit Guarantee Association (SKGF); reports on 14 regional and local associations. Supply side data
Government loan guarantees, SMEs	Value for all issued guarantees to SMEs by SKGF during the time period. No new government guaranteed loans for SMEs were issued during 2010 by SKGF (Swedish Credit Guarantee Association). However, SKGF is and has not been the only provider of government guaranteed loans for SMEs. Governmentally owned ALMI issued guarantees for SME loans to a value of SEK 46.2 million during 2010, and EKN issued governmentally backed loan guarantees for exporting businesses to a value of SEK 446 million.	Swedish Credit Guarantee Association (SKGF). Supply side data
Direct government loans, SMEs	Total sum of new lending by ALMI. Total lending refers to the ALMI share of lending not including the bank share of the loan when co-investments are made.	ALMI Business Partner
Loans authorised, SMEs	Number of new loan/credit applications approved by ALMI.	ALMI Business Partner. Supply side data
Non-performing loans, total	Swedish data on loans outstanding to all firms. Percentages of non-performing loans in relation to total business loans (Definition: Economic claims on loans overdue for at least 60 days).	Swedish Riksbank. Based on information from the Swedish major bank groups: SEB, Handelsbanken, Nordea, and Swedbank
Interest rate, loans < EUR 1 million	Average annual rates for new loans to SMEs (defined as loans up to EUR 1 million), base rate plus risk premium; for maturity less than 1 year, enterprises only.	Statistics Sweden, Financial Market Statistics. Produced on behalf of the Riksbank. Supply side information reported by Swedish Monetary Financial Institutions.
Interest rate, loans > EUR 1 million	Describes average interest rate for short-term (up to one year) loans up to and including EUR 1 million (as a proxy for SME loans).	Statistics Sweden, Financial Market Statistics. Produced on behalf of the Riksbank. Supply side information reported by Swedish Monetary Financial Institutions
Relation between large firm and SME interest rates	Calculated based on: interest rate for loans > EUR 1 million divided by interest rate for loans < EUR 1 million.	Statistics Sweden, Financial Market Statistics. Produced on behalf of the Riksbank. Supply side information reported by Swedish Monetary Financial Institutions.
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)

Table 32.4. **Definitions and sources of indicators for Sweden's Scoreboard** *(cont.)*

Indicators	Definitions	Sources
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/Stor-efterfragan-fran-sma-och-medelstora-foretag/*.

Reference

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

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 9 employees accounted for the majority of SMEs (69.7% of SMEs), employing 18.0% of the country's workforce.

Table 33.1. **Distribution of firms in Switzerland, 2010**

By firm size

Firm size (employees)	Number	%
All firms	135 532	100.0
SMEs (1-249)	134 556	99.3
Micro (1-9)	93 763	69.2
Small (10-49)	35 259	26.0
Medium (50-249)	5 534	4.1
Large (250 +)	976	0.7

Notes: Data includes financial enterprises with the exception of holding companies (ISIC Rev.4 sector 642). Non-employer enterprises are not included.

Source: OECD (2013).

StatLink http://dx.doi.org/10.1787/888933195789

SME lending

The Swiss economy has weathered the global financial crisis starting on 2008 relatively well, never slipping into recession and growing faster than most other European countries. According to the first estimations of the State Secretariat for Economic Affairs SECO, GDP growth in 2013 has accelerated to 2%, well above the 1% of 2012. This is mainly due to a solid domestic economy as well to some branches of the export industry. Additionally, domestic sectors as construction or public and private sector services, maintain a solid performance benefitting from a continuous arrival of immigrants and low interest rates.

Both total and SME business loans accelerated during 2013 on a year-to-year basis. In 2013, SME business loans grew at a rate of 7.5% (compared to 2.8% in the previous year), while total business loans grew at a rate of 7.3% (accelerating from 3.3% in 2012). Over 2007-13, SME loans increased year after year and the growth throughout that period totalled 45.8%. SME loans expanded more rapidly than overall business growth (equalling 33.9% over the same period). Consequently, the share of SME loans in total business loans has grown from 81.2% registered in 2007 to 88.4% of 2013.

Credit conditions

Lending standards have softened in 2013 according to the information reported by Swiss banks to the Central Bank of Switzerland, thereby compensating the tightening witnessed in 2012.

Interest rates for loans under CHF 1 million continually decreased since 2009, the first year for which data are available. The interest rate spread for loans to SMEs and loans to large firms, proxied respectively by loans for an amount of less than CHF 1 million and loans equal to or greater than CHF 1 million, increased modestly between 2009 and 2011 and declined afterwards to 83 base points in 2013.

The Monthly Bulletin of Banking Statistics of the Swiss National Bank shows that the percentage of SME loans requiring collateral fell slightly from 76.4% in 2009 to 74.9% in 2013, although the level witnessed between 2007 and 2013 remained broadly constant.

Equity financing

In June 2012 the Swiss Federal Council published a report titled "Venture Capital in Switzerland" (Swiss Federal Council, 2012). In its opinion, this market was operating reasonably well, although seed financing, which is necessary for the creation of new enterprises, was difficult to obtain. Despite the potential for the commercialisation of research results, investors are rather reluctant to invest in such early stages because of the higher risk. According to said report, the government plans to improve the venture capital environment in the area of tax and corporate law, following the Federal Council directives and objectives for legislative planning for 2011-15 passed in June 20.

Table 33.2. **Private equity and Venture Capital investments in Switzerland, 2007-13**

By phase of investment, in EUR thousand

	2007	2008	2009	2010	2011	2012	2013
Seed	10 413	17 236	6 105	5 237	6 503	12 631	8 087
Start-up	114 761	95 051	151 839	127 862	160 934	73 173	145 805
Later stage venture	152 011	57 866	67 295	48 637	34 201	95 886	42 406
Growth	56 412	137 657	76 735	213 557	43 373	98 304	36 480
Total Venture capital	***333 597***	***307 810***	***301 975***	***395 294***	***245 012***	***279 994***	***232 777***
		-7.7%	*-1.9%*	*30.9%*	*-38.0%*	*14.3%*	*-16.9%*

Source: European Private Equity and Venture Capital Association (2014).

StatLink http://dx.doi.org/10.1787/888933195798

As seen in table 33.2, venture capital investment declined to its lowest level recorded since 2007 in 2013, dropping by 16.9% year-on-year from 2012. Later stage and growth capital were mainly responsible for this decrease. Investment in start-ups almost recovered to the level of 2011, after more than halving in 2012, but this increase was not enough to compensate for the said reductions. Seed capital reduced more than a third in 2013, after a big increase in 2012.

Other indicators

According to the annual report of Intrum Justitia, payment delays have slightly decreased over the last years. This suggests that SMEs' liquidity problems diminished, contrasting with most other European countries where liquidity problems are still prevalent. Additionally, bankruptcies diminished in 2013 by 5.1% in 2013, after rising 6.5%

and 2.7% in the previous two years. The important increases in 2009 and 2010 (23.5% and 19.9% respectively) 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 cooperatives that help promising SMEs obtain bank loans up to CHF 500 000. Three are regional cooperatives and a national one for women. The federal government covers 65% of the exposure and shares in the administration costs. Loan guarantees increased steadily in the period 2007-10, declined slightly in 2011 and continued to grow in 2012 and 2013. The increase since 2007 was largely due to a restructuring of the guarantee system. The increase of the demand for guarantees is due to the higher share of risk exposure covered by the federal government.

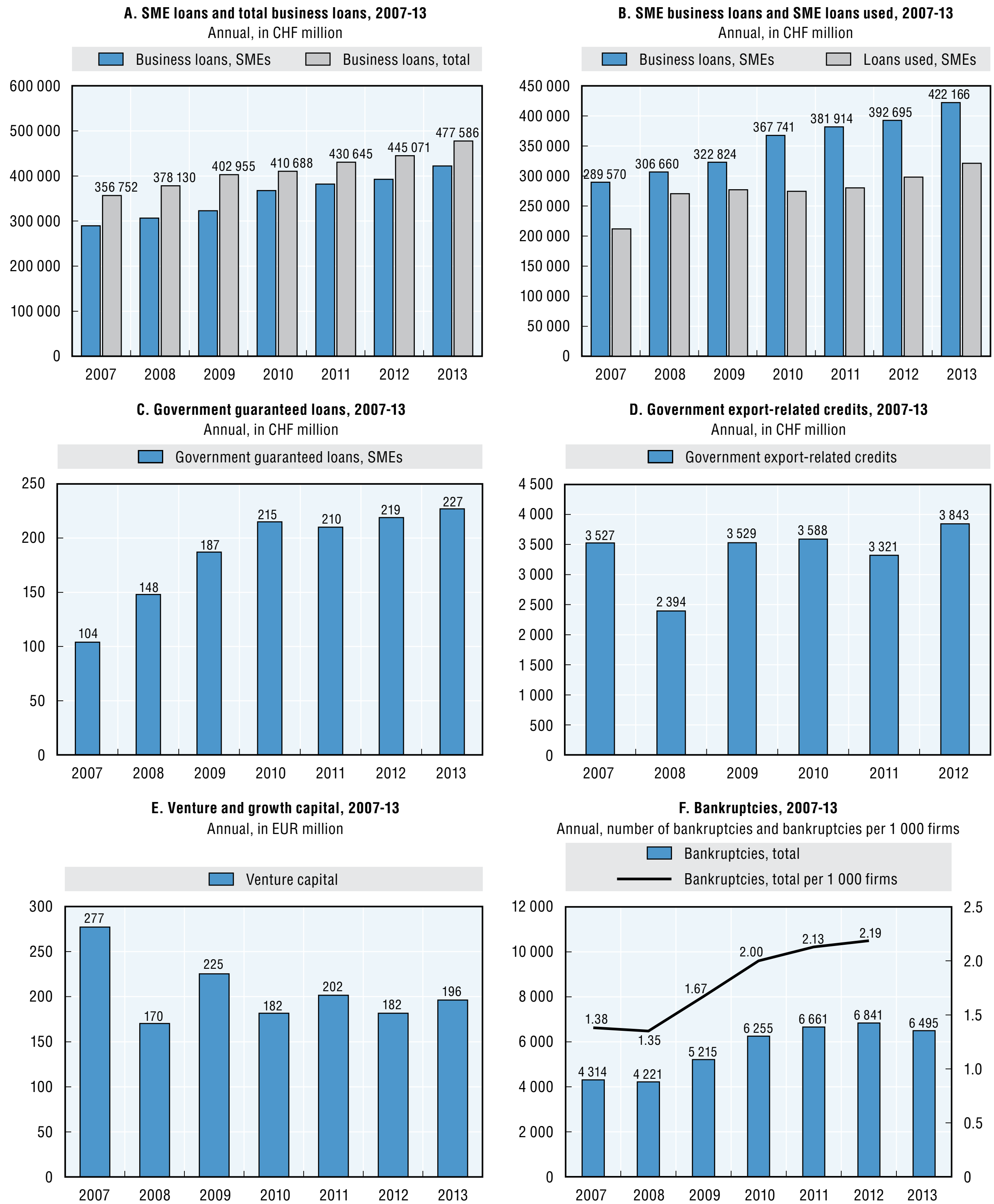
Table 33.3. **Scoreboard for Switzerland, 2007-13**

Indicators	Definitions	2007	2008	2009	2010	2011	2012	2013
Debt								
Business loans, SMEs	CHF million	289 570	306 660	322 824	367 741	381 914	392 695	422 166
Business loans, total	CHF million	356 752	378 130	402 955	410 688	430 645	445 071	477 586
Business loans, SMEs	% of total business loans	81.2	81.1	80.1	89.5	88.7	88.2	88.4
Government export-related credit covers	CHF million	3 527	2 394	3 529	3 588	3 321	3 843	n.a.
Government loan guarantees, SMEs	CHF million	104	148	187	215	210	219	227
Loans used, SMEs	CHF million	211 942	270 562	277 027	274 533	280 374	298 214	321 190
Interest rate	%	..	..	2.21	2.11	2.08	2.01	1.99
Interest rate spread	%	..	..	0.86	0.88	0.92	0.90	0.83
Collateral, SMEs	%	..	..	76.4	75.1	76.6	76.7	74.9
Equity								
Venture and growth capital	EUR million	334	308	302	395	245	280	233
Venture and growth capital	Year-on-year growth rate, %	..	-7.7	-1.9	30.9	-38.0	14.3	-16.9
Other								
Payment delays, SMEs	Days	13.7	12.0	13.0	13.0	11.0	10.0	9.0
Bankruptcies, total	Number	4 314	4 221	5 215	6 255	6 661	6 841	6 495
Bankruptcies	Year-on-year growth rate, %	..	-2.2	23.5	19.9	6.5	2.7	-5.1
Bankruptcies	% of total enterprises	1.4	1.4	1.7	2.0	2.1	2.2	2.1

Source: Table 33.4.

StatLink http://dx.doi.org/10.1787/888933195809

Figure 33.1. **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/10.1787/888933194259

Table 33.4. **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	Credit lines 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 credit covers	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	Business to business (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

SME lending

There were 2.9 million SMEs (firms with less than 200 employees) in Thailand in 2010, constituting 99.6% of all enterprises and employed 78% of the labour force including agriculture. The economy of Thailand was hit by two major events during the period under study: political instability and the financial crisis originating in the West. In Studies on SME and Entrepreneurship: Thailand. Key Issues and Policies (2011), the OECD found that less than half of the 2.9 million SMEs can access formal finance. This problem was compounded in Thailand by systemic volatility in financial markets. The Asian financial crisis and the recent global financial crisis have made it difficult for Thai banks to accept risky loans, not least because they were often burdened with extremely high non-performing loan rates. The lesson learned from the Asian crisis in 1997 was that adequate capital alone cannot encourage bank lending. Banks will only lend when they are comfortable with the level of credit risk.

Table 34.1. **Distribution of firms in Thailand, 2010**

By firm size

Enterprise size (employees)	Number	%
All enterprises	**2 746 733**	**100**
SMEs (up to 200)	2 739 142	**99.7**
Small enterprises (up to 50)	**2 724 902**	99.5
Medium Enterprises (50-200)	14 240	0.5
Large (200+)	**7 591**	**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/10.1787/888933195815

Most banks do not use the national definition for an SME. Instead, they use the size of loan as a proxy, and definitions vary across banks. Loans to SMEs increased by 67% over the 2007-13 period. Since 2008, the share of bank loans to SMEs as a proportion of all business loans rose year after year from 26.6% in 2008 to 38.7% in 2013. Bank lending to businesses in general languished at two-thirds of the 1990s levels. While long-term lending declined somewhat year-on-year in 2013, short term lending increased by more than 60% in one year time. Short term lending made up 61.4 of all SME loans in 2013, up from 48.1% in 2012. The percentage of SME non-performing loans more than halved between 2007 (7.9%) and 2013 (3.1%).

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 peaked in 2011 at 8.1%, mostly because Thailand did not engage in monetary easing. Interest rate spreads between small and large enterprises also increased from 1.2% (2007) to 2.7% (2011). In the last two years, both interest rates charged to SMEs and the interest rate spread dropped markedly. In 2013, the average interest rate for SMEs stood at 6.4% and the spread charged between large firms and SMEs narrowed to 1.3%.

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, at remained at a similarly high level in 2012 (while data for 2013 is not yet available). However, this was not entirely unreasonable given the historic high rate of non-performing SME loans.

Equity financing

Scarce supplies of venture capital stifled the business momentum of innovative firms. The venture capital and private equity industry is small in Thailand and has focused on mergers and acquisitions and restructurings, rather than start-up and mezzanine finance. The Market for Alternative Investments was established in 1999. It provides a simpler and lower cost alternative to smaller firms than the Stock Exchange of Thailand (SET). As such, MAI provides an exit point for venture capital investors and facilitates capital raised 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). Up till now, SBCGC already launched 5th Portfolio Guarantee Scheme which is a 7-year guarantee.

The SBCGC provides credit guarantees to viable small businesses which do not have sufficient collateral. The SBCGC provides a letter of guarantee for approved applications to the financial institutions after the SME has paid the guarantee fee. In 2009, it had a THB 30 billion loan guarantee facility. In 2007, 2 866 SMEs were accepted for credit guarantees. The total number of loans guaranteed was an average of 7 800. This is still a relatively small number compared to the total number of SMEs, pointing to an unexploited potential to ease SMEs' access to credit. In 2011 the SBCGC had THB 89 billion in outstanding loan guarantees.

Box 34.1. **Definition of SMEs used in Thailand's Scoreboard**

Country definition

On 11 September 2002, the Ministry of Industry introduced the definition of Thai small and medium-sized enterprises (SME). This definition is based on the number of employees and fixed capital. An enterprise is categorised as an SME if it has less than 200 employees and fixed capital less than THB 200 million, excluding land and properties. SMEs in Thailand are classified in three sectors: production, service, and trading.

Definition of SMEs according to the Thai Ministry of Industry

Type	Small		Medium	
	Employees	Capital (THB million)	Employees	Capital (THB million)
Production	Not more than 50	Not more than 50	51-200	51-200
Service	Not more than 50	Not more than 50	51-200	51-200
Wholesale	Not more than 25	Not more than 50	26-50	51-100
Retail	Not more than 15	Not more than 30	16-30	31-60

The SME definition used by financial institutions

The official definition for SMEs is not used by financial institutions in Thailand. In fact, each financial institution in Thailand is permitted to use their own definition of SMEs, which typically follows criteria such as sales less than THB 400-500 million and/or credit line less than THB 200 million. Therefore, data presented in Thailand's profile does not reflect the above national definition.

Table 34.2. **Scoreboard for Thailand, 2007-13**

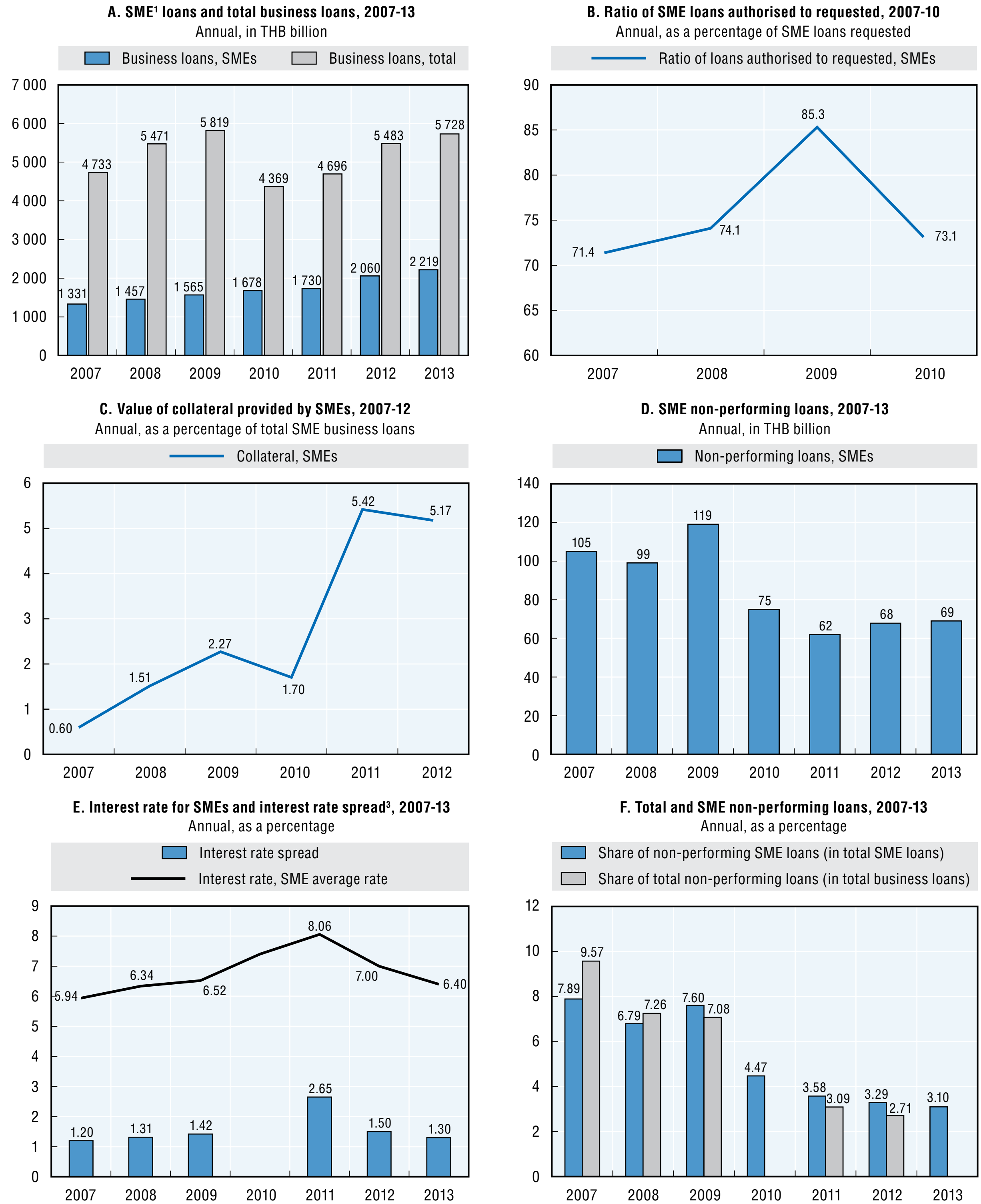
Indicators	Definitions	2007	2008	2009	2010	2011	2012	2013
Debt								
Business loans, SMEs	THB billion	1 331	1 457	1 565	1 678	1 730	2 060	2 219
Business loans, total	THB billion	4 733	5 471	5 819	4 369	4 696	5 483	5 728
Business loans, SMEs	% of total business loans	28.1	26.6	26.9	38.4	36.8	37.6	38.7
Short-term loans, SMEs	THB billion	578	647	692	973	783	988	1 616
Long-term loans, SMEs	THB billion	753	810	873	701	879	1 067	1 018
Total short and long-term loans, SMEs	THB billion	1 331	1 457	1 565	1 674	1 662	2 056	2 634
Short-term loans, SMEs	% of total SME loans	43.4	44.4	44.2	58.1	47.1	48.1	61.4
Loan guarantees outstanding, SBGC	THB billion	..	..	..	64	86.9	143	263
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	138
Non-performing loans, SMEs	THB billion	105	99	119	75	62	68	69
Non-performing loans, SMEs	% of SME business loans	7.9	6.8	7.6	4.5	3.6	3.3	3.1
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	6.6	7.14	8.1	7.0	6.4
Interest rate spread (between average interest rate for loans to SMEs and large firms)	%	1.2	1.31	1.42	..	2.65	1.5	1.3
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	227	170.1	541.7	517	…
Other								
Payment delays, SMEs	Average number of days	33	..	..	..	..	..	..
Bankruptcies, total[1]	% of insolvencies over total number of SMEs	66	..	..	..	..	..	..

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: See Table 34.3.

StatLink http://dx.doi.org/10.1787/888933195822

Figure 34.1. **Trends in SME and entrepreneurship finance in Thailand**



Notes: 1. Firms with sales less than THB 400 million (EUR 10 million). 3. 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/10.1787/888933194268

Table 34.3. **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 1 year, stocks.	Bank of Thailand
Long-term loans, SMEs	Outstanding amount of SME loans provided by bank with the maturity more than 1 year, stocks.	Bank of Thailand
Loan guarantees outstanding, SBGC	SME loans guaranteed by Credit Guarantee Corporation. SMEs are defined as an enterprise with less than 200 employees and/or has fixed assets (excluding land) of less than THB 200 million.	Bank of Thailand
Government guaranteed loans, SMEs	Guarantees outstanding at the end of the year. SMEs are defined as an enterprise with less than 200 employees and/or has fixed assets (excluding land) of less than THB 200 million.	Small Business Credit Guarantee Corporation, Annual Report
Loans authorised, SMEs	SME loans approved by the banks.	Bank of Thailand
Loans requested, SMEs	SME loans requested for approval.	Bank of Thailand
Non-performing loans, total	Figures cover all enterprises in the Thai banking system.	Bank of Thailand
Non-performing loans, SMEs	SME loans 90 days past due date. Figures cover all SMEs in the Thai banking system.	Bank of Thailand
Interest rate, SME average rate	Average interest rate charged to new SME loans, approved by the bank during a year.	Bank of Thailand
Interest rate spread (between average interest rate for loans to SMEs and large firms)	Average interest rate spread between SME loans and corporate loans.	Bank of Thailand
Collateral, SMEs	Appraisal value of collateral based on market valuation.	Bank of Thailand
Other		
Payment delays, SMEs	Average payment delay in days for trade credit, business-to-business (i.e. seller gives credit term to buyer for 30 days but the buyer makes a delayed payment after credit term 15 days. So, the payment delay is 15 days). SMEs are defined according to the national definition contained in Box 34.1.	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 34.1.	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. Turkish SME definition has been prepared in line with that of the EU although the financial thresholds identified are lower (see Box 35.1). As illustrated in Table below, micro-enterprises accounted for more than 97% of all firms in 2012, whereas only 0.2% of all enterprises employ more than 250.

Table 35.1. **Distribution of firms in Turkey, 2012**

Firm size (employees)	Number of firms	%
All enterprises	**2 646 153**	**100.0**
SMEs (0–249)	2 641 998	99.8
Micro (0-19)	2 567 956	97.2
Small (20-49)	51 954	2.0
Medium (50 -249)	22 088	0.8
Large (250+)	**4 155**	**0.2**

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

Source: Turkish Statistical Institute Annual Industry and Service Statistics, 2012

StatLink http://dx.doi.org/10.1787/888933195838

SME lending

Both total business loans and SME loans increased significantly over the period 2007-13 by 270% and 255% respectively. SME loans followed a consistent growth pattern with the exception of 2009, when SME loans decreased slightly by 1.6%. In 2013, SME loans increased by 35.9% compared to 2012, reaching TRY 271 421 million. Total business loans followed an uninterrupted growth trend, with a 34.7% increase in 2013, reaching TRY 704 330 million. The SME share of total business loans was 38.6% in 2013, up from 38.2% in 2012.

Equity financing

The data includes information on all venture capital/private equity investments in venture capital/private equity trusts which report to the Capital Markets Board (SPK). Between 2007 and 2012, venture capital/private equity investments in venture capital/private equity trusts increased more than seven times. The total amount of venture capital/private equity investments that have been realised in 2013 equals to TRY 335.5 million. After the enactment of the new Capital Market Law in December 2012, secondary legislation regarding venture capital/private equity investment trusts has been published in October 2013 and the secondary legislation regarding venture capital/private equity investment funds has been published in January 2014 in the Official Gazette.

Regulation regarding angel investment

The law regarding regulation and the promotion of business angel investments was enacted in 2012 and secondary legislation came into force on February 15, 2013, which authorises Turkish Treasury to implement policies related to angel investments. 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 the angel investment market. In this respect, licensing mechanism provides a new instrument for those enterprises in early stage development which have funding difficulties with conventional financing. Furthermore, it makes business angel investments an institutionalised and trustworthy financial market and eligible for state support.

Licensed business angel investors can deduct 75% of the capital that they invest in innovative and high growth SMEs, whose shares are not traded at stock market, from their annual income tax base. The 75% deduction 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 (TÜBİ TAK) and Small and Medium Enterprises Development Organisation (KOSGEB) in the last five years. The given licenses will be valid for 5 years and 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 income tax base is TRY 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 million and not having more than 50 employees.

Between 15.02.2013 and 08.07.2014, 261 business angels have applied for license and 243 of them have been licensed. In the same period 8 investment applications were made by the licensed business angels and 6 of them, amounting to TRY 2 750 000, were benefited from the current programme.

As a general problem of global entrepreneurship ecosystem, 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 due to the fact that Turkish Treasury currently has a data base which accumulate and analyse the collected data.

Regulation regarding fund of funds

The law regarding capital contribution of the Turkish Treasury to funds of venture capital funds (funds of funds) was enacted by the Parliament (April 3, 2013) and secondary legislation came into force on 14 March 2014. The purpose of secondary legislation is to regulate the selection criteria, investment areas, auditing and the upper limits of all fees and expenses pertaining to the resources committed and other related issues regarding the funds of funds receiving resources from Turkish Treasury. Funds of funds are structured to support venture capital funds and other legal persons providing financing to full-fledged taxpayer companies in Turkey through equity injections via sub-funds formed under these funds of funds as well as co-investment funds, which provide co-financing to target companies along with angel investors.

The structure of fund of funds

Turkish Treasury will commit the funds to funds of funds under several conditions. The amount committed to the funds of funds by the Turkish Treasury shall not exceed 70% of the total amount committed to the fund of funds. The amount committed to a venture capital fund approved by a fund of funds funded by the Turkish Treasury, shall not exceed 20% of the total amount committed to the fund of funds. A venture capital fund requesting resources from the fund of funds is obliged to find at least twice the amount that is committed to it by the fund of funds. The total amount of the resources committed to the funds of funds by Turkish Treasury until 12/31/2018, shall not exceed TRY 500 million, excluding charges and fees to be paid to the funds of funds. Turkish Treasury may pay this amount at once or in instalments. Considering the explanation above, total money to be injected into the financial ecosystem would exceed TRY 2 billion.

The law aims to strengthen the financial ecosystem together with the fund of venture capital funds and business angel programme. Moreover, as a new financial instrument, fund of funds programme aims to improve the ecosystem via co-investment with angel investors. To be more specific, co-investment funds will 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. Furthermore, the fund of funds mechanism is expected to attract foreign investors as well as to ease exit process of angel investments.

Other indicators

The share of SME non-performing loans in total SME loans stood at 3.8% in 2007, peaked at 7.6% in 2009 but then rapidly declined to 3.2% in 2011. The relative number of SME non-performing loans remained roughly constant between 2011 and 2013.

Bankruptcies are declared in a number of ways. A debtor firm or its creditors can directly apply to a commercial court to start bankruptcy procedures. When the liabilities exceed the assets, the authorised representatives or the managers of 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. Article 35 of Turkish Code of Commerce orders that all amendments for trade registry must be published in Turkish Trade Registry Gazette including announcements on bankrupted firms. According to Turkish Trade Registry Gazette database, there were total of 69 firms ruled bankrupted in 2013.

Government policy response

KOSGEB

In Turkey, KOSGEB, the organisation affiliated to the Ministry of Science, Industry and Technology, is the main body for executing the policies regulating SMEs. To date, the number of SMEs registered in the KOSGEB data base has exceeded 750 000.

KOSGEB's services are accessible for whole country. It provides its services and supports to SMEs and entrepreneurs by different kinds of KOSGEB Service Centers. There are 88 Service Centers, 43 Technology Development Centers, 70 R&D Innovation Cooperations and 67 representatives in 81 provinces.

Eight different support programs (SME Project Support Programme, Thematic Project Support Programme, R&D, Innovation and Industrial Implementation Support Programme, Entrepreneurship Support Programme, Cooperation and Collaboration Support Programme, General Support Programme, Emerging Companies Market SME Support Programme and SME Finance Support Programme), generally project based, are applied for SMEs by KOSGEB. These programs are designed by taking into consideration the basic needs of SMEs and for disseminating entrepreneurship culture in the society.

Access to finance is one of the major priority areas for SME policies. To overcome the banking system's apparent inability to provide funds to support SMEs' investment and related infrastructure investments, a number of targeted investment credit interest support programs were introduced by KOSGEB. By these programs, KOSGEB pays the loan interests of SMEs which get loans from banks contractual with KOSGEB. Thus SMEs have been able to utilise bank loans at favourable conditions. More than 200,000 SMEs have benefited from the KOSGEB's credit interest support programs and used credits from the banks, both public and private, that signed protocols with KOSGEB. These programs created approximately EUR 4 billion credit volume in the years 2003-13.

Table 35.2. **Interest support programme of KOSGEB, 2003-13**

	Number of firms	Total amount of allocated credit (EUR)
2003	556	15 716 897
2004	2 840	101 888 084
2005	3 753	155 500 620
2006	2 787	111 169 248
2007	9 679	348 126 228
2008	23 886	617 048 103
2009	69 264	965 069 270
2010	43 310	659 526 475
2011	48 218	897 511 081
2012	7 408	161 076 565
2013	343	10 344 655
Total	**212 044**	**4 042 977 225**

Source: KOSGEB, activity report, 2013

StatLink http://dx.doi.org/10.1787/888933195848

KOSGEB also exerts efforts to increase the effectiveness of financial and Stock Market instruments both individually and through other endeavours and partnerships. In this context, KOSGEB joined in financial participations such as Credit Guarantee Fund (KGF), KOBİ Venture Capital Investment Trust Inc.Co. (KOBİ GSYO A.Ş.) and Istanbul Venture Capital

Initiative (iVCi) and created its latest support programme namely "Emerging Companies Market SME Support Programme". In addition to these initiatives, KOSGEB is also carrying out a Project named "G 43 Anatolian Venture Capital Fund Project" which is related to the same issues.

The Credit Guarantee Fund (KGF) provides SME loan guarantees. Its shareholders include KOSGEB, the Union of Chambers and Commodity Exchanges (TOBB), the Confederation of Turkish Craftsmen and Tradesmen (TESK) and many banks. KOSGEB holds 33.2% of the total capital of KGF. The Turkish Treasury provides counter-guarantees to KGF.

Table 35.3. **KGF guarantees and credit volume in Turkey, 2007-13**

Year	No. enterprises	No. guarantees	Guaranteed amount (TRY millions)	Credit volume (TRY millions)
2007	249	305	52.9	75.4
2008	914	1 138	284.5	402.5
2009	1 905	2 605	565.3	790.6
2010	1 933	3 090	938.9	1 302
2011	2 256	3 207	1 123	1 622
2012	5 012	5 517	1 114	1 553
2013	2 462	2 760	1 061	1 467

Source: KGF

StatLink http://dx.doi.org/10.1787/888933195859

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 35.4. **International financial institutions direct loans with treasury guarantee in Turkey, 2007-13**

In USD millions

	2007	2008	2009	2010	2011	2012	2013
Direct loans	552	842	997	1 321	1 174	1 315	2 632

Source: Turkish Treasury

StatLink http://dx.doi.org/10.1787/888933195869

Istanbul Venture Capital Initiative (iVCi)

Entrepreneurs in Turkey have great difficulties in obtaining the financial resources they require for putting their business ideas into practice. Apart from financing the companies in which they invest venture capital funds offer managerial and strategic support, which in turn makes a significant contribution to each company's growth perspective.

For this purpose, iVCi founded in 2007, was Turkey's first ever dedicated fund of funds and co-investment programme. The investors in iVCi are the 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). EIF is the advisor to iVCi.

iVCi leverages on the experience of the EIF, the European Union's specialised financial body for SMEs and the risk capital arm of the European Investment Bank Group (EIB Group). iVCi's investment objective is to invest in assets representing risk capital over a long investment horizon (6-10 years) and it intends to achieve its objectives through the construction of a balanced portfolio and investing primarily in:

- funds that invest their assets in private equity or venture capital (including First Time Funds, Established Funds and Experienced Funds; Portfolio Funds) and
- direct co-investments, alongside with other pre-selected Funds (co-investors) in companies or undertakings.

The total amount of commitments of iVCi is EUR 160 million with the contribution of the investors. Total funds raised by iVCi portfolio funds reached EUR 1.5 billion. iVCi has signed ten commitments including a co-investment amounting to EUR 155 million.

Table 35.5. **Capitalisation of KOSGEB to iVCi, 2008-13**

Year	Amount (Euro)
2008	1 500 000
2009	1 093 750
2010	1 406 250
2011	3 025 000
2012	11 250 000
2013	5 000 000
Total	23 275 000

Source: KOSGEB activity report, 2013

StatLink http://dx.doi.org/10.1787/888933195879

Representing the public sector, KOSGEB created a considerable impact which is more than just a mere contribution. During the establishment date of iVCi, there were only two independently managed Venture Capital/Private Equity funds in the market. Creating an institutional investor like iVCi stimulated the market and enabled several first time teams to establish funds serving the market. In addition to the capital, these funds help SMEs in maintaining financial discipline and corporate governance, two traits that are becoming more important for international competitiveness.

G-43 Anatolian Venture Capital Fund

G43 Anatolian Venture Capital (VC) Fund is a project developed under IPA (Instrument for Pre-accession) funds, under the Measure 1.2 "Creation and Development of Financial Instruments" of Regional Competitiveness Operational Programme and co-financed by the European Union and the Ministry of Science, Industry and Technology, aiming to establish an independently managed venture capital fund that invests in SMEs, with the end recipient of assistance of KOSGEB. EIF is acting as an implementing body for the creation of a new SMEs risk capital fund targeting Turkey's most disadvantaged regions.

The nine administrative provinces of the South-Eastern Anatolia Region (Adıyaman, Batman, Diyarbakır, Gaziantep, Kahramanmaraş, Mardin, Kilis, Siirt and Şanlıurfa) are the ultimate targets of the project. Other NUTS II Regions having an income per capita below the 75% of Turkish national average can also be beneficiaries up to 50% of the fund. In total, 43 provinces of Turkey, defined as the Target Region, take place in the geographical scope of the fund.

iVCi is utilised for the G43 Anatolian VC Fund project as it is an established investment platform created both by public and private actors for the benefit of the development of venture capital in Turkey.

The Project is activated in 2011 by the signing of bilateral and multilateral agreements. The fund was established in 2012 and a fund management company was selected. Completing the selection process, The Fund Manager was introduced to the region by a publicity event in late November in 2013 and the Manager has started its activities. The Fund performed its first close in November 2013 and started to pursue investment opportunities. The duration of the fund is planned to be 10+1 years.

COSME

KOSGEB is also the responsible organisation for the European Commission's Programme for the Competitiveness of Enterprises and SMEs (COSME) for Turkey. Among the aims of the relevant programme, more than 60% of the budget is spared for facilitating access to finance for SMEs. Of the said 60% of the finance budget, 30% is planned to be invested in funds that provide venture capital and mezzanine finance to expansion and growth-stage SMEs, in particular for those operating across borders

Borsa Istanbul Emerging Companies Market SME Support Programme

The Emerging Companies Market was established as a distinct market within the Borsa Istanbul as a platform, where the securities are issued in order to raise funds from the capital markets for the companies with development and growth potential.

In the process of going public in Emerging Companies Market, KOSGEB undertakes paying some items as a non-refundable means of support. For this purpose, KOSGEB offers up to TRY 100,000 in the form of a non-recourse loan.

KOBİ Venture Capital Investment Trust (KOBİ A.Ş.)

Turkish entrepreneurs who lack adequate experience, capital or collateral find it very hard to utilise various bank resources to provide the seed and initial capital required at the beginning of the business nor the additional capital necessary for expanding their businesses. The Company by the three main partners; The Union of Chambers and Commodity Exchanges of Turkey (TOBB), Halkbank and KOSGEB, solely aims at investing in local SMEs with entrepreneurs with a vision who have innovative ideas that offer high growth potential through new markets, new technology or products and new ways of production designs.

KOBİ Venture Capital Investment Trust Inc. Co. provides financial and managerial contribution to SMEs facing insufficient resources and/or a lack of capacity even though they have an advantage over their competitors in terms of production and/or services. This support is given by the authority and supervision of the Company's main partners. SMEs are given both financial and managerial support. The range of the support varies from USD 1 million to USD 5 million based on the SME/company evaluation. The investment involves the Company's acquiring a minority preferred share of the SME for a planned period of 5-6 years.

To date, the Company have made 10 investments with SMEs operating in sectors ranging from machinery to medical, plastics, lighting and so on.

KOBİ Venture Capital Investment Trust Inc. Co. (KOBİ GSYO A.Ş.)

Start-ups in Turkey have very limited access to start-up capital since they lack prior period financial records and collaterals required by the banks.

KOSGEB is in charge of the intervention in this field. The intervention is comprised of start-up capital support to new entrepreneurs in the form of grants (up to TRY 30,000) and loans (up to TRY 70 000). Eligible costs are registration costs, capital equipment and operating expenses. Support rate is 60% and 70% depending on the regions' development priority state. If the entrepreneur is a woman or a disabled person, the support rate is 10% higher. An entrepreneur can submit an application to KOSGEB for this support after setting up his/her business following the completion of a 70-hour start-up training implemented by either KOSGEB or KOSGEB approved public or civil organisations.

Between 2010 and 2013, 185,651 participants, of which 45% are women, completed start-up training programs. From this population 11,495 participants set up their businesses (approximately 50% are women) and used KOSGEB start-up capital support in varying amounts up to TRY 100 000. The total amount disbursed by KOSGEB for this purpose is TRY 170 000 000. The remaining opted out to become self-employed, however they can still set up their businesses at a later stage of their lives. In that case, they will be eligible for KOSGEB capital support.

Greater Anatolia Guarantee Facilities (GAGF) Project

By the Directorate General of Internal Trade of the Ministry of Customs and Trade with the cooperation of EIF and EIB, a credit guarantee project is being implemented in 43 cities of Turkey in the context of the Regional Competitiveness Operational Programme for 2010-17. Both micro enterprises and SMEs can benefit from the project. Between 2010 and 2013, credit volume provided to the enterprises was over EUR 400 million. By the end of the project, it is planned to provide credit volume up to EUR 937.5 million in these 43 cities. Additionally, although it was aimed to reach 4 000 enterprises for the EUR 500 million credit in the context of the Project, the number of enterprises reached has been 5 367.

TÜBİTAK Venture Capital Funding Programme

TÜBİTAK is also launching a programme addressing financial needs of innovative SMEs. The implementation principles of this programme were completed in 2013 and the first call of this programme was between September and December 2013.

The aim of this programme is to utilise the Venture Capital Funds to meet financial needs at the seed, start-up, or development stage of SMEs with a potential to develop and produce innovative products, processes, information, or technology that can provide added value to the country's economy.

Objectives of the programme are as follows:

- Making a contribution to meet financing needs at the seed, start-up or development stage by providing grant to venture firms with financial needs.
- Making a contribution to the creation of a venture capital ecosystem by encouraging the establishment of new funds to provide capital for Venture Firms and Fund Managers who will manage these Funds.
- Enhancing the financial support that is specific to each stage of the Venture firms' life cycle in order to ensure sustainability of the created ecosystem.
- Empowering the Venture Capital Funds that support Venture Firms and improving these processes with support from the government.

Leasing, Factoring and Financing Companies Law

Parliament enacted a new Leasing, Factoring and Financing Companies Law in November 2012 which gathers leasing, factoring and financing company regulations together. This new Law is expected to help non-banking financial sector growth and improve SME's access to finance especially by expanding the variety and size of the leasing transactions available for them. This Law supports two secondary regulations which entered into force in the late 2013, "the Regulation on Establishment and Activities of Leasing, Factoring and Financing Companies", "the Regulation on the Provision and Accounting Practices of Leasing, Factoring and Financing Companies and the Format and Content of Financial Statements Disclosed to Public". Former sets the principles and conditions for establishment and operations of the mentioned companies and the latter sets the principles of accounting, financial statements to be disclosed and provisioning requirements.

Box 35.1. **Definition of SMEs used in Turkey's 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 TRY 40 million. The characteristics of micro, small and medium enterprises are illustrated below.

	Micro Enterprise	Small Enterprise	Medium Enterprise
Employees	< 10	< 50	< 250
Annual turnover	≤ 1 Million TRY	≤ 8 Million TRY	≤ 40 Million TRY
Annual balance sheet	≤ 1 Million TRY	≤ 8 Million TRY	≤ 40 Million TRY

Source: Law on the SME definition, 04 November 2012.

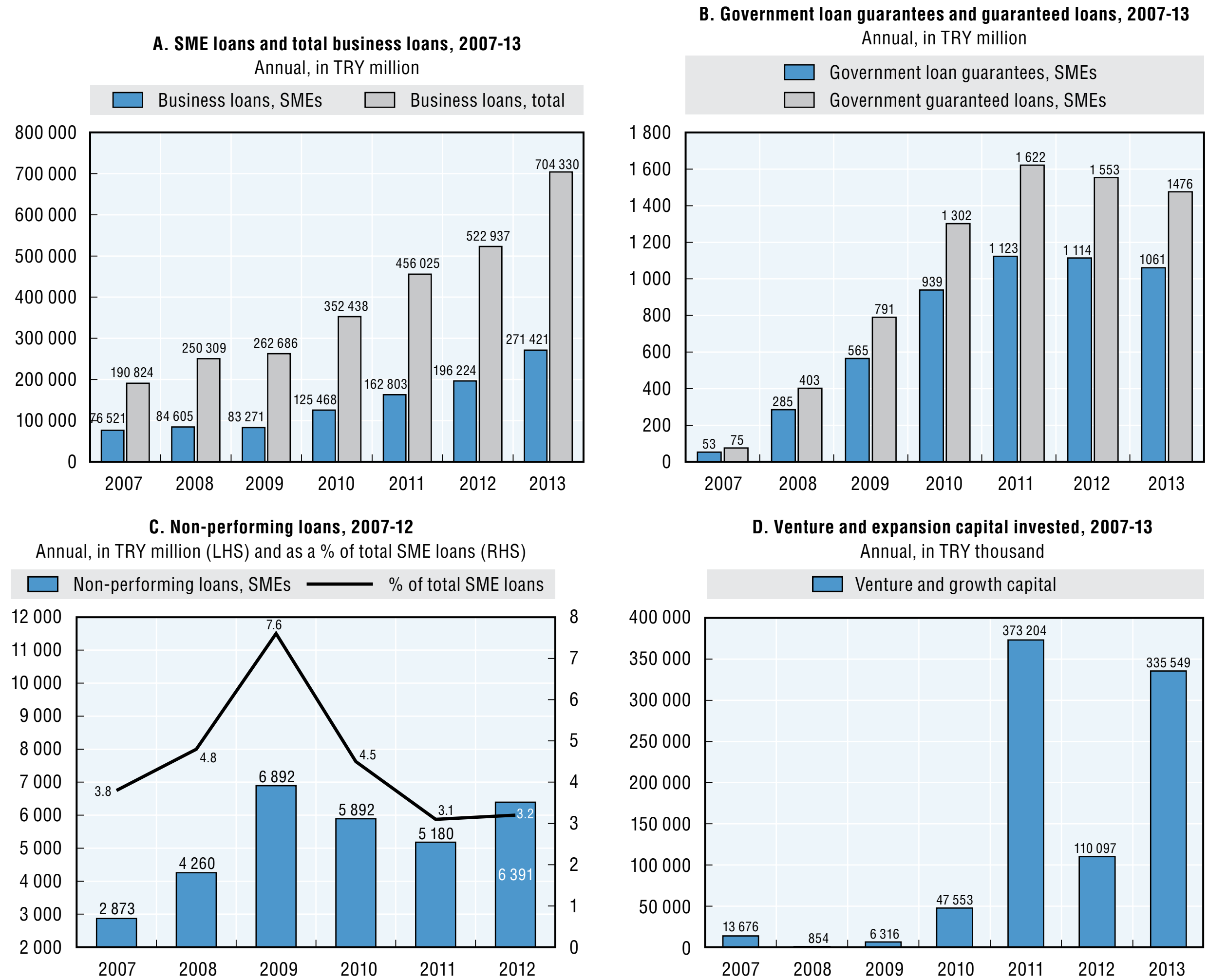
Table 35.6. **Scoreboard for Turkey, 2007-13**

Indicator	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	TRY Million	76 521	84 605	83 272	125 468	162 803	199 743	271 421
Outstanding business loans, total (stock)	TRY Million	190 142	249 434	261 671	351 627	456 025	522 937	704 330
Business loans, SMEs	% of total business loans	40.1	33.8	31.7	35.6	35.5	37.5	39
Government loan guarantees, SMEs	TRY Million	53	285	565	939	1 123	1 114	1 061
Government guaranteed loans, SMEs	TRY Million	75.4	403	791	1 302	1 622	1 553	1 467
Direct Loans	USD Million	552	842	997	1 321	1 174	1 315	2 632
Non-performing loans, SMEs	TRY Million	2 873	4 260	6 892	5 892	5 213	6 537	8 740
Non-performing loans, total	TRY Million	10 345	14 053	21 853	19 993	18 973	23 408	29 622
Non-performing loans, SMEs	% of total SME loans	3.8	4.8	7.6	4.5	3.1	3.2	3.2
Equity								
Venture and growth capital	TRY thousand	13 676	854	6 316	47 553	373 204	110 097	335 549
Venture and growth capital	%, Year-on-year growth rate	..	-93.8	639. 5	652.9	684.8	-70.5	204.7
Other								
Bankruptcies, total	Number	52	47	50	68	72	141	69

Source: See Table 35.7

StatLink http://dx.doi.org/10.1787/888933195885

Figure 35.1. **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/10.1787/888933194279

Table 35.7. **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, overdrafts, business mortgages and business cards. Excludes lines of credit, leasing and factoring.	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	Loans that are overdue by more than 90 days out of total 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)

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United Kingdom

SMEs in the national economy

There were over 1.2 million employer enterprises in the United Kingdom in 2013. 99.5% of these were SMEs with less than 250 employees, which employed 51% of the workforce. 81.5% were micro enterprises with less than 10 employees.

Table 36.1. **Distribution of firms in the United Kingdom, start of 2013**

By firm size

Firm size (employees)	Number	%
All employers	**1 210 910**	**100.0**
SMEs (1-249)	**1 204 315**	**99.5**
Micro (1-9)	986 885	81.5
Small (10-49)	186 745	15.4
Medium (50-249)	30 685	2.5
Large (250+)	**6 595**	**0.5**

Source: Department for Business, Innovation & Skills.

StatLink http://dx.doi.org/10.1787/888933195895

SME lending

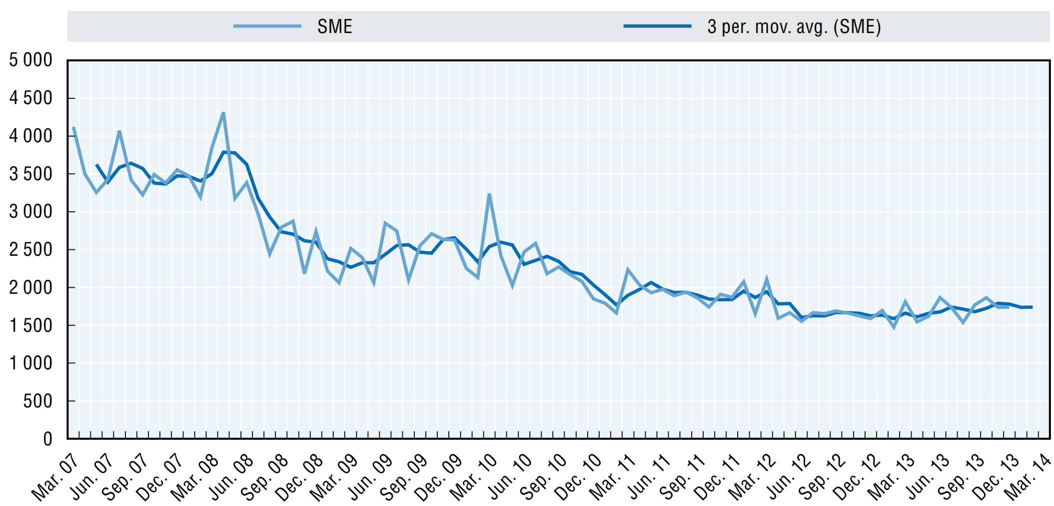
Both the data on the outstanding stock of SME loans and on new business loans to SMEs show a general downward trend in SME lending since before the financial crisis, although with some signs of improvement in 2013. New loans fell by more than half from their peak in 2008 to their low point in February 2013, but since then there are tentative signs of a recovery in lending, at least in terms of values. Gross loan flows are nonetheless far below the levels seen pre-crisis, and repayments continue to exceed drawdowns, meaning net lending remained negative through 2013, albeit to a lesser extent than previous years.

The stock of lending follows a similar pattern, in that it shows a downward trend since the crisis, with some signs of improvement apparent in 2013. Growth in the SME lending stock has remained negative since 2009, despite the pick-up in new loans: the cumulative decline from peak to trough is around 17% (in nominal terms). The continued decline in lending stock suggests a persistent running-off of loan facilities provided pre-crisis; banks have been shedding commercial real estate assets in particular, which had accounted for a significant share of lending before the crisis.

The stock of lending to corporations has fallen more rapidly than to SMEs since 2009, as figure 36.3 illustrates. Whereas 18.1% of all business loans went to SMEs in 2008, this percentage increased year on year to 22.1% in 2013. However, this should not be taken as a sign that SMEs enjoyed easier access to finance than did large enterprises. The volume of lending has fallen to both small and large firms, and the fact that it is falling 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 shows 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]

Figure 36.1. **Gross lending SMEs in the United Kingdom**

GBP million

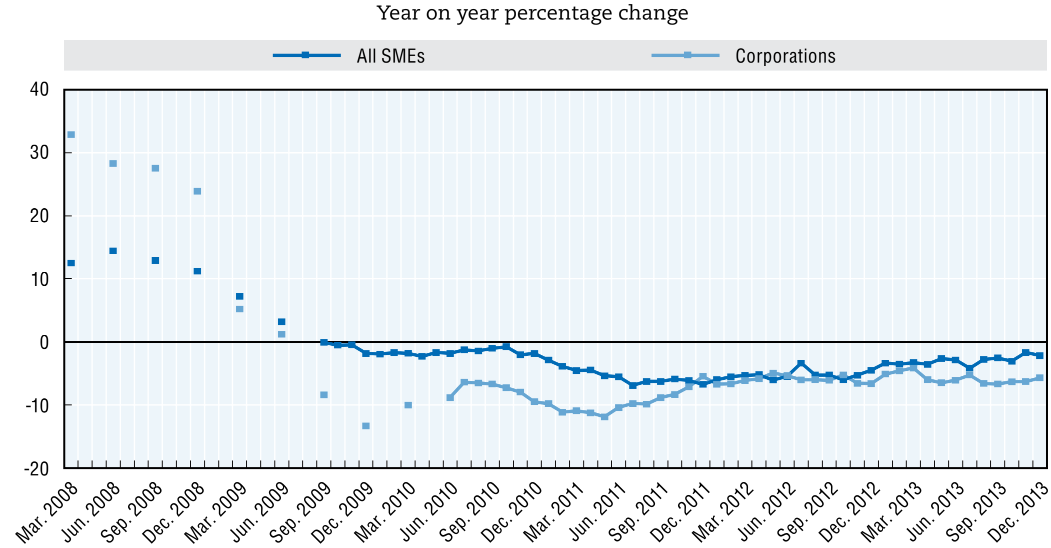


Source: BIS calculations, based on BBA and BIS data

StatLink http://dx.doi.org/10.1787/888933194286

Figure 36.2. **Stock of lending to SMEs and corporations in the United Kingdom, 2008-13**

Year on year percentage change



Source: BIS calculations, based on BBA, Bank of England and BIS data

StatLink http://dx.doi.org/10.1787/888933194294

Credit conditions

The ratio of SME loans authorised to the SME loans requested increased between 2010 and 2012 and then dropped from 69% to 64% in 2013. This decline potentially indicates a deterioration in credit conditions, either from an increased reluctance for banks to lend to SMEs, or a decline in credit quality of loan applicants. The ratio of SME loans authorised to SME loans used, that is the degree of utilisation, points in the same direction. The degree of utilisation rose from 86% in 2012 to 89% in 2013, which usually signals a tightening of credit market conditions. The contrast between these results and the tentative recovery in lending volumes is likely to be the result of larger loan transactions being more likely to succeed: the bigger deals are enough to affect reported values but not the proportion of individual applications which are successful.

Interest rates, both for SMEs and for large firms, generally followed a downward pattern since the height of the financial crisis in 2008 as a result of the ensuing monetary loosening of the Bank of England. After an uptick in 2012, interest rates again subsided somewhat in 2013, when the median rate for SMEs stood at 3.59% in 2013, down from 4.54% in 2008. The interest rate for large firms decreased more than for SMEs, however, as indicated by the rising spread. The interest rate spread between rates charged to large firms and to SME increased from 108 basis points in 2008 to 136 basis points in 2013. This is in contrast with most other European countries and suggests that financing conditions in the United Kingdom remain more favourable for large firms than for SMEs.

Collateral requirements do not appear to follow a clear pattern. In 2010 36.1% of loans (excluding commercial mortgages) required collateral, a figure which fell sharply to 23.5% in 2011, increased in 2012, and fell back again to 30.2% in 2013. This rather inconsistent picture 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. Indeed, when looking at employers only the pattern is of a steady increase in collateral requirements between 2010 and 2013.

There are two large-scale demand-side surveys of SME financing carried out in the United Kingdom. The SME Finance Monitor (SME FM) is an independent quarterly survey of 5,000 businesses (including non-employers) that is specifically focused on financing conditions and has been running since 2011; the BIS Small Business Survey (SBS) is a broader survey with a section on access to finance, which is carried out every two years but has the advantage of a time series back to 2007-08.

Data from the SBS show the percentage of SME employers seeking finance has been relatively stable over time: it increased from 23% in 2007-08 to 26% in 2010, and fell slightly to 24% 2012. These relatively stable figures seem to contrast with those in the SME FM, which shows the proportion of businesses (including non-employers) seeking a new or renewed bank facility falling from 15% at the start of 2011 to 8% by 2014 Q2.

The differences between the surveys and time periods covered mean these results should be interpreted with caution, but it could suggest a more recent weakening of demand, particularly amongst the smallest businesses, which are captured to a greater extent in the SME FM. Both surveys show smaller businesses are less likely to seek finance than larger firms (although younger firms are *more* likely to apply), and the SME FM shows a distinct weakening in demand from micro businesses in the past two years. It is also notable that the smallest (as well as youngest) firms are significantly more likely to see their applications rejected, which might be feeding through to weaker demand.

Data from the Bank of England suggest a modest, but continuous improvement of credit conditions for SMEs (and large companies alike) in 2013 and early 2014, in part due to an improvement in the economic outlook. Both the credit availability for small businesses and the acceptance rate have improved over 2013 and the first half of 2014. Loan fees and commissions for medium-sized companies in particular also fell throughout the same period. The rejection rates of SME loans point to a different evolution, however, as they have increased from 29.8% in 2011 to 30.7% in 2012 and 37% in 2013.

Leasing, hire purchases, asset-based financing and equity financing

Leasing and hire purchases are financing options widely used by UK SMEs. They are most commonly used by larger SMEs and mid-caps (more frequently than term loans for these cohorts), but smaller firms also make use of them. The flow of new lending in leasing and hire purchase facilities fell by 30% between 2008 and 2009, as a result of the financial crisis, but has picked up in each subsequent year, although it remains significantly below its pre-crisis level. Table 36.2 shows estimated lending for SMEs, which is derived by applying a fixed proportion (60%) to statistics for all PNFCs.

Table 36.2. **Leasing and hire purchases to SMEs in the United Kingdom, 2007-13**

GBP million; SMEs defined as 60% of all PNFC facilities by value

Year	Leasing	Hire purchase	Total
2007	8 008	6 565	14 573
2008	8 413	5 942	14 356
2009	5 771	4 180	9 951
2010	5 531	4 706	10 237
2011	5 295	5 311	10 606
2012	5 438	5 915	11 353
2013	5 226	6 704	11 930

Source: Finance & Leasing Association: data provided directly to British Business Bank

StatLink http://dx.doi.org/10.1787/888933195903

Asset-based finance, which includes domestic factoring, domestic invoice discounting, export factoring and import factoring, improves cash flow and provides working capital for many SMEs. The total value of asset-based finance contracted by 20% between 2008 and 2009, but has since grown each year and surpassed the previous peak in 2013. However, the series for SMEs (with turnover below GBP 50 million[2]) remains below its peak, having recovered more slowly from the 2009 trough, and for smaller firms (turnover less than GBP 10 million) there has been little increase at all post-crisis. This shows that asset-based finance is being used more and more by larger companies in bigger facilities, with fewer gains evident for smaller firms.

Table 36.3. **Stock of asset-based financing in the United Kingdom, year-end 2007-13, by turnover**

GBP million

Turnover bands	0 - 500 000	500 000 - 1m	1m-5m	5m-10m	10m-50m	50m-100m	Over 100m	Total	SME*
2007	539	647	3 535	2 261	4 105	1 270	3 296	15 653	11 087
2008	673	693	3 469	2 238	4 311	1 377	4 217	16 978	11 384
2009	557	570	2 841	1 745	3 219	980	3 612	13 524	8 932
2010	683	527	2 769	1 829	3 768	996	4 113	14 685	9 576
2011	737	565	2 942	2 048	4 744	1 362	3 200	15 598	11 036
2012	536	564	2 901	1 948	4 343	1 549	4 637	16 478	10 292
2013	555	583	2 933	1 994	4 866	1 869	5 450	18 250	10 931

Note: *clients with turnover below GBP 50 million

Source: Asset Based Finance Association

StatLink http://dx.doi.org/10.1787/888933195913

While only a minority of SMEs seek external equity financing, it is an important source of finance for innovative businesses with high-growth potential. The venture capital and growth capital market peaked in 2008, and fell dramatically in 2009 as a result of the financial crisis. After a slight increase in 2010, the market shrank again in 2011 and 2012. Despite a recovery in 2013, the venture capital and growth market is still roughly at half its peak at 2008. Later stage venture capital was particularly hard hit in 2009 and again in 2012; in 2013, later-stage venture capital investments stood at around one quarter the amount invested in 2008 (see Table 36.4).

Table 36.4. **Venture and growth capital investment in the United Kingdom, 2008-13**

By stage of development, GPB billion

	2007	2008	2009	2010	2011	2012	2013
Seed	9	6	8	8	32	6	2
Start-up	354	461	340	268	232	320	278
Later stage venture	665	749	351	386	431	208	194
Total venture	1 028	1 216	699	661	695	534	474
Growth	899	1 409	995	1 216	971	738	961
total	1 926	2 625	1 693	1 877	1 666	1 271	1 434

Source: European Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933195926

Other indicators

The number of companies liquidated in the United Kingdom increased to almost 20,000 liquidations in 2009, up from 13,210 in 2007, as a result of the financial crisis and recession. The number of liquidations decreased in 2010, experienced an uptick in 2011 and declined again in 2012 and 2013, by 3.3% and 9.9% respectively. Although there has been a marked decrease since 2009, the number of liquidations in 2013, at slightly more than 16,000 in total, is still above the 2007 level. However, it is worth noting that the increase in bankruptcies during the 2009 crisis was considerably lower than that seen during previous recessions.

Payment delays, defined as the average days beyond term for all B2B transactions, reached 25.7 days in 2011, dropped to 24.7 in 2012 but increased again to 25.2 in 2013. Payment delays fell back again in the first half of 2014, although there is some seasonality in the series so another increase later in 2014 is probable.

Government policy response

The United Kingdom Government has set up the British Business Bank, a new public financial institution which became operationally independent in late 2014. It aims to improve the structure of finance markets to the benefit of SMEs by increasing competition and diversity of supply. The British Business Bank manages a range of programs to achieve this objective, some of which are outlined below. In addition to the actions of the Business Bank, two significant interventions carried out by the Bank of England and HM Treasury, providing cheap funding to banks for on-lending and tax relief on equity investments in SMEs, are explained below.

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 lending to viable businesses lacking adequate collateral or proven track record for a commercial loan, and supports countercyclical lending (including converting overdrafts into loans). EFG is only considered when the lender is satisfied your business can afford the loan repayments, as determined by the lender during the loan application. EFG is available to viable businesses with a turnover of up to GBP 41 million[3], seeking facilities between GBP 1 000 and GBP 1 million, repayable over a period of 3 months to 10 years.

EFG is the principal national vehicle for the provision of loan guarantees, which cover 75% of an individual loan facility. However, the liability of the government is limited by a cap on the proportion of the portfolio for which claims can be made; lenders can only call in the guarantee on up to 20% of their portfolio. Therefore, the value of "callable" guarantees in aggregate is 75%*20% = 15%.

Table 36.5. **Loans drawn and offered in the United Kingdom, 2009-13**

Year	Number of Loans Offered	Value of Loans Offered (GBP m)	Number of Loans Drawn	Value of Loans Drawn (GBP m)	Loans Drawn/Loans Offered
2009	7 415	759.4	6 168	626.4	82.50%
2010	5 831	588.2	5 324	529.3	90.00%
2011	3 602	362.1	3 311	325.8	90.00%
2012	3 173	337.6	2 716	288.3	85.40%
2013	3 729	407	3 154	336.7	82.70%

Source: Department for Business Innovation & Skills.

StatLink http://dx.doi.org/10.1787/888933195930

Usage of EFG was highest during the crisis in 2009; it fell each subsequent year before picking up again in 2013. The reason for the increased usage in 2013 is not entirely clear; it may be related to an increase in the proportion of loan portfolios against which the guarantee can be claimed (from 13% to 20%) that occurred in 2012, or it may be the result of greater engagement between government and lenders to improve the rules and processes of the scheme to make it easier to use.

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 July 2014), GBP 95 million has been lent under the scheme to almost 18 000 businesses. In 2013 the scheme was widened to include Scotland, Wales and Northern Ireland, and the age limit removed, opening the scheme to all age groups throughout the United Kingdom.

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"[4]. 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 540 million has been committed by all investors (up to June 2014). 16 ECFs have been launched since the start of the programme in 2006 and almost GBP 250 million has been invested in 200 businesses.

The Business Angel Co-Investment Fund (CoFund) supports business angel investments into high growth potential early stage SMEs. It aims to improve the quality of UK angel investment – by insisting on a high standards of due diligence for every deal, each of which must be cleared by an independent Investment Committee – as well as increase the quantity of funding to tackle the recognised "equity gap" for early stage investment in SMEs. The CoFund is able to make initial equity investments of between GBP 100 000 and GBP 1 million in to SMEs alongside syndicates of business angels (subject to an upper limit of 49% of any investment round), with investment decisions made by the Investment Committee. From its launch in November 2011 to July 2014, the CoFund has enabled SMEs to secure GBP 87 million in 45 deals.

The Investment Programme, launched in April 2013, addresses long-standing gaps in the finance market for smaller businesses and promotes greater choice of funding options. The Programme makes commercial investments that stimulate at least the same amount of investment from the private sector, encouraging new lenders into the market and the growth of smaller lenders. It has been established as an open competition, able to prioritise catalytic ventures – those capable of being scaled to provide an enduring source of funding for smaller businesses. As of October 2014, almost GBP 200 million of deals have been completed, with investments made in, amongst others, debt funds, lease finance companies and peer to peer platforms.

The British Business Bank is creating a wholesale guarantee product, which aims to make lending to smaller businesses more attractive by increasing its capital efficiency. A request for proposals to pilot the first phase of this programme was launched in March 2014. The product will share a portion of the underlying second loss risk on portfolios of newly originated loans, thereby giving a more favourable capital treatment to participating banks.

Falling outside the remit of the British Business Bank, Funding for Lending is a central bank scheme, launched in July 2012, which provides banks with covered 4-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. Initially, funds were available for lending to all non-financial corporations and households, not just SMEs, with the scale and price of funding connected with their change in net lending over a reference period. In April 2013 the scheme was extended for an additional year, with the incentives to increase net lending skewed heavily towards SMEs, such that any increase in lending to SMEs allowed far greater access to the central bank funding than an equivalent increase in lending to larger firms or households. From January 2014, the scheme was further amended to exclude mortgage lending (which had until then accounted for the majority of drawdowns), in order to fully focus on business lending.

The other main area of government support for SME finance outside the remit of the British 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 36.1. **Definition of SMEs used in United Kingdom's 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 (BIS) calculations, based on British Bankers' Association (BBA) and BIS data covering lending by the largest UK banking groups. The loan data are a combination of two series; BBA data for 2011 onwards, which is back-casted using trends in a BIS private survey of the major banks that ran until 2012. The two sources are methodologically very similar, with the main difference being the BBA including more lenders in their dataset, making such a back-cast valid. Because neither data source covers all lenders, the aggregated data presented here represents a proxy for the entire SME lending market.

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.

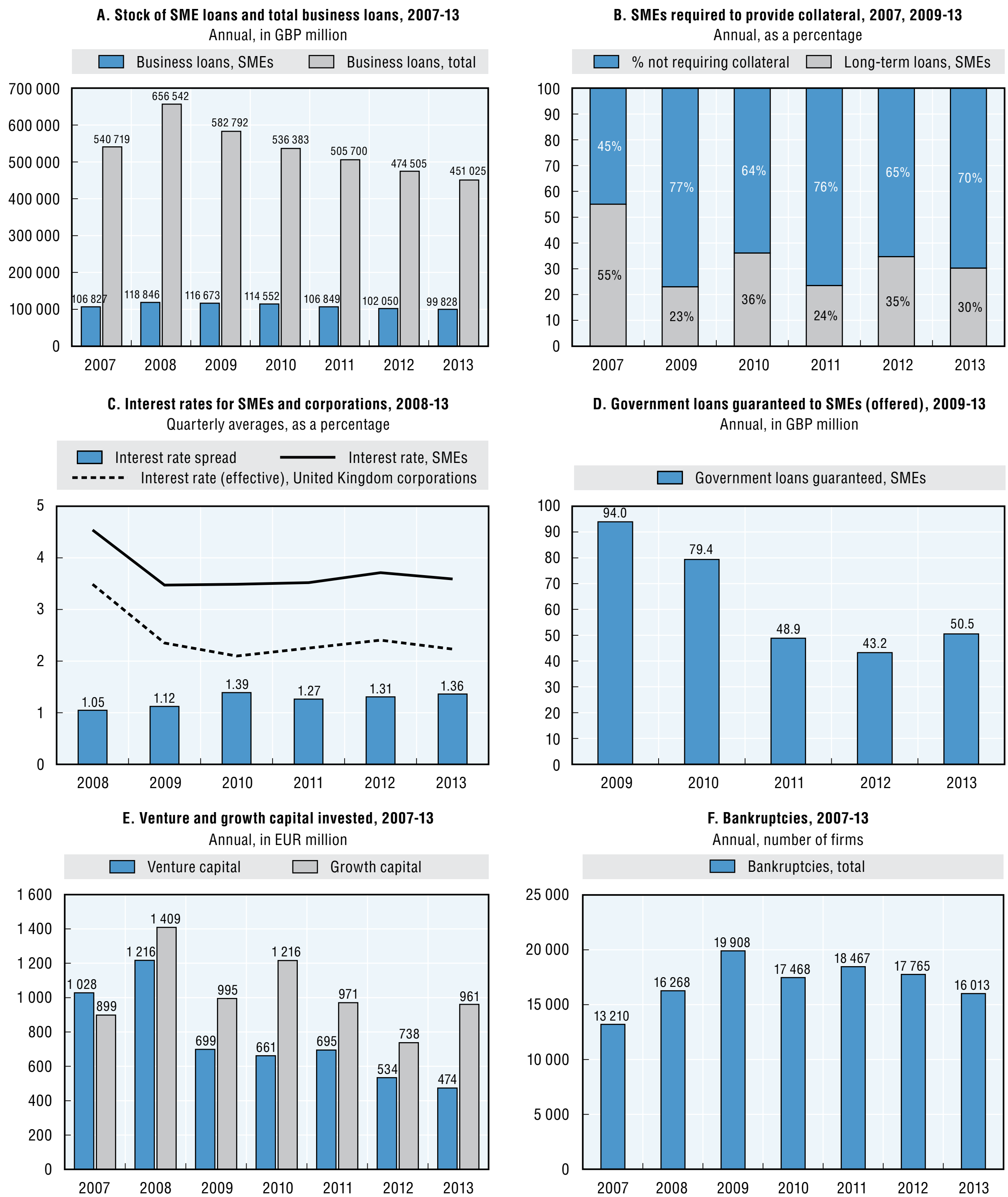
Table 36.6. **Scoreboard for the United Kingdom, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock)	GBP million	10 827	118 846	116 673	114 552	106 849	102 050	99 828
Outstanding business loans, total (stock)	GBP million	540 719	656 542	582 792	536 383	505 700	474 505	451 025
SME loan share	%	0.2	0.18	0.2	0.21	0.21	0.22	0.22
New business loans, SMEs (flows)	GBP million	..	37 388	29 469	27 671	22 835	20 521	20 395
New business loans, total (flows)	GBP million	..	..	..	..	..	145 843	162 936
Government loan guarantees, SMEs	GBP million	..	..	94	79.4	48.9	43.2	50.5
Government guaranteed loans, SMEs	GBP million	..	..	626	529	326	288	337
SME loans authorised/SME loans requested	%	..	..	..	62%	68%	69%	64%
SME loans used/SME loans authorised	%	..	..	..	..	86%	86%	89%
Interest rate, SMEs	%	..	4.54%	3.47%	3.49%	3.52%	3.71%	3.59%
Interest rate, large firms	%	..	3.49%	2.35%	2.10%	2.25%	2.41%	2.23%
Interest rate spread	% points	..	1.05%	1.12%	1.39%	1.27%	1.31%	1.36%
Collateral, SMEs	% of loans requiring collateral	55%	..	23%	36%	24%	35%	30%
Equity								
Venture capital	GBP million	1 028	1 216	699	661	695	534	474
Growth capital	GBP million	899	1 409	995	1 216	971	738	761
Other								
Payment delays, B2B	Average days beyond term	..	..	22.8	22.6	25.7	24.7	24.6
Bankruptcies, total	Number	13 210	16 268	19 908	17 468	18 467	17 765	16 013

Source: Table 36.7.

StatLink http://dx.doi.org/10.1787/888933195948

Figure 36.3. **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/10.1787/888933194303

Table 36.7. **Definitions and sources of indicators for the United Kingdom's Scoreboard**

Indicator	Definition	Source
Debt		
Business lending, SMEs (stock)	Value of the stock of SME outstanding loan and overdraft facilities with major UK banks, as at December of each year.	BIS calculations, based on BBA and BIS data
Business lending, total (stock)	Stock of outstanding monetary financial institutions' sterling lending to private non-financial corporations.	Bank of England
New business loans, SMEs (flows)	New term loan facilities drawn down, SMEs	BIS calculations, based on BBA and BIS data
New business loans, total (flows)	New term loan facilities drawn down, all PNFCs	Bank of England
Government guaranteed loans(offered), SMEs	The value of Enterprise Finance Guarantee (EFG) loans offered to SMEs. EFG covers SMEs up to GBP 25 million annual turnover. Figures for 2007 and 2008 are for the Small Firms Loan Guarantee scheme and relate to financial years.	BIS
Government guaranteed loans(drawn), SMEs	The value of Enterprise Finance Guarantee (EFG) loans drawn by SMEs. EFG covers SMEs up to GBP 25 million annual turnover. There are no figures for 2007 and 2008.	BIS
SME loans authorised/SME loans requested	% of applicants for loan or overdraft facilities who ended the process with a facility (reported by SMEs)	SME Finance Monitor
SME loans used/SME loans authorised	% of stock of term loan and overdraft facilities drawn, year-end position	British Bankers' Association; BIS calculations
Interest rate, SMEs	The median interest rate by value of new SME facilities by 4 major lenders (for SMEs up to GBP 25 million turnover). Quarterly figures are averages of 3 monthly rates. Annual figures are averages of 12 monthly rates.	Bank of England
Interest rate (effective),corporations in the United Kingdom	Effective interest rate on new lending to UK Corporations, non-seasonally adjusted. Quarterly figures are averages of 3 monthly rates. Annual figures are averages of 12 monthly rates.	Bank of England
Interest rate spread	Effective interest rate on new lending to Private Non-Financial Corporations – SME interest rate.	Bank of England
Collateral, SMEs	Percentage of SMEs that were required to provide collateral on bank loans drawn down (excluding commercial mortgages). Figures for 2010-13 are not consistent with earlier years as they come from different surveys where the questions were asked differently. Similarly, survey differences mean 2007 and 2009 figures are not consistent.	SME Finance Monitor (2010-13); United Kingdom Survey of SME Finances (2007; 2009)
Equity		
Venture and growth capital	Amount of external equity invested in UK enterprises by EVCA members (includes seed, start-up, early stage and expansion capital).	European Venture Capital Association (EVCA)
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. This is somewhat higher than the national or EU definition of SME, and in practice will include some midcaps, but it is the closest available approximation.
3. The turnover threshold for EFG was GBP 25m until March 2012, so the figures presented for 2007-11 are based on this previous limit.
4. 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

SMEs in the national economy

The SBA broadly classifies small businesses as any firm with 500 or fewer employees (see Box 37.1). 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 37.1. **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 0 to 9 persons employed.

Source: OECD (2013).

StatLink http://dx.doi.org/10.1787/888933195955

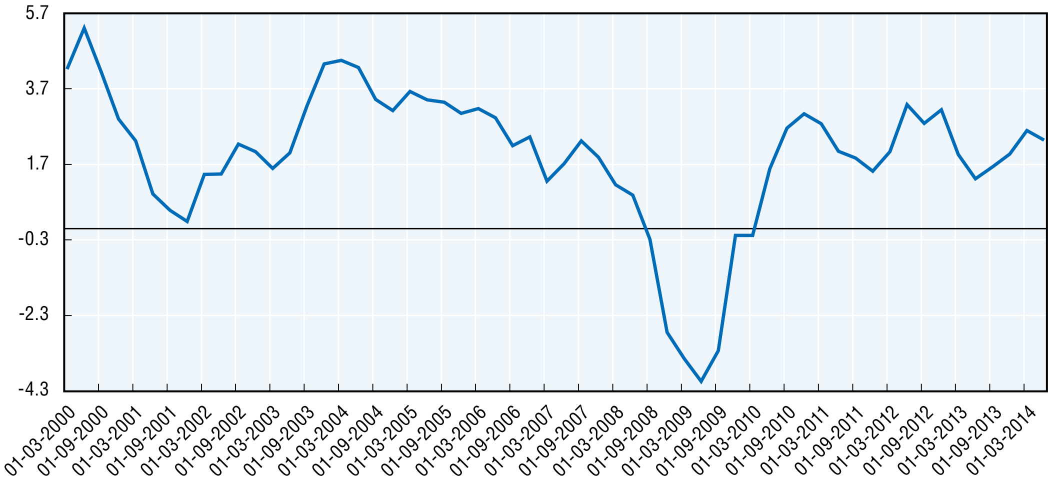
Macro-economic environment

Steady, slow but subpar economic growth has continued for four years since the Great Recession of 2008-09, with Real Gross Domestic Product recording a four-year average growth rate of 2.2%, below the historical average of 3.3%.

While this modest growth environment has created a persistent and pronounced underutilisation of resources, it has nonetheless translated into modest labour market improvements, solid gains in corporate profits, and noticeable progresses in small business credit markets. The level of corporate profits has continued to rise throughout all of the post-recession period, with profit margins rising up to the end of 2011, and remaining near peak rates thereafter. Real Investment in Equipment and Software, a proxy for Business Investment, rebounded 6.4 % during the recovery period. This compares to a historical average growth rate of 3.4 %. Data from the NFIB show that, since the latter parts of 2009, a greater number of small firms have been planning capital expenditures one to two quarter forward.

Figure 37.1. **Real gross domestic product, United States**

Year-over-year percentage change



Source: U.S. Bureau of Economic Analysis, NIPA.

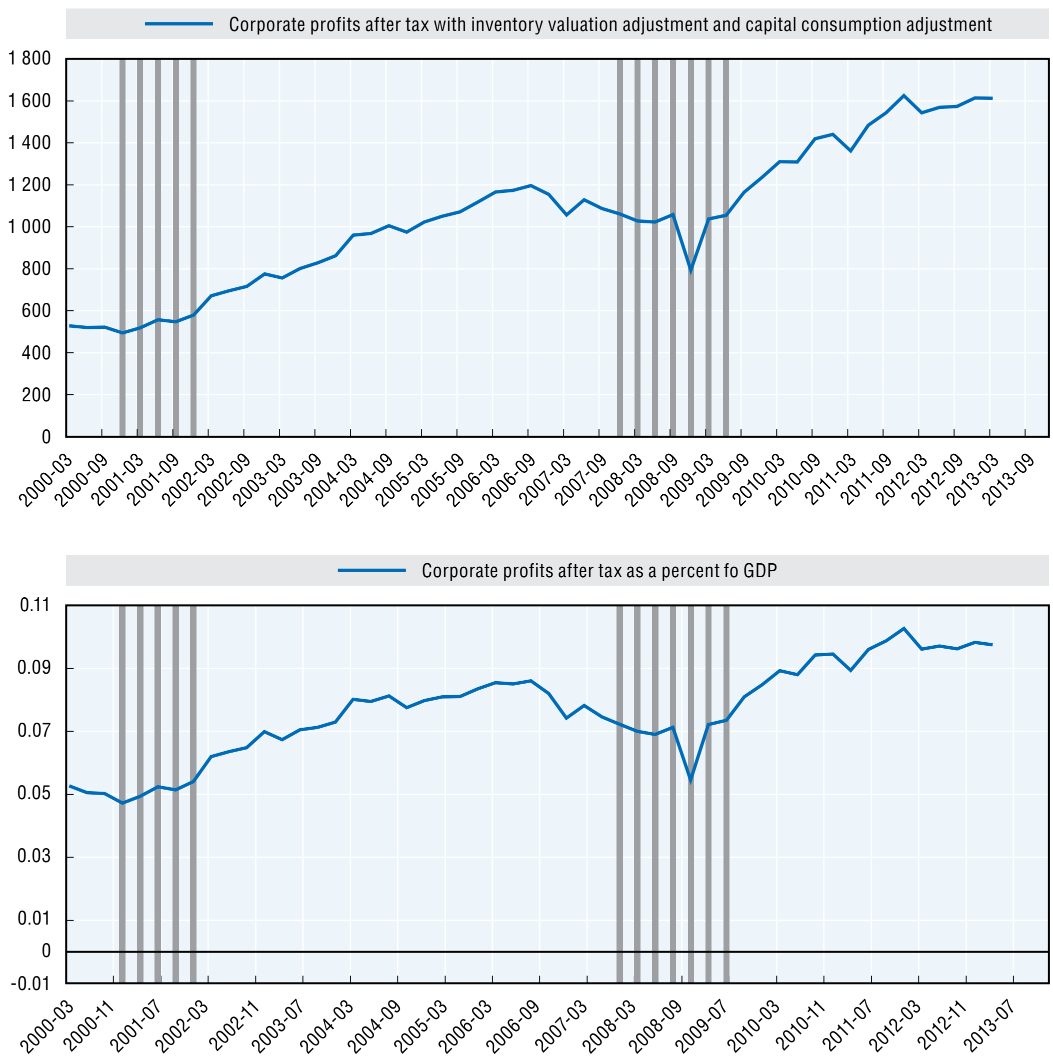
StatLink http://dx.doi.org/10.1787/888933194314

On the other hand, net firm formation experienced a very different pattern, declining 6.2 % during the 2008-11 period. This decline was more than fifteen times larger than the 0.4 % drop recorded during the steep 1991 recession.

The overall labour market continues to post modest gains, with monthly employment gains after 2011 stabilising around 190 000 jobs, about 10 000 jobs above the average posted during 2004-06 period, when the U.S. economy was expanding at its historical long-term average rate. Employment data by firm size show a similar overall improving trend, with the greatest gains coming from small firms, although the bulk of the losses during the Great Recession of 2008-09 also occurred at small firms. Labour turnover in the overall labour marked and at small firms continues to trend downward, a strong indication that a conservative behaviour continues to persist among large and small firms alike.

Figure 37.2. **Corporate Profits, Billions of Dollars, SAAR and as a percent of GDP and Industrial Sector, After Tax Profit Margins, Selected Firm Sizes**

Year-over-year percentage change



Notes: The shaded areas are quarters when the US economy when in recession as declared by the NBER

Source: U.S. Census, Quarterly Financial Report, and SBA calculations

StatLink http://dx.doi.org/10.1787/888933194327

Table 37.2. **Percent change in the number of firms in the United States, 1989-2011**

DATE	TOTAL	0*-4	05-Sep	Oct-19	20-99	100-499	500+
1989	1.30	0.80	1.50	2.30	3.10	4.30	8.20
1990	1.00	0.60	1.60	1.70	2.20	1.20	1.10
1991	40.00	0.50	-1.10	-2.00	-3.10	-3.00	-0.30
1992	0.90	1.30	0.50	0.10	-0.20	1.20	1.00
1993	1.90	2.10	1.80	1.40	1.60	3.40	3.60
1994	1.60	2.20	0.30	0.60	1.50	2.50	2.50
1995	1.70	1.30	1.70	2.40	3.90	4.00	3.00
1996	2.00	2.40	1.60	1.60	1.40	-0.10	1.10
1997	1.20	0.90	1.10	1.30	2.30	4.70	3.00
1998	0.70	0.50	0.50	1.10	1.40	0.50	1.90
1999	0.50	0.40	0.10	0.90	1.50	1.60	2.20
2000	0.80	0.20	0.80	1.90	2.80	3.70	2.50
2001	0.10	0.10	-0.20	-0.20	0.40	1.10	1.20
2002	0.70	1.90	-0.80	-0.40	-1.90	-3.50	-3.00
2003	1.20	1.10	1.50	1.10	1.30	3.00	0.50
2004	2.10	2.10	1.80	2.00	2.20	2.00	0.70
2005	1.70	2.70	0.60	-0.40	-1.00	0.90	2.50
2006	0.60	-0.20	1.00	2.70	2.90	3.80	3.40
2007	0.50	1.00	-0.10	-0.30	-0.60	-2.20	1.30
2008	-2.00	-2.40	-1.50	-1.80	-1.10	2.00	0.90
2009	-2.70	-1.60	-4.10	-3.50	-5.80	-7.80	-5.20
2010	-0.60	0.50	-3.30	1.00	-4.10	-1.90	-1.60
2011	-0.90	-1.20	1.10	-3.90	1.30	-0.60	2.50
08-Nov	**-6.20**	**-4.70**	**-7.80**	**-8.20**	**-9.80**	**-8.30**	**-3.40**

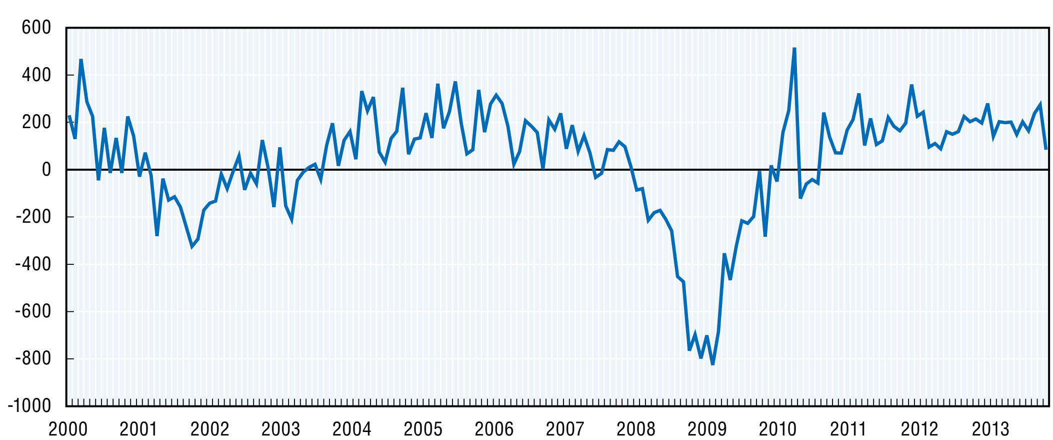
Notes: An establishment with 0 employment is an establishment reporting no paid employees in the mid-March pay period, but paid employees at some time during the year.

Source: U.S. Census, County Business Patterns, various years.

StatLink http://dx.doi.org/10.1787/888933195967

Figure 37.3. **Total Nonfarm Payrolls in the United States: All Employees, Month Over Month Change**

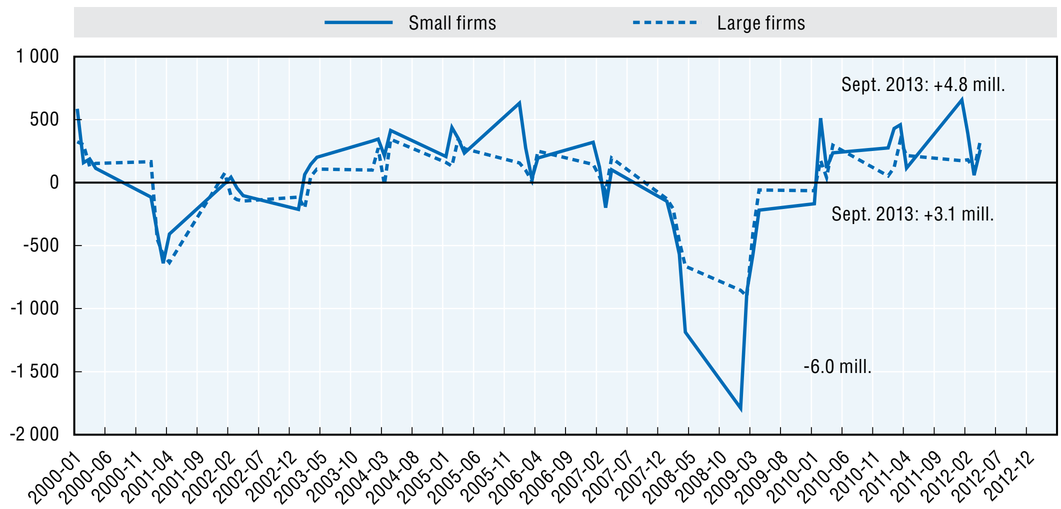
In thousands



Source: U.S. Department of Labor: Bureau of Labor Statistics, SBA calculations

StatLink http://dx.doi.org/10.1787/888933194332

Figure 37.4. **Quarterly Net Employment Change by Firm Size in the United States, 2000 -2013Q3**



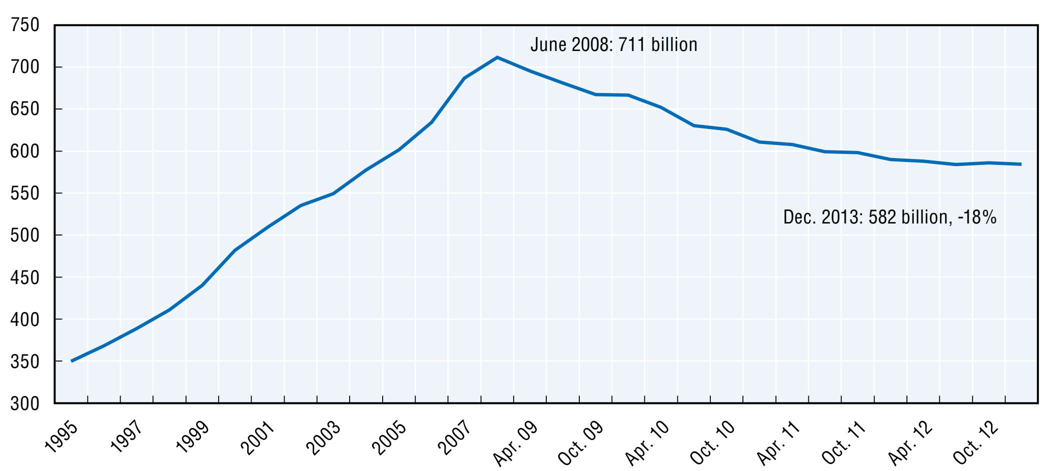
Source: BLS -Business Employment Dynamics

StatLink http://dx.doi.org/10.1787/888933194345

SME lending

Data from the FDIC shows that small loan balances at insured institutions have continued to decline since peaking during the second quarter of 2008. This data are perhaps a better indicator of small loan usage by the corporate sector, and indicates that corporations, and possibly small firms, continue to conservatively utilise small debt instruments.

Figure 37.5. **Small Business Loan Balances at FDIC Insured Institutions in the United States**



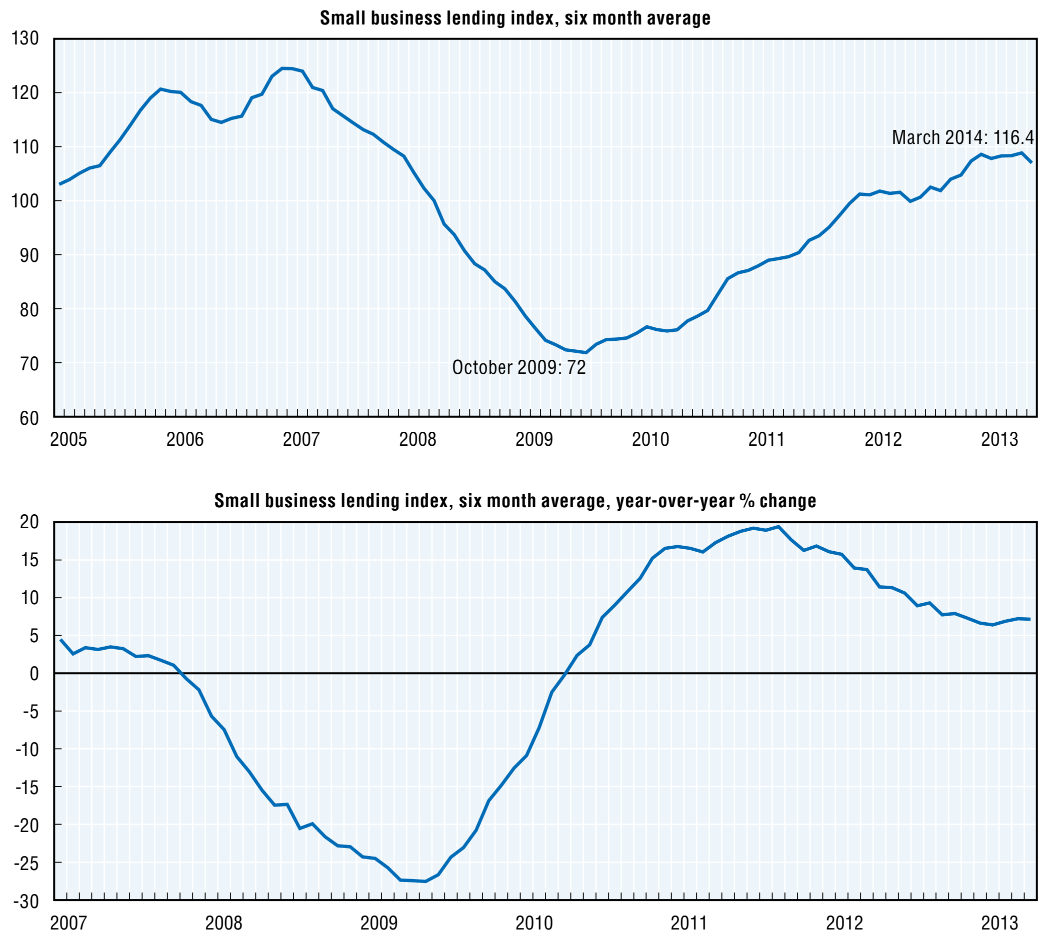
Notes: 1. annual data before 2010, quarterly data afterwards 2. Small business loans = commercial and real estate + commercial and industrial loans.

Source: SDIC and SBA calculations.

StatLink http://dx.doi.org/10.1787/888933194354

The Paynet Small business Index shows that the new supply of credit to small firms has been steadily rebounding since the second half of 2009, and has stabilised in the 6 to 7% range, a growth rate nearly twice as fast as the 3.9 % growth rate of Nominal GDP. Perhaps, this is one of the strongest indications that credit conditions for small firms has significantly improved since the depth of the Great Recession.

Figure 37.6. **Paynet, Small Business lending Index in the United States**



Source: Thompson Reuters Paynet, SBA calculations.

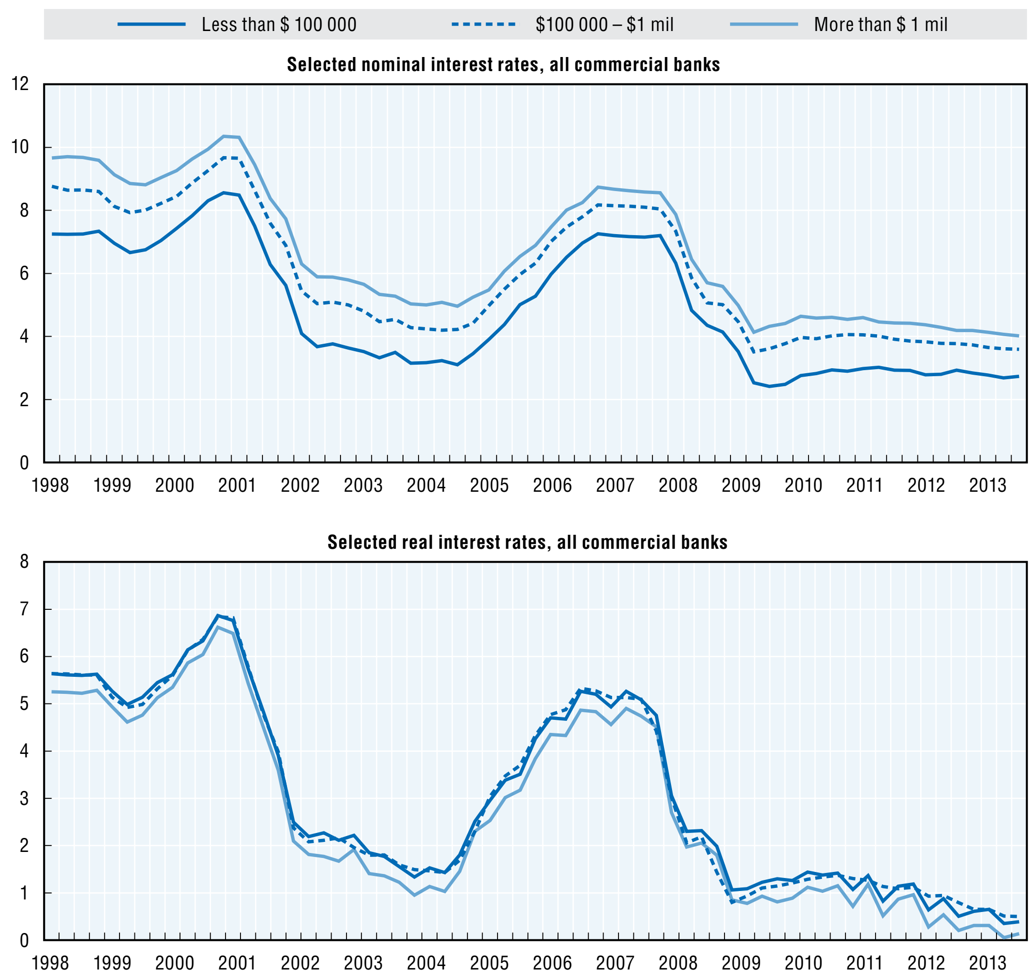
StatLink http://dx.doi.org/10.1787/888933194365

Credit conditions

Data from the Fed indicates that the net percentage of bankers reporting stronger small firm credit demand has been on the rise since the second half of 2009, but has not reached the heights of the previous two recoveries. Data from the NFIB seem to indicate that small firms that are regular borrowers concur 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, presumably the financial weaker ones, have not re-entered the credit markets.

Nominal interest rates for small loans continue to remain low. Real interest rates, a proxy for the real price of capital, continue to be very simulative, averaging 0.9 % during the recent recovery, versus a 4.4%average for the historical period. Thus, nominal and real interest rates, and the Paynet volume index, support the notion that credit conditions for business in general and for small business in particular have improved significantly since the depths of the Great Recession of 2008-09.

Figure 37.7. **Selected interest rates in the United States**



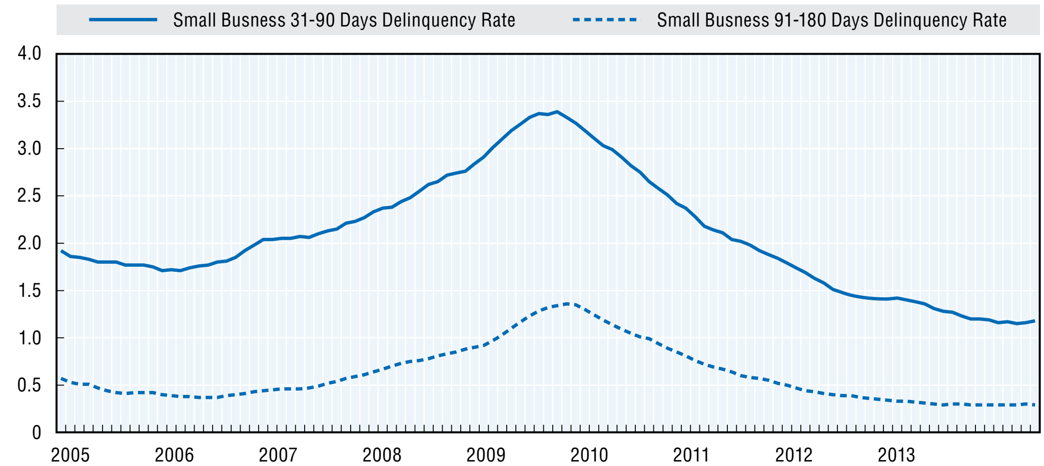
Source: Board of Governors of the Federal Reserve System, SBA calculations.

StatLink http://dx.doi.org/10.1787/888933194373

Other indicators

Delinquency rates of business loans are showing strong and broad-based improvements, which can be partly attributable to the modest improvement in overall economy, but also to the strong performance of corporate profits. Post 2008-09 recession peak delinquency rates of business loans only slightly surpass the peak rates recorded during the 2001 recession, and were well below the peak rates experienced during the 1990-91 recession.

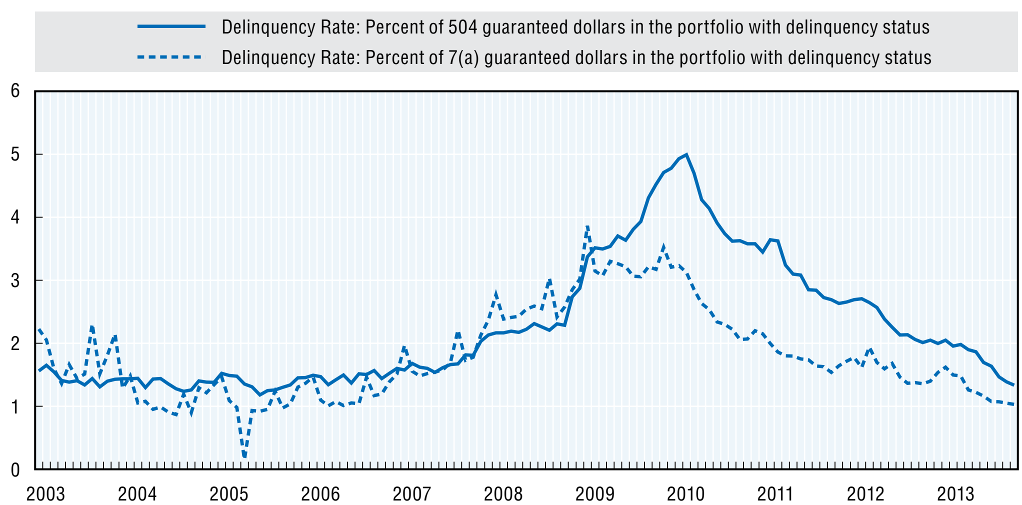
Figure 37.8. **Small Business Delinquency Rates in the United States, Paynet Data**



Source: Thomson Reuters/Paynet.

StatLink http://dx.doi.org/10.1787/888933194381

Figure 37.9. **Small Business Delinquency Rates, SBA Data**



Source: Small Business Administration.

StatLink http://dx.doi.org/10.1787/888933194395

The U.S. Small Business Administration role

The financial and economic crisis of 2008-09 had a pronounced impact on SBA's Capital Access programmes, however, after several major interventions by the federal government, the dollar volume of its major guarantee programs surpassed previous peak levels, reaching USD 22.6 billion during 2013 (see Figure 37.10). While the dollar value of SBA guarantees have made a strong comeback, the number of loans have remained relatively flat, with the slowest gains concentrated among start-ups and underserved communities. The SBA took several initiatives to address this challenge, eliminating lender's fees for loan guarantees equalling or lower than USD 150 000. In addition, the SBA paid the fees for obtaining a borrower credit score information for these loans.

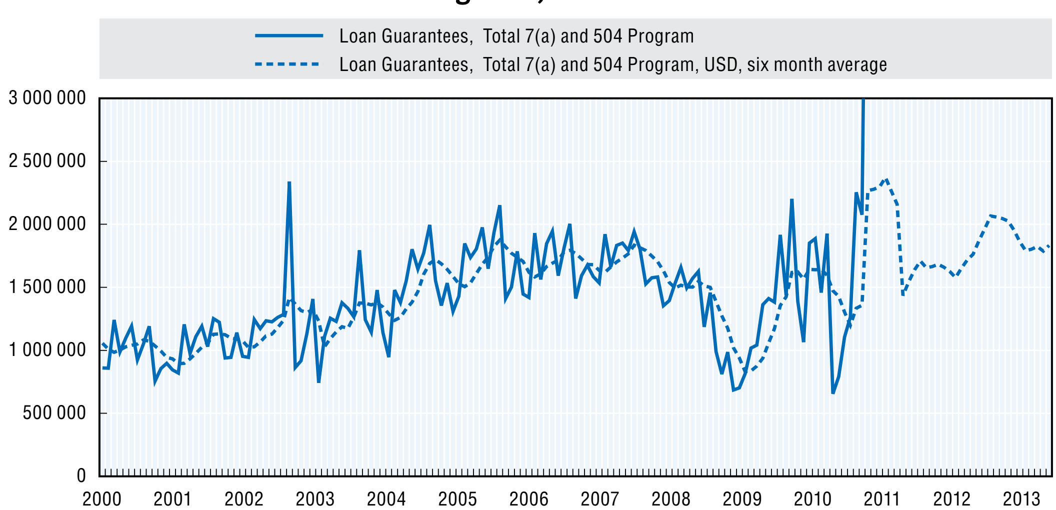
Table 37.3. **Gross loan guarantees, SBA 7(a) and 504 Programs in the United States, USD Thousands**

	SBA 7(a) and 504 Program					
	Loan Guarantees				USD Supported	
Date	Number	YOY %	(USD Mil.)	YOY %	(USD Mil.)	YOY %
2001	49 551	5%	12 670	6.4%	18 049	13%
2002	60 841	23%	14 571	15.0%	20 503	14%
2003	79 372	30%	15 382	5.6%	22 647	10%
2004	94 069	19%	18 147	18.0%	27 463	21%
2005	103 370	10%	20 534	13.1%	32 889	20%
2006	109 941	6%	20 236	-1.5%	33 128	1%
2007	107 567	-2%	20 611	1.9%	35 096	6%
2008	65 519	-39%	16 064	-22.1%	26 605	-24%
2009	57 013	-13%	15 363	-4.4%	24 697	-7%
2010	66 050	16%	22 444	46.1%	32 857	33%
2011	52 093	-21%	18 705	-16.7%	29 314	-11%
2012	54 425	4%	22 727	21.5%	38 125	30%
2013	53 160	-2%	22 546	-0.8%	33 486	-12%

Source: U.S. Small Business Administration

StatLink http://dx.doi.org/10.1787/888933195973

Figure 37.10. **Gross loan guarantees in the United States, SBA 7(a) and 504 Programs, USD Thousands**



Source: U.S. Small Business Administration

StatLink http://dx.doi.org/10.1787/888933194409

Box 37.1. **Definition of small businesses used in the United States' 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 US profile

The US statistics on business loans, interest rates and collateral are based on the loan size. Loans up to USD 1 million are classified as SME loans. In the case of SME government guaranteed loans the above mentioned thresholds are used.

Source: US Small Business Administration (2009) SBA Size Standard Methodology; Table of Small Business Size Standards available at www.sba.gov/content/table-small-business-size-standards.

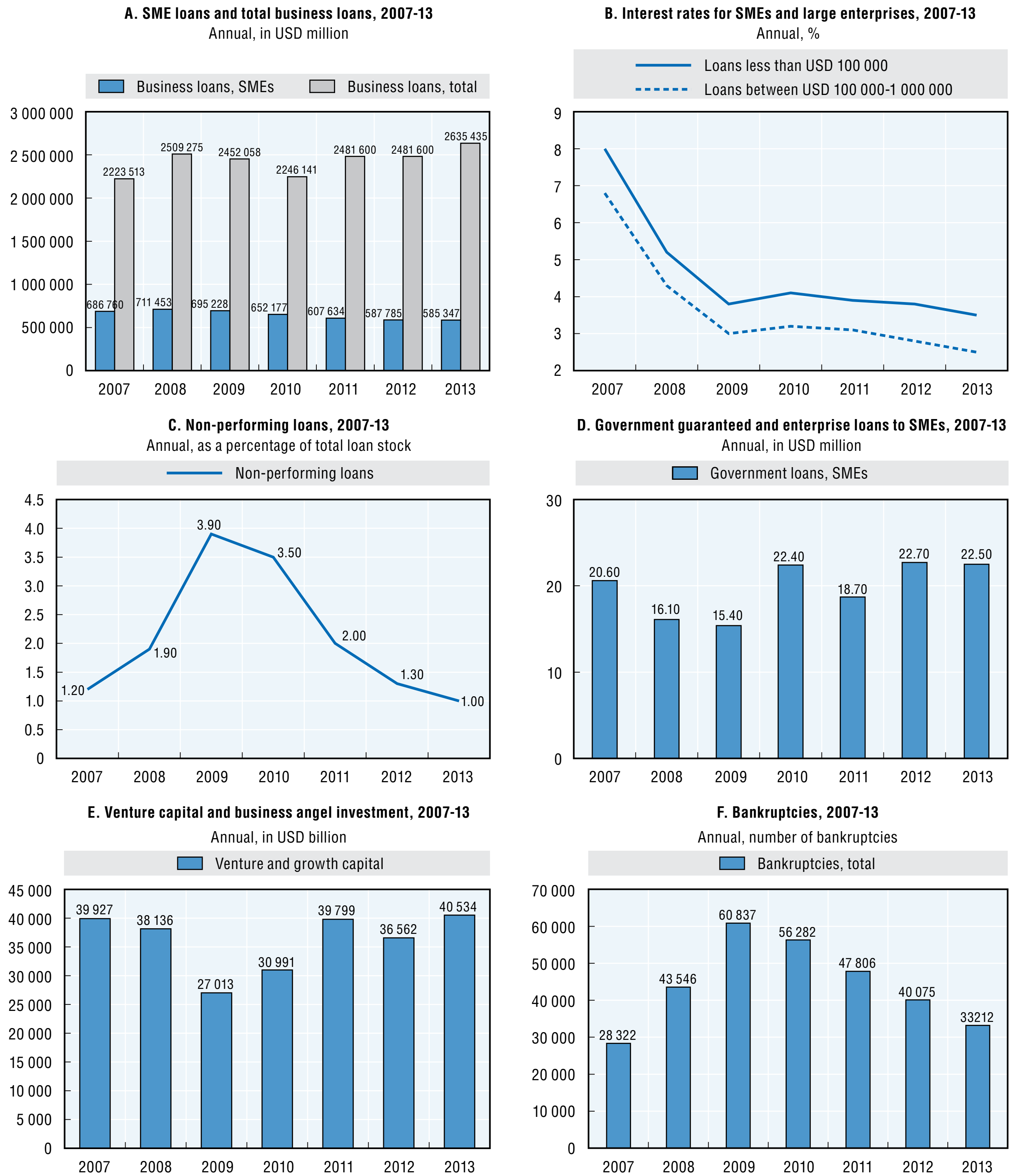
Table 37.4. **Scoreboard for the United States, 2007-13**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013
Debt								
Outstanding business loans, SMEs (stock), As of June 30	USD millions	686 760	711 453	695 228	652 177	607 634	587 785	585 347
Outstanding business loans, total (stock), As of June 30	USD millions	2 223 513	2 509 275	2 452 058	2 246 141	2 295 847	2 481 600	2 635 435
SME loan shares		0.31	0.28	0.28	0.29	0.26	0.24	0.22
Government loan guarantees, SMEs	USD billions	20.6	16.1	15.4	22.4	18.7	22.7	22.5
Non-performing loans, SMEs, Delinquency Rate for SBA 7(a) and 504 Programs	% of Active Portfolio	1.80%	2.50%	3.50%	3.00%	2.10%	1.80%	..
Non-performing loans, total	% of loan stock	1.20%	1.90%	3.90%	3.50%	2.00%	1.30%	1.00%
Interest rate, SMEs, loans between USD 100 000 - 1,000,000	%	8.00%	5.20%	3.80%	4.10%	3.90%	3.80%	3.50%
Interest rate, large firms, loans, Greater than USD 1,000,000	%	6.80%	4.30%	3.00%	3.20%	3.10%	2.80%	2.50%
Interest rate spread	%	1.20%	0.90%	0.80%	0.90%	0.90%	1.00%	1.00%
Equity								
Venture and growth capital (seed and early stage)		7,924	7,881	6,677	7,593	10,035	9,177	10,954
Venture and growth capital (growth capital)	USD, Million	32 003	30 255	20 336	23 398	29 764	27 385	29 580
Other								
Payment delays, B2B, Percent of Accounts Overdue		..	..	..	..	..	..	25.9
Bankruptcies, total		28 322	43 546	60 837	56 282	47 806	40 075	33 212

Source: Table 37.5.

StatLink http://dx.doi.org/10.1787/888933195988

Figure 37.11. **Definitions and sources of indicators for the United States' Scoreboard**



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 US Courts: Business Bankruptcy Filings.

StatLink *http://dx.doi.org/10.1787/888933194413*

Table 37.5. **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 programme, 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 US Courts: Business Bankruptcy Filings

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Financing SMEs and Entrepreneurs 2015
An OECD Scoreboard

ANNEX A

Methodology for producing the national scoreboards

Financing SMEs and Entrepreneurs 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. Consistent time series for country data permit an analysis of national trends in the participating countries. It is mainly 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. Particular caution has been exercised with respect to the comparison of flow data (i.e. new loans) and data that is based on stocks (i.e. outstanding loans).

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 14 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.

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

- 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 rejection rate
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.	Asset-based finance
13.	B2B Payment delays
14.	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 rejection rate: This indicator shows the degree to which SME credit demand is met. An increase in the ratio indicates a tightening in the credit market as more credit applications have been turned down. 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 a higher proportion of credit applications are refused.

SME loans used/SME loans authorised: This ratio also captures credit conditions, more precisely the willingness of banks to provide credit, and is therefore sometimes used in addition to or instead of the rejection rate. An increase of this ratio indicates that a higher proportion of authorised credit is being used by entrepreneurs and SMEs, which usually occurs when credit conditions are tightening.

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 more risky.

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 also 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 and is ideally broken down by the investment stage. It excludes buyouts, turnarounds and replacement capital, as these are directed at restructuring and generally concern larger enterprises.

Asset-based finance: This indicator contains information on the use of non-bank instruments, such as leasing, hire purchases, factoring and invoice discounting, by SMEs.

Payment delays: This indicator contributes to assess SME cash flow problems. Business-to-business (B2B) payment delays show supplier credit delays and how SMEs are coping with cash flow problems by delaying their payments and are more relevant to assess cash flow problems compared with business-to-consumer or business-to-government data.

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 even when not being in financial difficulties. Bankruptcies per 10 000 or 1 000 SMEs is a preferred measure, because this indicator is not affected by the increase or decrease in the total number of enterprises in the economy.

Preferred definitions

In order to calculate these core indicators, data are collected for 18 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, but increasing number of data are sourced from demand side surveys of either senior loan officers or SMEs themselves. In a number of cases it is not possible for countries to adhere to the "preferred definition" of an indicator, due to data limitation or reporting practices, and a proxy is used. For this reason, in each country profile the data are accompanied by a table of definitions and sources for each indicator.

Table A.2. **Preferred definitions for core indicators**

Indicator	Definition/Description	Sources
SME loans	Bank and financial institution loans to SMEs, amount outstanding (stocks) at the end of period OR new loans (flows); by firm size using the national definition of SME or, if necessary, loan amounts less than EUR 1 million 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)
Leasing	New production of leasing, which covers finance leases and operating leases of all asset types (automotive, equipment and real estate) and also includes the rental of cars, vans and trucks.	Business associations (supply side)
Factoring and invoicing	Factoring turnover volumes which includes invoice discounting, recourse factoring, non-recourse factoring, collections (domestic factoring), export factoring, import factoring and export invoice discounting (international factoring)	Business associations (supply side)
Payment delays	Average number of days delay beyond the contract period for Business to Business (B2B) and Business to Customer (B2C)	Demand-side survey
Bankruptcy	Number of enterprises ruled bankrupt; and number bankrupt per 10 000 or 1 000 enterprises	Administrative data

SME target population

The SME target population of the Scoreboard consists of non-financial "employer" firms, that is, firms with at least one employee besides the owner/manager, which operate a non-financial business. This is consistent with the methodology adopted by the OECD-Eurostat Entrepreneurship Indicators Programme 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.

Timeframe for the data collection

The data in the present report cover the period 2007 to 2013, which includes three distinct economic stages: pre-crisis (2007), crisis (2008-09) and recovery (2010-13). 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 2012-13, 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.

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. Use is made of quantitative demand-side data, as collected by SME surveys, to complement the picture and improve the interpretative power of the OECD Scoreboard. Whereas a plethora of qualitative SME surveys (i.e. opinion surveys) exist, quantitative demand-side surveys are less common. Experience shows that qualitative information based on opinion survey responses must be used cautiously. The broader perception of entrepreneurs about access to finance and credit conditions, emanating from such opinion surveys, has its own value though and complements the hard data provided in the quantitative analysis. Furthermore, the cross-country comparability of national surveys remains limited, as survey methodologies and the target population differs 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 when conducting demand-side surveys.

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. Scoreboard countries are asked to provide information on both stocks and flows.

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.

SME loans requested, authorised and used

The indicators on SME loans authorised and SME loans requested, which are used to calculate the rejection rate, are obtained from demand-side surveys. However, not all countries undertake such surveys, or, if they do, the results are not comparable across countries. This also constitutes an area where substantial data improvements can be made, such as enriching the analysis by the inclusion of an indicator on the level of discouragement to apply for a bank loan. To capture discouragement, this indicator should ideally be analysed in tandem with the number of loan applications. If both loan applications and rejection rates decrease over the same period, this would suggest a higher level of discouragement. As presumably the least credit-worthy firms are deterred from applying for a loan, this could also be indicative of the average riskiness of SME lending. Another potential improvement concerns the granularity and level of detail of the data; it might be possible to distinguish the rejection rate according to the type of loan (e.g. specific rejection rates on overdrafts, term loans, credit card loans and so on), to separate partial rejections from full rejections, including more analysis on the (likely) reason(s).

A similar problem holds true for the utilisation rate; which consists of SME loans used divided by SME loans authorised. A decline in this ratio suggests that the credit market is easing, or that banks have been providing more credit than has been used. Again, not every country has reliable survey data on the SME loans used and caution is warranted when making comparisons across countries.

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, but not all. 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 and in other cases they are not. In addition, it is common practice to classify loans that are unlikely to be repaid in full as non-performing, even when the threshold of 90-day arrears is not met. The circumstances under which loans are considered unlikely to be repaid, and hence deemed non-performing, vary substantially across countries and financial institutions. Caution is therefore warranted when interpreting this data.

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 over time, the indicator has value 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 are 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]

Asset-based finance

Most of the indicators of the Scoreboard relate to bank finance, although in practice SMEs and entrepreneurs also rely on other financing options. Including statistics on the use of asset-based finance allows for a more complete overview of trends of access to finance for SMEs and entrepreneurs. Asset-based financing covers a variety of instruments whereby a firm obtains cash based on the value of a particular asset, rather than on credit standing. These instruments include asset-based lending, factoring, hire purchases and factoring.

Asset-based lending is any sort of lending secured by an asset (such as accounts receivable, inventory, real estate, equipment). As these loans are usually issued by banks, information on asset-based loans is already covered in the indicator on SME loans, and a separate indicator is not required. More detailed information on the composition of bank loans would, however, shed light on the importance of asset-based lending and what assets are most often used as a security.

The indicator on leasing covers either the new production (i.e. a flow indicator) of finance leases and operating leases of all asset types (automotive, equipment and real estate) and also includes the rental of cars, vans and trucks. Leasing is an agreement whereby the owner of an asset provides the right to use the asset for a specified period of time in exchange for a series of payments. The inclusion of information on hire purchases, which are agreements where the purchaser agrees to pay for the goods in parts or percentages over a number of months and which is very similar to leasing, would benefit future editions of the Scoreboard. Factoring is a type of supplier financing where firms sell their credit-worthy accounts receivable at a discount and receive immediate cash. Data on factoring turnover volumes includes all turnover that is covered by invoice discounting, recourse factoring, non-recourse factoring, collections (domestic factoring), export factoring, import factoring and export invoice discounting (international factoring).

It is important to note that these data usually do not distinguish between SMEs and large corporations, and a breakdown of data according to the size of the lessees does not exist in most countries, although research indicates that leasing (and other forms of asset-based finance) is very often used by SMEs. Increasing the number of countries providing data and deriving information on the take-up of asset-based finance by firm size, either directly or through a proxy, constitutes an important avenue for future research.

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

One of the biggest challenges to comparability is represented by existing 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 14 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 and are not gathered or communicated as a consequence.

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
		Rejection rate	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
Canada	Size of firm: 1-499 employees	Business loans, SMEs	Loan size: amounts up to CAD 1 million
		Short- and long-term loans, small businesses	Firm size: enterprises with 1-99 employees
		Government guaranteed loans, SMEs	Firm size: annual sales (turnover) lower than CAD 5 million
		Direct government loans, SMEs	Firm size: annual sales (turnover) less than CAD 25 million
		Risk premium for small businesses	Firm size: enterprises with 1-99 employees
		Loans authorised and requested, small businesses	Firm size: enterprises with 1-99 employees
		Collateral, small businesses	Firm size: enterprises with 1-99 employees
Chile	Annual sales of firm: up to UF 100 000	Business loans, SMEs	Loan size: amounts up to UF 18 000
		Short- and long-term loans, SMEs	Loan size: amounts up to UF 18 000
		Government guaranteed loans, SMEs	Firm size: annual sales up to UF 100 000 or annual exports up to UF 400 000
		Direct government loans, SMEs	Less than 12 hectares and capital up to UF 3 500
		Loans authorised and requested, SMEs	Firm size: annual sales up to UF 100 000
		Non-performing loans, SMEs	Loan size: amounts up to UF 18 000
		Short-term 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

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
China	The definition of SMEs differs according to sector.		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.
		SME government direct loans	The definition of SMEs differs according to sector.
		Non-performing loans, SMEs	The definition of SMEs differs according to sector.
		SME loans requested, authorized and used	The definition of SMEs differs according to sector.
		interest rates, SMEs	The definition of SMEs differs according to sector.
		Collateral, SMEs	The definition of SMEs differs according to sector.
		Loan fees, SMEs	The definition of SMEs differs according to sector.
Colombia	Size of firm: less than 200 employees	Business loans, SMEs	Firm size: enterprises with less than 200 employees
		Non-performing loans, SMEs	Firm size: enterprises with less than 200 employees
		Government guaranteed loans, SMEs	Firm size: enterprises with less than 200 employees
		Interest rate, SMEs	Firm size: enterprises with less than 200 employees
		Collateral, SMEs	Firm size: enterprises with less than 200 employees
Czech Rep.	Size of firm: less than 250 employees	Business loans, SMEs	Loan size: amount up to CZK 30 million
		(New business loans, SMEs – flows)	Loan size: amount up to CZK 30 million
		Business loans, SMEs	Firm size: up to 250 employees
		(Outstanding business loans, SMEs – stock)	
		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
Estonia	Size of firm: less than 250 employees	Business loans, SMEs	Loan size: amounts up to EUR 1 million
		Government loan guarantees, SMEs	Loan size: amounts up to EUR 1 million
		Non-performing loans, SMEs	Loan size: amounts up to EUR 1 million
		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
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
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
Japan	Varies by sector	Business loans, SMEs	The definition of SMEs differs according to sector.
		Bankruptcies, SMEs	The definition of SMEs differs according to sector. Only enterprises with debts of at least JPY10 million are included.
Korea	Varies by sector	Business loans, SMEs	The definition of SMEs differs according to sector.
		Short- and long-term loans, SMEs	The definition of SMEs differs according to sector.
		Government loan guarantees, SMEs	The definition of SMEs differs according to sector.
		Direct government loans, SMEs	The definition of SMEs differs according to sector.
		Loans authorised and requested, SMEs	The definition of SMEs differs according to sector.
		Non-performing loans, SMEs	The definition of SMEs differs according to sector.
		Interest rate spread, SME and large firm rates	The definition of SMEs differs according to sector.
		Payment delays, SMEs	The definition of SMEs differs according to sector.

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
Mexico	Firm size: up to 100 or 250 employees, depending on the sector	SME loans	The definition depends on the number of employees and the annual revenues of the borrower
		SME guaranteed loans/direct loans	Firm size: up to 100 or 250 employees, depending on the sector
		SME loans requested and authorized	Firm size: up to 100 or 250 employees, depending on the sector
		SME interest rate	Firm size: up to 100 or 250 employees, depending on the sector
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 50 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

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
Serbia	Up to 250 employees, turnover up to EUR 10 million, total assets up to EUR 5 million	Business loans, SMEs	Firm size, in accordance with national statistical definition.
		Interest rate, SMEs	Loan size: up to EUR 1 million.
Slovak Republic	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: less than 250 employees (including natural persons)
		Short- and long-term loans, SMEs	Firm size: less than 250 employees (including natural persons)
		Government loan guarantees, SMEs	Firm size: less than 250 employees (including natural persons)
		Government guaranteed loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC)
		Direct government loans, SMEs	Firm size: less than 250 employees (including natural persons)
		Direct government loans, SMEs	Firm size: less than 250 employees (including natural persons)
		Collateral, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC)
		Venture capital, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC)
Slovenia	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Short- and long-term loans, SMEs	Firm size: less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.
		Direct government loans, SMEs	Firm size: less than or equal to 250 employees and asset value less than or equal to EUR 17.5 million.
		Interest rate, SMEs	Firm and loan size: enterprises with less than 250 employees and amounts less than EUR 1 million.
Spain	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Loan size: less than EUR 1 million
		Short- and long-term loans, SMEs	Loan size: less than EUR 1 million
		Government guaranteed loans, SMEs	Firm size: less than 250 employees
		Interest rate, SMEs	Loan size: less than EUR 1 million
		Venture capital, SMEs	Firm size: less than 250 employees
		Payment delays, SMEs	Firm size: EU definition
		Bankruptcies, SMEs	Firm size: EU definition
Sweden	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: 1-249 employees
		Short- and long-term loans, SMEs	Firm size: 1-249 employees
		Government guaranteed loans, SMEs	Firm size: 0-249 employees
		Government loan guarantees, SMEs	Firm size: 0-249 employees
		Direct government loans, SMEs	Firm size: 0-249 employees
		Loans authorised, SMEs	Firm size: 0-249 employees
		Interest rates, SMEs	Loan size: up to EUR 1 million
Switzerland	Size of firm: less than 250 employees	Business loans, SMEs	Firm size: less than 250 employees
		Government guaranteed loans, SMEs	Firm size: less than 250 employees
		Loans used, SMEs	Firm size: less than 250 employees
		Collateral, SMEs	Firm size: up to 249 employees
		Interest rates, SMEs	Loan size: less than CHF 1 million

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
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.
- Asset-based finance: Find data broken down by firm size or a functioning proxy of firm size. Currently, business associations usually do make the distinction according to the use of these instruments by firm size, which limits the understanding of the importance of these non-bank financial instruments for SMEs.
- 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. If possible, 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.
- Work towards international harmonisation of data on non-performing loans.
- 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 Finance Data Collection

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	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										

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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):	

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OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX16
(85 2015 01 1P) ISBN 978-92-64-22896-2-2015

Financing SMEs and Entrepreneurs 2015

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Consult this publication on line at ***http://dx.doi.org/10.1787/fin_sme_ent-2015-en.***

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ISBN 978-92-64-22896-2
85 2015 01 1 P

9 789264 228962