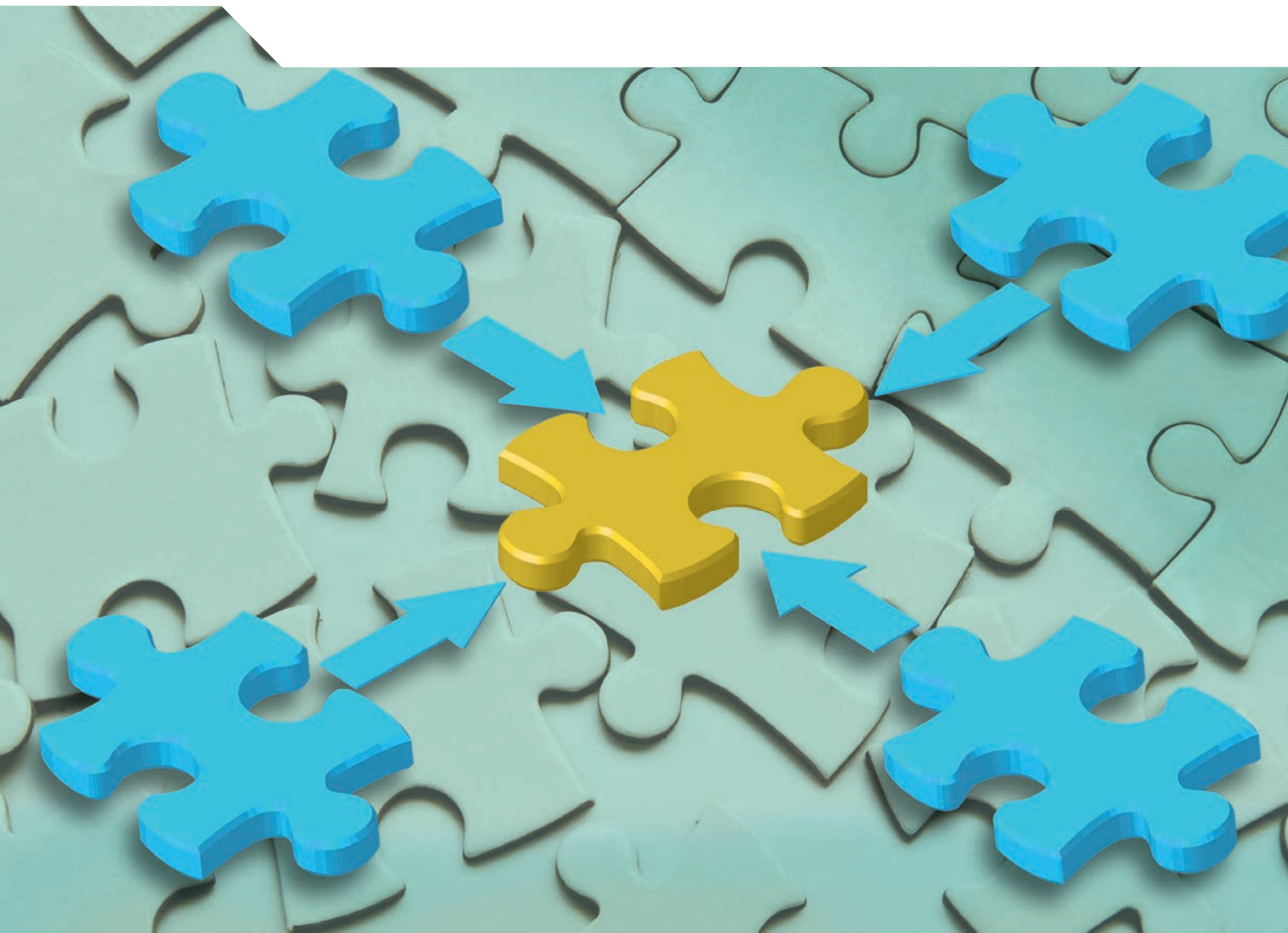
Financing SMEs and Entrepreneurs 2016

AN OECD SCOREBOARD



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BETTER POLICIES FOR BETTER LIVES

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Foreword

As governments around the world continue to grapple with uncertain economic prospects and important social challenges, they are looking to small and medium-sized enterprises (SMEs) and entrepreneurs as an important source of economic growth and social cohesion. Appropriate access to finance is a critical prerequisite to enable these businesses to invest, grow and create jobs, and the issue has been climbing steadily up the policy agenda in recent years. But effective policy responses for SME finance require coherent and meaningful evidence.

Financing SMEs and Entrepreneurs 2016 *provides a wealth of 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 access to finance in 37 countries. This fifth edition of the Scoreboard brings us a step closer to bridging the knowledge gap, and provides a solid evidence base to improve SME policy making and encourage a culture of evaluation.*

The data show that after several years of serious difficulties, the financing situation of SMEs and entrepreneurs appears to have turned the corner. Between 2012 and 2014, lending to SMEs generally improved, including in countries such as Estonia, Greece and the United States, where credit had contracted the most after the financial crisis. Credit conditions also improved in the majority of countries covered in the Scoreboard, with a reduction of more than one percentage point in the average interest rate charged to SMEs in Chile, Italy, Spain and Mexico. Moreover, alternative sources of finance such as crowdfunding and factoring gained traction in 2012-14, although often from low levels. Nevertheless, small businesses, and particularly new and innovative ones, continue to face the consequences of market failures in accessing external financing.

Governments around the world continue to take action to tackle longstanding SME financing difficulties. Credit guarantees remain the most widely used instrument, with many countries expanding and introducing novel features to their credit guarantee programmes in 2014 and the first half of 2015. In addition, new policy initiatives are seeking to tailor programmes to the needs of fast-growing, innovative start-ups, by fostering the uptake of alternative financial instruments by small businesses, and by addressing financial hurdles that limit SME participation in global value chains.

The thematic chapter of this edition of Financing SMEs and Entrepreneurs 2016 *focuses on business angel investments. It highlights the role of angel investing in bridging the financing gap for firms with a high risk-return profile at the seed and early stages, as well as their importance in providing business advice, mentoring and networking opportunities. The chapter underlines the need to improve data collection on angel activities, the majority of which are not registered and are therefore excluded from the analysis of the issue. Moreover, methodologies for data collection vary significantly across countries and are not transparent. A more solid evidence base would enable a better understanding of the potential of angel investment to finance SMEs and support the design of appropriate policy making.*

This edition of the Scoreboard makes important strides in data harmonisation and analysis, by expanding the coverage of non-debt financial instruments, providing inflation-adjusted data and presenting more comprehensive information on sources and definitions. The OECD will continue to *support governments in understanding SME financing trends, and developing appropriate policy responses, including by formulating effective approaches for the implementation of the* G20/OECD High-level Principles on SME Financing. *By strengthening access to both traditional banking and diverse alternative financing instrumvents and channels, we can unleash SMEs' ability to invest, innovate and contribute to the productivity growth which is so sorely needed for more prosperous and inclusive societies.*

Angel Gurría,
OECD Secretary-General

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Table of contents

Part II

OECD country and partner economy profiles of SME and entrepreneurship financing 2007-14

Tables

Figures

Reader's Guide

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 37 countries: Australia, Austria, Belgium, Canada, Chile, China, Colombia, the Czech Republic, Denmark, Estonia, Finland, France, Georgia, Greece, Hungary, Ireland, Israel, Italy, Japan, Korea, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Portugal, the Russian Federation, Serbia, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States.

Indicators

SME and entrepreneurship financing trends are monitored through core indicators, listed in Table 1, selected on the criteria of usefulness, availability, feasibility and timeliness (see Annex A for a 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. **Core indicators in Financing SMEs and Entrepreneurs 2016**

Core Indicators	What they show
1. Share of SME loans in total 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 spread 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 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 by experts designated by participating countries. The data come from a range of sources specified in a table at the end of each country profile. They cover access to finance for employer firms, that is, for SMEs which have at least one employee, and are operating a non-financial business; non-employer firms and financial companies are in principle excluded from the analysis.

The data in the present edition cover the period 2007 to 2014. The year 2007 serves as the benchmark against which trends over the entire period can be identified. The pre-crisis benchmark is used to assess trends over the crisis (2008-09) and the recovery period (2010-14). Specific attention is placed on changes which occurred in SME financing conditions in 2013-14.

In addition to the core indicators of Table 1, this publication also provides information concerning government policy measures to facilitate SMEs' and entrepreneurs' access to finance. Each country profile includes a section describing policy developments in this area.

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, not least due to cross-country differences in how an SME is defined (see Box 1). Annex A provides detailed information on SME definitions across participating countries.

Box 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 Financing Gap (Vol. 1): Theory and Evidence, OECD Publishing, Paris.

At the same time, 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 for example the case for 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.

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

A summary of recommendations to improve data collection and reporting of core indicators are outlined in Box 2 (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 2. **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.

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	New Israeli sheqel
NOK	Norwegian krone
NPL	Non-performing loan
NZD	New Zealand dollar
OECD	Organisation for Economic Cooperation 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

AUS	Australia	**ISR**	Israel
AUT	Austria	**JPN**	Japan
BEL	Belgium	**ITA**	Italy
CAN	Canada	**KOR**	Korea
CHE	Switzerland	**MYS**	Malaysia
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	**SVN**	Slovenia
GEO	Georgia	**SWE**	Sweden
GBR	United Kingdom	**THA**	Thailand
GRC	Greece	**TUR**	Turkey
HUN	Hungary	**USA**	United States
IRL	Ireland		

Executive summary

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

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

The key findings of this report are:

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

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

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

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

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

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

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

PART I

SME financing: State of play

Financing SMEs and Entrepreneurs 2016
An OECD Scoreboard

Chapter 1

Recent trends in SME and entrepreneurship finance

This chapter analyses trends in SME and entrepreneurship finance over 2007-14, 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 2013 and 2014. 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.

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.

Within the context of global macro-economic and financial conditions, this chapter examines the emerging trends in SMEs' and entrepreneurs' access to finance conditions for 37 countries over the 2007-14 period. Following the major financial and economic crisis in 2008, which severely impacted access to finance for SMEs, recovery has been very uneven, with the situation deteriorating in some participating countries, while improving in others. 2007 serves as the benchmark year from which trends over the entire period are measured. Particular attention is devoted to developments in 2013, 2014 and early 2015.

Business environment and macroeconomic context

The financial crisis led to a severe contraction of economic output in the OECD area in 2009 and, although GDP growth rates generally turned positive between 2009 and 2013, this recovery often proved uneven. The picture for 2014 seems to be broadly positive. While the Japanese economy contracted by 0.1% in 2014, growth in the United States and the United Kingdom remained relatively robust. 2014 was also a turning point for the Euro area, with growth at 0.9%, and further improvements expected in 2015 and 2016. Compared with the pre-crisis period, the pace of growth in emerging economies such as China, Colombia or Turkey decelerated significantly in 2014, partly as a result of lacklustre growth in Europe.

For the OECD and the Euro areas, overall GDP growth is expected to recover over 2015-16, as economic growth increased between 2012 and 2014, and increased further in 2015 (see Table 1.1). Continued loose monetary policies and a generally neutral fiscal stance in most major economies, in combination with low energy and commodity prices, contribute to these higher growth forecasts. This overall trend masks significant diversity among participating countries, however. Some major economies such as Australia, Canada, China, the United Kingdom and the United States, for instance, display a slowdown of growth in 2015 vis-a-vis 2014. In 2016, growth is expected to accelerate in all but nine participating countries (China, Czech Republic, Hungary, Ireland, Israel, New Zealand, Slovenia, Spain and the United Kingdom). GDP growth for the OECD area for 2016 is forecast at 2.2%, not much lower than in the baseline year of 2007. Overall growth prospects are positive, but decreased consumer confidence in the Euro area, the United States and other OECD countries suggests that there is a degree of uncertainty in the major advanced economies. Following three years of weak expansion, global trade is expected to continue its recovery in 2015 and 2016, although only gradually, and trade growth prospects are lower than previously forecast.

Although GDP growth in the OECD area is forecast to increase from 1.9% in 2014 to 2.2% in 2016, the outlook has worsened recently for many emerging markets. Low commodity prices have hit many economies which are relatively dependent on the export of oil and other natural resources, such as Brazil and the Russian Federation, which are both facing

Table 1.1. **Real GDP Growth in participating countries, 2007-14 and 2015-16 forecast**

As a percentage

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Australia	4.5	2.5	1.6	2.3	2.6	3.7	2.0	2.7	2.2	2.6
Austria	3.5	1.2	-3.6	1.8	3.0	0.7	0.3	0.5	0.8	1.3
Belgium	3.4	0.7	-2.3	2.7	1.8	0.2	0.0	1.3	1.3	1.5
Canada	2.0	1.2	-2.7	3.4	3.0	1.9	2.0	2.4	1.2	2.0
Chile	5.2	3.2	-1.0	5.7	5.8	5.5	4.3	1.8	2.2	2.6
China	14.2	9.6	9.2	10.6	9.5	7.7	7.7	7.3	6.8	6.5
Colombia	6.9	3.5	1.7	4.0	6.6	4.0	4.9	4.6	2.8	3.0
Czech Republic	5.5	2.5	-4.7	2.1	2.0	-0.8	-0.5	2.0	4.3	2.3
Denmark	0.8	-0.7	-5.1	1.6	1.2	-0.7	-0.5	1.1	1.8	1.8
Estonia	7.4	-5.0	-14.3	1.8	7.5	5.1	1.7	2.9	1.8	2.5
Finland	5.2	0.7	-8.3	3.0	2.6	-1.4	-1.1	-0.4	-0.1	1.1
France	2.3	0.1	-2.9	1.9	2.1	0.2	0.7	0.2	1.1	1.3
Georgia*	12.3	2.3	-3.8	6.3	7.2	6.2	3.3	4.8	2.0	3.0
Greece	3.4	-0.4	-4.4	-5.3	-8.9	-6.6	-4.0	0.7	-1.4	-1.2
Hungary	0.4	0.8	-6.6	0.7	1.8	-1.7	1.9	3.7	3.0	2.4
Ireland	5.5	-2.2	-5.7	0.4	2.6	0.1	1.4	5.2	5.6	4.1
Israel	6.2	3.2	1.2	5.4	5.0	2.9	3.4	2.6	2.5	3.2
Italy	1.4	-1.1	-5.5	1.7	0.7	-2.9	-1.8	-0.4	0.8	1.4
Japan	2.2	-1.0	-5.5	4.7	-0.5	1.7	1.6	-0.1	0.6	1.0
Korea	5.5	2.8	0.7	6.5	3.7	2.3	2.9	3.3	2.7	3.1
Malaysia*	6.3	4.8	-1.5	7.4	5.2	5.6	4.7	6.0	4.7	5.0
Mexico	3.1	1.2	-4.5	5.1	4.0	3.8	1.6	2.1	2.3	3.1
Netherlands	3.7	1.7	-3.8	1.3	1.7	-1.1	-0.4	1.0	2.2	2.5
New Zealand	3.7	-0.8	0.5	2.0	1.4	2.9	2.5	3.0	2.3	1.9
Norway	2.9	0.4	-1.6	0.6	1.0	2.7	0.7	2.2	1.2	1.1
Portugal	2.5	0.2	-3.0	1.9	-1.8	-4.0	-1.1	0.9	1.7	1.6
Russian Federation	8.5	5.2	-7.8	4.5	4.3	3.4	1.3	0.6	-4.0	-0.4
Serbia*	4.5	3.8	-3.5	1.0	1.4	-1.0	2.6	-1.8	-0.5	1.5
Slovak Republic	10.8	5.7	-5.5	5.1	2.8	1.5	1.4	2.5	3.2	3.4
Slovenia	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3.0	2.5	1.9
Spain	3.8	1.1	-3.6	0.0	-1.0	-2.6	-1.7	1.4	3.2	2.7
Sweden	3.5	-0.7	-5.1	5.7	2.7	0.0	1.2	2.4	2.9	3.1
Switzerland	4.1	2.3	-2.1	3.0	1.8	1.1	1.8	1.9	0.7	1.1
Thailand*	5.0	2.5	-2.3	7.8	0.1	7.3	2.8	0.9	3.5	4.0
Turkey	4.7	0.7	-4.8	9.2	8.8	2.1	4.2	2.9	3.1	3.4
United Kingdom	2.6	-0.5	-4.2	1.5	2.0	1.2	2.2	2.9	2.4	2.4
United States	1.8	-0.3	-2.8	2.5	1.6	2.2	1.5	2.4	2.4	2.5
Euro area	**3.0**	**0.4**	**-4.5**	**2.0**	**1.6**	**-0.8**	**-0.3**	**0.9**	**1.5**	**1.8**
Total OECD	**2.7**	**0.2**	**-3.4**	**3.0**	**1.9**	**1.3**	**1.2**	**1.9**	**2.0**	**2.2**

Source: OECD (2015a), World Bank (2015) for countries with an asterisk.

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deep recessions. As a result, global GDP growth is estimated to have reached 3% in 2015, far below its long-term average and lower than in recent years. Furthermore, questions about China's ability to rebalance its economy towards a new growth model pose significant downward risks to the health of the global economy (OECD, 2015a, b).

Inflationary pressures decreased even further in the Euro area in 2014, because of persistent weak demand, high unemployment levels, and falling energy and commodity prices. They however registered a slight increase in the United States, with an inflation rate of 1.6%, compared to 1.46% in 2013. Japan's inflation rate registered a significant increase from 0.36% to 2.7% year-on-year, while countries like Estonia, Greece, Hungary, Portugal, the Slovak Republic, Spain and Sweden experienced negative inflation rates in 2014 (see Table 1.2). With the exception of emerging and transition economies, inflation is expected to increase slightly until 2016, with countries in the Euro area running the risk of persistent deflationary pressures (OECD, 2015a).

Table 1.2. **Inflation in participating countries, 2007-14**

As a percentage

Country	2007	2008	2009	2010	2011	2012	2013	2014
Australia	2.30	4.40	1.80	2.80	3.40	1.80	2.40	2.50
Austria	2.17	3.22	0.51	1.81	3.27	2.49	2.00	1.60
Belgium	1.82	4.49	-0.05	2.19	3.53	2.84	1.11	0.30
Canada	2.14	2.37	0.30	1.78	2.91	1.52	0.94	1.90
Chile	..	..	..	1.41	3.34	3.01	1.79	4.40
China	4.75	5.86	-0.70	3.31	5.41	2.65	2.63	2.00
Colombia	5.54	7.00	4.20	2.28	3.41	3.18	2.02	2.90
Czech Republic	2.93	6.35	1.04	1.41	1.94	3.30	1.43	0.30
Denmark	1.71	3.40	1.33	2.30	2.76	2.41	0.78	0.60
Estonia	6.60	10.37	-0.08	2.98	4.98	3.93	2.79	-0.10
Finland	2.51	4.07	0.00	1.21	3.42	2.81	1.48	1.00
France	1.49	2.81	0.09	1.53	2.12	1.96	0.86	0.50
Georgia	9.20	10.00	1.70	7.10	8.50	-0.90	-0.50	3.10
Greece	2.90	4.15	1.21	4.71	3.33	1.20	-0.92	-1.30
Hungary	7.94	6.07	4.21	4.88	3.96	5.71	1.73	-0.20
Ireland	4.88	4.05	-4.48	-0.95	2.58	1.69	0.50	0.20
Israel	0.51	4.60	3.32	2.63	3.46	1.71	1.53	0.50
Italy	1.82	3.38	0.75	1.54	2.74	3.04	1.22	0.20
Japan	0.06	1.37	-1.35	-0.72	-0.28	-0.03	0.36	2.70
Korea	2.53	4.67	2.76	2.96	4.00	2.19	1.31	1.30
Malaysia	2.00	5.40	0.60	1.70	3.20	1.70	2.10	3.10
Mexico	3.97	5.13	5.30	4.16	3.41	4.11	3.81	4.00
Netherlands	1.61	2.43	1.19	1.28	2.34	2.45	2.51	1.00
New Zealand	2.38	3.96	2.12	2.30	4.43	0.88	0.92	0.80
Norway	0.73	3.77	2.17	2.40	1.30	0.71	2.13	2.00
Portugal	2.81	2.59	-0.84	1.40	3.65	2.77	0.27	-0.30
Russian Federation	9.01	14.11	11.65	6.86	8.44	5.07	6.76	7.80
Serbia	6.39	12.41	8.12	6.14	11.14	7.33	7.69	2.10
Slovak Republic	2.76	4.60	1.62	0.96	3.92	3.61	1.40	-0.10
Slovenia	3.61	5.65	0.86	1.84	1.81	2.60	1.76	0.20
Spain	2.79	4.08	-0.29	1.80	3.20	2.45	1.41	-0.10
Sweden	2.21	3.44	-0.49	1.16	2.96	0.89	-0.04	-0.20
Switzerland	0.73	2.43	-0.48	0.70	0.23	-0.67	-0.24	0.00
Thailand	2.24	5.47	-0.85	3.27	3.81	3.01	2.18	1.90
Turkey	8.76	10.44	6.25	8.57	6.47	8.89	7.49	8.90
United Kingdom	2.32	3.61	2.17	3.29	4.48	2.82	2.55	1.50
United States	2.85	3.84	-0.36	1.64	3.16	2.07	1.46	1.60

Source: World Bank (2015).

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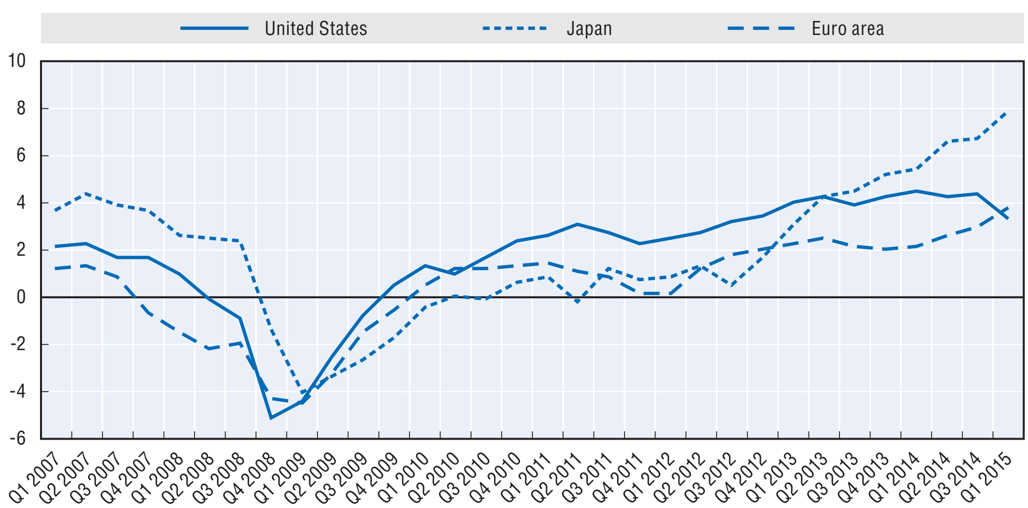
In 2014, unemployment rates decreased in a majority of OECD countries, most notably in Japan and in the United States, but have not reached pre-crisis levels for the overall OECD area. Especially in the Euro area, unemployment levels remain stubbornly high (OECD, 2015a). Consumer confidence increased in the first half of 2014, but has decreased since (Composite Leading Indicators (MEI): Confidence Indicators - OECD Standardised). At the same time, while the United States is expected to move towards normalisation, monetary policy is still very expansionary in most OECD countries. The pace of fiscal consolidation is expected to be roughly neutral in the United States and in the Euro area as a whole. In contrast, the fiscal stance in Japan has shifted from fiscal easing to fiscal consolidation and remained mildly restrictive in 2015 (OECD, 2015a, b).

Financial conditions

Financial conditions became more favourable in the Euro area and Japan, but show a decline for the first quarter of 2015 in the United States. The OECD financial conditions indices illustrate that the US dollar appreciation has brought a tightening of financial conditions in the United States, even though credit standards have, on balance, been eased, and demand for credit is on the increase. For all three areas, bond and equity prices have risen, both boosting household wealth and lowering financial costs for enterprises through monetary policy support (Figure 1.1).[1]

Figure 1.1. **Financial conditions indices in the Euro area, Japan and the United States, 2007-15**

Year-on-year growth rate, as a percentage



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 0.5% to 1% after four to six quarters. Based on information available up to 5 June 2015.

Source: OECD (2015a) and OECD calculations.

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In Japan, financial conditions improved substantially in recent years and were more favourable in 2014 and the first quarter of 2015 compared to pre-crisis levels, in part thanks to continued quantitative easing, a depreciation of the yen, a rise in stock prices, and a moderate expansion of credit.

In the Euro area, financial conditions were also favourable overall, remaining roughly unchanged in 2013, and improving in 2014 and the first quarter of 2015. Moreover, spreads in government bond yields (German Bunds) and sovereign CDS spreads[2] dropped significantly and stabilised at low levels for all Euro countries except Greece, for which they show a steep increase (OECD, 2015a). Financial markets in other 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 conditions have converged to some extent among Euro area members, although differences are still significant at present. Even though there is continued uncertainty around the situation in Greece, the relative calm in financial markets reflects the low exposure of private investors to the country. Nevertheless, market sentiment could change abruptly, depending on the stability of the Greek Government and the solidity of their agreement with their main creditors (OECD, 2015a)[3].

Lending to SMEs

SME loans and SME loan shares

SME lending fell in the aftermath of the financial crisis in a majority of participating countries and, while credit lending rebounded in some economies, this pattern does not hold true across the board. Despite a general recovery in economic growth and relatively favourable financial conditions in most participating countries, the picture for 2014 remains mixed. While 11 countries experienced negative growth in SME lending in 2014 (Belgium, Canada, the Czech Republic, Ireland, Italy, Portugal, the Russian Federation, Slovenia, Switzerland, the United Kingdom and the United States), SME lending expanded in 16 countries (Australia, Chile, Colombia, Estonia, France, Georgia, Greece, Ireland, Israel, Japan, Korea, Malaysia, Mexico, New Zealand, Serbia and Turkey).

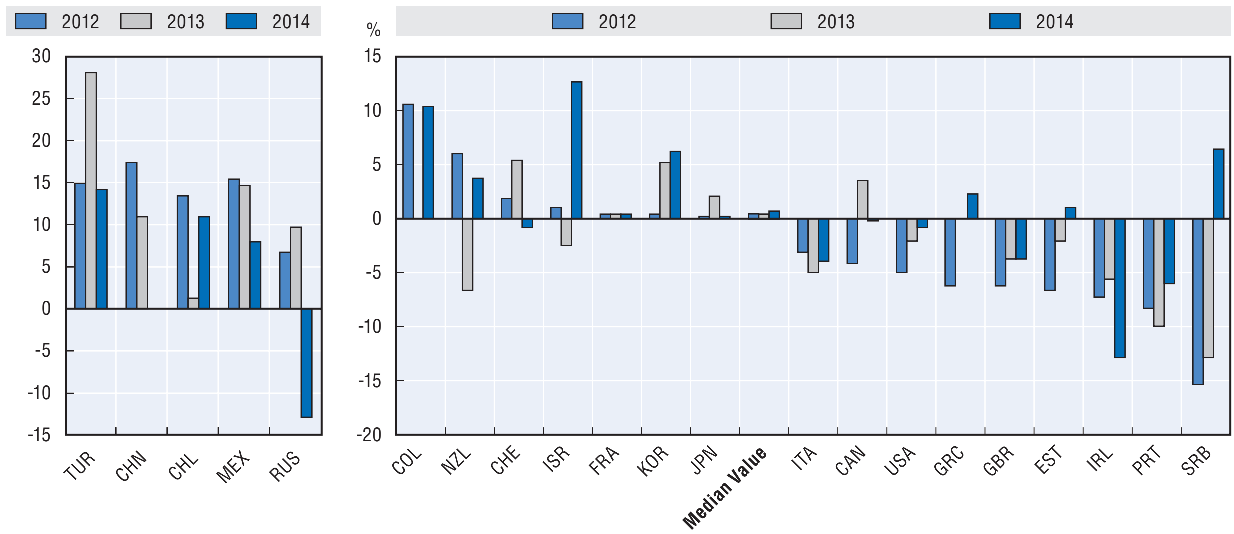
Loan growth in 2014 surpassed 2013 levels in a majority of countries for which data is available. In Estonia, Ireland, Israel, New Zealand and Serbia, growth rates turned positive in 2014. However, in Belgium, Italy, Portugal, Slovenia, the United Kingdom and the United States, the outstanding stock of SME loans is still shrinking, but at a slower pace than in 2013, while SME loan growth is positive and accelerating in Australia, Chile, Estonia, Greece, Ireland, Israel and Serbia. In contrast, in Canada, the Czech Republic, the Russian Federation and Switzerland, SME loan growth turned negative in 2014. In Georgia, Japan, Malaysia, Mexico and Turkey, lending to SMEs increased in 2014, but at a slower pace than in 2013.

It is important to note that the data from Figure 1.2 and following are in real terms, i.e. inflation-adjusted, in contrast to previous editions of this publication, to provide a more accurate picture of the evolution of SME lending, undistorted by general price evolutions.

The inflation-adjusted outstanding stock of SME loans in 2014 was still below 2007 pre-crisis levels in 12 out of the 30 countries for which comparable data was available (Canada, Estonia, Hungary, Ireland, Italy, New Zealand, Norway, Portugal, Serbia, Slovenia, the United Kingdom and the United States). In all of these countries, SME lending declined, especially between 2010 and 2014, suggesting that the financial crisis had a long-lasting effect on SME lending in many affected countries. This fall in the outstanding stock of SME lending coincided with a recovery of GDP figures in Canada, Estonia, New Zealand, Norway, the United Kingdom and the United States. An important caveat is that lending volumes in the run-up to the financial crisis may have been very high in an overall historical context and therefore unsustainable in the long run in some countries. More research is thus needed to better interpret the data presented below.

Figure 1.2. **Trends in outstanding SME loans, 2012-14**

Year-on-year growth rate, as a percentage



Notes: 1. All data represented are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank. 2. Definitions differ across countries. Refer to table of definitions in each respective country profile in Part 2 of this publication. 3. Countries with flow data only are not included. 4. Belgium is excluded because of methodological changes in the data in 2012. 5. 2013 data for Greece is excluded because of methodological changes in the data in 2013. 6. Due to methodological changes in 2012, Colombian data does not present data for the year-on-year growth from 2012 to 2013. 7. 2014 data for Denmark is excluded due to methodological changes.

Source: Data compiled from the individual country profiles.

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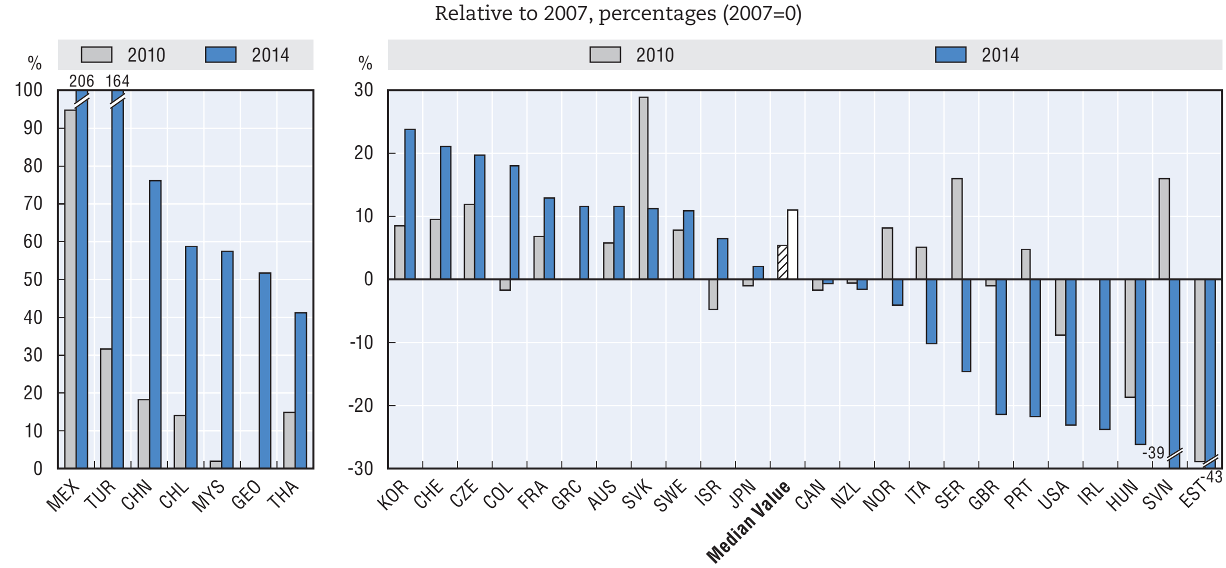
Figure 1.3. **Trends in outstanding SME loans, 2007-14**

Relative to 2007, percentages (2007=0)



Notes: 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Part 2 of this publication. 2. Data for 2014 was unavailable for China, Norway, the Slovak Republic, Sweden and Thailand. The analysis uses 2013. 3. Countries with flow data only are not included. 4. Belgium is excluded because of methodological changes in the data in 2012. 5. Due to methodological changes, Colombia and Denmark use 2012 and 2013 data, respectively, instead of 2014. 6. Base year differs across countries. China and New Zealand use 2009. Georgia, Greece and Ireland use 2010. 7. The median value depicted in the graph on the right refers to all countries in both graphs. 8. All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank.

Source: Data compiled from the individual country profiles.

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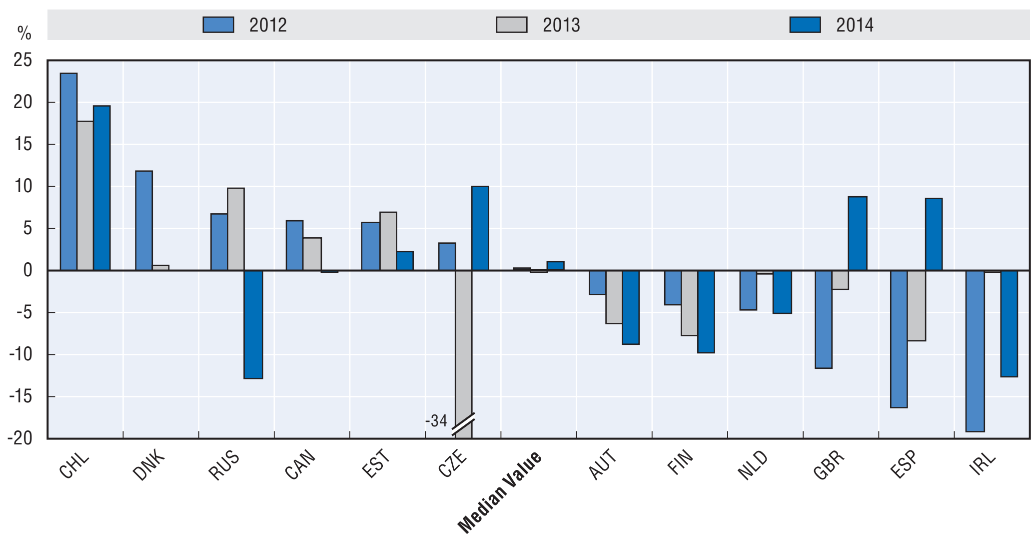
Twelve countries provided data on new business lending, again depicting a mixed picture (see Figure 1.4). The results with respect to recent developments are equally varied, as Figure 1.4 illustrates. In 2014, the contraction in SME lending accelerated in Austria, Ireland and the Netherlands, and growth turned sharply negative in Finland and the Russian Federation. This contrasts with the evolution of the Czech Republic, Spain and the United Kingdom, where new lending was on the increase in 2014, after declining between 2012 and 2013.

Figure 1.4. **Trends in new SME lending, 2012-14**

Year-on-year growth rate, as a percentage



Notes: 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Part 2 of this publication. 2. Countries with stock data only are not included. 3. Due to a methodological change in 2014, data for that year is excluded for Denmark. 4. All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank.

Source: Data compiled from the individual country profiles.

StatLink http://dx.doi.org/10.1787/888933330652

An analysis of both stock and flow data suggests that the fall in credit flowing to SMEs is slowly bottoming out in those countries where SME lending suffered most in the aftermath of the financial crisis. In Estonia, Greece, Italy, Portugal, Slovenia, Spain, the United Kingdom and the United States, credit lending in 2014 either turned positive or decreased at a slower rate than in 2013. Austria and Finland, where new lending to SMEs has been in continuous decline since 2009 and 2007, respectively, are notable exceptions to this trend. The median value in business lending also rose from a decline of 0.92% in 2013 to a growth of 0.81% in 2014 for countries with stock data. The median value for countries with stock data was negative in 2014 at -0.16%, up from a decline of 0.31% in 2013 (see Table 1.3).

Figure 1.5 examines the consistency of growth patterns over time, by comparing the growth of outstanding SME loans between 2013 and 2014 with the growth trend recorded over the 2007-14 period. The graph illustrates that the outstanding stock of SME loans, adjusted for inflation, declined in 8 out of 17 countries year-on-year in 2014 (Canada, Italy, Norway, Portugal, Sweden, Switzerland, the United Kingdom and the United States).

Table 1.3. **Growth of SME business loans, 2008-14**

Year-on-year growth rate, as a percentage

Country	2008	2009	2010	2011	2012	2013	2014
Outstanding SME business loans (stocks)							
Australia	1.56	-0.07	4.15	0.5	1.83	0.01	3.11
Belgium	5.44	-1.22	3.5	4.14	7.42	-1.62	-0.23
Canada	-3.82	5.92	-3.43	1.79	-4.03	3.58	-0.1
Chile	10.71	2.99	-0.02	9.57	13.26	1.08	10.92
China	..	..	18.15	14.59	17.39	10.83	..
Colombia	3.77	-10.1	5.55	8.46	10.55	..	10.29
Czech Republic	14.18	-7.39	5.83	7.09	-1.09	1.87	-0.84
Estonia	-4.94	-14.89	-12.18	-13.91	-6.56	-1.99	0.98
France	2.32	0.18	4.13	4.36	0.53	0.45	0.48
Georgia	..	..	..	0.97	10.94	18.87	13.76
Greece	..	..	..	-7.7	-6.09	…	2.34
Hungary	5.09	-11.12	-12.92	-1.88	1.1	-1.91	-6.57
Ireland	..	..	..	6.15	-0.46	-0.92	0.64
Israel	-0.69	-9.34	6.04	0.34	0.97	-2.37	12.67
Italy	-0.4	-0.76	6.31	-3.37	-3.15	-4.91	-3.88
Japan	0.68	-1.81	0.29	0.73	0.05	2.15	0.17
Korea	11.22	1.4	-3.64	1.52	0.47	5.12	6.22
Malaysia	-1.71	8.48	-4.26	10.94	12.7	11.43	10.57
Mexico	9.97	65.82	6.87	10.02	15.44	14.58	7.8
New Zealand	..	..	-0.58	-3.71	6.03	-6.62	3.85
Norway	13.27	-2.46	-1.93	-1.94	-2.98	-6.99	..
Portugal	7.64	-0.21	-2.27	-3.81	-8.22	-10.02	-5.94
Serbia	26.33	-8.3	0.06	-6.15	-15.33	-12.85	6.39
Slovak Republic	28.68	0.7	-0.38	-13.39	2.82	-3.32	..
Slovenia	13.52	-3.58	6	-4.71	-7.45	-25.23	-20.83
Sweden	10.14	4.09	-5.73	-1.79	5.73	-1.39	..
Switzerland	4.69	-0.68	5.41	3.66	1.9	5.51	-0.8
Thailand	5.33	5.36	3.43	-1.08	17.49	5.96	..
Turkey	-1.28	-6.53	42.59	19.51	14.77	28.08	14.04
United Kingdom	8.02	-3.69	-4.83	-8.68	-6.09	-3.78	-3.66
United States	1.61	-3.06	-7.3	-8.72	-4.91	-2.04	-0.71
Median Value	**5.21**	**-0.99**	**0.18**	**0.73**	**0.53**	**-0.92**	**0.81**
New SME business loans (flows)							
Austria	..	..	-7.21	-1.22	-2.89	-6.4	-8.76
Canada	..	..	..	..	5.84	3.82	-0.16
Chile	..	..	..	14.2	20.5	14.7	17.1
Czech Republic	-2.5	-30.4	-15.4	0.8	3.2	-34.4	9.9
Denmark	-17.1	-19.7	19.4	-3.1	11.8	0.5	..
Estonia	-8.9	-39.9	-13.6	1.7	5.6	6.9	2.1
Finland	-0.4	-17.9	-16.8	-7.2	-4.2	-7.8	-9.8
Ireland	-10.4	-24.6	-42.2	-37.7	-19.2	-0.1	-12.7
Netherlands	..	-24.5	3.8	17.5	-4.8	-0.5	-5.2
Russian Federation	..	-27.7	36.6	11.1	6.7	9.7	-12.9
Spain	-11.4	-26.5	-20.1	-17.3	-16.3	-8.5	8.5
United Kingdom	..	-22.7	-9	-19.2	-11.6	-2.2	8.7
Median Value	**-9.67**	**-24.64**	**-11.27**	**-1.22**	**0.13**	**-0.31**	**-0.16**

Notes: 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Part 2 of this publication. 2. 31 countries reported outstanding SME loans (stocks), 12 countries reported new SME loans (flows). 3. Due to methodological changes, 2014 data for Denmark, 2013 data for Colombia and 2013 data for Greece are excluded from the analysis. 4. All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank.

Source: Data compiled from the individual country profiles.

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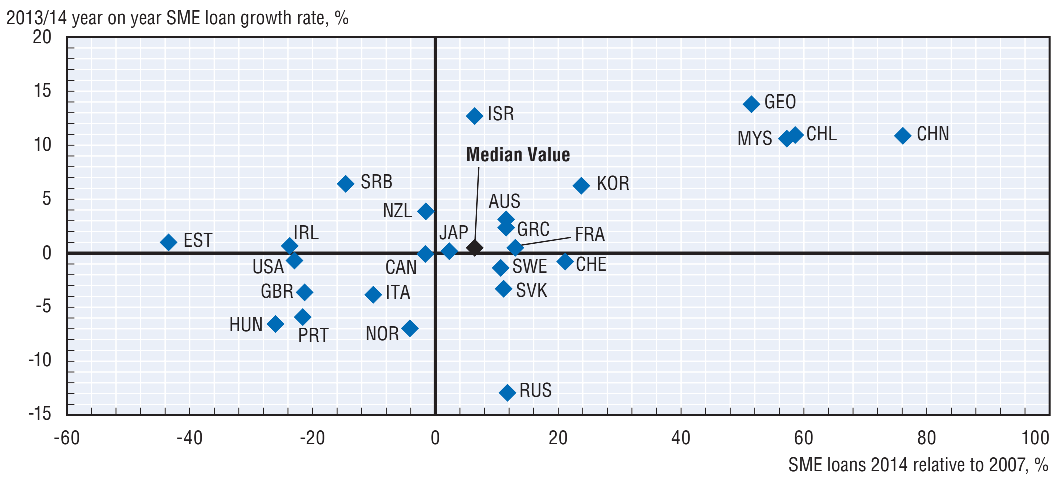
Figure 1.5. **Growth patterns of outstanding SME loans, 2014 relative to 2007 and 2013/14**

As a percentage



Notes: 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Part 2 of this publication. 2. Includes only countries reporting stock data. 3. Norway, the Slovak Republic and Sweden use data for 2013 and not 2014. 4. The base year for China is 2009. 5. All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank.

Source: Data compiled from the individual country profiles.

StatLink http://dx.doi.org/10.1787/888933330665

The graph suggests a strong degree of consistency in trends, with a clear positive relationship between the historical performance of the SME loan portfolio and the growth rate recorded in 2013. SME lending in 2014 generally declined in countries which were most affected by the credit contraction in the aftermath of the financial crisis, such as Hungary, Italy, Portugal, the United Kingdom and the United States. Conversely, SME loan growth remained positive in 2014 in countries where the outstanding stock of loans had already recovered from the financial crisis in 2013, such as Australia, France, Israel, Japan and Korea. Loan growth in emerging economies such as Chile, China, Georgia and Malaysia also remained very high in 2014. The Russian Federation, the Slovak Republic, Sweden and Switzerland are notable exceptions, experiencing negative growth in the outstanding stock of loans despite positive growth over the 2007-14 period.

SME loan shares

The evidence on outstanding SME loan shares, defined as the share 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 participating countries. Table 1.4 summarises the evolution of loan shares over the 2007-14 period. The median value for SME loan shares as a proportion of all corporate loans for countries reporting stock data on SME lending decreased from 38% in 2007 to 34.2% in 2008, but followed a general upward trend between 2008 and 2014. In 2014, the median value amounted to 44.2%, up from 40.9% in the previous year, potentially signalling SMEs' easier access to bank credit in 2014.

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

Table 1.4. **Share of SME loans in total business loans, 2007-14**

As a percentage of total business loans

Country	2007	2008	2009	2010	2011	2012	2013	2014
SME business loans as stocks								
Australia	..	26.7	28.7	32.7	33.1	32.7	32.6	32.2
Belgium	61.7	59.6	62.7	62.3	65.1	65.4	67.2	67.8
Canada	17.4	15.6	17.9	17.5	17.7	15.9	15.3	14.2
Chile	16.7	15.2	17.5	18.2	17.5	18.5	16.9	18
China	..	..	54.6	56.7	60.5	64.6	64.9	..
Colombia[2]	32.7	30.2	27.7	25.6	24.8	24.9	51	49.4
Czech Republic	63.9	65.2	67.3	70.2	70.7	70.1	70.1	69.8
Estonia	35.8	34.5	31	29.4	28.3	26.2	26.5	26.4
France	20.8	20.4	20.2	20.5	20.8	21.2	21.1	21.2
Georgia	..	..	..	36.4	34.4	34.8	36.2	36.1
Greece[3]	..	..	..	38.5	36.8	38.8	49.8	50.6
Hungary	62.4	60.6	60	54.5	54.4	63.5	66.2	62.2
Ireland	..	..	..	63.9	67.8	67.5	66.9	67.3
Israel	40.9	37.1	38	39.6	38.7	41.5	41.9	47.3
Italy	18.8	17.9	18.3	19	18.3	18.4	18.7	18.9
Japan	69.6	67.3	66.7	67.8	66.9	65.8	65.3	65
Korea	86.8	82.6	83.5	81.5	77.7	74.7	74.7	74
Malaysia	44	42.3	41.3	37.6	39.2	40.3	42.5	44.2
Mexico	13	12.3	20	20.5	20.5	22.6	24	24.8
New Zealand	..	..	42.2	44	43	44.1	40.9	40.9
Norway	42.9	43.7	40.4	41	40.4	40	36.2	..
Portugal	82	82	81	81.6	81.3	80.6	79.6	80.2
Serbia	21	21.6	21.1	21.7	22	19.3	18.9	..
Slovak Republic	65.7	77.1	79.4	79.4	65.8	71.1	71.1	..
Slovenia	55.2	53.7	53.9	57.5	60.5	62.6	51.5	48.6
Sweden	12.1	11.4	12.2	12.9	12.1	12.0	11.6	..
Switzerland	80.4	80.9	79.3	79.3	78.5	78.6	78.8	76.4
Thailand	28.1	26.6	26.9	38.4	36.8	37.6	38.7	..
Turkey	40.2	33.9	31.8	35.7	35.7	38.2	38.5	38.2
United Kingdom	19.8	18.1	20	21.4	21.1	21.5	22.1	22.5
United States	30.9	28.4	28.4	29	26.5	23.7	22.5	21.2
Median Value	**40.2**	**34.2**	**34.9**	**38.4**	**36.8**	**38.8**	**40.9**	**44.2**
SME business loans as flows								
Austria	..	..	11.8	12.6	13	11.6	12.1	11.3
Canada	..	..	..	n.a.	16	15.3	15.1	13.7
Czech Republic	24.4	23.9	19	18.5	20.7	18.7	17.3	17.9
Denmark[4]	12.3	9.1	9	11.2	11.7	16.3	12.4	11.5
Estonia	42.1	48.2	47.7	43.8	38.6	37.8	38.4	38.4
Finland	27.1	21.9	19.6	15.3	21.1	22.3	18.5	18.9
Russian Federation	n.a.	n.a.	15.8	22.8	21.3	22.9	22.3	19.8
Spain	28.5	27.7	23.2	24	24.8	23.1	25.5	29.1
United Kingdom	..	..	..	..	..	14.1	12.5	11.9
Median Value	**27.1**	**23.93**	**18.95**	**18.47**	**20.91**	**18.68**	**17.31**	**17.95**

Notes: 1. Definitions differ across countries. Refer to table of definitions in each respective country profile in Part 2 of this publication. 2. The 2013 and 2014 SME loan share of Colombia are not comparable with previous levels due to changes in the methodology. 3. The 2013 SME loan share of Greece is not comparable with previous levels due to changes in the methodology. 4. The 2014 SME loan share of Denmark is not comparable with previous levels due to changes in the methodology. 5. The Netherlands is excluded from the analysis because of differences in the measurement units of SME business loans and total business loans.

Source: Data compiled from the individual country profiles.

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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 therefore be interpreted carefully and in context.

Table 1.5 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 1.5. **Trends in SME loan shares and credit market scenarios, 2013-14**

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

Note: Austria, Denmark, Finland, the Netherlands, the Russian Federation and Spain use flows. China, Norway, the Netherlands, Serbia, the Slovak Republic, Sweden and Thailand refer to 2012-13 data.

Source: Data compiled from the individual country profiles.

StatLink http://dx.doi.org/10.1787/888933331870

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 thus better 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 firms, rather than increased access to finance of SMEs, especially when 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 Belgium, Finland, Ireland, Italy, Portugal and the United Kingdom, where the increase in SME loan shares over the period did not necessarily indicate 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 Australia, Colombia, Denmark, Estonia, Georgia, Japan, Korea, New Zealand and Turkey, this decline took place in the framework of expanding business loan activity over 2013-14. SME loans grew during this period, but not as much as total business loans, with large enterprises getting a larger share of the expanding business credit market. In Austria, the Czech Republic, Hungary, the Russian Federation, Serbia the Slovak Republic and Slovenia, in contrast, enterprises received less credit in 2014 than in 2013, with SME lending taking a larger hit than lending to large businesses.

Short-term versus long-term lending

The use of short-term lending varies substantially from one country to the other. For example, it is almost non-existent in Malaysia, but comprises the vast majority of all new loans in Spain. The share of short-term loans showed a continuous decline between 2007 and 2013 in Austria, Belgium, France, Ireland, Italy, Korea, Portugal, Serbia and Spain. A majority of 10 out of 15 countries (Austria, Belgium, China, France, Greece, Italy, Portugal, the Netherlands, the Slovak Republic and Spain) observed a lower proportion of short-term SME lending in 2014 compared to 2013 (see Table 1.6).

Table 1.6. **Share of short term SME loans as a proportion of all SME loans, 2007-14**

As a percentage

Country	2007	2008	2009	2010	2011	2012	2013	2014
Austria	..	..	59.82	54.59	52.17	52.43	51.06	48.76
Belgium	38.52	37.91	32.08	31.45	31.5	29.48	28.74	28.02
Canada	41.62	..	43.4	36.3	35.13	39	46	55.6
Chile	..	..	..	60.2	63.27	60.28	58.11	56.29
China	..	..	..	..	..	..	56.1	49.24
Colombia	19.44	26.3	23.11	22.02	16.19	21.73	37.65	38.02
Denmark	64.7	74.57	78.79	64.73	70.53	51.49	38.95	11.98
Estonia	19.73	19.09	17.74	16.76	19.39	18.74	19.2	19.62
Finland	..	..	..	20.2	20.4	20.9	17.9	18.3
France	27.2	25.69	22.69	22.08	22.03	21.9	22.63	21.87
Greece	51.66	51.23	47.84	38.26	37.25	40.13	36.92	34.16
Hungary	64.2	67.7	77.4	78.6	77.1	78.8	56.9	59.7
Ireland	89.07	88.62	89.09	86.69	86.9	85.08	83.34	75.46
Italy	33.94	31.87	29.25	26.83	26.35	26.6	25.64	25.14
Malaysia	..	..	..	..	..	..	2.32	2.56
The Netherlands	..	54.6	57.1	47.9	52.6	49.2	49.8	44.89
Norway	19.26	18.6	16.79	16.82	16.72	18.87	18.73	..
Portugal	32	31	32.9	31.05	29.78	23.87	23.07	19.55
Serbia	34.98	31.67	34.2	34.17	30.28	27.21	29.77	29.89
Slovak Republic	50.45	39.67	41.4	41.4	39.51	40.6	42.2	35.2
Slovenia	35.15	38.04	35.29	31.75	33.89	34.61	31.94	21.09
Spain	96.16	96.98	93.69	93.43	95.14	95.24	94.03	92.25
Sweden	15.12	14.68	13.62	14.39	14.67	14.79	14.92	..
Median Value	**35.15**	**37.91**	**35.29**	**34.17**	**33.89**	**34.61**	**36.92**	**28.96**

Note: Data for Austria, Canada, Chile, Denmark, Finland, Hungary, Ireland, the Netherlands and Spain refer to flows.

Source: Data compiled from the individual country profiles.

StatLink http://dx.doi.org/10.1787/888933331882

Credit conditions for SMEs

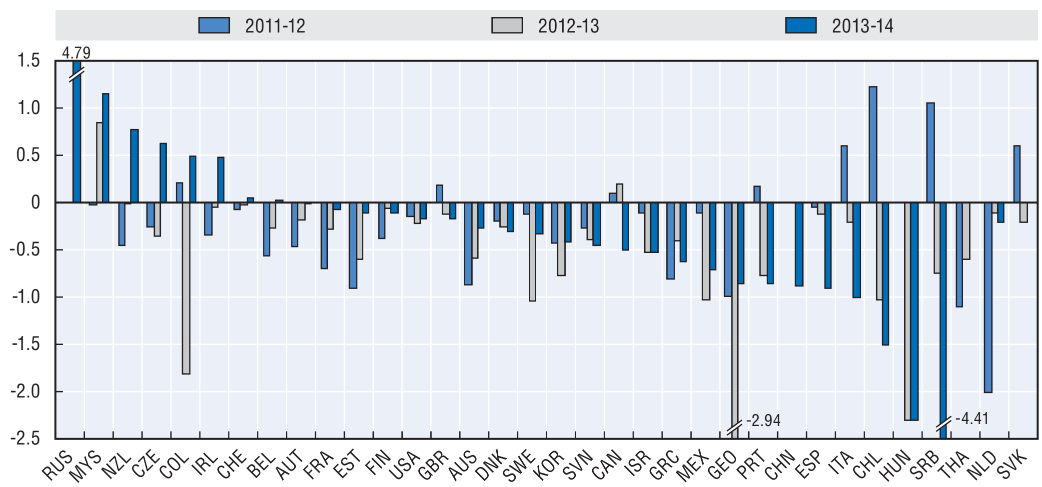
This section describes credit conditions for SMEs and entrepreneurs based on data on the cost of bank finance, collateral requirements and rejection rates. It also draws on findings from supply-side and demand-side surveys. It is important to note that credit conditions can vary substantially for SMEs with different characteristics, such as size, age, risk profile and other factors. Box 1.1 illustrates this point with information on the credit conditions for micro-enterprises (i.e. firms with fewer than 10 employees) compared with larger SMEs in France. More granular data is needed to be able to systematically distinguish credit conditions within the SME population.

Cost of credit

As monetary policy was very accommodative in most regions of the world over the last few years, SME interest rates have decreased significantly between 2011 and 2013, with Malaysia being the only exception. This downward trend also continued in 2014, with SME interest rates in decline in 26 out of 34 countries for which data is available, suggesting that financing conditions have improved since 2013. Belgium, Colombia, the Czech Republic, Ireland, Malaysia, New Zealand, the Russian Federation and Switzerland are the only countries in which SME interest rates rose between 2013 and 2014 (see Figure 1.6).

Figure 1.6. **Change in SME interest rates, 2012-14**

In percentage points



Source: Data compiled from the individual country profiles.

Table 1.7 illustrates that SME interest rates usually increased between 2007 and 2008, but then almost universally declined, especially between 2012 and 2014. 2014 levels were often less than half of their 2008 level. Large differences in the absolute values are noticeable. In emerging economies with relatively high inflation rates, such as Chile, China, Colombia, Georgia, the Russian Federation, Malaysia, Mexico, Serbia and Thailand, interest rates were significantly higher than the median value of participating countries. In the economies most affected by the financial crisis, such as Greece, Hungary, Ireland, Portugal, Slovenia and Spain, interest rates did not drop as much between 2008 and 2011, and thus remained at a comparatively high level in 2014.

Table 1.8 depicts the interest rate spread between SMEs and large enterprises between 2007 and 2014. The interest rate spread remained positive for every country included over the whole period, with large firms consistently being offered credit at lower average interest rates than SMEs. The spread in interest rates increased between 2007 and 2009 for 19 out of 23 countries, with the exception of Korea, Slovenia, Sweden and the United States. This suggests that the established practice of financial institutions lending to SMEs at less favourable conditions has worsened since the crisis and the perception of the riskiness of

SME lending has changed over time, resulting in relatively higher average interest rates charged to SMEs. Between 2009 and 2014, the picture is very divergent, with the number of countries where the interest rate spread rose roughly in balance with economies observing a narrowing spread. The year-on-year trend between 2013 and 2014 also shows a divergent pattern. The median spread between interest rates charged to SMEs and to large enterprises rose steadily over the 2007-14 period, suggesting that increases in this spread were, on average, more pronounced than decreases. In 7 out of 21 countries (Belgium, Greece, Korea, Portugal, Serbia, Sweden and the United States), the interest rate spread was less pronounced in 2014 than in 2007.

Table 1.7. **SME interest rates, 2007-14**

As a percentage

	2007	2008	2009	2010	2011	2012	2013	2014
Australia	8.56	7.99	7.56	8.29	7.94	7.07	6.49	6.22
Austria	5.11	5.47	2.89	2.43	2.92	2.46	2.28	2.27
Belgium	5.45	5.70	3.01	2.51	2.88	2.32	2.06	2.09
Canada	7.50	..	6.20	5.80	5.30	5.40	5.60	5.10
Chile	..	..	..	9.22	11.32	12.55	11.53	10.03
China	..	..	..	..	..	..	8.39	7.51
Colombia	20.09	23.13	20.43	18.66	21.53	21.74	19.94	20.43
Czech Republic	5.03	5.57	4.64	4.01	3.73	3.48	3.13	3.76
Denmark	5.99	6.65	5.43	4.46	4.57	4.38	4.13	3.83
Estonia	6.10	6.70	5.30	5.00	4.90	4.00	3.40	3.30
Finland	5.39	5.58	3.02	2.66	3.23	2.86	2.81	2.71
France	5.10	5.41	2.86	2.48	3.12	2.44	2.16	2.09
Georgia	..	..	..	16.51	15.50	14.52	11.58	10.73
Greece	6.83	6.18	4.70	6.34	7.26	6.46	6.06	5.44
Hungary	10.19	11.25	12.31	8.99	9.38	9.70	7.40	5.10
Ireland	6.23	6.67	3.98	3.88	4.68	4.34	4.30	4.78
Israel	..	..	..	5.00	5.62	5.52	5.00	4.48
Italy	6.30	6.30	3.60	3.70	5.00	5.60	5.40	4.40
Korea[1]	6.95	7.49	6.09	6.33	6.25	5.83	5.06	4.65
Malaysia	..	6.39	5.50	5.69	5.74	5.72	6.57	7.72
Mexico[2]	..	..	11.68	11.67	11.40	11.30	10.28	9.58
Netherlands	..	5.70	4.50	6.00	6.40	4.40	4.30	4.10
New Zealand	12.15	11.19	9.88	10.19	10.05	9.60	9.59	10.37
Portugal	7.05	7.64	5.71	6.16	7.41	7.59	6.82	5.97
Russian Federation	..	..	..	..	..	..	13.10	17.89
Serbia	18.85	21.33	20.48	16.50	17.95	19.01	18.27	13.85
Slovak Republic	5.50	4.60	3.00	3.20	3.20	3.80	3.60	n.a.
Slovenia	5.78	6.52	6.21	6.31	6.58	6.32	5.94	5.49
Spain	5.96	5.51	3.63	3.78	4.95	4.91	4.79	3.89
Sweden	4.86	5.66	2.42	2.58	4.15	4.04	3.00	2.68
Switzerland	..	..	2.21	2.11	2.08	2.01	1.99	2.04
Thailand	5.94	6.34	6.60	7.14	8.10	7.00	6.40	..
United Kingdom	..	4.54	3.47	3.49	3.52	3.71	3.59	3.43
United States	7.96	5.16	3.82	4.09	3.90	3.76	3.55	3.39
Median Value	**6.17**	**6.32**	**4.70**	**5.34**	**5.30**	**5.46**	**5.23**	**4.78**

Notes: 1. Korea uses average interest rate for all companies and not SME interest rate 2. Mexican data refers to small enterprises alone. 3. Slovenian data refers to new SME loans, smaller than EUR 1 million.

Source: Data compiled from the individual country profiles.

StatLink http://dx.doi.org/10.1787/888933331895

Table 1.8. **Interest rate spreads between loans to SMEs and to large enterprises, 2007-14**

In percentage points

	2007	2008	2009	2010	2011	2012	2013	2014
Australia	0.96	1.84	1.71	1.63	1.57	1.78	1.87	1.75
Austria	0.42	0.43	0.56	0.47	0.37	0.48	0.51	0.53
Belgium	0.73	0.65	0.92	0.81	0.63	0.58	0.3	0.32
Canada	1.40	..	3.10	3.20	2.30	2.40	2.60	2.10
Chile	..	..	..	6.51	6.64	6.99	6.50	6.07
China	..	..	..	..	..	..	0.67	0.04
Colombia	7.56	8.89	10.34	11.43	12.28	12.33	11.97	12.36
Czech Republic	0.97	0.73	1.18	0.68	1.11	0.98	1.24	1.75
Denmark	0.83	1.07	2.02	2.20	2.39	2.54	2.85	2.87
Estonia	0.40	0.70	1.10	1.10	1.10	1.00	0.60	0.60
Finland	0.56	0.5	0.78	0.8	0.64	0.79	0.9	0.68
France	0.58	0.66	0.91	0.93	0.89	0.71	0.71	0.77
Georgia	..	..	..	2.89	1.40	1.68	0.37	0.69
Greece	1.04	1.11	1.46	1.36	0.62	0.39	1.33	0.69
Hungary	1.22	0.97	1.24	1.74	1.3	3.2	3.1	2.7
Ireland	0.28	0.48	0.76	1.02	1.35	1.53	1.54	1.8
Israel	..	..	..	2.00	2.47	1.91	1.5	1.44
Italy	0.6	1.4	1.4	1.5	1.7	1.8	2.0	1.8
Korea	0.76	0.79	0.56	0.54	0.55	0.43	0.24	0.18
Malaysia	..	0.31	0.42	0.69	0.82	0.94	3.29	2.73
Mexico[1]	..	..	3.55	3.75	3.71	3.71	3.72	3.54
Netherlands	..	..	..	..	2.90	0.20	0.50	1.30
New Zealand	3.15	2.96	4.20	3.90	4.01	3.59	4.20	4.43
Portugal	1.76	1.72	1.87	2.25	2.01	2.16	1.85	1.60
Russia	..	..	..	..	..	..	2.00	..
Serbia	5.09	5.02	5.21	3.07	3.54	5.11	4.33	4.01
Slovak Republic	..	..	..	..	..	1.90	1.80	1.80
Slovenia	0.21	0.21	0.03	-0.02	-0.23	-0.03	0.31	0.33
Spain	0.63	1.20	1.46	1.21	1.59	2.31	2.10	1.91
Sweden	0.87	0.82	0.73	0.96	1.14	0.98	0.64	0.56
Switzerland	..	..	0.86	0.88	0.92	0.9	0.83	0.88
Thailand	1.20	1.31	1.42	..	2.65	1.50	1.30	..
United Kingdom	..	1.05	1.12	1.39	1.27	1.31	1.36	0.97
United States	1.21	0.88	0.83	0.86	0.88	0.97	1.02	0.92
Median Value	**0.87**	**0.93**	**1.18**	**1.36**	**1.35**	**1.52**	**1.43**	**1.52**

Notes: 1. Data for Mexico represents the spread between large and small companies. 2. Slovenian data refers to the interest rate spread between SMEs and large firms for loans smaller than EUR 1 million.

Source: Data compiled from the individual country profiles

StatLink http://dx.doi.org/10.1787/888933331909

Box 1.1. **Financing conditions for micro-enterprises: Evidence from France**

Financing conditions differ substantially from one SME to another. Micro-enterprises, employing less than 10 employees, typically face more constraints and tighter conditions when applying for a bank loan. At the request of the Ministry of Economy and Finance, the French *Observatoire du financement des entreprises* investigated in detail the financing needs of micro-firms and whether they are being met. The Observatory report on the funding of micro-enterprises, published in June 2014, highlighted the vast diversity of micro-enterprises in terms of their size, development prospects and investment projects, and underlined the high levels of turnover within the micro-enterprise segment, with one third of businesses failing after three years, and half of them after five years.

Box 1.1. **Financing conditions for micro-enterprises: Evidence from France** *(Cont.)*

When it came to analysing access to credit, the Banque de France's observation that it is more complicated for micro-enterprises than for larger SMEs to obtain cash credit, was confirmed. According to the Observatory, this was not just due to the failure of bankers and entrepreneurs to see eye to eye, but also resulted from the fact that many micro-enterprises have an unbalanced financial situation. One third of micro-enterprises have either zero or negative equity. Problems with their financial structure and cash flow could also explain the fact that some micro-enterprises make significant use of payment deadlines to improve their cash position. In the B2B sector, where the question of payment deadlines is the most relevant, it is noticeable that, on average when compared to larger SMEs, micro-enterprises are paid more quickly by their clients but take more time paying their suppliers.

The Observatory's findings revealed that French micro-enterprises mainly use overdrafts to finance their cash flow. The fact that they are flexible and easy to put in place works well for bankers and, in many cases, for the entrepreneurs, too. However, they subsequently turn out to be more expensive than loans with regular repayments. An increasing number of micro-enterprises are also using factoring to finance their working capital requirements. The Observatory considers that this expensive service only suits a very small proportion of micro-enterprises.

Micro-enterprises had good access to investment loans for the most part, and their cost is the lowest in Europe. This positive trend in credit for micro-enterprises is exclusively driven by investment loans, and more specifically by property investment. Some micro-enterprises deliberately show restraint when seeking bank financing, for fear of being refused or because they underestimate their creditworthiness, and consequently prefer self-financing. Micro-enterprises also report that banks are asking for more guarantees than before. For the Observatory, this can be traced back, among other things, to the asset management approach used for businesses, which often results in business leaders removing their commercial properties from their operating companies and placing them in non-trading, real estate companies, or SCI (*sociétés civiles immobilières*). The mutual guarantee schemes designed for micro-enterprises (SIAGI and SOCAMA) are not sufficiently well-known, and Bpifrance guarantees are often used in their place, mainly for convenience.

In Q1 2015, access to cash credits and investment loans improved for micro-enterprises in comparison with Q4 2014. However, there was a decline in the number of investment loans granted to micro-enterprises over one year, and an increasingly visible disparity compared to the situation for other SMEs.

Table 1.9. **Acceptance rates for micro-enterprises and SMEs in France, 2014-15**

Fully or over 75%, as a percentage

%		Q1 2014	Q4 2014	Q1 2015
Grants of new cash credits	SMEs	70	80	80
	Micro-enterprises	61	62	65
Grants of new investment loans	SMEs	92	93	94
	Micro-enterprises	84	74	78

Source: Observatoire du financement des entreprises, 2014.

StatLink http://dx.doi.org/10.1787/888933331913

The observation, that access to finance seems to pose more problems for micro-enterprises than larger SMEs, has clear policy implications. As a follow-up to the study described above, the French Government has undertaken policy initiatives specifically targeting micro-enterprises[4] whose implementation is being overseen by the Observatory.

Source: Observatoire du financement des entreprises.

Other fees associated with SME lending

Currently, no data are available for most participating countries on other costs associated with SME lending in addition to interest rates, such as loan application fees, other fees and commissions.[5] It would be desirable to collect this information in the future on a systematic basis, in order to provide a more detailed picture of the total costs of borrowing for SMEs. Available data are very sparse, however, as information on non-interest charges are usually held privately 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.

Collateral requirements

Data on collateral are difficult to obtain and represent an area, where reporting improvements are needed to better assess the evolution in SME financing conditions. Eleven countries reported on collateral requirements between 2012 and 2014. As the data comes from demand-side surveys and the methodology, sample and questionnaire from these surveys differ from one country to the other, some caution is advised when making cross-country comparisons.

In most countries, more than half of all SME loans were collateralised. The main exception is the United Kingdom, where only about one in three SME loans were collateralised in 2014. 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 the country has a mandatory collateral requirement[6]. While banks often require collateral of some sort before providing credit, especially to customers with whom they have no prior relationship, some financial services innovators have found new ways of assessing and mitigating risk, relying on alternative data sources (see Box 1.2).

There is no clear discernible pattern in collateral requirements in 2014, compared with 2013 data. In 5 out of 12 countries (Colombia, Finland, Portugal, Serbia and the United Kingdom), collateral requirements have loosened in 2014, whereas in six other countries (Canada, Greece, Italy, Malaysia, Spain and Switzerland), more loans were collateralised in 2014 than in 2013, albeit in varying degrees (see Figure 1.7).

Rejection rates

As with data on collateral, rejection rates are usually gathered from demand-side surveys and are currently unavailable for many participating countries. The comparability across countries is likewise often limited. Nonetheless, this indicator helps shed light on the supply of credit to SMEs and gauge the overall financing conditions they 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 loan application rejections 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 has deteriorated, or banks are rationing credit. It should be noted that these figures do not include information on discouraged borrowers – entrepreneurs who are in need of finance, but do not apply for a bank loan for fear of being rejected – nor on so-called "happy non-seekers", i.e. firms who have not applied for external financing because they do not experience a need for it. Further information on both phenomena would contribute to a better interpretation of the data on rejection rates and on financing conditions more generally.

Box 1.2. **Using alternative data for credit reporting to enhance SME access to finance**

Information asymmetries and difficulties in assessing the risk of financing small businesses at reasonable costs constitute a longstanding stumbling block to SME financing. The emergence of FinTech – combining technology and innovative business models in financial services – has the potential to overcome some of these failures and increase SME access to a range of financial instruments, including peer to peer and marketplace lending, merchant finance, invoice finance, supply chain finance, and trade finance.

Many FinTech companies make use of techniques which rely on alternative sources of data. One of these techniques involves credit scoring based on payment/ e-commerce transactions. These risk models use payments and other related data captured by wholesale suppliers and online merchants in assessing the credit worthiness of its customers which are small businesses and their owners. Other credit scoring solutions, which enable finance providers predictions and gauge the creditworthiness of small businesses and their owners, are based on the payment history and usage of utilities (water, electricity, gas, etc.); prepaid mobile history and phone usage; psychometric testing to measure knowledge, abilities, attitudes and personality traits of an applicant seeking financial services; social media usage and other online activity.

Alternative credit scoring on small business lending offers the possibility to identify, differentiate, and evaluate more efficiently and at a lower cost the creditworthiness of small businesses and owners. Experience suggests that these new techniques can enable higher approval rates while reducing default rates simultaneously. Additionally, financial service providers have been able to grant a variety of financial services and products to enterprises that were previously excluded from access to formal providers of capital, most notably very small businesses in emerging economies. In Mexico, for example, several new providers of finance select customers through psychometrics or by analysing information from social media, while other companies provide micro-loans to prepaid mobile phone users with insufficient account balances, using data from their mobile use. The development and utilisation of alternative credit scoring solutions is taking place in both, developed and developing countries, however. As a case in point, more than 40 000 businesses in Canada and the United States were being financed by a company that uses data aggregation and electronic payment technology to evaluate the financial health of SMEs between 2007 and the first half of 2015.

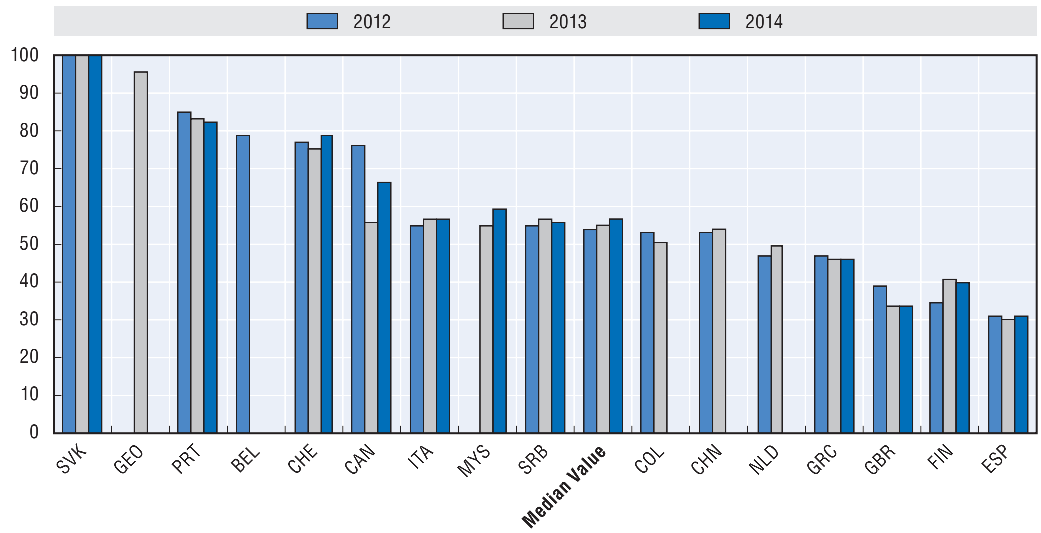
While at a very nascent stage, these innovative credit scoring systems are seen as promising to provide finance to business ventures that are often excluded from other sources of finance, at short notice and with relatively flexible conditions. There is a clear need to monitor these developments closely, as well as to consider potential regulatory implications, notably concerning the need to protect data and respect privacy laws, while still allowing for innovation.

Source: World Bank Group.

Between 2013 and 2014, 12 out of 15 participating countries reported a decrease in rejection rates, with Canada, China and Korea being the only exceptions. This follows a decline of rejection rates in a majority of countries between 2012 and 2013 and is indicative of an overall loosening in credit conditions in recent years (see Table 1.10).

Figure 1.7. **Trends in SME collateral requirements, 2012-14**

As a percentage of SME bank loans requiring collateral



Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Part 2 of this publication. 2013 and 2014 data for Belgium is not available; 2014 data for China is unavailable; 2012 and 2014 data for Georgia is not available; 2012 data is not available for Malaysia.

Source: Data compiled from the individual country profiles.

StatLink http://dx.doi.org/10.1787/888933330678

Table 1.10. **Trends in SME loan rejection rates, 2007-14**

As a percentage

	2007	2008	2009	2010	2011	2012	2013	2014	Change 2014-13
Belgium	22.2	20.9	19.3	19.9	19.8	22.5	22.2	22.0	-0.2
Canada	6	..	..	9	8	7	9	12.8	3.8
Chile	..	..	..	..	13.0	..	11.0	..	..
China	..	..	..	..	..	..	6.2	12.0	5.78
Colombia	2.0	4.0	9.0	5.0	3.0	4.0	7.0	3.0	-4
Denmark	3.0	..	..	12.0	..	..	..	14.0	..
France	12.3	12.2	12.8	13.6	13.0	12.4	12.7	12.5	-0.2
Finland	..	..	..	..	1.0	5.0	10.0	8.0	-2
Georgia	..	..	..	..	..	..	4.6	..	..
Greece	..	..	25.8	24.5	33.8	28.3	26.0	21.5	-4.5
Ireland	..	..	..	..	30.0	24.0	20.0	14.0	-6
Italy	3.1	8.2	6.9	5.7	11.3	12.0	9.0	8.4	-0.6
Korea	41.5	47.2	40.7	48.7	43.4	41.7	39.8	46.7	6.9
Malaysia	..	..	..	..	..	..	15.1	8.6	-6.5
New Zealand	6.0	13.0	18.0	28.0	13.0	14.0	10.0	..	..
Serbia	18.7	17.2	28.4	27.1	15.8	31.5	31.8	24.7	-7.1
Slovak Republic	..	..	..	..	57.2	..	53.2	..	..
Spain	..	..	23.0	16.0	14.0	18.0	13.0	12.0	-1.0
Switzerland	29.0	30.4	29.2	30.3	31.1	28.7	28.1	27.9	-0.2
Thailand	28.5	25.9	14.7	26.9	..	..	..	..	..
United Kingdom	..	..	..	27.0	30.1	31.1	32.8	21.6	-11.2
Median Value	**14.40**	**17.20**	**21.15**	**22.21**	**14.90**	**20.27**	**13.00**	**13.85**	**-1.00**

Source: Data compiled from the individual country profiles.

StatLink http://dx.doi.org/10.1787/888933331927

Additional evidence on credit conditions from survey data

In this section, information provided by country experts is complemented by data from surveys. Both demand-side information, where SME owners and entrepreneurs report on how they perceive credit conditions and credit availability, and supply-side surveys asking senior loan officials about how they gauge the state of play regarding SME finance, are included. They provide useful insights, especially with respect to disentangling demand and supply factors behind changes in SME lending.

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.[7] It shows an increase in the net balance of SMEs stating that the availability of loans had deteriorated for the second half of 2014, contrasting with 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. The willingness to lend follows a similar pattern; the data illustrates that this willingness reached a low point in the first half of 2012, and picked up afterwards, with the pace gathering momentum in the second half of 2014. The number of loan applications granted in full rose from 60% in the first half of 2014, to 65% in the second half of 2014. 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 2014. The net balance stating an increase in collateral requirements also fell from its 2012 peak, registering its lowest level since 2011 in the latest survey (Table 1.11).

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, lower rejection rates and a considerably lower net percentage of large firms reporting an increase in interest rates and collateral requirements.

Table 1.11. **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	H2 2014
Availability of loans								
Deteriorated (net)	-10	-15	-15	-9	-7	-4	-1	7
Willingness to lend								
Deteriorated (net)	-22	-25	-29	-23	-18	-11	-2	9
Applied for a loan	27	31	30	31	31	32	30	30
Granted in full	65	63	61	65	66	68	60	65
Rejected	9	12	14	10	11	10	12	8
Interest rate								
Increased (net)	54	43	27	17	19	9	-9	-25
Collateral requirements								
Increased (net)	33	36	39	35	31	26	29	20

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 (2015).

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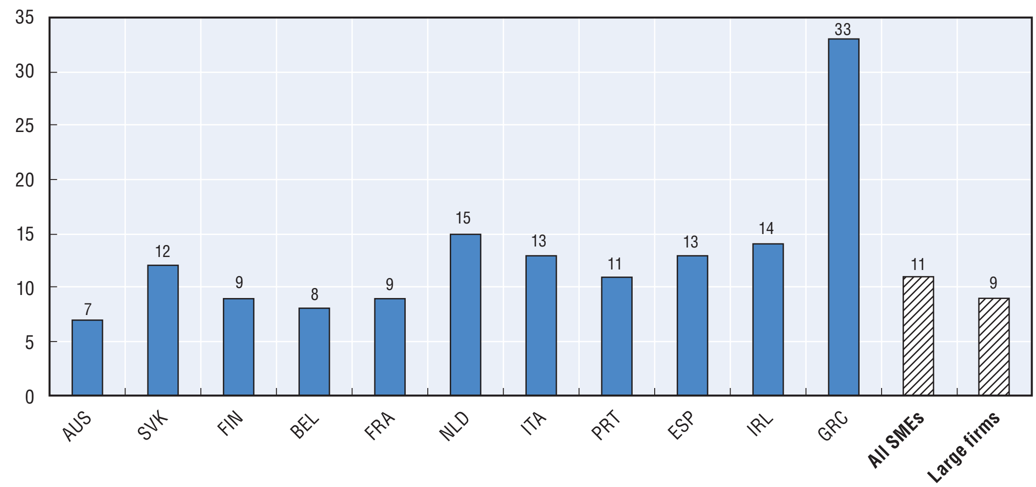
Access to finance was considered to be the most pressing concern for 11% of Euro zone SMEs in the October 2014-March 2015 SAFE survey (see Figure 1.8). This is down from 13.2% in the survey conducted 6 months earlier and from 13.4% in the October 2013-March 2014 survey, suggesting a continued improvement of credit access for SMEs. Wide differences across countries persist, however, as Figure 1.12 illustrates. While less than 10% of Austrian, Belgian, Finnish and French SMEs rank access to finance as their most pressing concern, this proportion rises to 13% and more in countries such as Ireland, Italy, the Netherlands and Spain, with Greece being the outlier at 33%. As was the case in previous surveys, more SMEs than large firms describe access to finance as their most pressing concern (11% and 9%, respectively).

Figure 1.8. **The proportion of Euro zone SMEs reporting access to finance as their most pressing concern, October 2014-March 2015**

As a percentage (October 2014-March 2015)



Source: ECB (2015).

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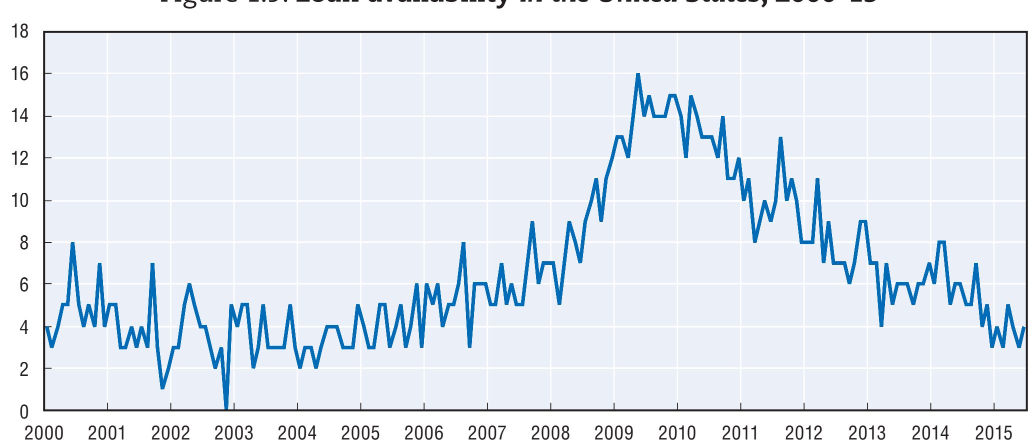
In the United States, the NFIB Research Foundation collects Small Business Economic Trends data on a monthly basis since 1986. A record low of 1% of small business owners considered finance to be their single most important problem according to the June 2015 survey and 5% of respondents reported that their financing needs were not being met. The financial crisis had a marked impact on the reported loan availability, which dropped to a bottom in 2007, and steadily recovered afterwards to levels broadly comparable to the pre-crisis period in the first half of 2015 (see Figure 1.9).

Figure 1.9. **Loan availability *in the United States*, 2000-15**



Note: Net percentage "Harder" minus "Easier" compared to three months ago.

Source: Dunkelberg and Wade (2015).

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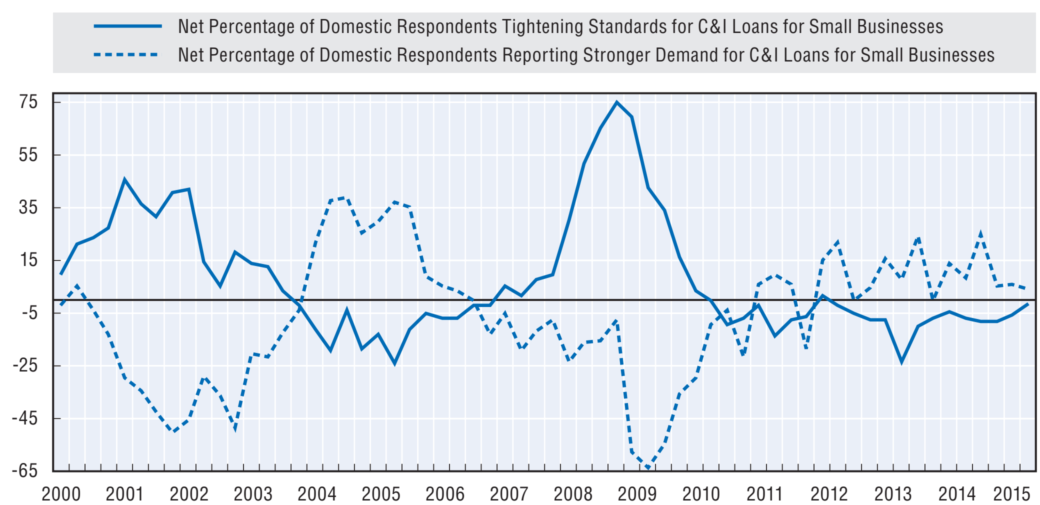
The United States Federal Reserve Board surveys senior loan officers on their banks' lending practices on a quarterly basis, including a question on the evolution of credit standards for approving small business loans or credit lines (where small businesses are businesses with annual sales of less than USD 50 million). According to this survey, credit standards for small businesses in the United States tightened dramatically between 2008 and 2010, and loosened afterwards, especially 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 1.10). The reported demand for loans from small businesses broadly mirrors the tightness of lending standards. Responses show that demand plummeted when the financial crisis hit the American economy and began a hesitant recovery in 2011 which persists up to the first half of 2015.

Figure 1.10. **Small business lending environment in the United States, 2000-15**



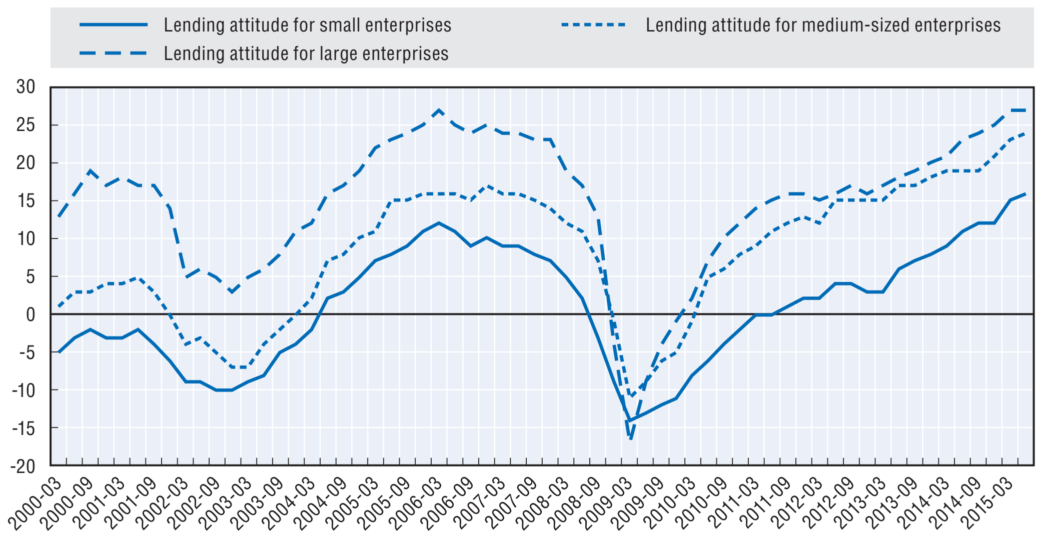
Source: Federal Reserve Board (2015).

StatLink http://dx.doi.org/10.1787/888933330705

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.

As in many other countries, perceived lending attitudes deteriorated sharply between 2008 and 2009, and improved afterwards, according to the TANKAN survey. In the first quarter of 2015, financing conditions for large enterprises – as viewed by Japanese businesses – were broadly in line with the pre-crisis period of 2005-07, and presented even better results for small and medium-sized companies. 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 1.11).

Figure 1.11. **Lending attitudes in Japan, 2000-15**



Source: Bank of Japan (2015a).

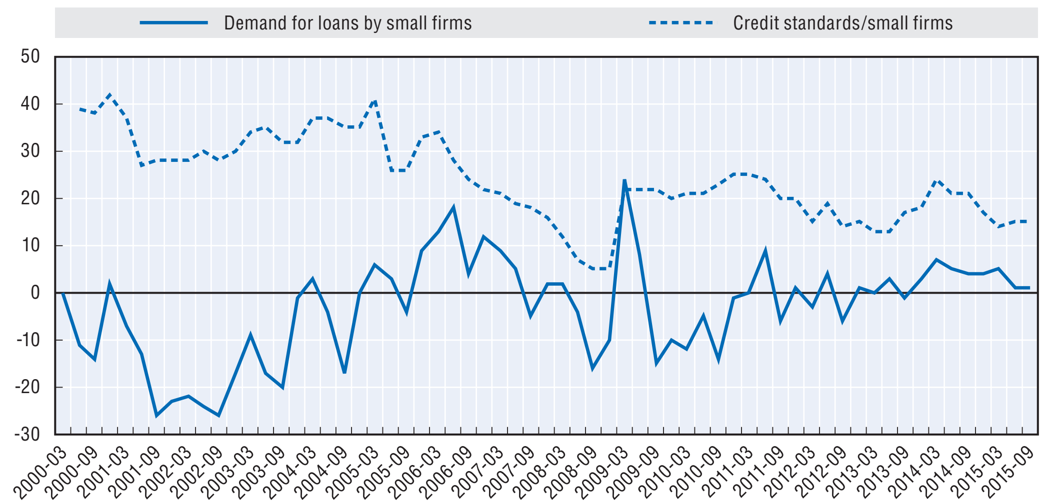
StatLink http://dx.doi.org/10.1787/888933330710

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. 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 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 and 2014 indicates an uptick in the demand for loans from small firms, with 2015 showing once again a return to a lower demand. Somewhat remarkably, Japanese loan officials report a loosening of credit standards for small firms over the 2007-15 period, the financial crisis notwithstanding, credit standards have been reported to become less restrictive, although the pace of the reported loosening declined considerably (Figure 1.12).

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, as well as to non-bank financial firms. Data for SMEs is available from the fourth quarter of 2009 up to the second quarter of 2015. During most of this period, lending conditions generally deteriorated (Figure 1.13). Apart from collateral requirements – which have remained flat – a reversal of the downward trend can be observed from the second quarter of 2013 as maximum credit lines, spreads on loans and fees/commissions on loans became more favourable. From the second quarter of 2014 onward, and even though fees/commissions on loans displayed high volatility, all the concerned variables eventually flatlined according to UK lenders.

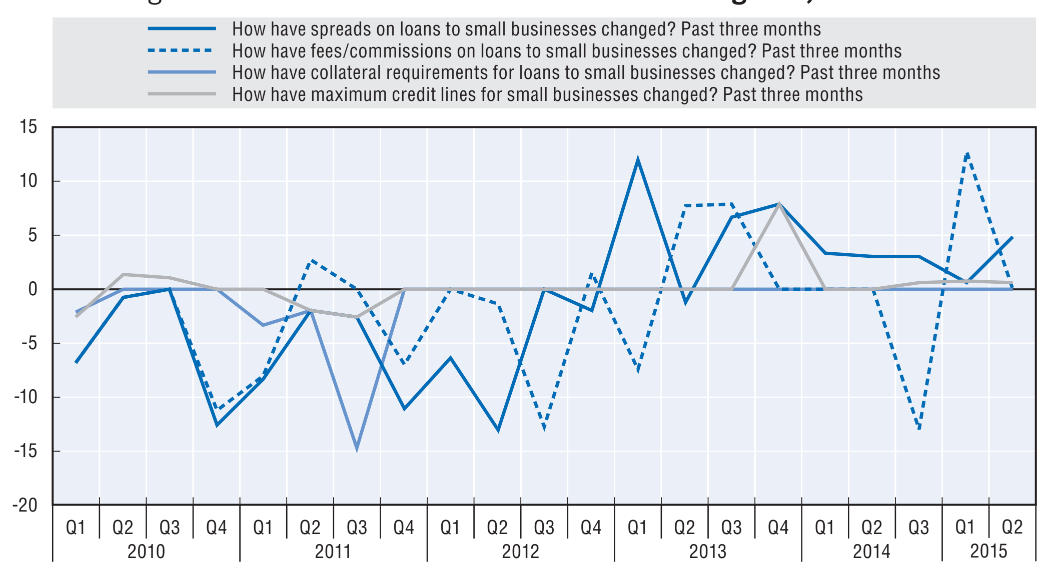
Figure 1.12. **Credit standards and demand for loans by small firms in Japan, 2000-15**



Source: Bank of Japan (2015b).

StatLink http://dx.doi.org/10.1787/888933330727

Figure 1.13. **Credit conditions in the United Kingdom, 2010-15**



Source: Bank of England (2015).

StatLink http://dx.doi.org/10.1787/888933330733

The evidence from this section suggests a continued easing of credit conditions and standards in most participating countries between 2010 and the first half of 2015. In the same vein, the cost of credit has fallen substantially in recent years as a result of loose monetary policies around the world. Despite this trend, SME lending often decreased in recent years, indeed often in the same countries where credit conditions improved.

Portugal provides a 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 in the country were also down in 2013 and 2014, although more modestly. The average interest rate charged for an SME loan also dropped by almost 100 basis points year-on-year from 2013 to 2014. Whereas 21% of all SMEs described access to finance as their most pressing problem 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 since 2012, business lending to SMEs did not pick up. On the contrary, the inflation-adjusted outstanding stock of SME loans in Portugal shrank by 10% year-on-year between 2012 and 2013, and by another 5.9% between 2013 and 2014. Belgium, Italy[8], the United Kingdom and the United States all witnessed a similar (but not as clear-cut) coincidence of more accommodating credit conditions on the one hand and a fall in SME lending on the other over the 2012-14 period.

The dual phenomenon of lower SME lending at a time of easing of costs and conditions was apparent in 2013 and continues to hold true for some countries in 2014. Several factors can explain this observation. 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, it is possible that credit has become easier to obtain 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 2014 and 2015.

Third, an easing of credit conditions might not immediately translate into increased SME lending, and may involve a time lag. The most recent evidence suggests that this explanation might be most plausible, especially when measuring changes in lending with stock variables. In Belgium, Italy, Portugal, the United Kingdom and the United States, the outstanding stock of SME loans still fell between 2013 and 2014 when adjusting for inflation, but the decline was less pronounced than the year-on-year change between 2012 and 2013. In contrast, Spain recorded a positive year-on-year SME loan growth in 2014 and seems to have turned the corner. The difference between Portugal and Spain could be due to the nature of their data collection (in particular the greater "responsiveness" of flow data used by Spain but not Portugal to credit demand and supply) than to a difference in SMEs' access to finance in the two countries. The data from Estonia and the United Kingdom, which provide information on new lending as well on the outstanding stock of SME lending, is illustrative in that respect. Credit to SMEs turned positive in 2011 in Estonia according to their data on new lending and remained so in 2012, 2013 and 2014, while the outstanding stock of SME loans kept decreasing until 2014. Similarly, UK flow data report a relatively robust recovery of lending to SMEs between 2013 and 2014, while the outstanding stock still declined over the same period, but at a slightly slower pace than previously.

Equity financing

Data on venture capital investments come from the OECD's *Entrepreneurship at a glance 2015* report. This annual publication covers recent and comparable data on venture capital activities for 28 countries participating in the Scoreboard on SME and entrepreneurship finance. All the data in this section are expressed in USD, where the annual exchange rates (National currency per USD, period-average) are sourced from the OECD Annual National Accounts database.

Table 1.12 illustrates that equity markets were severely impacted by the financial crisis. Most countries experienced a sharp decline in venture capital and growth capital investments between 2008 and 2010. In 17 countries, venture capital investments in 2014 had not yet surpassed pre-crisis 2007 levels. Venture capital investments were higher in 2014 than in 2007 in only nine countries, i.e. the Czech Republic, Estonia, Hungary, Ireland, Korea, the Russian Federation, the Slovak Republic, Slovenia and the United States. Considering the median in this sample, venture capital investments dropped by almost 30% between 2007 and 2014, in nominal terms[9].

The data regarding the year-on-year change in venture capital activities from 2012 to 2013, and from 2013 to 2014 show no clear trend, with the number of countries experiencing a decline and those displaying an increase roughly in balance. 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.

Table 1.12. **Venture capital investments**

In USD million and 2007-14 percentage change

	2007	2008	2009	2010	2011	2012	2013	2014	2007-14 change (%)
Australia	680.3	755.8	532.7	367.8	246.5	331.3	252.9	265.9	-60.9
Austria	109.3	74.4	105.4	57.7	130.3	54.7	83.9	81.8	-25.2
Belgium	247.5	171.6	216.6	109.8	126.7	121.1	118.8	151.2	-38.9
Canada	..	..	..	..	..	..	..	1464.8	..
Czech Republic	5.7	46.6	39.2	30.5	14.6	6.7	3.8	12.0	109.7
Denmark	284.3	279.3	114.2	91.1	174.1	101.0	106.7	87.5	-69.2
Estonia	2.6	5.5	3.8	7.7	1.8	7.7	8.2	5.8	122.1
Finland	180.9	175.8	126.3	131.1	119.1	101.6	171.1	163.7	-9.5
France	1403.2	1599.7	1171.9	995.2	878.1	727.8	905.8	835.8	-40.4
Greece	26.0	47.9	23.2	6.6	13.7	0.0	6.4	0.3	-99.0
Hungary	14.4	18.8	1.7	23.7	55.6	84.1	22.2	42.6	196.9
Ireland	118.1	134.7	105.8	61.2	78.2	118.4	150.7	119.4	1.1
Israel	1196.0	1395.0	739.0	884.0	1226.0	868.0	895.0	1165.0	-2.6
Italy	179.2	163.2	88.1	97.1	96.1	101.6	80.7	44.8	-75.0
Japan	n.a.	n.a.	267.7	1283.4	1553.7	1284.6	1862.8	..	..
Korea	798.9	495.5	397.6	527.3	633.2	606.6	635.5	865.6	8.3
Netherlands	383.9	440.0	236.9	194.5	236.9	232.4	259.0	224.6	-41.5
New Zealand	60.2	46.5	21.2	68.0	28.9	21.7	44.9	46.3	-23.1
Norway	356.6	231.9	167.3	227.0	173.9	151.5	94.6	157.2	-55.9
Portugal	140.4	89.8	47.4	73.0	16.5	21.5	50.4	65.9	-53.1
Russian Federation	108.3	161.8	123.8	153.3	272.2	152.0	335.2	250.7	131.5
Slovak Republic	1.5	0.0	0.3	2.7	0.0	0.0	0.0	6.2	312.2
Slovenia	0.7	4.2	2.5	1.5	3.2	1.7	5.3	3.3	404.2
Spain	468.0	766.3	227.4	154.6	210.7	150.1	138.8	132.4	-71.7
Sweden	564.0	560.7	300.0	338.6	344.9	287.2	307.0	376.2	-33.3
Switzerland	379.4	249.2	312.9	240.7	280.3	233.4	243.8	224.1	-40.9
United Kingdom	2055.9	2237.7	1089.5	1021.2	1112.8	845.7	758.3	1112.6	-45.9
United States	3 2063.4	3 0397.7	2 0332.5	2 3444.3	2 9878.1	2 7592.5	3 0097.2	4 9532.4	54.5
Median Value	**214.21**	**173.69**	**126.29**	**131.10**	**173.91**	**121.09**	**138.84**	**151.17**	**-29.26**

Source: OECD (2015d).

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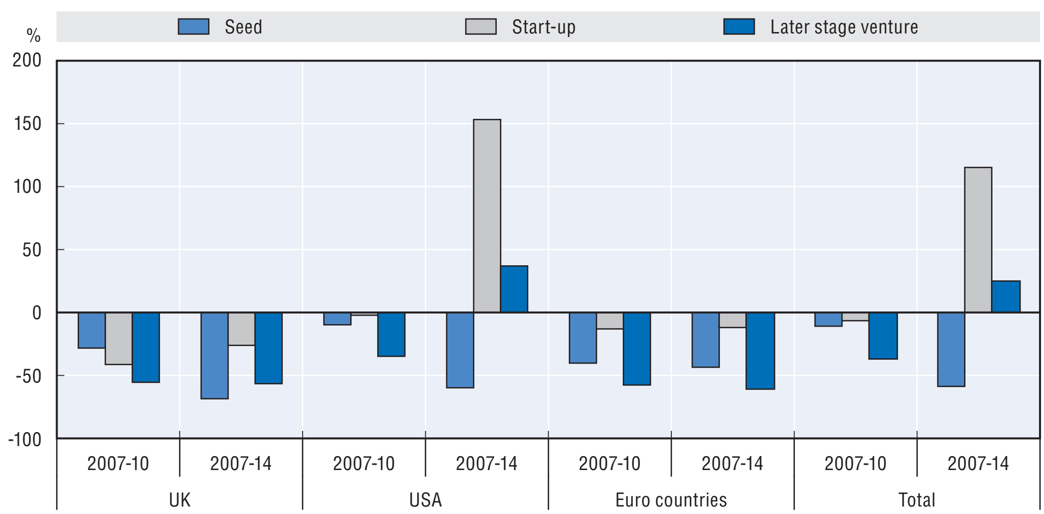
Between 2007 and 2014, venture capital investments in the seed stages of a company's life cycle more than halved, whereas investments in the start-up phase more than doubled and investments in the later stage expanded by around 25%, strongly suggesting that venture capitalists are moving away from financing ventures in their seed stage (see Figure 1.14)[10]. This trend is mostly driven by developments within the United States (which accounts for the majority of venture capital investments within the countries listed in Figure 1.14). Moreover, this trend is relatively recent; seed early stage investing declined only very modestly between 2007 and 2010, and then very sharply between 2010 and 2014.

Figure 1.14. **Change in venture capital investments by development stage, 2007-10 and 2007-14**

As a percentage



Notes: The Euro countries group 13 economies from the Euro area: Austria, Belgium, Estonia, Finland, France, Greece, Ireland, Italy, Netherlands, Portugal, the Slovak Republic, Slovenia and Spain.

Source: OECD (2015d).

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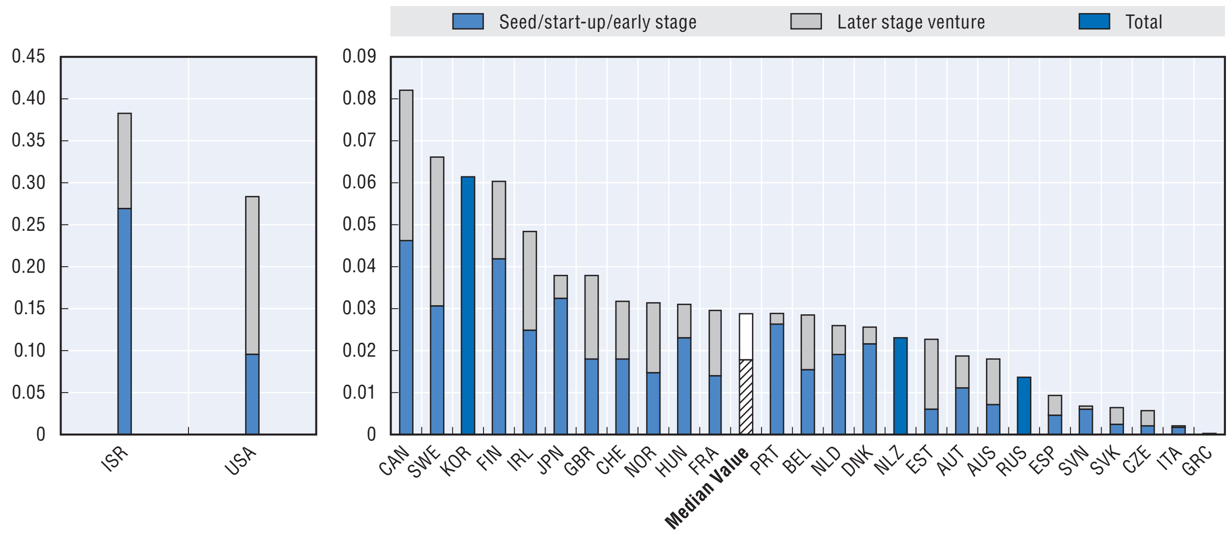
It should be noted that venture and growth capital investments continue to be very small compared with other funding sources, such as bank lending, asset-based finance or trade credit. Figure 1.15 illustrates that, except in Canada, Israel, Korea, Finland, and the United States, venture capital investments accounted for less than 0.05% of GDP in 2014. Even in Israel and the United States, where the venture capital markets are especially well developed, VC investments still account for less than 0.4% of GDP.

Venture capital markets are also traditionally underdeveloped in emerging economies. In 2012, for example, around 85% of all venture capital investments occurred in Europe and the United States. Recent developments suggest that some emerging economies are catching up, however, especially due to a very rapid expansion of venture capital activities in China and India, which accounted for respectively 18% and 6% of the worldwide venture capital investments in 2014 (Ernst & Young, 2015).

Figure 1.15. **Venture capital investments, 2014**

As a percentage of GDP



Note: Japan uses 2013 data. The median value refers to data from both graphs.

Source: OECD (2015d).

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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. 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. Nonetheless, the importance of venture and growth capital should not be understated, as it commonly funds SMEs with very high growth potential who usually find it hard to access sufficient financing through other sources.

Business angel investing constitutes another source of equity financing, especially at the early stages of a firm's life. Evidence suggests that angel investments constitute a more important source of finance for SMEs than venture capital investments and were much less affected by the financial crisis. While data on venture capital investments are relatively reliable and comparable across countries, angel activities are currently not quantified in a satisfactory manner. The thematic chapter of the 2016 edition of the scoreboard is devoted to business angel activities. It outlines the importance of angels in the financial eco-system, describes some recent developments and policy initiatives to encourage business angel activities, and suggests a way forward to improve the evidence base so as to explore possibilities to systematically collect information on angel investing in future editions of this publication. Public listings offer another potential source of equity capital for SMEs (see Box 1.3).

Box 1.3. **Public equity markets for SMEs**

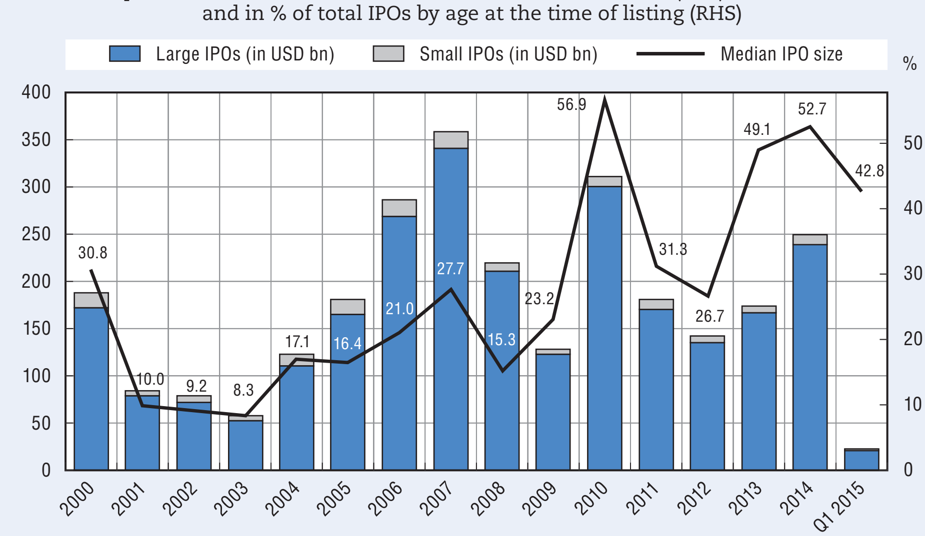
Public equity markets can provide suitable platforms for equity financing of SMEs with important growth prospects, offering an attractive and abundant alternative long-term financing source. A number of growth segments in regulated markets, multilateral trading facilities and specialised SME equity platforms have been established as an alternative, and precursor, to main exchange listings. SME growth markets offer more flexible listing criteria, eased disclosure requirements and comparatively low admission costs so as to cater to SMEs' inherent characteristics.

The benefits of public equity financing for SMEs extend beyond initial access to capital (Initial Public Offering – IPO) to repeat access to financing (follow-on raisings), increased creditworthiness, transparency, visibility and credibility by association with a dedicated ecosystem. Public accountability and increased reporting encourage better management, governance and monitoring. The investor base is extended (retail and institutional investors) and risk gets distributed more efficiently.

Public equity markets are to a large extent tapped by fast-growing, young companies, with a specific focus on the firms' risk and performance characteristics (Figure 1.16 and Figure 1.17). In terms of size, public equity markets are currently considered to be most beneficial to the upper end of the SME size spectrum, with bank intermediation still recognised as essential for coping with information asymmetries inherent in smaller seekers of finance.

Figure 1.16. **Global small IPOs issuance by proceeds and by age, 2000 – Q1 2015**

Issuance proceeds in USD billion, median IPO size in USD million (LHS), in number of IPOs and in % of total IPOs by age at the time of listing (RHS)



Notes: Global IPOs as defined in Footnote 6. Assuming a USD 50 million threshold as the cut-off for small IPOs. Excluding real estate investment trusts (REITs) and blank check companies or special purpose acquisition vehicles (SPACs).

Source: Factset, OECD calculations.

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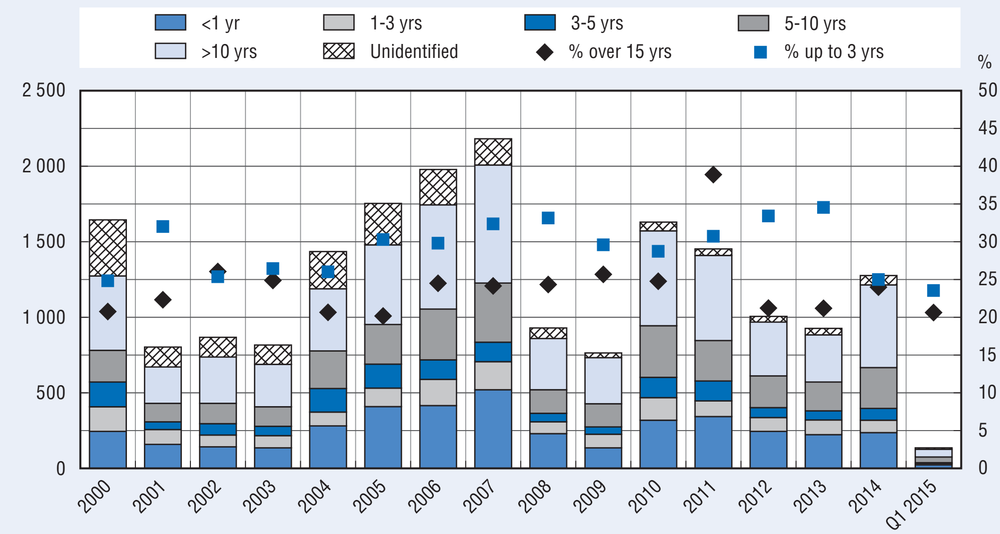
Accessibility of public equity markets by SMEs is mainly impeded by listing and compliance costs which are disproportionately high for small issuers, as one-size-fits-all regulation and stock market structures cannot equally serve large and small stocks. Proportionate regulatory and listing requirements are a way to ensure that the cost of public listing is appropriate for SMEs, while ensuring that this is not done at the expense of financial market stability. The entire market infrastructure for growth equity markets needs to be adapted to the inherent characteristics of SMEs, as is the case with growth markets in Europe under the Directive on markets in financial instruments (MiFID 2).

SMEs are faced with an educational gap that is prominent when it comes to tapping the equity markets. On the supply side, a dearth of investors is partially due to the lack of 'equity culture' in certain parts of the world, particularly when it comes to retail investors, as well as due to imbalances in the tax treatment

Box 1.3. **Public equity markets for SMEs** *(Cont.)*

Figure 1.17. **Breakdown of global IPOs by age of company at the time of listing, 2000 – Q1 2015**

In number of IPOs (l.h.s.) and in % of total IPOs (r.h.s.)



Notes: Excluding real estate investment trusts (REITs) and blank check companies or special purpose acquisition vehicles (SPACs), assuming a USD 50 million threshold as the cut-off for small IPOs. Age from year of founding to year of listing, rounded to full years for calculation purposes.

Source: Factset, OECD calculations.

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of debt *vs.* equity. Retail as well as institutional investors may be dissuaded by inadequate liquidity in growth markets. There is a need for SME-specialised ecosystems (platforms, brokers, market-makers, advisors, equity research, investors) that can support small offerings, and improved economic incentives for participants that might help foster such healthy ecosystems.

Recognising the need for better access of SMEs to equity capital markets, there is a role for policy makers to catalyse institutional long-term investor participation in SME equities and reduce asymmetric tax treatment of debt and equity. High monitoring costs, absence of track records and information asymmetries are prominent obstacles for SME financing across the board, but can be addressed through measures and tools that improve transparency and that may also involve the public sector. Policy makers can help bridging the educational gap of SMEs, raising awareness of capital market financing options for SMEs and equipping them with the skills required to tap public markets.

Source: Nassr and Wehinger (2015).

Asset-based finance and crowdfunding activities

As deleveraging of the financial sector continues, SME dependence 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 a well-established and widely used alternative for many SMEs.

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. Factoring is a financial transaction whereby a business sells its accounts receivable to another party at a discount. Data from national sources, complemented by information from Leaseurope,[11] illustrate that the new production of leasing almost universally decreased dramatically after the financial crisis, and has not reached pre-crisis levels since. For the median country, leasing volumes fell by almost one-third between 2009 and 2008, and only recovered to 79% of the 2007-08 volumes. In Estonia, Portugal, Slovenia and Spain, new production of leasing more than halved in real terms between 2007 and 2014. China, Colombia, Sweden, Switzerland and Turkey are the only countries in this sample where inflation-adjusted leasing volumes were higher in 2014 than in 2007, with the 100-fold use of leasing in China being an absolute outlier (see Table 1.13).

Table 1.13. **New production in leasing, 2007-14**

Relative to 2007

Country	2007	2008	2009	2010	2011	2012	2013	2014
Data from Leaseurope								
Austria	1	1.06	0.69	0.74	0.77	0.60	0.67	0.59
Belgium	1	1.09	0.79	0.92	1.01	1.03	0.91	0.98
Czech Republic	1	0.96	0.48	0.54	0.57	0.52	0.51	0.54
Denmark	1	1.11	0.74	0.70	0.86	0.80	0.85	0.91
Estonia	1	0.72	0.24	0.28	0.45	0.56	0.50	0.48
Finland	1	0.94	0.73	0.74	0.85	0.82	0.75	0.80
France	1	1.01	0.82	0.88	0.95	0.93	0.88	0.94
Hungary	1	0.94	0.32	..	..	..	..	..
Italy	1	0.83	0.55	0.58	0.53	0.35	0.31	0.34
Netherlands	1	0.97	0.66	0.58	0.69	0.76	0.70	0.69
Norway	1	0.92	0.69	0.76	0.87	0.91	0.88	0.94
Portugal	1	0.94	0.68	0.68	0.42	0.26	0.26	0.33
Slovak Republic	1	1.11	0.64	0.68	0.77	0.76	0.74	0.80
Slovenia	1	1.14	0.57	0.54	0.51	0.41	0.41	0.37
Spain	1	0.68	0.34	0.42	0.34	0.27	0.26	0.35
Sweden	1	1.02	0.72	0.90	0.94	1.12	1.09	1.09
Switzerland	1	1.15	0.95	1.10	1.29	1.25	1.12	1.31
Data from the Individual Country Profiles								
Australia	1	0.92	0.68	0.66	0.68	0.78	0.67	0.75
China	1	5.98	14.38	25.54	31.49	51.43	68.50	103.36
Colombia	1	1.04	1.05	1.11	1.31	1.51	1.69	1.93
Greece	1	1.04	0.96	0.93	0.87	0.79	0.56	0.54
Japan	1	0.82	0.62	0.64	0.68	0.70	0.82	..
Turkey	..	1	0.73	0.67	0.87	0.92	1.27	1.40
United Kingdom	1	0.96	0.66	0.65	0.66	0.70	0.73	0.79
United States	1	1.01	0.83	0.73	0.57	0.58	0.61	0.61
Median Values (both data sources combined)	**1**	**1.00**	**0.69**	**0.69**	**0.77**	**0.77**	**0.73**	**0.79**

Note: 1. Data for Australia refers to leasing and hire purchases as flows. Japan refers to leasing alone, as stocks. Turkey uses 2008 as base year and has data on leasing and hire purchases. Other countries use leasing and hire purchases as stocks. 2. All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank.

Source: Leaseurope (2015) and data compiled from the individual country profiles.

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In recent years, a patchy and uneven recovery of leasing volumes is noticeable, however. New production in leasing rose in 16 countries year-on-year in 2014, while only five countries marked a decline, and volumes remained constant in two countries. More analysis is needed to assess the relative importance of demand-side factors, especially the potential decline or postponement of new investments in equipment, real estate, automobiles and so on, as well as supply-side factors in order to explain these divergent trends.

Data on factoring volumes are sourced from Factors Chain International (FCI), which provides data for 32 countries between 2007 and 2014[12]. With the exception of Hungary, Ireland, Japan, Norway, Serbia, 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. Between 2013 and 2014, factoring volumes further expanded in 23 out of 32 countries for which data is available; Chile, Japan, Mexico, Portugal, the Russian Federation, Serbia, the Slovak Republic, Spain and Sweden are the exceptions to this upward trend. This implies that factoring has generally become and is still becoming 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 1.14 summarises factoring volumes, and Box 1.4 provides background information on the use of factoring by SMEs in recent years.

Table 1.14. **Factoring volumes, 2007-14**

Relative to 2007

Country	2007	2008	2009	2010	2011	2012	2013	2014
Austria	1.00	1.20	1.23	1.52	1.62	1.94	2.46	2.81
Belgium	1.00	1.15	1.21	1.59	1.85	2.01	2.23	2.58
Canada	1.00	0.68	0.75	0.84	1.15	1.52	1.20	1.21
Chile	1.00	1.08	0.95	0.99	1.25	1.38	1.44	1.34
China	1.00	1.54	1.90	4.10	6.74	8.30	8.98	9.55
Colombia	1.00	0.96	1.06	1.19	1.99	1.77	2.70	3.39
Czech Republic	1.00	1.02	0.75	0.89	1.04	1.04	1.04	1.13
Denmark	1.00	0.62	0.80	0.87	0.99	0.93	0.93	1.08
Estonia	1.00	1.02	0.71	0.86	0.79	1.25	1.21	1.25
Finland	1.00	0.97	0.81	0.93	0.95	1.21	1.23	1.41
France	1.00	1.08	1.03	1.22	1.37	1.45	1.54	1.73
Hungary	1.00	0.98	0.75	0.97	0.80	0.73	0.71	0.74
Ireland	1.00	1.07	0.90	0.96	0.86	0.92	0.97	1.16
Israel	1.00	1.72	1.65	1.92	1.88	1.56	1.13	3.19
Italy	1.00	1.02	0.97	1.12	1.34	1.37	1.32	1.35
Japan	1.00	1.39	1.10	1.32	1.52	1.34	1.07	0.70
Korea	1.00	0.92	2.88	4.83	7.58	7.42	11.36	11.64
Mexico	1.00	0.98	0.21	1.38	1.90	2.27	2.40	2.10
Netherlands	1.00	0.92	0.92	1.06	1.39	1.49	1.53	1.56
Norway	1.00	0.80	0.85	0.79	0.81	0.87	0.76	0.80
Portugal	1.00	1.05	1.02	1.19	1.60	1.32	1.26	1.19
Russia	1.00	1.05	0.54	0.68	1.02	1.57	1.77	1.13
Serbia	1.00	1.48	1.51	1.74	2.95	2.85	1.93	0.85
Slovak Republic	1.00	1.13	0.81	0.70	0.82	0.71	0.73	0.71
Slovenia	1.00	1.37	1.32	1.34	1.12	1.32	1.25	1.12
Spain	1.00	1.17	1.22	1.32	1.42	1.44	1.34	1.30
Sweden	1.00	0.71	0.82	0.81	1.25	1.40	1.28	1.17
Switzerland	1.00	1.01	1.94	1.55	1.33	1.16	1.20	1.48
Thailand	1.00	1.02	0.89	0.85	1.20	1.67	1.27	1.55
Turkey	1.00	0.82	0.88	1.59	1.16	1.12	1.06	1.27
United Kingdom	1.00	0.64	0.65	0.73	0.85	0.90	0.94	1.05
United States	1.00	1.01	0.89	0.94	1.02	0.74	0.79	0.90
Median Value	**1.00**	**1.02**	**0.91**	**1.09**	**1.25**	**1.38**	**1.25**	**1.26**

Notes: All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank.

Source: Factors Chain International (2015).

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Box 1.4. **Factoring for SMEs**

Even though there is no direct information on the amount of factoring volumes directly flowing to SMEs, the vast majority of global users of factoring are small and medium sized enterprises[13]. In the United Kingdom, one of the most mature, established and penetrated markets, the national association's ABFA (the Asset Based Finance Association) data shows that almost all of their close to 44 000 clients, by number, fall within the European SME definition of sub EUR 50 million turnover: 90% of companies who used factoring as a source of finance report turnover below GBP 10 million, 8% between GBP 10 and 50 million and only 2% above GBP 50 million (AFBA, 2015).

There is no simple explanation as to why factoring has been growing relatively fast in recent years (Compound annual growth rate of 13%, 2009-14)[14] in contrast to other sources of finance (such as bank debt, venture capital, leasing). Several elements, both from a lender and user perspective probably contribute to the growth of the factoring industry.

From a lender's point of view, SMEs usually display diverse customer bases. Since the factor advances funds against the security of debts from them and not the SME itself, factoring therefore takes advantage of a better distributed spread of risk than SME loans. This feature has become more attractive in a world where financial institutions have become more averse to risks and are deleveraging. Moreover, realistic knowledge of the condition of the outstanding collectable debt is constantly kept up to date. In case of default by the SME, recovery is made from the debtors, not the SME, so the factor is well placed to advance (and recover) securely. This form of funding is therefore associated with low loss given default (LGDs) and non-performing loans are likely to bear a proportionately lower impact. Finally, factoring includes a value added service beyond the provision of funding. It therefore attracts a premium price over traditional lending and consequently has higher potential returns on equity and assets.

From a user's perspective, one of the main advantages of factoring is that users do not need to have other assets or be in business for a long time to access credit. The relative ease of attracting funding from factors and the "lightness" of their contracts has attracted more users in the aftermath of the financial crisis, as lending standards of commercial banks tightened in many countries. Moreover, the facility naturally grows with sales and is revolving and renewable without renegotiations. The factor can also provide ledger management, collection services and credit advice (and insurance, if required) as an integral, holistic approach to their cash flow management. Given the risk that late or non-payments entail to the cash flow position (and sometimes even the survival) of small businesses, this expertise is increasingly seen as a service worth its price.

Source: AFBA (2015), IFG (2014).

Crowdfunding is a financial technique to raise external finance from a large audience, rather than a small group of specialised investors, whereby each individual provides a small amount of the funding requested. An internet platform is typically used to match investors with businesses and other ventures seeking finance (OECD, 2014b). Although there is a paucity of systematically and internationally comparable data on crowdfunding activities around the globe, evidence strongly suggests that crowdfunding activities have been expanding very rapidly in recent years (see Box 1.5).

Box 1.5. **Crowdfunding and SMEs**

Based on data from 1 250 active crowdfunding platforms, Massolution, a research and advisory firm, estimates that crowdfunding volumes rose by 145% between 2013 and 2014 in North America to USD 9.46 billion. In Europe, a similar growth of 141% over the same period was observed, reaching volumes of EUR 3.26 billion. In Asia, crowdfunding activities increased by 340% year-on-year to a volume of USD 3.4 billion, thereby overtaking Europe and following an equally striking growth between 2012 and 2013. Massolution expects global crowdfunding volumes to roughly double in size between 2014 and 2015 with volumes again forecasted to expand most rapidly in Asia than in any other region of the world (see Table 1.15). Crowdfunding investing is expanding in Africa, Oceania and South-America as well, but from a very low base; 2015 volumes are not expected to surpass USD 100 million in each of these continents.

Crowdfunding's application to fund entrepreneurial ventures in return for a financial return has been gaining traction in recent years. Despite this trend, it should be noted that more than half of crowdfunding activities do not fund for-profit businesses and entrepreneurs, but rather social causes, artistic causes and real estate activities. In 2014, 41.3% of all crowdfunding activities were directed to for-profit business ventures for a total of USD 6.7 billion, sharply up from 30.7% in 2013.

Table 1.15. **Crowdfunding volumes in North America, Asia and Europe, 2012-15**

		2012	2013	2014	2015 (expected)
North America	Expected growth (%)		139.8	145	82
	Crowdfunding volumes, USD billion	1.61	3.86	9.46	17.3
Asia	Expected growth (%)		2600	320	210
	Crowdfunding volumes, USD billion	0.03	0.81	3.4	10.5
Europe	Expected growth (%)		42.1	141	98.6
	Crowdfunding volumes, USD billion	0.95	1.35	3.26	6.48

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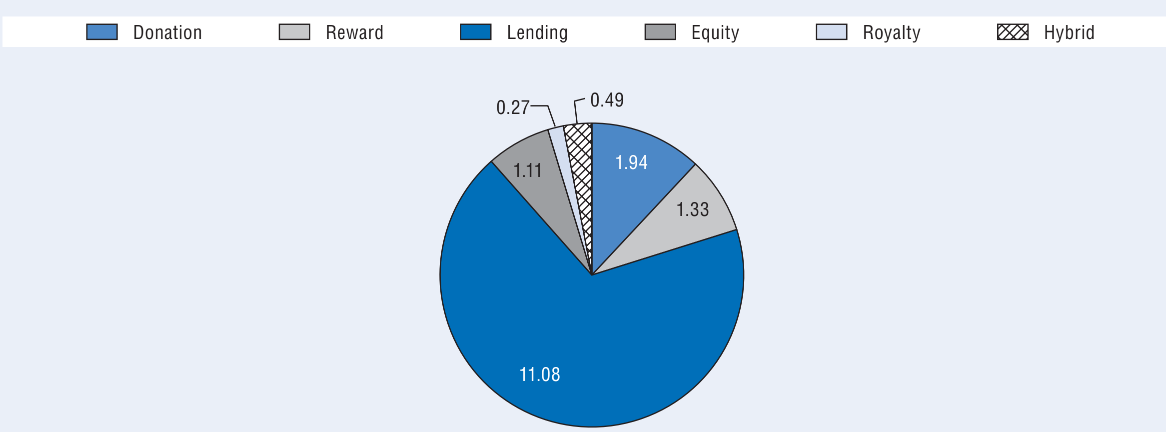
In 2014, more than two-thirds (68.3%) of global crowdfunding volumes were lending based, up from 56.5% in 2013 and 44.2% in 2012 (see Figure 1.18). The share of equity-based crowdfunding also rose from 4.3% in 2012 and 6.5% in 2013 to 6.9% in 2014, while hybrid and royalty-based models, almost non-existent a few years ago, are somewhat emerging. In contrast, the share of donation- and reward-based models is declining fast from a combined share of more than half of all crowdfunding volumes in 2012 to one-fifth in 2014.

Figure 1.18. **Global crowdfunding volumes by model**
In USD billion



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Box 1.5. **Crowdfunding and SMEs** *(Cont.)*

It is important to keep in mind that, although crowdfunding activities have been following a logarithmic growth path in recent years, they remain a marginal source of finance in comparison with bank lending. In 2014, for example, new business loans for a value of more than EUR 73 billion were approved in Austria (with a population of roughly 8.5 million people), more than double the global forecasted crowdfunding volumes in 2015. In the United Kingdom, which is a frontrunner in the European crowdfunding market, only 2.2% of total visible equity investments were attributed to crowdfunding in H1 2014, up from 1.2% in 2013 and 0.2% in 2012 (British Business Bank, 2015).

Source: Massolution (2015).

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 was the case in many OECD countries after the financial crisis in 2008. This uneven recovery, and even reversal, in many places, is underlined by the decline in SME loan shares, as well as by an increase in interest rates and collateral requirements.

Payment delays

Information on payment delays covers 28 countries, some only partially, usually for the business-to-business (B2B) sector of all sizes. Most countries experienced a rise in payment delays, starting in 2009, which peaked in 2011 and 2012. 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 – all of which are affected by the economic environment with a considerable time lag. In 2014, B2B payment delays decreased in 8 out of 18 countries with available data, remained flat in Finland and Switzerland, and increased in 8 countries (Austria, Belgium, Chile, Colombia, the Czech Republic, Greece, Korea and Sweden). Whereas between 2012 and 2013, the overall trend in B2B payment delays was generally down, most recent data show no clear discernible pattern. In countries like Canada, Finland, Korea, New Zealand and the Slovak Republic, payment delays in 2014 were lower than at the pre-crisis level of 2007. In other countries such as Austria, Israel, the Netherlands, Spain, the United Kingdom and, most notably, Greece, payment delays remain higher in 2013 and 2014 than in 2007 (Table 1.16).

Bankruptcies

The relatively favourable macro-economic conditions appear to significantly impact the number of SME bankruptcies. In comparison with 2013, bankruptcies were down in 20 out of 25 countries for which data are available, and increased in Hungary (where bankruptcy rates almost doubled), Italy, Norway, the Russian Federation and the Slovak Republic. In Australia, Denmark, Greece, Korea, the Netherlands, New Zealand, Portugal, Spain, Switzerland and the United States, bankruptcies decreased by 10% or more. This general downward trend is novel; year-on-year changes in the bankruptcy data showed a much more diverse picture between 2011 and 2013, and were almost universally on the rise in the aftermath of the financial crisis. Bankruptcy rates in 2014 were below pre-crisis levels

Table 1.16. **Trends in payment delays, 2007-14**

Country	Definition	2007	2008	2009	2010	2011	2012	2013	2014	2013-14 Growth rate *(in %)*
Austria	B2B average days overtime	..	8	8	11	12	11	12	13	8.33
	B2C average days overtime	..	20	16	6	11	11	9	9	0.00
Belgium	B2B average days overtime	..	..	17	17	15	19	18	19	5.56
	B2C average days overtime	..	..	12	12	16	16	14	12	-14.29
Chile	B2B	..	..	..	..	45	43	41	44	7.32
China	B2B average days overtime	..	..	..	..	..	..	95.91	72.31	-24.61
	B2C average days overtime	..	..	..	..	..	..	48.38	42.64	-11.86
Colombia	Average days overtime	48.8	50.2	60.8	62.3	66.4	25.6	82.2	91.4	11.19
Czech Republic	B2B average days overtime	..	..	..	15	17	16	14	15	7.14
	B2C average days overtime	..	..	..	12	13	11	10	10	0.00
Denmark	B2B average days overtime	7.2	6.1	12	12	13	12	10	9	-10.00
Estonia	B2B average days overtime	9	8	13	13	10	10	9	7	-22.22
Finland	B2B average days overtime	6	5	7	7	7	7	6	6	0.00
Greece	B2B average days overtime	4.6	4.3	6.7	8.7	14.1	23.4	31.8	33.5	5.35
Hungary	B2B average days overtime	16.3	19	19	15	22	20	..	..	..
Israel	Days Payable Outstanding		74	80	90	122	110	109	..	..
Italy	B2B average days overtime	..	23.6	24.6	20.0	18.6	20.2	19.9	18.5	-7.04
Korea	SMEs average days overtime	11	12.1	9.9	12.1	11.7	9.1	9.7	10	3.09
Netherlands	B2B average days	..	13.9	16	17	18	18	17	16	-5.88
New Zealand	B2B average days	43.1	50.8	44.5	44	45.6	40.1	39.6	37	-6.57
Portugal	B2B average days overtime	39.9	33	35	37	41	40	35	33	-5.71
	B2C average days overtime	..	..	30	32	34	30	30	30	0.00
Serbia	% all businesses overtime	..	..	33	31	35	28	28	..	..
Slovak republic	B2B average days overtime	19.7	8	13	17	20	21	19	17	-10.53
Spain	B2B average days overtime	7	6	16	14	9	13	21	..	..
Sweden	B2B average days overtime	6.9	7	8	8	8	7	7	8	14.29
Switzerland	B2B average days overtime	..	12	13	13	11	10	9	9	0.00
Thailand	B2B average days overtime	33	..	..	..	..	..	..	..	..
United Kingdom	B2B average days overtime	19.13	21.51	22.82	22.64	25.7	24.66	25.16	24.45	-2.82
United States	% B2B	..	..	..	..	..	..	25.9	..	..

Source: Data compiled from the individual country profiles.

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in 9 out of 25 countries (Australia, Austria, Canada, Greece, Japan, Korea, the Netherlands, New Zealand and the United States). In contrast, the number of bankruptcies more than doubled in the Czech Republic, Estonia, Hungary, Italy, the Slovak Republic and Spain over the same period (see Table 1.17).

While bankruptcy data over time are broadly indicative of the cash flow situation of enterprises, it should be highlighted that 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, especially with respect to absolute levels of bankruptcies, should therefore be treated with caution. Legal and regulatory reforms that were introduced over this period can also affect the numbers. Switzerland, for example, simplified the de-registration procedure for inactive firms, which came into force at the beginning of 2008, and this reform significantly impacted the data on bankruptcies in the following years. Similarly, the sharp increase in the number of bankruptcies in Turkey between 2009 and 2012 can be largely attributed to a shortening of the procedures.

Table 1.17. **Trends in bankruptcies, 2007-14**

Relative to 2007 (2007=1)

		Relative to 2007 (2007=1)								2013-14 growth rate (in %)
		2007	2008	2009	2010	2011	2012	2013	2014	
Australia	per 10 000 firms	1	1.04	1.04	1.11	1.13	1.18	1.09	0.87	-20.41
Austria	all firms	1	1.00	1.10	1.01	0.93	0.96	0.87	0.86	-0.66
Belgium	all firms	1	1.10	1.23	1.25	1.33	1.38	1.53	1.40	-8.55
Canada	per 1 000 firms	1	0.95	0.84	0.65	0.61	0.55	0.51	0.48	-4.96
Chile	all firms	1	1.05	1.04	1.13	1.22	1.22	1.39	..	..
Colombia	all firms	1	2.88	4.52	4.82	5.39	3.52	4.73	4.27	-9.62
Czech Republic	all firms	1	1.07	1.49	1.62	1.78	1.95	2.25	2.15	-4.45
Denmark	all firms	1	1.54	2.38	2.69	2.28	2.27	2.08	1.69	-18.91
Estonia	SMEs	1	2.09	5.22	5.09	3.08	2.45	2.27	2.12	-6.75
Finland	% of firms	1	1.11	1.33	1.11	1.22	1.22	1.33	..	..
France	all firms	1	1.08	1.23	1.18	1.16	1.19	1.22	1.22	-0.08
Greece	all firms	1	0.70	0.69	0.69	0.87	0.81	0.76	0.64	-15.82
Hungary	per 10 000 firms	1	1.10	1.39	1.52	1.83	1.97	2.46	4.22	71.32
Italy	all firms	1	1.22	1.52	1.83	1.97	2.04	2.30	2.55	11.22
Japan	all firms	1	1.11	1.10	0.95	0.90	0.86	0.77	0.69	-10.35
Korea	all firms	1	1.19	0.87	0.68	0.59	0.54	0.44	0.37	-15.98
Netherlands	all firms	..	..	1.00	0.89	0.88	1.05	1.18	0.95	-19.49
New Zealand	all firms	1	0.69	0.70	0.85	0.76	0.68	0.61	0.53	-13.37
Norway	only SMEs	1	1.50	2.16	1.90	1.81	1.60	1.87	1.92	2.98
Portugal	all firms	1	1.35	1.46	1.57	1.82	2.56	2.31	1.54	-33.35
Russian Federation	all firms	..	1.00	1.11	1.15	0.92	1.01	0.94	1.04	10.32
Slovak Republic	all firms	1	1.49	1.63	2.04	2.22	2.13	2.33	2.43	4.06
Spain	only SMEs	1	2.79	5.02	4.74	5.49	7.47	8.28	5.72	-30.92
Sweden	only SMEs	1	1.09	1.32	1.26	1.20	1.29	1.33	1.24	-7.05
Switzerland	all firms	1	0.98	1.21	1.45	1.54	1.59	1.51	1.36	-9.67
United Kingdom	all firms	1	1.12	1.19	1.18	1.34	1.29	1.32	1.28	-2.82
United States	all firms	1	1.54	2.15	1.99	1.69	1.41	1.17	0.95	-18.76
Median Value		**1**	**1.11**	**1.23**	**1.25**	**1.33**	**1.29**	**1.33**	**1.32**	**-7.80**

Notes: 1. The Russian Federation uses 2008 as base year. The Netherlands uses 2009. 2. Finland uses the percentage of firms in bankruptcy proceedings.

Source: Data compiled from the individual country profiles.

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Non-performing loans

Data on non-performing loans have to be interpreted carefully, as the definition and methodology vary substantially from one country to the other. As Table 1.18 illustrates, a first hurdle to the comparability of available data is that not every country has specific data on SME non-performing loans as a percentage of SME loans, but some rather provide evidence on NPLs as a proportion of all business lending. As NPLs are generally more prevalent among smaller enterprises, this poses a first challenge to the comparability of the data. OECD (2015c) gives more insight into other limitations of the data in this publication on NPLs, why there is a clear need for harmonisation, as well as an analysis of the broader implications of NPLs for access to finance and economic growth.

Despite these shortcomings, the data clearly suggest an almost universal increase of NPLs in the aftermath of the financial crisis between 2007 and 2009, with only Malaysia and Thailand bucking this trend. In Australia, Canada, China, Colombia, Estonia, Georgia, Korea, Malaysia, 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.

The median value for the proportion of NPLs also declined considerably between 2009 and 2014. Contrasting this general trend, NPL rates kept rising between 2010 and 2014 in Hungary, Ireland, Italy, Greece, Portugal, Serbia and Spain (see Table 1.18).

Table 1.18. **Non-performing loans, 2007-14**

As a percentage of loans

Country	2007	2008	2009	2010	2011	2012	2013	2014
SME NPLs as a percentage of total SME loans								
Canada	0.69	1.03	1.41	0.79	0.58	0.42	0.33	0.35
Chile	..	..	7.12	6.61	6.47	6.33	7.09	7.06
China	..	..	3.83	2.52	1.75	1.65	1.66	..
Colombia	2.52	3.66	5.05	3.68	2.80	2.91	1.15	1.54
Estonia	0.95	3.59	7.36	8.17	6.31	5.18	3.27	2.96
Finland	1.10	1.80	3.40	4.00	4.50	4.60	5.40	..
Georgia	..	..	..	10.33	8.68	6.40	4.97	4.16
Italy	6.83	7.27	8.53	9.42	10.55	11.95	14.33	16.72
Korea	0.93	1.83	1.54	2.27	1.74	1.64	1.64	1.49
Malaysia	..	7.12	6.28	7.50	5.77	4.52	3.70	3.17
New Zealand	..	..	2.73	2.91	2.79	2.74	2.39	1.70
Portugal	2.15	2.89	4.97	5.44	8.20	12.17	15.62	17.34
Russian Federation	..	2.90	7.56	8.80	8.19	8.39	7.08	7.71
Serbia	6.72	10.56	18.86	21.00	22.64	26.39	28.43	28.88
Slovak Republic	..	..	..	..	..	9.90	9.40	9.80
Thailand	7.90	6.80	7.60	4.50	3.60	3.30	3.10	..
Turkey	3.75	5.04	8.28	4.70	3.20	3.27	3.22	3.38
United States	2.10	2.62	3.37	2.65	1.92	1.42	1.20	1.23
Median value	**2.15**	**3.59**	**5.67**	**4.70**	**4.50**	**4.56**	**3.48**	**3.38**
NPLs as a percentage of total business loans								
Australia	0.50	2.07	3.27	3.55	3.16	2.68	2.03	1.39
Chile	..	..	2.47	2.17	2.13	2.24	2.44	2.59
China	..	..	2.58	1.76	1.26	1.21	1.25	..
Colombia	0.95	1.27	1.59	1.07	0.99	1.02	0.85	1.02
Czech Republic	3.06	4.15	7.90	8.96	8.17	7.31	7.12	6.50
Finland	0.31	0.39	0.67	0.62	0.96	1.03	1.01	1.06
France	2.77	2.85	3.60	3.42	3.01	3.12	3.23	3.20
Georgia	4.05	22.17	29.89	20.41	14.82	16.23	13.96	14.72
Greece	4.60	5.10	7.80	10.50	16.00	24.50	31.90	33.80
Hungary	..	..	..	9.49	13.09	16.11	14.70	12.38
Ireland	..	..	..	..	23.53	28.21	28.89	29.09
Japan	4.67	4.69	4.66	4.73	4.96	5.06	4.55	..
Malaysia	..	5.38	4.16	4.60	3.64	2.69	3.50	3.08
Mexico	..	..	1.92	1.93	2.17	2.09	3.61	3.19
New Zealand	..	..	1.74	2.08	1.77	1.46	1.04	..
Portugal	1.82	2.44	4.23	4.62	6.97	10.56	13.45	15.04
Russian Federation	..	..	3.79	3.57	2.84	2.96	2.64	3.31
Serbia	..	14.56	19.84	20.70	22.33	19.20	24.50	..
Slovak Republic	..	..	6.81	8.36	8.29	7.85	8.27	8.61
Spain	0.74	3.67	6.25	8.09	11.64	16.06	..	..
Sweden	0.08	0.46	0.83	0.78	0.65	0.70	0.61	0.56
Turkey	5.44	5.63	8.35	5.69	4.16	4.48	4.21	4.18
United States	1.14	1.70	3.66	3.54	2.08	1.38	1.03	0.80
Median value	**1.82**	**3.67**	**3.79**	**4.09**	**3.64**	**3.12**	**3.56**	**3.25**

Notes: 1. Canada reports a 90-day delinquency rate for small businesses, as a percentage of loans outstanding. 2. The United States reports total non-performing loans as a percentage of total SME loans.

Source: Data compiled from the individual country profiles.

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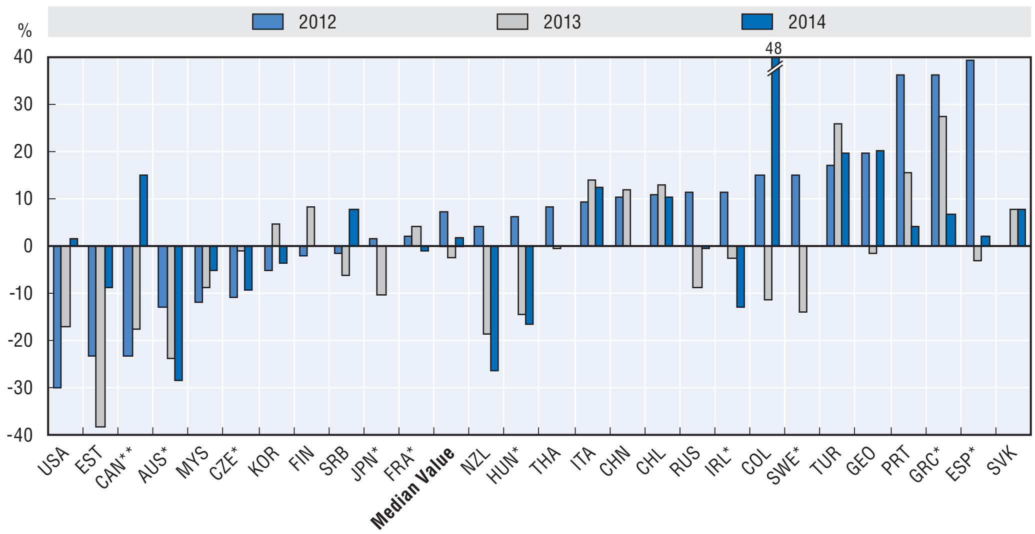
Figure 1.19 confirms the divergent pattern in SME NPLs in recent years. Whereas NPL rates have declined since 2007 in countries such as Australia, the Czech Republic, Estonia, Malaysia and the United States, and remained roughly constant in Finland, France, Japan, Korea, the Russian Federation, Serbia, the Slovak Republic and Sweden, NPL rates (further) increased in China, Greece, Italy, Portugal, Spain and Turkey over the last three years.

Figure 1.19. **Trends in non-performing loans, 2012-14**

Year-on-year percentage change



Notes: *Data on total non-performing loans. **Canada reports on the 90-day delinquency rate for small businesses.

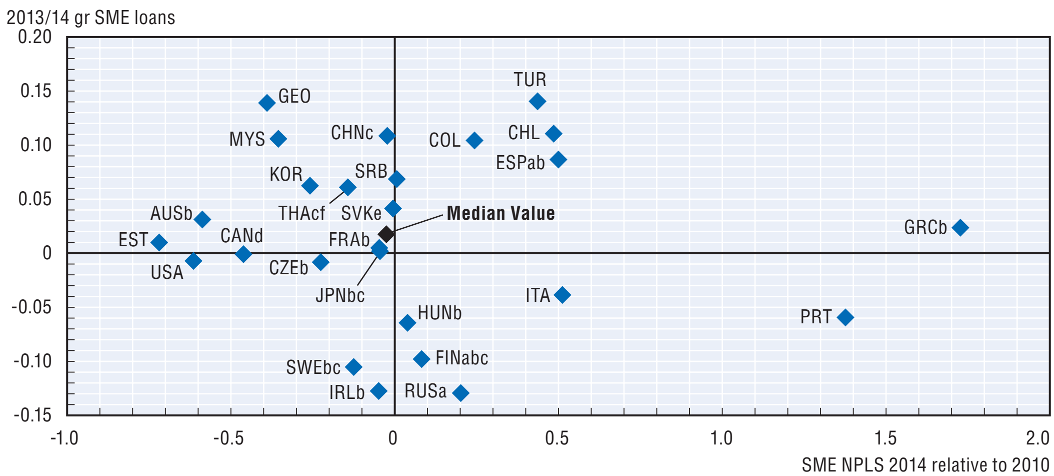
Source: Data compiled from the individual country profiles.

StatLink http://dx.doi.org/10.1787/888933330798

Figure 1.20 suggests a negative correlation between SME loan growth in 2014 and the evolution of NPLs between 2010 and 2014. Countries where NPLs increased over the last four years, most notably Finland, Italy, the Russian Federation and Portugal, also observed a fall in credit lending for SMEs in 2014. Conversely, 2014 SME loan growth was positive in a majority of participating countries which experienced a fall in the NPL rate since 2010. Greece and Spain observed a rise in the level of NPLs in combination with an increase in SME lending, but only after credit lending had declined dramatically between 2010 and 2013. Turkey, where both NPLs and credit lending increased substantially in 2014, is an outlier. The pattern depicted in Figure 1.20 suggests that high and rising levels of NPLs have a significant impact on business lending, in particular for small and medium-sized enterprises.

Figure 1.20. **Trends in SME loan growth in 2014 and increase in SME NPLs over 2010-14**

As a percentage



Notes: Data on total non-performing loans. a. Refers to countries with flow data on SME loans. b. Refers to countries with data on total NPL c. Refers to countries with SME NPLs 2013 and 2012/13 growth. d. Canada reports on the 90-day delinquency rate for small businesses. e. Data for SME NPLs in Slovak Republic is relative to 2012. Definitions differ across countries.

Source: Data compiled from the individual country profiles.

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Government policy responses in 2014-15

SME finance remains high on the political agenda in most areas of the world, and many participating countries developed policy initiatives in 2014 and the first half of 2015 to ease access to sources of finance, in addition to the wide range of policy instruments many governments already had in place. Based on information from the 37 participating countries, five broad emerging policy developments can be discerned and are highlighted with recent examples below. Part 2 of this publication provides more information on policies in this area for each participating country.

a. Credit guarantees remain the most widely used instrument to ease access to finance for SMEs

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 participating countries. Most countries have a credit guarantee scheme in place, with the exception of Australia, China, Georgia, Malaysia, New Zealand and Sweden. As Table 1.19 illustrates, these instruments gained importance in many countries as SME lending came under duress. In 2014, 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 in countries like Belgium, Chile, the Czech Republic, Estonia, France, Israel, Italy, the Netherlands, Spain and Turkey.

A majority of these countries decreased the scope of their loan guarantee schemes in the following years, particularly in 2011. More recently, government spending on loan guarantees shows a more diverse picture. While the value of loan guarantees for all participating countries combined remained roughly constant in real terms between 2013 and 2014, the real-term value of loan guarantees increased in nine countries and declined in eight others. As a consequence, government loan guarantees most often remained much more important in scope in 2014 than in 2007. The inflation-adjusted median value of credit guarantees provided to SMEs rose by 45% between 2007 and 2014. All participating countries, except for Austria, Finland, Greece and the Slovak Republic, which have adopted a credit guarantee system and for which data are available, spent more resources on guaranteeing bank loans in 2014 than in 2007, even when adjusting for inflation. The amounts invested increased by a multiple over the 2007-14 period in Belgium, Chile, Colombia, Denmark, Estonia, Israel and Turkey.

Table 1.19. **Government loan guarantees for SMEs, 2007-14**

Country	Unit	2007	2008	2009	2010	2011	2012	2013	2014	Change 2014-13	Change 2014-07
Austria	EUR million	341	161	206	165	134	146	152	154	1.35	-54.85
Belgium*	EUR million	78	154	400	527	295	242	431	..	78.10	452.56
Canada	CAD billion	1.20	1.25	1.18	1.25	1.20	1.00	0.99	1.33	33.95	10.62
Chile*	CLP billion	203	190	529	896	994	1829	1622	..	-11.00	700.00
Colombia	COP trillion	564	1 288	1 635	1 682	2 537	2 658	2 402	4 897	103.87	786.00
Czech Republic	CZK million	1 925	3 458	6 080	6 389	458	1 468	3 061	3 680	20.00	91.00
Denmark	EUR million	23	16	20	85	135	137	94	56	-40.43	143.48
Estonia	EUR million	15.0	17.7	33.4	38.3	28.4	37.1	28.1	35.7	27.11	137.84
Finland	EUR million	416	425	451	424	460	368	334	414	23.98	-0.56
France	EUR million	5 850	6 701	10 994	11 467	9 398	7 993	8 362	7 251	-13.28	23.96
Greece	EUR million	19 929	22 271	23 886	20 759	18 348	17 763	16 220	15 875	-2.13	-20.34
Hungary	HUF million	308 800	335 494	375 157	338 614	301 650	213 994	288 850	279 758	-3.15	-9.40
Israel	NIS million	170	107	714	956	812	1 236	1 738	1 631	-6.16	859.60
Italy	EUR billion	2.3	2.28	4.7	8.7	7.87	7.55	9.86	11.75	19.17	410.87
Japan	JPY billion	29 368	34 375	36 521	36 521	36 534	34 319	32 069	29 348	-8.48	-0.07
Korea	KRW billion	39 730	41 722	52 890	51 081	49 616	50 446	52 322	52 736	0.79	32.74
Mexico	MXM million	825	1 069	1 763	2 006	2 488	2 402	2 893	3 233	11.74	291.90
Netherlands	EUR million	..	391	360	909	999	560	389	446	14.55	14.09
Russia	RUB million	..	..	..	..	..	51 079	64 539	70 660	9.48	..
Slovak Republic	EUR million	82.0	96.2	79.7	68.5	80.9	83.2	36.3	25.0	-31.09	-69.52
Slovenia	EUR million	3.3	21.3	41.8	30.8	17.7	2.8	..	..	..	..
Spain	EUR million	5 550	7 538	10 746	9 848	11 688	10 693	12 550	8 776	-30.07	58.13
Thailand	THB billion	..	..	..	58	76	123	223	..	..	..
Turkey*	TRY million	53	285	565	939	1123	1114	1061		-5.00	1906.00
United Kingdom	GBP million	n.a.	n.a.	597	489	295	256	295	255	-13.48	..
United States	USD billion	20.6	15.8	14.9	21.6	17.6	21.0	20.6	22.0	6.96	6.69
Median value										**1.07**	**45.43**

Notes: 1. All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank. 2. *2014 data is not available and data for 2013 is used instead.

Source: Data compiled from the individual country profiles.

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Credit guarantee schemes are continuously being revised and their offer supplemented to keep up with the shifting demands of their beneficiaries. The Russian Federation, for example, introduced a nation-wide guarantee system in 2015 with an authorised capital of RUB 50 billion (around USD 1.4 billion), complementing the products offered by the existing regional organisations and coordinating their activities. Novel features have been recently introduced in the credit guarantee systems of other countries. Mexico, for example, which has an open-ended and relatively large-scale guarantee programme, set up an auctioning system whereby financial institutions can bid for the right to obtain guarantees. The increased use of credit guarantees in Italy has been bolstered by progressive changes in its endowment, expansion of its eligibility criteria, and the provision of a government backstop guarantee, ensuring a more favourable prudential treatment of guarantees and relieving banks from capital charges for loans covered by the Central Guarantee Fund. The Irish guarantee scheme, introduced in 2012, was reviewed in 2014 and this evaluation is expected to result in a number of adjustments in the scheme, such as coverage of a wider range of financial products, an increase in the portfolio cap, and the removal of the annual portfolio cap. In addition, guarantees for refinancing loans where an SME's bank has exited or is exiting the Irish SME market, are allowed since 2015. Box 1.6 provides further insights into recent developments with respect to credit guarantee schemes.

Box 1.6. **Credit guarantee schemes: novel features and recent developments**

AECM, the European Association of Guarantee Institutions, monitors developments in credit guarantee schemes in Europe and beyond, working in close cooperation with guarantee networks like the Asian Credit Supplementation Institution Confederation (ACSIC), REGAR (the Red Iberoamericana de garantias – their counterpart in Latin-America, plus Portugal and Spain) and organisations such as the World Bank, the US Small Business Administration (SBA) and the OECD. It publishes a half-yearly scoreboard based on the figures submitted by 32 out of its 41 members, of which 39 carry out a guarantee activity.

AECM's findings identify a number of trends in recent years. More and more countries combine financial with coaching support. Since 2010 INVEGA/ Lithuania has been offering training courses for unemployed people or new entrepreneurs. The Slovene Enterprise Fund/ Slovenia is about to set up a combination of financial and coaching support. At the same time, other AECM members have long been providing advice to their borrowers as an integral part of their mission. The Spanish Sociedades de Garantía Recíproca (SGR, Mutual Guarantee Societies) or the French SOCAMA indeed perceive this task as part of their daily activity in supporting SMEs due to the specific expertise and non-profit orientation of their organisation.

In addition, an increasing number of AECM members are offering SMEs the opportunity to first receive the approval of a guarantee and request a loan only afterwards. Since 1998, German banks have for instance been offering a product called "Bürgschaft ohne Bank" ("Guarantee without bank") which in some regions of Germany now makes up 50% of total guarantee activity. The product is particularly targeted at business founders and entrepreneurs to whom a business gets transferred, since those often lack collateral, which prevents them from obtaining credit without guarantee approval. Other examples are HAMAG-BICRO/ Croatia, the Portuguese Mutual Guarantee Societies, the Guarantee Fund of the Republic of Srpska/ Bosnia and Herzegovina or the French SIAGI, all offering a letter of intent, i.e. a certificate with a binding approval of a guarantee.

In addition, the increasing importance of intangible investments or assets has led to a greater role for guarantee banks. Entrepreneurs whose businesses are knowledge-based generally dispose of little collateral, or collateral in the form of intangibles such as intellectual property rights. To address this challenge, aws/ Austria started a pilot in spring 2015, issuing guarantees for bank loans which are secured by intellectual property rights, thus helping banks to build the corresponding capacity to evaluate such collateral.

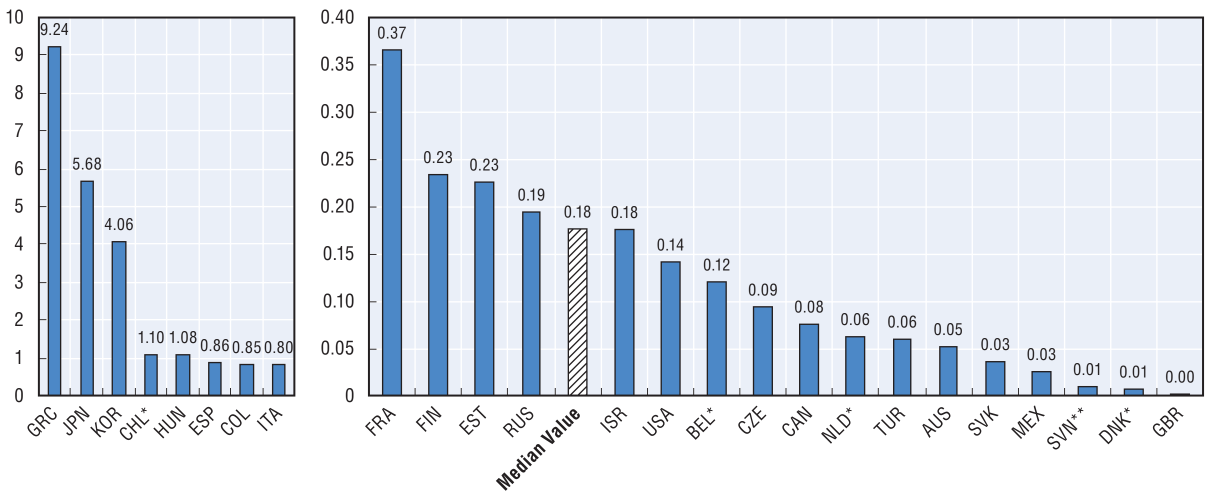
Finally, many of AECM's members have started providing guarantees for specific innovative products. For example, the Guarantee Fund of Autonomous Province of Vojvodina (Novi Sad/ Serbia) started in 2007 with the provision of guarantees for energy-efficient projects, as well as for projects in which renewable energy resources are used. Another example is the Agricultural Credit Guarantee Fund (Vilnius/ Lithuania), providing guarantees for innovative projects like renewable energy (biofuels, wind and solar power stations, new technologies, etc.) since 2013. Further members are about to launch a guarantee for innovative SMEs including, for instance, Bank Gospodarstwa Krajowego (BGK/ Poland).

Source: AECM.

When measured as a percentage of GDP, credit guarantees are more widely used in Greece (9.2%) than in any other country for which data are available, followed by Japan (6.7%) and Korea (4.1%). In most other countries, the value of credit guarantees represents considerably less than1% of GDP (see Figure 1.21).

Figure 1.21. **Government loan guarantees for SMEs, 2014**

As a percentage of GDP



Notes: 1. The median value refers to all depicted countries in both graphs. *Countries where 2014 data is unavailable make use of 2013 data. 2. Slovenia uses 2012 data.

Source: Data compiled from the individual country profiles.

StatLink http://dx.doi.org/10.1787/888933330813

b. Guarantees and direct lending schemes are increasingly targeting young innovative firms more explicitly

The Austrian Government amended the regular framework in July 2014 to enable the Austria Wirtschaftsservice GmbH (aws), its federal promotional bank, to disburse more SME loan guarantees to young innovative ventures. In January 2015, aws and the EIF signed a loan counter-guarantee agreement, which will provide aws with a total counter-guarantee volume of EUR 290 million allowing the Austrian federal promotional bank to increase its guarantee volumes to SMEs with limited collateral, as well as to innovative mid-caps.

Following reforms and starting in 2015, Finnvera, the Finnish state-owned financing company, is better equipped to provide guarantees and direct loans to riskier segments of the SME market, such as start-ups, growth companies and companies expanding their international operations.

Japan's public financial institutions are turning towards companies where business risks are particularly high and which therefore are more likely to be excluded from the private financial sector. These include start-ups, enterprises that are setting up or expanding their international activities, businesses which face external shocks such as natural disasters and financial/economic crisis, and enterprises undergoing a major transition, such as business turnaround.

New Zealand introduced a programme for repayable grants in July 2014 for high-growth, early-stage enterprises commercialising intellectual property, as part of its technology-focussed incubators programme. Funding of up to NZD 450 000 per business can be provided and are repayable as a royalty of 3% on the incubated firm's gross revenues.

The United Kingdom will pilot the "Help to Grow" scheme in 2015, which aims to provide debt capital to firms which are unable to obtain bank finance due to their high risk profile. The scheme will provide "Growth Loans", which go beyond senior debt in terms of risk appetite, often referred to as unitranche, mezzanine, stretch debt, venture debt or long-term patient capital. They are typically unsecured, with a proportion of the financial return deferred and, in some cases, linked to the future success of the business.

c. The overreliance on bank debt is increasingly acknowledged

Policy makers around the world increasingly acknowledge that small businesses are too reliant on bank financing compared to large enterprises. This was, for example, one of the main conclusions of an independent inquiry of the Australian financial system, commissioned by the Australian Government and released in December 2014. Unnecessary distortions, such as information imbalances and regulatory barriers to market-based funding, were identified as structural impediments to SMEs' access to financial instruments other than bank debt.[15] A recent report by InterTradeIreland, the Irish Trade and Business Development Body, identified the high dependence of Irish SMEs and their very limited use of non-bank formal sources of finance as a major weakness (InterTradeIreland, 2013).

The UK Government set up a new public financial institution, the British Business Bank, which has been in operation since November 2014. One of the explicit objectives of this institution is to create a more diverse finance market for smaller businesses with a greater choice of options and providers, and to increase the understanding of small business owners and managers of the financing options available. As of 31 March 2015, more than 43 000 SMEs have benefitted from British Business Bank programmes. In addition, the UK Government introduced two new pieces of legislation intended to improve competition in SME finance markets. First, banks are now obliged to offer a referral to an online finance platform to those businesses whose credit applications were rejected, with the aim of enabling businesses to find alternative sources of finance after being turned down by their bank. The second legislation requires banks to share credit information on SMEs with credit reference agencies. The objective is to encourage new and smaller finance providers to enter the market.

The Chinese Government aims to broaden the financial instruments available to and used by its small businesses. In 2014, the government approved the establishment of 68 trust companies, 196 finance companies, 4 larger asset management companies, 30 larger finance-leasing companies, and 5 private banks to allow for more competition in the SME finance space. In addition and towards the same end, the central bank initiated a re-lending programme specific to micro-banking institutions for SME lending and announced that it would lower the deposit reserve ratio for specific SME-lending institutions. 8 791 small credit companies were in operation in 2014, providing about RMB 942 billion of loans to small businesses. Likewise in 2014, China implemented a regulatory and supervision framework for on-line payment and P2P products with the view to allow small businesses to make greater use of innovative financial products.

Action to diversify the sources of finance used by SMEs was identified as a policy priority for the French Government in 2014-15. Although many new initiatives have seen the light in recent years, the uptake of financial instruments other than straight bank debt has been slow so far. Policy initiatives to encourage the use of bond financing for SMEs seem to have had little effect up to now, while equity markets only serve a very small fraction of French SMEs. Crowdfunding volumes doubled between 2013 and 2014, but remain marginal compared with bank lending. As a further stimulus to broaden the range of instruments, the recently adopted Law on Activity and Growth (*Loi Macron*) makes peer to peer short-term lending between firms possible and creates a regulatory framework for the government to facilitate asset-based financing (on inventory) and to encourage regional stock exchanges.

The Italian Government, in recognition of the vulnerabilities of its SME sector to withstand shocks in its banking system, began to regulate the issuance of short- and medium- term debt instruments by unlisted firms other than banks and micro enterprises in 2012. The average size of the issuances dropped to about EUR 30 million in 2014, down from EUR 270 million in 2013, illustrating an increased participation of medium-sized firms in the bond market.

The Turkish parliament enacted a new "Leasing, Factoring and Financing Companies Law" in November 2012, and two secondary regulations came into force in late 2013 with the specific aim of increasing the activities of leasing, factoring and financing companies to make Turkish enterprises less dependent on banks for their financing needs. Both, factoring and leasing volumes have expanded significantly since the enactment of the reforms.

d. There is an increased effort to stimulate equity-type financial instruments in particular

The Belgian federal Government recently initiated its "Start-up plan", which aims to encourage private equity investments and stimulate entrepreneurship more broadly. A notable measure is the July 2015 introduction of tax incentives for individuals investing equity in Belgian firms less than four years old and with fewer than 50 employees, either directly or through crowdfunding platforms or investment funds. The tax advantage amounts to a 30% tax cut on the investment, with a ceiling of EUR 100 000 per year and per taxpayer. The personal income tax cut amounts to 45% even if the start-up is a micro-enterprise or a very small business (less than 10 employees). The private investor has to keep his shares in the start-up for at least four years to benefit from this tax break.

The Canadian "Venture Capital Action Plan," a comprehensive strategy to reinvigorate the venture capital market in Canada, announced in 2013, is being implemented. An aggregate investment of CAD 50 million will be disbursed to carefully selected venture capital funds and a further CAD 350 million will be invested in large-scale private sector-led funds of funds alongside provinces and the private sector in the next years.

In recognition of the lack of equity capital for fast-growing ventures, the Chinese Government actively encourages small businesses to seek finance through its "National Equities Exchange and Quotations (NEEQ)" market. In 2014, about 180 counties, industrial districts from 27 provinces, offered financial subsidies to new listed companies in NEEQ. The subsidy amounts to RMB 0.3 to 2 million per listed company. Incentives for investors are also provided; 50% of revenues from dividends or bonuses from investments from the NEEQ market are exempt from income taxes when the holding period exceeds one month. This percentage increases to 75% if the holding period exceeds one year.

The Austrian Government established its "aws Equity Finder" in August 2014, as a contact platform which facilitates matchmaking between start-ups and SMEs and providers of risk capital, business angels, crowdfunding or other alternative financiers. Aws also provides additional subsidies up to 50% (capped at EUR 50 000) to ease the external costs of publishing a capital market prospectus. This measure explicitly targets SMEs by reducing the barrier to raise funds via capital markets above the regulatory threshold. Likewise, a legal framework for equity crowdfunding; the Alternative Financing Act

(Alternativfinanzierungsgesetz (AltFG)) was enacted in September 2015. This regulation seeks to balance investor protection by establishing limits to invest based on income and net wealth with reducing compliance costs for small businesses seeking finance. No issuing requirements are necessary for volumes below EUR 100 000, information requirements are simplified for issue volumes between EUR 100 000 and EUR 1.5 million, and issue volumes between EUR 1.5 million and EUR 5 million are subject to simplified prospectus rules.

There have been a number of initiatives to encourage equity investments in recent years in Ireland. Notably, the Development Capital Scheme aims to provide financing for mid-sized companies with significant prospects for jobs and export growth by leveraging funding worth of EUR 225 million. The "Enterprise Ireland Seed & Venture Capital Scheme" provides equity on high-growth ventures in their early stages. The "Ireland Strategic Investment Fund (ISIF)", initiated in December 2014, invests with the dual purpose of high returns on investment, as well as sustaining employment and economic development, and has made significant investments so far.

e. The participation of SMEs in global value chains is increasingly seen as a policy priority

Another emerging trend is the increased focus on supporting SME participation in global value chains (GVCs). Research shows that access to finance is one of the main barriers to capitalise on global trade opportunities, as this often entails significant investment, as well as additional working capital, especially when faced with delayed payments from international partners. To some extent, these financial barriers explain why SMEs are underrepresented in global value chains, even though evidence shows that SMEs' participation in GVCs clearly enhances their growth potential (OECD, 2008).[16] Around half of all participating countries provide export guarantees and trade credit to overcome these financial barriers, and recent developments suggest an increased interest of governments to further stimulate SMEs to internationalise.

In 2014, Australia reoriented the activities of its export credit agency, "Export Finance and Insurance Corporation (EFIC)" towards SMEs. In the same year, the government increased the budget of its Export Market Development Grants scheme, under which current and expiring exporters receive grants and other support, by AUD 50 billion. These reforms were undertaken as a complement to the recent signing of free-trade agreements with China, Japan and Korea.

The Canadian Department of Foreign Affairs, International Trade and Development has recently announced "Go Get," a new export market development programme, which will provide a total of CAD 50 million over five years in direct financial assistance to entrepreneurs seeking to export to emerging markets for the first time. In addition, Export Development Canada (EDC), the Canadian export agency, is developing new initiatives to better support SMEs active in foreign markets. These include the development of an online self-service product that provides selective sales insurance coverage, primarily for the small end of the SME spectrum; an expansion of its SME Mentoring Programme, which offers customised assistance to firms with high growth aspirations to export; and increasing the approval rate of SME requests for accounts receivable insurance for their foreign buyers.

In 2014, the Finnish Government widened the scope of the "Act on the State's Export Credit Guarantees," thereby boosting financial support to exporting firms. In the same year, the "Growth Track", a service model for SMEs that pursue rapid growth and internationalisation, was also introduced. A Growth Pilot, i.e. an account manager, is assigned to selected firms with the task of finding suitable public expertise and financing services, and coordinating between the various parties.

Table 1.20 summarises the broad types of measures undertaken in countries participating in this publication between 2007 and 2014. These measures carry different costs for public budgets, including some with significant costs (e.g. government direct lending and loan guarantees); some that are cost neutral (e.g. bank targets for SME lending), and some with even negative costs (e.g. negative interest rates for bank deposits at the central bank). These measures also imply varying degrees of engagement by public agencies. Table 1.20 thus confirms that loan guarantees are the most widely used instrument employed by a large majority of participating countries, followed by venture capital, equity funding, business angel support and direct lending to SMEs.

Table 1.20. **Government policy responses to improve SME access to finance, 2007-14**

Policy response	Countries
Government loan guarantees	Austria, Belgium, Canada, Chile, Colombia, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Greece, Hungary, Ireland, Israel, Italy, Japan, Korea, Malaysia, 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	Australia, Austria, Belgium, Canada, Colombia, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Korea, the Netherlands, New Zealand, Spain, Sweden, Thailand
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	Austria, Georgia, Hungary, Portugal, Russian Federation, Spain, Thailand, 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, Thailand, United Kingdom
Business advice, consultancy	Australia, Austria, Colombia, Czech Republic, Denmark, Finland, Georgia, the Netherlands, New Zealand, Sweden, Thailand
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.

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Summing up and looking ahead

The Great Recession took a heavy toll on the economy of most OECD countries; GDP turned negative in 2008 and 2009 in most developed economies and economic growth recovered only hesitantly and unevenly afterwards. In several European countries, this was followed by a sovereign debt crisis. Weak economic growth, along with the instability and weakening of many financial institutions, exerted a severe negative impact on bank lending, in particular for SMEs. Credit standards tightened dramatically and lending to SMEs contracted, often substantially, in the aftermath of the financial crisis in many OECD countries. As weak demand often limited internal funding, and many non-bank sources of finance also dried up in 2008 and 2009, access to finance significantly impacted many SMEs' ability to grow, innovate and provide jobs.

In 2014, seven years after the financial crisis, SMEs' access to bank debt has improved. SME loan growth between 2013 and 2014 picked up in a clear majority of participating countries. The share of SME loans to overall corporate lending also rose considerably in 2014. This evolution was largely driven by the improved macro-economic and financial conditions in most developed economies. The downward trend in bankruptcies observed in a majority of participating countries provides evidence of the SME sector's gathering strength in 2014. Credit conditions have also loosened, while interest rates have fallen sharply in recent years in almost every participating country.

Looking ahead, growth forecasts have weakened due to the slowdown of emerging economies, reflecting falling commodity prices and increased financial risks, and subdued investment and low productivity growth in advanced economies. Nevertheless, global economic growth is expected to gradually strengthen over the next two years. A number of factors persist which could jeopardise the economic recovery, however, such as difficulties in the transition of the Chinese economy towards a new growth model, political tensions within the European Union and further instability in the Middle East.

In spite of recent improvements, access to finance remains problematic in many economies, as evidenced by data on credit lending to SMEs which has often declined in recent years. Although credit conditions have generally loosened, they remain tight on average. The picture across participating countries is also not uniform; credit standards are strained (notwithstanding recent easing) and access to finance restricted, especially in countries like Hungary, Ireland, Italy, Portugal, Serbia and Spain, where economic output in 2014 remained well below 2007 levels, and where SME non-performing loans remain high.

Furthermore, credit to SMEs will continue to be a concern in the years to come. Credit conditions will likely remain tight, as financial institutions are expected to continue to deleverage, and regulatory requirements will probably continue to discourage lending to SMEs. Moreover, bank financing is not always well suited to the needs of start-ups and young ventures, fast-growing innovative firms and established enterprises undergoing a major transition, for which equity-type instruments are often better adapted. The financial crisis clearly illustrated the dangers of a financial system in which SMEs overwhelmingly rely on bank lending for their financing needs.

It is therefore important for SMEs to be able to access a broad range of financing instruments. In 2014, bank financing remained the default source of external financing for the vast majority of SMEs. Although some financial instruments, such as factoring and business angel investments, seem to be on the rise, they cannot currently compensate for a retrenchment of bank finance. The same holds true for other, more innovative, and potentially disruptive developments in SME finance. Peer-to-peer lending, equity crowdfunding and developments in the "fintech industry," are gaining traction and have the potential to revolutionise how SMEs access finance in the future, but these phenomena remained marginal compared to bank-based financing in 2014. Other financial instruments, most notably venture capital investments, leasing and hire purchases, have proven to be at least as pro-cyclical as bank financing in recent years, and their take-up by SMEs in 2014 generally remained below pre-crisis levels[17].

Policy makers around the world appear to be embracing a two-pronged approach towards SME financing. In acknowledgement of the continuing central role the banking system in financing small and medium-sized enterprises, governments in the vast majority of participating countries continue to support SMEs' access to bank financing. Loan guarantees remain the most widely used instrument to ease access to finance in the countries covered in this report, while direct government lending constitutes another very common instrument. In recent years, credit guarantee and direct lending schemes have often been expanded, overhauled or improved in light of evaluations and/or in line with evolving needs of small businesses. One noticeable trend is that these instruments are often tailored to better address the financing needs of innovative, fast-growing and often exporting firms, in recognition of their crucial role in creating jobs and value added and their pressing financing needs.

At the same time, policy makers are taking steps to support the development of diverse forms of finance. These policies go from the establishment of training programmes to enhance financial skills, to the advancement of micro-finance institutions, and an overhaul of the regulatory framework to allow for more competition in the credit market. Support for equity-type instruments have gained traction in recent years, ranging from the provision of tax incentives for equity investors and businesses, to the establishment of government funds, and the drafting of new legislation allowing for equity crowdfunding activities.

A first and necessary step to evaluate the success of the panoply of instruments developed and under development, is a sound evidence base; policy making relies on clearly identifying entrepreneurs' and SMEs' financial needs and quantifying the extent to which these needs are being met. As the thematic chapter on business angel investing illustrates, data on SMEs' access to finance are often incomplete, the methodology on how information is collected could sometimes be improved, and comparison, especially across different countries, remains fraught with difficulties. This report will continue to focus on the further harmonisation of the current set of indicators, as well as on the possibility to include more information on alternative sources of finance -and their uptake by SMEs[18].

Notes

1. Financial conditions indices are an extension of monetary policy indices, often used to evaluate the effect of monetary policy on economic activity. They do 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. The French country profile, in Part 2 of this publication, details the policy initiatives of the French Government to ease access to finance for micro-enterprises.
5. Israel, which collects data on loan fees for the largest financial institutions operating in the country, and Italy, where the indicator on SME interest rates comprises loan fees and commissions, are exeptions.
6. 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 with information gathered on the collateral requirements in other countries.

7. 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.
8. For Italy, SME lending declined between 2013 and 2014, but less pronounced than overall corporate lending.
9. It should be noted that these data, sourced from another publication, are in nominal terms rather than real and that, correcting for inflation, the fall would be even greater.
10. Due to the high volatility of the data on venture capital investments broken down by the stage of the investment, especially for smaller countries, the countries within the Euro area for which data are available, are grouped together in this graph.
11. 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.
12. Factors Chain International is an umbrella organisation for factoring organisations and currently has over 275 members in 74 countries.
13. IFG's GIAR 2014 indicates average turnover in order of EUR 4 million, a figure that has changed little over recent years (IFG, 2014).
14. IFG GIAR 2009-14 global client turnover data indicates Compound Annual Growth Rate of 13% in this period.
15. See *http://treasury.gov.au/ConsultationsandReviews/Consultations/2014/FSI-Final-Report* for more information about this inquiry.
16. Although access to adequate finance is considered as a major impediment to the further integration of small and medium-sized businesses in global value chains, other factors, such as their ability to innovate, adopt international product standards and manage intellectual property rights, as well as the lack of managerial capacity play a major role as well (OECD, 2008).
17. Whereas it is sometimes argued that bank lending to SMEs (and other sectors, corporate and otherwise) was too high and unsustainable in some countries in the years prior to the financial crisis, this argument is far less compelling when it comes to alternative sources of finance. Venture capital markets in 2007, in particular, were generally regarded as underdeveloped in comparison to the United States in most other OECD countries.
18. Annex A of this publication provides some recommendations to improve the data collection on the financing needs of SMEs and entrepreneurs and the extent to which they are being met.

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Financing SMEs and Entrepreneurs 2016
An OECD Scoreboard

Chapter 2

The role of business angel investments in SME finance

This chapter examines the role of business angel investments as a source of finance for SMEs and entrepreneurs, emerging trends in the market and recent policy developments to stimulate angel activities. The chapter also collects and analyses the coverage and comparability of available data on business angel investments, with a look to strengthen evidence-based policy making in this area.

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.

Business angels have an important role to play in the financial ecosystem for SMEs

The chapter starts by outlining the growing role business angel (BA) investors play in the financial ecosystem, especially for innovative, high-growth firms. It describes emerging trends in angel activities, followed by a section on recent policy developments and government measures in support of business angel investments. The fourth section discusses challenges in the measurement of angel activities and underlines the need to improve the evidence base in order to get a better understanding of the size and functioning of the angel market in different countries.

Business angels are individual investors, usually with business or managerial experience, who invest their own personal funds in enterprises at their early and risky stages. Business Angels Europe (BAE) and the European Trade Association for Business Angels, Seed Funds and other early Stage market Players (EBAN) define a business angel as follows:

"An individual investor (qualified as defined by some national regulations), who invests directly (or through his/ her personal holding) his/ her own money, is financially independent (i.e. a possible total loss of his/ her Business Angel investments will not significantly change the economic situation of his/ her assets), invests predominantly in seed or start-up companies with no family relationships, makes his/ her own (final) investment decisions, invests with a medium to long term set time-frame, is ready to provide, on top of his/ her individual investment, follow-up strategic support to entrepreneurs from investment to exit, respecting a code of ethics including rules for confidentiality and fairness of treatment (vis-à-vis entrepreneurs and other Business Angels), and compliance to anti-laundering."

The above definition excludes investments made by family and friends, where the reason to invest is often motivated by non-financial reasons. Angels also invest as individuals (although they often co-invest with others), and are therefore distinct from venture capitalists, who operate through companies that pool money from different investors. Compared with venture capital institutions, which manage funds provided by limited partners, business angels invest at earlier stages of a firm's life cycle, provide fewer funds per deal on average, and invest in a wider range of businesses in terms of sector and geography (Mason and Harrison, 2015). Angel investors typically provide the first round of equity capital after funds from friends and family have been exhausted, thereby addressing a well-acknowledged financing gap.

As the above definition highlights, angel investors provide services beyond financing, such as mentoring, business advice and access to networks, and can therefore play a central role in the ecosystem for start-ups, especially for innovative firms. Moreover, ventures funded by angel investors have proven to be more successful than those that have been rejected, as evidenced by their survival rates and the evolution of their employment. The data suggests that their services beyond financing are key to the success of ventures (Kerr et al., 2011)[1].

There is also evidence that angel activities are relatively resilient to changes in market cycles. In contrast to both venture capital investments and bank credit, business angel investments held up relatively well in the aftermath of the 2008-09 financial crisis and have gained further traction in recent years in many countries. In the United States, for example, survey data suggest that there has been an increase of angel activities since 2012 when the JOBS act (Jumpstart Our Business Startups Act) was signed into law, reaching a total estimated size of USD 24.1 billion in 2014. The number of active angel investors was estimated at 316 600 individuals, each investing an average of USD 328 500 (ARI, 2015 and Sohl, 2015). In the United Kingdom, business angel investments in 2012 and 2013 were also up in comparison with previous years (Deloitte and UK Business Angel Association, 2014). By one estimate, angel investments in Europe increased by 8.7% between 2012 and 2014 (EBAN, 2014b).

Furthermore, data on venture capital investments illustrate that, in some developed economies, venture capital investors are increasingly moving into investment opportunities at later stages of the business cycle, and becoming less active in financing start-ups.[2] Angel investors therefore have an important role to play as providers of equity capital in the early stages of firms' lives, and hence for the success of the entrepreneurial economy. The central role of business angels is increasingly recognised by policy makers across the OECD and beyond, and initiatives to support angel activities have expanded in recent years as part of a broader shift towards policies that aim to make equity-type instruments more widely available for start-ups and SMEs (OECD, 2015a).

Trends and developments in angel activities

This section provides a general indication of trends in angel investments in the visible part of the market, i.e. investments made through an angel network or syndicate, and therefore registered (see Box 2.1). As Section 2.4 describes, however, many angel investments take place outside of networks and other portals and are inherently difficult, if not impossible, to measure and study.

Box 2.1. **Business angel networks and syndicates**

Business angels often operate in networks, private or semi-public organisations, which are usually active at the regional or national level. These networks function primarily as a matchmaking service between investors and entrepreneurs, but do not make any investment or investment decision themselves. They address information asymmetries between investors and entrepreneurs by enhancing the flow of information, and have become increasingly active in capacity building, both for (potential) business angel investors to improve their investment skills, as well as for small businesses seeking funding, by boosting their investor readiness.

A syndicate is an association of at least three high net worth individuals or sophisticated investors who invest together. Syndication can occur on an *ad hoc*, deal-to-deal basis as part of a business angel network, when several investors are interested in funding the same venture. In that event, a lead investor is typically identified who coordinates efforts and negotiates on behalf of the syndicate. Alternatively, a more formal syndicate structure can be established when the same group of people co-invest on a more regular basis. It is important to note that every individual investor remains responsible for his or her own investment decision and that the association does not exercise investment discretion at any point in the process.

The advantage of investing through a syndicate is not limited to sharing risks and enabling investment in a diversified portfolio of ventures, even with limited resources. Syndicates also serve as a repository where investors pool their capital, skills, contacts, and experience for the benefit of all members. Of particular relevance in that respect is that associations can carry out appropriate due diligence for their members, ranging from screening business plans at an early stage, to complying with relevant regulation. Syndicates usually cover their costs by charging a fee to their members.

Source: OECD (2011).

Angel activities within networks and syndicates are on the rise

The data on the visible part of the market indicate an increase in business angel investments in recent years. Between 2011 and 2012, angel investments rose by 7.5% in the EU 28, and by a further 8.7% in 2013 year on year (EBAN, 2014). Similarly, angel investments in the United States rose by 8.3% year on year in 2013, and the number of investors by more than 11%, to 298 800 individuals. These numbers pertain only to angel activities within networks and are therefore only indicative of general trends in the market.

Table 2.1 shows a general upward trend in angel activities between 2007 and 2013. The financial crisis appeared to have an impact on angel investments within networks in countries such as Belgium, Ireland, Portugal and the United States, where activities declined substantially between 2007 and 2008. Activities picked up in subsequent years, however, and either surpassed 2007 levels (e.g. in Ireland and Portugal), or were close to pre-crisis levels in 2013 (e.g. in Belgium and the United States). It is important to note that these data are collected via surveys from networks and are therefore not representative of the overall market. Moreover, as the share of angel investments within networks to total BA activities cannot currently be measured and may vary significantly across countries, the information from Table 2.1 does not lend itself to cross-country comparisons in terms of overall market size. Section 2.4 of this chapter discusses data issues in more depth.

Table 2.1. **Total business angel investments within networks in selected countries, 2007-13**

Countries	Unit	2007	2008	2009	2010	2011	2012	2013
Austria	EUR million	0.6	0.6	0.3	0.5	..	2.6	2.9
Belgium	EUR million	12.0	7.1	6.8	3.1	..	5.2	10.0
Canada	CAD million			64.7	82.4	40.5	89.0	90.5
Finland	EUR million	9.0	..	..	29.2	..	14.2	26.4
France	EUR million	..	60.0	59.0	40.0	..	40.0	41.1
Germany	EUR million	34.5	..	..	32.1	..	..	35.1
Ireland	EUR million	4.0	2.3	..	6.0	..	12.1	13.2
Italy	EUR million	..	31.0	31.4	34.7	..	..	9.9
The Netherlands	EUR million	8.8	8.6	25.3	..	..	10.1	9.8
Portugal	EUR million	2.1	1.3	0.6	2.1	..	11.6	13.8
Sweden	EUR million	3.0	9.1	9.0	..	..	23.3	19.4
Switzerland	EUR million	1.0	..	..	..	..	11.6	13.3
Turkey	EUR million	2.0	..	..	3.6	..	10.5	14.7
United Kingdom	EUR million	55.7	86.0	69.8	57.2	..	68.3	84.4
United States	USD billion	26.0	19.2	17.6	20.1	22.5	22.9	24.8

Source: Centre for Venture Research, EBAN, NACO.

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In the EU 28, the number of active business angel networks increased substantially in the last 15 years, from less than 150 in 1999 to more than 200 in 2007, and to 465 in 2013 (EBAN, 2014). In the United States, the number of active business angel groups also expanded from around 100 in 1999, 300 in 2008, to close to 400 in 2013 (ACA, 2014).

Although data from emerging economies is generally not available, evidence points to rising activity levels in angel investments in these markets as well, albeit often from low levels. Box 2.2 provides more information about BA investments in emerging markets.

Box 2.2. **Angel investing in emerging economies: The Chilean experience**

Obtaining reliable and comparable data on angel activities in emerging economies is even more difficult than in high-income countries. Nonetheless, available evidence suggests that angel activities are gaining traction in low-and middle income countries as well, although often from low levels. In 2013, 21 networks were active in Latin America, most of them founded after 2005. In emerging economies in Asia, angel groups are active in India, Indonesia, Malaysia and the Philippines, among other countries. Business angel activities in China are developing quickly, and the government is testing strategies to support this nascent industry. While angel investors from Africa and the Middle East struggle to find high-quality deals and most countries in this region lack established angel groups (with the exceptions of Israel and South Africa), some angel markets have been formalised in recent years (World Bank, 2014).

The Chilean experience may provide useful insights for many emerging economies. The Chilean Government has provided financial support to 12 angel networks in the country since 2006, through its development agency CORFO, and continued to financially support three of them in 2015 (Chile Global Angels, Dad Neos and Mujeres Empresarias)[3]. In total, there were a total amount of CLP 2 882 million in subsidies approved and CLP 1 594 million already extended between 2006 and 2015. Yet angel activities remain limited in Chile, despite the active involvement of the government, considerable numbers of wealthy individuals with capital to invest, the relatively favourable business environment for private equity, and stable macro-economic foundations (compared to other Latin American countries). Between 2010 and the first half of 2015, the existing networks Chile Global Angels and Dad Neos invested a total amount of USD 4.6 million in 22 projects.

Factors that explain this relative dearth of angel investments include the wide distrust of the general population in equity investments, especially in the early and risky stages of the life cycle of a firm, the lack of expertise in angel investment, the reluctance of entrepreneurs and business owners to let external financiers participate in the management of their business, and the absence of angel activities outside of the Santiago metropolitan area, Chile's capital. Research suggests that the limited number of "investor-ready projects" stands out as a primary reason for the incipient and precarious position of the business angel market in Chile, however. As a policy implication, supply-side measures for the business angel market would benefit from complementary demand-side policy initiatives to stimulate the equity culture of Chilean entrepreneurs, make them more aware of the possibilities that angel investing has to offer and provide training programmes to entrepreneurs and (prospective) angel investors alike (Romaní, Atienza and Amorós, 2013).

These barriers to the development of the business angel market are widely shared by other countries both within the emerging world and in OECD countries, and explain to some extent why business angel activities continue to remain underdeveloped in some countries compared to others (see, for example, OECD, 2015b or Wilson, 2015).

Angel investing generates a sizeable, albeit skewed, return on investment and has a significant business impact on investee companies

There is only limited data available on the return on investment for business angels. Both, anecdotal and empirical evidence strongly suggests that distribution of returns is strongly skewed, however, with a large number of investments yielding negative results and a small minority being very successful, as is generally common in early stage investments. A large-scale survey by the Angel Capital Association (ACA) in the United States, for example, revealed that while the average return of angel investments in the studied sample totalled 2.6 times the investment in 3.5 years, 52% of all exits from investments returned less capital than was originally invested and were thus loss-making. At the other end of the distribution, 7% of exits returned a capital of more than 10 times the initial investment and accounted for three-quarters of net returns in US dollars. Returns were positively associated with the number of hours spent on due diligence, the experience of the investor and the interaction with their portfolio companies, including coaching and mentoring activities, strategic consultation, and monitoring financial information (Wiltbank and Boeker, 2007).

A UK study based on survey data led to similar results. The average angel investment generated 2.2 times the capital invested upon exit, even though 59% of all business angel investments failed to return capital. 9% of deals generated more than 10 times the invested amount and accounted for almost 80% of the net returns. Investors who spent more time on due diligence, had more experience and who were actively involved in the venture they funded, were more successful on average (Wiltbank, 2009).

Similarly, there is only limited evidence of the impact of investments by angel investors on the businesses they invest in. Interviews with the management of investee companies suggest that they perceive the funding and involvement of angel investors as broadly positive. A majority of interviewed managers in a 2009 study confirmed that their funding gap would be much more problematic in the absence of the angel investment. They also perceive that the investment by angels made their project more credible for other potential financiers and thereby facilitated access to other sources of finance. Moreover, the post-investment involvement of angel investors, as well their professional network, were often seen as beneficial by the management of the investee company (Macht and Robinson, 2009).

A survey undertaken in France paints the same picture. A clear majority of surveyed business owners financed by angel investors reported that they would not have been able to find alternative sources of finance otherwise (and many of them indicated that the investments by angels were insufficient to cover their needs). There was broad agreement that the equity gap was real and had become more pronounced over time, especially for companies competing in global markets, which often required larger investments at the early stages of their existence (DGCIS, 2012).

Empirical research on the business impact of angel investments remains rare, however, particularly due to the unobserved heterogeneity of entrepreneurs.[4] A select few studies indicate that angel investments do have a real impact on the businesses in which they invest. A 2011 study using US data found that angel-financed ventures were more successful, as measured by their survival rate, their ability to attract other sources of finance, and their growth, controlling for other factors. This effect was particularly strong when the investor took a more active role in the venture (Kerr et al., 2011).

The importance of active involvement in the investee company was also highlighted in a large-scale survey among the UK business angel community. Although investors attribute previous unsuccessful deals to a variety of factors, the lack of alignment between the angel investors and the management team with respect to the execution of the business plan, the lack of effective reporting by management to the angel investor and not being able to offer strategic advice were commonly cited as reasons why an investment did not return positive returns on exit (Wright et al., 2015).

Another study broadly confirms these results. An analysis of 13 angel groups in 12 countries found that angel investing usually increased the performance, growth and probability of survival of the investee company (Lerner et al., 2015). A 2014 study within Europe tracked 1 661 companies across 37 European countries which were financed by one or several business angels for a period of four years. The study reports that employment more than tripled, while revenues and asset size increased by 150% and 156%, respectively. The majority of tracked enterprises were not able to make profits within the three years after the investment took place, confirming the finding that returns on investment are very skewed (EBAN, 2014).

A French study found somewhat different results. On average, ventures that received investments were less performant in terms of net revenue, turnover or value added than a control group of enterprises with similar observable characteristics that were not financed by angels. This can be largely explained by the overall riskiness of the former. A higher proportion of these investee companies were indeed loss-making, and this effect was also not fully compensated by the finding that the most successful investee companies who had received angel finance outperformed the most successful enterprises in the control group (DGCIS, 2012).

Co-investment has become the norm

Given this skewed distribution of returns on investment, an increasing majority of angel investors are co-investing with other early stage investment players so as to diversify risks. Co-investment usually occurs with other business angels, either on an informal basis or through syndicates (see Box 2.1). In 2013, 73% of all American angel investors co-invested within a group of syndicates, up from 67% in 2011 (ACA, 2014). In the EU 28, only 3% of known angel investors do not-co-invest with other investors. In addition to investing alongside other angels (which occurred for 57% of all investments in 2013), angels also co-invest with (in increasing order of importance within the EU 28) public funds, venture capital funds, early stage funds and other types of investors (CSES, 2012). The picture is similar in Canada, where joint investments with angels in the same group occurred in 65% of the deals and joint investments with investors outside of the group, often with non-angel financiers such as VC firms or the government, occurred in 75% of the deals in 2014 (NACO, 2015).

Crowdfunding platforms and other vehicles to find investment opportunities are also being used more widely as a means to find investment opportunities, thereby allowing angel investors to make investments in a wider geographical area. In the United Kingdom, for example, a large-scale survey illustrated that 45% of all respondents made investments through crowdfunding platforms in 2014. Younger and less experienced angel investors are much more likely to make use of crowdfunding platforms (Wright et al., 2015). A similar development is noted in other European countries, where some equity-based crowdfunding platforms aim to operate at an international level, enabling investment in promising ventures outside of their home country. These platforms are increasingly trying to engage venture and angel investors. Some established business angel networks and syndicates are also using crowdfunding-type technology for their organisation (European Commission, 2014). In Canada and the United States, equity crowdfunding is only legal for high net-worth individuals, so-called "accredited investors"[5], who share many of the typical characteristics of business angels. Box 2.3 provides an example of a crowdfunding platform that enables business angel investors to find investment opportunities.

Box 2.3. **Go Beyond Investing**

The Go Beyond Investing (GBI) platform illustrates how crowdfunding techniques could shape the angel industry. Go Beyond serves as a syndication vehicle for small investment tickets, enabling individual investors to build up a diversified portfolio of investments in growth companies at their early stages through its platform/ network. The Swiss-based organisation operates in multiple European locations and in the United States. It is one of the few diverse communities of angel investors with an international portfolio of investments. The organisation screens potential investment deals, the most promising go through a due diligence procedure, and a select few are subsequently offered as investment opportunities to its members who make investment decisions individually. Its investor community includes 198 investors worldwide, investing a total of CFH 2.8 million in 2014, sharply up from CFH 100 000 in 2008, the first year of existence. The organisation also provides training sessions for its investors, who are encouraged to take a portfolio approach and invest in multiple companies, thereby making overall returns on investment more predictable. Results so far indicate that a clear majority of investors made positive annualised returns.

Source: Go beyond early stage investing (2015).

As a result of the institutionalisation of the business angel industry and the increasing popularity of joint investments in mature markets, larger amounts are being invested on average, and in companies beyond the seed stages of their life cycle (Carpentier and Suret, 2014).

Research also indicates that ventures which have been financed generally find it easier to attract follow-up financing such as venture capital and other sources of risk capital. Angel investing thereby serves as a sort of gateway or accreditation mechanism for other financiers at later stages of a firm's life cycle. In addition, there is also a marked difference in the selection of firms that apply for angel investments, depending on the development of the entrepreneurial ecosystem and the "entrepreneur-friendliness" of the economy. Firms in countries with less developed financial markets and/or a less friendly environment for entrepreneurs tend to apply for angel funds only in later stages of their development. These factors also play a role in the average size of investments made by business angels, providing evidence of the importance of the overall entrepreneurial ecosystem's health for angel activities (Lerner et al., 2015).

The profile of angel investors is becoming more diverse

The typical profile of a business angel is a middle aged male with an above average education, a professional or business career background, and with experience in running a business and/or the management of organisations. In addition, angel investors also have above average personal net worth. Although this typical profile has not changed over time, there are indications that women angels are becoming more common and that the median age of angel investors is decreasing. In the United Kingdom, for example, 14% of business angel investors were female in 2014, double the proportion of 2008. Whereas the median age in 2008 stood at 53 years, close to half of all investors in 2014 were aged 45 or younger (Wright et al., 2015). In the United States, woman angels represented a record 26% of the total market, while minority investors, while still accounting for only 8% of the total angel population, also reached record highs in 2014 (Sohl, 2015).

Achieving timely exits is crucial for a vibrant business angel market

Most angel investors seek an exit or liquidity event at which they hope to make a profit. This may occur in a number of ways and will usually be dependent on key milestones, such as the business hitting certain levels of profitability and growth targets, but there is no general blueprint. Typical exit options are the sale of shares, sale of the enterprise or IPOs (Initial Public Offerings), but also the closure of the enterprise, which occurs relatively frequently and generates negative returns. Timely exits with positive returns are likely to attract new potential angels and generate liquidities for further investments; they are thus a major determinant of a vibrant entrepreneurial ecosystem (Mason and Botelho, 2014). For angel investors, knowing when to exit, and having the will to do so even in the case that the exit is negative, is as critical as making the initial investment decision (Schwienbacher, 2009).

The practitioner community identifies the difficulty in achieving exits as one of the most current and pressing problems for investors. Indeed, whereas angel investment activity has been stable, or even increased, since the onset of the financial crisis (Sohl, 2012; Mason and Harrison, 2015), practitioners report that there is now a major problem in achieving timely exits. A main challenge for a number of angel groups is the length of time to exit which has risen considerably in recent years, reportedly from three years in 2005 to about ten years or more in 2013 (Mason and Botelho, 2014). Such long investment time horizons hold back angels from re-investing in new companies and can also be a source of concern for existing and potential new angels.

The importance of exits and exit markets should also be taken into account by policy makers. The growth of co-investment funds around the globe as a means of addressing supply-side gaps in the availability of start-up and early growth capital (Mason, 2009; OECD, 2011) means that achieving exits is now also a significant issue for governments, especially since such funds are intended to be evergreen. Yet, while vibrant stock markets are critical for successful IPOs and the development of the venture capital market (Black and Gilson, 1998), it is not clear how policy can encourage exit for angel investors. Still, there are some actions that can be taken. These include lowering the costs of going public (Ritter, 2013), as well as measures that reduce the length of time between investing and exiting, processes of consultation, and considering the needs of BA when new regulations are introduced.

Policy initiatives for angel investment

Whereas policy making in Europe and the United States has long focused on the venture capital market, public support to business angel investing has become more popular in recent years (Mason, 2008; OECD, 2015a). Support specifically aimed at business angel investments broadly comes in the form of three policies; support in matching demand and supply, usually by logistical and/or financial support for the creation and operation of business angel networks and federations, tax policies, and co-investment schemes (CSES, 2012), which will be discussed in more length in the sections below (see also Boxes 2.4 and 2.5 on recent policy initiatives to stimulate the BA market in Turkey and Korea, respectively). In addition to these supply-side policy measures, demand-side actions, mostly in the form of improving financial skills of entrepreneurs, matter greatly to business angel activities. The lack of financial knowledge and vision is indeed identified as a key obstacle to the development of financial instruments other than straight debt and is discussed further in Section 2.3.4 (OECD, 2015b). Moreover, business angel investments can benefit from solid framework conditions, such as conducive labour laws, product market regulation, competition policies, foreclosure and bankruptcy regulation, the promotion of an entrepreneurial culture, as well as the development of well-functioning financial markets.

Box 2.4. **Government support for angel investments in Turkey**

Turkey introduced a tax deduction for licensed business investors as part of a wider law regarding the regulation and promotion of business angel investments. This law was enacted in 2012 and secondary legislation came into force on 15 February 2013. It provides a legal framework for licensing business angels, with the aim to increase the availability of equity financing for SMEs for which traditional debt financing is not well suited. It aims to institutionalise business angel investments, and improve business culture and ethics in the angel investment market. Furthermore, licensing is expected to improve the data collection regarding business angel operations in Turkey.

According to the law, licensed business angels can deduct 75% of the capital that they invest in innovative and high growth SMEs from their annual income tax base. The 75% deduction rate will be increased to 100% for those investing in SMEs whose projects were supported by the Ministry of Science, Industry and Technology, the Scientific and Technological Research Council of Turkey (TÜBİTAK) and Small and Medium Enterprises Development Organization (KOSGEB) in the last five years. The licenses are valid for 5 years, and the tax deduction will be applied until 2017 with the option to extend it for another five years.

Certain eligibility conditions must be met. The SMEs' shares cannot be traded on the stock market, and the acquired shares must be held for at least two years. Moreover, the tax deduction only applies to investments in businesses with annual net sales of TRY 5 million or less, and with 50 employees or fewer. Between February 2013 and July 2014, 243 business angels were licensed out of 261 applicants. In the same period, 6 investments were made for a total of TRY 2.75 million benefitting from the tax incentive.

Source: OECD (2015a).

Box 2.5. **Fostering a creative economy in Korea: the role of business angels**

Since the height of the dotcom bubble, the number of business angel investments declined dramatically from KRW 549 billion in 2000, to a low of KRW 29.6 billion in 2011. The number of angel investors fell from almost 29 000 to 619 over the same period. Since then, the numbers have steadily increased, but remain well below 2000 levels. The Korean government sees fostering a "creative economy" as a main priority and is trying to stimulate start-ups, especially in the technological sector. It is therefore seeking to further revitalise the business angel market as part of a wider strategy to increase the availability of equity instruments used by newly created enterprises.

Government support for angel investors includes a tax deduction for investments of up to KRW 50 million, which has been increased from 30% to 50%. The deduction limit on annual earnings has been similarly raised from 40% to 50%. Angel investors also receive tax benefits and can defer tax payments when reinvesting their returns in other business ventures. In 2011, Korea's Small and Medium Business Association (SMBA) established the Angel Investment Support Centre, which aims to find and develop angel investors and support their activities. The SMBA has also raised KRW 70 billion for an Angel Investment Matching Fund, matching the investments of different angel investors under certain conditions.

Moreover, the SMBA officially certified 11 start-up companies with investments from individual angel investors as venture companies in September 2014. This legal status grants additional tax benefits and eligibility for support in various areas, such as government-backed credit guarantees. Professional angel investors in Korea are defined as investors whose investment in stocks or equity newly issued by a venture firm, a founder, or an innovation-oriented company exceeds KRW 100 million for the past three years.

As a result of this measure, investments by business angels, which totalled KRW 1.1 trillion in 2013, rose to KRW 1.4 trillion in the first half of 2014. The government expects that total investments will surpass KRW 2 trillion in 2017.

Source: OECD (2014), OECD (2015a).

Tax policies

Specific fiscal incentives for angel investors in the form of reductions on tax rates or tax credits are not uncommon throughout the countries participating in this report. Table 2.2 provides a non-comprehensive overview of tax incentives for angel investors in 12 countries. In addition to these schemes at the national level, other countries such as Canada[6] and the United States provide tax incentives at the state or regional level. In the United States, 32 states offer tax credits to angel investors, ranging from 15% to 50% of the amount invested and with varying eligibility criteria (Carpentier and Suret, 2013). Furthermore, several countries have adopted tax incentives for investors in SMEs and start-ups which do not target angel investors specifically, such as R&D allowances or tax allowances for invested earnings, but which often benefit angel investors and which are not listed in Table 2.2.

Table 2.2. **Overview of fiscal incentives for angel investors**

Country	
Belgium	The “tax shelter” provides a tax reduction of 45% in the personal income tax for investors in a start-up. To benefit from the tax reduction, shares must be held for four years.
Finland	50% of investments made in the share capital of the qualifying company can be deducted from the annual capital income of private investors.
France	Tax reduction of 18% of the amount invested with the limit of EUR 50 000 and a reduction on the wealth tax by 50%.
Ireland	Under the Employment and Investment Incentive Scheme (EIIS), a tax relief of 30% (possibly increased to 41%) on investments up to a maximum of EUR 150 000 per annum is provided.
Israel	Angel investors may deduct a qualifying investment of up to NIS 5 million from their total taxable income.
Italy	Capital gains realised by business angels (resident and non-resident), not engaged in a business activity to which the participations are effectively connected, are tax-exempt.
Japan	Angel investors can deduct from their taxable income up to a limit of JPY 10 million.
Korea	A tax deduction of 50% for investments of up to KRW 50 million.
Malaysia	Angel investors are eligible for a tax deduction on their aggregate income after two years of their shareholding period in a qualified investee company.
Portugal	Angel investors can claim a deduction on the individual income tax of 20% of the investment made.
Turkey	75% (and even 100% for specific projects) of the capital invested in innovative and high growth SMEs is tax deductible from the annual income tax base.
United Kingdom	Up to 30% tax break to investors for investments up to GBP 1 million as under the Enterprise Investment Scheme (EIS). Possibility to defer tax liability on existing capital gains reinvested into EIS-qualifying shares.

Source: Carpentier and Suret (2013), EBAN (2012), Fiban, Mban, OECD (2015a), Wilson and Silva (2013).

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Empirical studies about the effectiveness and usefulness of tax incentives for angel investors are scarce. Even when programmes have annual filing conditions for investors and businesses in order to be eligible for government support, data on who benefits from tax incentives for angel investors, the companies they invest in, and on their characteristics and performance, are not always systematically collected and studied. Moreover, it is difficult to establish a causal link between the existence of tax incentives, angel investments, and economic outcomes of the firms that received angel investments, such as net job creation.

Nevertheless, the longstanding experience of the UK Enterprise Investment Scheme (EIS) is well studied and generally considered as an example of a tax incentive with broadly positive results. An evaluation showed that investments made under the EIS were positively associated with business performance, fixed asset formation, sales turnover, employment and labour productivity, although the effects are rather small (Cowling et al, 2008). Mason (2009) confirmed the positive impact of the EIS on the companies that received investments, and according to a 2008 survey by Wiltbank (2009), 24% of angel investments would indeed not have taken place in the absence of the favourable tax treatment.

Evidence from other countries points in the same direction. A recent study examined the effects of tax incentives for angel investors in two American states, Maryland and Wisconsin, and the results suggested that the tax credits in place were cost effective and had a net positive impact in terms of leveraged capital, local employment, and earnings. An important caveat is that the researchers considered the tax credits in these states to be well designed and managed (in contrast to some other states) and that this was crucial for obtaining positive results (Tuomi and Boxer, 2015). An evaluation conducted by the "Department of the Minnesota House of Representatives" of the "Angel Tax Credit" in the US state of Minnesota produced similar results. As part of this evaluation, a large-scale survey of the beneficiaries revealed that almost half (48%) of them would not have made the investment without the tax credit and a further 34% would have invested less (Minnesota Department of Revenue, 2014).

Policy experiences with tax incentives for angel investors have not been always positive, however. The Netherlands and Sweden recently abolished their tax incentives out of concern about the cost effectiveness and, especially, the additionality of tax incentives, i.e. the proportion of investments benefiting from a tax scheme that would not have taken place in the absence of a policy intervention. In addition, providing tax credits to relatively wealthy individuals to boost their expected return on investment is politically sensitive. A stronger evidence base is required to be able to better discern good practices concerning tax incentives for angel investors, and resolve the longstanding debate about its additionality.

Public-private co-investment schemes

A 2014 study identified 77 co-investment and business angel funds across Europe, 17 of which are private angel funds and 47 public-private partnerships. European angel investment funds and co-investment funds have an average size of EUR 22 million (although 70% of them have a budget of less than EUR 10 million). In total, these funds co-invested for an average amount of EUR 0.76 million in each deal. Most commonly, the public participation matches the amount of money which is privately invested and the repayment ratio is proportionate. Although some variation exists within Europe, both with respect to the leverage ratio and to the repayment ratio, around 80% of all co-investment funds have equal terms for the private and the public sector (EBAN, 2014a).

Table 2.3 compiles a list of countries where public-private co-investment schemes are in place. Of 37 countries participating in the Scoreboard on SME and entrepreneurship finance, at least 17 have established such a partnership[7].

Again, analysis of policy experiences lacks a strong evidence base and rigorous evaluation. The existing evidence shows a mixed picture. Denmark established a co-investment scheme in 2006 that went into operation in 2007. The scheme was abolished three years later after an evaluation by the Danish Investment Fund (*Vaeksfonden*). The take-up rate was deemed unsatisfactory, while the scheme incurred relatively high losses. Moreover, the workload in finding enough investor-ready projects and matching these projects with potential angel investors was much higher than anticipated (Tillväxtanalys, 2013). The Portuguese example was somewhat similar; as part of its "Operational Competitiveness Programme 2007-13", the Portuguese Government established a co-investment programme for early stage investors (later renewed in February 2014). The contribution of this scheme to overcoming market failures with respect to early stage equity financing was not considered to be significant, as

Table 2.3. **Co-investment funds for business angels**

Austria	The European Angels Fund S.C.A. SICAR - aws Business Angel Fonds (Austria) ("EAF Austria") is an EUR 22.5 million initiative funded by EIF and Austria *Wirtschaftsservice GmbH* (aws) - the Austrian government promotional bank financing companies based in the country in the form of equity co-investments. It was established in December 2013.
Belgium	The NAUSECAA Ventures Fund was created in 2009. It focuses on investment rounds between EUR 1 million and EUR 4 million and has a size of up to EUR 20 million. It brings together 35 private investors and selected institutional investors.
Belgium (Flanders)	The ARKimedes-Fonds II has a fund size of EUR 100 million, and offers one euro extra for each euro invested by accredited risk capital funds (so-called ARKIVs) in Flemish starters and SMEs.
Estonia	The Estonian Development Fund, created in 2012, is a public EUR 30 million fund. The presumed investment period is five years and each SME may get up to EUR 1.5 million investment tranche every 12 months. Their participation may range up to 70% of the total investment.
Finland	Finnvera's Seed Fund Vera Ltd is a EUR 123.6 million public-private fund (95% public, owned by Finnvera plc) that was established in 2005.
France	Angel Source, created in January 2012, is the first national fund for co-investments devoted to business angels investing in France, mostly in ICT and digital industries. They generated EUR 30 million in their initial fundraising and first fundings range from EUR 500 000 to EUR 1.5 million.
Hungary	JEREMIE fund is a joint venture, where a maximum of 70% of the funds come from the EU, with the remainder coming from the private investor.
Italy	The Ingenium Sardinia is a public-private seed capital fund. It is EUR 34 million in size (50% invested by the region and 50% from the fund managers) and was created in 2009 for the duration of 10 years. Ingenium Emilia Romagna and Ingenium Catania also exist.
Korea	The Korean Angel Investment Matching Fund helps BA and angel clubs to provide financial support to start-ups through the Korean Ventural Investment Corporation (KVIC), a governmental fund for the Korean venture capital market. In this public-private partnership, KVIC will provide up to KRW 2 billion (when partnering with an angel club providing up to KRW 50 million), and up to KRW 200 million (when working with an individual angel investor that can invest up to KRW 20 million in funds).
Netherlands	In the Netherlands, a successor of the TechnoPartners Seed Facility is the Seed Facility of RVO. In this public-private partnership (50% Dutch government - 50% private investors), the government doubles the investment that is made with a loan, up to a maximum of EUR 4 million.
New Zealand	The New Zealand Seed Co-Investment Fund (SCIF) invests in seed and early stage firms alongside selected private sector investors, usually business angel networks at a 50/50 rate.
Portugal	The COMPETE platform was renewed in February 2014 and now totals a EUR 26 million fund (EUR 21 million from the initial COMPETE, and an additional EUR 15 million in 2014). The new platform requires a minimum number of 3 BA to coinvest, with the public/ private investment ratio currently at 1.85/1. The maximum amount of public money allowed per investment vehicle is EUR 1 million.
Russia	Created in 2012, the Moscow Seed Fund works as a public-private partnership (66% on the Department of Science, Industrial Policy and Entrepreneurship in Moscow and 33% on the private investor) that is EUR 6 million in size.
Slovenia	*META Ingenium d.o.o.* is a EUR 10 million fund created in 2010. It provides equity funding to companies with an international ambition. It benefits from direct access to international investors and 30% of its funds can be used for cross-border investments.
Spain	The European Angels Fund – Fondo Isabel La Católica – is a EUR 30 million initiative funded by the EIF, Instituto de Crédito Oficial (ICO) and Neotec, set up to provide equity to business angels and other non-institutional investors for the financing of innovative companies in the form of co-investments, launched in December 2013.
Sweden	Almi Invest is a public venture capital company, currently managing a total of SEK 1 100 million with funds from the EU (up to 50%), regional owners (up to 25%) and ALMI AB (up to 25%).
Sweden	STING capital is a EUR 8.9 million public-private partnership created in 2005 that can invest up to EUR 0.4 million per company in ICT, cleantech and medtech enterprises. They work closely with STING Business Angels' 35 individuals and have financed 26 companies so far (of which, so far, one was liquidated).
Turkey	The Istanbul Venture Capital Initiative (iVCi) is a EUR 144 million joint initiative between the Turkish governmental agencies and the EIF, along with private institutional investors. It directly co-invests funds with angel investors and other early stage investors as well as in intermediary funds.
United Kingdom (England)	Angel CoFund was founded in 2011 and has since then supported 54 companies with initial investments that range from GBP 100 000 to GBP 1 million. It is a GBP 100 million investment fund that has, since its launch, committed an excess of GBP 24 million to companies along with GBP 95 million from BA and other investors.
United Kingdom (Northern Ireland)	Funded in 2010, the Halo EIS Funds is a EUR 400 000 private fund working on a pari passu ratio of investment with angels. UK EIS tax scheme forces the fund to invest 90% of its fund in a minimum of 4 companies within 12 months.
United Kingdom (Scotland)	The Scottish Co-Investment Fund is a GBP 72 million equity investment fund established by Scottish Enterprise, partly funded by the European Development Fund (40%) and partly by the Scottish Government (60%), in order to invest from GBP 10 000 to GBP 1.5 million in company finance deals of GBP 20 000 up to GBP 10 million.
United Kingdom (Wales)	Finance Wales, operating the Wales JEREMIE Fund, was created in 2009 and spans a 10 year reach life. It reaches EUR 189 million in overall funding - of which EUR 28 million belong to the co-investment sub-fund. For the 2014-15 financial year, the fund reported a GBP 25.5 million performance of their business investment funds, 16% above their target.

Source: EIF website, OECD (2015a), Wilson and Silva (2013), EBAN (2014).

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only a small number of operations were financed during the six years the programme was operational (PwC Portugal, 2013).

By contrast, the "Technopolis scheme" in the Netherlands, which ran from 2005-10, is generally considered successful. Through the seed facility, investors in risky ventures could secure a loan from the Dutch Government up to 50% of the fund's investments, up to a maximum of EUR 4 million. Once revenues were generated, the fund would only have to pay back 20% until it earned back its investment. The scheme was thought to significantly boost private sector participation in technological start-ups, especially in the very early stages of their life cycle, with a high degree of additionality (Deuten et al., 2012). The Scottish co-investment scheme was also evaluated broadly as a success by the investor community and other involved parties and is the model on which co-investment schemes in some other countries or regions have been based. Survey data suggest that around half of the projects in Scotland co-financed by the government would not have been able to find capital elsewhere, whereas most of the other projects would be financed at worse terms and conditions. The programme is also considered to have had a tangible and sizeable net impact on the businesses it financed, as well as on the wider economy (Hayton et al., 2008). A common thread throughout these policy experiences is that co-investment funds are indeed able to catalyse the private market, but only if the existing angel market is sufficiently well developed, so that a sufficient number of investor-ready deals can be financed and the government does not have to be overly engaged in matching supply and demand for early-stage equity.

Logistical or financial support for the creation and operation of business angel networks (BANs)

In recognition of the crucial role Business Angel Networks (BANs) play in matching suppliers of equity with new ventures seeking finance, many governments have supported these intermediary organisations logistically or financially. In many countries, the government has reduced or even ceased its support after the early stages of development, after which BANs have become well established and self-sustaining (Mason, 2009).

In addition to BANs, governments have sometimes been instrumental in the development of a national federation or association of angels. These associations and federations raise awareness and visibility about angel investments to a wider public, collect and distribute data, provide training, mentoring activities and other services to (potential) investors, represent the sector to policy makers and aim to professionalise the industry by sharing good practices and developing professional standards (OECD, 2011)[8]. Box 2.6 provides information about the activities of "France Angels," the French national federation, as an example.

Supporting SME investor readiness

Investment readiness of an enterprise looking for finance can be defined as the capacity of the entrepreneur to understand what the investor would like to know and to be able to respond to his questions by providing appropriate information and by presenting a business model, which will be convincing for the investor (European Commission, 2006). Yet, at all investment stages, entrepreneurs frequently have difficulties in understanding the financing options available, as well as the expectations of potential investors, because they are either simply not familiar with the options for external sources of financing or they are not adequately prepared to present to investors (OECD, 2015b). Indeed, investors

Box 2.6. **France Angels: the national federation for the development of angel investing in France**

France Angels was established in 2001 by five recently created Business Angel networks. Its goal was originally to promote BA investments, to recruit new investors and to professionalise the industry. To do so, the organisation develops tools, posts them on its website available for every member, and gathers useful business documents for network management and deal flow processing. It also created a forum to quickly answer to a variety of questions. Moreover, France Angels provides national and regional support and service by creating partnership and co-investment with seed and VC funds. France Angels organises around 40 events with over 3 000 participants a year and is also responsible for collecting data on the angel market in France.

France Angels has the objective of promoting angel investing to the national authorities in order to develop an angel friendly legal and fiscal environment. It supports the development of a positive eco-system of innovation and start-ups, together with a significant number of university research centres, valuation centres, incubators, accelerators, and the VC industry. France Angels seeks to contribute to the growth of the angel population (up to 4 500 members of 78 Angels networks, i.e. not including angel investors with no relationship to a network. The networks differ and are sometimes sector-specific, regional or university/alumni-based, but all of them are non-profit organisations gathering 30 to 250 Angels.

Source: France Angels.

regularly express concern about the lack of sufficient investor-ready projects to finance, usually related to poor business models, flawed financial planning, deficient business strategies or bad communication skills on the part of entrepreneurs. Improving financial capabilities of business owners and entrepreneurs, for example through investment readiness programmes, can thus help address the entrepreneur's side of the information asymmetry issue, which in turn can result in greater success in securing funding.

Investment readiness programmes therefore represent an area policy-makers have come to support in a number of countries. A questionnaire by the OECD conducted in 2012 showed indeed that many countries have created such programmes, usually run at universities, incubators/accelerators and/or by specialised agencies (Wilson and Silva, 2013). However, many programmes, especially publically funded ones, tend to focus almost exclusively on sources of finance and presentation skills ("pitching"), and less on the more pertinent business issues which are ultimately the determining factors for whether or not investors are willing to provide funding (Mason and Harrison, 2004). Survey data from Australia indicates that the majority of both nascent and young firms do not access these support programmes. However, it is unclear whether the low usage of these options is due to a lack of awareness or other reasons, e.g. perceived usefulness (OECD, 2011).

Although most training programmes are geared towards entrepreneurs, some also target investors and would-be investors, as being an experienced business owner and entrepreneur does not automatically translate into being a successful investor in early stage ventures. Training courses geared to (prospective) angel investors offer specific knowledge about deal screening and selection, including the correct valuation of the investee company, the due diligence process, legal procedures, the post-investment relation and the follow-up of the execution of the firms' business plan.

Accelerator models, whereby entrepreneurial teams are selected on a competitive basis, mentored and supported to start a business, constitute another relatively recent policy development in this area. Accelerator models crucially differ from incubator programmes in their focus on human capital development rather than the provision of a (physical) infrastructure (Wilson, 2015).

There is a need to strengthen the evidence base on business angel investing

Despite the growing importance of angel finance, reliable data on the size of the market is relatively sparse. This can be attributed to its informal nature: compared to bank lending and venture capital activities, comprehensive data on business angel investments are lacking. Indeed, it will likely never be entirely possible to capture all angel activities, since many business angels wish to remain anonymous. As a result, much of the available evidence on angel activities is anecdotal. It often comes from surveys and may be inaccurate in part due to limited or unrepresentative samples of the overall angel population (Shane, 2012), which also might explain why angel activities sometimes receive less attention from researchers and policy makers than other sources of finance. Despite the longstanding existence of the angel investment phenomenon, the information necessary for evidence based research and policy making is thus still not available (Mason and Harrison, 2013).

There are numerous methodological difficulties involved in building an evidence base on angel activities. Investments are made by individuals who do not make up a known population. Investments made outside of BANs and syndicates are particularly hard to capture, although they are likely to account for the vast majority of all angel investments, up to more than 90% by some estimates (SCES, 2012).

Although there is a lot of agreement on the definition of an angel investor at the international level, practices in classifying angels from other investors differ from one study to the other. This reduces the comparability of evidence across and even within countries. In Sweden, for example, one extensive study on business angel investments was carried out in 2004 and another one in 2006, using two different definitions of what an angel investment constitutes. The narrow definition required that investors were fully independent from the business they invested in, the amount invested reached a certain threshold and the investor was actively involved in the company's development. According to the broad definition, where none of the above requirements had to be met in order to qualify as a BA investment, the investment volume between 2002 and 2004 was estimated to total between SEK 3.5 billlion and SEK 4 billion, and the number of investments at 30 000. When applying the more narrow definition, the investment volume was about half of that figure, with only around 3 000 investments made over the same period (Tillväxtanalys, 2013).

A recent study from the Centre for Strategy and Evaluation Services for the European Commission distinguished three broad methodologies to collect data on angel investments, which are outlined below (CSES, 2012):

- Supply-side approaches: This method uses supply-side data, such as surveys of known or likely angels, information collected by business angel networks and other groups of angel investors, and extrapolates this evidence to estimate overall business angel activities.
- Demand-side approaches: This approach gauges business angel activities through the companies that were financed by angels. Business surveys, the Global Enterprise Monitor (GEM) database, company listings and equity issuance data all provide partial

information about angel investments, which can then be used to identify unmeasured angel activities.

- Third party/ institutional indicators: This mainly pertains to the use of tax information (in particular when there are widely used tax incentives for angel investors), co-investment schemes, and other government records to track angel investments.

Accurate estimates on business angel investments from demand-side sources require large samples of surveyed businesses, which are not available for most countries, especially not on a yearly basis. Moreover, demand-side information is not very comparable across countries due to differences in the methodology and breadth of business surveys. For these reasons and because data from tax information or other government sources are not systematically gathered for most OECD countries, the most reliable information comes from supply-side data.

This method, by its very nature, only captures investments made by participants of a business angel network (the so-called visible part of overall angel activities), and therefore excludes the activities of angels who do not belong to a formal network. Estimates about the invisible share of the overall business angel market vary greatly, as Table 2.4 shows for a few selected European countries. In Spain, for example, less than 5% of all angel investments are estimated to be visible, compared to more than 90% in Italy. Moreover, the reliability of these estimates is questionable, since they are gathered through different means from one country to the other and often outdated[9]. This poses significant challenges for the estimation of the size of the overall angel market, where it is difficult to extrapolate evidence from the small portion of angel activities which are visible. In addition, this approach does not allow for any meaningful comparison of the overall angel market across countries.

Table 2.4. **Estimate of the total number of business angels in selected EU countries (visible and invisible markets)**

Country	Total number of Business Angels (visible and invisible)	Share of visible Business Angels in total (%)
France	8 000	70
Italy	500	100
Germany	5 000 to 10 000	10 - 25
Netherlands	30 000	14
Poland	500	50
Spain	34 600 to 67 700	4 - 5
Sweden	3 000 to 5 000	n.a.
United Kingdom	25 000	20

Source: CSES (2012).

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Despite this major shortcoming, data from the visible angel market could be considered as indicative of overall trends over time for a given country if the surveys are conducted on a regular basis, based on a common definition, and apply the same methodology for administering the questionnaire and data treatment.

Specific issues to harmonise the existing data on angel investments within networks include questions on how to avoid double counting (for example when angel investors are part of several angel networks), a common agreement on how to treat syndicated deals (as one deal or as several), a methodology of how to deal with missing survey data and non-responses (especially when the number of BANs which take part in questionnaires differs from one year to the other in a given country), and clarity concerning the exact sources, range and context of the available data.

Conclusions

Business angel investing can provide an important source of finance to bridge the equity gap in early-stage financing for some SMEs. Data suggests that angel investing benefits the investee companies and has important spill-over effects for the overall economy. Moreover, angel investing seems to be increasing, both in developed markets with a long-standing tradition of angel activities, as well as in many emerging economies, where angel investing is mostly still in its early stages. Policy makers increasingly recognise the importance of early stage financing for the development of their economies and have therefore introduced many initiatives to encourage angel activities, most often in the form of tax incentives, the establishment of co-investment funds, support to the organisation and professionalisation of business angel groups and networks, and investor-readiness programmes.

Evidence on angel investment suffers from a lack of reliable data. Most of the information available focuses on angel activities registered in a network, and is collected through surveys. A large but unknown part of the angel market operates outside of these networks, through activities which are not systematically registered and are therefore excluded from the analysis. In addition, the reliability and comprehensiveness of the information collected would benefit from improvements to the methodology for registering evidence, and for collecting and treating data on the visible angel market, which would in turn improve cross-country comparability.

This chapter illustrates a clear need to harmonise and expand data collection on business angel activities, if only for the activities taking place within networks, to enable evidence-based policy making. This would be a minimum prerequisite for including standardised data on business angel investing in *Financing SMEs and Entrepreneurs: An OECD Scoreboard* in the future. Even with potential improvements to the methodology, the incomplete nature of the data remains an important caveat in interpreting and analysing the available evidence.

Notes

1. The study by Kerr et al. (2011) tracked the activities of two prominent angel investment groups in the United States (Tech Coast Angels and CommonAngels) during the 2001–06 period. A key result of their regression analysis is that ventures financed by angels are 20% to 25% more likely to survive for at least 4 years than enterprises with similar characteristics not financed by angels.
2. In both the United States and the United Kingdom, there was a noticeable shift towards venture investments in more mature companies between 2000 and 2007. This is attributed to an increased risk aversion since the collapse of the dotcom bubble, as well as the increased size of venture capital funds over that period, which has driven up deal sizes and hence investments in more established enterprises (Anderson and Moore, 2007 and Pierrakis and Mason, 2008). The financial crisis led to a further decline in early stage venture capital activities in most developed countries between 2007 and 2014 (OECD, 2015a).
3. CORFO support for the angel network Mujeres Empresarias finished in late 2015.
4. This means that ventures that are financed by angel investors are inherently different from ventures that are not, in ways which are hard to observe by researchers, such as the ambition or ability of their management team. If this is the case, any difference in their performance between funded and unfunded ventures may be attributed to these differences rather than the direct effect of the involvement of angels.

5. In the United States, for an individual to be considered an accredited investor, they must have a net worth of at least USD 1 million, not including the value of their primary residence or have income of at least USD 200 000 each year for the last two years (or USD 300 000 together with their spouse if married), and have the expectation to make the same amount this year. The definition in Canada is very similar.
6. In Canada, five provinces and one territory offer angel tax incentives (Carpentier and Suret, 2013).
7. Note that this list is not comprehensive and only lists the different schemes that exist in every country, rather than the different public-private investment funds that make use of this scheme. In the Netherlands, for example, there are 19 investment funds (mostly sector-specific) that make use of the SEED capital scheme, the successor to the TechnoPartner programme. Moreover, the European Investment Fund (EIF) is about to expand its successful European Angels Fund (EAF), which was launched in Germany and later expanded to Austria and Spain, to other European countries and/or regions. This fund provides equity to business angels (and other non-institutional investors) for the financing of innovative companies in the form of co-investments.
8. In addition to national governments, supranational federations such as the ACA (Angel Capital Association) in North-America, BAE and EBAN for European countries and BANSEA (Business Angel Network South-East Asia) can also play an important role in promoting, professionalising and supporting national associations and federations.
9. The estimate for the United Kingdom comes from a study published in 2000. Data from the Netherlands and Poland come from interviews with experts, often representatives from business angel networks.

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ANNEX 2.A1

The different stages of a business angel investment

A typical investment by a business angel or a member of a business angel group involves the following stages (OECD, 2011):

Deal Sourcing

The most commonly accepted sources of deal flow include business associates of the investor(s), professional sources such as attorneys, accountants and consultants, other business angels and early stage investors such as venture capitalists, previously funded entrepreneurs, and contacts from universities, business schools and research centres. Investors rely heavily on their personal network and pre-existing relationships for finding reliable investment opportunities. Although many networks accept business plans through their website, it is quite uncommon that these advance past the pre-screening stage and actually lead to an investment (Cohen, 2007).

Deal Screening

Applications are usually centralised and screened by a committee. Common selection criteria are the physical location of the venture, its sector and industry, its assessed growth potential, the reliability and experience of its management team, and the quality of its business plan (or the executive summary of it) (Cohen, 2007).

Initial feedback/coaching

The selected companies receive feedback and, possibly, guidance on how to proceed and present their company in line with potential investors' expectations.

Company presentation to investors

Most angel groups organise monthly breakfast, lunch, or dinner meetings where a few selected companies can "pitch" their business model, followed by an opportunity to ask questions by prospective investors.

Due diligence

Due diligence can be defined as "the investigation and analysis the investor performs to see if an investment opportunity meets the investor's criteria for funding. The primary objective of due diligence is to mitigate investment risk by gaining an understanding of a company and its business as well as determining the suitability of the investment for the portfolio" (Eyler, 2007).

Investment terms and negotiations

As angel investors partially take ownership of the company they invest in, the negotiation of the terms usually begins with the valuation of the company. The valuation of a company constitutes its price tag; the pre-money valuation represents the value of the business prior to the investment by the angel(s), and the post-money valuation incorporates the amount of investor funds raised. After the valuation has been negotiated, the equity ownership structure is discussed. Most commonly used ownership structures are common stock, preferred stock, participating preferred stock, and convertible notes. Other key aspects of the deal include the reduction of risk, amount of control, and provisions for liquidity. They are usually formulated with the help of a lawyer and stipulated in a standardised angel investor's term sheet template (Koss, 2007).

Investment

Post-investment monitoring and support

Angel investors usually closely monitor the performance of "their" venture. This often includes a seat on the board of directors or another official role in the company, but can also be arranged in a more informal way. If several investors participate through a group or syndicate, they generally appoint a contact person who will serve as the main point of contact with the entrepreneur and who will provide financial updates and other information to the co-investors. Angel investors also typically provide connections, mentoring, advice, and other non-financial support to the company.

Financing SMEs and Entrepreneurs 2016
An OECD Scoreboard

PART II

OECD country and partner economy profiles of SME and entrepreneurship financing 2007-14

This document presents data on debt and equity financing in 37 countries: Australia, Austria, Belgium, Canada, Chile, China, Colombia, the Czech Republic, Denmark, Finland, Estonia, France, Georgia, Greece, Hungary, Ireland, Israel, Italy, Japan, Korea, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Portugal, the Russian Federation, Serbia, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States. The individual country profiles provide definitions of core indicators monitoring SME access to finance, which are specific for each country, and analyse their evolution over the 2007-14 period. The statistical information is complemented by a description of government policies which respond to the current financing constraints SMEs face.

Australia

SMEs in the national economy

Small and medium sized enterprises (SMEs) account for 99.8% of all enterprises in Australia, according to Australia's national statistics agency, the Australian Bureau of Statistics (ABS). In 2013-14, there were 2 096 548 SMEs in Australia.

Table 3.1. **Distribution of firms in Australia, 2013-14**

Firm size (employees)	Number	%
All firms	**2 100 162**	**100**
SME (0-199)	**2 096 548**	**99.8**
Non-employing (0)	1 273 769	60.7
Micro (1-4)	571 176	27.2
Small (5-19)	199 915	9.5
Medium (20-199)	51 688	2.5
Large (200+)	**3 614**	**0.2**

Note: Data excludes financial, insurance and public sector enterprises.

Source: ABS Cat, 8165.0.

StatLink http://dx.doi.org/10.1787/888933332073

The Australian Government's Economic Action Strategy aims to create the right environment to foster innovation, investment and growth that will drive a dynamic and competitive economy. This will provide businesses with certainty, encourage entrepreneurship, and increase the willingness of SMEs to take risks and pursue investment opportunities.

Macroeconomic conditions

The Australian economy is in a period of transition, as a decade-long boom in mining investment gives way to a large and sustained increase in mining exports. While activity in the broader, non-mining economy is also beginning to strengthen, a steep decline in mining investment and falling commodity prices are weighing on economic growth and incomes.

Table 3.2. **Key domestic economic forecasts for Australia**

As a percentage

Indicators	Outcomes[1]	Forecasts	
	2014-15	2015-16	2016-17
Real gross domestic product	**2.2**	**2.5**	**2.75**
Household consumption	2.5	2.75	3
Dwelling Investment	7.7	8.5	2
Total business investment[2]	-6.3	-9.5	-4
Mining investment	-17.3	-26	-25.5
Non-mining investment	1	-0.5	4.5
Public final demand[2]	-0.1	2	1.5
Net exports[3]	1.4	1	1.0
Nominal gross domestic product	**1.6**	**2.75**	**4.5**

Notes: 1. Calculated using original data unless otherwise indicated. 2. Excluding second-hand asset sales from the public sector to the private sector. 3. Percentage point contribution to growth in GDP.

Source: ABS cat no. 5204.0, 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury, Australian Government.

StatLink http://dx.doi.org/10.1787/888933332089

SME lending

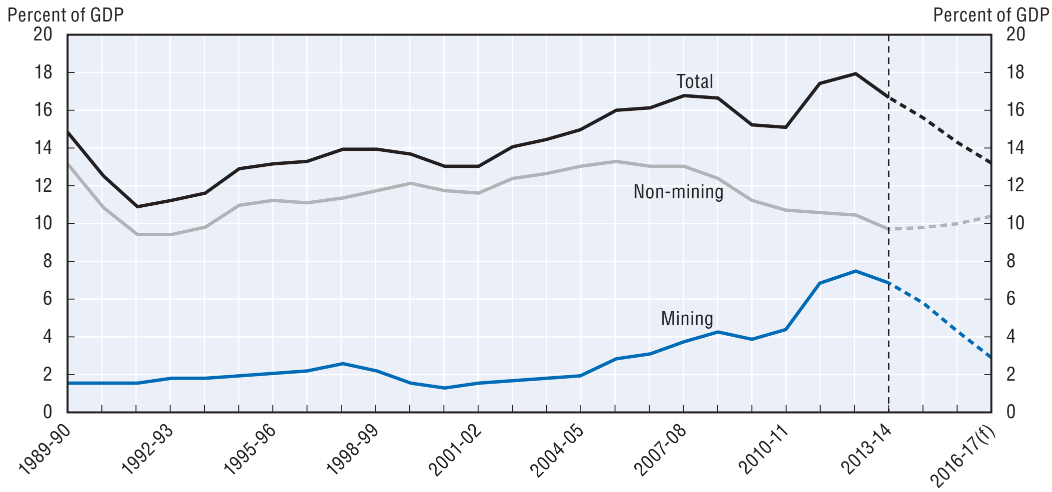
The share of SME lending to total business lending rose from 27.1% in 2007 to a peak of 33.1% in 2011, and declined gradually afterwards to 32.2% in 2014.

Total business credit grew by 6.6% in the twelve months to October 2015, continuing a notable recovery in aggregate business credit lending since the global financial crisis. A steady recovery in business credit is also evident outside of the resources sector, with non-mining business credit growth of over 10% in the twelve months to September 2015. This is around 8 percentage points higher than the average over the post global financial crisis period. Lending finance data further suggest that commercial finance commitments grew by 9.6% in the twelve months to September 2015.

Over time, continued growth in household and overseas demand is expected to encourage further improvements in business conditions in the non-mining economy. This is expected to lead to a pick-up in business investment as firms begin to reach their capacity constraints. There are already some encouraging signs of improved activity and investment outside the mining sector after a period of below-average outcomes in previous years. Non-mining business conditions and confidence have now been positive for most of the past 18 months, with a further lift following the Australian government's announcement in May 2015 of introducing new measures targeted towards encouraging investment in and by SMEs.

The transition to broader-based investment growth is expected to occur a little slower than previously anticipated, as the economy continues to navigate out of the mining investment boom. While current forecasts of total private business investment reflect the steep decline in mining investment, growth in non-mining business investment is expected to gather pace over the forecast period, with anticipated growth of around 4.5% in 2016-17.

Figure 3.1. **Business investment in Australia as a share of GDP, 1989-2017**



Note: Data from 2015-16 onwards are 2015-16 Mid-Year Economic and Fiscal Outlook forecasts.

Source: ABS and unpublished data from the Treasury, Australian Government.

StatLink http://dx.doi.org/10.1787/888933330821

Credit conditions

SME interest rates in Australia have gradually declined from 8.6% in 2007 to 6.2% in 2014. The interest rate spread between loans charged to large enterprises and those to SMEs doubled from 96 basis points in 2007 to 184 basis points in 2008, and remained broadly constant afterwards. This reflects a reassessment of the riskiness of SME lending, at least in part, which may have been under-priced prior to the global financial crisis. While low interest rates are expected to contribute to stronger growth in non-mining business investment over the next two years, there is uncertainty around the pace and timing of this recovery.

Equity and asset-based finance

Venture capital investments peaked at AUD 901 million in 2007-08, but declined considerably afterwards to AUD 262 million in 2012-13. In 2013-14, venture capital investments perked up by 12.6% to AUD 295 million, but remained still well below 2007-08 levels.

Total valuations of all investments by Venture Capital and Later Stage Private Equity (VC&LSPE) investment vehicles (AUD 7 907 million in 652 investee companies) fell 5% on the AUD 8 348 million reported as of 30 June 2013. Investments in these 652 investee companies were reported by 221 vehicles (see Table 3.3).

The value of investments as of 30 June 2014 represented 0.5% of GDP, down from 0.55% on 30 June 2013. Over the same period, VC investments remained constant (0.1% of GDP), while Later Stage Private Equity (LSPE) investments fell as a proportion of GDP from 0.44% to 0.39%.

Leasing and hire purchase volumes dropped from AUD 9 546 million in 2007 to a low of 6 904 million in 2009. Leasing and hire purchase volumes have recovered since, especially in 2014 when volumes rose by 12.9%, but remain below the pre-crisis level. Factoring and invoicing data show a more erratic picture but have more or less remained constant between 2008 and 2014 with a turnover volume of AUD 62 385 in 2014.

Table 3.3. **Venture capital investment in companies in Australia**

By stage of investee company

New investments during the year	2012-13		2013-14	
	Investee companies	Value	Investee companies	Value
	No.	AUD million	No.	AUD million
Pre-seed[1]	8	3	11	3
Seed[1]	26	9	40	18
Start-up	59	133	64	95
Early expansion	65	117	63	179
Total venture capital	**158**	**262**	**178**	**295**

Notes: 1. Data for investment in new companies not available for publication for 2012-13. These are excluded from the table.

Source: ABS (2015).

StatLink http://dx.doi.org/10.1787/888933332098

Other indicators

Between 2007 and 2012, the number of bankruptcies per 10 000 enterprises increased from 45 in 2007 to 53 in 2012, and dropped afterwards by 7.2% in 2013 and by 20.9% in 2014 to a low of 39 in 2014.

Non-performing loans as a percentage of total outstanding business loans also increased in the aftermath of the financial crisis from 0.5% in 2007 to 3.6% in 2010. After 2010, the proportion of non-performing loans declined year after year to 1.4% in 2014.

The Productivity Commission's Inquiry into business set-up, transfer and closure

The Productivity Commission (the Commission) is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians.

The Commission recently conducted an inquiry into barriers to business entries and exits and how or where it may be efficiency-enhancing to reduce such barriers. At the time of drafting this OECD scoreboard, the Australian Government had not tabled its response to the Commission's final report. The Commission's final report *Business Set-up, Transfer and Closure* found that on balance, there is not sufficient evidence to suggest that there are widespread, systematic problems around new businesses accessing finance in Australia. The Commission noted that:

- New financing platforms, such as peer-to-peer lending, are helping to fill a gap in unsecured debt finance available from the major financial institutions while the planned new regulatory framework for crowd-sourced equity should balance the financing needs of business against the risk preferences of different types of investors.
- High growth potential start-ups are generally able to attract angel and venture capital funding from Australian or overseas markets.

The Commission also found that most businesses were closed or transferred without financial failure and that the governments' role in such situations should be limited to timely provision of clear guidelines for businesses, associations and advisers on exit and succession planning.

Government policy response

The Australian Government has a comprehensive SME agenda aimed at promoting growth, employment and opportunities across the economy. Its policies for promoting SMEs focus on reducing red tape, improving the operating environment for businesses, increasing incentives for investment, and enhancing rewards and opportunities for private endeavour. The government's financial, taxation and competition policies are also designed to increase long-term opportunities for SMEs.

Financial System Inquiry

In late 2013, the Australian Government commissioned an independent Financial System Inquiry to undertake a root-and-branch examination of the Australian financial system. The Inquiry's final report was publicly released in December 2014.

- The Inquiry found that Australia's financial system has performed well since the Wallis Inquiry in 1997[1] and has many strong characteristics. In the view of the Inquiry, the framework for the issuance and trading of debt and equity in Australia is operating reasonably well.
- The Inquiry considered that to maximise the efficiency of the financial system, policy makers should not set out to favour one particular funding destination over another, and that the government's role in funding markets should generally be neutral on the channel, direction, source and size of the flow of funds.
- The Inquiry noted that SMEs have fewer options for external financing outside the banking system compared with large corporations. This was in part a reflection of unnecessary distortions, such as information imbalances and regulatory barriers to market-based funding. The Inquiry made a number of recommendations designed to reduce structural impediments to SMEs access to finance.

On 20 October 2015, the government responded to the Inquiry by announcing a new Financial System Programme. The Programme will support SMEs' access to finance by creating a more resilient, fairer and innovative financial system. It includes particular commitments to remove legislative impediments to the development of a crowd-sourced equity funding (CSEF) market, to task the Productivity Commission with reviewing data accessibility and use, and to support industry efforts to implement the comprehensive credit reporting regime. The Programme will be implemented in stages over the coming years.

Liaison with industry

A strong financial system that facilitates the flow of savings to efficient investment opportunities assists SMEs to invest in new technologies, fund innovative practices and expand capacity. Government authorities regularly monitor developments in SMEs' access to finance. For example, the Reserve Bank of Australia (RBA) annually hosts a 'Small Business Finance Advisory Panel', and the RBA and Australian Treasury regularly speak with Australian banks about business financing conditions. These consultations and available data suggest that Australian SMEs continue to have good access to finance through the banking system.

Innovative finance and crowd-sourced equity funding

New forms of innovative finance, such as peer-to-peer lending and CSEF, can increase the funding options available to SMEs. While a peer-to-peer lending sector has been emerging under existing regulatory arrangements. To facilitate CSEF in Australia, the government is developing legislation for a regulatory framework that will reduce the compliance costs for small businesses seeking to raise funds through CSEF.

An appropriately regulated framework will ensure that Australia remains responsive to the funding needs of innovative businesses.

Taxation and business incentives

On 7 December 2015, the Australian Government announced a suite of new tax and business incentive measures under the National Innovation and Science Agenda. The new measures include new tax breaks for early stage investors in innovative start-ups. Investors will receive a 20% non-refundable tax offset, capped at AUD 200 000 per year, as well as a capital gains tax exemption.

Another new measure is the introduction of a 10% non-refundable tax offset for capital invested in new Early Stage Venture Capital Limited Partnerships (ESVCLPs), and an increase in the cap on committed capital from AUD 100 million to AUD 200 million for new ESVCLPs.

Reducing costs for SMEs is a priority for the government, as this is a key way to improve the financial viability of their operations, and thereby encourage additional investment. Taxation and regulatory compliance costs are particularly challenging for SMEs because outsourced expertise in this area comes with a high fixed cost.

To improve regulatory costs and provide incentives for SMEs to pursue investment opportunities, Australia has introduced a number of policies including:

- Businesses with turnover less than AUD 75 000 are not required to register for GST;
- Businesses with turnover less than AUD 20 million can report and pay GST quarterly instead of monthly;
- Businesses with turnover less than AUD 2 million can account on a cash basis;
- Simplified trading stock rules, which do not require a stocktake in certain circumstances;
- The Superannuation Clearing House, which simplifies accounting for employee superannuation payments, is available for small businesses;
- Businesses with turnover less than AUD 2 million can immediately deduct capital expenditure on most items costing less than a legislated threshold and pool depreciating assets which cost more than this amount and write them off at a 30% depreciation rate (15% in first year) irrespective of their expected life;
- Beginning on 12 May 2015 and continuing until 30 June 2017, this legislated threshold will be AUD 20 000. Before and after this period, the threshold will be AUD 1 000; and
- Beginning on 1 July 2015, businesses with turnover less than AUD 2 million will face a company tax rate of 28.5% (compared with the normal rate of 30%), while owners of unincorporated businesses will receive a discount of 5% on their business income tax liability, capped at AUD 1 000 per individual.

Many SMEs in Australia are engaged in primary production, and they face significantly greater levels of risk largely due to seasonal factors and fluctuations in commodity markets. As higher levels of risk discourage SMEs from investing in new operations, Australia has introduced a number of tax measures to allow these SMEs to better manage this risk, including:

- Income tax averaging for primary producers and specific professionals; and
- Farm Management Deposits, which provide a tax incentive to better manage income fluctuations associated with price variability and seasonal variations.

In relation to SME employment, the reform of taxation arrangements of Employee Share Schemes (ESS) provides incentives for new start-ups, thus encouraging them to grow and invest in new capacity. Firstly, employees who are issued with options under an ESS are now generally able to defer tax until they exercise the options (convert the options to shares), rather than having to pay tax when they receive the options (and often before any benefit is realised). Secondly, eligible start-ups are now able to issue options or shares to their employees at a small discount, and have that discount exempt (for shares) or further deferred (for options) from income tax. The changes are designed to make Australia's taxation of ESS more competitive by international standards, and allow innovative Australian firms to attract and retain high-quality employees.

In addition to the tax changes, the Australian Taxation Office has issued standardised employee share scheme plans and safe harbour valuation methods to make it easier for firms to establish and administer an employee share scheme.

Competition policy

In December 2013, the Government announced an independent review of its competition policies. The terms of reference included testing whether Australia's competition policies, laws and institutions were fit for purpose against future opportunities and challenges, including increasing globalisation, changing market and social structures, an ageing population, and technological change.

The *Competition Policy Review* Final Report, which was released on 31 March 2015, highlighted that small businesses bring innovation and employment to the market place. The Review was especially mindful of the concerns and interests of small businesses and made a number of recommendations that would allow these firms to operate more freely and effectively, thus creating an environment where they can expand and invest. These recommendations include:

- Changes to competition laws to improve their clarity, force and effectiveness, which will help small businesses understand their rights and obligations;
- Reforming competitive neutrality policy and reviewing regulatory restrictions, including standards, occupational licensing, and planning and zoning rules; and
- Better access to remedies when disputes occur. This includes more flexibility in collective bargaining processes that let small businesses work together to negotiate with large businesses.

The Government released its response to the independent Harper Competition Policy Review on 24 November 2015, supporting the majority of the Review's recommendations.

Consumer policies

Small businesses, like consumers, are vulnerable to the inclusion of unfair terms in standard form contracts offered on a 'take it or leave it' basis as they can lack the time and legal expertise to understand and negotiate contract terms. This can cause financial or other detriment to them, with a negative impact on the broader economy and community.

To address this issue, the Australian Government has extended the consumer unfair contract term protections in the Australian Consumer Law and *Australian Securities and Investments Commission Act 2001* to small businesses. Under the new protections, a small business will be able to have an unfair term declared void if, at the time of agreeing to a standard form contract, it had fewer than 20 employees and the contract does not exceed AUD 300 000 or AUD 1 million for contracts longer than 12 months. These protections will take effect on 12 November 2016, following a 12 month transition period.

Function and role of the Australian Competition and Consumer Commission

The Australian Competition and Consumer Commission (ACCC) underlies the Australian Government's belief that enforcement of competition and consumer protection matters are complementary, and should be administered by one body. The ACCC promotes competition and fair trading and regulates national infrastructure to make markets work for all stakeholders. A single body also ensures that the issues of small business are not overlooked, as could be the case if the competition and consumer functions were separated into different bodies. It is important for the ongoing success of the Australian economy that the ACCC continues to maintain an appropriate balance between its competition-related regulatory tasks and its role in protecting consumers.

Small business assistance

On 12 May 2015, the Australian Government announced the *Growing Jobs and Small Business package*, which provides reforms to help deliver the right conditions for Australia's small businesses to flourish, and for job seekers to take on new employment opportunities as they arise.

The Australian Small Business Advisory Services (ASBAS) programme is the government's primary small business advisory initiative. The ASBAS programme funds registered business organisations which are incorporated, not-for-profit bodies whose function is to provide business advisory services, including to small businesses. These organisations may include, but are not limited to, chambers of commerce, business enterprise centres and community organisations.

ASBAS grants are generally provided through competitive merit-based funding rounds. In certain circumstances, the Minister for Small Business may provide funding through a National Interest provision contained in the Ministerial Guidelines.

Small businesses may also benefit from the Australian Government's Entrepreneurs' Programme (EP). The EP includes the new Single Business Service providing businesses with streamlined access to expert operators, information and referral services to help business owners better manage their business.

These programmes will help drive small business productivity gains across the economy and support job creation in the sector.

Export financing

The global economy provides Australian SMEs with an opportunity to access new markets and the government is committed to helping SMEs reach their export potential.

Australia's export credit agency is the Export Finance and Insurance Corporation (Efic). Efic is a specialist financier that delivers simple and creative solutions for Australian companies to enable them to win business, grow internationally and achieve export success. Efic has carried out its role within various statutory frameworks since 1957 and was established in its current form under the *Export Finance and Insurance Corporation Act 1991 (Cth)* (Efic Act) as a statutory corporation wholly-owned by the Commonwealth of Australia.

Efic operates on a commercial basis and partners with banks to provide financial solutions for:

- SMEs that are exporters;
- Australian companies in an export supply chain;
- Australian companies looking to expand their business operations overseas to better service their clients; and
- Australian companies operating in emerging and frontier markets.

Through its loans, guarantees, bonds and insurance products, Efic has helped many Australian exporters and subcontractors take advantage of new contract opportunities that may otherwise have been out of reach.

In 2015, the government's amendments to the Efic Act received Royal Assent, which allowed Efic to lend directly for the export of all goods, not just 'capital goods'. Previously, Efic could only lend directly for the export of capital goods, which are used in the production of other goods.

These reforms complement the North Asia Free Trade Agreements. The Korea-Australia FTA (KAFTA) and Japan-Australia Economic Partnership Agreement (JAEPA) are now in force, with the China-Australia Free Trade Agreement (ChAFTA) expected to come into force by the end of 2015. These agreements have been further complemented by an AUD 50 million boost to the Export Market Development Grants scheme.

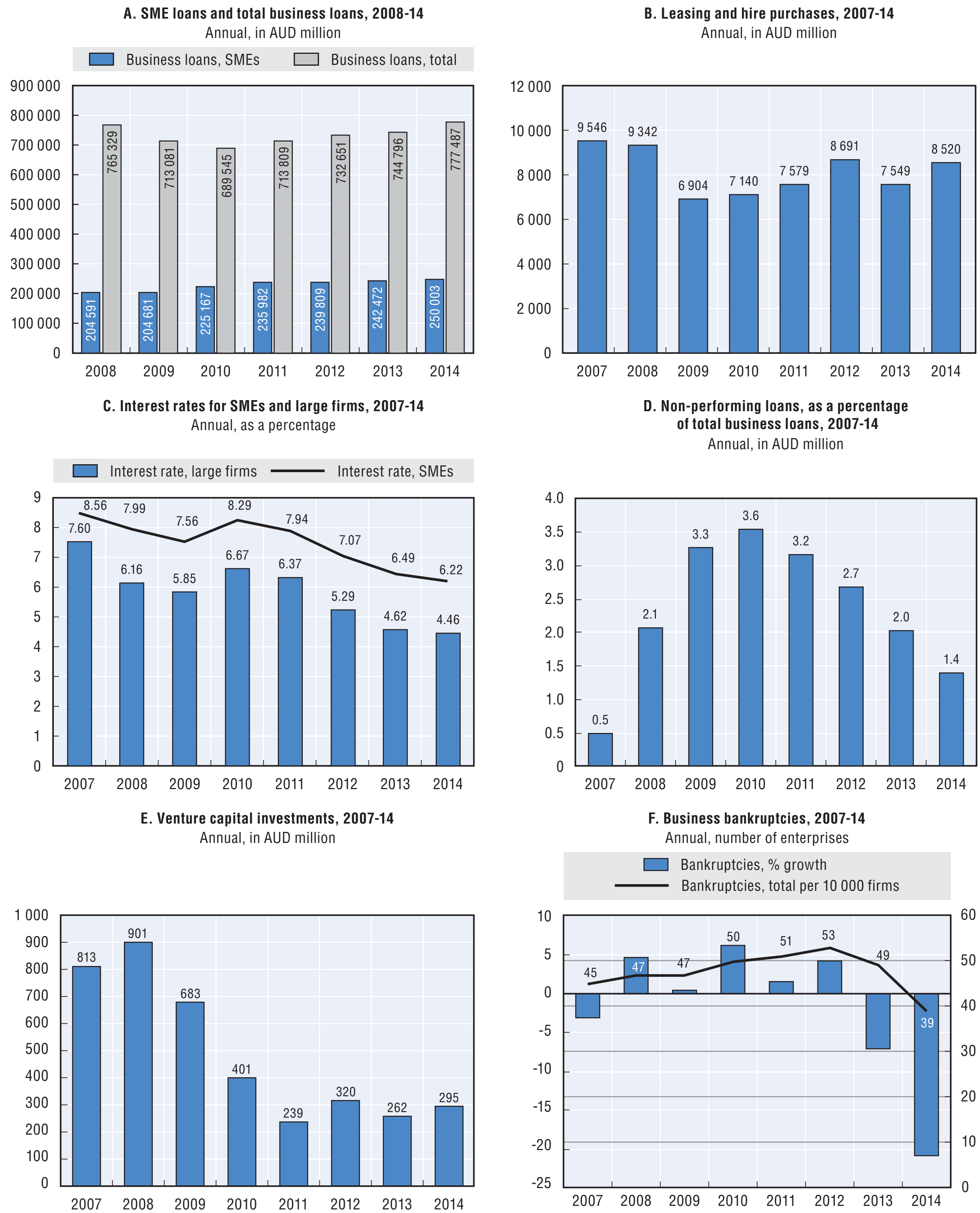
Table 3.4. **Scoreboard for Australia, 2007-14**

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	AUD million	189 198	204 591	204 681	225 167	235 982	239 809	242 472	250 003
Business loans, total	AUD million	697 259	765 329	713 081	689 545	713 809	732 651	744 796	777 487
Business loans, SMEs	% of total business loans	27.1	26.7	28.7	32.7	33.1	32.7	32.6	32.2
Total short and long-term loans, SMEs	AUD million	189 198	204 591	204 681	225 167	235 982	239 809	242 472	250 003
Non-Performing Loans, Total	% of total business loans	0.5	2.1	3.3	3.6	3.2	2.7	2.0	1.4
Interest rate, SMEs	%	8.56	7.99	7.56	8.29	7.94	7.07	6.49	6.22
Interest rate, large firms	%	7.60	6.16	5.85	6.67	6.37	5.29	4.62	4.46
Interest rate spread	Basis points	96	184	171	163	157	178	187	175
Non-Bank Finance									
Venture capital investments	AUD million	813	901	683	401	239	320	262	295
Leasing and Hire purchases	AUD million	9 546	9 342	6 904	7 140	7 579	8 691	7 549	8 520
Factoring and Invoicing	AUD million	54 757	64 991	63 100	58 659	61 416	63 351	63 258	62 385
Other									
Bankruptcies, total	Number per 10 000 enterprises	45	47	47	50	51	53	49	39
Bankruptcies, total	%, Year-on-year growth rate	-3.2	4.6	0.3	6.2	1.5	4.2	-7.2	-20.9
Additional Data									
SME loans authorized	AUD million	75 973	78 486	68 652	81 793	80 891	72 905	76 527	80 631
Bankruptcies, unincorporated businesses	Number of businesses	5 057	4 441	4 443	5 626	5 267	5 859	4 754	3 992

Source: See Table 3.5.

StatLink http://dx.doi.org/10.1787/888933332103

Figure 3.2. **Trends in SME and entrepreneurship finance in Australia**



Sources: Chart A, B, C, D: APRA and RBA, Chart E: ABS. Chart F: ABS; AFSA; ASIC; RBA.

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Table 3.5. **Definitions and sources of indicators for Australia's scoreboard**

Indicators	Definitions	Sources
Debt		
Business loans, SMEs	Banks' business loans and bills outstanding under AUD 2 million (stock)	APRA; RBA
Business loans, total	Banks' and non-bank financial institutions' total credit outstanding to businesses; including loans, bills, commercial paper and promissory notes (stock)	APRA; RBA
Total short and long-term loans, SMEs	Banks' business loans and bills outstanding under AUD 2 million (stock)	APRA; RBA
Non-Performing Loans, Total	Banks' impaired (in arrears or otherwise doubtful, and not well-collateralised) and past due (in arrears for 90+ days but well-collateralised) business loans	APRA; RBA
Interest rate, SMEs	Weighted-average interest rate on banks' business loans and bills outstanding under AUD 2 million	APRA; RBA
Interest rate, large firms	Weighted-average interest rate on banks' business loans and bills outstanding AUD 2 million and over	APRA; RBA
Interest rate spread		APRA; RBA
Venture capital investments	New and follow-on investment by resident venture capital vehicles in Australian companies (includes investment at the pre-seed, seed, start-up and early expansion stages) (flow)	APRA; RBA
Leasing and Hire purchases	Banks' and non-bank financial institutions' new lease approvals (including finance and operating leases), excluding approvals for leasing of land and buildings (flow)	APRA; RBA
Factoring and Invoicing	Factoring and invoice discounting turnover volumes of resident debtor finance providers (flow)	DIFA
Bankruptcies, total	Number of corporate insolvencies and unincorporated business bankruptcies per 10 000 enterprises	ABS; AFSA; ASIC; RBA

Note

1. In June 1996, the Financial System Inquiry (commonly referred to the Wallis Inquiry) was established to examine the results of the deregulation of the Australian financial system, to examine the forces driving further change, particularly technological and recommend changes to the regulatory system to ensure an 'efficient, responsive, competitive and flexible financial system to underpin stronger economic performance, consistent with financial stability, prudence, integrity and fairness.

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Austria

SMEs in the national economy

In 2013, 99.7% of all firms were SMEs and they employed approximately 67% of the labour force.

Table 4.1. **Distribution of firms in Austria, 2013**

By firm size, as a percentage

Firm size (employees)	Number of firms	%	Annual average number of employees	%
All firms	**324 709**	**100**	**2 830 248**	**100**
SME (0-249)	**323 577**	**99.7**	**1 898 526**	**67.1**
Micro (0-9)	283 515	87.3	698 344	24.7
Small				
(10-19)	22 635	7.0	302 092	10.7
(20-49)	12 059	3.7	359 599	12.7
Medium (50-249)	5 368	1.7	538 491	19
Large (250+)	**1 132**	**0.3**	**931 722**	**32.9**

Notes: Data include all market activities in Sections B - N as well as S-95 of ONACE 2008, Data include non-employer firms.

Source: Statistics Austria.

StatLink http://dx.doi.org/10.1787/888933332115

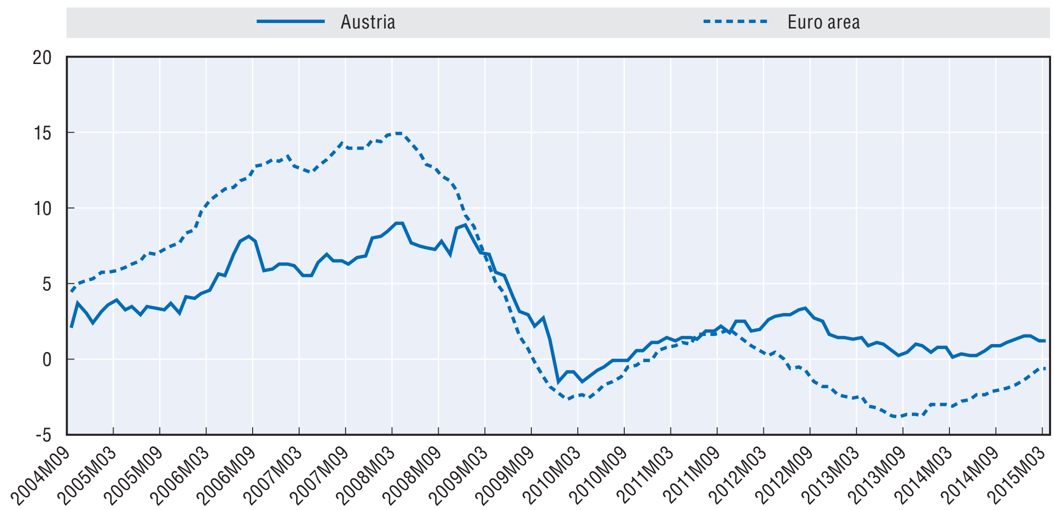
SME lending

In Austria, bank lending is the main external source of financing for SMEs, according to the ECB Survey on the Access to Finance of Enterprises in the Euro area (SAFE). In this country profile SME loans are approximated by new business loans up to EUR 1 million (excluding loans granted to sole proprietors) and are provided by the Austrian National Bank for the period 2009-14. Data for previous years are not available. The loan data exclude revolving loans and overdrafts, which are another important source of bank lending to SMEs. The Austrian National Bank is currently revamping its database in order to increase the quality of the loan data. Taking these restrictions into account, the year 2014 saw a decrease of 7.3% of new loans for SMEs. This indicator has been in decline since 2009, a very small increase in 2011 being the sole exception. As new loans to all enterprises decreased by only 0.5% from 2013 to 2014, the share of new SME loans in all loans has decreased to 11.3%. The share of short-term SME loans (maturity up to 6 months) in total SME loans has been decreasing since 2009 from almost 60% to 48.8% in 2014.

Data on outstanding loans are not separated according to firm size and are only available for the total non-financial corporate sector. 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. Induced by monetary policy measures of the ECB, bank lending has been recovering in the Euro area more quickly since the end of 2013.

Figure 4.1. **Growth rates of business loans to non-financial corporations in Austria and the Euro area, 2004-15**

Monthly data, percentage change



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

Source: Austrian National Bank.

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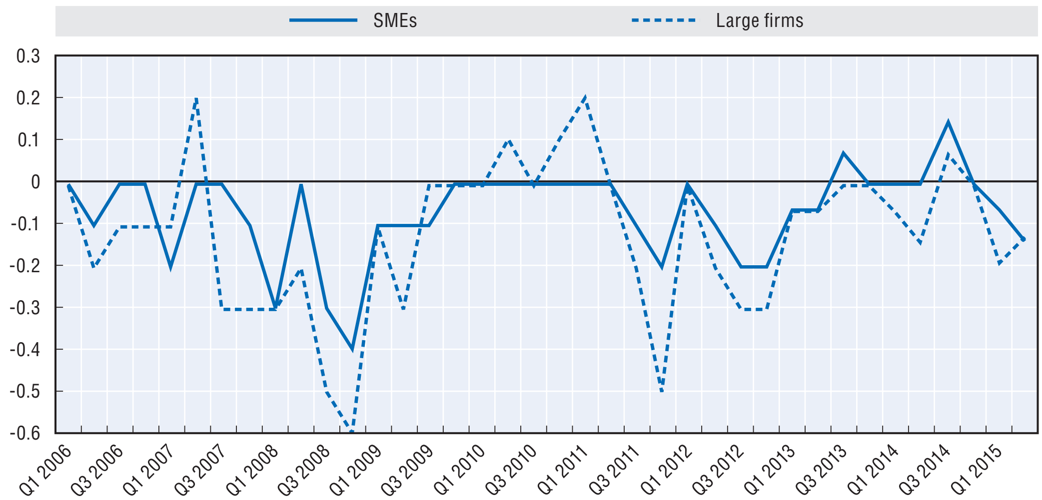
Credit conditions

The weak dynamics of bank lending in the corporate sector are due to both, demand and supply side factors. GDP growth is still well below pre-crisis levels and economic uncertainties prevail. In the second quarter of 2015, banks surveyed in the ECB Bank Lending Survey (BLS) reported the second stagnation of SME loan demand in a row. Since 2008, the survey indicates a slight decline in SME loan demand in 14 and a slight increase in only 5 out of 30 quarters.

As regards the supply side, banks remained cautious in their lending policies. According to the BLS, Austrian banks have slightly tightened their credit standards (determined by the bank's margin on loans, non-interest rate charges, collateral requirements, maturity, loan covenants and size of loans or credit lines) for loans to SMEs in 15 out of 30 quarters since 2008 and have eased them only twice. Even though in most instances the extent of tightening was relatively small, over the years it has accumulated, affecting large firms more strongly than SMEs, however. The tightening of lending policies has been driven both, by banks' capital positions and by heightened risk concerns. BLS results for credit terms and conditions (determined by costs of funds and balance sheet restrictions, pressure from competitions and the perception of risk) have been following a similar path, in part due to the capital requirements of Basel III.

Figure 4.2. **Credit standards for Austrian non-financial corporations, 2006-15**

Change in credit standards (balance of opinion)



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

Source: Austrian National Bank.

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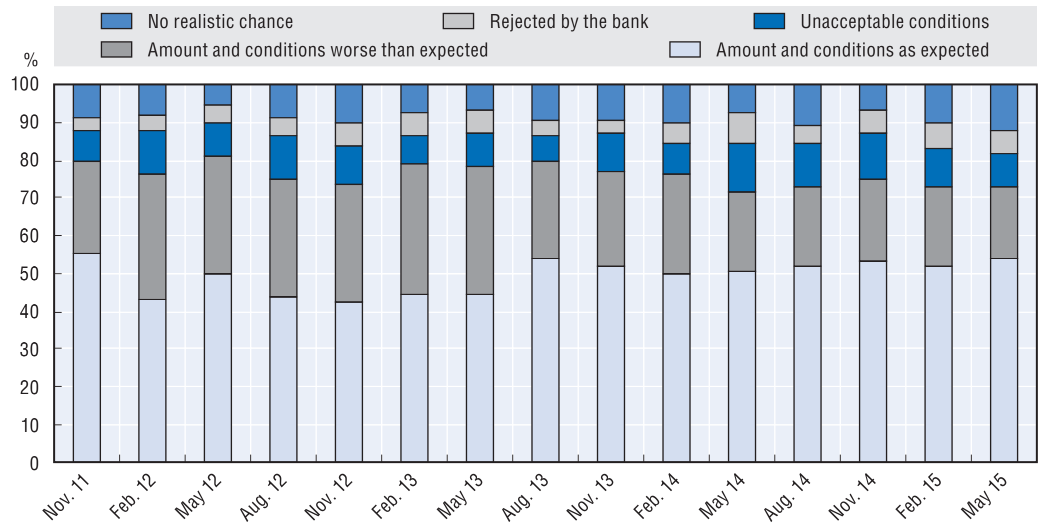
In line with these results, the demand side Survey on the Access to Finance of SMEs in the Euro Area (SAFE), indicates a tightening of lending criteria (such as collateral requirements), which particularly worsens access to bank lending for start-ups and young enterprises with no track record and tangible assets. The SAFE also points to a deterioration in the availability of bank loans, mainly due to the weak economic environment. In line with data from the Austrian National Bank, SMEs report a continuing decrease in interest rates, while other costs of bank financing have been increasing. According to the Business Survey conducted by the Austrian Institute of Economic Research (WIFO) among 1 250 enterprises (mostly SMEs), approximately 25% of all surveyed firms, indicated a demand for credit. The share of firms with a demand for credit that did not get a bank loan stayed nearly constant at 27% (6% of all surveyed firms) in May 2015, up from 22% in May 2013.

As a result of the ECB's reduction in official lending rates in 2008, lower interest rates were passed on to the corporate sector. The average base rate on new loans to non-financial corporations up to EUR 1 million, which serves as a proxy for SME interest rates, was at a historical low in 2014 and more than halved since 2007 from a level of 5.1% to 2.3%. Although the interest rate spread increased to 0.5% in 2014, 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) remained at 2.2% in 2014. Interest rates for new loans up to EUR 1 million with an initial rate fixation over 5 years amounted to 3.1% in 2014, down from 3.4% in 2013. Overdrafts, which are not included in the loan data, are an important source of SME bank financing. As they tend to carry higher interest rates than loans, the above figures might understate the actual interest rate burden for SMEs related to bank lending.

Figure 4.3. **Access to bank lending of Austrian enterprises**

Share of all firms with demand for credit in %



Source: WIFO Konjunkturtest.

StatLink http://dx.doi.org/10.1787/888933330868

The changing conditions have induced a fundamental adaptation of SMEs financial structure. Longer term financing is gaining importance. In line with the decreasing share of short term loans reported by the Austrian National Bank (maturity up to 6 months), the share of short term liabilities has been decreasing in recent years from 50% in the business year 2006-07 to 45% in 2013-14, according to data from the Austrian Institute for SME Research. The decline in short term liabilities was compensated by a corresponding increase in long term equity capital. In the business year 2006-07, the share of equity in the composition of total capital of SMEs amounted to 24% and the share of bank liabilities totalled to 32%. In the business year 2013-14, the share of equity increased to 30%, whereas the share of bank liabilities totalled to 28%. This development indicates that SMEs are reducing their dependency on bank lending. In this respect, an annual survey commissioned by the Austrian Federal Economic Chamber and Austria Wirtschaftsservice GmbH (aws) with a focus on SMEs shows that in 2014 6.6% of the respondents used alternative forms of financing (venture capital, mezzanine capital, silent partnerships, business angels or crowdfunding). The survey also points to an increasing interest in alternative sources of financing: 24% of the respondents are planning to use these types of financing in the future. Among young entrepreneurs (year of establishment 2011-15) the share was even higher (28%).

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 107.7 million in 2014, this figure recently increased again, mainly due to a pick-up in growth capital.

Table 4.2. **Venture and growth capital investments in Austria, 2007-14**

By stage of investment, in EUR million

Stage	2007	2008	2009	2010	2011	2012	2013	2014
Seed	7.6	5.1	6.4	6	14.4	9.2	11.3	10.5
Start-up	28.6	26.5	43.7	14.2	39	28.1	23.8	25.8
Later stage venture	43.7	19.2	25.8	23.4	40.4	5.3	28.1	25.3
Total venture	**79.9**	**50.8**	**75.9**	**43.6**	**93.8**	**42.5**	**63.2**	**61.6**
Growth capital	25.2	32.3	43.3	29	112	25.8	25.2	46.1
Total venture and growth capital	105.1	83.1	119.2	72.6	205.8	68.3	88.4	107.7

Source: EVCA, PEREP Analytics.

StatLink http://dx.doi.org/10.1787/888933332123

Other indicators

The European Payment Index shows that the average number of payment delays increased for business to business from 12 days in 2013 to 13 days in 2014, 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 5 423 in 2014, reaching the lowest level in the period 2007-14, compared with the 6 902 in 2009. In terms of bankruptcies per 1 000 firms, the indicator declined to 12 compared with 18 in 2009.

Government policy response

Financial support for businesses is provided by several institutions. This section focuses on institutions providing loan guarantees and/or direct lending to SMEs. The Austria Wirtschaftsservice GmbH (aws) serves as the federal promotional bank and offers Austrian enterprises financial support in the form of loans (via the ERP-Fund), 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 SME 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' with a 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 300 000 and interest rates for erp loans were lowered from 1.75% to 0.75%. In response, SME loans provided by the ERP Fund increased by 43.5% between 2008 and 2011, to a total of EUR 399 million. In 2014, ERP-loans to SMEs amounted to EUR 312 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 European Investment Fund (EIF) signed a co-operation agreement with the Erste Bank (a private bank) in order to increase the micro lending activity to start ups. From the beginning of 2010 to 30 June 2015, loans in the amount of EUR 5 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 2014, the ÖHT granted Top-A loans in the total volume of EUR 99 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 5 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 2014 to EUR 490 million.

Loan guarantees

Aws guarantees up to 80% of the total loan amount. The guarantees are funded by the state budget, in most cases complemented by a counter-guarantee of the EIB, 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 regular framework 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 harmonization between existing *aws* guidelines.

In January 2015, aws and the EIF signed the first loan counter-guarantee agreement under COSME and InnovFin SME Guarantee (Horizon 2020). These agreements will provide aws with a total counter-guarantee volume of EUR 290 million allowing the Austrian federal promotional bank to increase its guarantee volumes to SMEs with limited collateral and innovative Mid-caps in Austria. One basic element of this agreement is that the aws has to ensure additionality, which means that all benefits resulting from this agreement have to be transferred to the respective company. The EU financial instruments are therefore an important tool for Austria to facilitate access to finance for SMEs.

Loan guarantees granted by ÖHT are counter-guaranteed by the government. The guarantees cover loans from commercial banks, but can also be combined with erp-loans and Top-A loans granted by ÖHT. In 2014, 50% of the guarantee capacity of EUR 500 million was rededicated and used for refinancing with the EIB. With these additional funds a higher volume of Top-A loans is provided. In 2014, loan guarantees provided by ÖHT amounted to EUR 42.3 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, 2007-14**

In EUR million, flows

Institution	2007	2008	2009	2010	2011	2012	2013	2014
aws	330.0	149.0	184.0	152.0	127.0	139.0	131.0	129.0
OHT	7.5	13.9	26.4	20.4	14.1	18.3	34.2	42.3
FFG	3.4	0.7	3.5	0.6	1.5	0.5	2.1	1.0
Total	**340.9**	**163.6**	**213.9**	**173.0**	**142.6**	**157.8**	**167.3**	**172.3**

Source: Administrative data from aws, OHT, FFG.

StatLink http://dx.doi.org/10.1787/888933332139

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 2014, a total volume of EUR 1 029 million was made available to 1 782 SMEs.

Table 4.4. **Financing for exporting SMEs by Oesterreichische Exportfonds GmbH, Austria, 2007-14**

In EUR million, stocks

	2007	2008	2009	2010	2011	2012	2013	2014
Financing for exporting SMEs in EUR million	863	834	804	793	824	1 039	1 027	1 029
Number of SMEs	1 782	1 669	1 599	1 569	1 541	1 771	1 762	1 782

Source: Federal Ministry of Finance.

StatLink http://dx.doi.org/10.1787/888933332148

Risk capital initiatives in Austria

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' 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 in Austria**

In EUR million, stocks

Instrument		Start	Target group	aws share
aws Mittelstandsfonds		2009	companies in the growth stage	EUR 80 000 000
Venture Capital Initiative	5 Tranches	2010-14	companies in the seed/ start-up or initial growth stage	EUR 29 858 000
Cleantech Initiative		2011	companies in the seed/ start-up or growth stage with special focus on cleantech sector (energy and environment)	EUR 5 780 000
Jungunternehmer-Offensive	aws Business Angel Fonds	2013	young entrepreneurs (via selected Business Angels)	Federal Government: EUR 15 000 000 EIF: EUR 7 500 000
	aws Gründerfonds		companies in the seed/ start-up or initial growth stage	Federal Government: EUR 65 000 000 Erste Bank: EUR 3 500 000

Source: Austria Wirtschaftsservice GmbH.

StatLink http://dx.doi.org/10.1787/888933332156

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.

The Austrian government launched via the federal promotional bank aws two initiatives to facilitate access to capital markets for SMEs. 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% (capped at EUR 50 000). This will reduce the barrier to raise funds via capital markets above the regulatory threshold and is therefore targeted especially at SMEs.

Legal framework for crowdfunding

In order to further improve the regulatory framework for alternative financing in Austria the new Alternative Financing Act (Alternativfinanzierungsgesetz (AltFG)) entered into force in September 2015. In the Capital Market Act (Kapitalmarktgesetz (KMG) the threshold for capital market prospectuses is raised from EUR 250 000 to EUR 5 million. For issue volumes between EUR 1.5 million and EUR 5 million, issuers only have to draw up a simplified prospectus. Issue volumes between EUR 100 000 and EUR 1.5 million are subject to simplified information requirements and no issuing requirements are foreseen for issue volumes below EUR 100 000. At the same time, the framework also introduces standards to ensure investor protection (general limit of EUR 5 000 per investor and project; maximum limit is individually fixed based on income or net worth).

Other measures

A new tax reform will become effective on 1 January 2016 with a total volume EUR 5.2 billion. The reduction of the basic tax rate from 36.5% to 25% tangibly alleviates the burden for all persons paying wage or income tax and will boost consumption and growth. In the tax reform, an increase of the research premium from 10% to 12% was adopted, which will make Austria more attractive for relocating international corporations and their R&D departments.

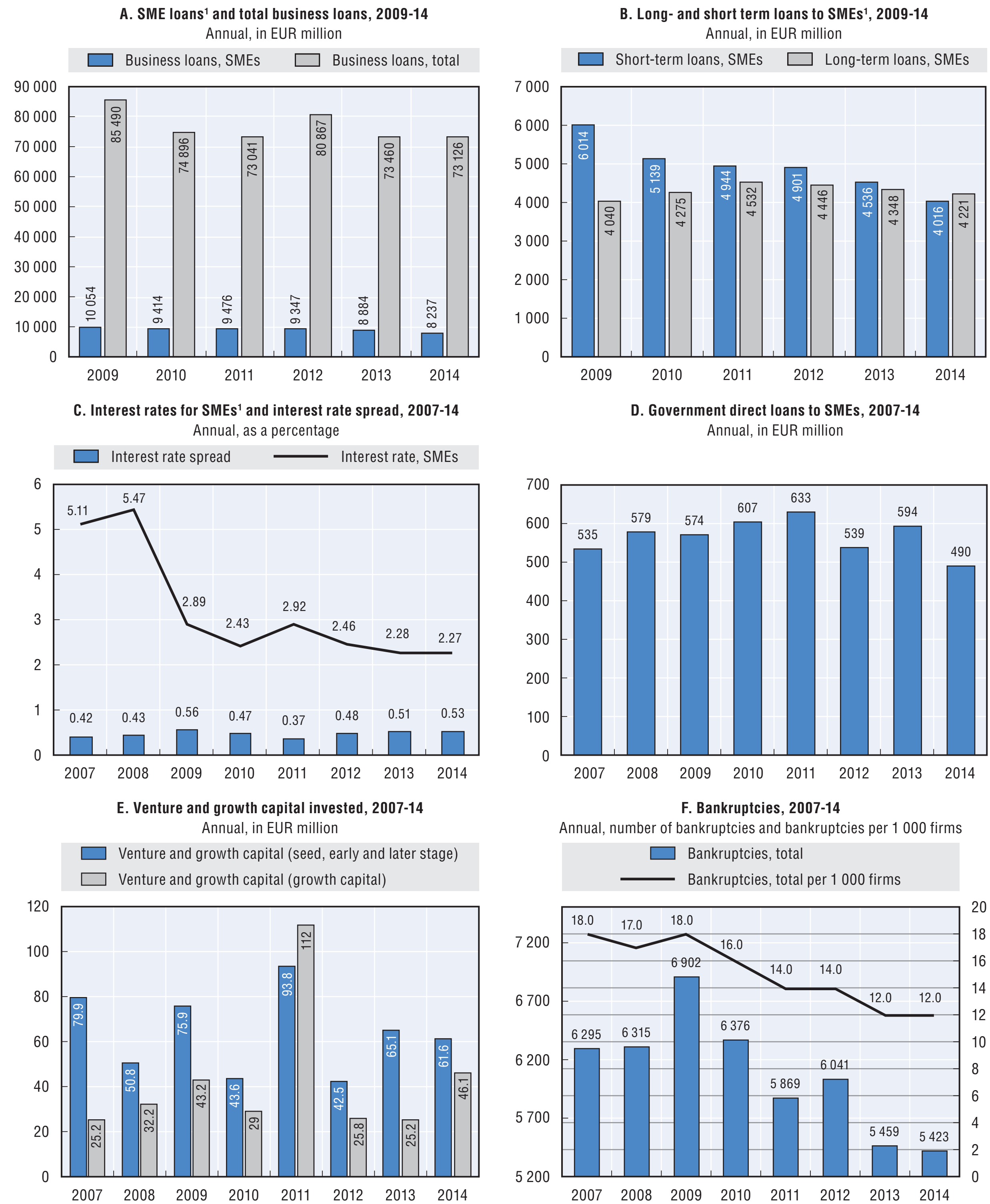
Before 2010, individuals calculating their taxable income by cash basis accounting could claim a tax allowance of 10% of their annual profit capped with EUR 100 000 per individual and year. This benefit required the acquisition or production of depreciable tangible fixed assets or qualified securities. The tax reform enacted by the Government in March 2009, extended the tax allowance 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 2013-16, 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 2013-16, 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 2014-16. 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.

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



Note: [1]Loans up to EUR 1 million.

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

StatLink http://dx.doi.org/10.1787/888933330872

Table 4.6. **Scoreboard for Austria, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Outstanding business loans, total		123 067	134 897	132 413	135 465	13 884	140 384	140 329	136 606
New business loans, SMEs (flows)	EUR million	..	..	10 054	9 414	9 476	9 347	8 884	8 237
New business loans, total (flows)	EUR million	..	..	85 490	74 896	73 041	80 867	73 460	73 126
SME loan share	% of total business loans	..	..	11.76	12.57	12.97	11.56	12.09	11.26
New long -term loans, SMEs (flow)	EUR million			4 040	4 275	4 532	4 446	4 348	4 221
New short-term loans, SMEs (flow)	EUR million	..	..	6 014	5 139	4 944	4 901	4 536	4 016
Government loan guarantees, SMEs	EUR million	341	164	214	173	143	158	167	172
Government guaranteed loans, SMEs	EUR million	429	211	279	226	185	207	211	225
Government direct loans, SMEs	EUR million	535	579	574	607	633	539	594	490
Interest rate, SMEs	%	5.11	5.47	2.89	2.43	2.92	2.46	2.28	2.27
Interest rate, large firms	%	4.69	5.04	2.33	1.96	2.55	1.98	1.77	1.74
Interest rate spread	%	0.42	0.43	0.56	0.47	0.37	0.48	0.51	0.53
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	61.6
Venture and growth capital (growth capital)	EUR million	25.2	32.2	43.2	29	112	25.8	25.2	46.1
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	5 423
Bankruptcies, per 1 000 firms	Number	18	17	18	16	14	14	12	12

Source: See Table 4.7.

StatLink http://dx.doi.org/10.1787/888933332161

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, the data exclude overdrafts, revolving loans, securitised loans and 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; the data exclude overdrafts, revolving loans, securitised loans and 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; the data exclude overdrafts, revolving loans, securitised loans and 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; the data exclude overdrafts, revolving loans, securitised loans and 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; Forschungsförderungsgesell-schaft GmbH, four regional institutions and one body belonging to the public sector

Table 4.7. **Definitions and sources of indicators for Austria's scoreboard** *(cont.)*

Indicator	Definition	Source
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; the data exclude overdrafts, revolving loans, securitised loans and loans to sole proprietors, loan size up to EUR 1 million	Austrian National Bank
Interest rate, large firms	Interest rate for new business loans to non-financial corporations; the data exclude overdrafts, revolving loans, securitised loans and loans to sole proprietors, loan size over EUR 1 million	Austrian National Bank
Interest rate spread	Difference between interest rates for new business loans to non-financial corporations; 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

Note

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.

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Belgium

SMEs in the national economy

In 2013, SMEs in Belgium constituted 99.9% of total firms, the majority of which were micro-enterprises (94.3%). Only 0.1% were large enterprises.

Table 5.1. **Distribution of firms in Belgium, 2013**

By firm size

Firm size (employees)	Number	%
All firms	**560 659**	**100**
SMEs (1-249)	**559 842**	**99.85**
Micro (1-9)	528 524	94.27
Small (10-49)	27 294	4.87
Medium (50-249)	4 024	0.72
Large (250+)	**817**	**0.14**

Note: Data includes financial enterprises with the exception of holding companies (ISIC Rev.4 sector 642).

Source: OECD (2015).

StatLink http://dx.doi.org/10.1787/888933332176

SME lending

The National Bank of Belgium defines a small enterprise as one with an annual average headcount of less than 50 employees, a turnover (excluding VAT) of less than EUR 7.3 million and a balance sheet total of less than EUR 3.6 million.

In 2012, the NBB has changed its methodology regarding data collection and analysis. Before 2012, credits lower than EUR 25 000 were not included in the NBB database. In addition, the reporting of banks has improved and is now more complete. The data illustrates that, except for a small decrease in 2009 and 2013, business loans to SMEs continually increased between 2007 and 2014. During this whole period, total outstanding loans to SMEs increased by 32.5%. However, in 2014, the outstanding stock of SME loans decreased slightly by 0.3% in comparison to the year before.

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 therefore increased from 59.6% in 2008 to 67.8% in 2014. Between 2007 and 2014, SMEs made relatively more use of long term than of short term loans. The share of short term loans declined from 38.5% in 2007 to 28% in 2014. After an increase to 80.7% in 2009, the share of SME loans used to SME loans authorised decreased again to 78% in 2014. At 78% in 2014, the utilisation of available credits remained roughly constant over the 2013-14 period.

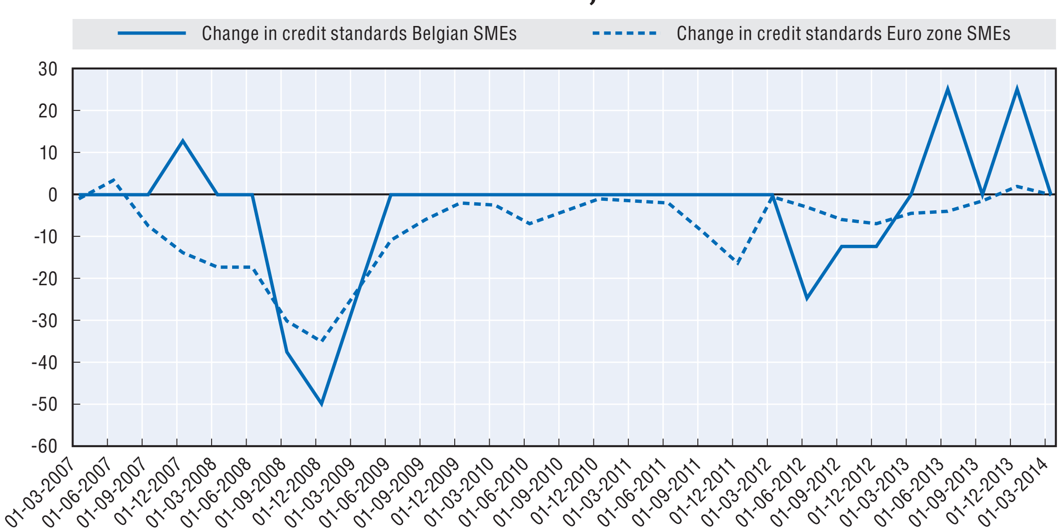
SME loan growth during Belgium's weak economic recovery might be explained in part by the fact that banks were refocusing on the domestic market as the default rate on domestic loans was relatively low (OECD, 2014b). They were also given incentives to engage in SME lending by various government programmes 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 2.1% in 2014. The interest rates 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 32 base points in 2014 up from 58 in 2012 and 92 in 2009, which is below the level seen in most other OECD countries, suggesting that both, Belgian SMEs and larger Belgian firms equally benefitted from the drop of the lending rates of the European Central Bank.

According to the Survey on the access to finance of enterprises in the euro area "SAFE" survey from the European Central Bank "ECB", the percentage of SMEs that applied for a loan in 2014, but were rejected because the costs were too high, reached their lowest level in the period of 2009-14 (12.7%), after spiking to 27.8% 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, as well as the subsequent 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/10.1787/888933330886

In mid-2014, a survey on SMEs' demand for finance during the previous 12 months was held for the Belgian Federal SME Observatory. Most of the respondents (around 900) were 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 as having 10-49 employees and less than EUR 10 million turnover, and medium sized enterprises as 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.

As Table 5.2 shows, in 2014 a little 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 start-ups the proportion stood at 52% and 35% respectively, underlying their dependence on bank finance for operational uses.

Table 5.2. **Demand for bank finance 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

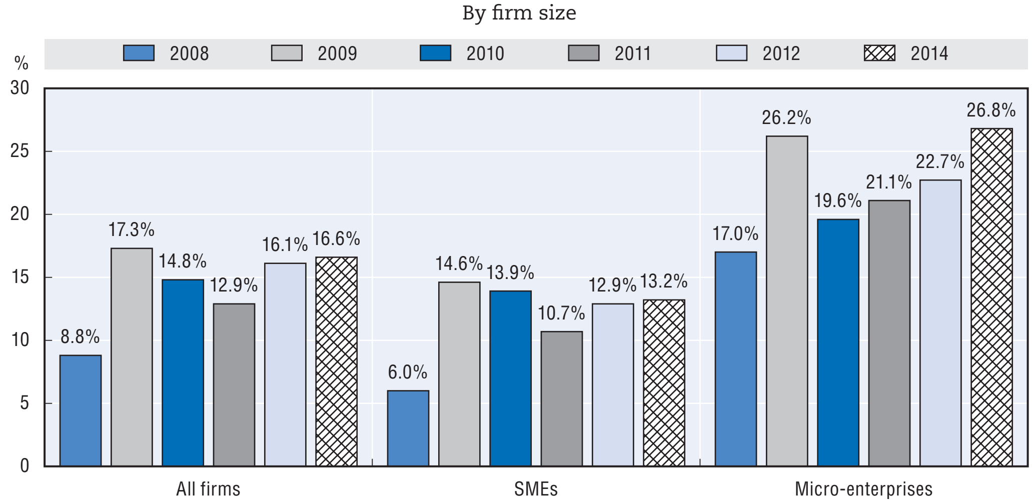
Source: Belgian Federal Public Service of Economy, SMEs, Self-employed and Energy - SME Observatory.

StatLink http://dx.doi.org/10.1787/888933332189

Mature micro-enterprises experienced a much higher loan rejection rate than larger firms. On average, the SME loan rejection rate fell to 13.2% in 2014 compared to 14.6% in 2009, but still with an overall significantly higher rejection rate being observed since 2008. Microenterprises experienced a serious increase in loan rejections 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. **Loan rejection rates in Belgium, 2008-14**

By firm size



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

StatLink http://dx.doi.org/10.1787/888933330895

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 additional information by the bank were considered as problematic by the respondents (see Table 5.3).

Table 5.3. **Demand for bank finance in Belgium (SME financing survey 2014)**

Percentage of SMEs

	No problems at all	Not many problems	Some problems	Many problems
The bank demanded real guarantees (N = 45)	13.3	20	13.3	53.3
The bank demanded personal guarantees (N = 53)	7.5	15	9.4	67.9
The bank demanded more information (N = 45)	11.1	20	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	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	23.9	15.4
Lack of knowledge regarding alternative financing (N = 40)	30	27.5	15	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/10.1787/888933332197

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 Belgian firms did not request bank finance in the previous 12 months**

	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 starters and non-starters.

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

StatLink http://dx.doi.org/10.1787/888933332206

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% versus 34%). Instead, financing from associates of the company and from friends and family were particularly popular for mature SMEs (47% and 19%, respectively, 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% versus 22%).

Table 5.5. **Take-up of financing instruments in Belgium (SME financing survey 2014)**

As a percentage

	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 associates	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 starters and non-starters.

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

StatLink http://dx.doi.org/10.1787/888933332212

Asset-based financing, equity financing and business angels

Both, leasing and factoring are important sources of finance for Belgian businesses. In 2008, the total production of leasing stood at close to 8.2% of all fixed capital investments, for a total amount of EUR 4 856.4 million. This amount fell by 22.7% in 2009 and recovered somewhat afterwards. After an observed drop of the total production of leasing in 2013,

Table 5.6. **Outstanding stock of leasing and factoring turnover in Belgium, 2007-14**

In EUR million

	2007	2008	2009	2010	2011	2012	2013	2014
LEASING								
Non-real estate leasing (financial et operational)	3 917.4	4 293.3	3 365.8	3 590.8	4 083.2	4 087.9	3 683.4	3 765.5
Real estate leasing	488.50	563.10	390.60	414.70	355.80	362.30	438.30	591.40
Total production	4 405.9	4 856.4	3 756.4	4 005.5	4 439	4 450.2	4 121.7	4 356.9
Year-on-year growth, %	11.17	10.22	-22.65	6.63	10.82	0.25	-7.38	5.71
Gross fixed capital formation	53 970	57 801	53 003	53 115	57 755	58 687	58 473	62 293
Relative importance of leasing in capital formation	8.16	8.40	7.09	7.54	7.69	7.58	7.05	6.99
Outstanding stock of leasing (at end of the year)	10 368.4	12 211.8	11 637.4	11 958.1	12 214.1	12 655.5	12 783.9	12 997.6
FACTORING								
Factoring turnover (domestic and international)	19 200	22 500	23 921	32 200	36 871	42 352	47 684	55 374
Year-on-year growth, %		17.19	6.32	34.61	14.51	14.87	12.59	16.13
GDP	345 059	355 050	349 696	365 738	379 939	388 184	395 231	401 977
Factoring as a proportion of GDP	5.56	6.34	6.84	8.80	9.70	10.91	12.06	13.78

Source: Association Belge de Leasing, EUF Factoring & Commercial Finance.

StatLink http://dx.doi.org/10.1787/888933332220

there was a growth noticed of about 5.7% in 2014. The value of the total production of leasing appeared to be about 7% of total fixed capital investments in that year. Although this is the lowest figure since 2007, the amounts involved remain substantial.

Factoring turnover, in contrast, has grown strongly since 2007, and almost tripled between 2007 and 2014. In 2014, the turnover of the factoring industry in Belgium totalled EUR 55.4 billion. This represents 13.8% of GDP, up from the 2013 level (at 12.1%) and marking a dramatic increase from the pre-crisis level of 2007 (at 5.6%).

The supply of venture capital in Belgium is difficult to quantify in a precise manner because of its fragmented nature. Nevertheless it is clear that different important categories of this kind of risk capital financing exist. Regarding venture capital, the main source of data is the European Venture Capital Association (EVCA). Besides venture capital, there exist also private equity funds and many public initiatives regarding risk capital financing. The very active business angel networks in the three Belgian regions play also an important role in activating and matching supply and demand of this type of risk capital.

As in most other countries, equity financing displays a lot of volatility. Whereas estimated equity financing totalled EUR 380 million in 2007, it had a value of EUR 258 and 323 million, in 2013 and 2014, respectively; the latter mainly due to a large rise in growth capital (see Table 5.7).

Table 5.7. **Venture and growth capital investments in Belgium, 2007-14**

In EUR thousand

Stage	2007	2008	2009	2010	2011	2012	2013	2014
Seed	8 021	10 166	5 889	4 833	450	2 126	500	1 780
Start-up	73 953	53 202	90 983	62 801	74 510	64 883	60 613	60 314
Later	98 871	53 763	59 012	15 280	16 153	27 232	28 385	51 847
Growth	199 279	223 474	290 415	202 229	130 396	192 054	168 929	209 467
Total	**380 123**	**340 604**	**446 298**	**285 143**	**221 509**	**286 295**	**258 427**	**323 408**

Source: Belgian Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933332234

Between 2007 and 2014, venture capital investments, all stages combined, represented on average about 317 million Euros. Growth and start-up stage venture capital investments attract most financing from investors.

In general, young SMEs or innovating start-ups active in a niche market as information technology, communications, or biotechnology, face many difficulties when trying to obtain finance from traditional sources like banks, subsidies and others. Business angels or private investors might thus offer alternative solutions to meet the needs of these start-ups.

For the whole period of 2007-14, the aggregated data provided by the business angels networks "Be Angels" (for the Walloon and Brussels regions) and *Vlaanderen* (for the regions of Flanders and Brussels), two leading players in Belgium, show a total of 302 enterprises financed in this way, for approximately EUR 50 million in total. In the same period, 38 projects were on average financed per year, for an average amount of EUR 165 000 per project.

Other indicators

Intrum Justitia provides data on payment delays from firms active in the business to business, business to consumer and business to government segments. In 2014, except for the business to business segment, in comparison with 2012, payment delays decreased from 16 to 12 days in the business to consumer segment, and from 28 to 23 days in the business to government segment. The evolution of bankruptcies paints a more sobering picture. The number of bankruptcies decreased by 8.5%.

Government policy response

The government responded with programmes at both, the federal and the regional levels. Since 2014, direct loans and loan guarantees were only available at the regional level.

Table 5.8. **Direct loans, government guarantees and guaranteed loans in Belgium, 2007-14**

In EUR million

Level	2007	2008	2009	2010	2011	2012	2013	2014
Federal								
Dir. loans, LT	100 .4	89.1	93.1	75.0	54.1	48.5	43.7	..
Dir. loans, ST	0.0	0.0	5 .4	5.0	2.6	4.1	3.8	..
Regions								
Brussels-Capital								
Dir. loans	22.8	12.3	17.9	12.5	12.3	8.3	6.3	..
Guarantees	..	12.0	15.4	14.0	14.4	12.5	9.4	8.3
G. loans	..	18.0	23.8	21.0	22.0	26.1	17.5	14.9
Leverage	..	1.50	1.55	1.49	1.53	2.09	1.86	..
Wallonia								
Dir. loans	..	89.5	92.5	113.1	11.3	132.3	33.8	..
Guarantees	..	44.4	68.2	52.8	68.7	67.0	68.0	..
G. loans	..	114.9	157.2	138.4	179.7	163.2	16.6	..
Leverage	..	2.59	2.31	2.62	2.62	2.44	2.44	..
Flemish Region								
Dir. loans	9.2	11.9	31.8	16.2	22.6	29.9	42.8	31.8
Guarantees	77.8	100.1	32.8	48.7	23.4	186.5	402.8	176.8
G. loans	128.2	179.8	651.7	729.0	360.1	295.0	64.3	272.1
Total								
Dir. loans	132.5	202.8	240.7	221.9	205.0	223.1	130.4	..
Guarantees	77.8	156.5	411.9	553.9	317.5	266.0	480.2	..
G. loans	128.2	312.7	832.7	888.4	561.7	484.3	826.1	..
Leverage	1.65	2.00	2.02	1.60	1.77	1.82	1.72	..

Source: Data reported by the Participation Funds, Brussels Garanty Fund, Groupe Sowalfin, LRM, Participatie Maatschappij Vlaanderen.

StatLink http://dx.doi.org/10.1787/888933332241

These public tools allow for overcoming the lack of collateral often considered insufficient by banks when, in particular, very small companies are seeking financing from them. In spite of 2014 data not being available for the Walloon Region, between 2007 and 2013, the government, on average, spent EUR 1.1 billion to help SMEs in the form of direct loans, guarantees and guaranteed loans.

Despite the fact that the stock of total loans from banks to businesses recorded negative growth rates in 2009 and 2013, at -5.4% and -2.5%, respectively, it is clear that these declines were partially offset by an increase in guaranteed loans and guarantees given by public tools, mainly on the regional level.

Under the Act of 6 January 2014 on the sixth reform of the Belgian state, the federal Participation Fund has been in liquidation since 1 July 2014. Its tasks were transferred to the three regions, which in turn explains the lack of federal data on direct credits, both short and long term. For 2014, only the Flemish region has provided all of its data; those of the Brussels Capital Region being only partial. Apart from these patchy data, the amounts allocated to regional public tools have experienced a downward trend.

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 again in 2011 and 2012, although they still remained well above pre crisis levels. 2013 saw a reversal of this trend with a 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. In 2013, direct loans and equity in the Walloon Region do not include the financing made by 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 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. After agreeing to give an SME loan, banks inform the regional investment fund and the loan guarantee is 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 explains 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 an 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 micro-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. The regional government 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.

The mixed financing "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.

In order to ensure adequate SME funding, four large banks agreed to make EUR 1.1 billion available in 2013. These include BNP Paribas Fortis, KBC Bank, Belfius Bank and ING Bank. 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/ Prets citoyens".

The Brussels-Capital Region has asked the Brussels Regional Investment Society "BRIS", through its subsidiary Brupart, to take on the tasks of providing professional loans and coaching services, which were previously carried out by the Federal Participation Fund. Brupart subsequently redefined the loans granted to entrepreneurs and SMEs in order to take into account, on the one hand, the already existing range of loans offered by the BRIS, and on the other hand, to simplify and adapt these to reflect the specifics of the Brussels economy. In addition, the conditions of coaching entrepreneurs and SMEs have been revised: These services will now be provided either directly by Brupart, or by approved support organisation, which will be remunerated on the basis of the quality of the applications submitted. Finally, Brupart meets the promoter on a regular basis to build a relationship of trust, a prerequisite to the granting of any loan. Newly created products are the bank co-financing "Brufin" with loans varying between EUR 10 000 and EUR 200 000, and the micro-financing loan "Boost me" with amounts ranging from EUR 10 000 to 50 000.

In Flanders, this structure is now called Participation Fund Vlaanderen. The number of different types of advantageous loans has been reduced in Flanders, with only two types loans left : Startlening + (a loan of maximum EUR 100 000 for start-ups less than four years old) and SME co-financing, a subordinated loan of maximum EUR 350 000for start-ups and existing companies, but always in combination with co-financing, i.e. financing from banks or investment funds with whom PMV has a cooperation agreement, or from business angels (at least one of them has to be member of the Business Angel Network Vlaanderen).

In 2014, the Federal Government launched the "thematic citizen loan" or "popular loan". The funds raised through these loans (in the form of long-term cash bonds, with tax advantages and with a specific goal) will be injected into the real economy, particularly as regards the financing of small businesses and other projects with added value for society. At the end of 2014, Belgian banks had raised EUR 1.9 billion of capital through "thematic citizen loans".

Governments, both regional and federal, can fiscally encourage investments in companies in return for their risk taking.

At the federal level, the new plan "Start-ups" launched by the federal government aims to strengthen Belgium's SME financing through venture capital on the one hand, and stimulate entrepreneurship, on the other hand. Indeed, its objective is to support venture capital, notably through tax incentives to investments by individuals, thus representing a significant measure in favour of start-ups in Belgium.

This tax shelter for "start-ups" came into force on 1 July 2015, and should encourage individuals to invest part of their savings in young companies with fewer than 50 employees.

Furthermore, the tax advantage granted to individuals is substantial: a 30% tax cut on investment in small businesses (less than 50 employees), with the opportunity to dedicate up to EUR 100 000 per year and per taxpayer. The personal income tax cut amounts to 45% even if the start-up is a micro-enterprise or a very small business (less than 10 employees). However, the private investor has to keep his shares in the start-up for four years, on pain of losing the tax break. The funds raised by this provision are however limited to EUR 250 000 per company.

Taxpayers without sufficient financial resources can invest through professional structures such as "starters" funds call on crowdfunding.

Government support for SME venture capital also exists in the Brussels Capital Region, the Walloon Region and the Flemish 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 In the Flemish Region, Arkimedes Participatie Maatschappij Vlaanderen "PMV" takes significant minority interests in so-called ARKIVs (Activation of Risk Capital Investments). These are private funds that invest in promising start-ups and SMEs. In fact, Arkimedes PMV offers one Euro extra for each Euro invested by accredited ARKIVs in Flemish start-up companies and SMEs.

The Brussels-Capital Region is also developing its first Small business act "SBA" project with access to finance as one of the priorities. Regarding funding assistance, the resources allocated to microcredits will be increased, and a compensation fund to limit cash flow problems of small and micro businesses due to late payments will be created. Otherwise, the Government of the Brussels-Capital Region plans on implementing a favourable framework for alternative financing mechanisms such as the Flemish "winwinlening" and crowdfunding. Finally, it plans on offering start-up grants to entrepreneurs, as well as facilitate their access to reliable credit.

At the Walloon Region, in the framework of the second version of the Walloon "SBA", a draft bill creating a similar system to the Flemish "winwinlening" allowing Walloon households to lend money to Walloon SMEs, was tabled in the Walloon Parliament. The aim is to mobilise the savings of households to foster private investment through a mechanism of loans linked with tax advantages. This measure is part of a comprehensive plan to support SME financing that was validated by the Walloon Government in May 2015, and that aims at fostering the economic dynamism and development of the Walloon Region.

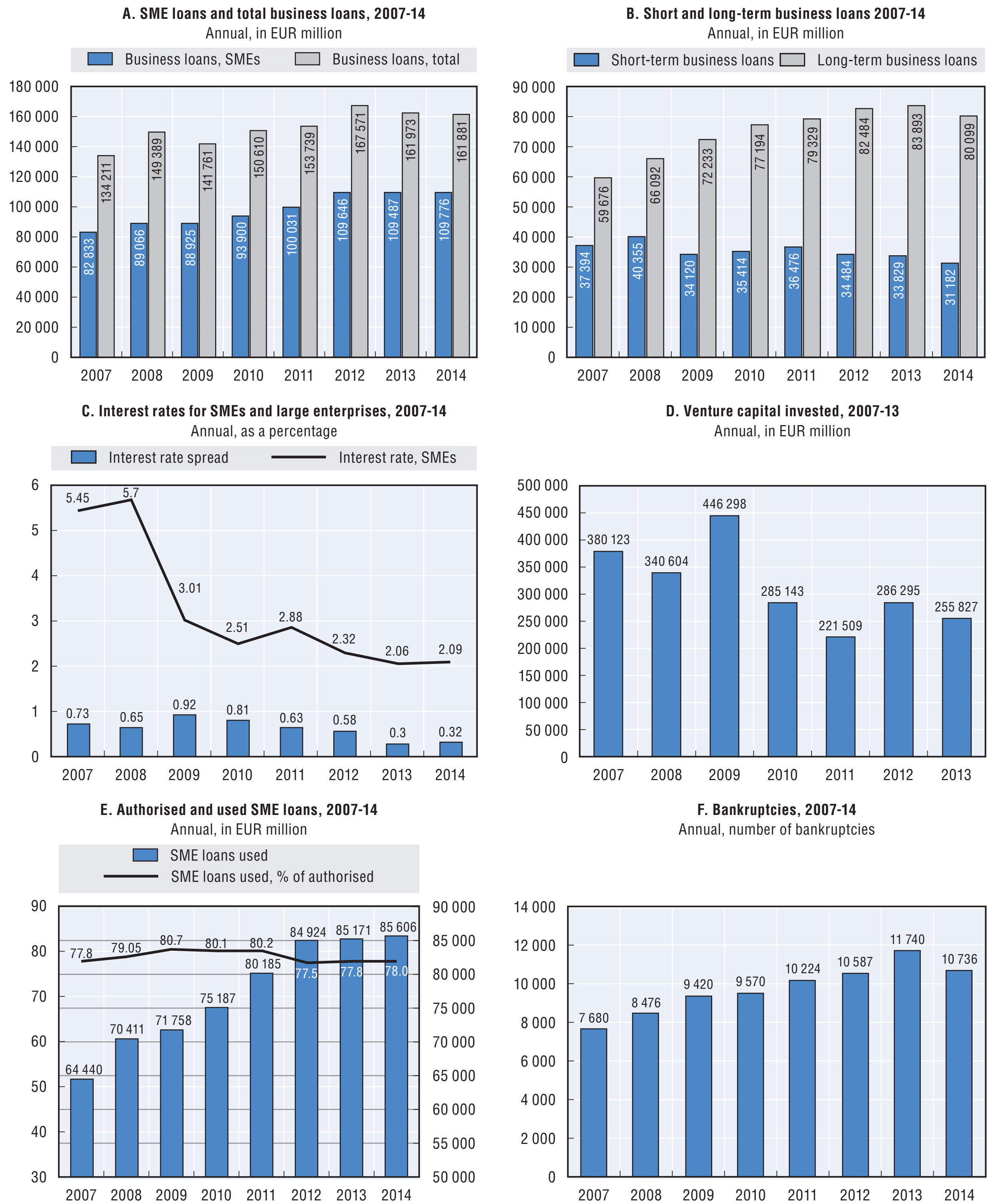
Table 5.9. **Scoreboard for Belgium, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	EUR million	82 833	89 066	88 925	93 900	100 031	109 646	109 020	109 776
Business loans, total	EUR million	134 211	149 389	141 761	150 610	153 739	167 571	160 871	161 881
Business loans, SMEs	% of total business loans	61.72	59.62	62.73	62.35	65.07	65.43	67.77	67.81
Short-term loans, SMEs	EUR million	37 394	40 355	34 120	35 414	36 476	34 484	33 829	31 182
Long-term loans, SMEs	EUR million	59 676	66 092	72 233	77 194	79 329	82 484	83 893	80 099
Total short and long-term loans, SMEs	EUR million	97 070	106 447	106 353	112 608	115 805	116 968	117 722	111 281
Short-term loans, SMEs	% of total SME loans	38.52	37.91	32.08	31.45	31.50	29.48	28.74	28.02
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	85 606
SME loans authorised	EUR million	82 833	89 066	88 925	93 900	100 031	109 646	109 020	109 776
SME loans used	% of authorised loans	77.80	79.05	80.69	80.07	80.16	77.45	77.63	77.98
Interest rate, SMEs	%	5.45	5.70	3.01	2.51	2.88	2.32	2.06	2.09
Interest rate, large firms	%	4.72	5.05	2.09	1.70	2.25	1.74	1.76	1.77
Interest rate spread	%	0.73	0.65	0.92	0.81	0.63	0.58	0.30	0.32
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	323 408
Venture and growth capital	%, year-on-year growth rate		-10.40	31.03	-36.11	-22.32	29.25	-10.64	26.42
Other									
Payment delays, B2B	Number of days	..	..	17	17	15	19	18	19
Payment delays, B2C	Number of days	..	..	12	12	16	16	14	12
Payment delays, B2G	Number of days	..	..	31	31	27	28	24	23
Bankruptcies, total	Number	7 680	8 476	9 420	9 570	10 224	10 587	11 740	10 736
Bankruptcies, total	%, year-on-year growth rate	0.84	10.36	11.14	1.59	6.83	3.55	10.89	-8.55

Source: See Table 5.10.

StatLink http://dx.doi.org/10.1787/888933332255

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



Notes: 1. Loans up to EUR 1 million. No data for 2014 for Figure D.

Source: See Table 5.10.

StatLink http://dx.doi.org/10.1787/888933330900

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)
Short-term loans, SMEs	Short term credits (less than one year), outstanding amounts, all enterprises, end of December	NBB : the Central Balance Sheet Office (CBSO)
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 and growth 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 2014
Other		
Payment delays	Average payment delay in days	Intrum Justitia, European Payment Index 2014
Bankruptcies, total	Bankruptcies on annual basis	Statistics of the Belgium Federal Public Service Economy

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Canada

SMEs in the national economy

In 2014 Canadian small businesses (1-99 employees) constituted 98% of all businesses and employed 7.6 million individuals, which translates into 66.3% of the private sector labour force. Among those individuals, 75% were employed in the services sector and 25% in the goods sector (see Table 6.1).

Table 6.1. **Distribution of firms in Canada, 2014**

By firm size

Firm size (employees)	Number of firms	% of employer firms
1-4	700 811	56.3
5-9	232 442	18.7
10-19	150 601	12.1
20-49	102 880	8.3
50-99	33 114	2.7
100-199	14 645	1.2
200-499	7 235	0.6
500+	2 966	0.2
Total	**1 244 694**	**100**

Source: Statistics Canada, Business Register, December 2014. Public and private firms are included and non-employer firms are excluded.

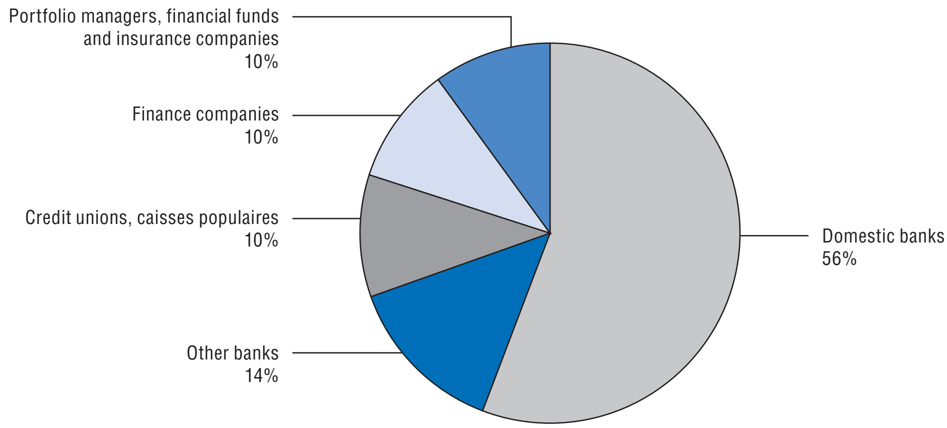
StatLink http://dx.doi.org/10.1787/888933332265

Small business lending

Figure 6.1 shows the major suppliers of small business financing in 2013. Most small business financing (80%) was provided by banks (domestic and foreign), 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, 2014**

As a percentage



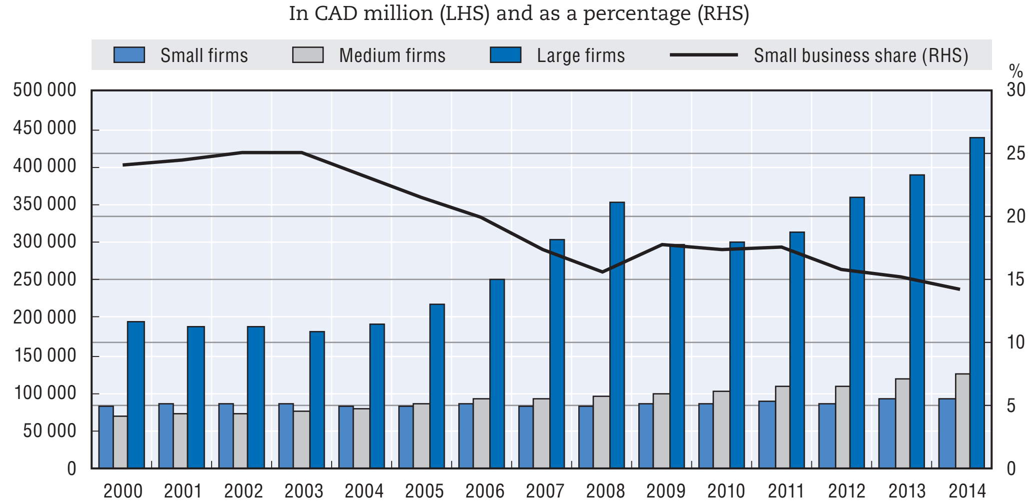
Source: Statistics Canada, Survey of Suppliers of Business Financing 2014.

StatLink http://dx.doi.org/10.1787/888933330915

Data from the supply-side survey show that debt outstanding to all businesses increased 9.4% in 2014 to CAD 659 billion, while lending to small businesses increased 1.7% to CAD 93.7 billion. Small businesses' share of total outstanding business loans decreased by 1.1 percentage points, to 14.2% in 2014 - its lowest level since 2000. Over the 2007-14 period, SME loans and loans to large firms increased by 23.1% and 74.6%, respectively. Over the longer 2000-14 period, debt financing to large businesses grew while debt financing to small businesses remained flat (see Figure 6.2). SME's share of total outstanding business loans declined over the 2000-14 period.

Figure 6.2. **Business debt outstanding in Canada, 2000-14**

In CAD million (LHS) and as a 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, 2000-14; and Industry Canada.

StatLink http://dx.doi.org/10.1787/888933330921

Supply-side survey results show that lending activity for businesses of all sizes increased in the second half of 2014. The increase was significant among large businesses to which lenders disbursed approximately CAD 61 billion in new loans. This represented an 11.7% increase in disbursals compared with the first half of 2014. Similarly, lending activity increased for small and medium-sized businesses, with loan disbursals rising by about 3.3% and 6.7%, respectively. Total lending activity in 2014 increased by 1.6%, 5.5%, and 15.8% for small, medium-sized and large businesses respectively compared to 2013.

Table 6.2. **Value of disbursements in Canada, 2013-14**

In CAD million

Business Size	Half 1 2013	Half 2 2013	Half 1 2014	Half 2 2014
Large (authorisation levels of CAD 5 million or more)	48 071	51 679	54 537	60 928
Change %	*3.0*	*7.5*	*5.5*	*11.7*
Medium (authorisation levels between CAD 1 million and CAD 5 million)	13 605	14 866	14 530	15 504
Change %	*-0.2*	*9.3*	*-2.3*	*6.7*
Small (authorisation levels below CAD 1 million)	11 281	11 525	11 399	11 780
Change %	*2.9*	*2.2*	*-1.1*	*3.3*
Total	**72 957**	**78 070**	**80 466**	**88 212**
Change %	*2.4*	*7.0*	*3.1*	*9.6*

Source: Statistics Canada, Survey of Suppliers of Business Financing, 2014; and Industry Canada.

StatLink http://dx.doi.org/10.1787/888933332275

Small business loans authorised vs. requested

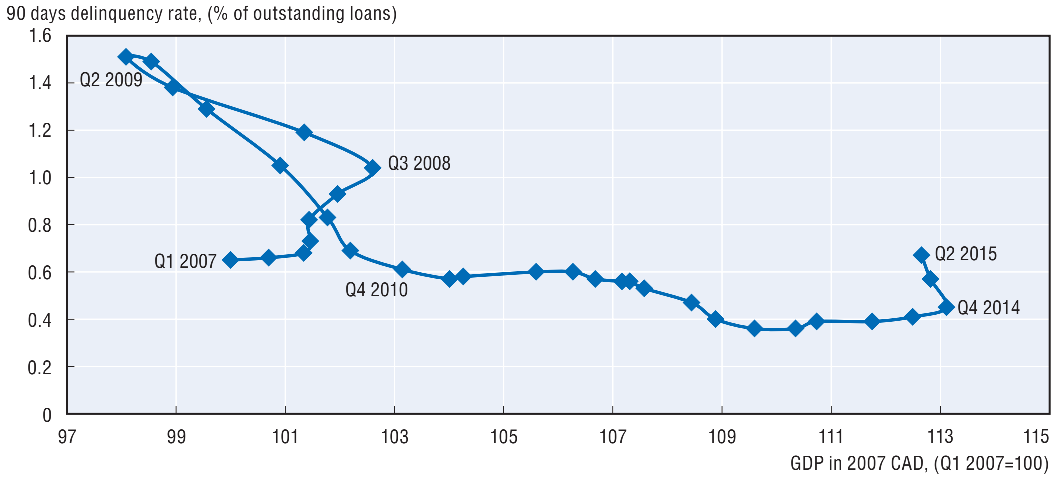
The 2014 Survey on Financing and Growth of SMEs results showed that credit conditions remained stable in 2014 after having recovered from the 2009 recession. Request rates for debt financing increased from 22.6% in 2013 to 28.1% in 2014. Also, the 2014 ratio of funds authorised to funds requested slightly decreased to 86% from 89% in 2013.

Small business credit conditions

Indicators show that small business credit conditions have remained relatively stable since 2011. The average interest rate charged to small businesses decreased 0.2 percentage points since 2011, reaching 5.1%. 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) decreased from 2.3% in 2011 to 2.1% in 2014. This reflects stable access for financing for small businesses in Canada. Sixty-six percent of small businesses were asked to pledge collateral to secure their loans in 2014. This provides some indication 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) has returned to pre-recession levels. Specifically, the 90-day delinquency rate rose from 0.7% 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 1.5% in the second quarter of 2009. This declined to 0.6% in the fourth quarter of 2010 as the economy recovered and continued to decline slowly reaching 0.45% by the end of 2014. Over the first two quarters of 2015, the 90-day loan delinquency rate increased by 0.22 percentage points, along with a slight decline in GDP. This is not comparable to the 2008 recession, but still indicates that those indicators should be tracked closely over the next quarters (see Figure 6.3).

Figure 6.3. **90-day delinquency rate (%) and GDP in Canada, 2007-14**



Source: PayNet inc., Statistics Canada and Industry Canada calculation.

StatLink http://dx.doi.org/10.1787/888933330933

Non-bank finance (leasing)

Since 2011 the request rate for lease financing has varied between 7% and 11% and the approval has been higher than 95% every year.

Equity financing

Equity financing (provided in the form of venture capital) increased by 21.8% in 2014 to reach CAD 2.4 billion and to surpass the level reach in 2007. Between 2013 and 2014, seed capital decreased by 25.7% and early stage capital increased by 76.4%. Expansion capital decreased 1.9% and later and other stage venture capital increased by 17.7% (see Table 6.3).

Table 6.3. **Venture and growth capital in Canada, 2007-14**

In CAD million

Stage	2007	2008	2009	2010	2011	2012	2013	2014
Seed	98.2	71.0	116.3	54.0	44.6	44.1	43.3	32.2
Early stage	491.0	364.5	226.1	277.2	412.6	311.2	332.5	588.0
Expansion	795.5	616.1	379.5	460.7	472.8	438.8	516.5	488.8
Later and other stages	966.3	329.2	271.4	401.9	618.3	731.5	1 037.3	1 269.7
Total	**2 350.9**	**1 380.9**	**993.4**	**1 193.8**	**1 548.3**	**1 525.5**	**1 929.5**	**2 378.7**

Source: Thomson Reuters, VC Reporter, 2014.

StatLink http://dx.doi.org/10.1787/888933332288

Other indicators

The declining trend in business insolvencies continued into 2014. Specifically, the incidence of insolvencies per thousand businesses fell from 3.6 in 2013 to 3.4 in 2014. 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 2.7% between the third quarter of 2009 and the fourth quarter of 2014. 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 2014-15 the government undertook a number of financing policy measures to help strengthen Canada's small businesses.

The Government of Canada announced that the small business tax rate, the preferential rate paid on the first CAD 500 000 of qualifying active business income by Canadian-controlled private corporations with less than CAD 15 million in taxable capital, will be reduced from 11% to 9% by 2019. This 2-percentage point reduction will be phased in through 2019. It is estimated that this measure will reduce taxes for small businesses and their owners by CAD 2.7 billion over the 2015–16 to 2019–20 period.

The Government of Canada introduced the Small Business Job Credit in September, 2014, a two-year measure that will help small businesses by lowering their Employment Insurance premiums from the legislated rate in 2015 and 2016. The credit will effectively lower small businesses' premiums from the current legislated rate of CAD 1.88 to CAD 1.6 per CAD 100 of insurable earnings in 2015 and 2016. Any firm that pays employer EI premiums equal to or less than CAD 15 000 in those years will be eligible for the credit.

The Government of Canada has transformed its Labour Market Agreements (LMAs) with provinces and territories into the Canada Job Fund Agreements. Funding under the Agreements (CAD 500 million per year for six years) will be used for a broad range of employment programmes and services designed and delivered by provinces and territories based on local labour market needs. The Agreements include the introduction of the Canada Job Grant (CJG) with a focus on increasing employers' participation in skills training decisions. 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.

The Government of Canada has announced a new export market development programme, which will provide a total of USD 50 million over five years in direct financial assistance to SMEs seeking to successfully develop and expand their exports.

The Business Development Bank of Canada (BDC) continues to play an important role in helping Canadian small and medium-sized enterprises to grow and become more competitive, innovate, increase their efficiency and explore new markets, at home and abroad. Recently BDC has developed several new initiatives to improve small business growth, including BDC Advantage, a new business line to help address the challenges high-impact firms face and to be a catalyst in growing them to the next level; and, helping SMEs improve productivity and sales by financing the development and application of information and communication technologies by providing CAD 200 million per year in ICT loans and CAD 300 million in venture capital investments in ICT firms as part of the federal government's digital economy strategy.

Through the new Action Plan for Women Entrepreneurs, the Government is helping to connect women with the tools they need to succeed in business. Key initiatives under the Action Plan include: an online platform to foster networking; a campaign to encourage mentorship; enhanced trade missions for companies led by women entrepreneurs; CAD 700 million over three years to finance women-owned businesses through the BDC; and a national forum to bring together women entrepreneurs and provide them with tools, networks and connections they need to reach their full growth potential.

The Government of Canada has introduced changes to allow more small businesses to apply for financing under the Canada Small Business Financing Programme (CSBFP) and allow larger loans to be made available. The CSBFP facilitates the extension of loans by participating private sector financial institutions to small businesses for the acquisition of real property, equipment and for leasehold improvements by sharing the risk with financial institutions. Changes include increasing the maximum loan amount for real property from CAD 500 000 to CAD 1 million and raising the small business eligibility criteria from firms with gross annual revenues of CAD 5 million or less to firms with gross annual revenues of CAD 10 million or less.

The Government of Canada has provided an additional CAD 14 million over two years to Futurpreneur Canada. Futurpreneur Canada is a national not-for-profit organisation that helps young entrepreneurs become successful business leaders through mentorship, learning resources and start-up financing.

A new accelerated capital cost allowance was introduced in Budget 2015 at a rate of 50 per cent on a declining-balance basis for eligible assets acquired after 2015 and before 2026. This is a substantially faster write-off than the standard 30% declining-balance rate, allowing businesses to defer taxes and to recover the cost of capital investments more quickly. The new measure will help businesses to invest in the machinery and equipment they need in order to increase productivity and generate jobs and economic growth. The deferral of tax associated with this new accelerated CCA is expected to reduce federal taxes for manufacturers by CAD 1.1 billion over the period from 2016-17 to 2019-20.

Export Development Canada (EDC), Canada's export credit agency, plays an important role in supporting small businesses seeking to export for the first time, to increase exports within existing markets or to expand to new ones. To further support small businesses in key developed and emerging markets EDC is developing new initiatives to provide an online self-service product that provides selective sales insurance coverage, primarily for the small end of the SME spectrum, in minutes; expanding its SME Mentoring Programme, which selects companies with high growth aspirations and provides additional customised assistance to help them break into new markets; and, tailoring its services to SMEs by "stretching" the corporation's risk appetite in specific areas, such as providing a 100 per cent loan guarantee to domestic banks to encourage them to increase credit facilities for Canadian SMEs, and increasing the approval rate of SME requests for accounts receivable insurance for their foreign buyers.

Finally, the Government of Canada continues to roll-out the Venture Capital Action Plan (VCAP). Announced by the Prime Minister in January 2013, VCAP is 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. 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 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. Additionally, as of April 2015, the government has announced that the remaining CAD 350 million will be invested in four funds of funds alongside provinces and the private sector.

The Venture Capital Strategic Investment Plan (VCSIP) was created by the government at the same time as the VCAP (which is managed by BDC). Under the VCSIP, the BDC was asked to invest USD 100 million of its own capital in strategic partnerships with business accelerators and co-investments in graduate firms. This investment complements the work already being done by the BDC in the early and seed stages of VC investing.

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.

Table 6.4. **Scoreboard for Canada, 2007-14**

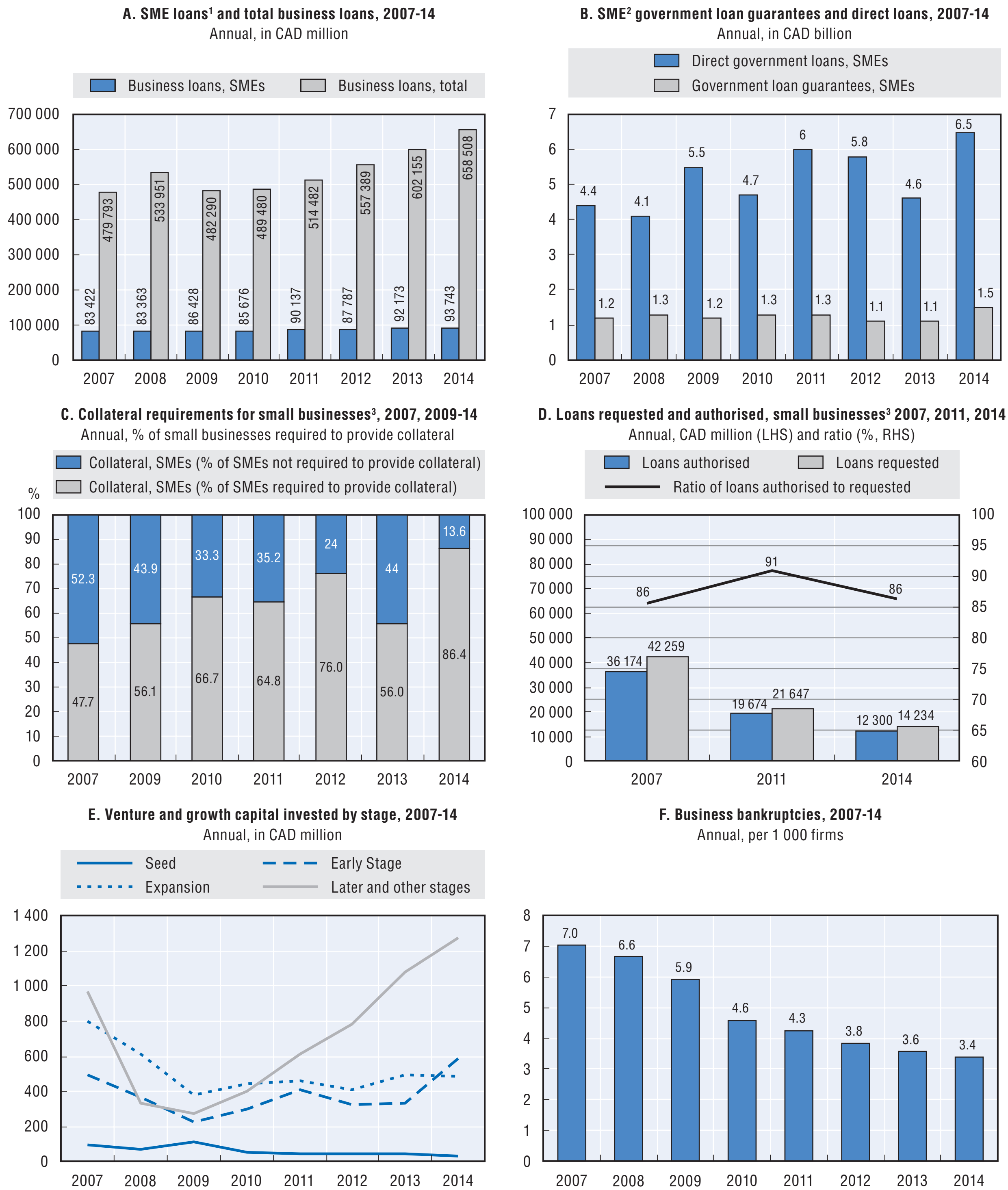
Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	CAD billion	83.4	83.4	86.4	85.7	90.1	87.8	92.2	93.7
Business loans, total	CAD billion	479.8	533.9	482.3	489.5	514.5	557.4	602.2	658.5
Business loans, SMEs	% of total business loans	17.4	15.6	17.9	17.5	17.5	15.8	15.3	14.2
Business loans, SMEs (flow)	CAD billion	..	..	..	..	20.2	21.7	22.8	23.2
Business loans, total (flow)	CAD billion	..	..	..	..	126.2	141.6	151.0	168.7
Share of business loans (flow), SMEs		..	..	..	..	16.0	15.3	15.1	13.8
Short-term loans, small businesses	CAD billion	15.1	..	..	..	6.9	..	..	15.6
Long-term loans, small businesses	CAD billion	21.1	..	..	..	12.8	..	..	12.4
Total short and long-term loans, small businesses	CAD billion	36.2	..	..	..	19.7	..	..	28.0
Short-term loans, small businesses	% of total authorised loans	41.6	..	43.4	36.3	35.1	39.0	46.0	55.6
Government guaranteed loans, SMEs	CAD billion	1.2	1.3	1.2	1.3	1.3	1.1	1.1	1.5
Direct government loans, SMEs	CAD billion	4.4	4.1	5.5	4.7	6.0	5.8	4.6	6.5
Loans authorised, small businesses	CAD million	36.2	..	..	..	19.7	..	..	28.0
Loans requested, small businesses	CAD million	42.3	..	..	..	21.6	..	..	32.5
Ratio of loans authorised to requested, small businesses	%	85.6	..	72.1	87.9	90.9	91.5	88.6	86.2
Interest rate, average	%	7.5	..	6.2	5.8	5.3	5.4	5.6	5.1
Interest rate, business prime	%	6.1	..	3.1	2.6	3.0	3.0	3.0	3.0
Risk premium for small businesses	%	1.4	..	3.1	3.2	2.3	2.4	2.6	2.1
Collateral, small businesses	% of SMEs required to provide collateral on last loan	47.7	..	56.1	66.7	64.8	76.0	56.0	66.6
Non-Bank Finance									
Leasing request Rate	%	20.8		1.0	2.0	7.0	8.0	11.0	7.9
Leasing approval rate	%	93.0		76.0	97.0	97.3	95.0	95.0	98.6
Equity									
Venture and growth capital, Investments	CAD billion	2.4	1.4	1.0	1.2	1.5	1.5	1.9	2.4
Venture and growth capital, Investments	Year-on-year growth rate, %	..	-41.3	-28.1	20.2	29.7	-1.5	26.5	22.8
Other									
90-Day Delinquency Rate Small business	% of loans outstanding	0.69	1.03	1.41	0.79	0.58	0.42	0.33	0.35
90-Day Delinquency Rate Medium business	% of loans outstanding	0.07	0.07	0.54	0.24	0.03	0.02	0.04	0.03
Bankruptcies, total*	per 1 000 firms	7.0	6.6	5.9	4.6	4.3	3.8	3.6	3.4

Note: *Due to a methodological change in the Business Register (BR), the entire series on bankruptcies have been recalculated by using the number of firms with employees as a denominator. The change in the BR has impacted the number of indeterminate (without paid employees) businesses. As a result, since 2014 this number is not comparable with previous years. This ratio should be used as a gross estimate because bankruptcies statistics include business without employees. This change does not have any impact on the business bankruptcy declining trend, only the reported level has increased.

Source: See Table 6.5.

StatLink http://dx.doi.org/10.1787/888933332297

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 Program. Chart E: Thompson Reuters Canada, Industry Canada VC Monitor. Chart F: Office of the Superintendent of Bankruptcy Canada and Industry Canada calculation.

StatLink http://dx.doi.org/10.1787/888933330944

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

Indicators	Definitions	Sources
Debt		
Business loans, SMEs	Commercial loans to SMEs (defined as the value of amounts authorised up to CAD 1 million), amount outstanding (stocks). Includes term loans, mortgage loans, lines of credit, credit cards. Excludes leases, credit provided to subsidiaries/affiliates, factoring. Excludes non-employer firms.	Statistics Canada, 2007-14 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, 2007-14 Survey of Suppliers of Business Financing
Value of disbursements (term credit)	Large (authorisation levels of CAD 5 million or more), Medium (authorisation between CAD 1 and CAD 5 million) and Small (authorisation lower than CAD 1 million)	Statistics Canada, 2011-14 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 and 2014 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 and 2014 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 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, Business Development Bank of 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 and 2014 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 and 2014 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 and 2014 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	
Collateral, Small businesses	Percentage of small businesses that were required to provide collateral to secure their latest loan. Small businesses are enterprises with 1-99 employees.	Statistics Canada, 2007 Survey on Financing of Small and Medium Enterprises and Industry Canada, 2009, 2010, 2012 and 2013 Supplementary Survey on Credit Conditions and Statistics Canada, 2011 and 2014 Survey on Financing and Growth of Small and Medium Enterprises
Equity		
Venture and growth capital	Actual amounts of venture and growth capital invested. Includes seed, start up, early stage and expansion. All enterprises.	Thompson Reuters Canada, Industry Canada VC Monitor

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

Indicators	Definitions	Sources
Other		
90-day Delinquency Rate	Business size is defined according to high-credit (that is, the maximum amount of credit a business once had outstanding, as reported in the PayNet database). Small borrowers are those with a high credit of less than 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

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Industry Canada, *Credit Conditions Survey*, *http://www.ic.gc.ca/eic/site/061.nsf/eng/h_02192.html*.

PayNet Inc., *Canadian Business Delinquency Index*, *http://www.paynetonline.ca/SmallBusinessInsights/CanadianBusinessDelinquencyIndex.aspx*.

Statistics Canada, *Biannual Survey of Suppliers of Business Financing*, *http://www.ic.gc.ca/eic/site/061.nsf/eng/h_01569.html*.

Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011 *http://www.ic.gc.ca/eic/site/061.nsf/eng/h_02774.html*.

Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2014 *http://www.ic.gc.ca/eic/site/061.nsf/eng/02997.html*.

Chile

SMEs in the national economy

In Chile, SMEs account for the overwhelming majority of the total number of enterprises. In the commercial year 2014, 98.5% of the firms were classified as SMEs, including employer and non-employer firms in all industries. Microenterprises made up 75% of the total number of firms; whereas small and medium ones accounted for 20.7% and 3.1% of the total, respectively. Although SMEs represent almost all of the enterprises, they only account for about 16% of total annual sales. Likewise, according to the statistics of the Internal Revenue Service (*Servicio de Impuestos Internos*, SII), SMEs accounted for 45% of the payroll of Chilean firms in the commercial year 2014.

The more accepted definition of SMEs in Chile is based on the annual turnover criterion according to law 20 416[1]. The banking industry, however, relies on a different definition based on the size of the credit amount, as indicated in Table 7.1.

Table 7.1. **Distribution of firms in Chile, 2014**

By firm size

Firm size (annual turnover)	Number	%
All enterprises	**867 863**	**100**
SMEs (up to UF 100 000)	**854 539**	**98.5**
Micro (up to UF 2 400)	647 766	74.6
Small (UF 2 400 to UF 25 000)	179 881	20.7
Medium (UF 25 000 to UF 100 000)	26 892	3.1
Large (UF 100 000+)	**13 324**	**1.5**

Note: Data includes employer and non-employer enterprises in all industries; UF (Unidad de Fomento) is an indexed unit that accounts for variations in the general level of prices in the economy in order to preserve the real value of assets denominated or indexed to this unit. As a reference, the value of one unit UF by December 31, 2014 stood at CLP 24 627. As a group, SMEs in Chile are firms with annual sales of up to UF 100 000.

Source: Internal Revenue Office.

StatLink http://dx.doi.org/10.1787/888933332309

Macroeconomic context

The Chilean economy started slowing down in the second half of 2013 with a year on year growth rate of 4.2% (5.4% growth rate in 2012). The downward trend strongly deepened during 2014, bottoming out with a year on year GDP growth rate of 1.9%. For the year 2015, as reported by the Chilean Central Bank in its Monetary Policy Report of June 2015, the growth forecast was adjusted downward by 25 basis points to a range between 2.3 and 3.3%. The Chilean Central Bank has recently announced that the annual GDP growth rate for 2015 will be revised downward in its upcoming release of the Monetary Policy Report due to weaker economic data for the third quarter.

The aggregate domestic demand has dramatically fallen in the months leading up to the first half of 2015. A strong fall in the overall level of investment is one of the most striking signs of the downward cycle. This trend has been marked by continued negative growth rates over several quarters. Consumers are spending less with a slower growth of private consumption.

Forecasts collected through the Survey of Business Confidence of the Central Bank (August 2015) show a 2.2% GDP growth rate for 2015 and a 2.8% growth rate for 2016. Economic experts expect a 4.2% inflation rate for the year with the benchmark interest rate to remain unchanged at 3% by the end of 2015. The expansionary characteristics of the monetary policy conditions provide low cost of financing for the private sector.

In sum, the macroeconomic context strongly deteriorated during 2014 and the first half of 2015. A slow recovery is expected during 2016.

SME lending

The Chilean Bankers Association (*Asociación de Bancos e Instituciones Financieras*, *ABIF*) provides information based on accounting metrics that include different sources even if they are not strictly classified as credit operations (for instance, factoring, contingent credit, leasing, etc.). The same applies to data on the commercial debt portfolio provided by the Chilean Central Bank in its reports on monetary policy and financial stability. Therefore, these differences must be taken into account and help explain the differences with the information directly reported by the Superintendency of Banks and Financial institutions (SBIF) for the elaboration of this report. Therefore, the data provided by SBIF relies on credit operations only.

The Chilean Bankers Association reports that the real growth rate in commercial lending plunged in 2014, During the month of January 2014 commercial lending had a nominal increase of 1.4% with respect to the previous month and a year-on-year growth rate of 10.7%. In February 2014, the monthly nominal growth rate increased by 0.7% and the year on year growth reached 10.4% (with a major role of export financing and the effect of exchange rate swings). By April 2014, the commercial lending portfolio showed a 5.9% real growth in twelve months - considerably lower than the levels of 2013 and the previous two years. ABIF notes that the trend in commercial lending converged for firms of all sizes in March 2014. Previously, especially since 2013, only a slowdown in lending for SMEs had been observed. Later that year, specifically by November, the growth rate in commercial lending showed a month-to-month contraction of 0.5% and registered a 2.9% real year-on-year growth change that and a lower level of growth compared to the average rate during the previous years and the first half of 2014. Commercial credit grew at a 1.7% annual rate during December 2014 (as compared to 2.8% in the last year).

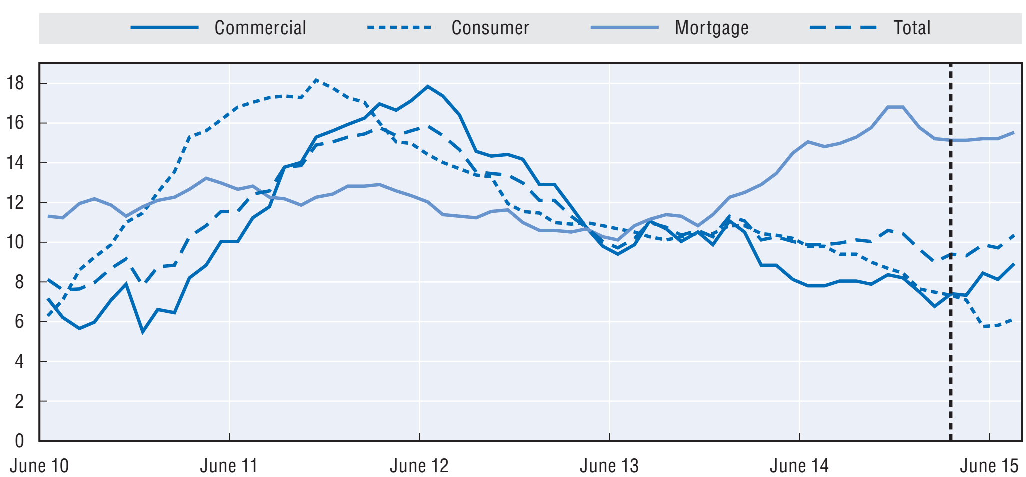
The Central Bank in its Financial Stability Report also presents commercial lending data consistent with the ABIF data. The report explains that lower growth rates in lending have coincided with a deterioration of the economic activity and the level of investment in the overall economy. A steep fall in credit demand in the construction, mining and services industries is noted. It is also mentioned that even loan applications of high amounts (commercial loans that are individually screened), that are expected be related to large companies, have steeply gone down.

A significant decline in the growth of commercial lending has gone hand in hand with favourable levels of the cost of credit. An expansionary monetary policy has allowed for a low cost of funding. The Central Bank points out that given the favourable terms for the cost of credit, demand is playing a major role in explaining the downward trend. Businesses might not be requesting loans since they might not need it at the time.

The June 2015 Financial Stability Report (FSR) by the Chilean Central Bank shows sluggish growth rates in commercial lending in the last months. Figure 7.1 shows that commercial lending is growing at a 3% real annual rate. The growth rate seems to have stabilised after a continued downward trend during 2014. By April 2015, for instance, the real growth rate in commercial lending with respect to the previous month reached 0.5% and registered a year on year expansion of 2.4% (the same figure in April 2014 stood at 5.9% and at 8.9% in 2013) which shows the strength of the downward trend.

Figure 7.1. **Growth rate of loans in Chile, 2010-15**

As a percentage, real annual variation



Note: The vertical dash line indicates the cut-off date for the last FS.

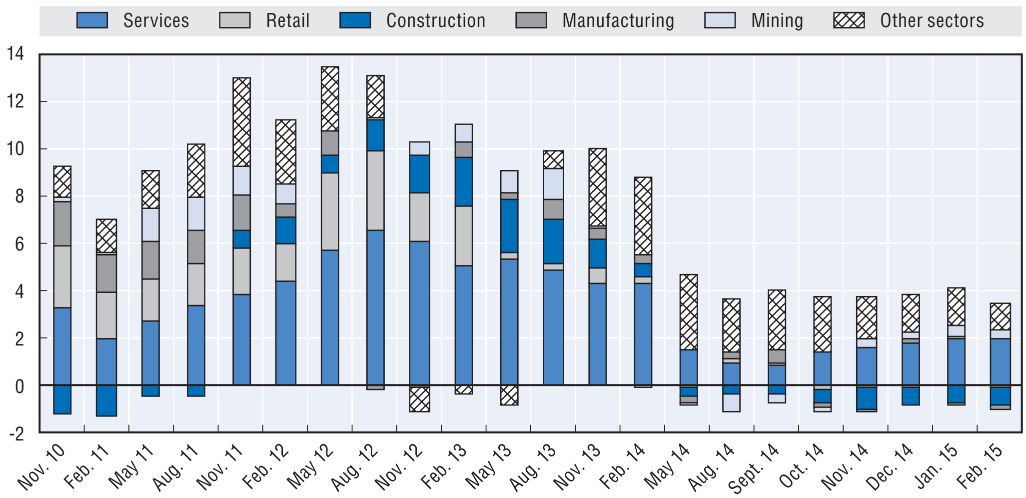
Source: Financial Stability Report. Chile Central Bank, June 2015.

StatLink http://dx.doi.org/10.1787/888933330952

The real rate of growth in lending to firms in Chile has decreased since the first semester of 2014. Figure 7.2 is taken from the Chilean Central Bank Financial Stability Report and shows the contribution of different sectors to the real rate of growth in commercial lending.

Figure 7.2. **Commercial loans by economic sector in Chile, 2010-15**

Contribution to real annual growth, as a percentage



Note: The category 'other sectors' includes EGW, transport, storage and communications, agriculture, livestock, forestry and fishing, and real estate.

Source: Financial Stability Report, Central Bank of Chile, June 2015.

StatLink http://dx.doi.org/10.1787/888933330965

The Chilean Bankers Association reports data on commercial lending classified according to debt size. The data show that by December 2014 the number of commercial borrowers increased by 55% since 2009, which means a total of around 1.13 million clients and around 404 427 new entities or tax numbers. However, these figures must be analysed carefully, since operations on borrowing from microenterprises also include students loans, and the data might show accounting metrics of credit and not necessarily actual loan operations. According to these data, credit related to SMEs would account for about 26% of the total number of borrowers. Large companies would account for 1.5% of the number of total borrowers.

Over the period 2007-14, the size of the nominal stock of business credit operations reported by the banking regulator (*Superintendencia de Bancos e Instituciones Financieras*, SBIF) for this report, which includes contractual operations of credit only, increased by 86.8% in nominal terms[2]. The total stock of outstanding business loans fell by 7.2% over the period 2008-09 and recovered the next year with a 4.5% 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 levels with a year-on-year growth of 18.2%. Since then, the rate of growth of business loans has steeply reduced with growth rates of 12.9% (2011-12) and 8.1% (2012-13), respectively, during the next following year-on-year variations. In the latest period, (2013-14), the total stock of business loan increased by 9.5%.

Table 7.2. **Growth rate of the stock of total business loans in Chile, 2008-14**

As a percentage

Growth of the stock of commercial loans (base year 2007)	2008	2009	2010	2011	2012	2013	2014
	22.0	13.2	18.3	39.8	57.8	70.6	86.8
Annual growth of the stock of commercial loans	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
	22.0	-7.2	4.5	18.2	12.9	8.1	9.5

Source: Own calculations, based on SBIF business loan portfolio data.

StatLink http://dx.doi.org/10.1787/888933332319

The stock of outstanding SME business loans registered a 102% increase over the period 2007-14. On a year-on-year growth basis, the stock of SME business loans grew by 16.7% (see Table 7.3).[3]

The share of SME loans in total business loans increased over the 2007-12 period, from 16.7% to 18.5%, and then declined to 16.9% over the period 2012-13 and the share increased again to 18% in 2014. The share of short-term loans in the total flow of new SME loans stood at 56.9% in 2014, indicating that loans were mainly being used to resolve cash flow imbalances.

Table 7.3. **Growth rate of the stock of SME business loans in Chile, 2008-14**

As a percentage

Rate of growth of the stock of SME loans (with respect to base year 2007)	2008	2009	2010	2011	2012	2013	2014
	11.3	18.9	29.5	46.7	68.2	72.9	101.8
Year-on-year rate of growth of the stock of SME loans	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
	11.3	6.9	8.8	13.3	14.6	2.8	16.7

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

StatLink http://dx.doi.org/10.1787/888933332320

Credit conditions

The Quarterly Survey of Banking Credit Conditions of the Chilean Central Bank (*Encuesta Trimestral Sobre Condiciones Generales y Estándares en el Mercado de Crédito*), where banking executives at credit departments are asked about perceptions on credit approval standards and demand, started showing more restrictive conditions for the supply of credit during 2014. The lower demand was explained by a decrease in financing needs for investment in fixed assets. A major decrease was reported in the demand of credit from real estate developers and construction companies in 2014.[4] By April of 2015, the survey showed tighter supply conditions as well as a weaker demand for financing, both for large companies and SMEs. By April 2015, 21% of banks reported even stricter conditions for SMEs with respect to previous quarters.

The Chilean Central Bank's credit survey suggests that the demand for business financing has weakened in the last semesters. In addition, the SME segment of borrowers shows the highest decrease in demand. According to the second quarter of the 2015 survey on bank credit, the general conditions and approving standards in the credit market, credit supply is tight in all segments and demand is perceived to be weak across all credit segments.

Data on interest rates are only available as of 2010.That year the nominal interest rate spread between SMEs and large enterprises stood at 6.5%[5]. The spread of interest rates between the average rates provided to SME versus large firms in 2011 reached 6.6% for Chilean peso-denominated loans, and increased in 2012 to 7% and 8.9%. In 2013, the spread narrowed to 6.5% and to 6.1%, potentially showing a change in the composition of the commercial debt portfolio.

SME loan rejection-request rates

The indicator 'rejection rate over requests' is calculated from The Third Longitudinal Survey of Enterprises *(or Encuesta Longitudinal de Empresas, ELE)* based on data for the year 2013 on registered businesses with at least 800 UF (or approximately CLP 19.7 million) in annual sales. Therefore, the sampling frame of the survey includes only part of the segment of microenterprises (those with annual sales of up to 2 400 UF which amount to approximately CLP 59 million). In the survey, businesses are asked whether they obtained any loan during the year 2013. Responses indicate that 21% of enterprises from the sample obtained credit during 2013. A negative correlation between the probability of receiving a loan and the size of the business is observed. For large companies, 55% did not receive a loan, while the rate was at 86% for microbusinesses.

The rejection rate stood at 11% in 2013 for SMEs (13% during 2011). For large companies, the rejection rate in 2013 stood at 0.7% (1.3% in 2011).

Asset-based finance and equity financing

Equity financing

CORFO promotes the development of the venture capital industry in Chile by supporting the creation of funds that invest in Start-ups and businesses with track record. CORFO provides long-term credit lines to private venture capital fund managers[6].

CORFO currently operates two programmes that support the VC industry. 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 (FT) is designed to foster the creation of new investment funds that provide high-growth, innovative small and medium sized firms with financing. The investment fund managers 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 (innovative and with high-growth potential), having difficulty to carry out the project by themselves due to insufficient capital, having a sufficient 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 (FC) 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, which are currently at an expansion stage.

In 2014, the CORFO Venture Capital Committee approved new funding lines under its existing two programmes (FT and FC) for an amount of USD 27.4 million for two Development and Growth funds. Outstanding venture capital funds participated in 28 firms, with a total investment amount of USD 65.8 million. This represented a 27% year-on-year increase. The most important sectors in the portfolio of the venture capital industry were the following: Information Technology (IT) (17.1%), retailing/trade (14.9%) and agriculture (8.6%).

Table 7.4. **Chile's CORFO long-term credit line programmes for risk capital fund managers**

Name of credit line	F1	F2	F3	K1	Fenix	FT	FC
	Venture capital	Venture capital	Venture capital	Emerging firms	Mining exploration	Early stage	Growth and Development
Year of creation of programme	1997	2005	2006	2008	2011	2012	2012
Number of credit lines approved	5 funds, 3 closed	5 funds, 1 closed	17 funds, 2 closed	1 fund	6 funds	6 funds	3 funds

Note: Data includes new credit lines approved under the existing FT and FC programmes up to December 2014.
Source: CORFO.

StatLink http://dx.doi.org/10.1787/888933332334

The total amount of long-term credit lines approved by CORFO since the inception of the programme and up to December 2014 stands at USD 637 million. From that total amount of credit lines, nearly USD 512 million worth of capital has been invested in a total of 173 firms. The latter amount includes private resources and the credit line funding from CORFO. There were untapped resources available in the credit lines for an amount worth USD 200 million by December 2014.

During the period 2007-14, CORFO provided a total amount of CLP 310 million that has been invested in SMEs. Up to December 2014, 194 firms had received financing from risk capital investment funds. SMEs accounted for 65% of that total amount invested.

In addition, during 2014 CORFO launched a new programme called Technological Early Stage Venture Capital Funds (*Fondo de Etapas Tempranas Tecnológicas*, FET) aimed at supporting the creation of funds that invest in early stage ventures in the field of new technologies.

CORFO also offers seed capital (grants), both directly and through accelerators/ incubators. Table 7.5 provides details on the CORFO seed programmes.

In 2010, CORFO launched a programme called Start-Up Chile which is aimed at attracting world-class entrepreneurs with early-stage projects in order to create a vibrant entrepreneurial ecosystem. The programme provides entrepreneurs with USD 40 000 of equity-free capital through a reimbursement process. In the case of foreign entrepreneurs, a one-year working visa is granted to the founder and to a team of up to three people included in the formal application. During 2015, Start-Up Chile incorporated a new benefit of CLP 5 000 for applicants willing to develop their projects in regions out of the Santiago Metropolitan Area, and the same incentive to Chilean postgraduate students that have recently finished their studies abroad and are returning to the country. Another major development is the successful implementation of the first *Scale Up Fund* that provides start-ups graduating from the Start-Up Chile accelerator with follow-on funding of up to CLP 100 000 per project. A new fund of this programme will be introduced soon. In addition, a new pre-accelerator programme called “the S Factory” to support start-ups led by female entrepreneurs was recently launched.

During the second half of 2015, new co-working spaces have been created to host entrepreneurs with new business projects.

Table 7.5. **CORFO seed programmes in Chile, 2014**

	Seed programmes 2014	
	Nº of Beneficiaries	Total amount in CLP million
Capital Semilla	129	3 193
Prog Regional Apoyo Al Emprendimiento (Prae)	60	1 085
Semilla Corfo Expansion	40	2 719
Ssaf Desarrollo	32	600
Ssaf Innovacion	86	4 884
Start-Up Chile	339	4 899
Total	**686**	**17 380**

Source: Division of Entrepreneurship, CORFO.

StatLink http://dx.doi.org/10.1787/888933332347

Factoring and invoice discounting

In Chile, the factoring industry is composed of firms which are either bank-affiliated enterprises or non-bank institutions. According to private estimates[7] for the year 2013, factoring operations related to banking institutions, accounted for 90% of the value of the operations in this market, non-bank factoring firms represented 7.8% of the total value, and the Product Exchange only 2.1%. Non-bank factoring companies accounted for 71% of the number of firms relying on this service.

In Chile there are two major associations of financial institutions offering factoring services. The largest trade body is the Chilean Association of Factoring (*Asociación Chilena de Factoring, ACHEF*), which was established in 1994 and has 13 financial institutions providing factoring services. Only two of its members are non-bank financial firms.

By December 2014, ACHEF data showed nearly 18 000 existing clients and the value of the net stock of documents acquired during 2014 stood at USD 3 668 million. The outstanding value of the cumulative flow of documents acquired by the firms associated to ACHEF up to December 2014 stood at approximately USD 21 000 million

In addition, the Association of Factoring Enterprises of Chile AG (*Empresas de Factoring Chile AG*), which is comprised of 18 financial institutions (only two of them are owned by banking institutions), provides information of factoring operations by non-bank institutions.[8] By December 2014, this association held an outstanding stock of documents with a value of approximately USD 429 million and had a cumulative flow of operations during the year 2014 that stood at USD 2 343 million.

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 Nº19 220, and regulated by the Superintendency of Securities and Insurance (*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 receivables from different sectors of the economy to be discounted without liability for the issuer and offering an alternative to the traditional factoring services. Both invoices with payer-based risk and secured by credit insurance are traded. The Product Exchange is also an alternative investment option to short term fixed income. It offers a higher return, at different levels of risks, than traditional fixed income instruments. In 2014, the Product Exchange traded an aggregate flow of nearly USD 659 million worth of receivables. By December 2014, the value of the outstanding stock of invoices stood at approximately USD 96 million. The annual discount rate was 7.4%.[9] SMEs accounted for 52% of the total number of firms that traded their receivables in the exchange and 12% of the total value traded.

As of 1 November 2014, and according to law 20 727, electronic invoicing is compulsory for large firms[10]. This has had a major effect on promoting factoring and invoice discounting as source of finance for SMEs that are suppliers of large companies. 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. By June, 2015 electronic invoicing accounted for 60% of the total[11].

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*)[12], a trade body primarily composed of leasing firms affiliated to the major banks operating in Chile, in 2014 the leasing industry had an annual turnover of USD 4.7 billion (with a year-on-year increase of 5.6%). By December 2014, the outstanding value of the stock reached USD 9.8 billion (a 9.8% increase) (with an annual increase of 8.9 %) and the value of contracts formalised during 2014 stood at approximately

USD 3.7 billion (-1.3%). During 2014, 26 099 new leasing contracts were signed that led to a total of 80 855 outstanding leasing contracts.

Non-performing loans

According to the Chilean Central Bank, the non-performing loan (NPL) indicator "*índice de Cuota Impaga* (ICI)", that is debt delinquent for 90 days or more, surged during late 2014. The Central Bank reports that sectors such as construction and fishing have been particularly affected. The Central Bank also noted that SMEs whose NPL levels were higher have remained steady. On average, NPL rates have gone up and are associated with listed firms that report information to the securities regulator (large companies). Overall, NPLs remain at relatively low levels, however. The rise has focused on companies sensitive to the economic cycle. Commercial debt portfolio has suffered a moderate rise in NPL from 1.5% in the last quarter of 2014 to 1.6% in April 2015 (see Table 7.6). This surge is explained by higher levels of NPLs in the category of large companies as explained before. This indicator rose from 0.9% to 1% over the period from February 2014 through 2015.

Table 7.6. **NPL rates (90-day delinquency) for the overall commercial portfolio in Chile, 2009-14**

As a percentage

	2009	2010	2011	2012	2013	2014
Commercial debt(*)	1.8	1.7	1.5	1.3	1.5	1.5

Notes: Commercial debt includes foreign trade and contingent loans, NPL rates are for the fourth quarter of each year.
Source: Chile Central Bank, Financial Stability Report (June, 2015).

StatLink http://dx.doi.org/10.1787/888933332355

By August 2015, the Chilean Bankers Association (ABIF) reported that NPL rates remained at low levels, even though a small increase had been observed. ABIF also reports that the NPL levels in commercial lending, defining NPLs as debt where payment is behind for 90 days or more, had reached 1.5% by June 2015. ABIF notes that the rise in NPLs was mostly related to large companies, while NPL levels for small and medium sized firms remained steady.

Based on credit operations data by SMEs, provided by SBIF for the elaboration of the report, 6.1% of the SME loan portfolio was behind on payments for more than 90 days and 0.9% for up to 90 days.

Table 7.7. **Percentage of NPL rates in the SME loan portfolio in Chile, 2009-14**

As a percentage

Payment Delays for the SME loan portfolio									
	Unit	2007	2008	2009	2010	2011	2012	2013	2014
Total amount of SME business loans with no payment delay/ Total amount of SME business loans	%	..	..	92.9	93.4	93.5	93.6	92.9	92.9
Total amount of business loans with no payment delays/ Total amount of business loans	%	..	..	97.5	97.8	97.9	97.7	97.6	97.4
Total amount of SME business loans with delay of up to 90 days/ Total amount of SME business loans	%	..	..	1.3	0.9	1.0	1.0	1.0	0.9
Total amount of business loans with delay of up to 90 days/ Total stock of business loans	%	..	..	0.8	0.5	0.5	0.6	0.7	0.6
Total amount of SME loans with delay of more than 90 days/ Total amount of SME business loans	%	..	..	5.9	5.7	5.5	5.3	6.1	6.1
Total amount of business loans with delay of more than 90 days/ Total amount of business loans	%	..	..	1.7	1.7	1.6	1.6	1.8	1.9

Source: SBIF.

StatLink http://dx.doi.org/10.1787/888933332362

Other indicators

In Chile, data on business-to-business (B2B) payment delays is not available. The law regulating invoices and the assignment of account receivables (Law 19 983)[13] provides that in case the payment terms are not agreed upon in the contract, the deadline for the payment will be 30 days from the reception of the invoice by the buyer. The Product Exchange, among other products, trades in discounted invoices. Data on transactions of receivables at the Exchange shows that the average B2B payment term reached 74 days in 2014. Based on a 30-day payment term as a benchmark, the average delay term reached 44 days in 2014. The Product Exchange data is a proxy, so there are caveats on the interpretation. First, the exchange is a very small fraction of the overall market and second, the payers registered in the exchange (debtors) are more likely to be companies that already have a good payment record.

Official bankruptcies in Chile peaked in 2009 with 171 cases of liquidation processes published in the Official Gazette. They declined during the 2010-12 period, but were on the rise again with 142 bankruptcies in 2013 and 150 in 2014.

Considering the characteristics of the insolvency procedure in place in Chile for the period 2007-14 a useful estimate is the number of businesses that filed for the procedure of closure at the Chilean Internal Revenue Serve ("*Término de Giro*" in Spanish) might be a better estimate to determine the extent to which firms have gone out of business, or their ability to overcome a crisis[14] According to this source, in 2014 there were 3 954 taxpayers, classified by the Internal Revenue Service (SII)[15] as existing firms, that filed for the "Término de Giro" procedure during the same year[16]. The number of firms that filed for the procedure increased in 2013 with 3 954 in comparison to 3 481 during 2012. The procedure as a proxy helps to better understand trends rather than the actual number of firms leaving the market each year. In this regard, Benavente (2008) conducted an analysis of the dynamic of firms in Chile based on data from the Internal Revenue Service over the period 1999-2006. The author found that the annual exit rate for micro, small and medium sized businesses stood at 12.1%, 2% and 1.1%, respectively. For those firms in the category inactive (with no sales in a given a year), the average annual rate stood at 27.7 %. Assuming these average exit rates remained unchanged during 2014, the number of businesses going out would have amounted to at least 78 000 active microenterprises driven out of business each year.

Table 7.8. **Number of firms starting and closing operations in Chile, 2007-13**

Firms starting operations and closing							
	2007	2008	2009	2010	2011	2012	2013
N° of taxpayers classified as existing businesses during the period	895 042	907 071	919 798	936 802	962 646	988 743	1 014 482
N° of taxpayers that are no longer considered existing businesses during the period	107 108	105 973	106 871	104 025	10 344	107 679	114 795
N° of taxpayers classified as existing businesses that filed for the closing procedure at the IRS during the period	2 849	2 989	2 966	3 228	3 468	3 481	3 954

Source: Chile Internal Revenue Service.

StatLink http://dx.doi.org/10.1787/888933332378

Government policy response

State-backed credit guarantees for SMEs are provided by two institutions: Banco Estado, the state-owned bank that manages the FOGAPE SME Credit Guarantee Fund (*Fondo de Garantía para la Pequeña Empresa*), and CORFO that runs the programmes FOGAIN (*Fondo de Garantía de Inversión y Financiamiento*) credit guarantee scheme that allows for financing investment and working capital; and finally, the credit guarantee scheme for mutual Guarantee societies.

The FOGAPE Credit Guarantee Scheme was created by the Decree Law 3 472 of 1980 and is managed by Banco Estado[17]. The fund provides financial intermediaries with guarantee rights, hedging financial institutions from credit risk, through an auction process[18]. The auction is based on the level exposure demanded by financial intermediaries to the fund[19]. Thus, the lower the risk coverage level required by the financial institution, the higher the chances of obtaining guarantee rights. During 2014, the number of operations with respect to the previous year remained almost unchanged (0.6%) with 48 772 credit guarantee operations, the total stock of loans with FOGAPE coverage increased by 10.9% and as a result, the total amount of guarantees operations increased by 11.1%.

In December 2014, a USD 50 million capital increase for the FOGAPE fund was approved by Congress. The latest contribution to the fund has made possible new guarantee rights auctions. Under this programme, bank and non-bank financial institutions receive credit risk coverage for credit operations with businesses with total annual sales ranging from UF 25 000 to UF 50 000 (equivalent to CLP 615 million to CLP 1 213 million). The total value of guarantee rights auctions granted to financial institutions since December 2014 stood at UF 23.7 million (CLP 583.7 billion) in June 2015. From this total, UF 6.2 million (CLP 152 687 million) has been loaned out to SMEs. In addition, a special guarantee rights auctions for supporting credit operations for small and medium sized firms was opened in the second quarter of 2015 to support a catastrophe-devastated area in Northern Chile.

Table 7.9. **Chile's FOGAPE credit guarantee scheme, 2007-14**

Year	Number of operations	Value of credit (in UF)	Value of Guarantees (in UF)
2007	24 376	13 476 788	9 828 797
2008	24 077	12 287 746	8 875 012
2009	52 509	38 162 787	25 239 884
2010	78 869	67 171 045	41 758 235
2011	67 913	35 252 389	24 942 935
2012	64 171	34 617 883	27 085 952
2013	48 480	24 853 409	19 546 349
2014	48 772	27 578 833	21 709 831

Source: FOGAPE.

StatLink http://dx.doi.org/10.1787/888933332389

The FOGAIN Credit Guarantee Scheme, managed by CORFO, provides credit risk coverage to financial institutions providing SMEs with short and long term financing for investment and working capital. During 2014, CORFO conducted 68 531 operations to cover the risk of credit operations to SMEs with a decline of 27% in the total number of approved operations (from 93 273 operations during 20013). The total value of guarantee operations was worth USD 2.2 billion of credit extended to SMEs. From the overall number of operations, microenterprises accounted for 56% of the total, 26% for small and 17% medium sized and 1.1% for others (these operations are related to import and export financing of large companies with annual sales greater than UF 100 000 or CLP 2 462 million).

As for the value of total credit secured with CORFO Guarantees, microenterprises accounted for 24.3% of the total, 33% small, 35.2% medium sized, and 7.5% others. In total, CLP 1.3 trillion worth of credit secured with CORFO guarantees was extended.

Banco Estado alone represented 80.6% of the total number of operations for microenterprises, 29.6% for small and 17.9% for medium sized enterprises.

The average guaranteed operation had an average maturity of 29.8 months and an average amount of CLP 19 577 475 (In 2013, the average was nearly CLP 24 million) Most of these credit operations (95%) were for financing investment and working capital.

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

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). The programmes have difference features (coverage ratio, requirement of counter-guarantees, etc.).

CORFO recently announced a new programme for Mutual Guarantee Societies called "Cobertura". In the new guarantee scheme, CORFO manages a fund that provides insurance to IGRs. The new programme incorporates a liquidity facility that will help IGRs have promptly access to cash for making payment on defaulted certificates. The new programme seeks to better align the incentives of the mutual guarantee institutions. This new programme puts emphasis on the management of counter-guarantees (collateral) that SMEs pledge to the IGR. The direct backing by CORFO bolsters the certainty of the certificates.

In 2014, there were 13 mutual guarantee societies with outstanding credit lines (IGR I and IGR III) from CORFO. The mutual guarantee societies show 5 197 outstanding certificates in total since 2009 (compared to 3 059 outstanding operations in December 2013) and 7 794 clients with outstanding certificates during 2014 (12 925 in 2013). In 2014 alone, 1 973 clients were granted certificates of guarantee. 68% of this total went to micro and small enterprises. The total of certificates provided insurance to an amount worth UF 7.9 million of credit (CLP 194 553 million).

From the total number of certificates, 63% were granted to micro and small businesses. The certificates issued by IGRs secured about CLP 199 478 million or UF 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 (CLP 65 million) 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).

In 2014 CORFO announced a new credit guarantee scheme called "***Garantía Pro-Inversión***" that provides firms with credit risk coverage for long term loans and leasing operations with a maturity greater than 36 months. This new programme provides risk coverage for operations by firms of up to 600 000 UF (CLP 14 776 million) in annual sales. Therefore, the programme covers operations of micro, small and medium sized enterprises as well as part of the large firms segment.

CORFO also provides non-bank financial intermediaries[20] (such as microfinance institutions, factoring, credit unions, etc.) with credit lines that they in turn transform into financing to SMEs. CORFO recently introduced modifications to this programme and lifted some of the restrictions that discouraged non-bank financial intermediaries from participating in this programme.

During 2014, the Ministry of Economy launched a set of measures aimed at spurring economic growth in Chile[21] 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 SMEs and entrepreneurship are in the process of implementation:

- A USD 50 million capital increase for the Small Business Guarantee Fund (*FOGAPE*) was carried out in order to increase financing opportunities for SMEs.
- A USD 450 million capital increase for Banco Estado, the State-owned bank, was carried out in order to increase financing opportunities for small businesses and entrepreneurs. In addition, Banco Estado implemented a programme named "*Crece Mujer Emprendedora*" aimed at creating special services and improving credit conditions for female entrepreneurs.
- A committee of experts, from both the public and private sector, was tasked with the object of making recommendations to improve financing conditions for SMEs and entrepreneurs. This group presented its recommendations to the Minister of Economy in July 2015.
- A legal reform that creates an electronic collateral registry and that allows for the use of different kinds of movable assets as collateral to secure SME loan obligations. This initiative is being carried out in collaboration with the IFC. This project includes a reform to replace the existing legal framework of collaterals and the implementation of a new system that allows for financing of revolving credit lines to SMEs.
- CORFO increased funding for early-stage start-ups with the creation of new funds of seed capital and the introduction of modifications to the Start-Up Chile Programme. In addition, CORFO introduced a business innovation programme aimed at improving management practices of SMEs.
- A programme of technological diffusion was created that helps groups of associated SMEs to bring technological advances to the country that help improve competitiveness.

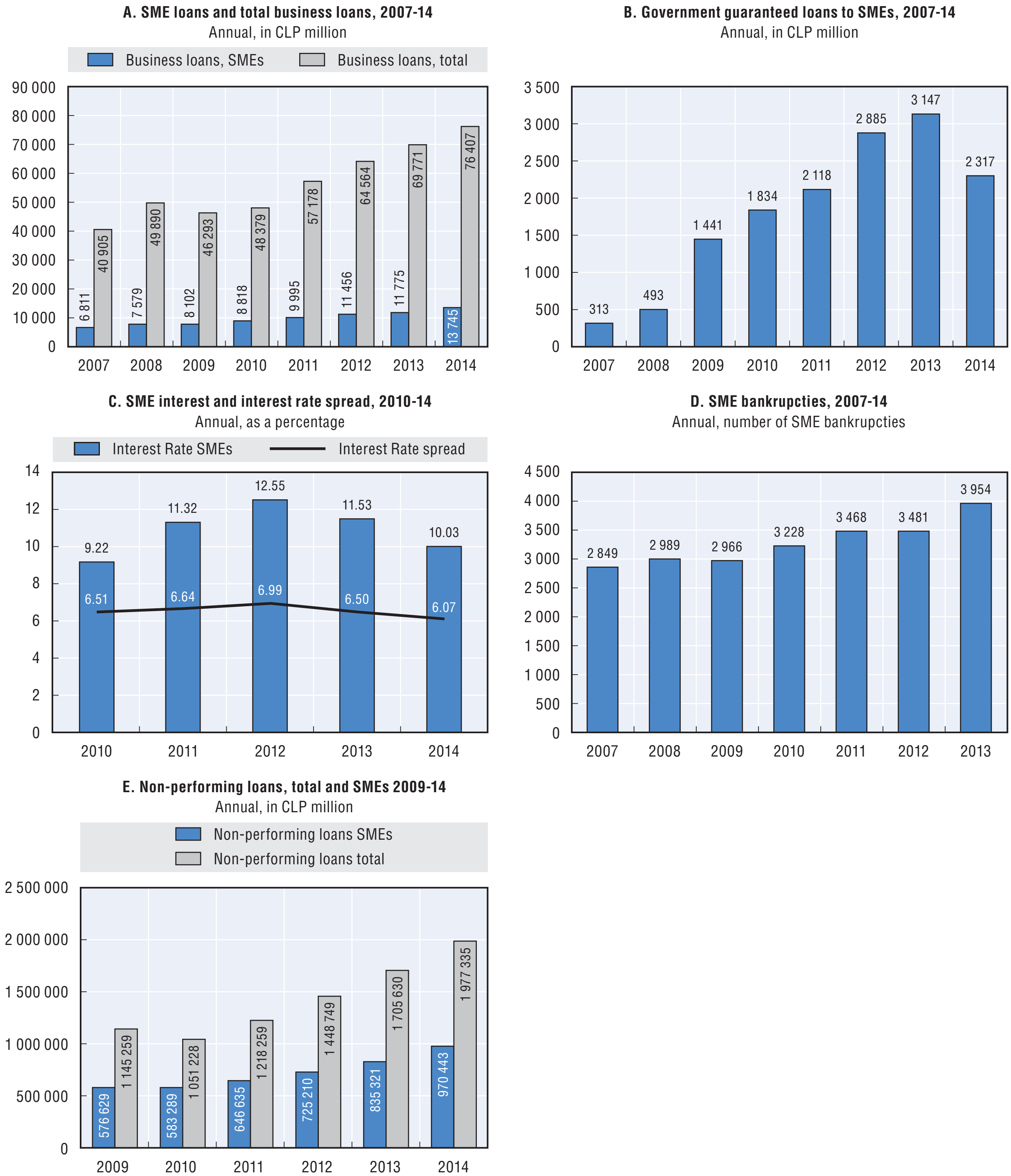
Table 7.10. **Scoreboard for Chile, 2007-14**

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	CLP million	6 811 534	7 578 831	8 101 937	8 817 987	9 995 088	11 456 256	11 775 344	13 745 500
Business loans, total	CLP million	40 905 328	49 889 809	46 293 290	48 379 040	57 178 487	64 564 005	69 771 313	76 406 573
Business loans, SMEs	% of total business loans	16.65	15.19	17.50	18.23	17.48	18.45	16.88	17.99
Short-term loans, SMEs		..	..	..	1 571 498	1 951 916	2 268 028	2 550 337	3 043 291
Long-term loans, SMEs		..	..	..	1 038 947	1 133 215	1 494 457	1 838 358	2 362 925
Total short and long-term loans, SMEs		..	..	..	2 610 446	3 085 131	3 762 485	4 388 695	5 406 216
Short-term loans, SMEs	% of total SME loans	..	..	..	60.20	63.27	60.28	58.11	56.29
Government loan guarantees, SMEs									
Government guaranteed loans, SMEs	CLP million	313 712	493 330	1 441 688	1 834 883	2 118 339	2 885 703	3 147 216	2 317 108
Non-performing loans, total	CLP million	..	..	1 145 259	1 051 228	1 218 259	1 448 749	1 705 630	1 977 335
Non-performing loans, SMEs	CLP million	..	..	576 629	583 289	646 635	725 210	835 321	970 443
Non-performing loans, SMEs	% of SME loans defaulted			5.90	5.70	5.50	5.30	6.10	6.10
Non-performing loans, SMEs	% of the volume of SMEs	..	..	50.35	55.49	53.08	50.06	48.97	49.08
Interest rate, SMEs		..	..	..	9.22	11.32	12.55	11.53	10.03
Interest rate, large firms		..	..	..	2.71	4.68	5.56	5.03	3.95
Interest rate spread		..	..	..	6.51	6.64	6.99	6.50	6.07
Rejection rate	1-(SME loans authorised/ requested)	..	..	..	..	13.00	..	11.00	..
Non-Bank Finance									
Growth capital investments		..	..	..	..	..	..	..	65
Other									
Payment delays, B2B		..	..	..	..	..	..	41	44
Bankruptcies, total		2 849	2 989	2 966	3 228	3 468	3 481	3 954	..

Source: See Table 7.11.

StatLink http://dx.doi.org/10.1787/888933332396

Figure 7.3. **Trends in SME and entrepreneurship finance in Chile**



Source: See Table 7.11.

StatLink http://dx.doi.org/10.1787/888933330974

Table 7.11. **Definitions and sources of indicators for Chile's scoreboard**

Indicator	Definition	Source
Debt		
Outstanding business loans, total (stock)	Total volume of 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)	Total volume of loans to SMEs (defined as loans of an amount of up to UF 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 total business loans extended to firms defined as SMEs (commercial debt of up to UF 18 000 amounts to an SME) 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)
Total new short and long business loans, SME (flow)	New business loans to SMEs (defined as loans of an amount of up to UF 18,000) originated by banks and credit unions under the supervision of SBIF(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 UF 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 UF 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, COBEX and IGR credit guarantee schemes provided by CORFO; and FOGAPE credit guarantee scheme managed by the State-owned bank Banco Estado. SMEs are defined by these institutions as enterprises with annual sales of an amount of up to UF 100 000 or annual exports of an amount up to UF 400 000.	CORFO and Banco Estado
Government guaranteed loans, SMEs	Total value of credit operations secured by State-backed credit guarantee schemes (FOGAPE, COBEX, FOGAIN, IGR). This amount of loans is guaranteed by different types of programs provided by CORFO (Production Promotion Corporation) and Banco Estado. SMEs are defined as enterprises with annual sales up to UF 100 000 or annual exports up to UF 400 000.	CORFO and Banco Estado
Percentage of SME Loans Rejected over SME loans requested.	Percentage of SMEs (defined as businesses with annual sales of up to UF 100 000) that applied for a loan and whose application was rejected during a given year. This indicator does not include the fishing industry and education and health and social work sectors. In addition, the survey does not include businesses with an amount of annual sales lower than 800 UF. Therefore, a significant number of microenterprises are not represented by the survey given that those activities are covered by other survey.	Second and Third Longitudinal Survey of Enterprises (Ministry of Economy)
Non-performing loans, total	The indicator includes all business loans that are on default (90 days or more), from banks and credit unions under supervision of SBIF	SBIF
Non-performing loans, SMEs	The indicator includes SMEs loans (defined as loans with an amount of up to UF 18 000) that defaulted on an instalment payment for 90 days or more, from banks and credit unions under the supervision of SBIF	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 UF 18 000. This is a weighted average by amount of the loan.	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.	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	SBIF
Equity		
Venture and growth capital	Annual amount invested in new and high growth businesses (venture capital, and growth capital). All enterprises.	CORFO
Other		
Payment delays, total enterprises	B2B payment term data from the 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 by 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 an average delay term.	Agricultural Product Exchange
Bankruptcies	Number of businesses that filed for the closing procedure for tax purposes (Término de Giro) over a given commercial year	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 ensure stability in the definition criterion.

Table 7.12. **Definition of SMEs in Chile using the debt size criterion**

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

Note: UF (*Unidad de Fomento*) is 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 24 627.

Notes

1. Law 20 416 establishes the definition of SMEs according to the annual turnover as a general rule and the payroll criterion for labor legislation. The levels of annual sales for the size categories are classified by law in terms of UF. UF is an indexed unit of account that incorporates adjustments based on increases in the general level of prices. The figures are expressed in CLP for consistency with other figures in the report.
2. Data reported is information on credit operations. 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*.
3. The IEF Report is published semiannually (June and December). English versions are available on the following link *http://www.bcentral.cl/eng/publications/policies/polit01.htm*.
4. 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/* [Spanish].
5. 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.
6. One exception to the traditional approach to support venture capital industry was the K1 Fund. 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). Under this specific programme, 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.
7. Hermann Consultores. Consultancy Report for the Product Exchange.
8. Statistics of operations from the Factoring Enterprises Association AG can be found on the following link: *http://empresasdefactoring.cl/?page_id=288*.

9. Transactions costs are not included.
10. *http://www.sii.cl/factura_electronica/ley/ley_fe_20727.htm*.
11. SII statistics on electronic invoicing can be found on: *http://www.sii.cl/portales/efactura/estadistic.htm*.
12. ACHEL statistics on outstanding leasing operations. The number of contracts as of 2009 can be found under the following link: *http://www.achel.cl/site/index.php/cifras-de-la-industria.html*.
13. Law 19 983. *http://www.leychile.cl/Navegar?idNorma=233421*.
14. Benavente in "La Dinámica Empresarial en Chile 1999-2006", The author explains that his 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*.
15. Statistics of firms by the Internal Revenue Service, *http://www.sii.cl/estadisticas/empresas_segun_vigencia.htm*.
16. Number of taxpayers classified as existing businesses during a given year that file the closing procedure.
17. The FOGAPE fund started in 1980 with an initial capital of UF 500, with two additional capital contributions USD 10 million (Law 20,202) in 2007 and USD 130 million (Law 20,318) in 2009.In addition, in 2014 a USD 50 million capital increase was approved.
18. 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".
19. Banks, factoring firms, saving and credit cooperatives (credit unions), mutual credit guarantee societies, etc.
20. *http://www.corfo.cl/programas-y-concursos/programas/credito-corfo-micro-y-pequena-empresa*.
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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, accounting for 80% of urban employment, and for 60% of total GDP in 2013. In 2013, there were about 11.7 million small and micro enterprises and about 44.4 million self-employed entrepreneurs; accounting for 94.2% of all firms. 60.2% of small businesses (excluding self-employed) operate in the services sector (with 36.5% in wholesale, retail and catering; 10.2% in tenancy and business services; 2.5% in information transmission services; 2.5% in real estate industries; and 8.5% in other service industries). In addition, 18.5 of small businesses operate in manufacturing and processing, 5% in construction, and 3.2% in agriculture-related industries.

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

By firm size

Firm size (No. of employees)	Number of firms	% of firms
0-9	3 137 540	44.20
10-19	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
1 000-4 999	23 805	0.34
5 000-9 999	1 576	0.02
10 000+	781	0.01
Total	**7 098 765**	**100**

Note: The latest dataset of the China Economic Census has not been released yet. The above-mentioned numbers on SMEs for 2013 are unpublished estimates without details of classification by firm size, while the latest available data indicated in this Table is from 2008.

Source: The National Bureau of Statistics, 2010.

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The definition of an SME varies by sector and is contingent on both, the production value and the number of employees (see Table 8.2 for details). Chinese economic policy has been more and more focused on the development of small and micro businesses in recent years.

Table 8.2. **Definition of SMEs in China**

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

Note: RMB (Renminbi) is the common abbreviation of the Chinese currency, although CNY (Chinese Yuan) is also used in the financial field.

Source: Chinese Ministry of Industry and information technology, National Bureau of Statistics, National Development and Reform Commission, Ministry of Treasury, 2011.

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In 2014, the Chinese government reformed the commercial registration system, and shortened registration procedures. The responsible Chinese authority, the State Administration for Industry and Commerce, loosened regulations on commercial registration of new businesses by implementing the commitment-to-pay registered capital system to substitute the paid-in registered capital system, cancelling requirements such as a minimum registered capital amount limit, initial paid-in capital, as well as subscription time limitation. That means that a new business has the right to decide on the volume of registered capital without limitations of minimum requirements on paid-in capital before registration. The new business also has the right to decide on the initial ratio of paid-in capital and following paid-in progress of registered capital. Besides, the applicant of a new business registration does not need to submit capital verification reports either. The Chinese authorities also loosened the requirement of establishing an operation site for newly registered businesses. According to previous regulation, new businesses should have a qualified operation site, usually commercial real estate, for which rent tends to be expensive. Now, new businesses have more freedom to choose suitable operation sites. These reforms had a big impact on business creation. The number of company registrations totalled 12.9 million in 2014, up by 14.2% compared to 2013. About 10 600 new companies are thus created every day in China. The new registered capital amounted to RMB 20.7 trillion in 2014, a year-on-year increase of 87.9%. The number of newly registered companies equalled 3.7 million and the number of self-employed was 9 million in 2014, an increased by 45.9% and 5.1%, respectively year-on-year. The industrial distribution of new business creation implies that the quality of entrepreneurship is steadily improving. About 78.7% of new registered companies are in the service sector. Information transmission, software and IT service, education service, culture, sport and entertainment, science and technology service are recorded as fast growing industrial sectors with increase rates ranging between 70%-97% in 2014. Foreign Direct Investments companies' registration has also increased by 5.8% after two-years of decline.

Entrepreneurship and innovation were being highly advocated by the Chinese government in 2014. The Chinese education system is more willing to offer necessary training for young entrepreneurs, and gradually take on more responsibilities to foster entrepreneurship. The development of a new generation of start-ups, especially in hi-tech and innovative fields, is promising. The success of Alibaba stimulated high-quality entrepreneurship in IT (Information Technology), e-commerce and the internet economy. The social image of entrepreneurship has also improved in recent years as a consequence. However, there is still a long way to go to foster entrepreneurship as the start-up rate and the success rate of new ventures are both still at low levels in China.

Lack of access to finance is a main obstacle of entrepreneurship, as well as a major factor causing business failure of SMEs. Private SMEs are often required to provide collateral of their own assets or credit guarantee from another company when they apply for bank loans. To satisfy these requirements of bank lending and obtain sufficient resources, private SMEs tend to help each other by providing mutual financing support via credit guarantees and inter-firm lending. As a result, SMEs in one region are embedded into networking circles, in which SMEs are interconnected with other actors. In this context, credit default of one firm is easily transmitted to another company, and may trigger further business failure. In early 2014, there was an outbreak of credit risk among SMEs and related cascading bankruptcies in several provinces, such as Zhejiang, Henan, Shanxi, Sichuan, Hebei etc. SMEs suffered from a tightened cash flow and a diminishing profit margin in 2014. To prevent a small-scale, regional debt crisis, the Chinese government released credit control to a certain extent and implemented significant reforming measures to improve financial access of SMEs (see the section on government policy response).

Small business lending

The stock of SME loans increased to RMB 285 848 trillion. SME and total business loans increased by 209.9 % and by 176.5%, respectively over the 2009-13 period. As loan growth for SMEs outpaced total business loan growth, the SME loan share increased from 54.6% to 64.9% over the same period. The Chinese government has generally implemented a relatively loose credit policy since the global financial crisis, and issued broad incentive policies to encourage state-owned banks to support SMEs. In 2013, SME and total business loans increased by 12.7% and 12.1%, respectively, in real terms with respect to the previous year and the share of SME loans as a proportion of all business loans increased slightly.

In China, standard loans from public banks are the most widespread source of finance for small firms (ADB-OECD, 2013). Both, development banks and other state-owned commercial banks are important institutions for providing financial support to SMEs. Partial efforts are conducted by development banks, and more efforts are implemented by other state-owned, commercial banks. Only 7.3% of total SME loans are issued by the Chinese Development Bank. The Chinese Development Bank is a policy bank, which assumes responsibility to provide financing support for national strategic targets, including supporting urban renewal, cross-border business, infrastructure, basic and pillar industries, regional development in Central and Western China, innovation and inclusive development, as well as SME development. A current debate evolves around whether SME financing would be enhanced by the establishment of a new finance organisation that assumes policy responsibility to provide targeted financing support to small businesses. Limited government loan guarantees are provided by a very dispersed system of local, state-owned guarantee companies.

Small business credit conditions

The credit cost of SME loans has lowered due to the slacker macro-policy environment. In 2014, China lowered its deposit reserve ratio to targeted financial institutions twice and cut its interest rate. The basic 1-year lending rate has decreased from 6% in 2013 to 5.6% in 2014 and the lending rate for SMEs and large firms decreased from 8.4% and 7.7% to 7.5% and 7.5%, respectively. The decrease of interest rates for SMEs and large firms stood at respectively 0.9 and 0.3 percentage points. The credit conditions for SMEs improved significantly in recent years, as illustrated by the interest spread between SMEs and large firms, which decreased from 0.7% in 2013 to 0.04% in 2014.

In addition to the interest cost, there are extra fees for obtaining a bank loan in many occasions. In 2014, SMEs were on average charged about 1.4% of the total value of bank loans as extra loan fees, down by 2.3% with respect to the previous year. The change is assumed to be due to a number of policy adjustments involving farmer-related loans, national SME funds, prevision for SME credit losses, administrative fees of bank lending, and general SME tax abatement etc., aiming to cut the comprehensive cost of SME financing by China's central government.

Collateral is likely to be required for an SME loan in China. In 2014, about 54.5% of SME bank loans required collateral. This ratio has steadily increased in recent years, from 50.6% in 2009 to 54.5% in 2014. Stricter collateral requirements make it more difficult for SMEs to obtain a bank loan, which, in turn, results in lower willingness of SMEs to invest in production. The utilisation rate of SME bank loans remained at a high level of 94.8%, which slightly increased with respect to the previous year and suggests that demand for credit for SMEs is not entirely met. The ratio of short-term loans to total loans for SMEs decreased from 56.1% in 2013 to 49.2% in 2014. The term structure change coincided with stronger collateral requirements, implying that SMEs with quality assets find it easier to obtain more credit, while others struggle.

In general, credit conditions for small business have been improving in 2014. This is supported by survey data on lending rates, the interest spread, loan fee information, and the ratio of short-term loans to total loans to SMEs. The average ratio of authorised loans to requested loans for SMEs in primary application is 67.9%, with an increase by 8.3 percentage points, implying that the rejection rate decreased to 32.1%. However, in terms of the case number of SME loan applications, the rejection rate increased to 12% in 2014 (see breakdown details in Table 8.3). Small businesses with quality assets and high growth (prospects) are more favoured by the Chinese bank system to the detriment of other businesses. In fact, medium-sized enterprises are important clients who are highly sought after by Chinese banks. Small businesses, especially micro businesses, are most likely to be rejected when applying for a loan. This implies that a part of small businesses does not benefit from the generally improving credit conditions, rather to the contrary. Neither in survey method based on curtail in loan amount requested or in substitute method based on rejection to application case, the rejection rate of micro businesses is obviously higher than that of medium businesses.

Table 8.3. **Loan rejection rate of medium, small and micro scale businesses in China, 2015**

As a percentage

Survey method	Survey item	Company size	Rejection rate (%)
Based on curtail in loan amount requested	"How about the ratio of loan amount authorised by bank to the amount originally conceived in your latest loan application?", and calculated as 1-(loans authorised/ requested)	Medium-scale	27.3
		Small-scale	31.0
		Micro-scale	35.1
Based on rejection to application cases	"Was your latest loan application rejected by bank?"	Medium-scale	5.6
		Small-scale	11.7
		Micro-scale	12.1

Source: China Institute for Small and Medium Enterprises of Zhejiang University of Technology, 2015.

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Equity financing

Although equity financing still only represents a marginal share of all SME finance, the market for SMEs has become more active in recent years. In January 2014, the Chinese equity market reopened for IPOs (Initial Public Offerings) after a nearly two-year suspension. The equity financing amounted to RMB 706 billion for all kinds of firms. There are three institutions that provide alternative equity financing instruments for SMEs: 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 high-quality start-ups. In 2014, SMEs obtained RMB 169.9 billion from the Shenzhen SME Board, and RMB 50.0 billion from Shenzhen Venture Board. In total, 82 small businesses are listed in the SME Board and Venture Board in 2014.

The National Equities Exchange and Quotations (NEEQ) is another national securities exchange specific for SMEs established in September 2012. NEEQ offers financing instruments specific for small businesses. Small companies have still many difficult to get access into the traditional Chinese securities market that favours large-scale and state-owned companies. In 2012, 200 small businesses were listed in NEEQ in total, and the number increased to 356 in 2013. The equity financing amount remains relatively small, with about RMB 0.86 billion in 2012, down from RMB 1 billion in 2013. In 2014, the NEEQ market experienced a tremendous growth, however. In total, 1 572 small businesses were listed in the NEEQ market in 2013, with a recorded financing amount of RMB 13 billion. The fast expansion of the NEEQ market was fuelled by transition to national implementation (pilot in Beijing before 2013), the revision of a full set of exchange regulatory and inflow of securities traders and related venture capital.

Venture investment was impacted by a slowing down of Chinese economic growth. The venture capital invested in seed and early stage companies is still growing at a relatively stable rate and recorded about RMB 91.3 billion in 2014, a 6.4% year-to-year growth. The venture capital invested in the growth stage is declining after experiencing an investment peak in 2011. It should be noted that venture capital investments continue to be very small compared with other funding sources such as bank lending, equity financing in stock markets, and NEEQ.

Alternative financing and other indicators

Non-bank finance instruments, such as factoring and leasing, are gaining more traction as important alternative sources for SME finance. In 2012, China released regulation on commercial factoring. Commercial factoring business is has been experiencing an extraordinary development since. The numbers of newly established companies providing commercial to factoring businesses were 11 in 2010, 19 in 2011, 44 in 2012, 200 in 2013 and 845 in 2014. In 2012, the factoring volume totalled EUR 34.4 billion, about 0.05% of Chinese GDP. Considering a total of RMB 10 trillion of account receivables of industrial companies in 2014, the factoring market is still not very prominent in China. In May 2014, there were 24 major finance-leasing companies with RMB 1.1 trillion of assets. Small businesses acquired RMB 109.1 billion by way of leasing in 2014. The uptake of these non-bank instruments is still relatively small and limited to a small subset of SMEs, especially medium-sized businesses. However, the fast growth of these instruments shows promise and suggests that asset-based finance may soon become a viable finance solution for more SMEs in China.

In China, small businesses, especially micro businesses, are regarded as victims of financial repression in a state-owned bank system. Those small businesses that experience difficulties in getting bank loans often seek alternative financing from the so-called shadow banking system. Small businesses usually first seek small-scale, cheap financing support from family members. When market-based private lending is involved, there is a huge gap of lending conditions between the formal financing system and the informal shadow banking system. In 2014, the benchmark interest rate of a 1-year bank loan stood at about 6% (February to November) and 5.4% (from November), while the average lending rate in the shadow banking system was about 11%-26% (see Table 8.4). This source of finance is therefore only acquired by businesses in critical moments of their life cycle, such as cash-flow crises and only when denied access by the formal financing system. Though the shadow banking system comprises only a small part of overall SME financing, many cascading bankruptcy crises in China were triggered by their inability to repay punitive interest rate charges, and therefore constitutes a high risk for the well-being of the SME sector in China. There is no official indicator of the national interest rate for private lending, since the private lending market is secretive and regional in China. Wenzhou City is regarded as highly active central node in the Chinese shadow banking system. The region is thus also a comprehensive reforming zone of private financing approved by Chinese central government. The Wenzhou private finance index, published since 2012, is a well-known "barometer" for the regional and national private financing market.

Table 8.4. **Wenzhou index of private lending in the Chinese shadow banking system**

Comprehensive private lending interest rate in Wenzhou area (annual average)						19.1
By private lending institutions	Private lending service centre	Small credit company	Private lending company	Interpersonal lending	Others	Rural mutual service centre benefit society
	15.7	18.3	14.9	15.5	26	11.2
By terms of lending	1-month		3-month	6-month	1-year	Over 1-year
	20.1		17.7	16.4	14.3	19.8
Noted	All calculated as annual interest rate (%)					

Note: Surveyed between 8-14 July, 2015.

Source: Monitoring website of Wenzhou Private Finance Index, *http://www.wzpfi.gov.cn*.

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Online finance is quickly becoming popular in China, and is possibly reshaping the SME financing environment. In China, online financing can be roughly divided into three major types: online payment, online financing and online sales of finance products. Since the first P2P (peer-to-peer financing) company was established in 2007, the P2P business has increased tremendously. In 2014, there were over 1 600 online P2P platforms, with a transaction amount of RMB 252.8 billion, and outstanding P2P loans of about RMB 103.6 billion. Crowdfunding can also be described as distribution-based crowdfunding whereby investors will be rewarded with physical products or services, and equity-based crowdfunding whereby investors will be rewarded by equities of start-ups. In 2014, 5 997 distribution-based crowd-funding projects raised RMB 0.3 billion; and 3 091 equity-based crowdfunding projects raised RMB 1 billion. Online financing is a promising instrument for SMEs because of its cheapness and high efficiency. Of course, more comprehensive regulations and a stricter risk-control system are important for its growth.

Table 8.5. **Development of online finance in China, 2014**

Business type		Organisations/projects	Investors	Investment capital	Revenues	Remarks
P2P		1575 (organisations)	297 418	33.8 billion (before July, 2014)	252.8 billion	Average lending rate: 17.9%
Crowd-funding	Distribution-based	5 997 (projects)	1 664 946	0.4 billion	-	
	Equity-based	3 091 (projects)	5014	1.0 billion	-	
Online payment		90 licenses for internet payment and 37 mobile payment (before Feb., 2014)	-	-	8 076.7 billion	Total 269 licenses for third-party payment, including internet payment and mobile payment (before Feb., 2014)

Source: ZERO2IPO Research Group, 2015.

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In 2014, payment delays for the B2B (business to business) and B2C (business to customer) sectors changed for the better, along with an improvement of credit conditions for SME financing. The B2B payment delay decreased from 95.9 days to 72.3 days, implying cash flow along supply chains generally releasing, and the B2C payment day also decreased from 48.4 days to 42.6 days. Chinese B2B and B2C payment delays to some extent affect SMEs' cash flow and financing capability.

Total non-performing loans equalled about RMB 549 billion in 2014, increasing by 15.1% in amount year-on-year, while non-performing loans for SMEs were at about RMB 475.6 billion, increasing by 13.8% year-on-year. The ratio of SME non-performing loans to total SME loans stood at 1.7%, increasing only slightly by 0.01 percentage points. The ratio of SME non-performing loans is still on a safe and controllable level.

Government policy response

In November 2013, China's central government initiated broader activities restructuring the economic and social institutional system. As part of a reform strategy of the economic institutions system, China's government adopted broader policies to support SME financing, aiming to reduce financing costs, facilitating access to bank lending, encouraging the development of innovative financial products and online financing. China's central government is focussing on entrepreneurship and micro businesses in 2014.

China decreased income tax, value-added tax, administrative charges and fees for SMEs. In 2014, the government curtailed the tax burden by allowing calculating income tax at 20% tax rate (25% for general business) based on 50% of total taxable income for small business that taxable income is not more than RMB 100 000. Value-added-tax and business tax were also exempted for small businesses (including self-employed) that sale revenue is not more than 20-30 thousand RMB per month. In addition, 54 items of administrative fees were abolished. All these measures help improve the business environment for small businesses, and lower their cost burden.

The Chinese government focuses on the further development of NEEQ, and encourages small businesses to get financing from the market. China also reduced personal income tax of dividends and bonuses from NEEQ market transactions. According to revised regulatory, 50% and 75% of income tax of dividend and bonus from NEEQ market is exempted in case of holding period from 1 month to 1 year, in case of holding period over 1 year. NEEQ is a promising instrument for SME financing and is considered to be an important part of a multi-level equities market in the Chinese financial system, especially useful for small businesses' equity financing.

China's government continued to reform its bank system to broaden available SME financing channels in 2014. One strategy is to develop micro-finance companies specifically for small businesses. In 2014, 8 791 small credit companies were in operation, providing about RMB 942 billion of loans to small businesses. There were over 1 100 town banks, which are the basis of micro-finance in the Chinese bank system. In addition, other non-bank finance sources were increasing in importance, including 68 trust companies, 196 finance companies, 4 larger asset management companies, 30 larger finance-leasing companies, and 5 private banks were approved. In 2014, with the rising of online financing, Chinese authorities generally kept an open attitude to innovative products in this field. To avoid potential financial risks, China's central bank put forward supervision and regulation policies for online payment and P2P products as a means to include innovative online financing into the financial supervision system, even though this poses great challenges.

The high lending cost, especially in the informal shadow banking system, is also on the radar of the Chinese government. Releasing financial repression in the formal bank system is deemed useful to avoid more small businesses making use of the informal financing system. As a response, China tends to enhance policies about SME loan and loan guarantee etc. In 2014, the government encouraged larger, state-owned banks to established specialised branches or departments to serve small businesses. More small-scale country bank and small credit companies were allowed to be set up. Five private banks were approved to be established in 2014. Some barriers impeding SME financing were removed or relieved. For example, collateral is broadened to include accounts receivable, inventory, property rights, equipment and patents. In addition, the government enhanced the development of state-owned guarantee companies by providing direct capital input, subsidies to the SME guarantee business, and compensation of risk loss in the SME guarantee business. Some unreasonable charges and fees involving SME bank loans were cancelled in the last years. The Shadow banking system is more strongly supervised, regulated and controlled. However, there is a long way to go to lower comprehensive lending costs for small businesses.

Table 8.6. **Scoreboard for China, 2007-14**

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs (stock)	RMB 100 million	..	..	136 164	171 389	211 675	253 555	285 848	..
Business loans, total (stock)	RMB 100 million	..	..	249 397	302 915	350 169	392 830	440 192	..
Business loans, SMEs (Stock)	% of total business loans	..	..	54.6	56.68	60.45	64.55	64.94	..
Short-term loans, SMEs (demand side survey)	% of total SME loans	..	..	..	..	..	..	0.56	0.49
Government direct loan, SMEs(stock)	RMB 100 million	..	..	..	12 226	15 500	18 134	20 824	24 700
Non-performing loans, total		..	..	6 424.55	5 320.43	4 425.5	4 771.20	5 489.73	..
Non-performing loans, SMEs		..	..	5 217.62	4 318.29	3 699.69	4 178.14	4 755.78	..
Non-performing loans, SMEs	% of total SME loans	..	..	3.83	2.52	1.75	1.65	1.66	..
Interest rate, SMEs (demand side survey)		..	..	..	..	..	..	8.39	7.51
Interest rate, large firms (demand side survey)		..	..	..	..	..	..	7.72	7.47
Interest rate spread (demand side survey)	%	..	..	..	..	..	..	0.67	0.04
loan fee, SME (demand side survey)		..	..	..	..	..	..	3.7	1.38
Collateral, SMEs	% of total SME loans			50.55	51.64	51.59	52.98	54.52	..
SME loans authorised/SME loans requested (demand side survey)	%	..	..	..	..	..	..	59.67	67.93
Rejection rate (curtail in loan amount requested)	1-(SME loans authorised/ requested)	..	..	..	..	..	..	40.33	32.07
Rejection rate (Rejection to loan application)	%	..	..	..	..	..	..	6.19	11.97
Utilisation rate	SME loans used/ authorised	..	..	..	..	..	..	93.51	94.75
Non-bank finance									
Venture and growth capital (seed and early stage)	RMB 100 million	240.4	413.4	524.9	664.2	610.8	858.0	913.1	..
Venture and growth capital (growth stage)	RMB 100 million	872.5	1 042.3	1 080.2	1 742.4	2 587.2	2 454.9	1 725.9	..
Leasing and hire purchases, SMEs (Stock)	RMB 100 million	240	1 550	3 700	7 000	9 300	15 500	21 000	32 000
Factoring and invoicing	EUR million	..	55 000	67 300	154 550	274 870	343 759	378 128	..
Other									
Payment delays, B2B	days	..	..	..	..	..	..	95.91	72.31
Payment delays, B2C	days	..	..	..	..	..	..	48.38	42.64
Bankruptcies, total	%	..	..	..	..	..	..	8.11	7
Bankruptcies, total	%, Year-on-year growth rate	-	..	..	..	..	..	..	-13.7
Bankruptcies, SMEs	%	..	..	..	..	..	..	7.57	7.24
Bankruptcies, SMEs	%, Year-on-year growth rate	..	..	..	..	..	..	..	-4.36

Source: See Table 8.7.

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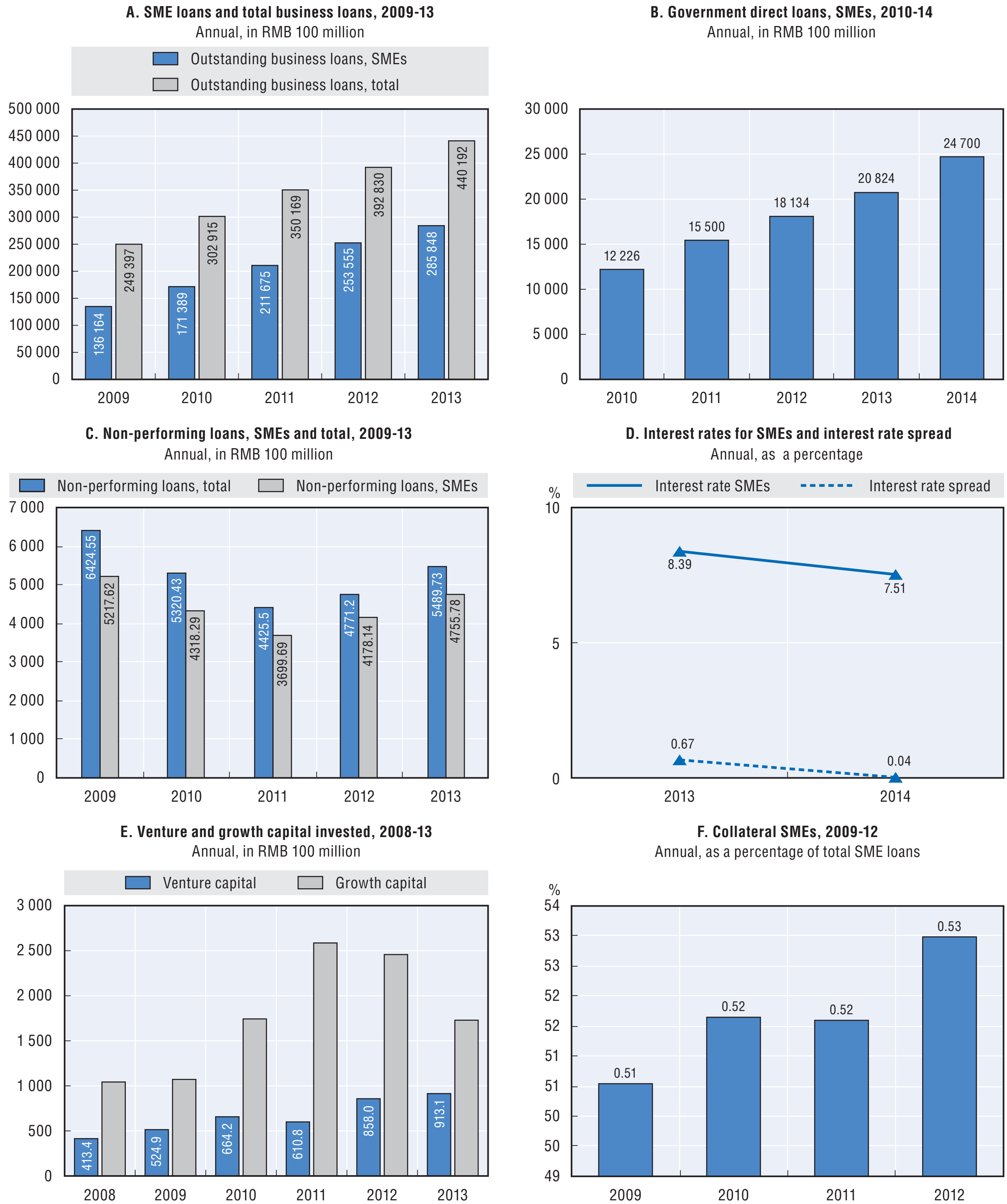
Figure 8.1. **Trends in SME and entrepreneurship finance in China**



Source: See Table 8.7.

StatLink http://dx.doi.org/10.1787/888933330981

Table 8.7. Definitions and sources of indicators for China's scoreboard

Indicator	Definition	Source
Debt		
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 (stock)	Almanac of China's Finance and Banking, released by People's Bank of China
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 (stock)	Almanac of China's Finance and Banking, released by People's Bank of China
Short-term loans,% of total SME loans	The ratio of short-term loans to the total amount of bank loans in latest year, SME (%)	Demand-side survey
SME government direct loans (Stock)	Policy-related loans to SMEs from China Development Bank. (stock)	China Development Bank
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
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
SME Non-performing loans % of total SME loans	The ratio of non-performing loans to the total amount of SME bank loans in latest year, SME (%)	Almanac of China's Finance and Banking, released by People's Bank of China
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
Interest rate spread	The difference of average interest rate of SME's loans and larger company's loans (in percentages)	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
Collateral, SMEs (demand side survey)	Percentage of SMEs that were required to provide collateral in latest bank loan	Demand-side survey
SME loans authorised/ SME loans requested (supply side survey)	The ratio of lending amount authorised by bank to the amount applied by firm in its latest application for bank loan	Supply-side survey
Rejection rate (rejection to loan application)	The ratio of rejection to loan application in latest loan application among surveyed SMEs	Demand-side survey
Utilisation rate	1- the reserve proportion of lending money that is not used in practical production and investment etc. in latest bank loans of SMEs	Demand-side survey
Non-bank finance		
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
Leasing and hire purchases, SMEs (Stock)	Outstanding contract volume of all kinds of financing leases	China Financing Leasing Development Annual Report
Factoring and invoicing	Total turnover of factoring industry, in million Euro	International Factors Group SCRL
Other		
Payment delays, B2B	The average number of days that a B2B company can collect delayed payment from clients after the contract deadline	Demand-side survey
Payment delays, B2C	The average number of days that a B2C company can collect delayed payment from customers after the contract deadline	Demand-side survey
Bankruptcies, SMEs	Average of SME bankruptcy (including shut-off) ratios in specific areas (%)	Demand-side survey
Bankruptcies, total	Average of bankruptcy (including shut-off) ratios of all companies in specific areas (%)	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

Source: See Table 8.7.

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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 SMEs are employing 80.8% of the country's workforce[1] and contributing to 40% of GDP[2]. 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. Moreover, 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, 2015**

% Breakdown by number of employees	%
All enterprises	**100**
SMEs (up to 200)	**94.08**
Microenterprise (up to 10)	88.35
Small (11-50)	4.57
Medium (51-200)	1.16
Large	**0.36**
Not determined	**5.56**

Note: Classification of MSMEs according to the parameters contained in the Law 905 of 2004. Indeterminate: Corresponds to companies failing to report assets or No. of employees in the Business and Social Single Record - RUES. Cannot be classified. The data includes corporations and individuals.

Source: Calculations MinCIT based solely on Business and Social Single Record–RUES of Confecámaras.

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Financial deepening and lending activity

The share of credit as a percentage of GDP recorded an increase of 3.7 percentage points going from 41.1% in 2013 to 44.8% in 2014.[3] This continued growth reflects the financial deepening taking place in Colombia.

At the end of 2014, the banking index rose to 72.5%, indicating that 23.3 million Colombian adults have at least one of the following financial products: savings account; current account; consumer loan; credit card; commercial loans; housing loans; microcredit; electronic deposits.[4]

During 2014, the loan portfolio maintained a growth of over 10%,, mainly driven by the portfolio of housing (12.5%) and commercial (12%) real annual variation, a low ratio of NPLs versus total loans, and an adequate level of provisioning. As of December, the gross portfolio reached USD 164.8 billion, registering a real annual variation of 11.05%.[5]

SME lending

In Colombia, bank credit is the main financing source for SMEs. In 2014, bank lending accounted on average for 55% of total financing received, followed by suppliers' finance (which represents 15% for the industrial SME sector, 19% for the commercial SME sector and 11% for the services SME sector), followed by leasing (which represents 6% for the industrial SME sector, 5% for the commercial SME sector and 5% for the services SME sector), own resources or internal funding (which represents 20% for the industrial SME sector, 14% for the commercial SME sector and 18% for the services SME sector), and factoring representing 2% for all sectors. 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 2014, 39.7% of the SME population had sought credit and the approval rates for credit were around 97% of total requests on average in 2014.[6]

In Colombia, credit to SMEs represented on average 33.3% of the total credit portfolio over the 2007-14 period. During 2013-14, the value of loans to MSMEs experienced an increase of 12%. In turn, total business loans grew at a high rate, and the SME loan share increased from 32.7% in 2007 to 49.4% in 2014.[7]

Similarly, in the last two years short-term credit grew at a rate of 13% compared with long-term credit at 11%. As of 2014, short-term SME loans represented 38% of total SME lending, compared to 37.7% in 2013.[8]

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 minimum wages (Smmlv)[9]. Microenterprises are firms with up to 10 employees who hold assets not superior to 501 current legal monthly minimum wages.

The evolution of microcredits increased from about 1.8 million in 2010 to about 2.5 million operations in 2014. The average annual growth rate of the value of operations was 14.7%.[10]

Table 9.2. **Evolution of microcredits in Colombia, 2010-14**

Number of operations, amounts in USD million

Type of Entity	2010		2011		2012		2013		2014	
	No. of operations	USD million	No. of operations	USD million	No. of operations	USD million	No. of operations	USD million	No. of operations	USD million
Banks and CF	648 141	1 312	967 343	2015	1 031 661	2 301	1 112 339	2 641	10 739 818	2 689
Cooperatives	68 943	146	8 366	193	9 369	244	94 858	247	107 381	292
NGOs	1 077 393	867	1 085 551	818	1 170 308	940	1 227 400	1 062	1 336 627	1 296
Total	1 794 477	2 325	2 136 554	3 026	2 295 659	3 485	2 434 597	3 950	2 517 926	4 277

Source: Bancoldex - The Bank of Opportunities. Sept 2015.

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Credit conditions

According to the SME–Anif survey, on average 60% of MSMEs do not request credit but for those who do request one, the approval rate is high (97%).[11] The main reason why certain MSMEs do not apply for credit is because they usually do not require it (80%)[12]. 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 about 5.3% use leasing, and factoring use is even lower at 2%.

The average interest rate charged on SME loans increased from 20.1% in 2007 to 20.4% in 2014. 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 at around 12.4% in 2014.

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 2005-14 has supported 4 141 projects and allocated USD 137.1 million[13] in seed capital resources, generating 19 723 jobs.

A number of new financing instruments are also being introduced, with the creation of networks of angel investors and capital funds. In 2014, there were 37 closed funds of private capital. Venture and growth capital investments mobilised USD 163.3 million and USD 3 billion, respectively.[14]

Other indicators

The average payment delay in days has increased significantly from 48.8 days in 2007 to 91.4 days in 2014. This can be attributed to the deteriorating economic environment of recent years at the global and national level, including the oil price crisis, as well as international economic instability and uncertainty.

Bankruptcy figures, measured as the number of businesses that are declared in bankruptcy and this information is registered at the Superintendence of Societies, has decreased by 9.6% year-on-year from 2013 to 2014, from 156 to 141. This is due to an increase in the number of processes regarding the reorganization of the services, commercial and mining sectors. In addition, there are some rescue measures for companies and their suppliers, offered by the Superintendence of Societies.

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[15] and leasing mechanisms; and secured transactions;[16]
- 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;
- The National Development Plan 2014-18 in Article 9 mandates registration of electronic invoicing, which will be administered by the Ministry of Commerce, Industry and Tourism.

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 finance to SMEs, ensuring in particular 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 2014, Bancoldex provided credit disbursements to MSMEs through financial institutions, for a total amount of USD 990.3 million,[17] benefiting a total of 138 736 MSMEs.[18]

Besides offering traditional credit, Bancoldex has special programmes, such as iNNpulsa Colombia, iNNpulsa Mipyme (which, under Article 13 of the National Plan of Development 2014-18, were merged into the Unit of Management of Corporate Development), the Bank of Opportunities and the Productive Transformation Program. In particular, the fund for the modernisation and innovation of 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. During 2014, the programme reported disbursements of non-refundable resources for MSMEs close to USD 28.5 million, supporting more than 19 680 Colombian MSMEs[19].

With regard to the financing of innovation-driven, dynamic entrepreneurship, the Unit of Management of Corporate Development was created in Bancoldex by the National Development Plan (Law 1753 of June 19, 2015), to provide non-refundable resources to projects focused on innovation.

Bancoldex has also been providing support for the development of factoring (representing on average 2% of the commercial portfolio, a percentage that has been rising). Factoring offers clear advantages to SMEs for 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, an enterprise can buy, at a discount and without prior resources, up to 80% of the sale exchange bills originating from domestic or international transactions, protected by the credit insurance issued by two specific insurance companies, as predefined by Bancoldex. Over the last two years, Bancoldex has mobilised resources up to USD 73.6 million to develop the factoring industry. These funds are placed in financial institutions supervised by the Superintendence on Finance, through a short-term line of low rates for the industry[20].

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 the Development Project of Rural Microenterprise - 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 by mainly, but not exclusively, financing activities related to the rural, agricultural, cattle, fishery, forestry and agro-industrial sector.

Credit guarantees

The National Fund of Guarantees supports MSMEs nationwide by addressing their lack of guarantees. The request for guarantees is carried out through a financial intermediary, whom the company asks for the loan. 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, according to which access to credit is promoted, regulates movable guarantees. This new instrument opens up possibilities of credit to smaller businessmen since they can spread their obligations to 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 most cases 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.

Table 9.3. **Classification of MSMEs in Colombia according to the parameters contained in the Law 905 of 2004**

Size	Occupied Personnel	Assets in SMMLV	Assets in COP (million)	USD
Micro	≤ 10	≤ 500	≤308	≤152 626
Small	Between 11 and 50	Between 501 and 5 000	Between 308.6 and 3 080	Between 152 923 and 1 526 263
Medium	Between 51 and 200	Between 5 001 and 30 000	Between 3 080 and 18 480	Between 1 526 263 and 9 157 581

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Table 9.4. **Scoreboard for Colombia, 2007-14**

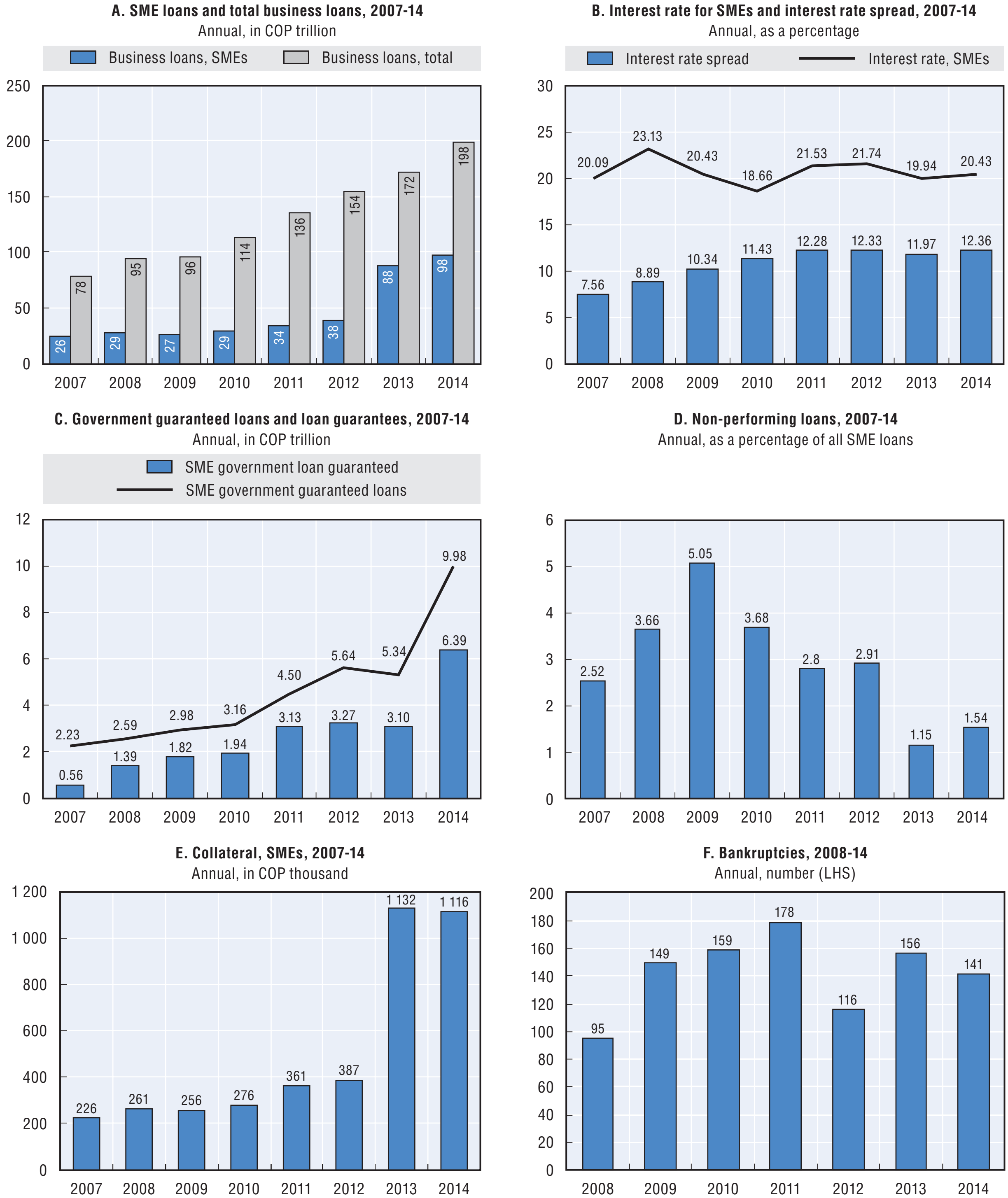
Indicator	Unit	2007	2008	2009	2010	2011	2012	2013*	2014*
SME loans	COP trillion	25.61	28.59	26.58	29.12	33.73	38.45	87.83	97.95
Business loans	COP	78.39	94.7	95.94	113.84	136	154.23	172.22	198.42
Share of SME loans in total business loans	(%)	32.67	30.18	27.7	25.58	24.8	24.93	51	49.4
SME short term loans	COP trillion	4.98	7.52	6.14	6.41	5.46	8.35	33.07	37.24
SME long term loans	COP trillion	20.63	21.07	20.44	22.71	28.27	30.1	54.76	60.71
Total short and long term loans	COP trillion	25.61	28.59	26.58	29.12	33.73	38.45	87.83	97.95
SME short-term loans/ SME loans	(%)	19.44	26.3	23.11	22.02	16.19	21.73	37.65	38.02
SME government loan guarantees	COP trillion	0.56	1.39	1.82	1.94	3.13	3.27	3.1	6.39
SME government guaranteed loans	COP trillion	2.23	2.59	2.98	3.16	4.5	5.64	5.34	9.98
Non-performing loans, total	COP trillion	0.74	1.20	1.53	1.21	1.35	1.58	1.46	2.02
SME non-performing loans	COP trillion	0.65	1.05	1.34	1.07	0.94	1.12	1.01	1.51
SME non-performing loans	(%)	2.52	3.66	5.05	3.68	2.8	2.91	1.15	1.54
SME interest rate	(%)	20.09	23.13	20.43	18.66	21.53	21.74	19.94	20.43
Interest rate, large firms	(%)	12.53	14.24	10.09	7.23	9.25	9.41	7.97	8.07
Interest rate spread	Basis points	7.56	8.89	10.34	11.43	12.28	12.33	11.97	12.36
Collateral, SMEs	Number of credits	226 252	260 772	255 968	276 309	361 058	386 947	1 132 291	1 116 084
Rejection rate	1-(SME loans authorised/ requested)	2.0	4.0	9.0	5.0	3.0	4.0	7.0	3.0
Non-bank Finance									
Venture capital investments	COP trillion	..	..	..	..	..	..	..	0.31
Growth capital investments	COP trillion	..	..	..	..	..	..	..	5.61
Leasing and hire purchases	COP trillion	11.01	12.30	12.88	14.06	17.73	21.08	24.07	27.79
Factoring and invoicing	COP trillion	5.77	6.04	7.15	7.01	12.84	10.55	17.56	23.75
Other									
Payment delays, B2B	Average number of days	48.83	50.20	60.77	62.32	66.44	25.64	82.21	91.38
Bankruptcies, total	Number of businesses	33	95	149	159	178	116	156	141
Bankruptcies, total	%, Year-on-year growth rate	..	187.88	56.84	6.71	11.95	-34.83	34.48	-9.62

Note: Monetary values are expressed in COP trillion (10^{12}), reflecting the use of the short-scale of large-scale-numbers naming system, as is commonly used in English-speaking countries. It should be noted, however, that nationally, Colombia uses the long-scale naming system and would depict these figures as COP billion (10^{12}).

Source: Colombian financial government institutions (Bank of the Republic of Colombia, Financial Superintendence, Colcapital, Superintendence of Societies) through the Ministry of Commerce, Industry and Tourism. See Table 9.5 for the definitions.

StatLink http://dx.doi.org/10.1787/888933332498

Figure 9.1. **Trends in SME and entrepreneurship finance in Colombia**



Sources: Charts A, B, C, D and E: Bank of the Republic of Colombia – Financial Superintendence of Colombia. Chart F: Superintendence of Societies (Corporations).

StatLink http://dx.doi.org/10.1787/888933330994

Table 9.5. **Definitions and sources of indicators for Colombia's scoreboard**

Indicator	Definition/Description	Sources
SME loans	Total stock value for active credit operations between credit entities and SMEs	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
Total business loans	Commercial credits and micro loans (up to December 2014). From 2008, it does include leasing (from 2013 commercial portfolio includes housing leasing).	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
SME short-term loans	Commercial loans and micro loans used by SMEs, shorter or equal to 1 year	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
SME long-term loans	Commercial and micro loans used by SMEs, higher than 1 year	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
SME government loan guarantees	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 credits. Based on technical criteria for the total of guarantees reported under the parameters of Chapter II of External Circular 100 of 1995.	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
SME government guaranteed loans	Stock value of the SME credits which have 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) de los créditos de SME. Based on technical criteria for the total of guarantees reported under the parameters of Chapter II of External Circular 100 of 1995.	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
SME government direct loans	This data is not available	This data is not available
SME loans authorised/ requested	Demand Side survey: % SME loans authorised/SME loans requested. The high figures might have two general explanations: the low number of SMEs asking for loans in the first place; and, the survey is only with the formal sector of the economy. The Colombian informal sector of SMEs can be huge.	GRAN ENCUESTA PYME – ANIF 1st Semester 2015
SME non-performing loans	Total capital value of current credit operations for which payment delays exceed 90 days	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
SME interest rate	Average loan rate (E.A.): weighted average rate of the trimester weighted by exposure. This rate should be reported in annual effective terms and in the case of variable rates shall be restated for purposes of this calculation as the sum in financial terms agreed between the spread and the variable rate. In the event that a debtor has more than one loan with the reporting entity and these are classified and qualified in the same category, it shall report the weighted average rate regardless of credit to zero (0) rate (%).	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
Interest rate spreads	Difference between the SME interest rate and the rate charged on loans to large enterprises (to spread those, observations that have a zero or NULL are not included).	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
Collateral	Number of SME credit guarantee which is different from those type 0 = No warranty and/ or 1 = not suitable	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
Venture and growth capital	Seed, start up, early stage and expansion capital (excludes buyouts, turnarounds, replacements) Venture: Data in millions, according to the database Colcapital to December 2014. The original data was given in USD (USD 163.3 million), but converted into pesos at a rate of COP-USD 1 872.4. Growth capital: According to the database Colcapital to December 2014. The data provided is for Private Equity Funds, given the level of development of the industry in Colombia and the information available, it is not possible to classify in private equity funds, those that by international standards are defined as Growth Capital. The original data was given in USD (USD 2 996.4 million), but converted into pesos at a rate of COP-USD 1 872.4.	Bancóldex Capital, who in turn took the data of the Colombian Association of Private Equity Funds - Colcapital.
Leasing	The data provided corresponds to the financial leasing operations through all the credit institutions	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
Factoring and invoicing	Factoring turnover volumes which include: invoice discounting, recourse factoring, non-recourse factoring, collections (domestic factoring), export factoring, import factoring and export invoice discounting (international factoring)	Factors Chain International - FCI: Global network of leading factoring companies and banks (2015). Complete overview of statistics until 2014 - Data for Colombia.
Payment delays	Average number of days delay: 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. For non-delay events, the report signals zero (0).	Bank of the Republic of Colombia – Superintendence of Finance of Colombia
Bankruptcy	As the unit indicates, the percentage of year on year growth rate is calculated according to the number of bankruptcies of each year over the bankruptcies of the year before, minus 1, multiplicated for 100	Superintendence of Societies (Corporations)

Notes

1. Economic Census of 2005, National Bureau of Statistics (DANE).
2. The participation of MSMEs in the GDP is inferred from an estimate of the Association of Micro and Small Entrepreneurs (ACOPI).
3. Financial Superintendence of Colombia (2015). Evolution of the Colombian financial system 2014.
4. Asobancaria (2015). Reporte de Bancarización – Informe trimestral: Cifras a Diciembre de 2014.
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6. Source: National Association of Financial Institutions – ANIF (2015). La Gran Encuesta Pyme: Informe de resultados 1er semestre de 2015.
7. Source: See Table 9.4.
8. Ibidem.
9. 120 SMMLV= COP 77.322.000, with a SMMLV= COP 644.350. One SMML in USD= 210,18 with a TRM (Representative Market Exchange Rate) at 23 September 2015 of COP 3065,74.
10. Overall growth rate and average annual growth rate were taken from the information provided by: Bancóldex- The Bank of Opportunities (2015). Unpublished.
11. Source: National Association of Financial Institutions – ANIF (2015). La Gran Encuesta Pyme: Informe de resultados 1er semestre de 2015.
12. Ibidem.
13. Average TRM (Representative Market Exchange Rate) of 2014 = COP 2.000,33.
14. At that time (2014) the TRM (Representative Market Exchange Rate) was COP 1.872,43. Source: See Table 9.4.
15. The Law 1231 of 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.
16. Law 1676 of August 20/2013, which 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.
17. The TRM (Representative Market Exchange Rate) used was the average in 2014: COP 2 000.33.
18. 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 2014".
19. Source: Consejo Superior de Pequeña Y Mediana Empresa, Consejo Superior de Microempresa, Secretaría Técnica Permanente. Dirección De Micro, Pequeña y Mediana Empresa and Ministerio De Comercio, Industria y Turismo (2015). Informe Anual de Gestión y Resultados del Sistema Nacional de Apoyo a las Mipymes: Presentado a las Comisiones Terceras y Cuartas del Senado de la República y Cámara de Representantes.
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Czech Republic

SMEs in the national economy

There are roughly 1.1 million active enterprises in the Czech Republic, most of them SMEs with less than 250 employees (99.84% of all enterprises as of 2014), employing almost 1.78 million people (59.4 % of Czech Republic's workforce). The bulk of them are micro firms, covering 92.7% of SMEs.

Table 10.1. **Distribution of firms in the Czech Republic, 2014**

By firm size

Firm size (employees)	Number	%
All firms	**1 115 053**	**100**
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
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: Sources: Czech Statistical Office, Table Businesses according to number of employees.

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SME lending

New SME lending 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 for all enterprises 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 as, however, as the amount of new loans plummeted by 28% in 2013 year-on-year, mirroring the evolution of SME lending.

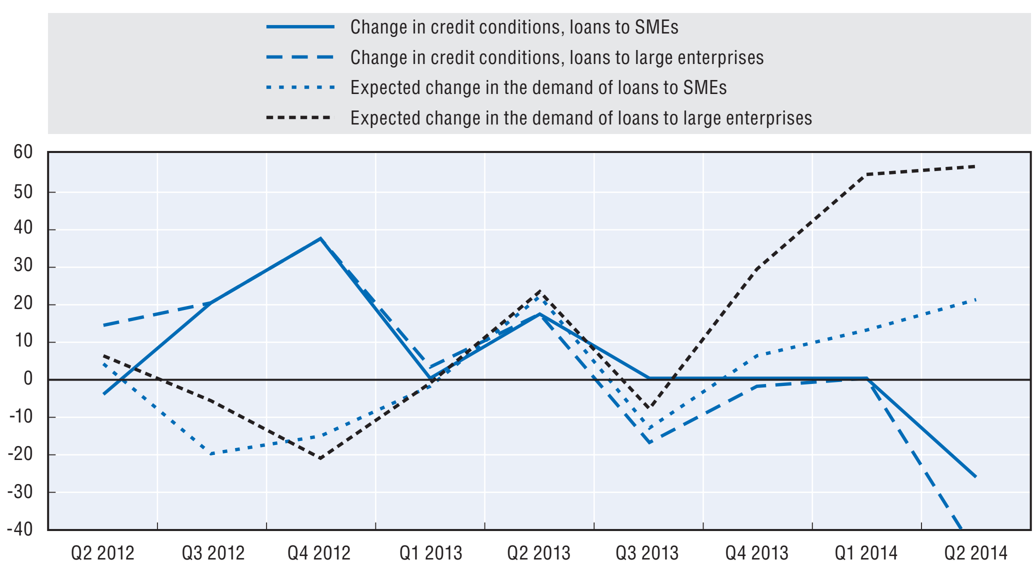
As SME loans shrank more than business loans in general, the SME loan share in total business loans decreased from 24% in 2007 to 17% in 2013. This trend is caused by two factors: on the side of banks stricter rules for credit risk management placed higher demands on financial health of borrowers and higher loan collateral; on the side of entrepreneurs, the lower volume of orders and fears of an uncertain economic development lead to extra prudence to borrow and incentivised them to find more efficient ways of using internal financial resources.

Credit conditions

SME interest rates were down by 35 base points in 2013 vis-a-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 4.8% in 2008 to 1.9% in 2013. The interest rate spread followed 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 1.2%, more than in any other year since 2007. This means that cost of credit is substantially higher for SMEs than 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. The recent survey reveals that banks further eased their credit standards in all segments of the credit market in the second quarter of 2015. The easing was mostly due to competitive pressure and better expectations regarding future economic developments. Average interest margins decreased across the board. Demand for loans increased in all credit market segments in 2015 Q2. Nonfinancial corporations' demand for loans increased for the fifth quarter in a row, mainly due to fixed investment financing, mergers and acquisitions and business restructuring. Together with credit standards, banks also eased the terms and conditions for providing loans, as more than half of the banking market lowered average interest margins. A smaller part of the banking market also eased the non-interest conditions.

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



Source: Bank Lending Survey, Czech National Bank.

StatLink http://dx.doi.org/10.1787/888933331000

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 2009, 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). The total venture capital has more than tripled compared to the previous year 2013.

Table 10.2. **Venture and growth capital investment in the Czech Republic 2007-14**

By stage of investment, in EUR thousand

	2007	2008	2009	2010	2011	2012	2013	2014
Seed	0	0	0	0	0	0	516	0
Start-up	500	281	..	13 139	2 713	127	1 341	2 993
Later stage venture	3 692	31 543	28 248	9 910	7 811	5 101	924	6 134
Total venture	**4 192**	**31 825**	**28 248**	**23 048**	**10 523**	**5 229**	**2 781**	**9 067**
Growth	116 238	72 121	191 347	116 142	7 733	4 220	4 440	29 386

Source: EVCA.

StatLink http://dx.doi.org/10.1787/888933332515

Other indicators

The proportion of non-performing loans to all loans almost tripled between 2007 (3.1%) and 2010 (9%) as the Czech economic climate soured, and modestly decreased afterwards. 7.1% 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. The proportion of non-performing loans to all loans between 2013 (7.1%) and 2014 (6.5%) decreased modestly.

SME bankruptcies increased every year between 2007 and 2013, a decline of 3% in 2011 being the sole exception. Over the 2007-13 period, SME bankruptcies were up by 64%. The pace of this increase has been abating, however; only a year-on-year uptick of 2.5% in the number of SME bankruptcies was observed in 2013. Between 2013 and 2014, the number of SME bankruptcies decreased by 10.9%, observing the lowest number of bankruptcies since 2009.

Government policy response

The SMEs support government policy is based on 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. Financing small and medium-sized enterprises has been one of the key themes of the Czech Government in recent years. In the aftermath of the financial crisis and subsequent economic recession, the government is looking for ways 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 and are active in this area. Given the decline in SME lending, with its associated impact on employment, investment and export, guarantee activities have been 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 – 2014 (OPEI)

Operational Programme Enterprise and Innovation (OPEI) was 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 increase of competitiveness in the Czech Republic (and its regions) by promoting innovation, rapid implementation of research and development in the manufacturing sector, stimulating demand for research and development, commercialisation of research and development, promotion of entrepreneurship, and 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 on overcoming 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 six 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, at a percentage ratio of 85/15. Allocation for the whole programming period 2007-14 achieved EUR 3.7 billion. The support was distributed to enterprises through grants, preferential loans and preferential guarantees.

Table 10.3. **The Czech Republic's Operational Programme Enterprise and Innovation (OPEI), 2007-14**

	Unit	2007	2008	2009	2010	2011	2012	2013	2014
Amount of funds paid to beneficiaries	EUR million	50	82	189	262	398	549	541	439

Source: Czech Ministry of Industry and Trade.

StatLink http://dx.doi.org/10.1787/888933332525

The GUARANTEE programme

The National guarantee programme for small businesses (GUARANTEE) uses part of its funding resources from terminated former guarantees and repaid loans. The guarantee programme is administered by the Czech-Moravian Guarantee and Development Bank (CMZRB) that has been under full control of the Czech Republic since 2012. During 2014, 1 952 guarantees were issued for a total amount of CZK 4 billion that corresponded to credits in the amount of CZK 5.7 billion, enabling entrepreneurs to finance their projects. In this programme, the CMZRB cooperates on a contractual basis with partner private banks and provides SMEs with partial guarantees (70% of the loan provided by the private bank).

Table 10.4. **Guarantees issued and loans guaranteed in the Czech Republic, 2007-14**

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014
Guarantees issued	Number	482	1 043	878	1 224	111	697	1546	1 952
Guarantees issued	CZK million	1 925	3 529	6 369	6 593	472	1 534	3 251	4 010
Loans guaranteed	CZK million	2 959	5 094	9 550	10 070	630	2 215	4 616	5 711
% guaranteed	%	65	69	67	65	75	69	70	70

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

StatLink http://dx.doi.org/10.1787/888933332539

The REVIT programme

Framework programme REVIT is focused on support of SMEs operating in regions with lower and declining economic activity and high unemployment (e.g. 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 a guaranteed loan. The programme is funded by national resources and is administered and managed by the CMZRB.

The INOSTART programme

INOSTART is focused on supporting small, innovative start-ups that have difficulties to raise funds to finance their business activities due to the large risk, a short financial history and low collateral. The programme allows newly established, innovative entrepreneurs during the first three years of their business activity to gain access to credit so that they are given support in the form of guarantees for loans at up to 60% of the outstanding loan principal. The programme also includes advisory services related to the strategic direction of the company and the implementation of business plans. A pilot programme was implemented in two regions, in the Moravian-Silesian and Olomouc. The programme is funded by a Swiss-Czech Cooperation fund. Loans are provided by the private bank Česká spořitelna, guarantees by the Moravian Guarantee and Development Bank, and advisory services by the 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 to cover operating costs. Grants to counselling are provided up to 10% of the relevant loan, up to CZK 150 000. After the pilot phase in 2014 were approved the changes of the Programme. This included the extension of the programme to the whole territory of the Czech Republic, its extension to medium-sized enterprises, as well as the provision of advisory services for entrepreneurs before starting their project.

Czech Export Bank and the Export Guarantee and Insurance Company

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

The CEB also continued to implement its programme in support of subcontractors – SMEs and is currently strengthening cooperation with the commercial banking sector, which already includes an agreement with four private banks that are the most active in financing SMEs.

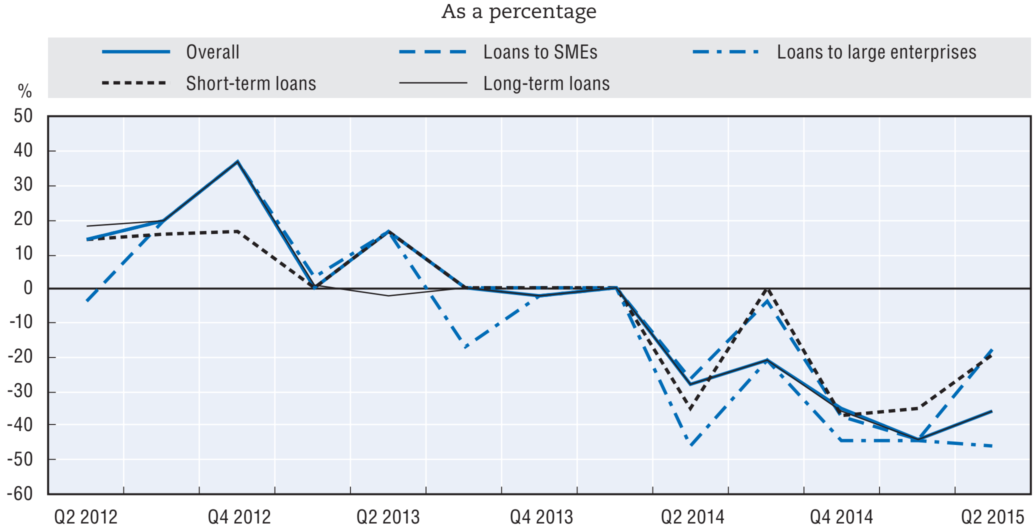
Another form of support for small and medium-sized enterprises realised by the CEB consists in financing of factoring companies. This funding represented a major support distribution channel for this business segment. The volume of aid granted in the form of refinancing factoring companies for purchase of receivables amounted to CZK 2.6 billion. Through factoring, CEB supported 127 Czech exporters and financed 15 798 receivables of 748 foreign buyers. Cooperation with factoring companies will remain a 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 CZK 593 million and was divided into 40 new contracts. EGAP created, especially for small and medium-sized enterprises, a 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 2014, the volume of aid granted in the form of refinancing factoring companies was CZK 4.1 billion. Through factoring, CEB supported 139 Czech exporters and financed 26 013 receivables from 1 070 foreign buyers.

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

Figure 10.2. **Credit standards for non-financial corporations in the Czech Republic, 2012-15**

As a percentage

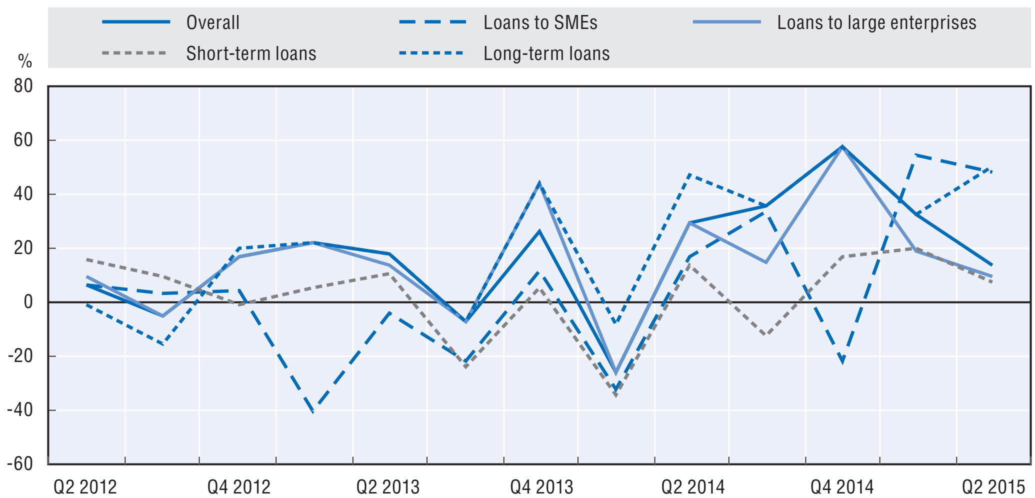


Source: Czech National Bank.

StatLink http://dx.doi.org/10.1787/888933331017

Figure 10.3. **Changes in demand for loans to non-financial corporations in the Czech Republic, 2012-15**

As a percentage



Source: Czech National Bank.

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Table 10.5. **Scoreboard for the Czech Republic, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Outstanding business loans, SMEs (stock)	CZK million	476 267	555 030	527 545	550 072	587 908	589 675	610 789	621 521
Outstanding business loans, total (stock)	CZK million	745 797	850 765	784 069	783 538	831 206	840 593	871 578	890 424
New business loans, SMEs (flows)	CZK million	208 216	207 237	147 986	123 398	124 117	129 830	86 660	97 764
New business loans, total (flows)	CZK million	852 729	866 109	780 874	667 977	599 089	694 944	500 502	544 725
New short-term loans, SMEs (flow)	CZK million	..	..	..	73 626	72 453	77 858	45 531	40 360
Government loan guarantees, SMEs	CZK million	1 925	3 529	6 369	6 593	472	1 534	3 251	4 010
Government guaranteed loans, SMEs	CZK million	2 959	5 094	9 550	10 070	630	2 215	4 616	5 711
Non-performing loans, total	CZK million	22 816	35 340	61 904	70 166	67 876	61 480	62 032	57 873
Interest rate, SMEs	%	5.03	5.57	4.64	4.01	3.73	3.48	3.13	3.76
Interest rate, large firms	%	4.05	4.84	3.46	3.34	2.63	2.43	1.89	2.00
Interest rate spread (SME - Large)	Basis points	0.97	0.73	1.18	0.68	1.11	0.98	1.24	1.75
Equity									
Venture and growth capital (seed and early stage)	EUR thousand	500	281		13 139	2 713	127	1 857	2 933
Venture and growth capital (later stage venture)	EUR thousand	3 692	31 543	28 248	9 910	7 811	5 101	924	6 134
Total venture capital	EUR thousand	4 192	31 825	28 248	23 048	10 523	5 229	2 781	9 067
Growth capital	EUR thousand	116 238	72 121	191 347	116 142	7 733	4 220	4 440	29 386
Other									
Average payment delays, B2B	Days	..	..	..	15	17	16	14	15
Average payment delays, B2C	Days	..	..	..	12	13	11	10	10
Payment delays (=delay after due day)	Days	16	18	19	14	14	15	14	13
Payment duration (=period from invoicing day till day when enterprise gets money)	Days	68	72	77	70	71	75	76	73
Bankruptcies, SMEs	Number of enterprises	839	873	1 280	1 301	1 263	1 345	1 379	1 228
Bankruptcies, total (business entities)	Number of enterprises	1 000	1 074	1 486	1 621	1 778	1 946	2 245	2 145

Source: See Table 10.6.

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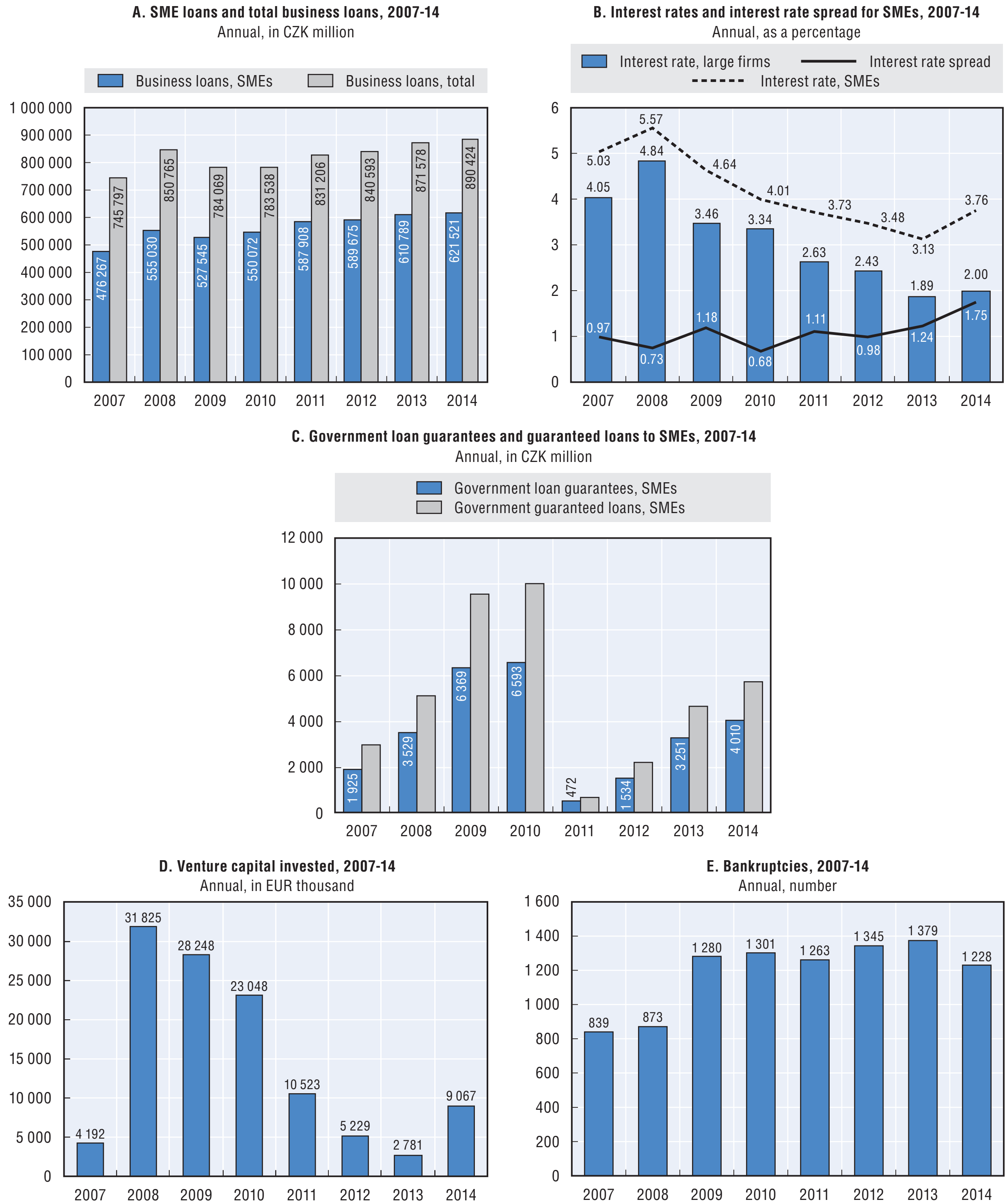
Figure 10.4. **Trends in SME and entrepreneurship finance in the Czech Republic**



Source: See Table 10.6.

StatLink http://dx.doi.org/10.1787/888933331030

Table 10.6. **Definitions and sources of indicators for the Czech Republic's scoreboard**

Indicator	Definition	Source
Debt		
Outstanding business loans, SMEs (stock)	Stock of loans issued to residents non-financial businesses with 0 - 249 employees or with unknown number of employees and with a total revenue of CZK 0 - 1 500 million	CNB, Loan register
Outstanding business loans, total (stock)	Outstanding loans to non-financial sectors other than government (stock)	CNB, ARAD
New business loans, SMEs (flows)	New business loans < CZK 30 million	CNB, ARAD
New business loans, total (flows)	All new business loans	CNB, ARAD
New short-term loans, SMEs (flow)	New business loans < CZK 30 million with maturity up to 1 year	CNB, select from ARAD
Government loan guarantees, SMEs	Programmes of ČMZRB	ČMZRB
Government guaranteed loans, SMEs	Programmes of ČMZRB	ČMZRB
Non-performing loans, total		CNB, ARAD
Interest rate, SMEs	From new business loans < CZK 30 million	Calculations based on CNB ARAD data
Interest rate, large firms	From new business loans > CZK 30 million	Calculations based on CNB ARAD data
Interest rate spread (SME - Large)		Own calculation
Equity		
Venture and growth capital (seed and early stage)		EVCA
Venture and growth capital (later stage venture)		EVCA
Total venture capital	Growth capital investments into business entities in the Czech Republic	EVCA
Growth capital	Seed, start-up, later-stage growth capital investments into business entities in the Czech Republic	EVCA
Other		
Average payment delays, B2B	European Payment Index	Intrum Justitia
Average payment delays, B2C	European Payment Index	Intrum Justitia
Payment delays (=delay after due day)		ČSOB factoring
Payment duration (=period from invoicing day until the day the enterprise gets money)		ČSOB factoring
Bankruptcies, SMEs	Corporations only	CRIF (from Insolvency Register of Ministry of Justice)
Bankruptcies, total (business entities)	All business entities (corporations + sole traders)	CRIF (from Insolvency Register of Ministry of Justice)

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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, 2013**

By firm size

Firm size (employees)	Number	%
All firms	**137 515**	**100**
SMEs (1-249)	**136 625**	**99.4**
Micro (1-9)	106 667	77.6
Small (10-49)	25 759	18.7
Medium (50-249)	4 199	3.1
Large (250+)	**890**	**0.7**

Note: Non-employer enterprises are not included.

Source: Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888933332554

SME lending

In 2014, financial institutions' lending to SMEs, approximated by loans which amount to less than EUR 1 million, amounted to a total of DKK 54 billion. However this figure cannot be compared to previous years, since there is a considerable data break in September 2013 affecting the numbers. Comparing the last four months of 2014 to the last four months of 2013, new SME loans saw an increase by 35.4 %. Total new business loans increased in 2008 and then declined over the period 2009-12. Comparing the last four months of 2014 to the same period in 2013, a reversal of this downward trend with an increase in new business loans by 21.7 % can be observed. The share of new SME loans in total new business loans was small (12%) in Denmark and 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, signalling fewer liquidity problems[1]. Comparing the last four months of 2014 to the same period of 2013, the amount of new short-term loans decreased by 25%.

Statistics Denmark undertook a survey on SMEs' access to finance as part of a Eurostat survey in 2007 and 2010. 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. Looking at more recent data, the situation seems to have improved considerably. In the second quarter of 2015, more than 40% of their members stated that the current financing situation is good or very good, while less than 20% stated that it is bad or very bad.

The percentage of SMEs applying for finance decreased from 44% to 34% between 2010 and 2014.

Table 11.2. **Share of firms that applied for financing in Denmark**

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
2014	34	44	43	33

Note: Data for 2014 includes subsidiaries. Data for 2007 and 2010 only include independent companies.

Source: Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888933332561

Of the 34% of SMEs that applied for finance in 2014, 14% were rejected. The chances of rejection were higher for smaller businesses. The Ministry of Business and Growth 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[2], a higher return on equity and lower gearing than SMEs which only partly obtained loans or were rejected[3].

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

As a percentage

Result	% of SMEs that applied	5-9 workers	10-49 workers	50-99 workers	100-249 workers
Fully Obtained	72	56	80	82	83
Partly Obtained	14	26	8	14	9
Rejected	14	18	12	4	9

Source: Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888933332579

Credit conditions

Both, interest rates for SMEs and for large firms have been steadily declining since 2008, the former dropping by about a third, from an average of 6.6% in the first 10 months of 2008 to 4.2% for the same period in 2013[4]. Interest rates for large firms have fallen much faster over this period, however, resulting in a widening interest rate spread, from an average of 1.1% in the first 10 months of 2008 to 3% for the same period in 2013. This confirms the notion that the crisis affected Danish SMEs more than large firms regarding the price of credit[5].

The quarterly credit conditions survey of the central bank of Denmark shows that credit standards have been continuously tightened from 2011 to 2013. In the last quarter of 2014, the standards were relaxed, but were tightened again in the second quarter of 2015. According to the same source, the demand for loans, both for new and existing customers, increased in the first half of 2015.

Equity financing

According to the European Venture Capital Association (EVCA) database, venture capital financing in Denmark was about three times lower in 2010 compared to the 2007 figures. Venture capital financing has recovered somewhat since, but fell below the 2010 level in 2014. In contrast, growth capital more than doubled between 2007 and 2010, then plummeted to almost negligible levels afterwards, but has risen again to the initial pre-crises level (see Table 11.4).

Table 11.4. **Venture and growth capital investment in Denmark, 2007-14**

By stage of investment, in EUR million

	2007	2008	2009	2010	2011	2012	2013	2014
Seed	4 659	9 612	6 778	9 909	4 570	419	3 182	2 144
Start-up	128 168	68 189	50 495	34 525	50 042	49 396	48 285	63 459
Later stage venture	74 898	112 868	24 950	24 388	70 651	28 812	28 903	10 353
Total venture	**207 725**	**190 669**	**82 223**	**68 822**	**125 263**	**78 628**	**80 370**	**65 955**
Growth	51 797	71 298	105 303	119 895	3 030	20 893	10 295	51 886

Source: European Venture Capital Association Database.

StatLink http://dx.doi.org/10.1787/888933332586

Other indicators

Both, data on bankruptcies and on payment delays illustrate the stress SMEs were under during and in the aftermath of the financial crisis, as well as the improving business climate in 2012 to 2014. B2B (business-to-business) payment delays more than doubled between 2008 (6.1 days) and 2011 (13 days), and declined afterward to 9 days in 2014. Bankruptcies followed a very similar pattern; increasing dramatically from 2 401 bankruptcies in 2007 to 6 461 in 2010, and then falling steadily to 4 049 in 2014.[6]

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. Based on this new initiative, from 2013, Vaekstfonden introduced new direct loans for SMEs. In addition, the former scheme for get-started loans and the credit guarantee programme were merged into a single scheme.

Overall, the financing situation of SMEs shows signs of improvement. However, access to finance for SMEs and new businesses 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 a 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 up to 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 as 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 850 million in 2014. 84 433 guarantees with a total guarantee volume of DKK 473 million were issued in 2014. In the first quarter of 2015, 94 guarantees were issued with a total volume of DKK 94 million[7]. The development can partly be attributed to increased knowledge of the scheme and partly due 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 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 lacks sufficient collateral to finance their plans for start-up, expansion and growth. Government funding of DKK 45 million 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 2 million. The Danish Growth Fund charges a fixed fee of EUR 5 000 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 350 million 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 45 million 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 2 million. The Danish Growth Fund charges a fixed fee of EUR 5 000 plus 0.5% of the principal. The loans are junior secured. 16 loans were issued in 2014, with a total volume of for DKK 65 million. In the first quarter of 2015, 6 loans have been issued with a total volume of DKK 51 million.

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 fund's investments period ends in 2015.

The capital base – a total of DKK 4.8 billion – 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 in Denmark, 2014**

	Government commitments	Size of Fund	Ownership %
Major Invest Equity 4	DKK 400 million	DKK 1.2 billion	33.0
Capidea Kapital II	DKK 362 million	DKK 724 million	50.0
Sunstone Technology Ventures Fund III	DKK 175 million	DKK 702 million	24.9
Sunstone Life Science Ventures Fund III	DKK 200 million	DKK 662 million	30.2
SEED Capital Denmark II	DKK 150 million	DKK 682 million	22.0
Procuritas Capital Investors V	EUR 5 million	EUR 204 million	2.5
IK VII	EUR 40 million	EUR 1.4 billion	3.0
Cata Cap	DKK 250 million	DKK 1.1 billion	24.0
Erhvervsinvest III	DKK 300 million	DKK 871 million	34.4
FSN Capital IV	SEK 335 million	SEK 5.3 billion	6.4
Danish Climate Investment Fund	DKK 150 million	DKK 1.3 billion	11.6
Industri Udvikling IV	DKK 190 million	DKK 500 million	38.0
Polaris Private Equity IV	DKK 400 million	DKK 2.2 billion	18.2
NCP-IVS III	DKK 125 million	DKK 524 million	24.0

Source: Dansk Vaekstkapital.

StatLink http://dx.doi.org/10.1787/888933332591

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 2011, a total of 9 venture capital funds has been approved by The Growth Fund as *partners*. These funds have used the credit line for a total of 36 loans committing a total of DKK 169 million.

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 2020. 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 Denmark 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.

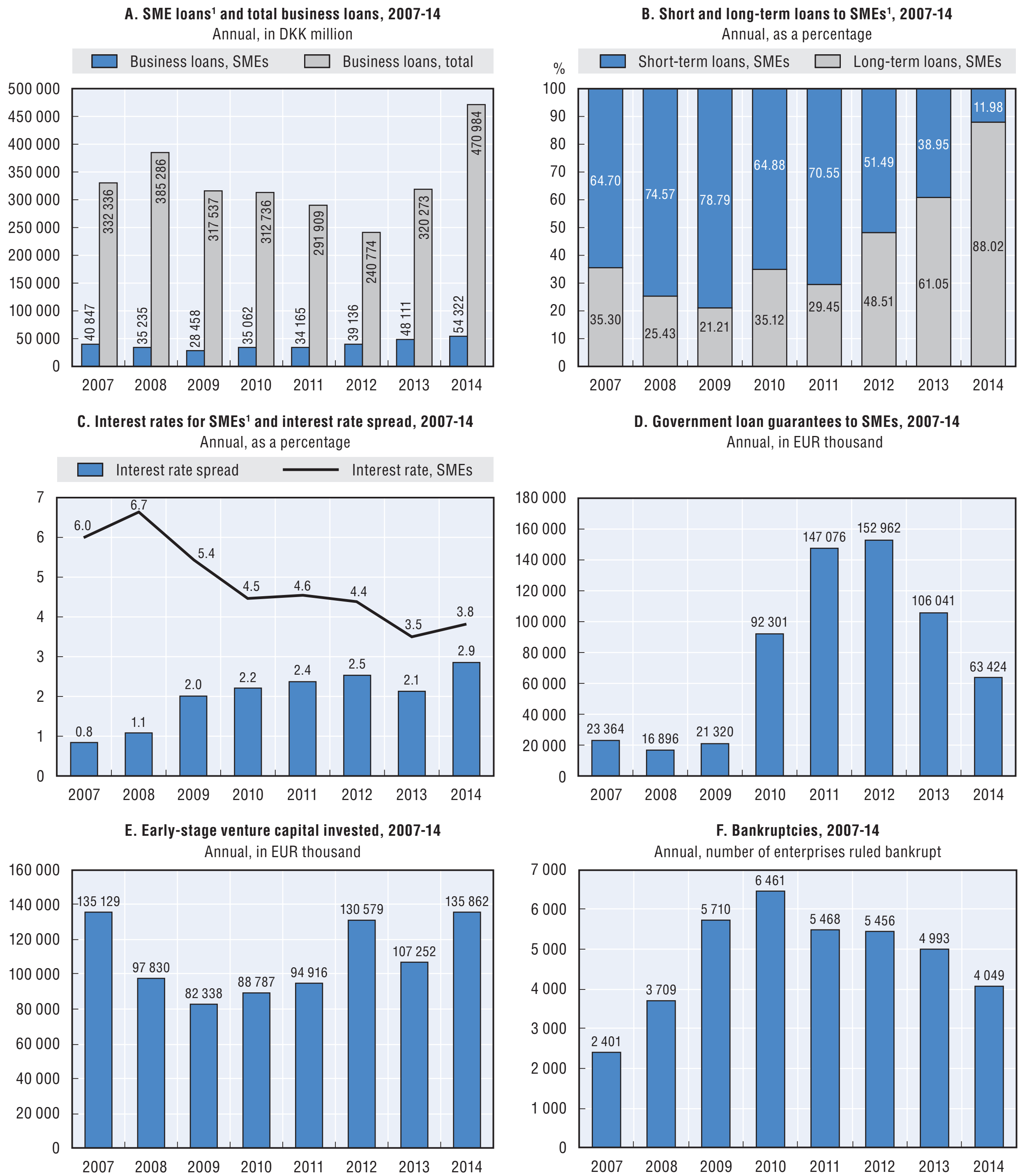
Table 11.6. **Scoreboard for Denmark, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	DKK million	40 847	35 235	28 458	35 062	34 165	39 136	39 989	54 322
Business loans, total	DKK million	332 336	385 286	317 537	312 736	291 909	240 774	323 026	470 984
Business loans, SMEs	% of total business loans	12.29	9.15	8.96	11.21	11.70	16.25	12.38	11.53
Short-term loans, SMEs	DKK million	26 426	26 274	22 423	22 697	24 098	20 152	15 576	6 508
Long-term loans, SMEs	DKK million	14 421	8 961	6 035	12 365	10 067	18 984	24 413	47 814
Total short and long-term loans, SMEs	DKK million	40 847	35 235	28 458	35 062	34 165	39 136	39 989	54 322
Short-term loans, SMEs	% of total SME loans	64.70	74.57	78.79	64.73	70.53	51.49	38.95	11.98
Government loan guarantees, SMEs	Amount in EUR 1 000	23 364	16 896	21 320	92 301	147 076	152 962	106 041	63 424
Government guaranteed loans, SMEs	Amount in EUR 1 000	4 704	6 900	6 709	10 767	12 415	12 813	33 557	93 594
Interest rate, SMEs	Percentage points	5.99	6.65	5.43	4.46	4.57	4.38	4.13	3.83
Interest rate, large firms	Percentage points	5.16	5.58	3.41	2.27	2.18	1.84	1.28	0.96
Interest rate spread	Percentage points	0.83	1.07	2.02	2.20	2.39	2.54	2.85	2.87
Rejection rate	1-(SME loans authorised/ requested)	3.00	..	..	12.00	..	..	..	14.00
Equity									
Venture and growth capital (seed and early stage)	EUR thousand	135 129	97 830	82 338	88 787	94 916	130 579	107 252	135 862
Venture and growth capital (growth capital)	EUR thousand	132 462	100 781	90 517	219 641	72 457	115 502	132 522	86 971
Other									
Payment delays, B2B	Days	7	6	12	12	13	12	10	9
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	4049
Bankruptcies, total	%, Year-on-year growth rate	..	54.5	53.9	13.2	-15.4	-0.2	-8.5	-18.9
Bankruptcies, SMEs	Number of companies	..	..	2 563	2 583	1 938	1 958	1 698	1 328
Bankruptcies, SMEs	%, Year-on-year growth rate	..	..	..	0.8	-25.0	1.0	-13.3	-21.8

Source: See Table 11.7.

StatLink http://dx.doi.org/10.1787/888933332608

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



Notes: For loans up to EUR 1 million. Blue colours in Chart A indicate data break.

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

StatLink http://dx.doi.org/10.1787/888933331041

Table 11.7. **Definitions and sources of indicators for Denmark's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Flow of loans to non-financial companies of less than DKK 7.5 million. Data is monthly, aggregated to arrive at annual data.	Statistics Denmark
Business loans, total	Flow of loans to non-financial companies of all sizes. Data is monthly, aggregated to arrive at annual data.	Statistics Denmark
Business loans, SMEs		Statistics Denmark
Short-term loans, SMEs	New loans below DKK 7.5 million with maturity up to 1 year aggregated to form annual data	Statistics Denmark
Long-term loans, SMEs	New loans below DKK 7.5 million with maturity of more than 1 year aggregated to form annual data	Statistics Denmark
Total short and long-term loans, SMEs	New loans below DKK 7.5 million aggregated to form annual data	Statistics Denmark
Short-term loans, SMEs		Statistics Denmark
Government loan guarantees, SMEs	Growth Guarantees and new Small Growth Guarantees	The Growth Fund (Vækstfonden)
Government guaranteed loans, SMEs	KIG-loans and Growth Loans from 2013 and onwards	The Growth Fund (Vækstfonden)
Interest rate, SMEs	Average annual rates for new loans, with maturity up to 1 year; and amounts for up to DKK 7.5 million	Statistics Denmark (and The Danish Central Bank)
Interest rate, large firms	Average annual rates for new loans, with maturity up to 1 year; and amounts of more than DKK 7.5 million	Statistics Denmark (and The Danish Central Bank)
Interest rate spread	Difference between annual average rates amounts for up to DKK 7.5 million and for amounts of more than DKK 7.5 million (for new loans with maturity up to 1 year)	Statistics Denmark (and The Danish Central Bank)
Rejection rate	Percentage of SMEs, which applied for a loan and obtained neither the desired loan nor part of the desired loan	Statistics Denmark
Equity		
Venture capital investments	Investments - Industry statistics (by country of private equity firm), seed and start-up	EVCA Yearbook
Growth capital investments	Investments - Industry statistics (by country of private equity firm), later venture stage and growth	EVCA Yearbook
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
Payment delays, B2B	Average delay in number of days for business-to-business. Data for 2007 is the average of both, number of days for business-to-business, and business-to-customer and public entities.	European Payment Index 2014
Bankruptcies, total	Declared bankruptcies	Statistics Denmark
Bankruptcies, SMEs	Declared bankruptcies in companies with below 20 employees	Statistics Denmark

Notes

1. Source: ECB Statistical Data Warehouse.
2. The EBIT margin is equal to Earnings Before Interest and Tax, divided by net revenue.
3. Source: Abildgren, Drejer and Kuchler, 2012..
4. The interests are affected by a databreak in September 2013, therefore only the last 4 months of the years 2013 and 2014 are compared.
5. Source: Danmarks Nationalbank (The Central Bank of Denmark).
6. Source: Statistics Denmark.
7. Source: Vækstfonden.

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Estonia

SMEs in the national economy

Of all Estonian firms in 2013, only 0.2% were large enterprises, employing more than 250 staff. SMEs employed 79.3% of the workforce and accounted for 75.8% of the value added. 90.4% of all firms were micro-enterprises, i.e. firms with less than 10 employees, employing 31.5% of the workforce and accounting for 25.6% of the value added in 2013.

Table 12.1. **Distribution of firms in Estonia, 2013**

By firm size

Firm size (employees)	Number	%
All firms	**71 171**	**100**
SMEs (1-249)	**71 005**	**99.8**
Micro (1-9)	64 369	90.4
Small (10-49)	5 544	7.8
Medium (50-249)	1 092	1.5
Large (250+)	**166**	**0.2**

Source: Statistics Estonia.

StatLink http://dx.doi.org/10.1787/888933332619

SME lending

The Estonian GDP contracted severely as a result of the 2007-08 financial crisis with repercussions for bank lending to SMEs. New loans to SMEs almost halved between 2007 and 2010, dropping from a level of EUR 3.6 million in 2007 to EUR 1.9 million in 2010. This development partially reflected the slump of the Estonian economy, and partially the rapid credit growth and credit to deposits ratio prior to 2007. 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 at that time.

Lending to SMEs picked up in the following years, thereby following 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 in 2007-08. In 2007, bank loans to SMEs accounted for 35.8% of all bank loans. This percentage has since then steadily decreased to 26.4% in 2014. Although new SME loans have been increasing more slowly than total business loans in recent years, in 2014 both groups increased almost equally. This suggests that access to finance is not considerably more problematic for SMEs than for larger enterprises anymore.

In terms of maturity, 20% of all SME loans were long-term in 2014, increasing modestly from 18% in 2009. In recent years, Estonian internal demand has been growing faster than exports and companies have had greater need for working capital which is usually financed with short term loans. Also SMEs' investment activity has been slower in recent years and need for long term capital has therefore been lower.

Credit conditions

The base rate for the interest rate on small loans up to EUR 1 million has decreased from 4% in 2012 to 3.3% in 2014. For larger loans, this interest rate declined from 3.0% to 2.6%. 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 level since 2007. This observation suggests that credit conditions for SMEs have improved in 2014.

Other indicators show a similar picture. Access to finance as hindering growth was reported by only 3% of manufacturing companies surveyed in 2014 by Estonian Institute for Economic Research. This was 0.8 percentage points more than a year before, but remained on a historically low level. Another sign of improving corporate sector finances is the consistent increase of corporate sector deposits as a share of value added and GDP. According to the Bank of Estonia, deposits of non-financial companies increased by 7.2% year-on-year to 23% of GDP in 2014.

Equity and asset-based financing

Venture capital investments in a small country like Estonia are very volatile and should be treated with caution. A single investment may have strong influence on all data. 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 of other European countries, and can therefore probably not be solely contributed to variance. In 2014, venture capital investments increased considerably and 60 Estonian companies received EUR 48.2 million of investments, including 77% of foreign capital.

Table 12.2. **Venture and growth capital investment in Estonia, 2007-14**

In EUR thousand

	2007	2008	2009	2010	2011	2012	2013	2014
Seed	0	178	251	514	137	421	0	15 900
Start-up	322	2 583	3 825	3 291	1 425	5 165	1 655	14 460
Later stage venture	3 350	3 410	0	889	615	1 251	725	3374
Total venture	**3 672**	**6 171**	**4 076**	**4 694**	**2 177**	**6 837**	**2 380**	**33 734**
Growth	9 000	1 000	1 764	11 931	4 200	11 650	20 875	14 460

Note: Total excludes buyout, turnaround and replacement capital.

Source: Estonian Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933332627

Leasing and factoring are relatively important sources of financing for Estonian firms. Both, new leasing and the outstanding stock of leasing declined sharply between 2008 and 2009, and only recovered somewhat in 2011. In 2013, leasing remained underused compared to the pre-crisis period. New factoring was also substantially down in 2009, but recovered to unprecedented levels in 2012 and 2013. Although the total outstanding factoring stock was quite stable in recent years, the flow has grown considerably and more than doubled compared to 2009 (see Table 12.3).

Table 12.3. **Leasing and factoring in Estonia, 2007-14**

		2007	2008	2009	2010	2011	2012	2013	2014
Outstanding leasing , total (stock)	EUR million	1 730	1 709	1 311	1 023	1 058	1 153	1 179	1 209
Outstanding factoring, total (stock)	EUR million	226	227	230	245	228	224	210	231
New leasing , total (flow)	EUR million	891	710	223	281	519	650	546	537
New factoring, total (flow)	EUR million	1 290	1 406	989	909	1 129	1 924	1 981	2 094

Source: Bank of Estonia.

StatLink http://dx.doi.org/10.1787/888933332630

Other indicators

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 7 days on average in 2014, down from 10.1 days in 2012. Average payment delays of 7 days are considerably lower than the figures observed before 2009.

The severity of the financial crisis is also highlighted by the increase of SME bankruptcy numbers. In 2007, only 202 Estonian SMEs went bankrupt. This number exceeded 1 000 in 2009 and 2010. Since then, the number of bankruptcies declined, levelling out at 428 in 2014. This was a decrease of 6.8% vis-à-vis the number of bankruptcies in 2013, but still well above the levels observed in 2007. Within this context, it is also important to note that in 2013, more than 18 000 SMEs were operational compared to 2007.

Non-performing loans show a similar evolution. In 2007, SME non-performing loans, 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 54 million in 2013 to EUR 50 million in 2014 The non-performing loans share in total SME loans also declined to a 3% level, almost three times lower than its peak in 2010.

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 March 2015, 366 projects had been financed for a total amount of EUR 9 million.

Subordinated loans (including export loans) also saw the light in 2008 in response to the financial crisis. Subordinated loans support the financing needs of quickly growing companies if they need to be financed with new loan capital, but their level of self-financing is too low to obtain a bank loan, or their 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 as 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 is suitable 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 March 2015, subordinated loans financed 38 projects for a total amount of EUR 8.7 million.

Business loan guarantees have been in place since 2001 and draw upon both, KredEx own resources as well as 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 2012, the "Baltic Innovation Fund" (BIF) was set up. This is a fund created by Estonia, Latvia and Lithuania and the European Investment Fund (EIF) with the purpose to increase equity investments into the enterprises of the Baltic States. The EIF is investing EUR 52 million alongside investments of EUR 26 million, each from the national agencies of Estonia (KredEx), Latvia (Altum) and Lithuania (Invega). In the period 2013–16, the BIF will invest EUR 130 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.

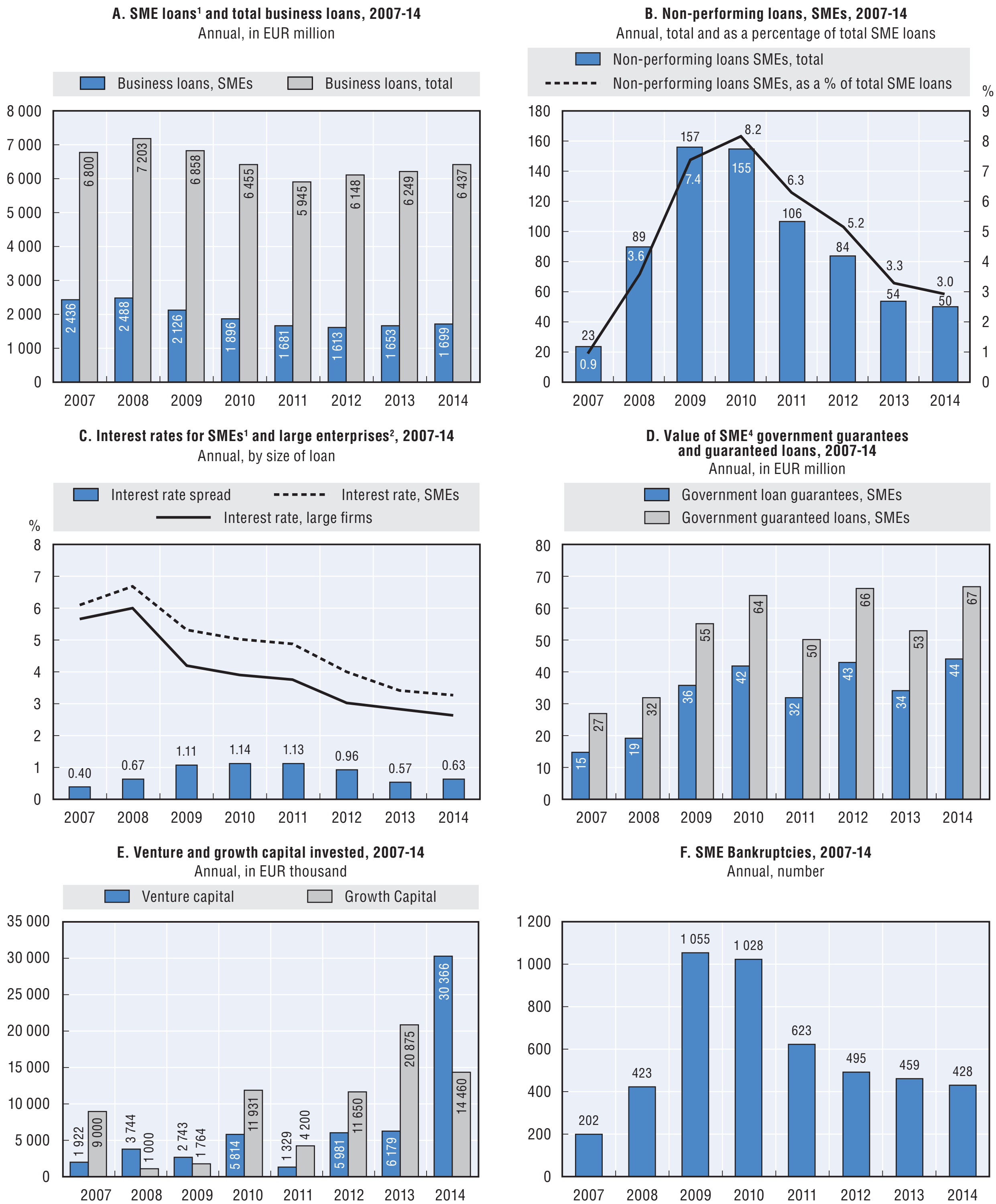
Table 12.4. **Scoreboard for Estonia, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	EUR million	2 436	2 488	2 126	1 896	1 681	1 613	1 653	1 699
Business loans, total	EUR million	6 800	7 203	6 858	6 455	5 945	6 148	6 249	6 437
Business loans, SMEs	% of total business loans	35.8	34.5	31.0	29.4	28.3	26.2	26.5	26.4
Short-term loans, SMEs	EUR million	481	475	377	318	326	302	317	333
Long-term loans, SMEs	EUR million	1 956	2 013	1 749	1 578	1 355	1 311	1 336	1 366
Total short and long-term loans, SMEs	EUR million	2 436	2 488	2 126	1 896	1 681	1 613	1 653	1 699
Short-term loans, SMEs	% of total SME loans	20	19	18	17	19	19	19	20
Government loan guarantees, SMEs	EUR million	15	19	36	42	32	43	34	44
Government guaranteed loans, SMEs	EUR million	27	32	55	64	50	66	53	67
Non-performing loans, total	EUR million	41	267	601	551	351	233	126	127
Non-performing loans, SMEs	EUR million	23	89	157	155	106	84	54	50
Non-performing loans, SMEs	% of total SME loans	0.9	3.6	7.4	8.2	6.3	5.2	3.3	3
Interest rate, SMEs	%	6.1	6.7	5.3	5.0	4.9	4.0	3.4	3.3
Interest rate, large firms	%	5.7	6.0	4.2	3.9	3.8	3.0	2.8	2.6
Interest rate spread	%	0.4	0.7	1.1	1.1	1.1	1.0	0.6	0.6
Non-bank finance									
Venture capital investments	EUR thousand	1 922	3 744	2 743	5 814	1 329	5 981	6 179	30 366
Growth capital investments	EUR thousand	9 000	1 000	1 764	11 931	4 200	11 650	20 875	14 460
Leasing and hire purchases	EUR million	891	710	223	281	519	650	546	537
Factoring and invoicing	EUR million	1 290	1 406	989	909	1 129	1 924	1 981	2 094
Other									
Payment delays, B2B		9.00	8.10	12.70	12.80	10.20	10.10	9.40	7
Bankruptcies, total		202	423	1 055	1 028	623	495	459	428
Bankruptcies, total	%, Year-on-year growth rate	-42.6	109.4	149.4	-2.5	-39.5	-20.5	-7.3	-6.8
Bankruptcies, SMEs		202	423	1 055	1 028	623	495	459	428
Bankruptcies, SMEs	%, Year-on-year growth rate	-42.6	109.4	149.4	-2.5	-39.5	-20.5	-7.3	-6.8

Source: See Table 12.5.

StatLink http://dx.doi.org/10.1787/888933332640

Figure 12.1. **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 AS.

StatLink http://dx.doi.org/10.1787/888933331050

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 EUR 1 million 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 EUR 1 million 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 EUR 1 million 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 EUR 1 million are used as proxy for SMEs' loans.	Bank of Estonia
Government loan guarantees, SMEs	Loans smaller than EUR 1 million are used as proxy for SMEs' loans	Fund KredEx
Government guaranteed loans, SMEs	Loans smaller than EUR 1 million 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 EUR 1 million 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 EUR 1 million 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 Association
Other		
Payment delays, B2B	Average payment delay measured in days. Surveyed 5 000 companies, of which 99.9% were SMEs	Krediidiinfo AS
Bankruptcies, SMEs	Bankruptcies, SMEs	Krediidiinfo AS
Bankruptcies, total	Bankruptcies, total	Krediidiinfo AS

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Finland

SMEs in the national economy

In Finland, 99.4% of all firms were SMEs in 2013 (90 486 SMEs), employing 64.6% of the labour force. The vast majority of them (79.3%) were micro-enterprises with less than 10 employees, employing 25.5% of the country's total workforce.

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

By firm size

Firm size (employees)	Number	%
All firms	**91 074**	**100**
SMEs (2-249)	**90 486**	**99.4**
Micro (2-9)	72 219	79.3
Small (10-49)	15 675	17.2
Medium (50-249)	2 592	2.8

Source: Statistics Finland (Structural business and financial statement statistics). Data include all industries (excluding primary production sectors) and exclude non-employer firms.

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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 the following years, a reversal of this trend was observed as SME lending further dropped by 5.6% in 2013 and by 8.6% in 2014. Over the period of 2009 to 2014, SME lending dropped by 43.6% in total. This may have been a result of increased solvency problems among SMEs, lower demand for loans, as well as tightened credit conditions.[1] Whatever the reason, the SME loan share dropped from 22% in 2008 to 19% in 2014. In terms of maturity, less than one-fifth of all new SME loans were of short-term in nature.

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 5.6% in 2008 to 2.7% in 2010. In 2014, the average interest rate charged to SMEs was 2.7%. The interest rate spread between small and large loans increased from 64 basis points in 2011 to 90 basis points in 2013, suggesting a tightening in credit terms for SMEs compared to large firms. However, in 2014 the interest rate spread contracted back to the level where it was in 2011.

According to the Confederation of Finnish Industries, 7% of all SMEs faced major financing difficulties in the first half of 2015. The share has remained relatively stagnant in 2011-14, being still twice as high as in the end of 2008. In addition, the percentage of loans up to EUR 1 million secured by collaterals has increased from 33% in 2010 to 40% in 2014.

Based on surveys by the Confederation of Finnish Industries, the number of «discouraged borrowers» has also increased during the last couple of years. It has been estimated that approximately 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 7% of SMEs 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 the data is available) to 5% in 2012 and to 10% in 2013.[2] In 2014, about 8% of loan applications were rejected. The vast majority of these non-performing loans are loans to micro enterprises with a turnover of less than EUR 200 000.

Equity financing

As in many countries, the venture and growth capital investments plummeted after 2008 in Finland and remained at a relatively low level in 2009-12. In 2013, an increase of 63% in the level of total venture capital investments was observed, mostly due to the growth of later stage venture capital. The amount of investments slightly decreased in 2014, remaining still at the same level as in 2008, before the meltdown of investments.

Table 13.2. **Venture and growth capital investment in Finland, 2007-14**

By stage of investment, in EUR thousand

	2007	2008	2009	2010	2011	2012	2013	2014
Seed	17 160	9 480	9 174	5 350	3 272	3 950	7 443	8 173
Start-up	46 040	63 628	50 449	62 101	51 847	61 445	65 060	77 457
Later stage	68 973	46 907	31 287	31 535	30 572	13 670	56 251	37 777
Total venture	**132 173**	**120 015**	**90 910**	**98 986**	**85 691**	**79 064**	**128 753**	**123 408**
Growth	60 575	127 801	49 390	252 796	58 858	103 644	41 088	42 308

Note: Total excludes buyout, turnaround and replacement capital.

Source: European Venture Capital Association.

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At the moment there are two evident trends relating to the entrepreneurship that are boosting venture capital and business angel investments in Finland. Firstly, during the last few years there has been a boom around growth entrepreneurship started by the entrepreneurship societies in Finnish universities. As a result of this, Finland is now relatively appealing country among venture capital investors and growth entrepreneurs. One example of the interest toward Finland is the event called Slush in Helsinki which brings annually together about 15 000 technology entrepreneurs and venture capitalists for the two-day event in every November. Moreover, in 2013 venture capital investments in Finland were highest in Europe when looking amount invested as a proportion of GDP.

Secondly, more than one third of all Finnish entrepreneurs are over 55 years old and the group of ageing entrepreneurs is increasing every year. According to rough estimation by Confederation of Finnish Industries, about 15 000 employer firms are in the ownership or business transfer phase at the moment (16% of all employer firms in Finland). Ageing of the entrepreneurs is naturally a big challenge for the Finnish economy, but at the same time it offers some opportunities for the acquisitions of firms and creates possibilities to release the accumulated entrepreneurial experience and wealth of senior entrepreneurs in order to help young growth entrepreneurs in their entrepreneurial career.

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. There have been only minor variations on the average payment delays in 2007-14 changing between 5 to 7 days in this period. The strict payment behaviour was reinforced by a law which required late paying companies or public institutions to pay a debtor fee and interest on the unpaid amount. In addition, after the recent amendment that has been made by Finnish Parliament in the Act of Payment Terms in Commercial Relations, the maximum term for payment should not be exceeding 30 days (earlier 60 days), if not agreed otherwise.

The proportion of firms in bankruptcy proceedings increased during the crisis from 0.9% in 2007 to 1.2% in 2009, although this increase, as well as the absolute level of bankruptcies, is relatively modest by international standards. The percentage of firms in bankruptcy proceedings dropped then to 1% in 2010. Thereafter, it has varied between 1.1% and 1.2% in 2011-14. According to the most recent data provided by Statistics Finland, there were 12% less bankruptcies in first half of 2015 than in the year before. However, the statistics indicate at the same time that the number of new business openings decreased, and the number of business closures slightly increased in Finland.

Non-performing loans as a proportion of all business loans more than doubled from 0.3% in 2007 to 0.7% in 2009, and remained around one per cent afterwards. It should be noted that this level of NPLs is still well above the average in the European Union.

According to the SME surveys, the demand of bank loans has remained relatively stable over the years. At the same time, however, information provided by financial institutions suggests that the number of SME loan applications has actually decreased over the last couple of years. This contradiction between the findings in demand and supply-side surveys could be partly explained by the discouraged borrowers phenomenon described above. In addition, some of the demand has been directed to public financing and other financing sources instead of traditional bank loans. For example, financing authorised by Finnvera increased from EUR 756 million in 2013 to EUR 914 million in 2014.

During the years 2009-14, 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 per cent of SMEs reported major financing difficulties, and 21 per cent 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 2008, being around 6%-8%. Due to these changes, the demand for short-term financing increased whereas long-term investments were postponed in many SMEs.

According to the survey of EK conducted in June 2015, about 7% of all SMEs suffered from financing difficulties. Based on the EK's longitudinal surveys, it is estimated that 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 incidence of solvency problems in June 2015 was at its highest level since 2009, and 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 by firm size in Finland, 2009-15**

As a percentage

Size of firm, employees	6/09	9/09	1/10	8/10	1/11	11/11	5/12	11/12	5/13	11/13	4/14	6/15
1-4	33	39	31	36	27	22	21	16	22	20	24	26
5-9	23	21	16	16	14	14	17	18				
10-49	19	19	20	17	14	19	21	21	16	18	16	17
50-249	13	12	10	8	10	12	11	15	16	9	11	10
Average	**21**	**21**	**20**	**17**	**15**	**17**	**17**	**20**	**17**	**16**	**16**	**22**

Source: Confederation of Finnish Industries.

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Based on the latest EK survey published in June 2015, the average payment duration was also expanded from 28 days in 2014 to 30 days in 2015. This finding is in contradiction with the results provided by Intrum Justitia, according to which average payment duration fell from 27 days in 2012 to 23 days in 2015 (European Payment Index).

Government policy responses

SME loans and guarantees provided by Finnvera

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 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 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, declined substantially in 2012-13 and ended up at the lowest level in the reference period (EUR 663 million in 2013). However, in 2014, especially the amount of guarantees increased significantly and rebounded back to the same high level as in 2009 (over EUR 470 million).

Partly, these variations in demand could be explained by the changes that have taken place over the years in the loan instruments provided by public organisations such as Finnvera. For example, Finnvera's authorisation to grant counter-cyclical loans expired at the end of the 2012. The total amount of the 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 the public financing 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 the finance granted by the public organisations such as Finnvera and Centre for Economic Development, Transport and the Environment[4].

Table 13.4. **SME loans and guarantees granted by Finnvera in Finland, 2007-14**

In EUR million

Instrument	2007	2008	2009	2010	2011	2012	2013	2014
Loans	385	468	593	397	369	342	284	287
Guarantees	416	438	474	447	497	408	379	476
Subtotal	*801*	*906*	*1 067*	*844*	*866*	*750*	*663*	*763*
Export guarantees	96	122	127	71	111	104	93	151
Total	**897**	**1 028**	**1 194**	**915**	**977**	**853**	**757**	**914**

Source: Finnvera, Annual Reports 2009, 2010, 2011, 2012, 2013, 2014.

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Other policy measures

In 2014-15, a few improvements have been introduced relating to the SME financing granted by Finnvera.[5] Firstly, because of the increased compensation of possible credit and guarantee losses, Finnvera can increase its risk-taking (especially in the financing of start-up and growth companies, and companies expanding their international operations).

Secondly, from the start of 2015, Finnvera has also been able to provide SME financing for larger companies. With a new, three-year mandate, Finnvera will be able to provide financing for companies with a turnover of up EUR 300 million and of importance to the Finnish economy.

Thirdly, the scope of the Act on the State's Export Credit Guarantees was widened in the autumn of 2014. Under the amendment, Finnvera may provide the party making the investment in Finland or the suppliers with financing when the investment helps to boost exports. The new provisions do not involve any upper limit to company size or time limit.

In addition, the amount of Finnvera's micro-financing has been increased from EUR 35 000 to EUR 50 000. Finnvera can also provide financing with a lower amount of collateral than before. In some cases, even collateral-free growth financing could be possible, if the company has a sufficiently strong financial standing. For investment projects, Finnvera can provide financing with longer repayment periods than banks.

It should be noted that in Finland, the government participation in order to enhance growth entrepreneurship, is probably more evident than in many other countries. Alongside with the improvements described above, there are a few government programmes and service models which try to help SMEs to achieve their goals concerning internationalisation and growth.

Firstly, 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 in order 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.

Secondly, 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 few years, the programme has acquired EUR 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.

Thirdly, 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.

Finally, there are also many active non-governmental actors in Finland which create possibilities for potential investors and growth seeking firms to meet each other (such as Finnish Business Angel network and Finnish Venture Capital association). Also for example the Confederation of Finnish Industries launched a forum in August 2015 to match senior and young entrepreneurs as well as startups and SMEs. In the arena some good practices are presented in order to illustrate how traditional SMEs have rebuilt their operations with the help of startups and how startups have benefitted of the entrepreneurial experience, investments and networks of senior entrepreneurs.

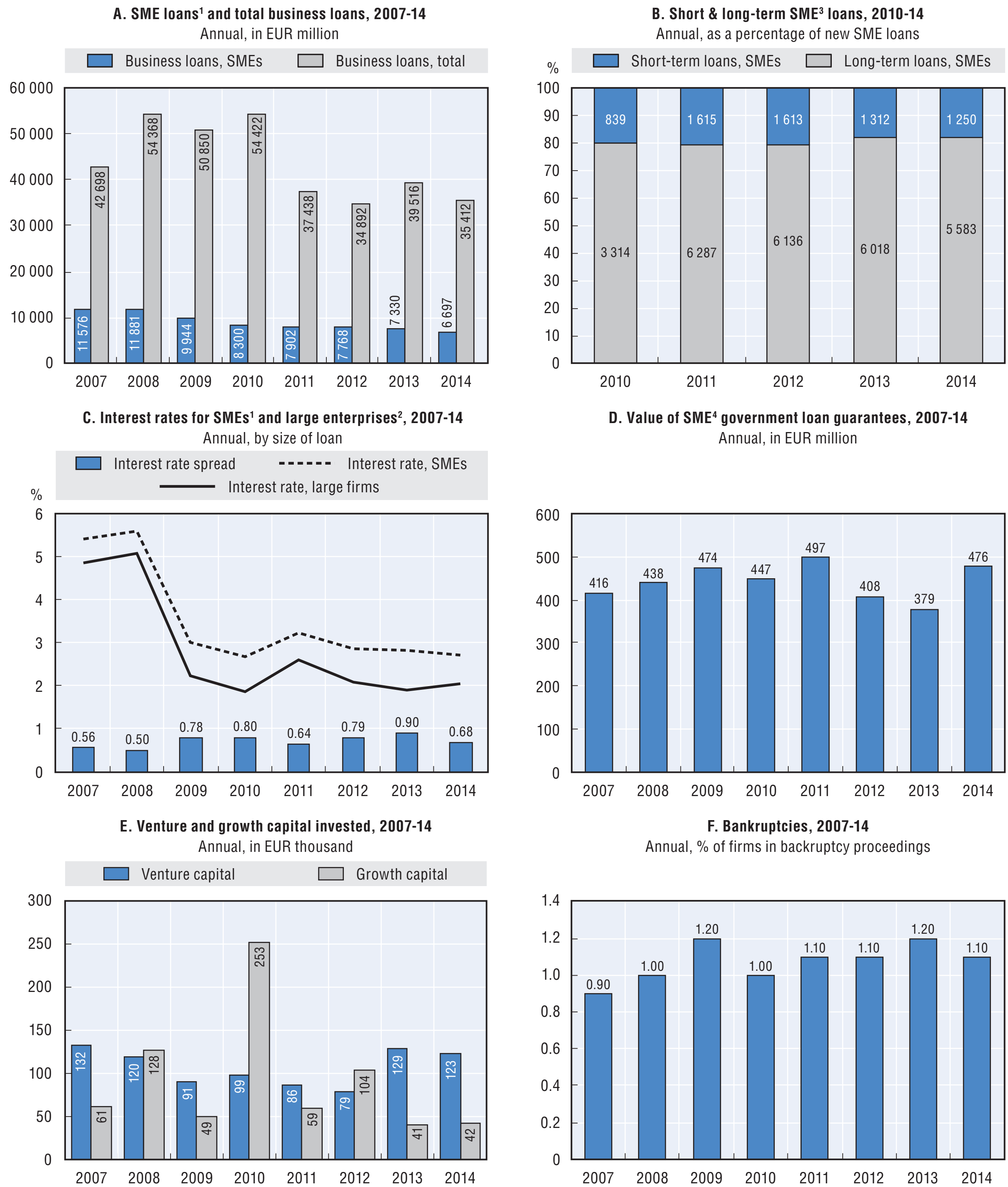
Table 13.5. **Scoreboard for Finland, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Outstanding business loans, total (stock)	EUR million	48 386	57 594	54 093	56 471	60 361	63 282	66 724	68 373
Business loans, SMEs (flows)	EUR million	11 576	11 881	9 944	8 300	7 902	7 768	7 330	6 697
Business loans, total (flows)	EUR million	42 698	54 368	50 850	54 422	37 438	34 892	39 516	35 412
Business loans, SMEs	% of total business loans	27.1	21.9	19.6	15.3	21.1	22.3	18.5	18.9
Short-term loans, SMEs (flows)	EUR million	..	..	..	839	1 615	1 613	1 312	1 250
Long-term loans, SMEs (flows)	EUR million	..	..	..	3 314	6 287	6 136	6 018	5 583
Total short and long-term loans, SMEs	EUR million	..	..	..	4 153	7 902	7 749	7 330	6 832
Short-term loans, SMEs	% of total SME loans	..	..	..	20.2	20.4	20.9	17.9	18.3
Government loan guarantees, SMEs	EUR million	416	438	474	447	497	408	379	476
Government guaranteed loans, SMEs	%	3.6	3.7	4.8	5.4	6.3	5.2	5.2	7.1
Non-performing loans, total	EUR million	132	210	341	339	359	359	398	375
Non-performing loans, total	% of total loans	0.3	0.4	0.7	0.6	1.0	1.0	1.0	1.1
Non-performing loans, SMEs	% of total SME loans	1.1	1.8	3.4	4.0	4.5	4.6	5.4	5.6
Interest rate, SMEs	%	5.39	5.58	3.02	2.66	3.23	2.86	2.81	2.71
Interest rate, large firms	%	4.83	5.08	2.24	1.86	2.59	2.07	1.91	2.03
Interest rate spread	%	0.56	0.5	0.78	0.8	0.64	0.79	0.9	0.68
Collateral, SMEs	% SMEs reporting an increase in collateral requirements	..	..	..	33	34	35	41	40
Rejection rate	1-(SME loans authorised/ requested)	..	..	..	..	1	5	10	8
Equity									
Venture capital investments	EUR million	132	120	91	99	86	79	129	123
Growth capital investments	EUR million	61	128	49	253	59	104	41	42
Leasing and hire purchases	EUR million	..	..	1 067	1 361	1 566	1 765	1 658	1 858
Other									
Payment delays, B2B	Average number of days	6	5	7	7	7	7	6	6
Bankruptcies, total	%, Year-on-year growth rate	0.9	1	1.2	1	1.1	1.1	1.2	1.1

Source: See Table 13.6.

StatLink http://dx.doi.org/10.1787/888933332699

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. In 2010, only data from June to December is available. 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/10.1787/888933331068

Table 13.6. **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
Business loans, total	All new business loans; 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
Short-term loans, SMEs	All new business loans up to EUR 1 million and 1 year, including all firms and housing corporations	Bank of Finland
Long-term loans, SMEs	All new business loans up to EUR 1 million and over 1 year, including all firms and housing corporations	Bank of Finland
Government loan guarantees, SMEs	Value of guarantees granted to SMEs (defined as firms with less than 250 employees) by Finnvera	Finnvera
Government guaranteed loans, SMEs	Percentage of government loan guarantees of all SME new business loans	
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, SMEs	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, large firms	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	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 loans up to EUR 1 million secured by collaterals, including all firms and housing corporations	Bank of Finland
Rejection rate	Percentage of SMEs which applied bank loans but were rejected	EC and ECB
Equity		
Venture capital	Invested capital: seed, start-up and other early stage by private investment companies. All enterprises.	European Venture Capital Association
Growth capital	Invested capital: growth capital by investment companies. All enterprises.	European Venture Capital Association
Other		
Payment delays, B2B	Average number of days for business-to-business. All enterprises.	Intrum Justitia, European Payment Index
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, in which the applicant receives most or only a limited part of the amount requested, are not.
3. For special reasons loans were granted also 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 generalisation of the results for the total population of SMEs.
5. More of these improvements presented in this publication are available at the website of Finnvera: *http://www.finnvera.fi/eng/Finnvera/News/(newsid)/3641*.

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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, 2015**

By firm size

Firm size (employees)	Number	%
All firms	**2 808 084**	**100**
SMEs (1-249)	**2 803 920**	**99.9**
Micro (1-9)	2 660 979	94.8
Small (10-49)	123 146	4.4
Medium (50-249)	19 795	0.7
Large (250+)	**4 164**	**0.1**

Note: Data includes financial enterprises with the exception of holding companies (ISIC Rev.4 sector 642). Non-employer enterprises are not included.

Source: OECD (2015).

StatLink http://dx.doi.org/10.1787/888933332709

SME lending

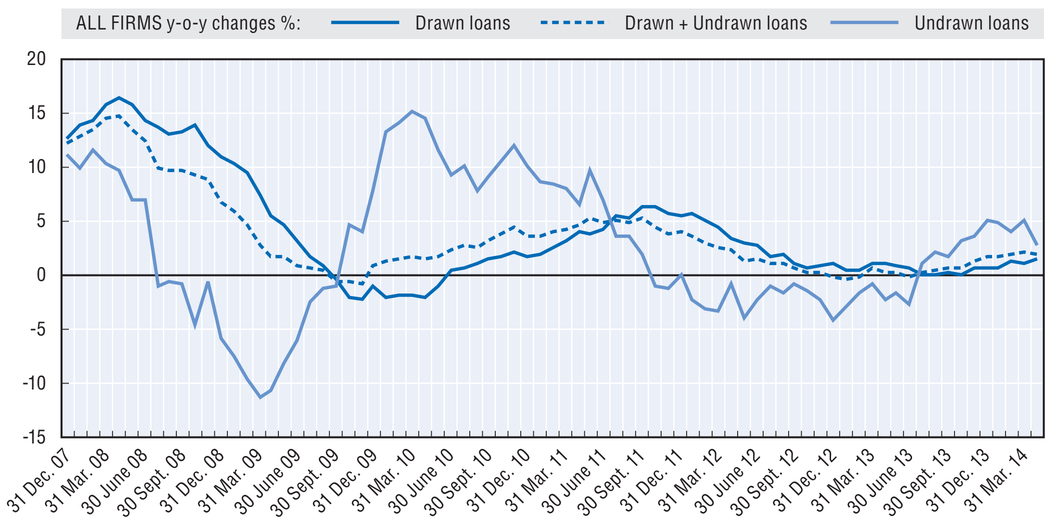
The Central Credit Register of the National Bank of France collects monthly data on loans over EUR 25 000 granted to enterprises (legal units). The data include both, loans drawn (utilised) and undrawn (not utilised) for enterprises resident in France. They have data, both on loans to all firms and on 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 2014 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, 2013 and 2014. The share of SME loans in the total outstanding loan stock has remained roughly constant over the last eight years at 20%-21%. The share of short term loans to SMEs has declined from 27.2% in 2007 to 22% in 2010, and has remained below 21%-20% since (Banque de France, 2015).

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 along with 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.

Figure 14.1. **Growth rates of bank loans to all firms in France, 2007-14**

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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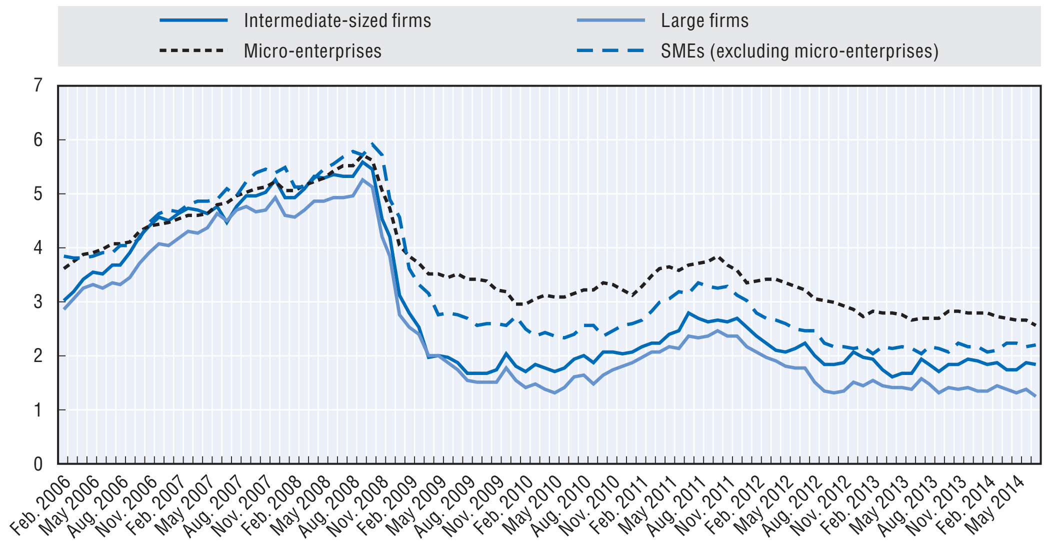
As in most European countries, interest rates for all firms dropped steeply in 2009, as a response to the monetary easing of the European Central Bank. Whereas interest rates for firms of all sizes averaged between 4.5% and 5.5% in 2007 and 2008, they declined drastically afterwards to a level of below 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 between January 2007 and the middle of 2009, and even more afterwards. 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 less pronounced (see Figure 14.2).

According to the Bank Lending Survey from the ECB, SMEs, both in the Eurozone and in France, perceived a dramatic tightening in the lending conditions of theirs banks between 2007 and 2010,. 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 (see Figure 14.3).

Figure 14.2. **Interest rates in France, 2006-14**

By firm size, as a percentage

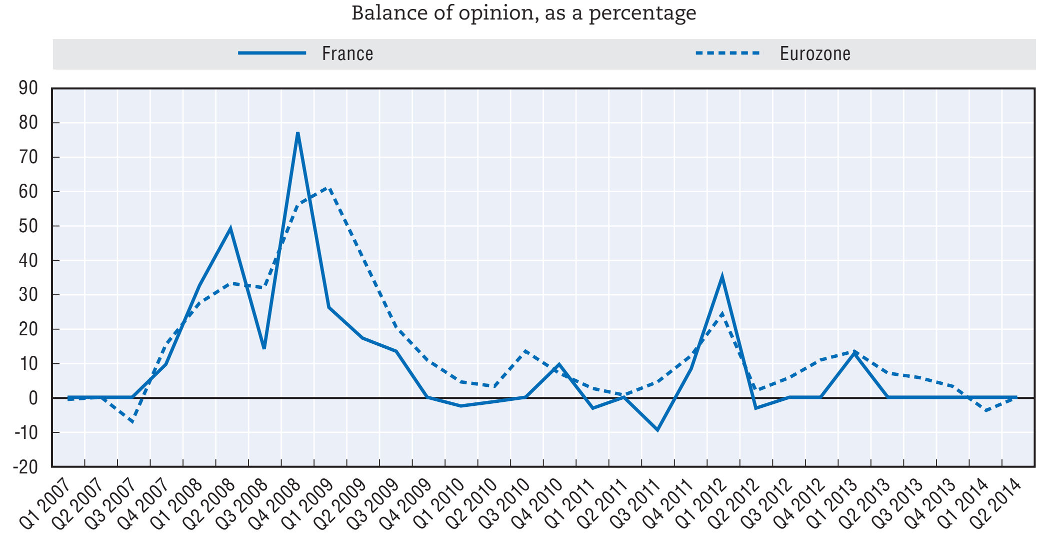


Source: Banque de France

StatLink http://dx.doi.org/10.1787/888933331087

Figure 14.3. **Change in credit conditions for SMEs in France and the Eurozone, 2007-14**

Balance of opinion, as a percentage



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

StatLink http://dx.doi.org/10.1787/888933331098

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 from October 2012 – March 2013, in line with most Euro area countries. This could be evidence that the French credit mediation scheme was bearing positive results (Banque de France, 2015; Médiateur du credit, 2015).

Equity and asset-based 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 (AFIC, 2015).

Table 14.2. **Private equity investment in France, 2006-14**

By stage of investment, in EUR million

Stage	2006	2007	2008*	2009	2010	2011	2012	2013	2014
Venture capital	536	677	758	587	605	597	443	642	626
Expansion capital	1 057	1 310	1 653	1 798	2 310	2 940	1 946	1 827	2 608
Sub-total	1 593	1 987	2 411	2 385	2 915	3 537	2 389	2 469	3 234
LBO	8 075	10 340	7 399	1 605	3 512	6 015	3 568	3 910	5 452
Turnaround capital	95	84	99	84	90	118	115	103	41
Total investment	10 164	12 554	10 009	4 100	6 597	9 750	6 072	6 482	8 727

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/10.1787/888933332716

Factoring volumes declined only modestly between 2008 and 2009, and then rose very fast from EUR 128.3 million in 2009 to EUR 200.5 million in 2013.The number of transactions, ongoing operations and clients also increased over the same period, illustrating that this source of finance is becoming more widespread in France (see Table 14.3) (ASF, 2015).

Table 14.3. **Evolution of factoring activities in France, 2008-13**

	Units	2008	2009	2010	2011	2012	2013
Production[a b]	EUR million	133.0	128.3	153.2	173.3	186.5	200.5
International transactions	%	14.2	14.5	17.0	18.2	18.1	19.3
Ongoing operations[b c]	EUR million	24.8	21.1	24.2	26.9	27.6	30.4
Number of clients[d]	EUR thousand	29.0	32.2	35.3	36.9	37.9	38.9

Notes:

a) Annual amount of receivables taken care of
b) Floor plan financing and forfaiting excluded
c) Stock of outstanding debts on 31/12
d) Number of firms having signed a factoring contract.

Source: ASF.

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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 data is available, this indicator declined by more than 12%. This is potentially due to the so-called *Modernization 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 the business-to-business and the business-to-consumer segment. These indicators decreased in 2013 to 16 and 15 days, respectively.

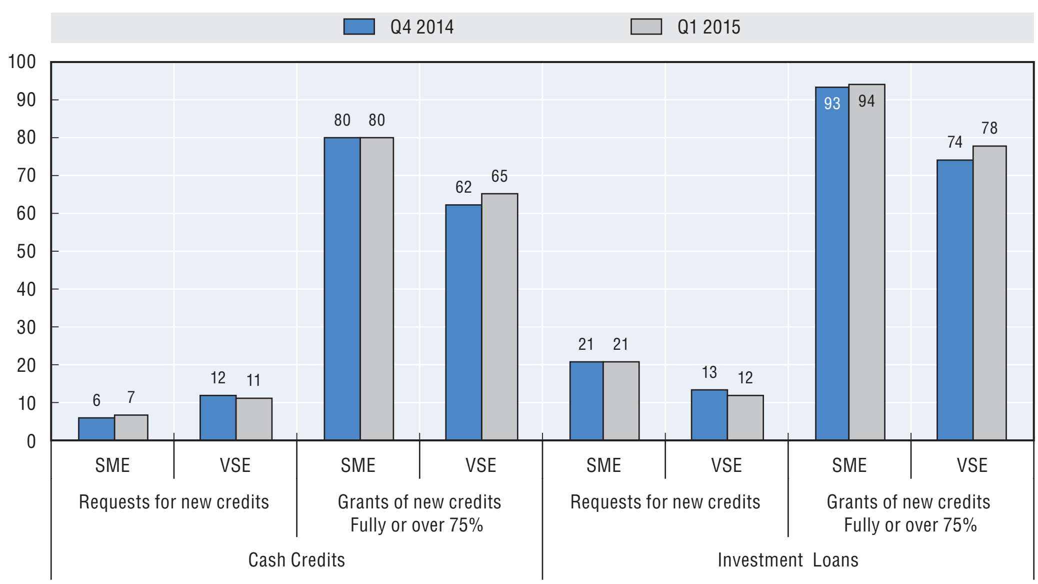
SME bankruptcies peaked during the Great Recession and decreased again in 2010 and 2011. 2012 and 2013 again saw an uptick of the bankruptcy rate for SMEs. In 2014, 58 200 SMEs went bankrupt, still a very high level. Very small firms represented the bulk of all bankruptcies which in total amount to more than 62 000.

Government policy response

In France, the main source of finance for SMEs is bank lending. In the most recent period under review, SME access to bank lending has been satisfactory, illustrated by the continuous progression of credit loans, easing of conditions (interest rates, softer loans conditions), and increasing successful credit requests rates measured by the *Banque de France* in its quarterly survey on access to bank financing for SMEs and very small enterprises (Banque de France, 2015).

Figure 14.4. **Financing requests and grants for SMEs and VSEs in France, 2014-15**

As a percentage



Note: Enterprises with real decisional autonomy regarding requests for credit. SMEs: 10-249 employees: VSEs: 0-9 employees.

Source: Banque de France, Directorate General of Statistics.

StatLink http://dx.doi.org/10.1787/888933331101

French public authorities, in spite of the continuous progression of credit loans to SMEs throughout the period under review, are very vigilant that access to finance for SMEs remains fluid.

Public action in favour of access to finance is in continuity with previous years

Credit Mediation

The Credit mediation set up in November 2008 to assist SMEs to solve their liquidity problems by maintaining or obtaining bank credit remains a central part of the financing landscape for French SMEs.

Companies encountering difficulties with their bank, or their credit insurer can address a request online to start the potential mediation process. The mediation services in Paris, assisted by departmental mediators from the Banque de France, assess the eligibility of the requests and contribute to finding a solution between the requesting firms and the financial institutions at local or if necessary national level.

In 2014, 2 184 mediations had been set up, supporting 1 258 enterprises with a total of 20 033 employees and unblocked EUR 372 million of credit. The number of requests has decreased in comparison with the average number of 2012-13, partly due to the economic outlook (lack of visibility and subsequent reduction in working capital needs and investment projects), and the global easing of access to bank financing.

To date, since the creation of the scheme in 2008, 45 660 enterprises have sought mediation, 80% enterprises have been accepted for mediation; and the rate of successful mediation is at 61%. On the whole, the credit mediation scheme has reinforced 19 508 firms of all sizes, unblocked EUR 5.9 billion in credit and preserved 361 202 jobs (Médiateur du Crédit, 2015).

The credit mediation scheme has been extended in 2015 in time (until the end of 2017) and in coverage (difficulties encountered by firms in their relation with their factors).The national credit Mediator is also President de l'Observatoire du financement des PME et ETI, a light structure set up in 2011 to identify and document the financial situation of small and mid- cap firms in France. The Observatoire gathers financial institutions, business representatives, administrations and statisticians to discuss the evolutions in SME access to finance, or conduct studies on specific issues in relation to this subject.

Bpifrance

Public support to SMEs is mainly managed through Bpifrance, the public development bank 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. The bank also guarantees risk capital funds. On the equity side, Bpifrance manages several funds of funds and direct funds, mostly targeting SMEs needs.

In 2014, thanks to Bpifrance intermediation, SMEs had access to around EUR 7.8 billion guaranteed loans, EUR 25.4 billion of public and private co-lending, EUR 6 billion of trade receivables financing, and around EUR 800 million support to innovation. On the equity side, Bpifrance invested directly EUR 150 million in SMEs through its growth capital activity, and EUR 128 million in innovative SMEs through its venture capital branch, and subscribed around EUR 600 million indirectly in firms through its fund of funds activity.

Specific focus of public action in 2014-15

French SMEs have been facing the financial euro zone turmoil, in 2008-09 and since then an uncertain economic situation, that put a lot on constraints on these firms which have low margins. 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; they also have to prepare for the future and consider investing while the economic situation remains uncertain, without having internal means to do so.

These observations are still valid and have been structuring public action during 2014-15, around several orientations:

A better access to finance for micro firms

The specific financial situation of microenterprises has been the subject of attention, since most of the access to finance difficulties seems to be encountered by this category of firms. Upon a request from the Ministry of Economy, the Observatoire du financement des entreprises launched an in-depth project, connecting representatives of financial institutions and of SME and microfirms organisations, as well as representatives from the administration, to document as much as possible the needs and difficulties of these firms (Observatoire du financement des entreprises, 2014).

The results of this work, based on the statistical contribution of the Banque de France and INSEE, on the audition of many financial and economic actors has been summarised in a report published in June 2014:

Microfirms represent a heterogeneous population with very different financing needs (whether they have employees or not, they invest or not, whether their financial structure is solid or not). This heterogeneity makes it difficult to provide a comprehensive overview of their financial situation as a category, however several observations could be made: These firms are typically characterised by a difficult dialogue with their bank, though their dependence on banking finance is strong, an important use of payment delays or overdraft to finance their working capital needs, and a less developed use of factoring than larger firms.

When it comes to investment, most microfirms feel that their banking partners request more guarantees than in the past: this could be explained by the trend to encourage firms to externalise the management of their real estate, which has left many of them without any capacity of collateral. Microfirms must therefore rely on external guarantees such as those of Bpifrance or other financial organisations, such as SIAGI or SOCAMA.

Building on this work, which has been collectively endorsed by all the members of the Observatoire, the French banking association (FBF) has undertaken to:

- Reply in a 15 days period to any credit demand from microfirms.
- Justify any negative reply, and organise a discussion with the enterprise if requested.
- Indicate, if possible in writing, the possibility to file a complaint to the credit mediation.
- Contribute actively to the information of microfirms on the different instruments available to finance working operations.
- Maintain the stability of their staff in direct contact with small firms, as much as possible.

The implementation of these undertakings is currently followed upon by the *Observatoire*. The proper coverage of working capital needs of micro firms and SMEs in general is at the core of the government action regarding access to finance: on top of consolidating Bpifrance instruments (guarantees and short terms credits) already in place, the government strengthens its action on payment delays which seem to play a particular role in the difficulties encountered by small firms: civil and criminal penalties in case of non -respect of legal delays have been replaced by more easily implemented administrative sanctions (Consumer law, 17 March 2014). The first procedures undertaken under this law will probably be closed in autumn 2015. The extension of these sanctions to payment delays from publicly owned firms has recently been adopted by Parliament.

A focus on the financing of investment projects

Ensuring that the proper conditions are in place to finance investment when the economic situation improves is one of the focuses of recent public intervention.

Several measures have been reinforced or set up in order to ensure such financing. Bpifrance has maintained its long term co-financing with banks to a stable level. It has increased its production of certain loans, called "*prêts de développement*" or development loans: these are 7 to 10 year loans, targeting intangible and tangible investments, which are distributed simultaneously with bank loans to co-fund a global investment project. Bpifrance finances the part of the project covering intangible investment, or investment with little collateral value, and boosts, through this approach, banks intervention on the more "classical" part of the loan (investments that can be used as collateral). EUR 1.9 billion have been granted by Bpifrance in development loans in 2014, a 43% increase from 2013.

Some of these loans have been specifically targeting types of investment in the production tools and methods used by SMEs and mid-cap firms (robotics, green loans, digital equipment) that could enable them to take advantage of the digital and environmental revolutions taking place.

Some other measures have been specifically designed to finance investment in social business and two financing instruments have been put in place in 2014:

- Repayable advances (maximum EUR 30 000) for projects in social innovation, granted by a EUR 40 million fund (fonds d'investissement dans l'innovation sociale), co funded by the State and the regions, and managed by Bpifrance.
- Development loans for social businesses (between EUR 20 000 and EUR 50 000), granted by Bpifrance with co-financing commercial banks.

On top of these instruments, an investment fund dedicated to cooperatives is being designed with the contribution of Bpifrance (as a fund of fund) and actors from the cooperative sector, to finance investment projects in this segment.

These measures have been completed by a fiscal incentive adopted by Parliament to accelerate investment decisions (*suramortissement*).

Action in favour of the diversification of financing sources for SMEs

In spite of the multiplication of initiatives in this field, the expected growth of alternative financing means to bank loans has been slow, partly because of the easing of bank financing conditions, and especially its low cost in France.

In particular the use of bond finance by SMEs is still marginal (in spite of the new initiatives put in place – e.g. the possibility for insurance companies to invest in debt funds, a Bpifrance-own initiative of debt fund in programme « *prêts d'avenir* »), as well as the use of external equity for most SMEs (though the French equity market is quite dynamic, that type of instruments applies to very few companies – around 1 600 in 2014 (AFIC, 2015).

One alternative instrument seems, however, more promising: since the adoption of the regulatory framework on crowdfunding platforms in 2014, 55 platforms have been registered under the new statuses (for lending and for equity) and in 2014, EUR 152 million were collected, most of them to finance loans. Though marginal when compared to the annual amount of new bank loans for SMEs, this volume is twice the amount collected in 2013.

The Parliament has just adopted a Law on activity and Growth (Loi Macron) which, among other provisions, opens up the possibility for peer-to-peer short term lending between firms, and gives the government the possibility to facilitate asset-based financing (on inventory), and to encourage regional stock exchanges.

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 Modernization of the Economy (LME) of 4 August 2008 established categories of companies consistent with the European Commission's definition of size.

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

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

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

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

Source: Banque de France (2010).

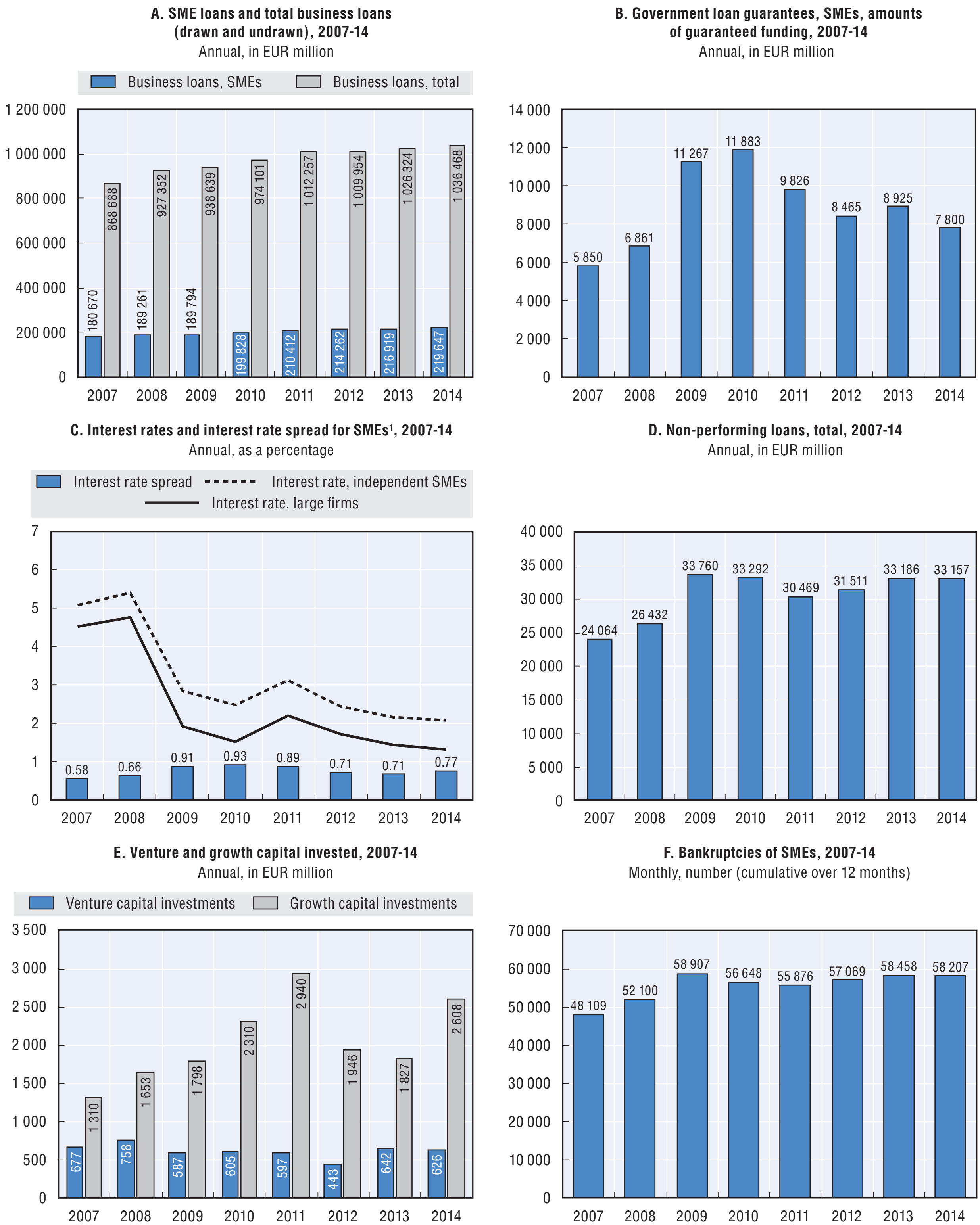
Table 14.4. **Scoreboard for France, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	EUR million	180 670	189 261	189 794	199 828	210 412	214 262	216 919	219 647
Business loans, total	EUR million	868 688	927 352	938 639	974 101	1 012 257	1 009 954	1 026 324	1 036 468
Business loans, SMEs	% of total business loans	20.8	20.4	20.2	20.5	20.8	21.2	21.1	21.2
Short-term loans, SMEs	EUR million	43 088	42 678	37 544	38 112	40 340	41 133	42 873	42 024
Long-term loans, SMEs	EUR million	115 331	123 450	127 905	134 502	142 769	146 648	146 582	150 163
Total short and long-term loans, SMEs		158 419	166 128	165 449	172 614	183 109	187 781	189 455	192 187
Short-term loans, SMEs	% of total SME loans	27.2	25.7	22.7	22.1	22	21.9	22.6	21.9
Government loan guarantees, SMEs, amounts of guaranteed funding		5 850	6 861	11 267	11 883	9 826	8 465	8 925	7 800
Government guaranteed loans, SMEs, net amount of hedged risks		2 707	3 219	5 752	5 326	4 231	4 157	4 394	4 783
Non-performing loans, total	EUR million	24 064	26 432	33 760	33 292	30 469	31 511	33 186	33 157
Interest rate, SMEs	%	5.1	5.41	2.86	2.48	3.12	2.44	2.16	2.09
Interest rate, large firms	%	4.52	4.75	1.95	1.55	2.23	1.72	1.45	1.32
Interest rate spread	Percentage points	0.58	0.66	0.91	0.93	0.89	0.71	0.71	0.77
Utilisation rate	SME loans used/ authorised	87.7	87.8	87.2	86.4	87	87.6	87.3	87.5
Non-bank finance									
Venture capital investments	EUR million	677	758	587	605	597	443	642	626
Growth capital investments	EUR million	1 310	1 653	1 798	2 310	2 940	1 946	1 827	2 608
Other									
Bankruptcies, total	Number	51 343	55 562	63 205	60 330	59 493	61 095	62 561	62 510
Bankruptcies, total	%, Year-on-year growth rate	7.1	8.2	13.8	-4.5	-1.4	2.7	2.4	-0.1
Bankruptcies, SMEs	Number	48 109	52 100	58 907	56 648	55 876	57 069	58 458	58 207
Bankruptcies, SMEs	%, Year-on-year growth rate	6.6	8.3	13.1	-3.8	-1.4	2.1	2.4	-0.4

Source: See Table 14.5.

StatLink http://dx.doi.org/10.1787/888933332737

Figure 14.5. **Trends in SME and entrepreneurship finance in France**



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

StatLink http://dx.doi.org/10.1787/888933331111

Table 14.5. **Definitions and sources of indicators for France's scoreboard**

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

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Georgia

SMEs in the national economy

In 2013, more than 99% of all firms in Georgia were SMEs, accounting for 42.7% of total private employment. The low share of employment generated illustrates that the economy in Georgia is strongly dependent on large enterprises and that SMEs play a relatively minor role in the economy. Moreover, SMEs contributed to only 20.6% of private sector value added in 2013, indicating that labour productivity in small and medium-sized enterprises is significantly trailing behind productivity in large firms.

Table 15.1. **Distribution of firms in Georgia, 2014**

By firm size, as a percentage

Firm size	Number	%
All firms	**70 704**	**100**
SME	**70 455**	**99.6**
Micro	63 201	89.4
Small	5 951	8.4
Medium	1 303	1.8
Large	**249**	**0.4**

Source: National Statistics Office of Georgia (Geostat).

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SME lending

Since re-gaining independence in the early 1990s, Georgia enacted many reforms in the field of economic development and promotion of democratic institutions. By signing the Deep and Comprehensive Free Trade Agreement with the EU, the country has taken an important further step towards integration with the European Union and further market liberalisation. Free Trade Agreements with Turkey and other neighbouring and CIS countries provide easy access to a market of over a billion people. In addition, Georgia has GSP (Generalised System of Preference) trade agreements with the Canada, Japan, Norway, Switzerland and the United States.

Overview of the economy

Over the last two years, Georgia experienced significant economic expansion. Real GDP growth amounted to 4.8% in 2014 and, according to World Bank forecasts, is expected to grow by 5% for the next several years. FDI is also on the rise. In 2014, the country attracted over USD 1.2 billion, with 35% growth compared to the previous year. In line with this economic expansion, credit to SMEs rose year after year between 2010 and 2014 by more than 75% in total. Throughout that period, business loans grew at a similar rate, although the proportion of SME loans as a percentage of total business loans remained relatively constant at around 35% in recent years.

A 2012 comparative review of SME policies in six so-called Eastern Partner Countries (Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine) conducted by the OECD illustrates that Georgian SMEs can assess finance relatively easy in a regional context, aided by a developed cadastre and credit information system, as well as a unified collateral registry and a comparatively high level of financial literacy. The main findings of this study are that Georgia came on top in 6 out of 10 dimensions within its peer group and that the business environment for all enterprises, including SMEs, has improved with respect to simplifying administrative regulations, reducing the tax burden and fighting corruption, facilitating free trade, promoting privatisation campaigns, and initiating a policy partnership platform for promoting lifelong entrepreneurial learning.

Despite this good performance compared with other Eastern partner countries, access to finance remains a chronic problem for Georgian SMEs. Financial literacy levels are still limited compared to OECD countries, and the enforcement of creditors' rights could be improved. Other recommendations include the adoption a more strategic approach to SMEs (identification of strategic directions and actions based on the consideration of specific SME needs, the application of a Regulatory Impact Assessment (RIA), the provision of information - on foreign market requirements and export possibilities for SMEs, by offering consultancy services and innovation support schemes through active policy measures, the promotion of lifelong entrepreneurial learning and improvement of SME skills (OECD, 2012).

Implementation of SME policies in accordance with the principles of the Small Business Act will be carried out through regular dialogue between the EU and Georgia (OECD, 2012).

Credit conditions

The average interest rate charged to SMEs is high by OECD standards, but has significantly declined in recent years from 16.5% in 2010 to 10.7% in 2014. Interest rates for large business loans have also dropped over the same period, but to a lesser extent, resulting in a narrowing interest rate spread that is suggestive of an overall easier access to finance for SMEs. In 2010, SMEs had to pay on average 289 basis points more than large enterprises for their bank loan, compared with 37 basis points in 2013. In 2014, the interest rate spread again increased to 69 basis points.

Non-bank financing

Although exact data on the availability and use of alternative finance instruments is lacking, available evidence strongly suggests that Georgian SMEs are very dependent on the banking sector for meeting their financing needs. The banking sector, in turn, is heavily concentrated, with 70% of all banking assets being held by the two largest banks. Financial instruments for small and medium-sized enterprises besides traditional bank lending and, to a lesser extent, micro-finance facilities, are therefore scarce in Georgia (EIB, 2013).

Other indicators

Bankruptcy data are volatile due to the limited number of active companies. Bankruptcies more than tripled between 2010 and 2012, declined by a third in 2013, and increased again to a total of 352 in 2014. Despite the rapid expansion of credit to SMEs, non-performing SME loans continuously declined between 2010 and 2014 from GEL 144.6 billion to GEL 101 billion. In 2014, slightly more than 4% of all SME loans were non-performing, down from more than 10% in 2010. Non-performing loans for all businesses followed a more erratic pattern, and increased over the same period.

Government policy response

Business Environment

Georgia offers a competitive environment for starting and doing business. Due to the reforms implemented by the government during recent years, administrative barriers were significantly reduced and public services streamlined, including:

- Tax Policy: The number of taxes and tax rates declined significantly and the tax administration improved, resulting in a liberal tax regime.
- Customs Policy: Customs reforms have been significantly simplified and thereby reduced the costs connected to foreign trade. A number of import tariffs were abolished for approximately 90% of products and only 3 tariff rates (0%, 5%, 12%) exist (instead of 16).
- Licenses and Permits: Due to the reform of the license and permit system, the number of licenses and permits was reduced by 84%. Currently, licenses and permits are only used in the production of highly risky goods and services, as well as for the usage of natural resources and some other specific activities. The procedures of issuing licenses and permits were significantly simplified; the "One-Stop Shop" and "Silence is Consent" principles were introduced with 15 days required to receive a licence and permit after a request has been submitted.
- Public Administration: Procedures related to dealing with public institutions, including business related services, are provided according to the "One Stop Shop" principle. Most services can be done online. In addition, Georgia established a unique system – Public Service Halls (Houses of Justice) – throughout the country, where more than 300 types of services are provided in one space, thus decreasing cost and time for obtaining needed services and eliminating risks of corruption.

Taxation of Micro and Small Businesses

Small businesses are taxed either at 3% or 5% of their taxable income. The taxable income of small businesses is taxed at 5%. The 3% rate of income tax applies if the entrepreneur has documents evidencing that his/ her costs incurred in relation to earning gross income (except for the cost of salary paid to employees) amount to 60% of the gross income. Micro businesses are exempted from income tax.

According to the Tax Code of Georgia, a business turnover which does not exceeds GEL 100 000 during the fiscal year is exempted from VAT. In addition, supply of primary agricultural products is not subject to VAT.

Bankruptcy: Second chance

The Georgian Law on Insolvency Proceedings provides procedures for insolvency as well as for the reorganisation of enterprises. Nevertheless, debtors still face difficulties related to insolvency proceedings. According to Doing Business 2015 report, enterprises in Georgia still face difficulties regarding closing business and their recovery rate is low (28.7 cent on the dollar) compared to OECD countries (71.9 cent on the dollar).

Due to bottlenecks in implementation procedures, enterprises, especially SMEs, are facing difficulties in closing business and therefore remain in the business registry. In order to re-start operation and/ or shift their operation toward a new business, it is usually easier to establish a new business, rather than go through business closing procedures. This situation also causes incompatibility between the number of registered and actually operating businesses.

SME Institutions

National Institutions

In order to promote SME development and support growth of their competitiveness, the Entrepreneurship Development Agency (Enterprise Georgia) as well as the Innovation and Technology Agency (GITA) were established under the Ministry of Economy and Sustainable Development (MoESD).

Enterprise Georgia: Enterprise Georgia was established in February 2014 *(Government Decree 173; 19.02.2014)* and is the only institution in Georgia which is responsible for coordinating the implementation of SME supportive policies and programmes. The main aims of Enterprise Georgia are to improve private sector competitiveness, support start-up businesses, facilitate the establishment of a modern entrepreneurial culture, and support diversification of export goods and services. Enterprise Georgia's main functions are:

- To support businesses to adapt to the Deep and Comprehensive Free Trade Agreement (DCFTA) requirements;
- provide consultancy services in different areas;
- to collect and deliver information to SMEs on demand and specific requirements of export markets, as well as on demand of local markets;
- to assist SMEs in business planning and development, growth of competitiveness and productivity and entrepreneurial learning;
- to assist in cooperation with donor and financial institutions;
- to provide finance via special schemes;
- to support marketing of goods and services on international markets.

At the present time, Enterprise Georgia comprises 29 staff and an annual budget of GEL 21.7 million for 2014.

GITA was established in February 2014. The main aims of GITA are: supporting the enhancement of SME competitiveness; creating an innovation eco-system in Georgia; supporting the development of innovations and export-oriented ICT; supporting the absorption of innovations and technology; and supporting innovative start-ups and commercialisation of R&D. Among the main functions of GITA are: facilitation and financing of knowledge-based initiatives, innovative projects and products; implementation of programmes for stimulation of R&D in the business sector; attraction of FDI in ICT; support to the development of internet spaces, as well as internalisation and computerisation process in SMEs.

Enterprise Georgia has to provide consultation services and technical assistance on DCFTA requirements to SMEs and also support with the adaptation to these requirements via capacity building since there is usually not sufficient knowledge regarding EU policies and norms among Georgian SMEs. Institutional strengthening of Enterprise Georgia and GITA is therefore important in order to address SMEs' needs and provide target-oriented services).

Business associations providing support to SMEs

There are a number of organisations providing assistance to Georgian SMEs, among which the most active ones are the Georgian Chamber of Commerce and Industry and the Georgian Employers' Association:

- The Georgian Chamber of Commerce and Industry (GCCI): GCCI is established as an independent public agency and has several regional offices through which it provides services. Among the main functions of GCCI is the provision of information and consultancy for businesses, support to improvement of business skills and business planning, promotion of export, and support to the internationalisation of enterprises. GCCI membership is voluntary. Currently, the Chamber has 1 007 members of which more than 90% are SMEs. Membership fee varies from free of charge to GEL 10 000 and depend on the services provided. SMEs do not pay a membership fee.
- The Georgian Employers' Association (GEA): GEA is an independent non-profit organisation unifying more than 1 000 SMEs. GEA provides consultancy services to SMEs and carries out different programmes related to entrepreneurial learning and business skills development. GEA membership is fee-based and varies from GEL 1 440 up to GEL 4 800 (USD 600 up to USD 2 000), according to the size of the enterprise.

The above mentioned business associations also require a strengthening of their capabilities regarding EU policies and DCFTA requirements in order to support SMEs. In addition, a closer cooperation with the business sector, as well as between SME institutions is needed in order to provide target oriented services to SMEs and avoid overlapping.

SME programmes and initiatives

In order to support SME development and the establishment of new competitive industries, the Georgian Government launched several state Programmes in 2014 and 2015.

The Government launched the state programme "Produce in Georgia" in 2014, in order to support industrial production and agri-processing in the country. Support mechanisms entail co-financing of interest rates on commercial loans extended by private local commercial banks, co-financing of interest rates on leased equipment provided by private leasing companies and transferring of state property (both land and building) into private ownership for a symbolic price of GEL 1, with certain investment obligations, as well as the provision of consulting services through several instruments. The programme is implemented by Enterprise Georgia, GITA, NASP and the Ministry of Agriculture, and is supervised by the MoESD. A special web-portal *www.qartuli.ge* was created for the effective implementation of this Programme.

Enterprise Georgia started the "Micro and Small Business Support Programme" in order to facilitate economic activities in the regions. The programme has two components, one on financial and another on technical assistance. Under the financial assistance component, Enterprise Georgia provides co-financing for the amount of maximum GEL 5 000 to starting entrepreneurs and a maximum of GEL 15 000 to a group of entrepreneurs. Beneficiaries are required to co-finance a minimum of 20% of the total financing amount. Under the technical assistance component, the organisation provides beneficiary business and individual consultancy, trainings and aftercare services. In the first stage, the programme will be implemented in two regions of Georgia. The total budget of this programme is GEL 20 million. The programme is implemented via NGO support.

Evaluation and monitoring of the above-mentioned programmes will be conducted for the identification of bottlenecks, in order to avoid inefficient spending and to meet demand and expectations of business.

Georgia participates in the Eastern Partnership SME Panel and cooperates closely with the OECD, ETF, EBRD, and other international organisations in order to further improve its SME policies according to best practices.

There are a number of SME oriented projects implemented under the Eastern Partnership initiative.

Under the EGP (Enterprise Growth Programme) and BAS (Business Advisory Services) programmes (EU support), which are implemented by the EBRD, by the end of 2013 over 800 SMEs were supported. Total donor contribution amounted to EUR 8.9 million, and total client contribution to the programme to EUR 3.6 million. Georgia also participated in East-Invest Programme, under which SMEs are provided with a variety of support measures.

In 2014, Georgia and the EU signed the DCFTA and SME support agreement (budget EUR 44.5 million). The specific objectives of this Programme are: to further strengthen the DCFTA policy framework for trade and SME development; to improve the overall functioning of priority trade and private-sector related institutions, and to strengthen economic actors and SMEs along the DCFTA process.

The GoG has a close cooperation with the business community and is in the process of elaborating business-related legislation. In order to increase awareness on the Association Agreement (AA) and DCFTA among stakeholders and especially within the business sector, regular meetings and conferences are held. The GoG elaborated and approved AA and DCFTA action plans, which, among others, consider policy measures, informational campaigns etc.

Box 15.1. **Legal and institutional framework for SMEs in Georgia**

The definition of an SME is provided in the Law on the Georgian National Investment Agency and is based on employment size and turnover, customised to the country's specificities. Medium-sized enterprises are those with not more than 100 persons annually employed and with not more than GEL 1.5 million in annual turnover. Small enterprises employ not more 20 persons annually and have a turnover of not more than GEL 500 000 annually. The SME definition is used for the compilation of official statistics on the SME sector.

The Georgian Tax Code, which has been in force since January 2011, provides a different definition for small enterprises and in addition sets criteria for micro businesses. This definition applies for taxation purposes only and the aim of its introduction was the provision of preferential treatment to small and micro businesses. According to the Georgian Tax Code, small business status is granted to entrepreneurs (natural persons), whose gross income from their economic activity during a calendar year does not exceed GEL 100 000, and the status of micro business is granted to entrepreneurs (natural persons), who do not use hired labour, i.e. conduct economic activity independently, and whose gross income during a calendar year does not exceed GEL 30 000.

Table 15.2. **Definition of SMEs in Georgia**

Type	Employment	Turnover	Gross income
Micro	A person with micro business status is prohibited to use hired work force, except his/ her family members		Not more than GEL 30 000 in income
Small	Not more 20 employees during a year	Not more than 500 000 GEL during a fiscal year	Not more than GEL 100 000 in income
Medium	Not more than 100 employees during a year	Not more than GEL 1.5 million during a fiscal year	

Source: Law on the Georgian National Investment Agency; Tax Code of Georgia (2010).

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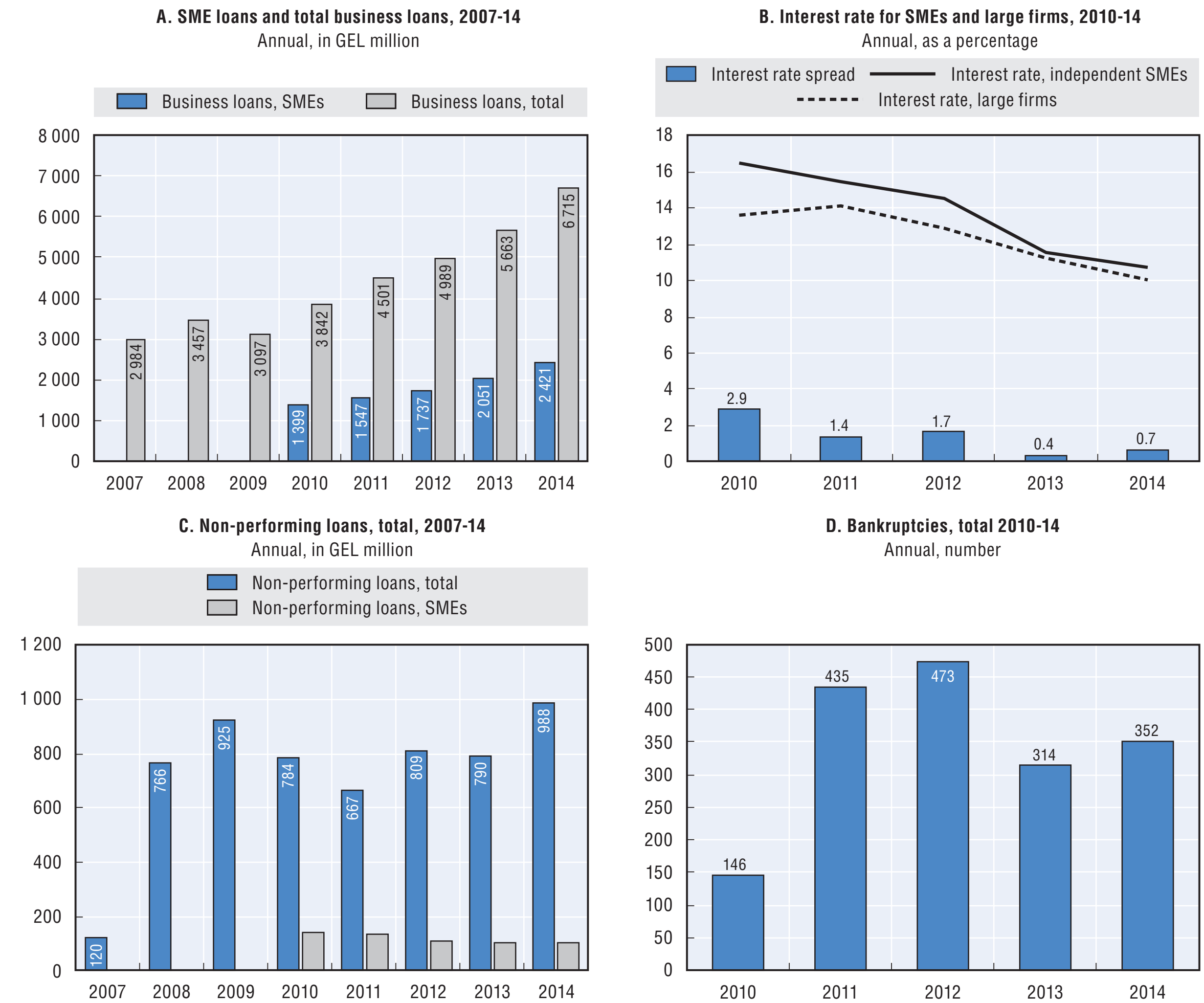
Table 15.3. **Scoreboard for Georgia, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SME	GEL million	..	..	..	1 400	1 548	1 738	2 051	2 422
Business Loans, Total	GEL million	2 984	3 458	3 097	3 843	4 501	4 989	5 663	6 715
Business loans, SMEs	% of total business loans	..	..	..	36.4	34.4	34.8	36.2	36.1
Non-Performing Loans, total	GEL million	121	766	926	784	667	810	791	988
Non-Performing Loans, SMEs	GEL million	..	..	..	144	134	111	102	101
Non-Performing Loans, SMEs	% of total SME loans	..	..	..	10.3	8.7	6.4	5.0	4.2
Interest rate, SME	%	..	..	..	16.5	15.5	14.5	11.6	10.7
Interest rate, large firms	%	..	..	..	13.6	14.1	12.8	11.2	10.0
Interest rate spread		..	..	..	2.9	1.4	1.7	0.4	0.7
Collateral, SMEs	%	..	..	..	..	..	..	95.6	..
Rejection rate	%	..	..	..	..	..	..	4.6	..
Utilisation rate	%	..	..	..	..	..	..	95.4	..
Other									
Bankruptcies, total		..	..	..	146	435	473	314	352
Bankruptcies, total	Year-on-year growth Rate, %	..	..	..	..	197.9	8.7	-33.6	12.1

Source: See Table 15.4.

StatLink http://dx.doi.org/10.1787/888933332761

Figure 15.1. **Trends in SME and entrepreneurship finance in Georgia**



Source: See Table 15.4.

StatLink http://dx.doi.org/10.1787/888933331122

Table 15.4. **Definitions and sources of indicators for Georgia's scoreboard**

Indicator	Definition	Source
Debt		
Business loans, SMEs	Bank loans to SMEs, amount outstanding (stocks) at the end of period.	National Bank of Georgia
Business loans, total	Bank loans to all non-financial enterprises, including SMEs loans, amount outstanding (stocks) at the end of period.	National Bank of Georgia
Non-performing loans, total	Substandard loans together with doubtful and loss loans, including interbank loans.	National Bank of Georgia
Non-performing loans, SMEs	Substandard loans together with doubtful and loss loans, including interbank loans.	National Bank of Georgia
Interest rate, SMEs	Annual Weighted Average Interest Rates on loans (stocks) to SMEs	National Bank of Georgia
Interest rate, large firms	Annual Weighted Average Interest Rates on loans (stocks) to all non-financial enterprises	National Bank of Georgia
Collateral, SMEs	Percentage of SMEs that were required to provide collateral on latest bank loan	National Bank of Georgia
Rejection rate	Percent of firms whose recent loan application was rejected	National Bank of Georgia
Bankruptcies, total	The number of bankruptcy proceedings that are actually initiated and registered in the Public Registry Agency of Georgia during the reference period.	Public Registry Agency

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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), corresponding to a total number of 531 059 SMEs. 96.7% of them (513 780) are defined as Very Small Enterprises, 2.8% (14 978) are defined as small Enterprises, only 0.4% (2 301) as medium-sized Enterprises and only 0.1% (378) as large enterprises. More than half of the workforce is employed by micro-enterprises and 84.8% by SMEs, accounting for 34.6% and 69.0%, respectively, of the value added in the economy. Compared with the EU-27 average, SMEs and especially micro-enterprises are more numerous and more important to the Greek economy (see Table 16.1).[1]

Table 16.1. **Distribution of firms in Greece, 2013**

% share	Number of enterprises		Number of employees		Value added	
	Greece	EU-27	Greece	EU-27	Greece	EU-27
Micro	96.7	92.1	54.5	28.7	34.6	21.1
Small	2.8	6.6	16.8	20.4	18.1	18.3
Medium	0.4	1.1	13.6	17.3	16.3	18.3
SMEs	99.9	99.8	84.8	66.5	69	57.6
Large	0.1	0.2	15.2	33.5	31	42.4
Total:	100	100	100	100	100	100

Source: Hellenic Confederation of Professionals, Craftsmen and Merchants, demand-side Survey, *http://www.imegsevee.gr/statistics/822--2013*.

StatLink http://dx.doi.org/10.1787/888933332774

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 2014, and an unemployment rate of 26.6% by September 2014.

2014 marked the return of economic activity to positive growth rates after six consecutive years of deep recession. Investments, strong absorption of EU structural funds, tourism and exports contributed to Greece's year-on-year economic growth. The available quarterly GDP data indicate that the recession has clearly been winding down since the first quarter of 2014, with year-on-year growth in 2014 returning to positive territory (0.8%) for the first time since 2007, driven by higher exports of goods and services and increased private consumption. This also affected business lending in Greece, which for the first time since 2010, the first year for which data is available, very slightly picked in 2014 vis-a-vis 2013.[2]

However, the European economic winter forecast which predicted growth of 2.5% for 2015 has been revised to 0.5% in the spring forecast. The big outflow of liquidity from the banking sector has further decreased access to finance for enterprises. In addition, a sharp fall in tax revenues has put heavy pressure on the budget. Continued uncertainty is one of the biggest threats to the fragile Greek economy.

In conjunction with limiting the availability of bank loans, the majority of Greek enterprises faced rising interest rates from 2010 until March 2012, but this percentage began to step down significantly from the end of 2012 onwards. According to the ECB's last SAFE survey this percentage was 9% in 2015. Business financing programmes implemented by the Hellenic Fund for Entrepreneurship and Development S.A. (ETEAN) and the European Investment Bank (EIB) have contributed to this trend. Furthermore, collaterals required by the lending banks such as liquid assets, liens on property or personal guarantees, increased in all ECB's SAFE surveys from 2011 onwards and remained high. In specific, the relative net percentage of firms experienced a tightening of collateral, reaching 54% in 2015 (from 46% in 2014), and remains the highest in the euro area.

Non-bank financing

The total outstanding amount of financing from leasing companies reached its peak in 2008 and was, at an amount of EUR 7.8 million, an important source of financing for Greek enterprises. Between 2008 and 2012, this amount dropped by 21%, and by a further 48% in 2014.

The total outstanding amount of loans from factoring companies to all companies increased to EUR 1.8 million in 2009. Between 2009 and 2013 financing from factoring companies declined by 13%. 2014 saw a reversal of this downward trend, as financing from factoring companies increased again up to 20%.

Credit conditions

Access to finance remains a central problem for Greek SMEs, according to the most recent ECB survey (June 2015). Specifically, Greece comes first in reporting this problem as the most important one, with 34% of SMEs in Greece naming access to finance as the most important problem they currently face. Greece also reports the highest external financing gap in the Eurozone (which measures the perceived difference at firm level between the need for external funds across all channels, i.e. bank loans, bank overdrafts, trade credit, equity and debt securities, and the availability of funds). Greece was also the only country where SMEs reported an increase in the financing gap indicator (28% in the second half of 2014, up from 24% in the first half of 2014), according to ECB survey data.

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 non-performing loans, bank funding costs).

The average SME interest rate increased between 2007 and 2011, as the sovereign debt crisis erupted in 2009, and reached 7.3% in 2001. Both, 2013 and 2014 saw a decline in the SME interest rate, which stood at 5.4% in 2013, thus significantly lower than in 2011 (7.3%).

The interest rate spread between large firms and SMEs rose between 2007 and 2009, reaching 1.5% in 2009, and then decreased to 0.4% in 2012. In 2013, the interest rate spread again increased to 1.3%, but declined again further to 0.7% in 2014.

Other indicators

Bankruptcies for all businesses declined dramatically by 30% in 2008 compared to 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 and by 15.8% in 2014 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, to 31.8% in 2013 and to 33.8% in 2014.

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

Several financial instruments with funding from EU structural funds are available to support lending to SMEs in Greece. The *Hellenic Fund for Entrepreneurship and Development* S.A. (ETEAN A.E.) was created as a wholly-owned state corporation in February 2011, with a start-up capital of EUR 1.7 billion. It manages and implements projects financed via the state budget, the public investments programme, an operational programme under the European Regional Development Fund (ERDF), and the EU's Agricultural and Fisheries Funds. ETEAN provides guarantees for loans in favour of small and medium-sized enterprises by banks and other financial institutions and in parallel, it co-invests in funding schemes in cooperation with several financial institutions, in order to improve access to finance for SMEs' development purposes.

The government through its expertise organisation "Hellenic Fund for Entrepreneurship and Development S.A. has co-financed direct loans to SMEs for investment and working capital purposes. Some of these direct loans have targeted young entrepreneurs, export-oriented SMEs or those in specific sectors (tourism, desalination and waste management, innovation, etc.). Co-financing by the government usually amounted to 50%. Some sectoral loans were 33% co-financed.

In particular, ETEAN's Entrepreneurship Fund, by using ERDF's and national funds of a total amount up to EUR 545 million, provides low-cost loans to SMEs through co-funding schemes with commercial banks willing to participate in such schemes. The Fund has programmes to cover various SMEs in different sectors, providing funds for the implementation of business plans and working capital for development reasons. The Entrepreneurship Fund was activated to co-funding schemes in 2014 as illustrated in Table 16.2.

Table 16.2. **Entrepreneurship fund in Greece, 2011-15**

Component/ beneficiary	Period	Max. loan amount	Interest Rate	Loan duration		Beneficiaries	Uptake
		EUR	%	years	deadline	number	EUR million
Island Entrepreneurship	2013-15*	30	0-2.8**	4	12-31-15	755	18.9
Extroversion	2011-15*	500 000	3.175	5-10	06-30-15	220	85.8
Tourism, Desalination, Waste Management, Green Infrastructure, Green Applications, Renewable Energy Sources	2011-13	500 000	3.67	5-10	09-30-13	371	75.7
Business Restarting: investment	2013-15*	800 000	0% I.R. offered by ETEAN SA and I.R. offered by participating Bank	5-12	12-31-15	4 345	488
Business Restarting: working capital	2013-15*	300 000		4	12-31-15		

* Data up to 15-May-2015. ** 0% if island's population is less than 3 100 people.

Source: www.etean.com.gr.

StatLink http://dx.doi.org/10.1787/888933332786

Furthermore, the Agricultural Entrepreneurship Fund, a programme co-financed by the EU's Agricultural Fund for Rural Development (EAFRD) and the Greek State, with a total amount of EUR 253 million, aims to support business plans in the agricultural sector. By May 2015, 263 SMEs in the agricultural sector benefited, with a total amount of loans up to EUR 14.5 million (duration of loans: 5-10 years, with interest rates ranging between 3.8% and 4.2%).

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 16.3).

Table 16.3. **Loan guarantee programmes in Greece, 2008-14**

Programme	Period	Loan type	Max. loan amount in EUR	Interest rate***	Duration years	No. of beneficiaries
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
Guarantee Fund of the Entrepreneurship Fund	2013-14	Investment loans and Working capital loans	800.000		2-10	1 029
Letters of guarantee**	2012-14	Bank bonds	150 000		720 days	173

Note: *Tempme programme guarantees working capital loans for SMEs with at least three years of operation. **The Letters of guarantee programme guarantees a portfolio of letters of guarantees which includes bid bonds, advance payment bonds, performance bonds, payment bonds and withheld amount bonds issued by the banks in favour of SMEs. ***The interest rate is expressed according to the Euribor programme guide-call. Numbers (e.g. 210) refer to base units, translating to 2.10%. Thus the loan's interest rate was the sum of 6 months Euribor plus 2.10%.

Source: http://www.etean.com.gr/PublicPages/PastPrograms.aspx; Hellenic Republic, Ministry of Finance, 2015 Budget.

StatLink http://dx.doi.org/10.1787/888933332799

The maximum 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 for direct loans. The default rate on these guaranteed loans is between 12% and 23%.

Complementary to the EIB's current programmes for improving access to finance mentioned in the Greece's Chapter of the 2014 scoreboard edition (Guarantee Fund for Greek SMEs, State Guarantee Facility, Trade Finance Enhancement Programme), and the implementation of the Joint European Resources for Micro to Medium Enterprises initiative (JEREMIE's Funded Risk Sharing and the Risk Capital) in December 2013, the Institution for Growth (IfG) was established in 2014 as a non-bank financial institution aiming to support innovation and growth in Greece by catalysing private sector financing, especially for SMEs.

In particular, IfG was created in order to provide:

- debt or equity financing and guarantees for SMEs;
- debt or equity financing and guarantees for infrastructure projects;
- equity capital to private equity and venture funds.

Moreover, IfG lends and invests at market terms, while debt financing will be made available only under co-financing arrangements with a significant participation by commercial or cooperative banks. Greece has committed to invest EUR 350 million into IfG, paid in instalments over a three-year period with funds from the Public Investment Program and EU Structural Funds (ERDF) through ETEAN. In addition, the Kreditanstalt für Wiederaufbau (KfW), a German development bank, signed a Memorandum of Understanding to participate in IfG with an investment of EUR 100 million. IfG is open to private investors. The first two contracts with interested banks were signed in December 2014. By May 2015, almost 300 contracts of approximately EUR 80 million have been signed and an amount of approximately EUR 65 million has been disbursed to cover the approved loans.

Support to venture capital (New Economy Development Fund S.A., TANEO)

The aim of the company, founded in 2003, is minority participation in venture capital funds, venture capital companies, and similar schemes which shall be established specifically for this purpose and which are governed by the legislation of EU Member States. These investment schemes are 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.

Since its establishment, TANEO has participated in 11 venture capital funds which manage funds up to an amount of EUR 268 million for the provision of equity funds to almost 35 SMEs with potentially high opportunities, operating in various sectors, such as information and communication technologies, biotechnology, health, industrial materials, energy, food, beverages and services.

Table 16.4 provides an overview of TANEO's investments during the period 2007-14 on an annual basis:

Table 16.4. **TANEO's venture capital investments in Greece, 2007-14**

TANEO funds (in EUR million)	2007	2008	2009	2010	2011	2012	2013	2014		Source
Venture capital investments	1.6	8.4	17.8	14	12	10.5	9	4	Venture Capital investments by TANEO funds	TANEO

Source: TANEO S.A., *www.taneo.gr*.

StatLink http://dx.doi.org/10.1787/888933332801

Provision of guarantee for letters of guarantee

The programme, financed by the government's expertise institution (ETEAN), aims at guaranteeing a 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. By May 2015, approximately EUR 7.5 million had been guaranteed to cover the financial needs of 173 beneficiaries (SMEs).

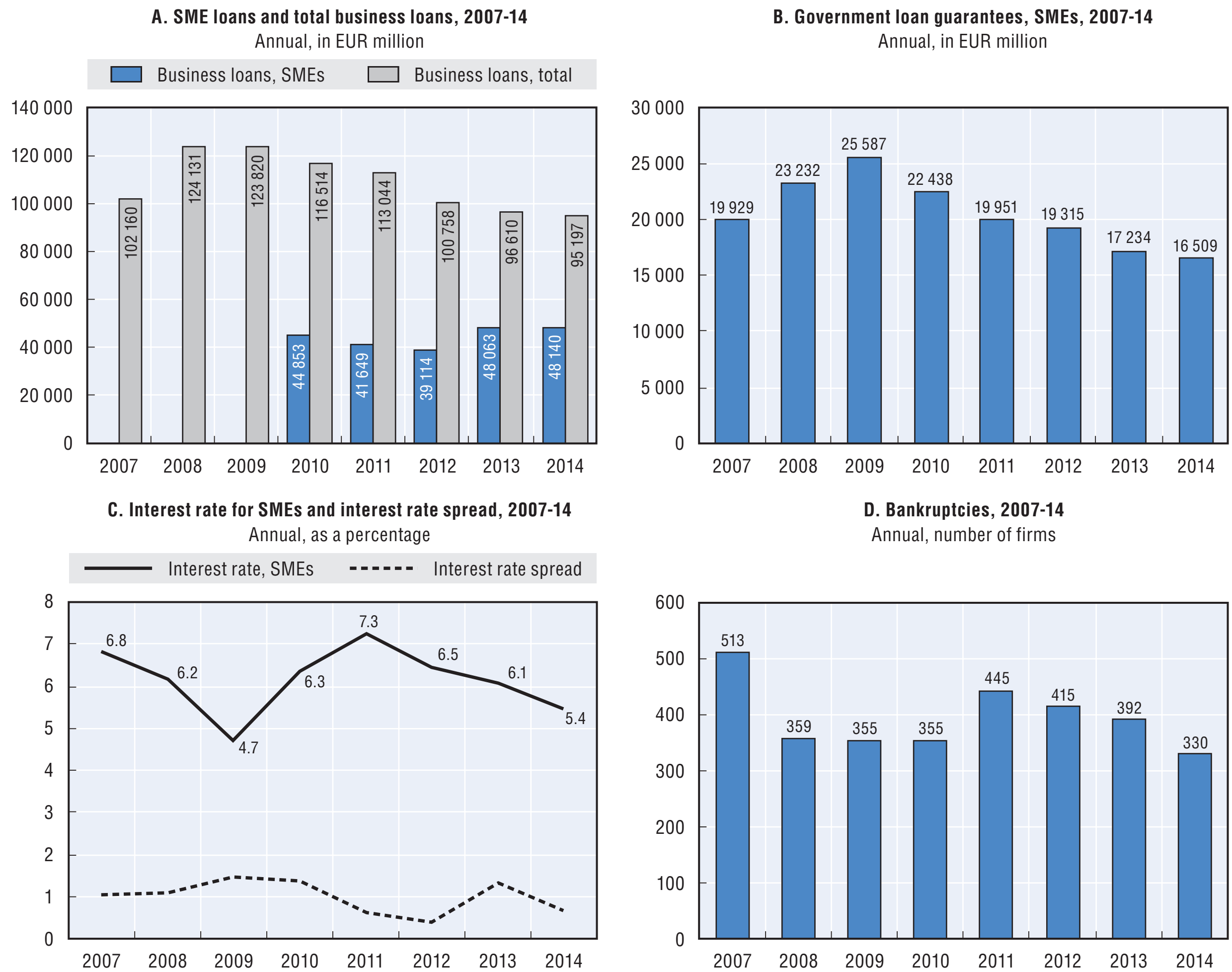
Table 16.5. **Scoreboard for Greece, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Outstanding business loans, SMEs (stock)	EUR million	..	..	..	44 853	41 649	39 114	48 063	48 140
Outstanding business loans, total (stock)	EUR million	102 160	124 131	123 820	116 514	113 044	100 758	96 610	95 197
SME loan shares	% of total business loans	..	..	..	0.38	0.37	0.39	0.50	0.51
Outstanding short-term loans, total (stock)	EUR million	46 072	53 573	49 369	44 413	42 007	40 394	35 659	32 521
Long-term loans, SMEs (1-5 years)	EUR million	14 115	15 646	19 828	22 312	21 389	17 173	16 220	17 332
Long-term loans, SMEs (>5 years)	EUR million	28 999	35 363	33 990	49 352	49 377	43 102	44 695	45 345
Total short and long-term loans, SMEs	EUR million	89 186	104 582	103 187	116 077	112 773	100 669	96 574	95 198
Government loan guarantees, SMEs	EUR million	19 929	23 232	25 587	22 438	19 951	19 315	17 234	16 509
Non-performing loans, total	%	4.60	5.10	7.80	10.50	16.00	24.50	31.90	33.80
Interest rate, SMEs	%	6.83	6.18	4.70	6.34	7.26	6.46	6.06	5.44
Interest rate, large firms	%	5.79	5.07	3.24	4.98	6.64	6.07	4.73	4.75
Interest rate spread	% points	1.04	1.11	1.46	1.36	0.62	0.39	1.33	0.69
Collateral, SMEs	%	..	..	51.41	40.52	49.43	46.69	45.93	46.24
Rejection rate	%	..	..	25.84	24.49	33.84	28.33	25.99	21.45
Other									
Payment delays, B2B	Days	4.60	4.30	6.70	8.70	14.10	23.40	31.80	33.50
Bankruptcies, total	Days	513	359	355	355	445	415	392	330
Asset-based finance									
Venture capital investments	EUR thousand	1 600	8 400	17 800	14 000	12 000	10 500	9 000	4 000
Leasing and hire purchases	EUR thousand	7 278	7 874	7 496	7 284	6 845	6 215	4 324	4 083
Factoring and invoicing	EUR thousand	1 279	1 725	1 767	1 730	1 493	1 534	1 410	1 694

Source: See Table 16.6.

StatLink http://dx.doi.org/10.1787/888933332814

Figure 16.1. **Trends in SME and entrepreneurship finance in Greece**



Note: Collateral 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/10.1787/888933331139

Table 16.6. **Definitions and sources of indicators for Greece's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Outstanding amounts at the end of each year. Amounts in million Euros. Including loans, MFI holdings of corporate bonds, securitised loans and securitised corporate bonds. Refers to business Loans only. Self-employed and farmers are not included.	Bank of Greece, Statistics, Monetary, Financing
Business loans, total	Outstanding amounts at the end of each year. Amounts in million Euros. Including loans, MFI holdings of corporate bonds, securitised loans and securitised corporate bonds. Refers to business Loans only. Self-employed and farmers are not included.	Bank of Greece, Statistics, Monetary, Financing
Short-term loans, total	Loans (outstanding amounts at the end of each year) to all types of firms (SMEs and large) with a duration less than 1 year	Bank of Greece, Statistics, Monetary, Financing
Long-term loans, SMEs (1-5 years)	Loans (outstanding amounts at the end of each year) to all types of firms (SMEs and large) with a duration 1-5 years for amounts of less than EUR 1 million	Bank of Greece, Statistics, Monetary, Financing
Long-term loans, SMEs (>5 years)	Loans (outstanding amounts at the end of each year) to all types of firms (SMEs and large) with a duration more than 5 years for amounts of less than EUR 1 million	Bank of Greece, Statistics, Monetary, Financing
Government loan guarantees	Outstanding balance guaranteed at the end of each year (in EUR million). Amounts in EUR million. Sum of guarantees as referred to 2014. Annual Budget of the Hellenic Republic.	Hellenic Republic, Ministry of Finance, 2015 Budget
Non-performing loans, total	Total loans include housing, consumer and business loans. Percentages written result from NPLs/ Sum of Loans ratio (NPLs: Non Performing Loans). Loans past-due 90 days plus loan exposures to companies with negative net worth.	Bank of Greece, Monetary Policy Report, 2013-14 (chapter 5)
Interest rate, SMEs	Average annual rates for new loans, at the end of each year, base rate plus risk premium; for maturity less than 1 year and amounts less than EUR 1 million	Bank of Greece, Statistics, Monetary, Financing
Interest rate, large firms	Average annual rates for new loans, at the end of each year, base rate plus risk premium; for maturity less than 1 year and amounts less than EUR 1 million	Bank of Greece, Statistics, Monetary, Financing
Interest rate spread	Spread between SME loans and loans to large firms	Bank of Greece, Monetary Policy Report, 2013-14 (chapter 5)
Collateral		ECB, Statistical Data Warehouse
Rejection rate		ECB, Statistical Data Warehouse
Non-Bank Finance		
Venture capital investments	TANEO funds only	New Economy Fund S.A. (TA.NE.O.A.E.)
Growth capital investments		
Leasing and hire purchases	Factoring companies loans to domestic non-financial corporations, total outstanding amounts at the end of period (in million euros), factoring activity of credit institutions is not included	BANK OF GREECE, Aggregated Balance Sheet of Factoring Corporations
Factoring and invoicing	Factoring companies loans to domestic non-financial corporations, total outstanding amounts at the end of period (in million euros), factoring activity of credit institutions is not included	BANK OF GREECE, Aggregated Balance Sheet of Factoring Corporations
Other		
Payment delays	Non-performing business loans ratio (NPLs/ Sum of Loans)	Bank of Greece, Monetary Policy Report, 2013-14 (chapter 5)
Bankruptcies, total	Numbers refer to bankruptcies only and in general, for all kinds of firms	Tiresias SA

Notes

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.
2. The large increase in bank lending between 2012 and 2013 can be attributed to the reclassification of some large business loans into the SME loan category in 2013 and is therefore purely statistical. Information from the Central Bank of Greece strongly suggests that SME lending actually decreased in 2013.

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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 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 basic figures on SMEs in Hungary (number of enterprises, employees and value added) are compared to the relevant EU average data in Table 17.1.

In Hungary, the SME sector is dominated by micro firms (including self-employed persons as well). The share of this SME category is almost 95% within the total number of enterprises. The share of active SMEs within the total number of enterprises is as high as 99.9%. However, the share of value added is lower than the EU average. The rate of employees, on the other hand, is considerably higher in Hungary compared to the EU average.

The financial and economic crisis has affected Hungary more than other EU members. The SME sector has been stagnating since 2005 and this trend has continued since 2008. The crisis prevailed longer than in other EU members and only in 2011 were some modest signs of recovery to be seen. Statistical data showed that large enterprises could better manage the crisis than the SME sector. In 2012, the value added generating capacities of Hungarian SMEs were at the level of 2008, while large enterprises in this respect were in a better position.

Due to their large number in Hungary, SMEs play an important role in job creation and in generating income.

Table 17.1. **SMEs in Hungary, 2014**

	Number of enterprises			Number of employees			Value added		
	Hungary		EU28	Hungary		EU28	Hungary		EU28
	Number	Share	Share	Number	Share	Share	EUR billion	Share	Share
Micro	497 947	94.5	92.3	867 316	35.7	28.7	9	18.5	21.5
Small	24 883	4.5	6.5	447 932	18.4	20.6	8	16.2	18.2
Medium-sized	4 064	0.8	1.1	404 374	16.7	17.3	9	19.2	18.3
SMEs	**525 917**	**99.8**	**99.8**	**1 719 622**	**70.8**	**66.6**	**25**	**53.9**	**58**
Large	829	0.2	0.2	708 457	29.2	33.4	21	46.1	42
Total	**526 746**	**100**	**100**	**2 428 079**	**100**	**100**	**46**	**100**	**100**

Note: These are estimates for 2013 produced by DIW Econ, based on 2008-11 figures from the Structural Business Statistics Database (Eurostat). The data covers the “business economy”, which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

StatLink http://dx.doi.org/10.1787/888933332825

Macroeconomic Overview

Hungarian growth dynamics improved in all economic sectors since 2013. It is important to stress out that this dynamic growth rate has been achieved in parallel with a favourable internal and external balance path. Due to the positive trends, Hungarian GDP exceeded the pre-crisis level at the beginning of 2015.

Compared to preliminary data that showed growth of 3.4%, in Q1 2015 the Hungarian economy actually expanded by 3.5%, well above the average of the European Union (1.5%), while quarter-on-quarter growth was at 0.8%. It is a sign of confidence that not only net exports, but also consumption grew substantially.

In 2014, a total of more than HUF 5.2 billion were spent on investments in the national economy, consequently investments increased by 14% year-on-year. In the first quarter of 2015, investments decreased by 4.5%, mainly due to the base effect of 2014 and the completion of large infrastructural projects co-financed by the EU in the recent period. Manufacturing investments – with the largest weight within investments overall – after the outstanding performance of 2014, in the first quarter increased slightly further (by 0.2% year-on-year). In addition, investment activity within the automotive industry grew significantly, by 25% year-over-year.

According to non-adjusted data, industrial production slightly increased by 1.5% and data adjusted by working day industrial production increased by 6.2% year-on-year in May. Detailed data is not available yet; however the growth was mainly driven by the production of the automotive industry and its supplying sectors, as well as by the growth of the electronics sector. Looking forward, the indices, reflecting the domestic and German business sentiment, predict a more moderate growth, while further growth of foreign demand may improve the prospects of the industry. The prevailing geopolitical risks and the unresolved Greek crisis still carry downward risks. Construction output increased by 10.8% in April, and by 9.7% in the first four months of 2015.

Positive developments have been observed on the labour market as well. Over the period of March-May 2015 employment increased by 2.5% and 4.2 million people were employed during this period which exceeds the pre-crisis level. This expansion was explained in large parts by the rising number of private sector jobs. In parallel, the unemployment rate decreased by 1 percentage points to 7.1%.

Inflation rate was at 0.6%, with core inflation at 1.2% in June 2015. Cuts in energy prices and low external inflationary pressure, and especially the recent fall in the oil price, played a significant role in this respect. Low inflation rates had a positive impact on household disposable income and consumption. At the same time, thanks to the pick-up of external and internal demand, external trade reached a stable surplus: both, export and import volumes have increased in 2014. In May 2015, exports increased by 2.8% and imports decreased by 0.4% year-on-year according to the calculations of MfNE, therefore, trade surplus amounted to EUR 3.5 billion in the first five months, which is largely attributable to increased export sales of the automotive industry.

The budgetary deficit amounted to only 2.5% of GDP in 2013. The 2010 deficit amounted to 2.6% of GDP in 2014, while general government net borrowing was equal to 2.5% of GDP, according to the financial account data.

Public debt-to-GDP ratio has been on a declining path: since 2010 the debt ratio has decreased by 4 percentage points and stood at 76.9% at the end of 2014, representing one of the biggest debt reductions in Europe.

Lending – SME Lending

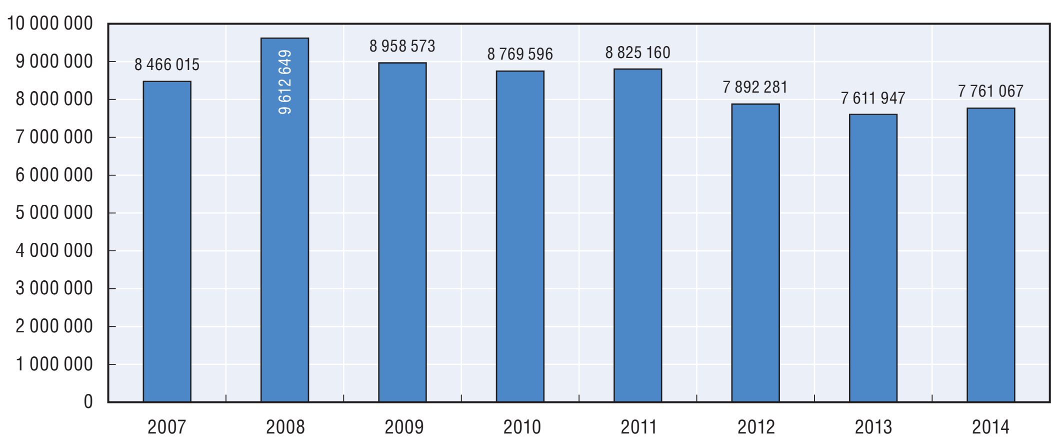
The financial crisis in Hungary had a deeper and longer effect compared to other European countries.

The prevailing financing problem has been recognised and the measures that were introduced in 2013 by the National Bank of Hungary were continued in 2014. In 2014 the "Funding for Growth Scheme" (FGS) seeks to raise the number of new investments by providing loans at an affordable interest rate As a consequence of the crisis, access to finance has worsened, especially for SMEs having limited access to alternative sources of financing other than bank debt.

Though it might be too early to judge the effects of the FGS, the scheme – at least in the short term – achieved its goal in 2014 with a decreasing trend in outplacements. It also contributed to increasing the lending activity of the participating banks and it helped to realise delayed investments under favourable credit conditions (interest rate fixed at 2.5%). The scheme was thus stimulating both, the demand and the supply side, with economic (investment) activity receiving positive impetus.

Figure 17.1. **Business loans to all non-financial enterprises in Hungary, 2007-14**

In HUF million



Source: Hungarian National Bank (MNB).

StatLink http://dx.doi.org/10.1787/888933331147

In 2014 Q1, based on the transactional data, lending to non-financial corporations declined and repayments exceeded disbursements. Similarly to previous quarters, this decline occurred primarily in foreign currency loans. In year-on-year terms, developments in lending show an overall improvement, driven by the more than HUF 800 billion disbursed during the past three quarters in the context of the Funding for Growth Scheme. The annual rate of decline of the total corporate credit portfolio stood at 1.3%, compared to the 3%-4% average of the past years, while lending to SMEs expanded by 0.5%based on estimated transactions. While funding costs fell in case of forint loans, the decline was smaller than the central bank interest rate cuts, yielding an overall rise in the spread. According to the lending survey, credit conditions did not change significantly in the past quarter. Respondent banks indicated a rise in demand for both long-term and short-term loans compared to the previous quarter.

In 2014 Q2, the credit institution sector's corporate loan portfolio increased by HUF 43 billion, based on transactional data. Disbursements exceeded repayments in the case of both forint and foreign currency loans. The positive quarterly data contributed significantly to sustaining the improving trend in corporate lending seen since 2013 Q3. Corporate lending

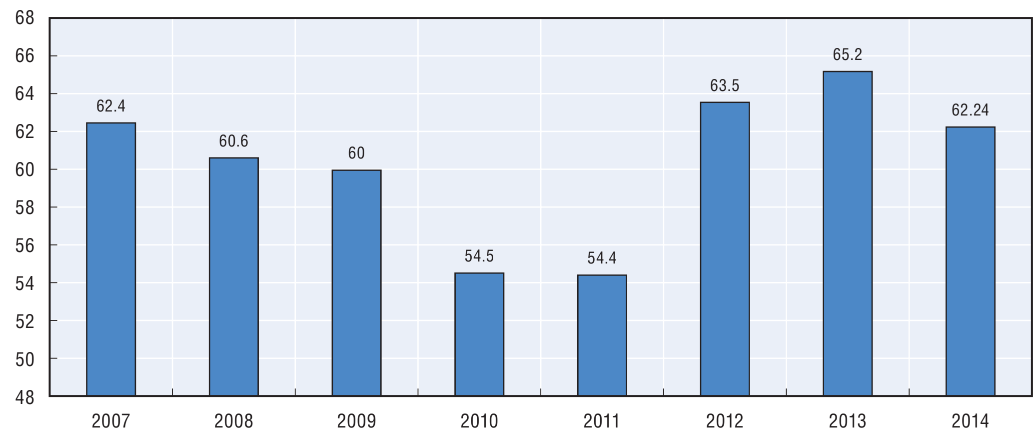
dynamics exhibited a clearly improving trend compared to previous years, driven largely by the Funding for Growth Scheme and the low interest rate environment resulting from policy rate cuts. In annual terms, SME loans increased by 1.2%, while the overall corporate loan portfolio remained unchanged. The new business volume contracted in the context of the FGS amounted to HUF 131 billion in Q2, and total lending since the launch of the scheme has reached HUF 1 trillion. 98% of the HUF 325 billion granted during the second phase consist of new loans, with investment loans (and new lease transactions) accounting for 61%of all new loans. In respect of market-based loan contracts, credit conditions remain tight, and banks did not report any easing in Q2. The financing costs of concluded loans declined in Q2 and the spread over the reference interest rate also fell in most sub-segments.

In Q3 2014, there was a substantial increase in the corporate sector's loans outstanding from credit institutions, based on transactional data. Disbursements exceeded repayments by HUF 97 billion, with the expansion of loans outstanding almost fully attributable to growth in forint loans. By the end of Q3, the total volume of loans disbursed in the second phase of the Funding for Growth Scheme (FGS) increased to almost HUF 400 billion. The Monetary Council decided to increase the scheme's limit to HUF 1 000 billion, and also extended the deadline for concluding loan contracts by one year, until the end of 2015. The transaction-based annual growth rate of corporate loans fell to -2%, which is attributable to the strong base effect of the high volume of loan disbursements realised one year ago, during the first phase of the FGS. During the period under review, the financing costs of new, market-based corporate loans decreased further; consequently, in addition to the interest rate spread, even the nominal interest rate of new corporate loans can be deemed favourable by regional standards. However, it still holds true that only the enterprises deemed creditworthy by the banks can benefit from the favourable price conditions. Based on the responses given by banks in the lending survey, the conditions of corporate loans have not changed substantially and no considerable easing may be anticipated in the next half year either. However, according to the respondent banks, demand for long-term loans may continue to increase, which may also reflect the impact of the FGS limit increase.

As a result of transactions, corporate loans outstanding increased by around HUF 108 billion in 2014 Q4, and consequently, 2014 was the first year since the outset of the crisis when the balance of disbursements and repayments was positive, by around 2.4%of loans outstanding. The year-on-year growth was mainly attributable to disbursements under the Funding for Growth Scheme. In the period under review, new loans were extended in the amount of HUF 637 billion, and the majority of these were forint loans. Almost half of new forint loan contracts were concluded under the Funding for Growth Scheme. As a result, utilisation of the Scheme was close to HUF 600 billion by the end of December. However, lending to the SME segment outside the Hungarian National Bank's (MNB's) programme does not show signs of a recovery despite lending rates being at a historically low level. This part of the lending market can be characterised by a decline in portfolio and, in the case of new disbursements, tight conditions and short maturities, mostly less than two years. In the quarter under review, only one-fifth of the banks participating in the lending survey reported an easing in credit conditions. Consequently, and also considering past broad-based tightening, credit conditions continue to be excessively tight.

Figure 17.2. **SME business loans in Hungary, 2007-14**

As a percentage of total business loans



Source: Hungarian National Bank (MNB).

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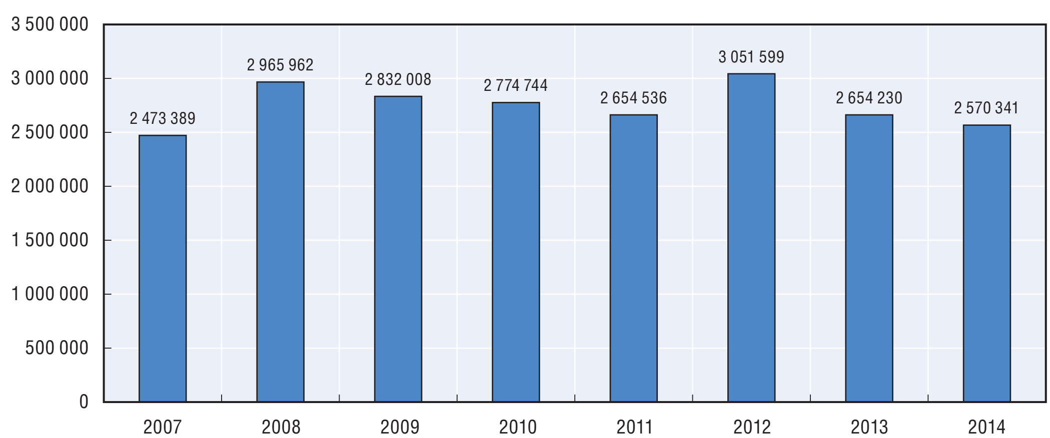
Figure 17.3. **SME short-term loans in Hungary, 2007-14**

In HUF million



Source: Hungarian National Bank (MNB).

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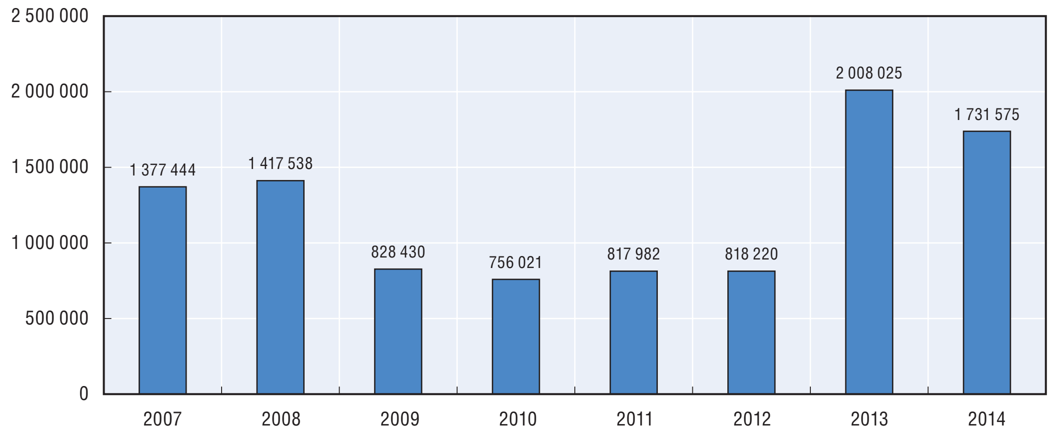
Figure 17.4. **SME long-term loans in Hungary, 2007-14**

In HUF million



Source: Hungarian National Bank (MNB).

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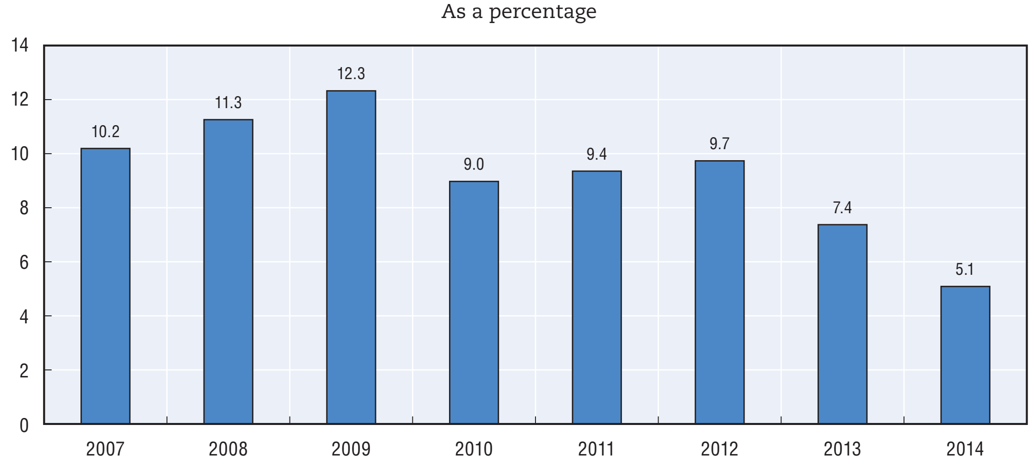
Credit conditions

Interest rates have been traditionally high in Hungary. In 2002 the government started to subsidise interest rates with a scheme for SMEs called the Szechenyi card. The government issued about 182 000 cards with a credit line of more than EUR 4.4 billion by 2011. 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 recorded in interest rates to corporates. Having peaked during the first months of 2012, price conditions for new and outstanding loans eased further in response to the MNB's policy rate cuts. The policy rate cuts of the National Bank continued throughout 2013 and 2014, which resulted in a remarkable reduction of average interest rates on a year-to-year basis compared to 2012 and 2013. (from 9.7% to 5.1%, thus by more than 85%). The average interest rate spread was 2.7 percentage points in 2014.

Figure 17.5. **SME average interest rates in Hungary, 2007-14**

As a percentage



Source: Hungarian National Bank (MNB).

StatLink http://dx.doi.org/10.1787/888933331188

As for the rejection rate, the utilisation rate, and collateral requirements for SMEs - which all were new indicators for the 2014 data sheet, - only partial data from the National Bank of Hungary is available.

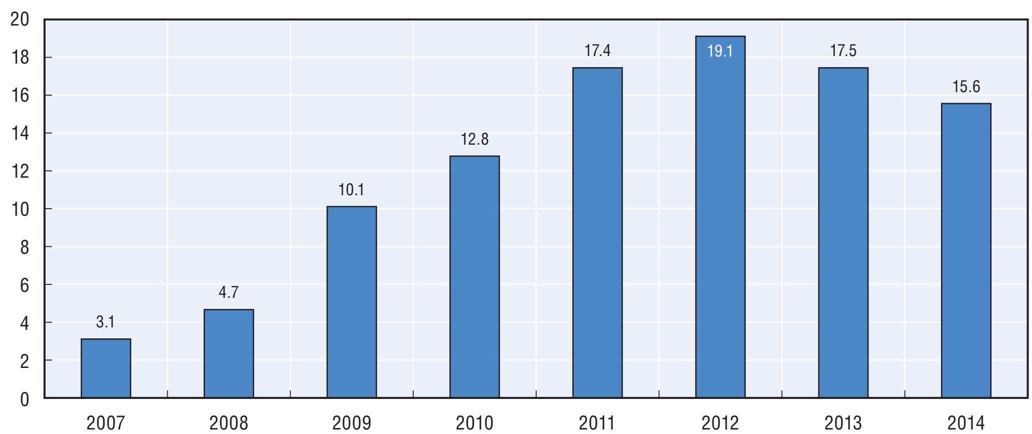
In this respect, in 2013 the rejection rate (SME loans authorised vs. requested) was at 89.1%, and the utilisation rate (SME loans used vs. authorised) was at 81.5%. The collateral value was 71 in 2014 for SMEs.

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 for the national economy, as it reduces financial stability risks. The share of non-performing business loans in the portfolio peaked in 2013, and dropped in 2013 and 2014.

Figure 17.6. **Ratio of non-performing business loans within total loan portfolio in Hungary, 2007-14**

As a percentage

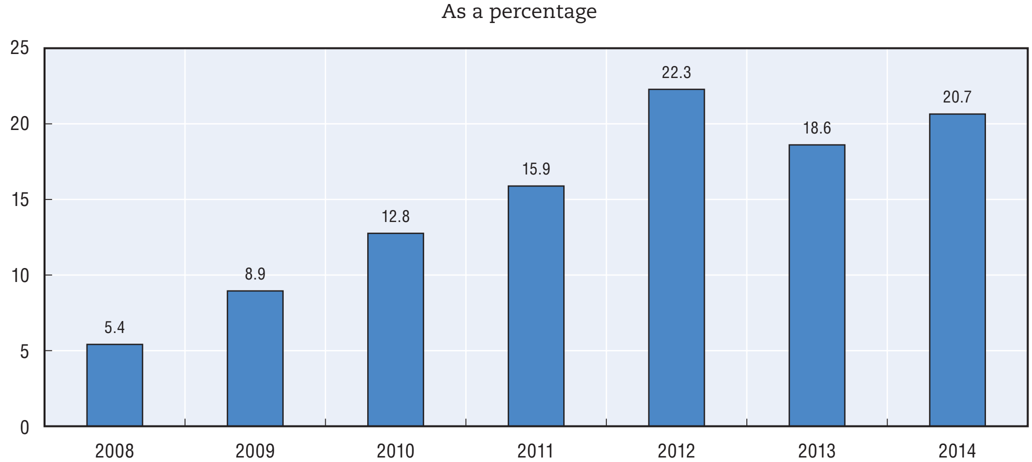


Source: Hungarian National Bank (MNB).

StatLink http://dx.doi.org/10.1787/888933331194

Figure 17.7. **Ratio of SME non-performing loans within total SME loan portfolio in Hungary, 2008-14**

As a percentage



Source: Hungarian National Bank (MNB).

StatLink http://dx.doi.org/10.1787/888933331201

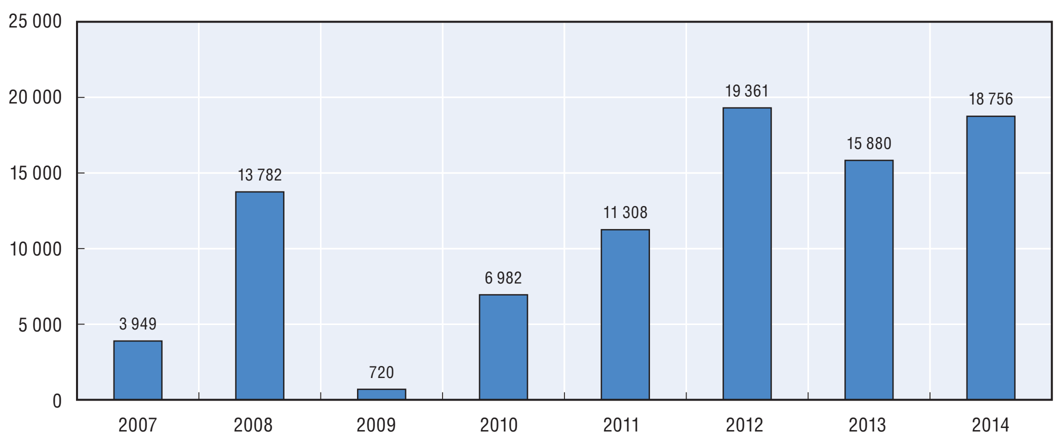
SME NPL rates followed a different pattern. However, the increasing trend of the rate reached its peak in 2012, and dropped substantially in 2013; while in 2014, the ratio was again above 20%. The increasing trend in SME NPLs thus halted at high levels.

Equity financing

In 2011, the amount of Hungarian venture capital investments recovered to earlier levels, jumping by 62% year-on-year, to be followed by another major increase of 71% in 2012. This was mainly due to the activities of EU-JEREMIE venture capital funds. The eight JEREMIE funds established in 2010 invested into early stage enterprises, combining 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 its 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, and in 2014, this number rose to HUF 18.3 billion.

Figure 17.8. **Venture and growth capital investment in Hungary, 2007-14**

In HUF million



Source: Hungarian Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933331216

Other indicators – Bankruptcies – Payment Delays

Normally, the number of bankruptcies should show a relevant decrease from 2012 to 2013 and a slight increase from 2013 to 2014 (301.3 – 178.1 – 234.7) per 10 000 firms. However, the data needs to be corrected to account for the highly increased number of „forced cancellation processes" whose method is regulated by a new legislation applicable since 1 March 2012. The growing number of these processes continued in 2014 remarkably - as they did in 2013 -, due to insolvent firms who usually choose this new method of liquidation, rather than the old ones. As the Hungarian Government has more than 30 000 such methods in process, the corrected indicator value for 2014 is 646 per 10 000 firms.

According to the Intrum Justitia, European Payment Index, the 2014 average value of delay for B2C, B2B and for public authorities was 17.6 days in Hungary.

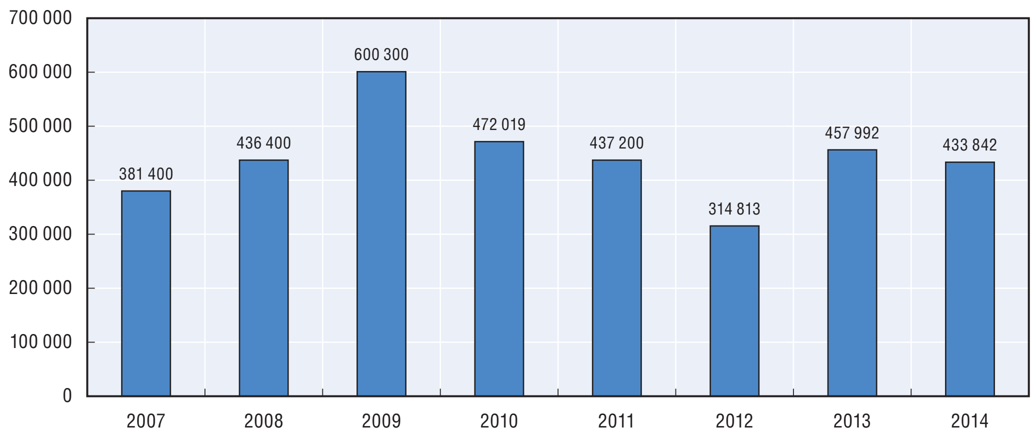
Government policy responses:

- loan guarantee programs
- Export promoting credit programme (EHP)
- Funding for Growth Scheme
- Microfinance-Network
- Széchenyi Card Programme

Hungary has a loan guarantee programme, as well as direct loans for SMEs. The guarantee programme is run by Guarantee Institutes and 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 with an 85% coverage. In 2014, 10.1% of SME loans had a government loan guarantee, with the total uptake by SMEs reaching HUF 433 billion.

Figure 17.9. **Government guaranteed loans to SMEs in Hungary, 2007-14**

In HUF million

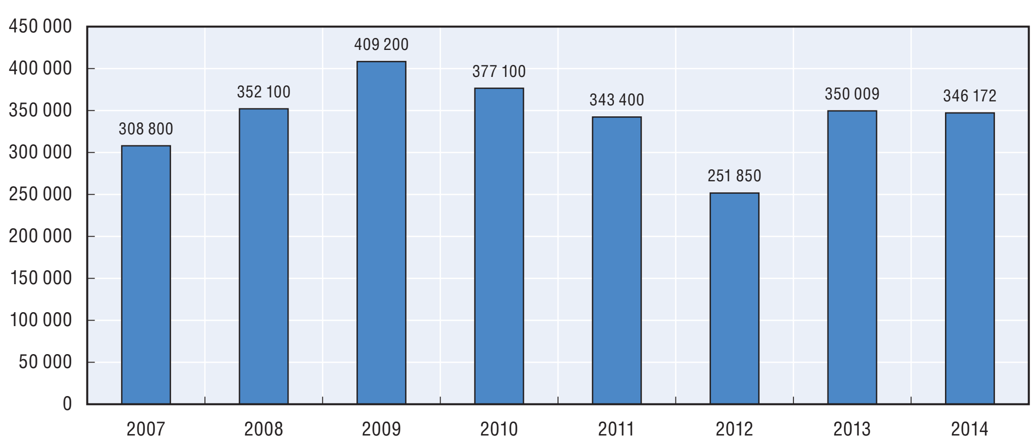


Source: Administrative data from the EU SA financed Economic Development Programme.

StatLink http://dx.doi.org/10.1787/888933331224

Figure 17.10. **Government loan guarantees to SMEs in Hungary, 2007-14**

In HUF million



Source: Administrative data from Hungarian Development Bank, Garantiqa Hitelgarancia Zrt, AFGHA (Agrárvállalkozási Hitelgarancia Alapítvány), and the EU SA financed Economic Development Programme.

StatLink http://dx.doi.org/10.1787/888933331230

In addition to direct financing facilities and the assumption of guarantees, Eximbank also assists exporters and their suppliers indirectly through the provision of refinancing facilities at CIRR interest, with a tenor of more than 2 years, compared to domestic commercial banks. The fixed-purpose funds, depending on the facility in question, can be used by the commercial banks for the pre-financing and/or post-financing of their customers' exports. The refinancing may be related to the discounting of a supplier's credit, to a buyer's credit facilities and to export pre-financing. The refinancing provided for the purpose of export pre-financing may, subject to individual appraisal, be linked to the assumption of a loan guarantee.

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 2014, the Szechenyi Card Programme had supported 16 990 loans worth HUF 138 billion.

In Hungary, a microfinance network provides loans mainly regionally, with micro enterprises as a main target group. Their lending conditions are not as tight as the conditions of commercial banks, and they might take higher risk, but the cost of lending is also higher. The network has so-called "Regional Business Development Centres" and the head of the organisation is The Hungarian Foundation for Enterprise Promotion. This is a public benefit organisation, an independent body (NGO) that is governed by the board of trustees while day-to-day operations are managed by the Foundation's staff. Implementing the PHARE programmes entailed the establishment and financing of Hungary's first network of enterprise promotion. As implementing agency, the organisation managed the outplacement and allocation of resources and services worth some EUR 85 million between 1991-2000. The foundation has been running micro loan programmes by way of revolving fund structures since 1992. Thanks to this programme, some 13 Hungarian small businesses were reached and provided with discounted micro loans, the sum of which totalled more than EUR 150 million.

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Up to 31 July 2015, credit institutions participating in the second phase of the FGS concluded contracts for a total amount of HUF 825.8 billion, via 29 775 transactions with 19 454 enterprises. Of this amount, credit institutions have so far disbursed HUF 646.5 billion to small and medium-sized enterprises participating in the scheme. As a result, almost 24 200 enterprises received financing so far, amounting to almost HUF 1 530 billion in the first and second phases of the scheme.

In the second phase, new loans accounted for more than 95% of the contracted HUF 825.8 billion (loan redemptions cannot exceed 10% of the overall amount).

Technical Notes

- Almost all of the data for 2013 have been reviewed and corrected or completed, data from the Hungarian National Bank have also been reviewed.
- There are some data which cannot be provided because they are not available in the form they are asked for – for example bankruptcies for SMEs, leasing volumes, etc.
- The lending data for the Microfinance Network were not accurate and not all of them were shown in the previous year, which could overall alter some SME lending data. This is also valid for JEREMIE guarantees and loans, which were also reviewed.
- 2014 data are preliminary in most instances.

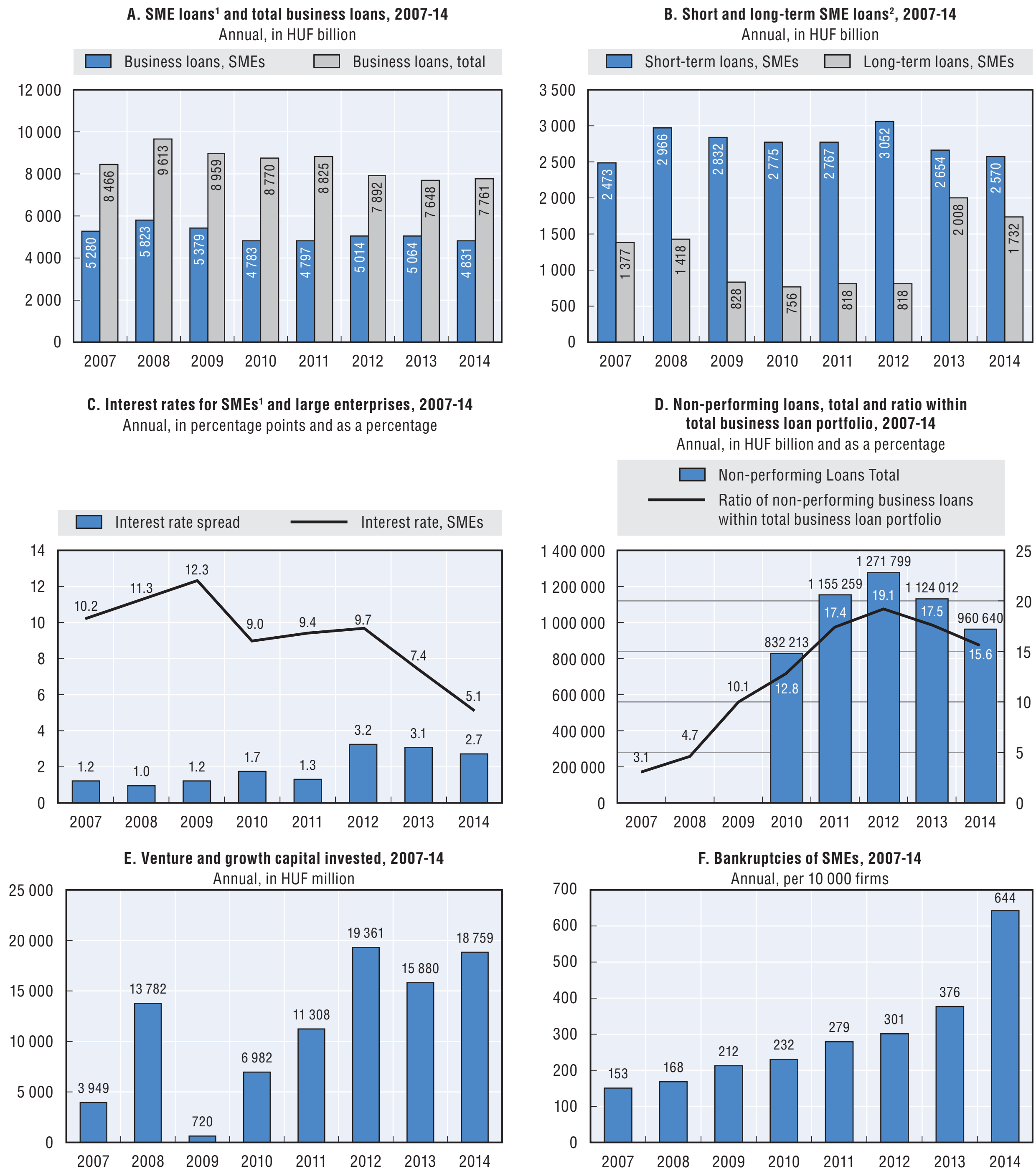
Table 17.2. **Scoreboard for Hungary, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	HUF million	5 279 722	5 823 289	5 379 295	4 782 676	4 796 982	5 013 917	5 063 783	4 831 238
Business loans, total	HUF million	8 466 015	9 612 649	8 958 573	8 769 596	8 825 160	7 892 281	7 648 219	7 761 067
Business loans, SMEs	% of total business loans	62.4	60.6	60	54.5	54.4	63.5	66.2	62.24
Short-term loans, SMEs	HUF million	2 473 389	2 965 962	2 832 008	2 774 744	2 767 147	3 051 599	2 654 230	2 570 341
Long-term loans, SMEs	HUF million	1 377 444	1 417 538	828 430	756 021	817 982	818 220	2 008 025	1 731 575
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	4 662 255	4 301 916
Short-term loans, SMEs	% of total short and long-term SME loans	64.2	67.7	77.4	78.6	77.1	78.8	56.9	59.7
Government loan guarantees, SMEs	HUF million	308 800	352 100	409 200	377 100	343 400	251 850	350 009	346 172
Government guaranteed loans, SMEs	HUF million	381 400	436 400	600 300	472 019	437 200	314 813	457 992	433 842
Non-performing Loans Total	HUF million	..	..	..	832 213	1 155 259	1 271 799	1 124 012	960 640
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	15.6
Ratio of SME non-performing loans within total SME loan portfolio	%	..	5.4	8.9	12.8	15.9	20.5	18.6	20.7
Average interest rate, SMEs	%	10.19	11.25	12.31	8.99	9.38	9.7	7.4	5.1
Interest rate spread	Percentage points	1.22	0.97	1.24	1.74	1.3	3.2	3.1	2.7
Equity									
Venture and growth capital	HUF million	3 949	13 782	720	6 982	11 308	19 361	15 880	18 759
Venture and growth capital	Year-on-year growth rate, %	..	249	-94.8	869.7	62	71.2	-18	18.1
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	644
Bankruptcies, total	Year-on-year growth rate, %	..	10.3	25.6	9.5	20.4	7.9	24.7	71.3

Source: See Table 17.3.

StatLink http://dx.doi.org/10.1787/888933332832

Figure 17.11. **Trends in SME and entrepreneurship finance in Hungary**



Notes: 1. For loans up to EUR 1 million. 2. Short (long) term loans have a maturity equal to or less than (more than) one year. The data don't include the loans of financial institutions. In 2007-09 the data contain loans to all SMEs including financial ones, in 2010-11 only non-financial SMEs.

Sources: Chart A and B: Hungarian Financial Supervisory Authority. Chart C: Hungarian National Bank. Chart D: Hungarian National Bank. Chart E: Hungarian Venture Capital Association. Chart F: National Tax and Customs Administration.

StatLink http://dx.doi.org/10.1787/888933331246

Table 17.3. **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 Program.)
Ratio of non-performing business loans	% of non-performing business loans within total business loan portfolio (90+ days delinquency ratio) to total business loans at the end of the year	Hungarian 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 2014
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 only 0.4% of the labour force, but accounted for approximately 32% of employment.

Table 18.1. **Distribution of 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**	**1 023 834**	**100**
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/10.1787/888933332842

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 which 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 suffered a severe financial and economic shock following the financial crisis. Given the high level of credit growth during the boom phase (2003-08), corporates have been deleveraging steadily since 2008. Total business lending (outstanding loan balances) declined every year between 2008 and 2014. More recently, the rate of decline has eased considerably as growth has begun to return. Business lending dropped by more than 38% over this period. SME loan data are available only since 2010. Despite the drop in overall lending, 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 67% 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 by 86% between 2007 and 2014, from EUR 17.3 billion to EUR 2.4 billion.

Credit conditions

A number of independent surveys on credit conditions have been conducted on behalf of the Irish Government. They covered the period from June 2008 to September 2015. Loan approval rates declined from 76% to 70% in the 2008 to September 2011 period, but have improved since then, reaching 85% in September 2015. These included applications which were both fully approved as well as those which were only partially approved. The latter accounted for between 2% and 6% of all the applications in the period concerned.

The independent surveys also covered collateral requirements. 40% of the SMEs were asked for specific collateral for their loans. According to the most recent survey covering the six month period to September 2015, the collateral required most often was real estate and land.

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 the number of employees ranging 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, although this trend has been less pronounced in recent surveys.

Data for interest rates are available by loan size. In line with the reductions in ECB policy rates, SME interest rates fell sharply from 2008 to 2009, and modestly in 2010. However, since 2011, there has been an increasing trend in interest rates for SMEs, despite some declines in late 2011-12. Interest rates in 2014 (circa 4%-5%) are still relatively high, both compared with 2010, as well as relative to other European countries where interest rates continued to decline over the 2010-14 period. The spread between large and small loans increased throughout the 2007-14 period from 0.3% in 2007 to 1.8% in 2014. 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 includes both, funding by business angels as well as venture capital funds. Total venture capital has been relatively stable over most of the period, but reached record levels in 2014. Growth capital fell drastically between 2008 and 2009, but has recovered significantly since. Indeed, the figure more than doubled from 2013 to 2014.

Table 18.2. **Venture capital raised by SMEs in Ireland, 2007-14**

In EUR million

Stage	2007	2008	2009	2010	2011	2012	2013	2014
Seed	20.4	51.1	71.2	53.6	104.9	53.7	51.6	66.8
Early	119.8	116.5	185.4	175.9	99.2	135.6	120.2	59.1
Growth/Expansion	85.7	75.3	31.5	80.7	70.3	79.6	113.1	274.8
Total	**225.9**	**242.9**	**288.1**	**310.2**	**274.4**	**268.9**	**284.9**	**400.7**

Source: Irish Venture Capital Association.

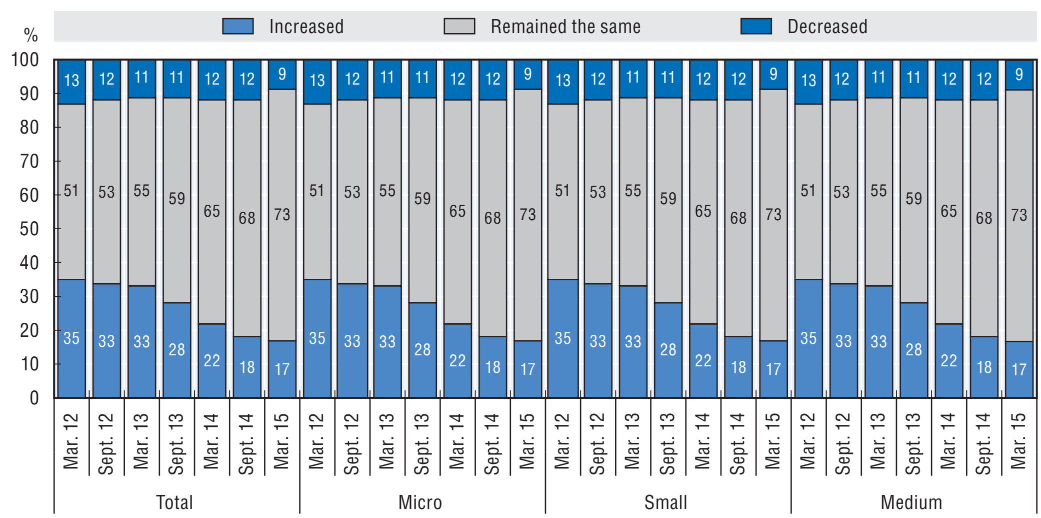
StatLink http://dx.doi.org/10.1787/888933332853

Other indicators

The demand survey enquires 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 September 2011 and March 2012, the number of days increased for 35% 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, with the latest survey of September 2015 showing just 17% of all surveyed SMEs communicating an increase in the average number of payment days.

Figure 18.1. **Number of days in which customers pay the business in Ireland, 2012-15**

SMEs' responses as a percentage



Source: Red C SME Credit Demand Survey, April – September 2015.

StatLink http://dx.doi.org/10.1787/888933331254

Corporate "bankruptcies" in Ireland are dealt with under 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 18.3. **Companies registration office data in Ireland, 2007-14**

	2007	2008	2009	2010	2011	2012	2013	2014
Examinership	19	49	84	28	31	32	41	27
Receivership	14	59	205	388	533	654	553	462
Members voluntary (solvent liquidations)	1 045	1 051	1 158	899	1 054	919	848	1 001
Bankruptcy[1]	344	613	1 245	1 386	1 410	1 317	1 119	1 007
All Processes	1 422	1 772	2 692	2 701	3 028	2 922	2 561	2 497

Source: Department of Jobs, Enterprise and Innovation.

StatLink http://dx.doi.org/10.1787/888933332863

Bankruptcies increased in the period to 2011, but have fallen annually since then.

Government policy response

The government imposed SME lending targets on the two main domestic banks for the three calendar years of 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 Allied Irish Bank and the 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 has now shifted towards the monthly collation and examination of more granular data related to the funding of SME activities from AIB and the 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 agencies 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 situations where SMEs fall outside the risk appetite of banks. This can arise because of the SME's lack of collateral or the banks' lack of understanding of the business model, external market conditions, developments within the sector, or due to issues related to 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 is guaranteed by the Ministry for Jobs, Enterprise and Innovation. A review of the Credit Guarantee Scheme was undertaken and laid before the Oireachtas in July 2014. As a result of the review, a new Credit Guarantee Scheme has been introduced in 2015, in accordance with the terms of the Credit Guarantee Act of 2012, which allows guarantees for refinancing loans where an SMEs' bank has exited or is exiting the Irish SME market. This new Scheme also increases the maximum length of guarantees under the Credit Guarantee Scheme from 3 to 7 years.

In addition, work is continuing on amending the primary legislation and once this is completed, a new Credit Guarantee Scheme will be introduced, which will include the following improvements: a wider range of financial products to be covered, not just traditional credit products, an increase in the level of guarantees on individual loans from 75% to the maximum permissible under State Aid rules of 80%, an increase in the portfolio cap and the removal of the annual portfolio cap. The Department of Jobs, Enterprise and Innovation is also working with the Department of Finance and the Strategic Banking Corporation of Ireland (SBCI) to enable the delivery of the Ministerial guarantee through the SBCI.

From 24 October 2012 to 30 June 2015, 208 loans were sanctioned under the Credit Guarantee Scheme with a value of EUR 31.3 million. While the level of lending has been lower than anticipated, the jobs dividend reported has been much higher than expected with 864 new jobs created and 601 jobs maintained. The Department of Jobs, Enterprise and Innovation has conducted a review of this scheme and will shortly introduce a revised scheme that is more user-friendly with broader parameters which should further increase the utilisation rate of the scheme.

Micro-enterprise loan fund scheme

The Microenterprise Loan Fund was established to lend up to EUR 25 000 to viable micro-enterprises who had been declined bank credit, have commercially viable proposals to sustain, and create jobs. Microfinance Ireland was set up to administer the Fund on behalf of the Minister for Jobs, Enterprise and Innovation. From 1 October 2012 to 30 June 2015, the Fund has provided loans to 606 micro-enterprises to the value of EUR 9.3 million, supporting 1 355 net jobs. A review of this scheme was recently completed by the Department of Jobs, Enterprise and Innovation which will ensure that more microenterprises can avail of the Fund by making changes, such as removing the requirement for a bank loan refusal.

Innovation Fund Ireland

Innovation Fund Ireland is a Government initiative designed to attract leading international venture capital fund managers to Ireland. Innovation Fund Ireland works in partnership with Enterprise Ireland (EI) and the National Pension Reserve Fund (NPRF). Both EI and NPRF/ISIF bring approximately EUR 125 million 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. A number of funds have now been operating in the Irish market and a proportion of them continue to seek investment in new opportunities. 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 3 million are refused, withdrawn, or offered to SMEs at unreasonable conditions by the participating banks. Up to May 2015, 55% of appeals have been found in favour of borrowers and this has resulted in EUR 31.4 million in credit being made available to SMEs and farms, helping to protect or create 2 222 jobs. The May 2015 report from the CRO was the most positive since the inception of the Office, as the impact of the economic recovery is reflected in improving financial figures regarding businesses which have asked for their case to be reviewed.

Ireland Strategic Investment Fund (ISIF)

The Ireland Strategic Investment Fund ("ISIF" or "the Fund") was formally commenced on 22 December 2014. On commencement the ISIF absorbed the NPRF's global portfolio and its directed investments. The total Fund size at the transition date was EUR 20.5 billion, with EUR 13.4 billion in Directed Investments and EUR 7.1 billion in the Discretionary

Portfolio. The overarching purpose of the ISIF is to invest *"on a commercial basis in a manner designed to support economic activity and employment in the State"*. This mandate reflects a shift from being a Sovereign Wealth Fund focussed solely on wealth creation to a Sovereign Development Fund with a "Double Bottom Line" objective – in other words, ISIF's success will be measured by both, investment returns and economic impact achieved.

Other key elements of the mandate as set out in the *NTMA Amendment Act, 2014* are:

- the NTMA will be the controller and manager of the ISIF
- investment performance goal is to exceed average cost of Government debt
- long-term timeframe: no withdrawals before 2025, after that dividend-type payment of up to 4% p.a. to the Exchequer
- investments must not have a negative impact on the net borrowing of the general government of the State for any year

In preparation for the ISIF, significant progress was made refocusing the Fund towards commercial investment in Ireland within the constraints of the NPRF's statutory mandate. A number of investment areas of strategic importance were identified and investments were completed under its mandate in the areas of infrastructure, water, long-term financing for SMEs (both credit and equity), and venture capital.

The ISIFs first Economic Impact Report, published recently, shows that at the end of December 2014:

- The ISIF had committed EUR 1.4 billion to investments in Ireland, with EUR 726 million already drawn down.
- 79 Irish companies with an annual turnover of EUR 472 million benefit from ISIF investment.
- Approximately 8 362 jobs are supported directly and indirectly by ISIF investments.

ISIF SME Fund Investments

- The EUR 450 million BlueBay SME Credit Fund has completed 11 loan transactions totalling approximately EUR 190 million. The BlueBay SME Credit Fund continues to be active in the Irish lending market and has a strong transaction pipeline. It is focused on deployment of the remainder of its capital pool.
- The EUR 292 million Carlyle Cardinal Ireland (CCI) SME Equity Fund has concluded 4 transactions in Lily O'Briens, GSLS, Carroll Cuisine and Payzone. The CCI SME Equity Fund continues to be active in the Irish lending market and has a strong transaction pipeline. It is focused on deployment of the remainder of its capital pool.
- The Better Capital "Turnaround Fund" expired at the end of December 2014 and its investment period was not extended.
- The Turnaround Fund was focused on turnaround investing in troubled companies as the Irish economy was dealing with the financial crisis. A short investment period of two years was set due to the expectation that distressed turnaround investment opportunities would only be available for a limited period. In the context of improving market conditions, financial institutions and business owners experienced a reduced need for restructuring capital investment into distressed businesses, as compared with initial expectations. This meant that the Turnaround Fund did not complete any transactions. The investment period expired at the end of December 2014 and, by mutual agreement between the NTMA and Better Capital, was not extended.

Enterprise Ireland Seed & Venture Capital Scheme

The Government has committed EUR 175 million under the Seed and Venture Capital Scheme 2013-18, with the aim of leveraging a further EUR 525 million from the private sector for investment in high potential start-up and scaling companies. The first, open competitive call for expressions of interest saw significant funding committed to VC funds focusing on investing in innovative companies, operating in the ICT and Life Sciences sectors. A second call for expressions of interest was issued in June 2015 which focused on committing capital to seed and early stages funds.

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 job 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 was 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. This target has been exceeded and there are now three funds actively investing in the Irish market. The funds are managed by private sector fund managers who make their own commercial investment decisions in the context of an agreed investment strategy.

"Supporting SMEs" Online Tool

SMEs and entrepreneurs are often unaware of all the existing state supports available to them. The "Supporting SMEs" 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/*.

Strategic Banking Corporation of Ireland

The Strategic Banking Corporation of Ireland (SBCI) is a key part of Ireland's financial infrastructure and is playing an important role in Ireland's recovery by improving funding mechanisms for the real economy, particularly with regard to 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 encourage new entrants to the market. It is achieving this by using its funds of up to EUR 800 million 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, then lend the money on to SMEs. Key advantages of the SBCI are its mandate to introduce better and more flexible products to the market and its ability to access lower cost funding, which is passed on to SMEs via its on-lending partners. The SBCI is facilitating loans of longer duration and with more flexible terms than were typically available before its foundation.

The SBCI was incorporated in September 2014 and since then it has made considerable progress in building relations with on lending partners and in constructing the complex operational capability required to bring products to market. These include establishing operational capability with funders and lending partners, building internal systems and business processes, and establishing a team to safely and effectively manage the funding provided on behalf of the state. The SBCI launched its products to the market on 9 March 2015 through Ireland's largest banks, AIB and BOI. At end June of 2015, it had lent an excess of EUR 44.6 million to eligible SMEs across all regions of Ireland. 90% of loans have been issued for investment purposes and the average loan size is EUR 27 500. The SBCI is currently working closely with other potential lending partners so that they will become on-lenders during 2015, thereby facilitating further competition in the SME finance market.

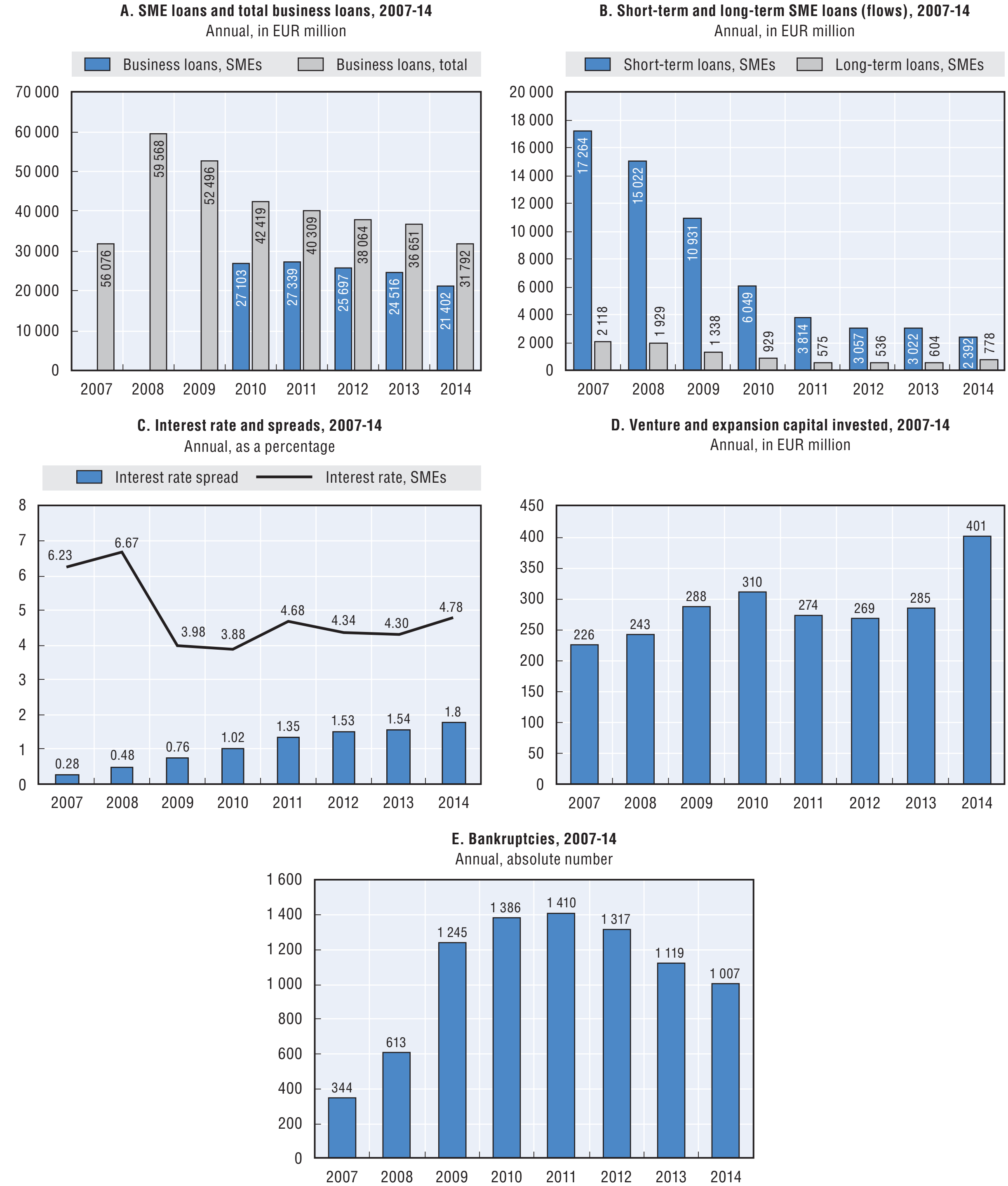
Table 18.4. **Scoreboard for Ireland, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	EUR million	..	..	..	27 103	27 339	25 697	24 516	21 402
Business loans, total	EUR million	56 076	59 568	52 496	42 419	40 309	38 064	36 651	31 792
SME loan share		..	..	..	64	68	68	67	67
New short-term loans, SMEs (flow)	EUR million	17 264	15 022	10 931	6 049	3 814	3 057	3 022	2 392
New long-term loans, SMEs (flow)	EUR million	2 118	1 929	1 338	929	575	536	604	778
Total short and long-term loans, SMEs	EUR million	19 382	16 951	12 269	6 978	4 389	3 593	3 626	3 170
Short-term loans, SMEs	% of total SME loans	89.1	88.6	89.1	86.7	86.9	85.1	83.3	75.5
Non-performing loans, total	EUR million	..	..	..	..	9 486	10 736	10 589	9 248
Interest rate, SMEs	%	6.23	6.67	3.98	3.88	4.68	4.34	4.3	4.78
Interest rate, large firms	%	5.95	6.19	3.22	2.86	3.33	2.81	2.76	2.98
Interest rate spread	%	0.28	0.48	0.76	1.02	1.35	1.53	1.54	1.80
Rejection rate	1-(SME loans authorised/ requested) %					30	24	20	14
Equity									
Venture and growth capital (seed and early stage)	EUR million	140.2	167.6	256.6	229.5	204.1	189.3	171.8	
Venture and growth capital (growth capital)	EUR million	85.7	75.3	31.5	80.7	70.3	79.6	113.1	
Other									
Bankruptcies, total		1 436	1 768	2 680	2 701	3 028	2 922	2 561	

Source: See Table 18.5

StatLink http://dx.doi.org/10.1787/888933332871

Figure 18.2. **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/10.1787/888933331266*

Table 18.5. **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 business loans to non-financial corporations; amounts up to EUR 1 million; up to 1 year fixation	Central Bank of Ireland
Long-term loans, SMEs	New business loans to non-financial corporations; amounts up to EUR 1 million; over 1 year fixation	Central Bank of Ireland
SME loans approved	Survey figures for % of applications approved	SME Demand Survey
Non-performing loans, total	Volume in default, all business loans	Central Bank of Ireland
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, large firms	Average annual rates for new loans, base rate plus risk premium; for maturity less than 1 year; and amounts equal to or greater 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
Rejection rate	Rejection rates are based on all finance types (loans, overdrafts, invoice discounting and leasing/hire-purchase). Figures exclude applications which are still pending. Based on survey data collected between April and September in each respective year.	Department of Finance RED C SME Credit Demand Survey
Equity		
Venture and growth capital	Actual amounts invested in SMEs in the country in early stage development (excludes buyouts, turnarounds, replacements)	Irish Venture Capital Association
Other		
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

Note

1. The duration of bankruptcy has reduced from 12 years to 3 years since 3 December 2013.

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Credit Review Office.

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Department of Jobs, Enterprise and Innovation: *Companies Registration Office Data, Enterprise Ireland, Microfinance Ireland*.

Irish Venture Capital Association.

National Treasury Management Agency, *Ireland Strategic Investment Fund*.

SME State Bodies Group.

Strategic Banking Corporation of Ireland.

Israel[1]

SMEs in the national economy

Bank credit is the main funding instrument for small and medium businesses, with over 80% of SME credit being provided by banks. Over 95% of the bank credit to SMEs in Israel is 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 - however, each bank has a different definition for the various business types (see Table 19.14).

The Israeli's Small and Medium Business Agency definitions for micro, small, medium and large business are as follows:

- **Micro business**: up to 4 employees or an annual turnover of up to NIS 1 million
- **Small business**: up to 19 employees or an annual turnover of up to NIS 10 million
- **Medium business**: up to 100 employees and an annual turnover of up to NIS 100 million
- **Large business**: over 100 employees or an annual turnover of over NIS 100 million

Despite the existence of these parameters, they do not represent binding and uniform definitions for all entities involved in the SME sector.

Small and micro enterprises constitute about 98.7% of businesses. Less than 0.3% of businesses are defined as large businesses and the remaining 1% are medium-sized businesses.

Table 19.1. **Distribution of firms in Israel, 2013**

Firm size	2013	%
All firms	**391 533**	**100**
SMEs (0-249)	**390 750**	**99.8**
Micro (1-9)	361 682	92.4
Small (10-49)	24 676	6.3
Medium (50-249)	4 392	1.1
Large (250+)	**783**	**0.2**

Source: OECD (2015).

StatLink http://dx.doi.org/10.1787/888933332888

Debt financing

Banks

The total credit of Israeli banks given to SMEs for the period 2007-14 (in NIS billion) is listed in Table 19.2.

Table 19.2. **Outstanding business loans in Israel, 2007-14**

Indicator Unit	Units	2007	2008	2009	2010	2011	2012	2013	2014
Outstanding business loans, SMEs (stock)	NIS billion	169.3	171.2	161.6	173.8	177.7	187	186.7	211.9
Outstanding business loans, total (stock)	NIS billion	413.9	460.9	425.2	438.9	458.6	450.4	445.7	447.9

Source: Financial statement of Israeli banks.

StatLink http://dx.doi.org/10.1787/888933332895

The data indicates a consistent increase in the volume of bank credit to SMEs. Since 2007 there has been a combined increase of 25% of bank credit to these sectors (note that this includes a sharp decrease in 2009).

Credit card companies

In Israel, there are three companies that issue credit cards, all of them are owned by the five largest bank groups in Israel.

Bank Hapoalim holds 100% of Isracard and American Express, Bank Leumi holds 80% of Leumi Card and Azrieli group holds the other 20% of the company. Visa CAL is owned by Discount Bank 72%) and International Bank (28%).

Table 19.3. **Loans to SMEs by credit card companies in Israel, 2007-14**

Company	Unit	2007	2008	2009	2010	2011	2012	2013	2014
Isracard + American Express	NIS million	985	1 074	1 229	1 103	1 162	1 185	1 187	1 249
Visa CAL + Diners	NIS million	237	239	305	324	312	415	358	281
Leumi Card	NIS million	529	594	757	778	814	874	893	945
Total	NIS million	**1 751**	**1 907**	**2 291**	**2 205**	**2 288**	**2 474**	**2 438**	**2 475**
% of total bank credit		1.00	1.10	1.40	1.30	1.20	1.30	1.20	1.00

Source: Financial statement of the credit card companies and financial statement of Bank Leumi, Bank Hapoalim and Bank Discount.

StatLink http://dx.doi.org/10.1787/888933332909

Credit terms

The interest rate data at which credit is distributed to the various segments of business is a figure that is not officially published. The data was extracted and calculated from the financial statements of the main banking groups in the country, who are required to publish a breakdown of the nominal credit that they distributed, by the various business segments. The quality of data available to correctly calculate this indicator was sufficient to enable calculating interest rates starting from the year 2010.

Since data from the Bank of Israel was not provided, the interest rates paid by businesses in Israel were estimated by extracting the relevant data from the financial statement of Israeli banks.

The estimated interest rate for each of the three relevant sectors (small, medium-sized, 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 calculated based on net interest income, it was 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 19.4. **Interest rates in Israel, 2010-14**

	Units	2010	2011	2012	2013	2014
Interest rate, small firms	%	6.65	7.79	7.21	6.83	6.09
Interest rate, medium firms	%	4.03	4.47	4.55	3.72	3.43
Interest rate, SMEs	%	5.00	5.62	5.52	4.89	4.48
Interest rate, large firms	%	3.00	3.15	3.62	3.45	3.04
Interest rate, spread	%	2.00	2.47	1.91	1.44	1.44

Note: Each bank has a different definition for each sector (see Table 19.14).

Source: Financial statements of Israeli banks.

StatLink http://dx.doi.org/10.1787/888933332914

Interest rate spreads between SMEs and large business seem to have decreased between 2011-14. This trend shows that the small business risk factor seems to be lower, and raising capital becomes a less difficult task for these enterprises.

Non-performing loans

There are several key parameters through which the quality of credit can be tested. One of the parameters is the credit losses rate of the SME sector, which can be measured in relation to the amount of credit losses at all segments in the bank.

The measurement was taken up in 2011. It is evident that in all the years from 2011 to 2014, the percentage rate for credit losses in SMEs was about 1.5-2 times higher than the percentage of credit losses in all the bank sectors.

Table 19.5. **Credit losses in SME vs. large businesses in Israel, 2011-14**

	2011	2012	2013	2014
Weighted arithmetic mean of credit losses in Small Businesses	0.68	0.56	0.60	0.64
Weighted arithmetic mean of credit losses in Medium Businesses	0.50	0.43	0.28	0.23
Weighted arithmetic mean of credit losses in Large Businesses	0.49	0.78	0.23	-0.18*
Weighted arithmetic mean of credit losses in all Businesses	0.39	0.41	0.25	0.15

Note: *Three of the largest banks had cancellation of credit losses expenses from earlier years.

Source: Financial statements of Israeli banks.

StatLink http://dx.doi.org/10.1787/888933332924

Government loan guarantees for SMEs

During the years 2007-14, there were a 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, the first three funds were merged into one single fund, now called the SME fund.

The SME fund is based on loans executed by the banks that were selected in a tender. The government guarantees 70% of each loan, but only up to 10% of the entire loan portfolio. The banks must provide loans at a rate 10 times higher than the guarantee the government gives to them for the whole portfolio (i.e. the leverage is 10%).

The individual guarantee for each loan varies between 60% and 100%, depending on the funding terms at the year of execution, as well as on the type of business. The total guarantee is limited to the leverage ratio in each bank.

Table 19.6. **Details of government guarantee funds for SMEs in Israel, 2007-14**

		Units	2007	2008	2009	2010	2011	2012	2013	2014
Small and medium businesses fund	**Max. annual turnover**	NIS million	..	..	..	..	..	100	100	100
	Max. loan amount	NIS	..	..	..	..	..	NIS 500 000 or 8% of the annual turnover. The higher of the two.	NIS 500 000 or 8% of the annual turnover. The higher of the two.	NIS 500 000 or 8% of the annual turnover. The higher of the two.
	Govern-ment loan	%	..	..	..	..	..	60%-85%, depending on the type of business	60%-85%, depending on the type of business	60%-85%, depending on the type of business
Small businesses fund	**Max. annual turnover**	NIS million	22	22	22	22	22	..	..	..
	Max. loan amount	NIS	500 000	500 000	750 000	5% of the annual turnover or NIS 750 000. The higher of the two.	5% of the annual turnover or NIS 750 000. The higher of the two.	..	..	..
	Govern-ment loan	%	70	70	70	70	70	..	..	..
Medium businesses fund	**Max. annual turnover**	NIS million	-	-	400	400	100	..	..	..
	Max. loan amount		-	-	8% of the annual turnover up to 16 NIS million.	8% of the annual turnover up to 16 NIS million.	8% of the annual turnover	..	..	..
	Govern-ment loan	%	70	70	70	70	70	..	..	..
Exporters fund	**Max. annual turnover**	USD million	15	15	15	15	15	..	..	..
	Max. loan amount	USD million	USD 1 million or 20% of the annual turnover. The higher of the two.	USD 1 million or 20% of the annual turnover. The higher of the two.	USD 1 million or 20% of the annual turnover. The higher of the two.	USD 1 million or 20% of the annual turnover. The higher of the two.	USD 1 million or 20% of the annual turnover. The higher of the two.	..	..	..
	Government loan	%	70	70	70	70	70	..	..	..

StatLink http://dx.doi.org/10.1787/888933332935

Details of credit volumes approved and executed during 2007-2014

Table 19.7. **Government loan guarantees in Israel, 2007-14**

	Units	2007	2008	2009	2010	2011	2012	2013	2014
Government loan guarantees, SMEs	NIS million	170	109	757	1 028	890	1 412	2 030	1 919
Government loan individual guarantees	NIS million	119	76	530	720	632	1 017	1 461	1 400
Government loan comprehensive guarantees	NIS million	27	17	121	164	116	155	223	211

Source: Accountant general, Israeli Ministry of Finance.

StatLink http://dx.doi.org/10.1787/888933332948

The data indicates that the amounts of loans in 2013 are 12 times larger than the amount of loans issued in 2007. In 2013, loans of a total sum of NIS 2 billion were distributed, compared to NIS 170 million in 2007.

A significant increase in loans occurred during 2009, following the global economic crisis and establishment of the fund for medium businesses. Another increase occurred during 2012-2013, following the establishment of the new fund for SMEs.

In 2014, there was growth in loans for small businesses to NIS 1.5 billion, compared to NIS 1.4 billion in 2013. In 2014, there was a decrease in the number of loans to medium sized businesses, from to 593 in 2013, to 424 in 2014. This decrease is due to budget restraints for medium sized businesses, as laid down in the agreement between the government and the banks operating the fund.

Government loan individual guarantees are at 70% of the loan for veteran businesses and up to 85% for new businesses. The government loan individual guarantee is applied to each loan separately.

The calculation of the government loan individual guarantees is done by taking 70% of the credit that was executed for the years 2007- 2010, 71% for the year 2011 and 72% for the years 2012- 2014, due to the growth of loans to new businesses.

Government loan comprehensive guarantees were 16% up compared to the year 2011, and from 2012 the percentage is different for each bank (for the main banks the leverage is 10%).

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% off the credit that was executed in the years 2007-10. In 2011, the percentage was at 13% and in the years 2012-14, there is a different percentage for each bank, and on average the percentage is 11%.

Other Indicators

Loan fees for SME loans

Table 19.8. **Loan fees for SME loans in Israel, 2009-13**

Loan over NIS 100 000	Unit	2009	2010	2011	2012	2013
Bank Leumi	%	..	..	..	..	1.50 Max. fee NIS 10 000
Bank Hapoalim	%	..	..	1.00 Max. fee NIS 15 000	..	1.00 Max. fee NIS 15 000
Bank Mizrahi	%	..	..	..	..	1.25 Max. fee NIS 10 000
Bank Discount	%	2.50 Max. fee NIS 30 000	..	..	2.50 Max. fee NIS 30 000	2.50 Max. fee NIS 30 000
First International Bank	%	2.00 Max. fee NIS 12 000	2.00 Max. fee NIS 12 000	2.00 Max. fee NIS 12 000	2.00 Max. fee NIS 12 000	2.00 Max. fee NIS 12 000

Note: The data presented in the table refers to handling fees on credit and collaterals for loans that are not for housing purpose. Until 2012, the fees refer to loans over NIS 50 000. Since 2013, the criterion has been changed in the bank statements to loans over NIS 100 000, but the loan fees remained unchanged.

Source: Financial statement of the big five banks in Israel.

StatLink http://dx.doi.org/10.1787/888933332958

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. Except of Bank Hapoalim that clearly states that there is an exemption from fees on loans below NIS 100 000, no other bank published a clear policy on this issue.

An analysis of the "credit allocation fees" in the five big commercial banks in Israel provides an overview of the fees that small businesses must pay on their credit lines. It seems that on average, during the last five years, the "credit allocation fees" have decreased across all banks.

Table 19.9. **Credit allocation fees in Israel, 2008-14**

Loan over NIS 100 000	Units	2008	2009	2010	2011	2012	2013	2014
Bank Leumi	%	2.01 (0.5% per quarter)					1.812 (0.5% per quarter)	1.812 (0.45% per quarter)
Bank Hapoalim	%	1.75					1.75	1.75
Bank Mizrahi	%		2.25	2.45			2.45	2.45
Bank Discount	%	2.5				2.5	2.16	2.16
First International Bank	%	2.5	2.5		2.5	2.3	2.1	1.7

Source: Financial statements of the big five banks in Israel.

StatLink http://dx.doi.org/10.1787/888933332962

Failed to successful SME loan applications

As there are no available sources for analysing failed vs. successful SME loan applications, the failed and successful loan applications in the SMEs' government guarantee loan funds are examined instead.

Data was collected since 2010, examining the amount of complete applications which were submitted by small and medium businesses, and comparing this figure to the amount of approved applications.

According to the analysis, the average percentage of rejected applications was approximately 50%.

The approval rate increased as factor of turnover and business maturity. In medium-sized businesses the approval rate increased up to 70%.

Payment delays, B2C and B2B

In order to survey the payment delays in B2C and B2B, the days payable outstanding and the days sales outstanding of 200 SMEs over the years 2007 to 2013 were analysed.

The random sample consisted of small and medium businesses that had audited financial statements for at least three consecutive years during the period under review. Businesses were taken from a variety of sectors (64 in the services sector, 63 in the commercial sector, 53 industrial and 20 construction businesses).

The ratios were calculated according to the audited financial statements of the companies and therefore only refer to limited companies.

Days payable outstanding

Table 19.10. **Average days payable outstanding by sector in Israel, 2008-13**

	2008	2009	2010	2011	2012	2013
Construction	43	52	72	94	94	96
Commercial	89	90	105	135	112	125
Services	56	72	71	98	98	93
Industrial	77	81	96	144	127	114
Grand Total	**74**	**80**	**90**	**122**	**110**	**109**

Source: Business survey carried out by Tavor economic consultant.

StatLink http://dx.doi.org/10.1787/888933332970

The formula to calculate Days Payable Outstanding ratio is written as: Ending accounts payable/ (cost of sales/ number of days). 2011was a record year for Days Payable Outstanding, with the length of about 25% compared to the long-term average and 50% over the previous three years.

This significant increase coincided with steep increase in Days sales outstanding that year of 14% in comparison to the previous three years.

Days sales outstanding

Table 19.11. **Average days sales outstanding by sector in Israel, 2008-13**

	2008	2009	2010	2011	2012	2013
Construction	56	55	54	53	59	59
Commercial	60	72	75	93	83	82
Services	78	71	65	83	80	75
Industrial	70	66	73	82	83	82
Grand Total	**67**	**64**	**64**	**74**	**74**	**73**

Source: Business survey by Tavor economic consultant.

StatLink http://dx.doi.org/10.1787/888933332983

The formula to calculate days sales outstanding ratio is written as: Accounts receivable / (annual sales/ number of days).

Equity financing

There are approximately 70 venture capital funds in Israel, including 14 offices[2] of international funds. In addition, there is also foreign investment activity without official presence in Israel. Investments by venture capital funds rose by 18% in 2013 in comparison to the previous year, amounting to approximately USD 2.3 million, of which about one fourth came from Israeli funds, while three fourths were provided 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 venture capital (VC) sector there is stability in the new investments (first investment in a new start-up company), with approximately 40 active Israeli VC investments each year since 2009. Foreign VC funds' investments have shown a bigger involvement at the early investment stage, and the number of active funds that made a new investment rose from 26 in 2009 to 84 in 2013.[3]

Investments in 2007 amounted to USD 1.8 million, and declined during the economic crisis in 2009 to USD 1.1 million. In the years 2011 and 2012, the level of investment climbed back up to pre-crisis levels. In 2013, the level of investment reached a record high of USD 2.3 million. This trend continued also during the first half of 2014[4].

This trend might imply that the number of beneficiaries from the bigger amount of capital invested by VCs in Israel is limited and even reduced over time.

Table 19.12. **Venture capital investments in Israel, 2007-13**

	Unit	2007	2008	2009	2010	2011	2012	2013
Total investment (seed, early stage , and growth capital)	USD million	1 759	2 076	1 122	1 250	2 135	1 944	2 296
Annual growth rate	%	8.45	18.02	-45.95	11.41	70.8	-8.95	18.11
Investment by Israeli VC funds	USD million	678	780	410	461	639	532	546
Percentage of Israeli VC investment out of total investment	%	39	38	37	37	30	27	24
Number of transactions by Israeli VC funds		546	561	394	398	465	421	423
Average investment per transaction	USD million	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 the Israel Venture Capital Research Centre: *http://www.ivc-online.com/language/en-US/Home.aspx*.

StatLink http://dx.doi.org/10.1787/888933332999

The leading industry that enjoys venture capital investments is High-Tech, which receives almost all of this equity - thus, other industries have to find alternative opportunities of finance.

Comments

The data in Table 19.12 is aggregated data of venture capital investments (seed and early stage, growth capital). In the following reports, separate data for each category (seed and early stage (=Round A), growth capital (=Round B)) will be provided.

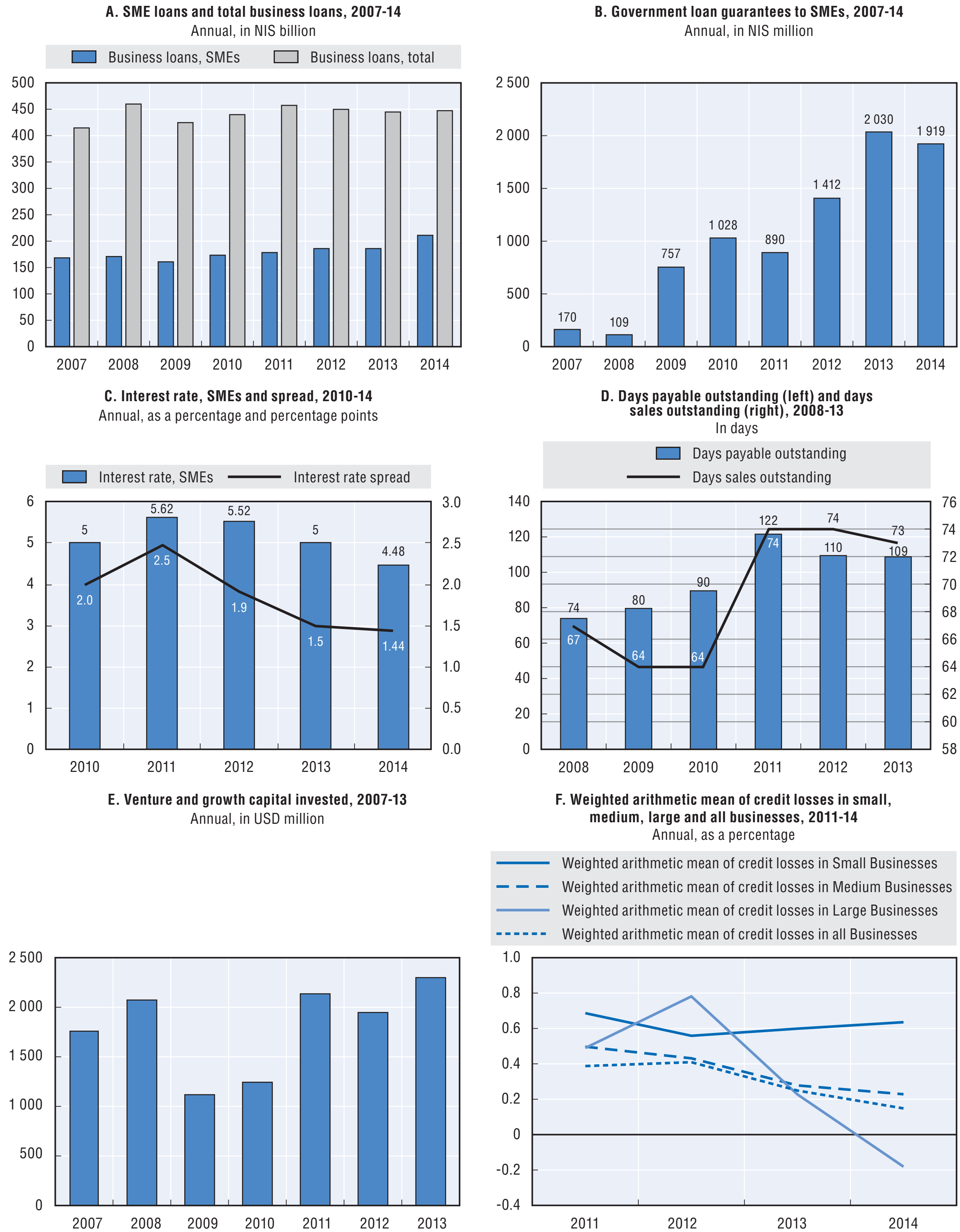
Table 19.13. **Scoreboard for Israel, 2007-14**

Indicator	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Outstanding business loans, SMEs (stock)	NIS billion	169.3	171.2	161.6	174	177.7	187	187	212
Outstanding business loans, total (stock)	NIS billion	413.9	460.9	425.2	438.9	458.6	450	446	448
New business loans, SMEs (flows)	NIS billion								
New business loans, total (flows)	NIS billion								
Government loan guarantees, SMEs	NIS million	170	109	757	1 028	890	1 412	2 030	1 919
Government loan	NIS million	119	76	530	720	632	1 017	1 461	1 400
Government loan comprehensive guarantees	NIS million	17	27	121	164	116	155	223	223
Interest rate, SMEs	%	..	..	..	5	5.62	5.52	5	4.48
Interest rate, large firms	%	..	..	..	3	3.15	4	4	3
Interest rate spread	%	..	..	..	2	2.47	1.91	1.5	1.44
Weighted arithmetic mean of credit losses in Small Businesses	%					0.69	0.56	0.60	0.64
Weighted arithmetic mean of credit losses in Medium Businesses	%					0.50	0.43	0.28	0.23
Weighted arithmetic mean of credit losses in Large Businesses	%					0.49	0.78	0.23	-0.18
Weighted arithmetic mean of credit losses in all Businesses	%					0.39	0.41	0.25	0.15
Days Payable Outstanding	Days		74	80	90	122	110	109	
Days sales outstanding	Days		67	64	64	74	74	73	
Equity									
Total investment Venture capital (seed ,early stage , and growth capital)	USD million	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: See Table 19.15.

StatLink http://dx.doi.org/10.1787/888933333003

Figure 19.1. **Trends in SME and entrepreneurship finance in Israel**



Source: See Table 19.15.

StatLink http://dx.doi.org/10.1787/888933331277

Table 19.14. **Definition of business types in Israeli bank groups**

Category	Criteria	Bank Leumi	Bank Hapoalim	Bank Mizrahi	Bank Discount	First International Bank
Small Business	Credit	Up to NIS 10 million	Up to NIS 6 million	Up to NIS 6 million	Up to NIS 5 million	Receive credit of up to NIS 5 million, with total indebtedness of up to NIS 100 000 or an investment portfolio of NIS 0.5 million
	Annual Turnover	Up to NIS 20 million	Up to 30 NIS million	Up to 30 NIS million	Up to NIS 15 million	
Medium Business	Credit	NIS 10 million to NIS 120 million	NIS 6 million to NIS 100 million	NIS 6 million to NIS 25 million	NIS 5 million to NIS 50 million	Up to NIS 40 million
("Trade sector")	Annual Turnover	NIS 20 million to NIS 400 million	NIS 30 million to NIS 400 million	NIS 30 million to NIS 120 million	NIS 15 million to NIS 150 million	
Large Business	Credit	Over NIS 120 million	Over NIS 100 million	Over NIS 25 million	Over NIS 50 million	Over NIS 40 million
("Business sector")	Annual Turnover	Over NIS 400 million	Over NIS 400 million	Over NIS 120 million	Over NIS 150 million	

Source: Financial statements of the big five banks in Israel.

StatLink http://dx.doi.org/10.1787/888933333014

Table 19.15. **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 Israeli banks
Business loans, total	Total business loan amount outstanding for all firms	Financial statement of Israeli banks
Government guaranteed loans, SMEs	Bank loan given with an governmental guarantee	Accountant General, , Israeli ministry of finance
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 Israeli banks
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 Israeli banks
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 Israeli banks
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 Israeli banks
Interest rate, spread	Margin between the SMEs interest rate and the large business interest rate	Financial statement of Israeli banks
Loan fees for SME loans	Banks loan fees for SME loans	Financial statement of the five largest banking groups
Credit losses in SME	Percentage Rate for credit losses in SME	Financial statement of Israeli banks
Days Payable Outstanding	Average days payable outstanding by sector	businesses survey by Tavor economic consultant
Days sales outstanding	Average days sales outstanding by sector	Businesses survey by Tavor economic consultant
Equity		
Venture and growth capital	Venture capital investments in Israeli SMEs	Israel Venture Capital (IVC) 2013 Yearbook

Notes

1. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West bank under the terms of international law.
2. *http://www.investinisrael.gov.il/NR/exeres/A19A138D-87A7-416B-8D62-1C968E035E13.htm.*
3. *http://www.themarker.com/technation/1.2272347.*
4. *http://www.themarker.com/technation/1.2377360.*

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- *http://www.investinisrael.gov.il/NR/exeres/A19A138D-87A7-416B-8D62-1C968E035E13.htm*
- *http://www.themarker.com/technation/1.2272347*
- *http://www.themarker.com/technation/1.2377360*

Italy

SMEs in the national economy

SMEs represent 99.9% of enterprises in Italy and account for 80% of the industrial and service labour force (Eurostat, 2011). The share of micro-enterprises is higher than the EU across all sectors.

Table 20.1. **Distribution of firms in Italy, 2013**

Firm size (employees)	Total active enterprises		of which according to the SBS Regulation (No 295/2008)*	
	Number	%	Number	%
All firms	**4 390 513**	**100**	**3 746 143**	**100**
SMEs (up to 249)	**4 386 930**	**99.9**	**3 743 056**	**99.9**
Micro (up to 9)	4 185 081	95.3	3 556 908	94.9
Small (10-49)	180 464	4.1	167 387	4.5
Medium (50-249)	21 385	0.5	18 761	0.5
Large (250+)	**3 583**	**0.1**	**3 087**	**0.1**

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

Source: Istat, Statistical Business Register.

StatLink http://dx.doi.org/10.1787/888933333029

SME lending

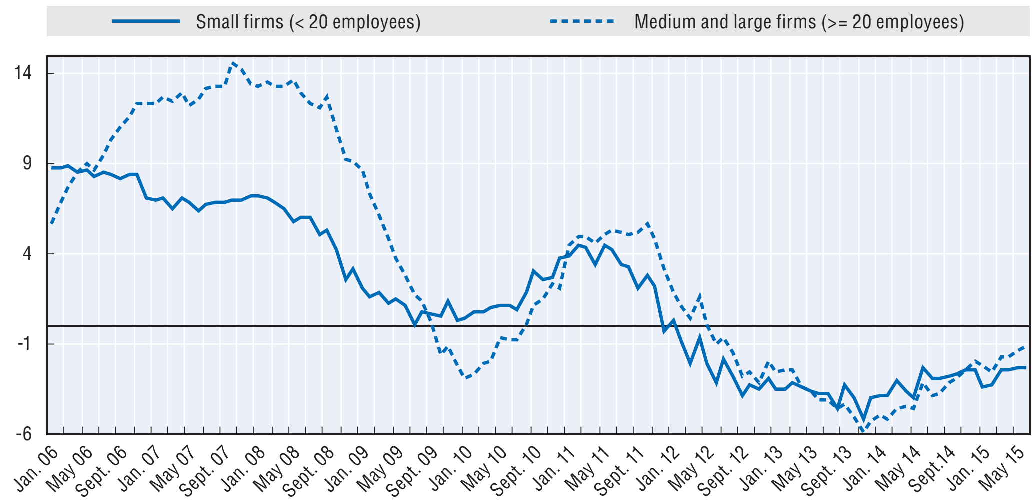
In the aftermath of the global financial crisis and, more noticeably, during the sovereign debt strains, credit supply was significantly affected by the difficulties experienced by banks in wholesale funding and by the need to enhance capital ratios. Nevertheless, in last years domestic financial institutions gradually strengthened their highest-quality capital through substantial equity increases and, to a lesser extent, retained earnings. Access to funding clearly improved, also for the adoption of unconventional monetary policy measures by the ECB: the cost of funding is now at historically low levels.

Total business loans[1], however, kept declining in 2013, due to a large extent to the perceived riskiness of borrowers: protracted weak economic activity caused a sharp deterioration in firms' profitability and weighted on their financial buffers. The downward trend was confirmed in 2014, albeit at a slower pace, increasingly driven by firms' slack demand.

Indeed, the prolonged economic downturn experienced by the Italian economy had a harsh impact on firms, hit by the contraction of industrial production and by the protracted fall in investment. The magnitude of the shock has been particularly large for SMEs, more reliant on domestic demand which recorded a significant drop over the period.

Figure 20.1. **Lending in Italy, 2006-15**

Year-on-year change, in percent



Source: Bank of Italy.

StatLink http://dx.doi.org/10.1787/888933331283

Since 2012, trends in lending were broadly similar for SMEs and large firms. Credit to small firms started decelerating earlier, but large firms experienced higher rates of decrease: as a result of this trend, the share of SME loans in total business loans increased slightly in recent years. However, large firms were able to partly overcome the still tight credit supply conditions by tapping alternative sources of finance, notably the bond market. 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 31.9% in 2008 to 25.1% in 2014.

Credit conditions

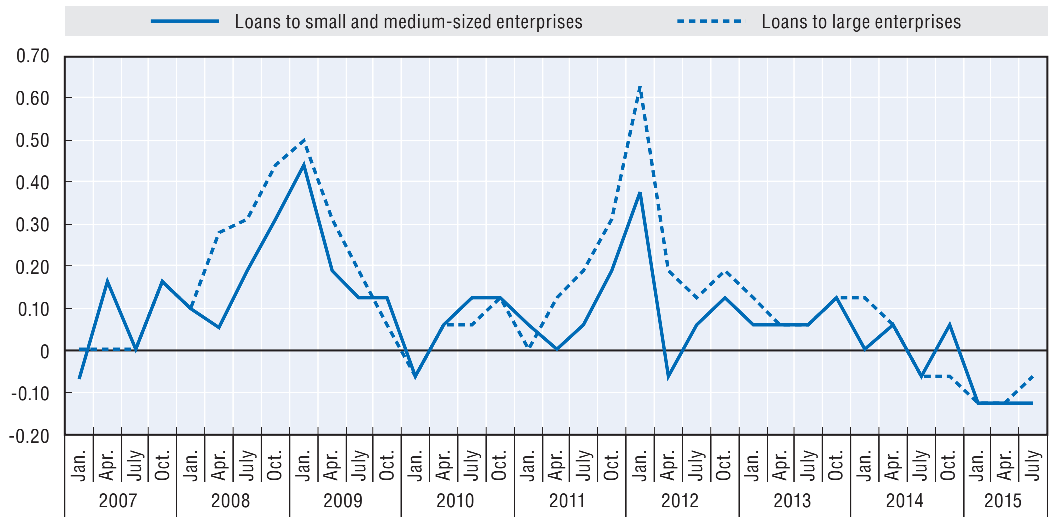
The Eurosystem quarterly Bank Lending Survey (BLS) gathers supply-side information about the changes in Italian banks' credit standards for approving loans or credit lines to both SMEs and large firms[2]. In last years the effects of the recession on credit quality were reflected in tight credit standards; however, according to the survey, lending criteria began to ease gradually during 2014, a trend confirmed in the first quarter of 2015.

The rejection rate, measured as the share of firms reporting that they had not obtained the requested amount in full, increased sharply during the first phase of the crisis (8.2% in 2008) and, following the renewed economic turmoil, peaked at 12% in 2012. Since then, the indicator started declining: in 2014 it stood at 8.4%, but was still twice as high as in the five years before the crisis.

During the sovereign debt crisis, the cost of credit recorded an upsurge, more pronounced for SMEs than for large enterprises: in 2012 it reached 5.6% for small businesses. After a slight decrease in 2013, the average interest rates charged to SMEs subsided sharply at 4.4% in 2014, reflecting the expansionary measures taken by the Eurosystem, while interest rates applied to large firms dropped to a lesser extent; as a result, the interest rate spread level, that in 2013 was at its highest level since the beginning of the crisis, narrowed to 1.8%.

Figure 20.2. **Credit conditions for SMEs and large firms in Italy, 2007-15**

Diffusion index



Note: SMEs have annual net turnover up to EUR 50 million. The dates reported in the table coincide with the month following the quarter covered by the survey.

Source: Euro area Bank Lending Survey.

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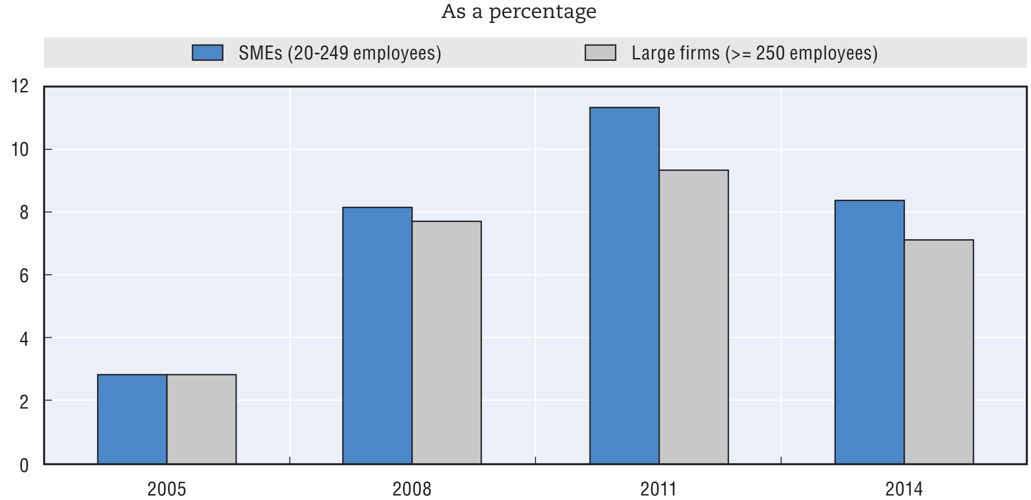
Collateral requirements fell slightly between 2008 and 2009 following the lowering of the Central Credit Register reporting threshold and the inclusion of small, less secured loans. Since then, the request for guarantees increased steadily: in 2014, 56.7% of bank loans were collateralised, up from 51.9% recorded in 2009.

Figure 20.3. **Rejection rates in Italy**

As a percentage



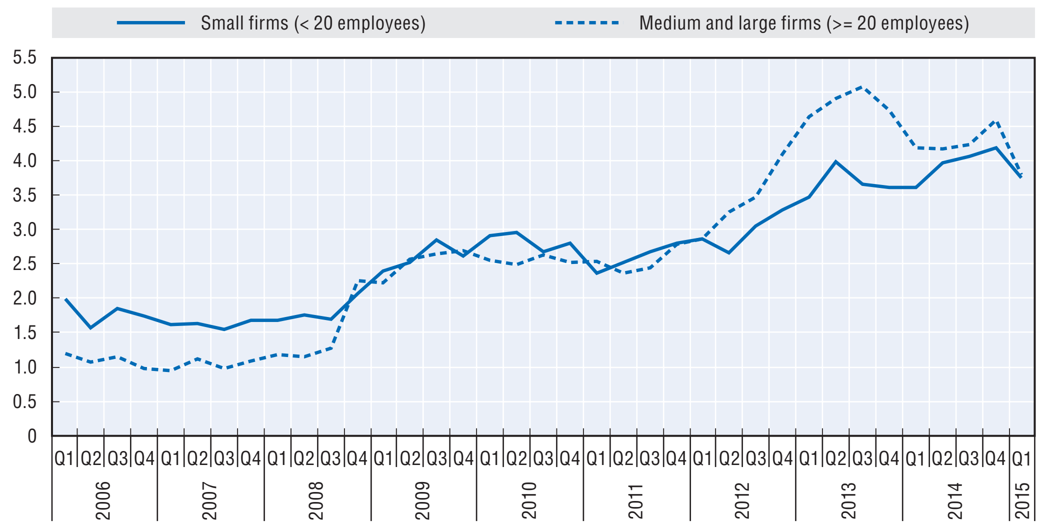
Source: Bank of Italy.

StatLink http://dx.doi.org/10.1787/888933331305

At the end of 2014, the ratio of new bad debts to outstanding loans, annualised and seasonally adjusted, peaked at 4.2% for SMEs; however, it showed signs of decline in the first quarter of 2015. Since 2012 the ratio has been steadily higher for large firms than for smaller ones: as in previous recessions, the rise in bad debts mainly involved medium and large borrowers. The significant share of bad debts to outstanding SME loans, which reached 16.7% in 2014, can be partly explained by the lengthy credit recovery procedures that extend the period during which NPLs remain at the banks' balance sheet.

Figure 20.4. **Ratio of new bad debts to outstanding loans in Italy, 2006-15**

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



Source: Bank of Italy.

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Equity financing

In Italy, early stage and expansion capital resources devoted to SMEs experienced a sharp drop between 2008 and 2009 as a result of the financial crisis, recovering in 2011-12. After a slight decrease in the subsequent year, in 2014 they plummeted by 48%, nearly halving the 2013 level, while total growth and venture capital rose by 23%, led by the upsurge in expansion capital resources directed to large firms. Over the 2007-13 period, on average, more than 50% of all expansion capital investments took place in SMEs, a percentage that dropped to 20% in 2014.

Provisions introduced by the Government included the establishment of a private equity fund with an endowment of EUR 1.2 billion to boost capitalisation and consolidation among firms with a turnover of between EUR 10 million and EUR 250 million. Promoted by the Italian Ministry of Finance in cooperation with the main financial and industrial institutions, the fund became operational at the end of 2010. Through April 2015, it had approved direct investments – addressed to the acquisition of minority stakes - amounting to EUR 400 million and indirect investments in third party managed funds totalling EUR 425 million.

Table 20.2. **Early stage and expansion capital in Italy, 2007-14**

In EUR thousand

Early stage in Italy, 2007-14								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
0-9	43 319	78 676	66 951	60 415	72 587	122 449	73 161	37 923
10-19	15 761	15 952	13 036	7 876	8 117	9 942	7 035	1 817
20-99	6 895	20 785	17 811	21 145	1 119	2 537	1 502	2 911
SMEs sub-total	**65 975**	**115 413**	**97 798**	**89 436**	**81 823**	**134 928**	**81 698**	**42 651**
Total	**65 975**	**115 413**	**97 798**	**89 436**	**81 823**	**134 928**	**81 698**	**42 651**
Expansion in Italy, 2007-14								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
0-9	67 153	32 673	31 795	81 009	22 660	33 478	217 060	23 401
10-19	23 672	104 715	16 556	15 750	26 468	18 726	19 452	4 712
20-99	72 720	222 652	118 233	92 078	180 701	323 835	114 084	186 284
100-199	113 513	56 684	65 459	72 645	211 564	62 477	64 653	15 223
200-249	17 554	23 602	28 089	1 500	58 674	65 218	23 000	500
SMEs sub-total	**294 612**	**440 326**	**260 132**	**262 981**	**500 067**	**503 734**	**438 250**	**230 120**
Total	**641 333**	**795 655**	**370 862**	**582 784**	**674 366**	**925 903**	**913 808**	**1 179 396**
Early stage and expansion in Italy, 2007-14								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
0-9	110 472	111 349	98 746	141 424	95 247	155 927	290 221	61 324
10-19	39 433	120 667	29 592	23 626	34 585	28 668	26 487	6 529
20-99	79 615	243 437	136 044	113 223	181 820	326 372	115 586	189 195
100-199	113 513	56 684	65 459	72 644	211 564	62 477	64 653	15 223
200-249	17 554	23 602	28 089	1 500	58 674	65 218	23 000	500
SMEs sub-total	**360 587**	**555 739**	**357 930**	**352 417**	**581 890**	**638 662**	**519 947**	**272 771**
Total	**707 308**	**911 068**	**468 660**	**672 220**	**756 189**	**1 060 831**	**995 506**	**1 222 047**

Source: AIFI-PwC.

StatLink http://dx.doi.org/10.1787/888933333036

Other indicators

At the outbreak of the crisis, the slump in sales and faster payment claims by suppliers were partly reflected in the increase in payment delays. For micro-enterprises, they peaked in 2012, when the second recession resulted in a widespread increase of the indicator. Since then, payment delays started declining: greater caution of suppliers in granting commercial credit and the exit from the market of the most fragile businesses, often marked by irregular payments, contributed to the positive trend. According to Cerved data, in 2014 delays decreased at 18.1 and 21.7 days for micro-businesses and large companies, respectively, and nearly stabilised for SMEs.

Table 20.3. **Payment delays in Italy, 2008-14**

Average number of days

		2008	2009	2010	2011	2012	2013	2014
Payment delays, micro-firms	Average number of days	18.1	19.7	19.5	18.1	19.9	19.0	18.1
Payment delays, SMEs	Average number of days	15.4	17.5	15.1	13.4	14.6	15.1	14.9
Payment delays, large firms	Average number of days	26.2	27.1	22.1	21.0	23.5	22.6	21.7

Source: Cerved, Payline database.

StatLink http://dx.doi.org/10.1787/888933333049

The long downturn deeply affected the productive system, with less profitable firms closing down during the crisis. Since 2007 the number of bankruptcies continued to grow relentlessly, despite a weak economic recovery in 2010. In 2014, 15 714 Italian companies went bankrupt, more than double the number of 7 511 recorded in 2008 and well more than the 14 129 witnessed in 2013. As a result, the incidence of insolvency continued to increase, reaching a total of 28 per 10 000 enterprises.

Government policy response

Against the backdrop of persistently weak economic conditions, several initiatives have been undertaken in recent years targeted at easing SME access to credit and supporting their liquidity needs and, in a longer term perspective, at diversifying the funding sources and promoting more resilient financial structures. The uncertainty on the pace of economic recovery has suggested to step up existing support measures, along with the introduction of new ones.

Public credit guarantee schemes, which reduce the impact of firm riskiness on banks' balance sheet, play an especially important role in facilitating access to credit. The Central Guarantee Fund (CGF) continued to be the main instrument to support SME financing in 2014. Operational for more than a decade, reliance on the CGF increased strongly: from 2009 to 2014, the volume of loans activated reached EUR 54 billion. The progressive increase in its endowment, the extension of eligibility to additional categories of potential beneficiaries and the provision of a government backstop guarantee, which relieves banks from capital charges for loans covered by the Fund, contributed to the expansion of its activity.

Over the last years several agreements have been signed to allow 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, including provisions aimed at facilitating their debt service. Since 2009 SME debt moratoria have left EUR 24 billion at the disposal of firms, two third of which in the first two years of operation. According to the survey conducted by the Bank of Italy's regional branches, from 2009 to 2014 regular repayment resumed on about half of the loans with instalments in arrears at the start of the moratorium.

Over the last few years, CDP has broadened its scope of operations to include measures in support of the economy, mainly indirectly by supplying earmarked funds to the banking system at convenient rates to support SMEs. The participating banks retain full responsibility for selecting eligible borrowers and deciding lending terms. Until December 2014, about EUR 15 billion had been allocated to SMEs through this channel. CDP has gradually diversified the purpose of the funding and the beneficiary firms. The financing programme has been strengthened by the introduction of the 'Enterprise Platform', endowed with EUR 5 billion, aimed at the streamlining of the products offered to firms: in addition to the reallocation of resources originally earmarked for the settlement of general government trade payables to the 'SME fund', it included the 'MID fund' for the financing of investments and working capital needs of firms with 250 to 2 999 employees; the 'SME Networks Fund', for supporting the growth of SMEs participating in a network agreement; the 'Export Fund', dedicated to Italian exporting firms of all sizes. In March 2014, a new fund was set up to finance the purchase of brand-new machinery, equipment and digital technologies; until the end of that year, over EUR 1 billion had been disbursed for this purpose. Furthermore, applicant firms could benefit from a subsidy by the Ministry of Economic Development to partially cover the interest on these loans.

To foster 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. Initially, the measure has been deployed by larger companies; however, in 2014, the average size of these issuances dropped to about EUR 30 million, down from around EUR 270 million recorded in previous years, signalling an increasing participation of medium-sized firms to the bond market.

The impact of some of the above mentioned initiatives, mainly targeted at SMEs, was often not negligible: between 2009 and 2014, the financial resources made available throug debt moratoria and the interventions of the Central Guarantee Fund and the Deposits and Loans Fund amounted to over EUR 90 billion, just under 10% of disbursement of bank loans below EUR 1 million.

Box 20.1. **Definition of SMEs used in Italy's SME and entrepreneurship finance scoreboard**

Country definition

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

The SME definition used by financial institutions

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

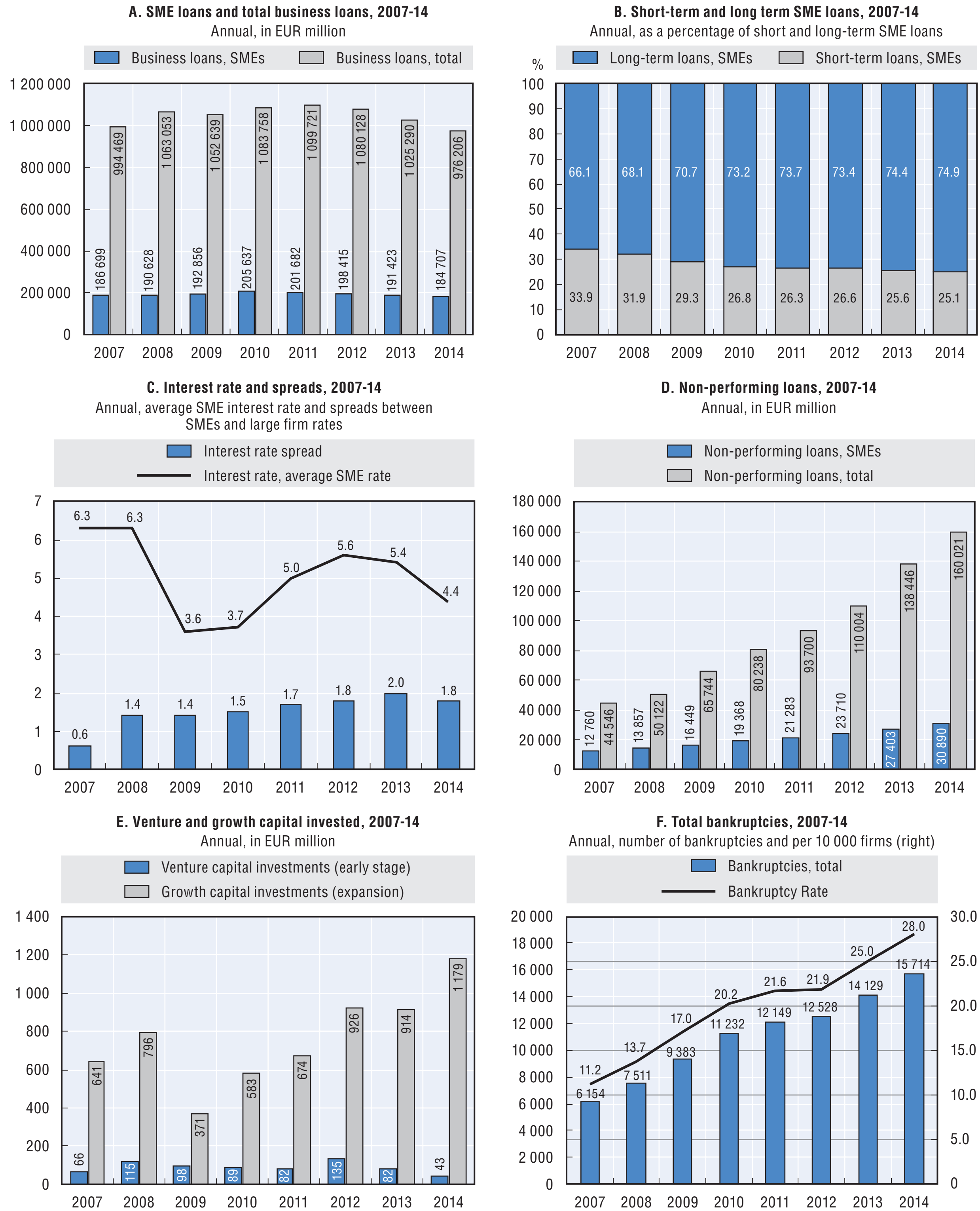
Table 20.4. **Scoreboard for Italy, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	EUR million	186 699	190 628	192 856	205 637	201 682	198 415	191 423	184 707
Business loans, total	EUR million	994 469	1 063 053	1 052 639	1 083 758	1 099 721	1 080 128	1 025 290	976 206
Business loans, SMEs	% of total business loans	18.8	17.9	18.3	19.0	18.3	18.4	18.7	18.9
Short-term loans, SMEs	EUR million	59 026	56 335	51 607	49 984	47 532	46 467	42 047	38 665
Long-term loans, SMEs	EUR million	114 912	120 437	124 801	136 284	132 867	128 237	121 974	115 151
Total short and long-term loans, SMEs		173 938	176 772	176 408	186 268	180 399	174 704	164 021	153 816
Short-term loans, SMEs	% of total short and long-term SME loans	33.9	31.9	29.3	26.8	26.3	26.6	25.6	25.1
Direct government loans, SMEs		354	373	255	276	272	252	390	1 646
Government guaranteed loans, SMEs (CGF)	EUR billion, flows	2.3	2.3	4.9	9.1	8.4	8.2	10.8	12.9
Non-performing loans, SMEs	EUR million	12 760	13 857	16 449	19 368	21 283	23 710	27 403	30 890
Non-performing loans, SMEs	% of total SME loans	6.8	7.3	8.5	9.4	10.6	11.9	14.3	16.7
Interest rate, SMEs	%	6.3	6.3	3.6	3.7	5.0	5.6	5.4	4.4
Interest rate, large firms	%	5.7	4.9	2.2	2.2	3.3	3.8	3.4	2.6
Interest rate spread	%	0.6	1.4	1.4	1.5	1.7	1.8	2.0	1.8
Collateral, SMEs		54.4	54.3	51.9	53.3	54.6	55.0	56.6	56.7
Rejection rate	% of firms reporting that they had not obtained some or all of the credit requested	3.1	8.2	6.9	5.7	11.3	12.0	9.0	8.4
Utilisation rate	SME loans used/ authorised	79.7	80.7	80.7	82.8	83.6	85.7	86.4	86.7
Equity									
Venture capital investments (early stage)	EUR million	66	115	98	89	82	135	82	43
Growth capital investments (expansion)	EUR million	641	796	371	583	674	926	914	1 179
Other									
Payment delays, B2B (all firms)	Average number of days	..	23.6	24.6	20.0	18.6	20.2	19.9	18.5
Bankruptcies, total	Number	6 154	7 511	9 383	11 232	12 149	12 528	14 129	15 714
Bankruptcies, total		..	22.1	24.9	19.7	8.2	3.1	12.8	11.2
Incidence of insolvency, total	Number	11.2	13.7	17.0	20.2	21.6	21.9	25.0	28.0

Source: See Table 20.5.

StatLink http://dx.doi.org/10.1787/888933333058

Figure 20.5. **Trends in SME and entrepreneurship finance in Italy**



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

StatLink http://dx.doi.org/10.1787/888933331326

Table 20.5. **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 intermediaries' loans: performing loans (including repos) excluding factoring; bad debts including factoring. As of June 2010, loans include securitised, or otherwise transferred, loans which do not satisfy the criteria for derecognition as established in the international accounting standard IAS 39.	Bank of Italy, *Supervisory returns* (for bank loans) and Central Credit Register (for other financial intermediaries loans; subject to reporting threshold: as of January 2009, the reporting threshold for loans and guarantees, which was previously set to EUR 75 000, has been lowered to EUR 30 000; no threshold applies for reporting bad debts); supply side data sets
Business loans, total	Performing and non-performing loans (bad debts) outstanding (stocks) by banks and other financial institutions. For bank loans: performing loans (including repos) and excluding factoring; bad debts excluding factoring from Q408 only. For other financial intermediaries' loans: performing loans (including repos) excluding factoring; bad debts including factoring. As of June 2010, loans include securitised, or otherwise transferred, loans which do not satisfy the criteria for derecognition as established in the international accounting standard IAS 39.	Bank of Italy, *Supervisory returns* (for bank loans) and Central Credit Register (for other financial intermediaries loans; subject to reporting threshold)
Short-term loans, SMEs	Performing loans (including repos) excluding factoring; maturity up to 12 months (up to 18 months until Q308 for data drawn from supervisory returns and until Q109 for data drawn from the Central Credit Register)	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)
Direct government loans, SMEs	Sum of direct loans granted to SMEs (firms with less than 250 employees) by the Italian government	Ministry of Economic Development
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	Percentage of SMEs (defined as firms with 20-249 employees) reporting they did not obtained the requested amount in full	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, 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)
Interest rate, average SME rate	Annual percentage rate of charge (i.e. including fees and commissions) on new term loans	Bank of Italy, *Survey of lending rates*. The survey refers to the rates charged to non-bank customers for the following transactions: matched loans, term loans and revocable loans, provided the sum of the amounts of the above forms of financing granted or used reported to the Central Credit Register equals or exceeds EUR 75 000
Interest rate spread (between average SME and large firm rate)	Spread between average interest rate charged to SMEs and large firms. Annual figures taken from fourth quarter of the respective year.	Bank of Italy, *Survey of lending rates*
Collateral, SMEs	Percentage of SME bank and other financial intermediaries' loans backed by real guarantees	Central Credit Register, subject to reporting threshold
Equity		
Venture and expansion capital (seed and early stage), SMEs	Amounts invested in SMEs (defined as firms with less than 250 employees). Data include seed and early stage	A I F I – Italian Private Equity and Venture Capital Association; (supply-side survey)
Venture and expansion capital (expansion capital), SMEs	Amounts invested in SMEs (defined as firms with less than 250 employees). Data include expansion phase, 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, *Payline database*
Payment delays, micro-firms	Average payment delay in days for business-to-business, micro- firms (defined as firms with turnover of less than EUR 2 million and less than 10 employees)	Cerved, *Payline database*

Table 20.5. **Definitions and sources of indicators for Italy's scoreboard** *(cont.)*

Indicators	Definition	Source
Payment delays, SMEs	Average payment delay in days for business-to-business, SMEs [defined as firms with turnover between EUR 2 million and EUR 50 million (or with assets between 2 million and 43 million) and between 10 and 250 employees]	Cerved, *Payline database*
Payment delays, large firms	Average payment delays in days for business-to-business, large firms [defined as firms with turnover exceeding EUR 50 million (or with assets exceeding 43 million) and over 250 employees]	Cerved, *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

Notes: 1. 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. 2. 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. 3. As of 2010, the questions on the difficulties in accessing credit, previously related to the period in which the survey was carried out, refer to the entire year.

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Japan

SMEs in the national economy

Only a very small fraction of Japanese enterprises are large (see Table 21.1). Within the SME sector, micro-enterprises predominate, both in the number of firms and the number of employees.

Table 21.1. **Number of business establishments and enterprises by industry and size in Japan, 2012 (private, non-primary industry)**

	SMEs		Of which micro enterprises		Large enterprises		Total	
Industry	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	3 477	100
Services (not otherwise classified)	144 945	99.4	105 064	72	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 Japan. Data are based on a 2012 government survey.

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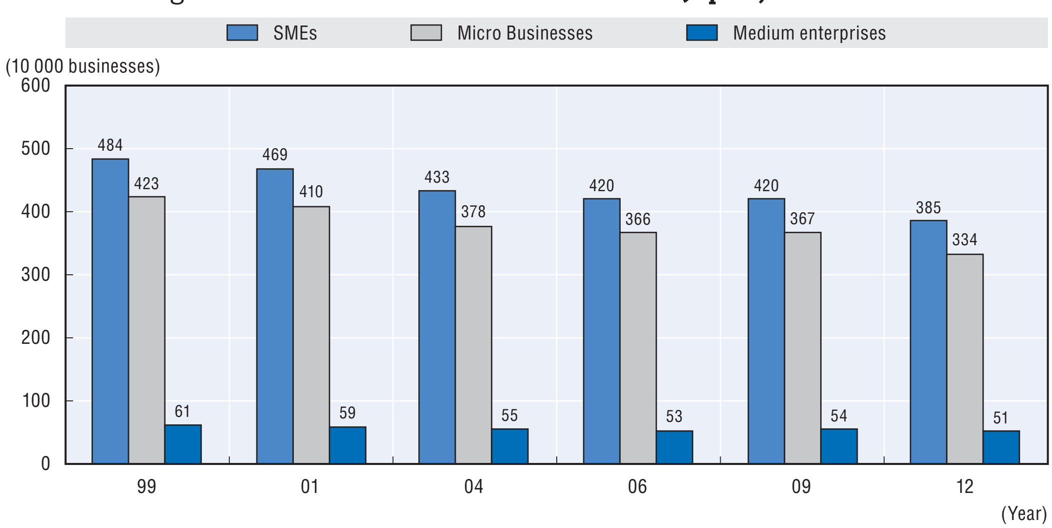
SME lending

Since 2007, Japan has faced two major economic shocks, i.e. the global financial crisis in 2008 and the earthquake in 2011. As a consequence, the country has repeatedly experienced economic recessions. The rapid ageing of the population, the deflationary spiral, and the high public debt are three systemic risks weighing on economic growth. Lending to SMEs decreased under these macro-economic conditions slightly, but has been continuously decreasing every year between 2007 and 2012 by 6.6% in total. 2013 saw a reversal of this trend, with SME lending picking up by 1.5% in 2013 and by 1.8% in 2014. The SME loan stock in 2014 still remained below the level of 2007, however.

The decline of the total outstanding stock of loans was more pronounced for SME loans than for large business loans in the aftermath of the financial crisis. In general, the recovery in the amount of outstanding loans to large enterprises is larger than those to SMEs. 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 contrast, loans to SMEs declined, in part because SMEs' demand for funds declined and they encountered difficulties in accessing finance, particularly against the backdrop of the global recession. As a result, the share of SME lending to all enterprises decreased from almost 70% in 2007 to 65% in 2014.

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 Figure 21.1).

Figure 21.1. **Trends in number of SMEs in Japan, 1999-2012**



Notes: 1. Number of enterprises = number of companies plus sole proprietorships (independent offices and main works, head offices, and main shops). 2. Starting with the 2012 figures, the number of SMEs and micro-businesses reflect industry sectors specially designated by government ordinance.

Source: Recompiled from MIC, Establishment and Enterprise Census, 2009 Economic Census for Business Frame; MIC, METI, 2012 Economic Census for Business Activity.

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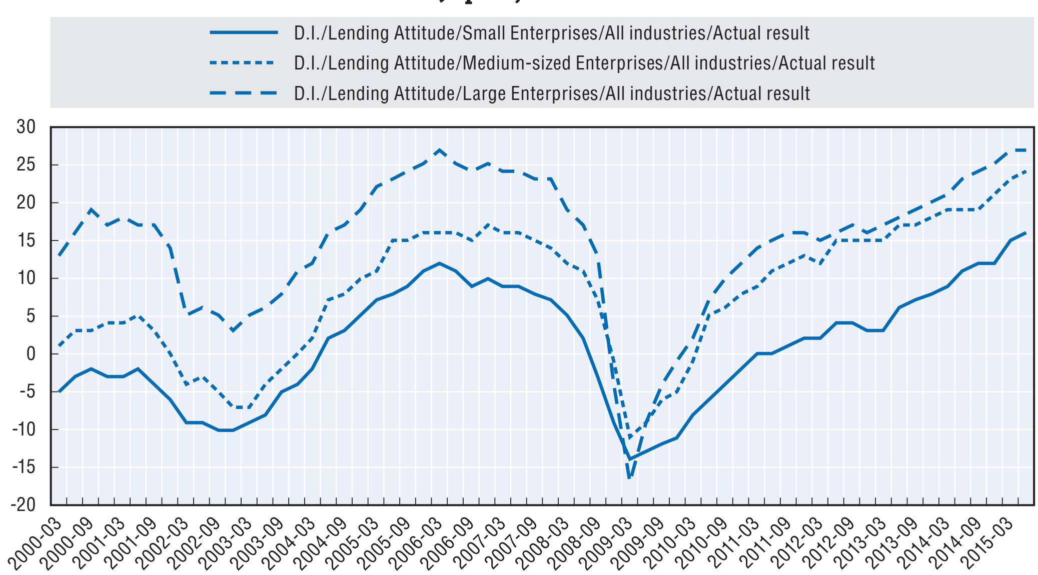
Credit Conditions

Average interest rates on new short-term loans in Japan are very low and continuously declined between 2007 and in 2014 (from 1.6% to 0.9%). Long-term interest rates on new loans followed a broadly similar pattern, declining from 1.7% in 2007 to 1% in 2014, and are only slightly higher than short-term interest rates.

According to the TANKAN survey of Japanese businesses, a quarterly poll of business confidence published 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 up to and including the first quarter of 2015. In the first quarter of 2015, financing conditions, as viewed by Japanese businesses, were broadly in line and even slightly above the levels observed during the pre-crisis period of 2005-07 (see Figure 21.2).

According to DI of credit standards of the "Senior loan officer opinion survey on bank lending practices at large Japanese banks" (BOJ), the number of respondents who reported to have eased their lending standards continues to exceed the number who report a tightening. Although reported credit standards remain more accommodative for large firms than for SMEs, credit standards in 2014 have eased more for SMEs than for large enterprises (see Figure 21.3). This suggests that credit has become more available to SMEs, depending on their credit risks.

Figure 21.2. **Diffusion Index (DI) of financial institutions' lending attitudes in Japan, 2005-15**



Notes: The latest data are as of March 2015. 2. DI of lending attitudes = (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, "Tankan".

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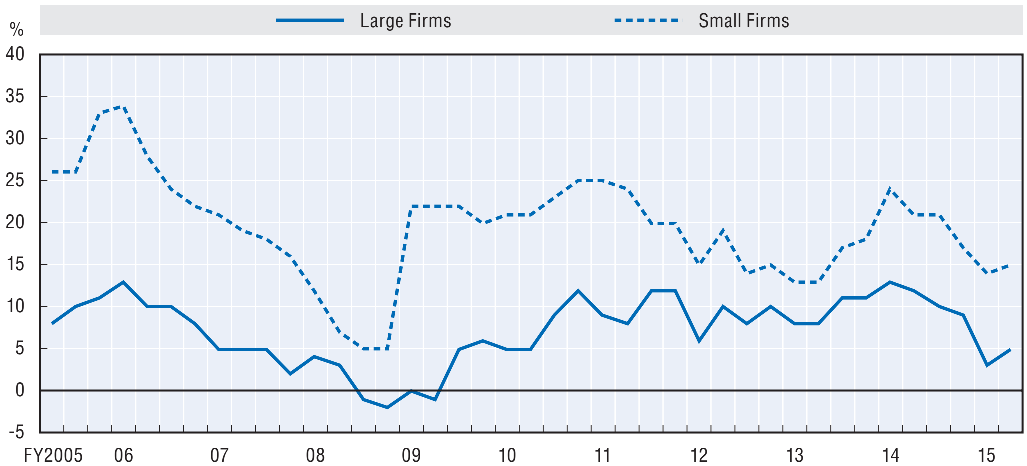
Figure 21.3. **Diffusion Index (DI) of credit standards in Japan, 2005-15**



Notes: The latest data are as of June 2015. 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».

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Equity and asset based financing

Japanese venture capital investments were at a height in FY 2007 at JPY 193 billion, and decreased by 29.5% and 36% in FY 2008 and 2009, respectively. Total investments recovered in FY 2010 and 2011, and were down again in FY 2012. In FY 2013, venture capital investment added up to JPY 181 billion, which was about to reach the pre-crisis level. In reversal, 2014 saw a decrease by 35% compared to the previous year. The proportion of venture capital invested in the seed and early stage rose from 43.7% in FY 2009 to 64.5% in FY 2013, whereas the level of 2014 returned to 2012 levels.

Leasing volumes to SMEs also plummeted in the aftermath of the financial crisis by almost 40% between 2007 and 2009. Between 2009 and 2013, leasing volumes recovered year after year. Although the amount in 2014 decreased by 11% compared to the previous year, the total amount increased by 12% between 2009 and 2014, but remained still well below 2007 levels.

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 year after year, reaching a low of 9 731 in 2014, almost 38% below the 2008 level. This decline in bankruptcies illustrates the strength of the Japanese SME sector. The Japanese government provides about 10% of financing for SMEs and guarantees a higher proportion of SME loans than in any other scoreboard country for which data is available (OECD, 2015).

Government policy responses

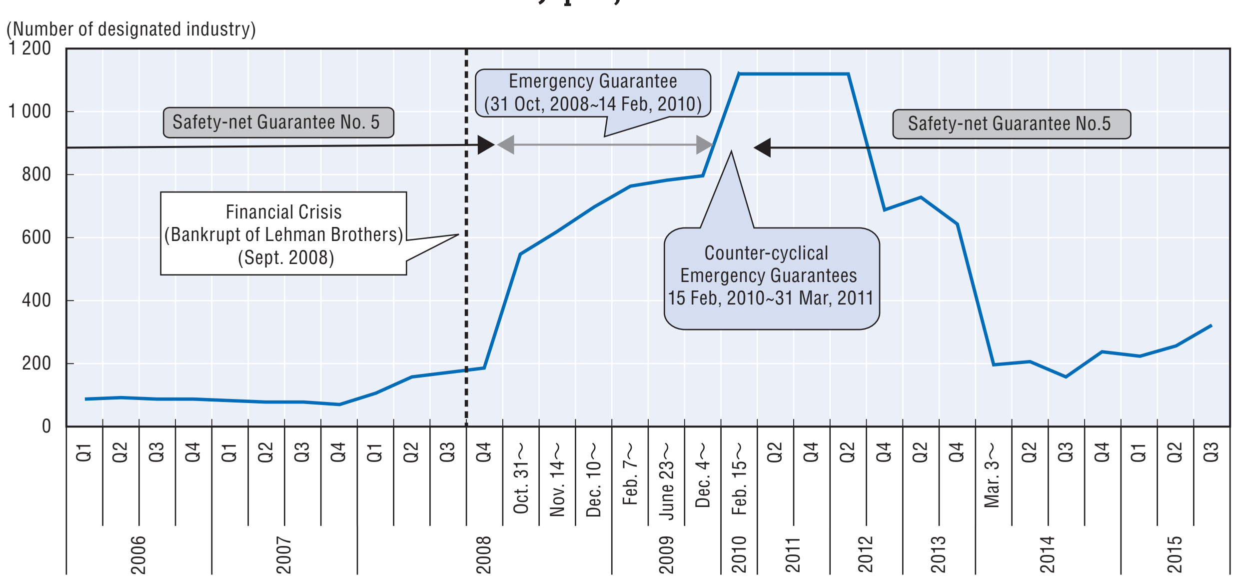
The Japanese Government offers substantial financial support for SMEs' financing needs such as a credit guarantee programme and direct loans for SMEs. In March 2015, while the total amount of lending outstanding for SMEs was approximated at JPY 222 trillion (provided by the following private financial institutions: domestically licensed banks, credit associations), which accounts for 42.8% of the total amount of lending outstanding (including non-business loans, etc.). The outstanding amount of the credit guarantee programme amounted to JPY 27.7 trillion and the outstanding amount of the direct loan programme to JPY 21.9 trillion (see Figure 21.5). As for the number of SMEs, the credit guarantee programme covers 1.4 million SMEs, and the direct loan programme 1 million out of 3.85 million SMEs.

Due to the economic circumstances and the Great East Japan Earthquake in 2011, lending to SMEs by private-sector financial institutions decreased every year between 2008 and 2012, despite an increase in scope of the guarantee programme and direct loans provided by the government over the same period.

The Japanese Government rapidly prepared a safety-net for SMEs after 2007. In 2008, the covered ratio of credit guarantee system increased from 80% to 100% in many sectors. The interest rate of direct loan programmes was reduced by about 0.5% 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 an extremely low interest rate.

Since 2013, the government has changed these policies and encouraged banks to take more risks. For example, the Japanese government shifted to the regular operation of safety-net guarantees and reduced the targeted sectors to which a 100%-guarantee was applied since March 2014 (see Figure 21.4).

Figure 21.4. **Number of industries designated as Safety-Net Guarantee in Japan, 2006-15**



Source: SME Agency, METI.

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The examination of new loans and monitoring costs are not small, and there is a problem of information asymmetry in SME finance. The government programme makes up for these difficulties to allow for smoother lending circumstances. Especially for businesses where business risks are particularly high and private financial institutions consequently have difficulties in lending to them (e.g. business start-ups, overseas expansion, external shocks such as natural disasters and financial/ economic crisis, and turnaround), the Japanese Government prepares the programme to facilitate financing.

With regard to business start-ups and overseas expansion, the Japan Financial Corporation (JFC) and the Shoko Chukin Bank provide loan programmes for promoting these activities by providing a stable supply of long term loans, e.g. via loan programmes provided by the JFC, including

- Loans to Foster Growth of New Businesses: maximum amount for direct loans is JPY 600 million and the maximum loan period is 15 years (facility funds), and
- Loans for Overseas Investment: maximum amount for direct loans is JPY 720 million and the maximum loan period is 15 years (facility funds).

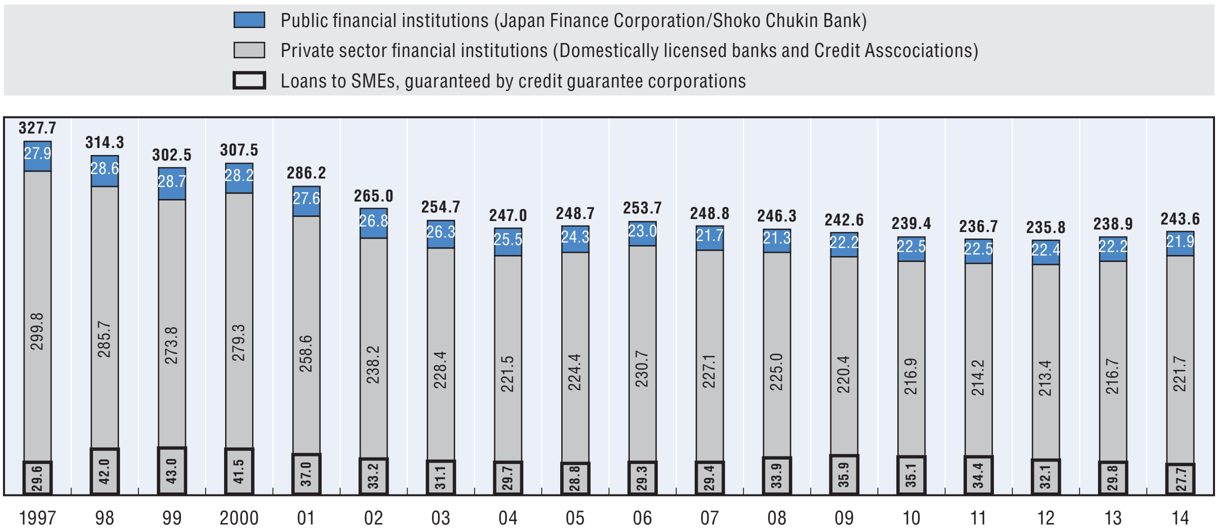
As for external shocks, after the experience of the financial crisis and the Great East Japan Earthquake in 2011, policy responses for mitigating negative effects were required to realise sustainable growth. In order to address this situation, the Japanese Government revised the Shoko Chukin Bank Limited Act (Act No. 74 of 2007) and stimulated the responsibility of Shoko Chukin Bank to conduct crisis response operations.

The Japanese Government also offers some help to access finance for businesses in a turnaround. When SMEs negotiate a change of lending conditions with their main banks, the government subsidises the expense of developing turnaround plans. This policy does not only provide liquidity, but also encourages a sound relationship between SMEs and banks. In addition, since February 2014, The "Guidelines for Personal Guarantee Provided by Business Owners", which established common, self-governing rules for SMEs and financial institutions, began to be applied for mitigating the negative effects of "Personal Guarantee Provided by Business Owners", and in order to support the development of SMEs and the early phase turnaround. The guidelines include the following: "With regards to Personal Guarantee Provided by Business Owners, in the event that the corporation's enterprise assets and the Business Owner's personal assets are clearly separated, when certain conditions are fulfilled, personal guarantees should not be sought, and certain assets remain at the time of fulfilment."

In addition, financial support for specified non-profit organisations (NPOs) has recently become more important. To address this issue, the Japanese Government revised the Small and Medium-sized Enterprise Credit Insurance Act (Act No. 264 of 1950) and stimulates a provision to add such NPOs to the coverage of the Small and Medium-sized Enterprise Credit Insurance.

Figure 21.5. **Changes in outstanding SME loans in Japan, 1997-2014**

In JPY trillion



Notes: 1. The outstanding amount is the respective figure at the end of a fiscal year. The figures in parentheses indicate component ratio. 2. "Private sector financial institutions" include domestically-licensed banks and credit associations. They exclude the lending to individuals and local governments.

Source: Compiled by the SME Agency from sources including BOJ, JFC, Shoko Chukin Bank, and the Japan Federation of Credit Guarantee Corporations.

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Box 21.1. **Definition of SMEs used in Japan's financing SMEs and entrepreneurs scoreboard**

Country Definition

SMEs are defined under Article 2, Paragraph 1 of the Small and Medium-sized Enterprise Basic Act, and the term "micro enterprises" refers to "micro enterprises" as defined under Article 2, Paragraph 5 of said act. In addition, "medium enterprises" refer to SMEs other than micro enterprises. More specifically, SMEs and micro enterprises may roughly be categorised as follows:

Table 21.2. **Definitions of SME Basic Act in Japan**

	Definitions of SME Basic Act (meet one or more of the following conditions)			Definition under the Corporation Tax Act
	SMEs		Of which Micro- Enterprises	
Industry	Capital	No. of regular employees	No. of regular employees	Capital
1) Manufacturing, construction, transportation, other industries (excluding 2-4)	Up to JPY 300 million	Up to 300	Up to 20	Up to JPY 100 million
2) Wholesale	Up to JPY 100 million	Up to 100	Up to 5	
3) Services	Up to JPY 50 million	Up to 100	Up to 5	
4) Retail	Up to JPY 50 million	Up to 50	Up to 5	

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* The following industries are separately stipulated as shown below, based on government ordinance related to SME legislation.

[SMEs]

1) Manufacturing

• Rubber product manufacturing industry: Up to JPY 300 million in capital or up to 900 regular employees

3) Services

• Software industry & information service industry: Up to JPY 300 million in capital or up to 300 regular employees

• Hotel industry: Up to JPY 50 million in capital or up to 200 regular employees

[Micro enterprises]

3) Services

• Accommodations industry & amusement industry: Up to 20 regular employees.

Table 21.3. **Scoreboard for Japan, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	JPY trillion	260.8	259.1	253.1	248.3	245.6	243.6	247.2	251.7
Business loans, total	JPY trillion	374.5	385.0	379.3	366.1	366.9	370.4	378.4	387.2
Business loans, SMEs	% of total business loans	69.64	67.30	66.73	67.82	66.94	65.77	65.33	65.01
Value of CGCs loan guarantees (Government loan guarantees, SMEs)	JPY billion	29 368	33 919	35 850	35 068	34 446	32 078	29 778	27 701
Non-performing loans, total	JPY billion	17 494	17 349	17 141	16 999	17 523	17 701	15 809	14 406
Prime lending rate for short-term loans	%	1.88	1.68	1.48	1.48	1.48	1.48	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	1.10
New short-term interest rate (Not only for businesses)	%	1.64	1.53	1.23	1.10	1.04	1.02	0.91	0.88
New long-term interest rate (Not only for businesses)	%	1.73	1.67	1.46	1.29	1.21	1.16	1.10	1.00
Outstanding short-term interest rate (Not only for businesses)	%	1.67	1.49	1.26	1.19	1.10	1.03	0.88	0.85
Outstanding long-term interest rate (Not only for businesses)	%	2.05	1.99	1.76	1.65	1.54	1.42	1.30	1.19
Non-bank finance									
Venture capital investments (all stages total)	JPY billion	193	136	87	113	124	102	181	117
Venture capital investments (all stages total)	%, year-on-year growth rate	..	-29.5	-36.0	29.9	9.7	-17.7	77.5	-35.4
Venture capital (seed and early stage)	% (share of all stages)	..	..	36.8	32.5	44.3	57.8	64.5	0.57
Venture capital (expansion and later stage)	% (share of all stages)	..	..	63.2	67.5	55.7	42.2	35.5	0.43
Leasing, SMEs	JPY billion	3 471	2 822	2 100	2 139	2 231	2 284	2 645	2 362
Other									
Bankruptcies, total	Number of enterprises	14 091	15 646	15 480	13 321	12 734	12 124	10 855	9 731
Bankruptcies, total	%, year-on-year growth rate	-	11.04	-1.06	-13.95	-4.41	-4.79	-10.47	-10.35
Bankruptcies, SMEs	Number of enterprises	14 015	15 523	15 395	13 246	12 687	12 077	10 848	9 723
Bankruptcies, SMEs	%, year-on-year growth rate	-	10.76	-0.82	-13.96	-4.22	-4.81	-10.18	-10.37

Source: See Table 20.4.

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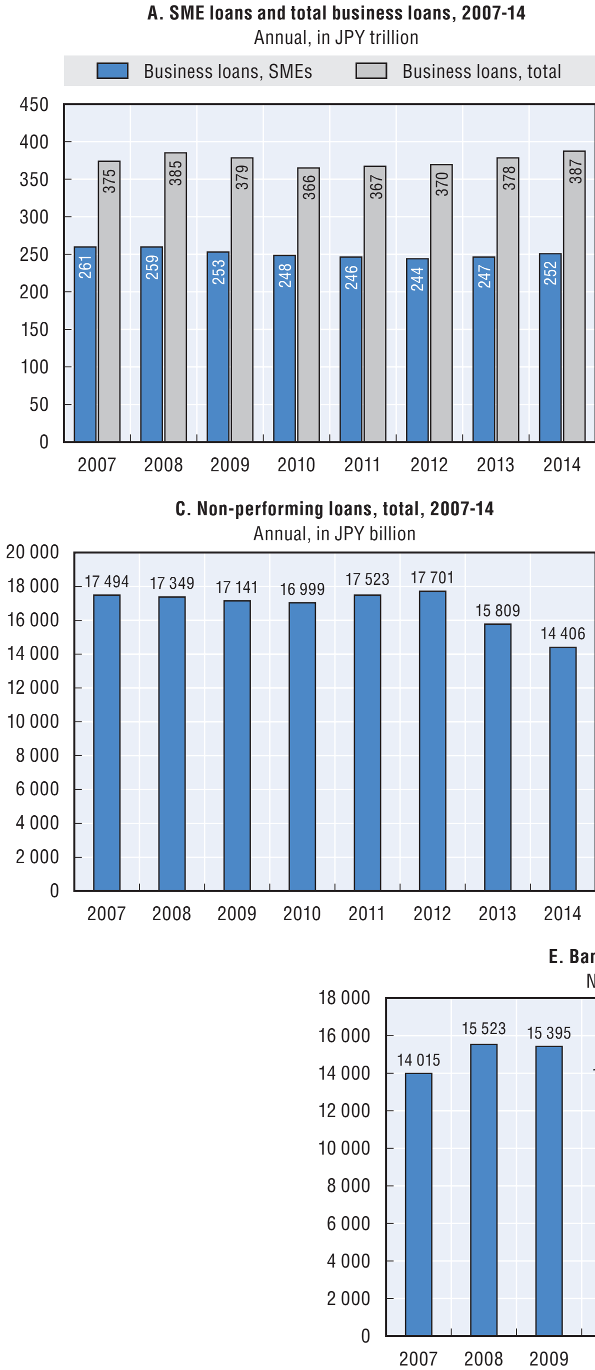
Figure 21.6. **Trends in SME and entrepreneurship finance in Japan**



Source: See Table 21.4.

StatLink http://dx.doi.org/10.1787/888933331381

Table 21.4. **Definitions and sources of indicators for Japan's scoreboard**

Indicators	Definitions	Sources
Business loans, SMEs	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. Figures are the values at the end of December of each year.	SME Agency, White Paper on Small and Medium Enterprises in Japan
Business loans, total	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 business loans, SMEs and total, thus, these indicators are not consistent. Figures are the values at the end of December of each year.	Compiled by Office for International Cooperation, SME Agency from sources including BOJ, National Central Society of Credit Cooperatives
Value of CGCs loan guarantees (Government loan guarantees, SMEs)	The value of obligation to guarantee that credit guarantee corporations have, as at the end of March of each year	JFG, 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. Institutions surveyed in "Non-performing loans" are deposit-taking financial institutions. The values in "Non-performing loans" in figure 21.6 (c) refer to the end of the March of each year.	FSA, Transition of Risk Management Loans
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 accommodating credit associations, credit cooperatives, and other financial institutions. The figures are average rates which are arithmetically calculated from the monthly data. Because the calculation methods has changed in some institutions, data since May 2011 are not consistent with the before. New loans, of which the month-end outstanding loan balances, 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. Because the calculation methods has changed in some institutions, data since May 2011 are not consistent with the before. New loans, of which the month-end outstanding loan balances, 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
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
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 (end of March of each year).	Venture Enterprise Centre, Japan, VEC YEARBOOK 2014–Annual Report on Japanese Start-up Businesses 2014

Table 21.4. **Definitions and sources of indicators for Japan's scoreboard** *(cont.)*

Indicators	Definitions	Sources
Leasing, SMEs	The figures indicated are surveyed by 244 companies who are members of Japan Leasing Association. The figures include the finance leases and operating leases, and exclude "rental". The figures indicates the values of leases contracted by the companies with capital less than or equal to 100 million JPY, those with no capital, and sole proprietorships, thus, they do not correspond to the present definition of SMEs under Small and Medium-sized Enterprise Basic Act. Figures are the values at the end of March of each year.	Japan Leasing Association, Lease Handbook
Bankruptcies, SMEs	Only enterprises with debts of at least JPY10 million are included. Data cover 12 month numbers for 31 December of each year	Tokyo Shoko Research, Ltd., State of Corporate Bankruptcies
Bankruptcies, total	Only enterprises with debts of at least JPY10 million are included. Data cover 12 month numbers for 31 December of each year	Tokyo Shoko Research, Ltd., State of Corporate Bankruptcies

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Korea

SMEs in the national economy

SMEs constituted 99.9% of Korean enterprises in 2013, with the vast majority being micro enterprises employing up to 9 employees (93.2% of employer enterprises). Small and medium enterprises accounted for another 6.7% of all employer enterprises. Large enterprises with more than 250 employees constitute only 0.1% of all employer enterprises.

Table 22.1. **Distribution of firms in Korea, 2013**

Firm size (employees)	Number	%
All firms	**2 798 139**	**100**
SMEs (1-249)	**2 795 865**	**99.9**
Micro (1-9)	2 608 672	93.2
Small (10-49)	162 170	5.8
Medium (50-249)	25 023	0.9
Large (250+)	**2 274**	**0.1**

Note: Data includes financial enterprises with the exception of holding companies (ISIC Rev.4 sector 642).

Source: OECD, Entrepreneurship at a Glance, 2015.

StatLink http://dx.doi.org/10.1787/888933333091

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 becoming increasingly more important for the country. In 2011, SMEs employed for the first time more than 50% of the country's economically active population, with the number of SME employees standing at 1.3 million, according to Statistics Korea. SME employees stood at 39.2% of the total workforce in 2000 and grew to 50.3% in 2011, following a consistent pattern of growth throughout this period.

SME lending

Korea's definition of an SME varies by sector (see Box 22.1). SME and total business loans increased over the period 2007-14 by 41.2% and 66.2%, respectively. SME loan shares were calculated on the basis of total outstanding business loans (i.e. stocks). As loan growth for all business loans outpaced SME loan growth, the SME share of business loans declined from 86.8% in 2007 to 74% in 2014, which is still a high percentage by international standards. The proportion of short term lending to total business lending continuously declined from 2007 (75%) to 61.9% in 2013, and further to 59.4% in 2014.

The above figures were probably due to the more conservative attitude of the banks at the end of the review period. At the beginning of the crisis, SMEs had access to credit despite the somewhat alarming rates of increase in non-performing SME loans (NPLs), which roughly doubled from 0.9% of all SME loans to 1.8% in 2008, and even further to 2.3% in 2010 (but still well below the levels observed in many other OECD countries). The proportion of NPLs decreased sharply in 2011, decreased modestly in 2012 and 2013, and slightly decreased to 1.5% in 2014. Data for non-performing loans include domestic and foreign currency loans.

Credit conditions

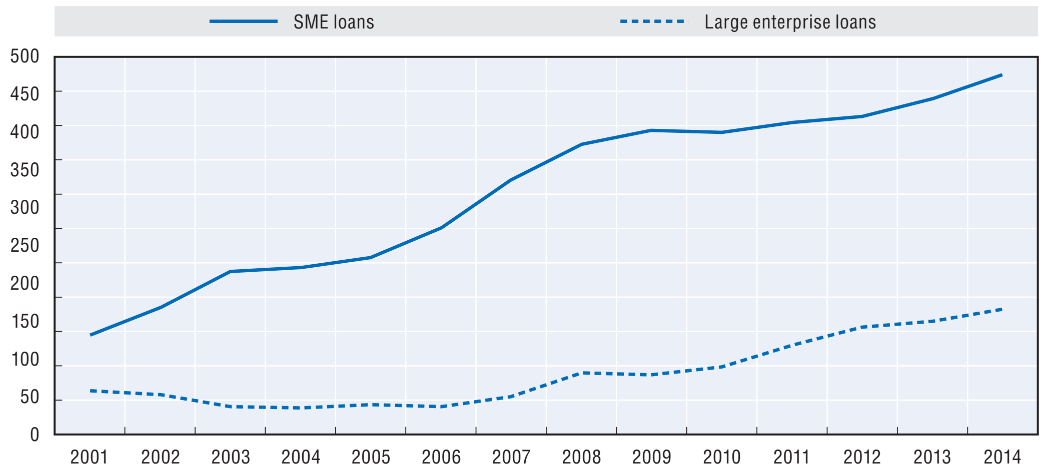
The average interest rate charged on outstanding SME loans peaked in 2008 at 7.5%, but then declined steadily to 5.1% in 2013 and to 4.7% in 2014, which is still a relatively high interest rate compared with Western economies, which had taken loose monetary stances, in contrast to Korea. The higher rates probably reflected the greater risks faced by Korean banks and inflation trends. The interest rate spread between SMEs and large firms also reached a maximum in 2008 at 79 basis points, and dropped substantially in the following years to a low of 18 basis points in 2014 (compared with 24 basis points in 2013), 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 consequently 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, further 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 increased to 46.7% in 2014 from 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 as well as on SME loans covered by government guarantees. Thus, SME loans increased dramatically over the following 15 years. However, lending to large enterprises has recently increased due to the increasing concerns about SMEs' credit risk and household debt problems.

Figure 22.1. **Large enterprise and SME loans in Korea, 2001-14**

In KRW trillion



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

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Equity financing

Venture and growth capital declined between 2007 and 2008, as in other countries, but rebounded in 2009, 2010 and in 2011, exceeding its 2007 level. In 2014, venture capital investment increased by 18.4% year-on-year because another new fund of funds for "Creative Economy" (which is the current administration's main focus) was launched and started to invest in innovative SMEs in 2014.

Table 22.2. **Venture and growth capital in Korea, 2007-14**

In KRW billion

Stage	2007	2008	2009	2010	2011	2012	2013	2014
Early	365.0	290.8	247.6	319.2	372.2	369.6	369.9	504.5
Expansion	377.4	255.3	260.1	290.4	329.6	313.7	325.9	406.9
Later	249.3	178.6	359.4	481.4	559.0	550.0	688.7	727.9
Total	**991.7**	**724.7**	**867.1**	**1 091.0**	**1 260.8**	**1 233.3**	**1 384.5**	**1 639.3**

Source: Small and Medium Business Administration (SMBA).

StatLink http://dx.doi.org/10.1787/888933333108

Venture capital was concentrated in the early and expansion stages in 2007. By 2014, venture capital investment was concentrated in the later-stage firms (44.4%), whereas the early and expansion stages were 30.7% and 24.8% respectively.

Other indicators

Data on payment delays were for loans overdue rather than for the average payment delays of customers, suppliers or government. Overdue loans declined in 2009 but rose again in 2011, only to drop to a low in 2012 (22.2% decrease compared to 2011). In 2014, payment delays again rose somewhat to 10 days, still well below the 12.1 days-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 financial support from the government. In 2014, bankruptcies decreased to 841 from 1 001 in 2013, by 16% year-on-year. It should be noted that while SMEs avoided bankruptcy because of the policies of the central and regional governments, they were still financially stressed due to low economic growth.

Government policy response

There was a 42% increase in the amount of government guaranteed loans during the crisis (2007-09). Moreover, the guarantee coverage ratio was raised temporarily from 85% to 95%, and even to 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%. The SBC decreased its direct loans of 2014 by 12% year-on-year.

In 2014, the outstanding government guaranteed loans were at KRW 60.1 trillion which included loans that were backed by two nationwide funds. Policy direct loans provided by the SBC totalled KRW 3.8 trillion in 2014. These loans try to remedy market failures and enhance the competitiveness of SMEs. The Korean Government is now actively looking for other cost effective ways to support SME lending. In addition, the Korean Government is planning on improving the policy-based financial system in order to intensively support innovative small and medium enterprises via high-quality policy rather than through quantitative expansion.

Box 22.1. **Definition of SMEs used in Korea's SME and entrepreneurship finance scoreboard**

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

An SME 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:

Table 22.3. **Definition of SMEs used by BOK and FSS in Korea**

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

Notes: 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.

StatLink http://dx.doi.org/10.1787/888933333114

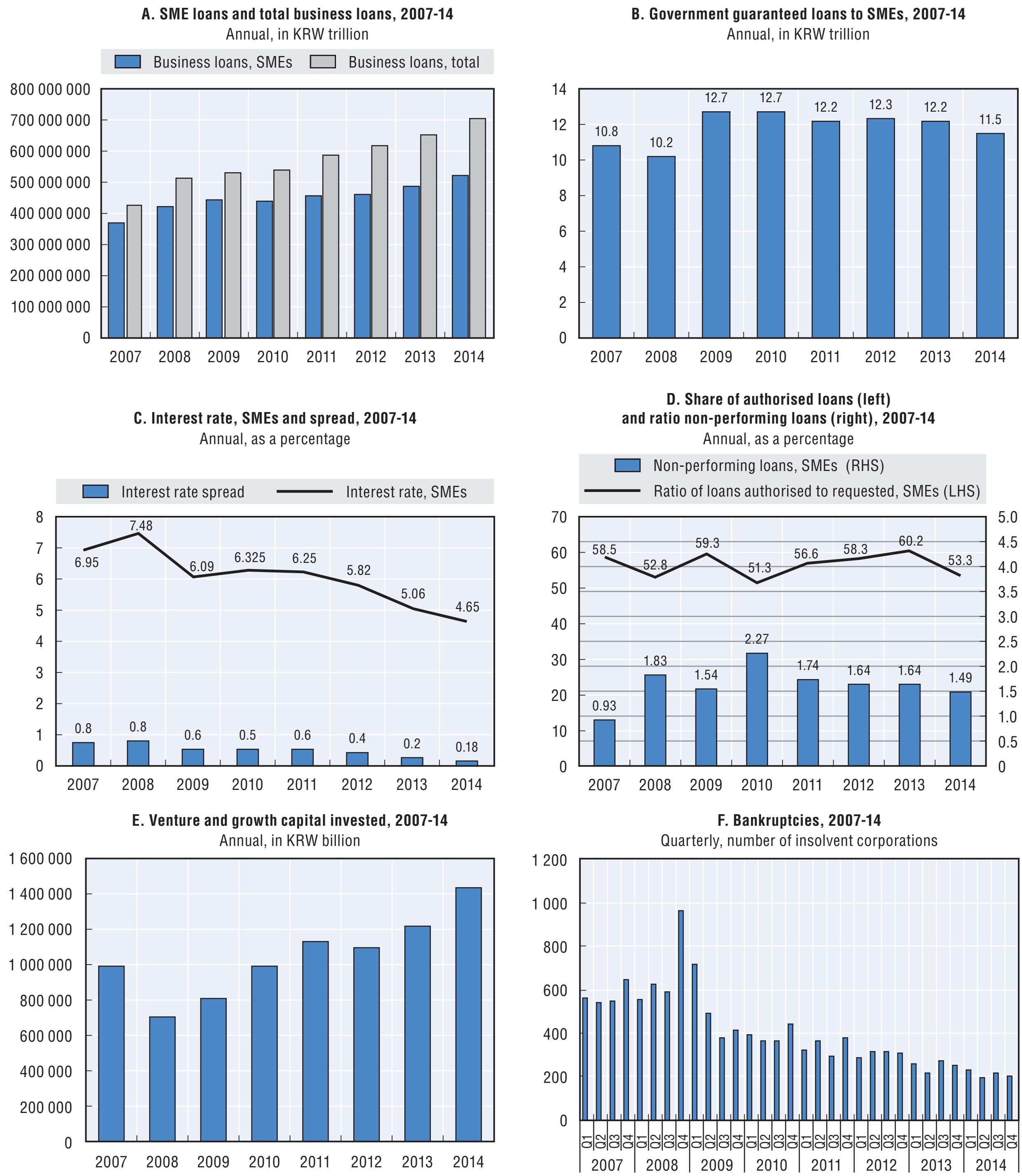
Table 22.4. **Scoreboard for Korea, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	KRW trillion	368.87	422.44	443.74	441.02	454.9	461.56	488.98	522.43
Business loans, total (KRW millions)	KRW trillion	424.80	511.20	531.07	541.07	585.70	618.12	654.37	705.96
Business loans, SMEs	% of total business loans	0.87	0.83	0.84	0.82	0.78	0.75	0.75	0.74
Short-term loans, total (KRW trillions); loans for operation	KRW trillion	319	375	373	372	388	395	405	419
Long-term loans, total (KRW trillions); loans for equipment	KRW trillion	106	136	158	169	197	223	249	287
Total short and long-term loans, total (KRW trillions)	KRW trillion	425	511	531	541	586	618	654	706
Short-term loans; loans for operation	% of total business loans	86.38	88.85	84.16	84.31	85.38	85.58	82.83	59.35
Government loan guarantees, SMEs (KRW millions)	KRW trillion	39.73	42.96	56.38	56.2	55.46	56.94	59.52	60.34
Government guaranteed loans, SMEs	% of SME business loans	0.11	0.1	0.13	0.13	0.12	0.12	0.12	0.12
Direct government loans, SMEs (KRW millions)	KRW trillion	2.48	2.63	4.81	3.1	2.96	3.15	3.72	3.27
Loans authorised, SMEs (KRW millions)	KRW trillion	2.72	3.2	5.82	3.42	3.35	3.34	4.18	3.58
Loans requested, SMEs (KRW millions)	KRW trillion	4.65	6.06	9.82	6.66	5.93	5.74	6.94	6.72
Ratio of loans authorised to requested, SMEs		58.5	52.8	59.3	51.3	56.6	58.3	60.2	53.3
Non-performing loans, SMEs (KRW millions)	KRW trillion	3.45	7.71	6.85	10	7.9	7.55	8.01	7.78
Non-performing loans, SMEs	% of SME business loans	0.01	0.02	0.02	0.02	0.02	0.02	0.02	1.49
Average interest rate	%	0.07	0.07	0.06	0.06	0.06	0.06	0.05	4.65
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	0.18
Equity									
Venture capital, total amount invested (KRW millions)	KRW million	991 692	724 690	867 096	1 090 987	1 260 836	1 233 300	1 384 500	1 639 300
Venture capital (% rate of change)	Year-on-year growth rate, %		-26.9	19.7	25.8	15.6	-2.2	12.3	18.4
Other									
Payment delays, SMEs	Number of days past due date	11	12	10	12	12	9	10	10
Bankruptcies, total (number)	Number	2 294	2 735	1 998	1 570	1 359	1 228	1 001	841
Bankruptcies (% rate of change)	Year-on-year growth rate, %		19.2	-26.9	-21.4	-13.4	-9.6	-18.5	-16.0

Source: See Table 22.5.

StatLink http://dx.doi.org/10.1787/888933333120

Figure 22.2. **Trends in SME and entrepreneurship finance in Korea**



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

StatLink http://dx.doi.org/10.1787/888933331400

Table 22.5. **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)

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Malaysia

SMEs in the national economy

Small and medium enterprises (SMEs) have long been recognised as the backbone of the Malaysian economy, as they outnumber the large enterprises, both in terms of number and employment. According to the latest 2011 Economic Census, SMEs account for 97.3% or 645 136 of total business establishments. The majority of SMEs operate in the services sector (90%), followed by manufacturing (6%), construction (3%), agriculture (1%) and the remaining 0.1% are found in the mining and quarrying sector. In 2014, SMEs contributed close to 36% of the country's gross domestic product (GDP), to 65% of total employment, and to 17.8% of total exports.

The SME development agenda has been driven mainly by the government through the National SME Development Council (NSDC) for more than a decade. Chaired by the Honourable Prime Minister, the Council, which was established in 2004, is the highest body that charts the long term SME policy direction and also seeks to ensure a more coordinated effort in SME development across the country. Among the key milestones of NSDC have been the adoption of a standard SME definition nationwide; the establishment of a Central Coordinating Agency, i.e. SME Corporation Malaysia, to coordinate, streamline and monitor SME development initiatives, as well as to propose overall SME policies; the introduction of an annual plan on SME programmes and the publication of an SME Annual Report to assess the progress and development of SMEs; and enhancement to the SME financing landscape.

This comprehensive approach to SME development has shown encouraging results. Since 2004, SME GDP growth has consistently outpaced the country's overall economic growth. In the period 2005-14, the average compounded annual growth rate (CAGR) of SMEs was 7.1%, which was higher than the 4.9% CAGR of the overall economy. As a result, SME contribution to GDP increased from 29.6% in 2005 to 35.9% in 2014. Despite the positive performance of SMEs in recent years, contribution of Malaysian SMEs to the overall economy remains relatively small compared with their counterparts in advanced and other high middle income countries. Therefore, the government launched the SME Masterplan in 2012 with the aim to chart the development of SMEs in line with Malaysia's aspiration to become a high-income country by 2020.

To achieve the target, the Masterplan introduced a new SME development framework premised upon innovation-led and productivity-driven growth. Under the Masterplan, the focus will be on addressing key constraints to growth in the six focus areas which include innovation and technology adoption, human capital development, access to financing, market access, legal and regulatory framework, as well as infrastructure. Altogether, there are 32 initiatives proposed under the Masterplan, including six High Impact Programmes

(HIPs) which are expected to yield significant outcomes towards achieving the goals of the Masterplan.

Over the years, SME development in Malaysia has come a long way to become more holistic, not only looking at financing, but also other issues. In the area of financing, commendable progress has been made by financial institutions, particularly in strengthening the existing infrastructure and institutional framework to adequately address the needs of SMEs. These included establishing dedicated units at financial institutions to deal with SME customers in terms of advisory, complaints, and outreach; thus transforming development financial institutions to become more focused; rationalising government funds; setting up credit information systems; establishing an avenue for debt resolution; as well as introducing new microfinance schemes and guarantees with the aim of making them overall more effective in serving the SME community. The Central Bank of Malaysia also seeks to enhance financial inclusion and reach out more actively to underserved segments of the society, and to rural communities.

Going forward, the focus is to enhance the non-banking avenues for financing to support start-ups and innovative SMEs, particularly through the capital market. Efforts are also being undertaken to develop new and innovative financing platforms such as crowdfunding.

SME lending

Financial institutions (FIs), which comprise banking institutions (BIs) and development financial institutions (DFIs), continue to represent the main source of external funding, accounting for about 90%-95% of total SME financing in recent years. The supportive role played by the banking system was reflected in the double-digit expansion of 13.1% in total financing outstanding, amounting to MYR 236.5 billion at end of 2014, compared to 11.5% or MYR 209.1 billion in 2013. Consequently, the share of SME financing from total business financing had increased to 44.2% in 2014 from 42.5% in the previous year.

FIs also play a significant role in meeting the long-term financing needs of SME, as short-term financing only accounted for 2.6% of the overall outstanding business loans in 2014. SMEs need long-term financing generally for assets and projects, while short-term financing is typically used for continuing operations. As of end-2014, impaired financing of the overall banking sector stood at 3.1% of total business loans, amounting to MYR 16.5 billion, compared to 3.5% or MYR 17.2 billion in 2013. Despite the rapid expansion of bank credit to SMEs, impaired financing of SMEs substantively decreased from 7.5% in 2010 to 3.2% in 2014.

In addition to FIs, SMEs have access to other sources of finance, such as venture capital and private equity; factoring and leasing; government funds; as well as micro-financing and pawn broking. These diverse sources are further reinforced by a comprehensive framework, covering guarantee schemes to enhance the credit standing of SMEs without collateral, as well as a debt restructuring avenue for firms facing difficulties in repaying their debt.

The Credit Guarantee Corporation Malaysia Berhad (CGC) has been actively supporting potentially viable SMEs to obtain financing from FIs for almost four decades. As of end-2014, CGC had guaranteed a total of MYR 56.1 billion to 429 424 SMEs. The year 2014 saw a remarkable growth, both in terms of the number and value of loans approved by CGC. A total of 6 839 loans was approved during the year, representing a significant increase of 189% from 2 368 loans approved in 2013. Similarly, the amount of loans approved rose by

105% to MYR 3.2 billion from MYR 1.5 billion in 2013. The strong growth was attributed to aggressive moves by CGC to market its schemes to its strategic bank partners. Recognising the need to be proactively responsive to the rising expectations of SMEs, CGC stepped up its SME outreach efforts in product innovation, process simplification and the forging of strategic alliances with FIs, which has enabled businesses to secure financing faster and at greater ease. In 2014, CGC signed three new Portfolio Guarantee (PG) deals, leading to the approval of 4 985 loans worth MYR 2.1 billion, which represented the bulk of the total number and value of loans approved.

CGC also introduced a new rebate mechanism on its guarantee fee as a reward to its customers for timely repayment and good conduct of their loans. The rebate incentive was initiated as one of its proactive measures to ease the cost of borrowing for SMEs in light of the overall escalation in the cost of doing business. It was also intended to inculcate a sound credit culture among SMEs. Apart from that, CGC conducts advisory and consultancy activities and provides relevant information on how to start a business, as well as on the importance of cash-flow management and good credit practices. Moving forward, CGC plans to explore and expand its outreach to a broader spectrum of the SME segment with a focus on providing financing via small-sized loans to ensure that more SMEs are able to benefit from its guarantee schemes.

Credit conditions

The average annual lending rate of SME financing by banking institutions has increased significantly in recent years from 5.7% in 2012 to 6.6% in 2013 and to 7.7% in 2014. The interest rate spread between the average interest rate for an SME loan and the average rate charged to a large enterprise, rose notably between 2007 and 2013. In 2008, the spread stood at 0.3%, rising to 0.9% in 2012, and then peaking at 3.3% in 2013. In 2014, the spread narrowed again to 2.7%.

Equity and asset-based financing

Total venture capital investments fell by 5.4% to MYR 3.3 billion as of end-2014, compared to MYR 3.4 billion as of end-2013, mainly due to divestment by investment companies. During the year 2014, a total of 74 investee companies received a total of MYR 318 million, an increase of 20.5% from MYR 264 million in 2013 for 56 investee companies. At the same time, 59 investee companies were divested, amounting to MYR 421 million, compared to 33 companies divested, amounting to MYR 287 million in 2013. Divestments occurred mainly through share redemptions and trade sale. While the data on asset-based financing, namely leasing and factoring, is based on an annual e-survey and may therefore not be representative for the overall industry, the available data suggests that asset-based financing is becoming more widely used, with volumes increasing by almost 63% between 2011 and 2014.

Government policy response

Malaysia has one of the most developed financial markets among ASEAN countries, in part as a result of broad-based reforms in the aftermath of the Asian financial crisis of 1997-98. As part of these reforms, Malaysia has consolidated its banking sector, gradually liberalised its financial markets (including by allowing foreign FIs to operate within its borders), and implemented banking regulations in line with international standards. The low level of impaired financing, as well as a sound level of bank credits to deposits, both illustrate the health of the Malaysian banking system (OECD, 2013b).

The Asian financial crisis also highlighted the importance of a credit information infrastructure. In 2010, Malaysia introduced the Credit Reporting Agencies Act, thereby providing a regulatory framework for private entities carrying out credit reporting. Aside from private credit reporting agencies, the Malaysian Government has introduced a centralised public credit registry system since 2001. The ambition of these reforms is to ease access to finance, in particular to SMEs without jeopardising rights to privacy and data protection (OECD, 2013b).

Since its inception more than 30 years ago, Islamic finance in Malaysia has developed into a comprehensive and sophisticated finance marketplace. Malaysia pioneered the development of the global *sukuk* market with the launch of the first sovereign five-year global *sukuk*, worth USD 600 million in 2002. Since then, the *sukuk* market has experienced unprecedented growth with Malaysia firmly established as one of the largest issuers of *sukuk* over the years.

The regulatory and supervisory framework of Malaysia enters a new development stage as the Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA) came into force on 30 June 2013. The FSA and IFSA are the culmination of efforts to modernise the laws that govern the conduct and supervision of FIs in Malaysia, and to ensure that these laws continue to be relevant and effective in order to maintain financial stability, support inclusive growth in the financial system and the economy as a whole, as well as to provide adequate protection for consumers. Among key features of the new legislation are greater clarity and transparency in the implementation and administration of the law; a clear focus on Shariah compliance and governance in the Islamic financial sector; strengthened business conduct and consumer protection requirements to promote consumer confidence in the use of financial services and products; as well as strengthened provisions for effective and early enforcement and supervisory intervention. The FSA and IFSA amalgamate several separate laws to govern the financial sector under a single legislative framework for the conventional and Islamic financial sectors, respectively, namely, the Banking and Financial Institutions Act 1989 (BAFIA), the Islamic Banking Act 1983, the Insurance Act 1996 (IA), the Takaful Act 1984, the Payment Systems Act 2003, and the Exchange Control Act 1953, which were all repealed on the same date.

The Financial Sector Blueprint (Blueprint) was released in 2011 for the period of 2011-20. The Blueprint aims to develop a financial ecosystem that will best serve a high value-added, high-income Malaysian economy, while also assuming an increasingly important role in meeting the growing financial needs of the emerging Asian continent. The recommendations in the Blueprint are focused on nine major areas, supported by 69 recommendations and more than 200 initiatives. The nine key areas are effective intermediation for a high value-added, high-income economy; the development of deep and dynamic financial markets; greater shared prosperity through financial inclusion; strengthening regional and international financial integration; internationalisation of Islamic finance; safeguarding the stability of the financial system; achieving greater economic efficiency through electronic payment; empowered consumers; and talent development in the financial sector. Over the next decade, the financial sector is envisioned to evolve beyond its role as an enabler of growth, and become a key driver and catalyst of economic growth, with growth in the financial system firmly anchored to growth in the real economy.

Given that the bulk, i.e. 90%-95%, of SME financing has traditionally been extended by FIs, efforts in recent years have focused on developing more avenues for risk capital. This is in line with the growing needs of the economy, where the traditional form of financing offered by FIs may not be able to meet the needs of the more risky segment of SMEs, such as start-ups and SMEs in new activities which have high growth potential and are innovative in nature. More recently, the policy focus of the authorities has been to further expand the non-bank avenues for risk capital, particularly to enhance access to finance for SMEs that are innovative, high-growth and active in new growth areas.

Box 23.1. **Definition of SMEs used in Malaysia's SME and entrepreneurship finance scoreboard**

Country definition

Malaysia has adopted a revised definition for SMEs, effective since January 2014. Sales turnover and number of full-time employees continue to be used as the two main criteria in determining the definition with the "OR" basis as follows:

- Manufacturing sector: Sales turnover not exceeding MYR 50 million OR full-time employees not exceeding 200.
- Services and other sectors: Sales turnover not exceeding MYR 20 million OR full-time employees not exceeding 75.

Detailed definition by the three categories namely Micro, Small and Medium are as follows:

Table 23.1. **Definition of SMEs in Malaysia by annual sales turnover**

Size	Manufacturing	Services and other sectors
Micro	Less than MYR 300 000	Less than MYR 300 000
Small	From MYR 300 000 to less than MYR 15 million	From MYR 300 000 to less than MYR 3 million
Medium	From MYR 15 million to not exceeding MYR 50 million	From MYR 3 million to not exceeding MYR 20 million

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Table 23.2. **Definition of SMEs in Malaysia by number of full-time employees**

Size	Manufacturing	Services and other sectors
Micro	Less than 5 employees	Less than 5 employees
Small	From 5 to less than 75 employees	From 5 to less than 30 employees
Medium	From 75 to not exceeding 200 employees	From 30 to not exceeding 75 employees

StatLink http://dx.doi.org/10.1787/888933333140

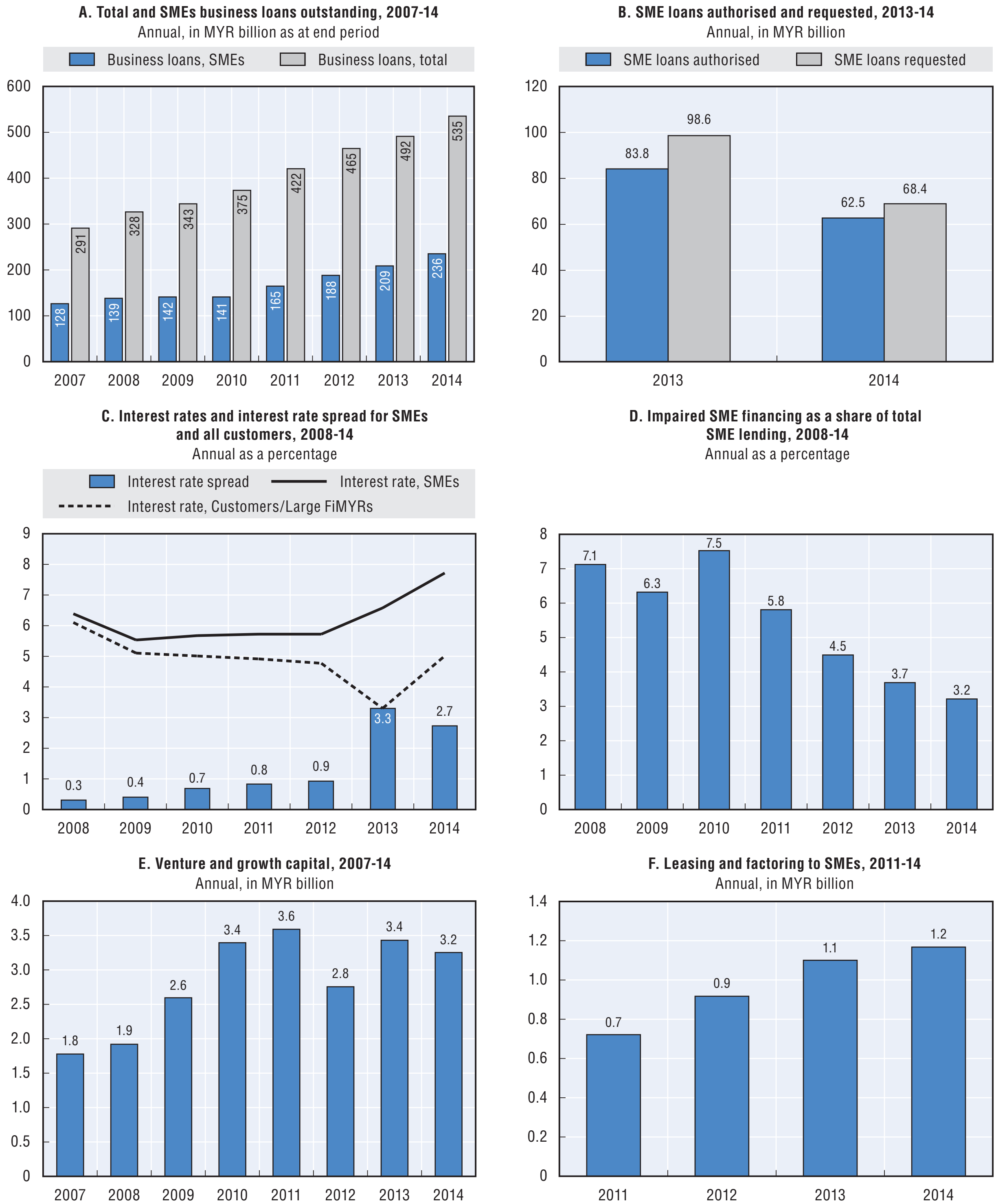
Table 23.3. **Scoreboard for Malaysia, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business Loans, SMEs	MYR million	127 984	138 859	141 608	141 159	165 316	187 625	209 115	236 467
Growth Business Loans, SMEs	%	-	8.5	2.0	-0.3	17.1	13.5	11.5	13.1
Business Loans, Total	MYR million	290 682	328 252	343 054	375 277	422 022	465 090	491 920	535 163
Business Loans, SMEs	% of total business loans	44.0	42.3	41.3	37.6	39.2	40.3	42.5	44.2
Short-Term Loans, SMEs	MYR million	..	..	..	..	..	..	4 846	6 055
Long-Term Loans, SMEs	MYR million	..	..	..	..	..	..	135 760	158 991
Other Loans, SMEs	MYR million	..	..	..	..	..	..	68 508	71 421
Total Short and Long-Term Loans, SMEs	MYR million	..	..	..	..	..	..	140 606	165 046
Short-Term Loans, SMEs	% of total SME loans	..	..	..	..	..	..	2.3	2.6
Impaired Financing, Total	MYR million	..	17 668	14 259	17 256	15 350	12 513	17 241	16 477
Impaired Financing, SMEs	MYR million	..	9 882	8 895	10 586	9 542	8 479	7 736	7 498
Impaired Financing, SMEs	% of total SME loans	..	7.1	6.3	7.5	5.8	4.5	3.7	3.2
Interest Rate, SMEs	%	..	6.4	5.5	5.7	5.7	5.7	6.6	7.7
Interest Rate, SMEs/ All Customer	%	..	6.1	5.1	5.0	4.9	4.8	3.3	5.0
Interest Rate Spread	%	..	0.3	0.4	0.7	0.8	0.9	3.3	2.7
Collateral, SMEs	% of SMEs with collateralised loans	..	..	..	..	..	..	55.10	59.50
SME loans authorised	MYR million	..	..	..	..	..	..	83 785	62 517
SME loans requested	MYR million	..	..	..	..	..	..	98 639	68 404
Ratio of loans authorised to requested	SME loans authorised/ requested	..	..	..	..	..	..	84.9	91.4
Loans Guaranteed	No. of accounts	13 004	10 368	14 073	7 670	7 504	2 152	2 368	6 839
Loans Guaranteed	MYR million	4 566	3 013	3 111	2 495	2 860	1 066	1 545	3 175
Non-Bank Finance									
Venture and Growth Capital	MYR million	1 784	1 929	2 586	3 389	3 586	2 757	3 433	3 246
Venture and Growth Capital	%, Y-o-Y Growth Rate	53.9	8.1	34.1	31.1	5.8	-23.1	24.5	-5.4
Leasing and Factoring	MYR million	..	..	..	..	721	918	1 099	1 170

Source: See Table 23.4.The Central Bank of Malaysia changed the terminology from non-performing loans to impaired financing. The definition on impaired financing, provided in Table 23.4, is however quite similar to the definition on non-performing used among many participating countries.

StatLink http://dx.doi.org/10.1787/888933333152

Figure 23.1. **Trends in SME and entrepreneurship finance in Malaysia**



Source: See Table 23.4.

StatLink http://dx.doi.org/10.1787/888933331417

Table 23.4. **Definitions and sources of indicators for Malaysia's scoreboard**

Indicator	Definition	Source
SME Business Loans	Financial institution loans to SMEs, amount outstanding at the end of period using the national definition of SME	Supply-side data, Central Bank
Total Business Loans	Financial institution business loans to all non-financial enterprises, outstanding amount at the end of period	Supply-side data, Central Bank
SME Short-Term Loans	Loans equal or less than one year; outstanding amount	Supply-side data, Central Bank
SME Long-Term Loans	Loans for more than one year; outstanding amount	Supply-side data, Central Bank
SME Loans Authorised	Amount of SME loans approved by the Financial Institutions during the period (Flows)	Supply-side data, Central Bank
SME Loans Requested	Amount of SME loans applied at the Financial Institutions based on loans approved at the transactional level (Flows)	Supply-side data, Central Bank
SME Impaired Financing	A loan is classified as impaired when it is past due (lapsed in repayment) for more than 90 days or 3 months. A loan can also be classified as impaired when the amount is past due for less than 90 days or 3 months if the financial institution deemed that a client has failed to repay in time.	Supply-side data, Central Bank
SME Interest Rate	Annual average interest rate of the newly approved term loans; for maturity up to 1 year	Supply-side data, Central Bank
Interest Rate Spreads	Difference between annual average interest rates for SME and large enterprises; for maturity up to 1 year	Supply-side data, Central Bank
Collateral	Percentage of SMEs that were required to provide collateral on latest bank loan	Supply-side data, Central Bank
Loans Guaranteed	Loans guaranteed and direct financing schemes (approved amount)	Credit Guarantee Corporation Malaysia Berhad (CGC) Annual Report 2007-2014
Venture and growth capital	Total investments, aggregated for all registered venture capital corporations (VCCs) and venture capital management corporations (VCMCs) as at calendar year end.	Annual Report, Securities Commission Malaysia
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; Financing outstanding of leasing to SMEs	E-survey, Central Bank
Factoring	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); Financing outstanding of factoring to SMEs	E-survey, Central Bank

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Mexico

SMEs in the national economy

There were approximately 5.6 million SMEs in Mexico as of 2014. The majority of Mexican firms were micro-enterprises (94.3%).

Table 24.1. **Distribution of firms in Mexico, 2013**

Firm size (employees)	Number of firms	%
SMEs (1-249)	5 643 553	99.8
Micro (1-10)	5 332 788	94.3
Small (11-50)	263 041	4.7
Medium (51-250)	47 724	0.8
Large (251+)	10 461	0.2
Total	**5 654 014**	**100**

Note: Data presented for the total business economy includes figures for all sectors.

Source: INEGI (2014).

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Micro enterprises' contribution to employment (38.9%) and value added (9%) was lower than in most other OECD countries (OECD 2013b). The 2014 census estimated that 75.7% of micro enterprises had two or less employees and only 24.3% had three employees or more.

Informality is high in the Mexican economy, but 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, as well as
- 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, in turn, 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 into the formal economy (OECD 2013). In this regard, Mexico has enacted tax reforms, trying that the new tax regimes become more attractive and thus reduce informality.

According to the 2010 World Bank Enterprise Survey, 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 relation to 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

During 2014 a total 625 470 SMEs, making up to 16.5% of all SMEs surveyed, had access to some form of financing and only 7.1% of SMEs had access through a bank loan, whereas the rest of SMEs had to rely on sources such as family loans, "*Cajas de Ahorro*" (savings banks), suppliers, governments, partners and other sources. On the other hand, 36% of large enterprises surveyed had access to financing. 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, SME loans increased rapidly and in 2012 grew by almost 30%. However, the share of SME loans in total loans is very low, averaging between 12%-13% of total business loans. The rapid growth of SME loans in 2012 raised the SME loan share to 16%. The absolute number of non-performing loans has increased, both for total business loans and for SME loans. However, since lending grew more rapidly over the same period, the share of non-performing loans has declined. The share of non-performing SME loans to total SME loans has declined over time to 3.6% in 2012, compared to 1.4% for the share of total non-performing business loans in total business loans in the same year. Despite the declining rate of SME non-performing loans, banks still had a greater incentive to lend to larger enterprises.

12% of firms in the World Bank survey identified access to finance as the main obstacle they faced. Interest rates were 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. Data collected by the Bank of Mexico shows 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 make 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 remained still well above most other OECD countries. The Economic Census 2013 from INEGI shows that high interests rates is the most important cause explained why firms do not access to a credit from commercial banks (32% of the interviewed firms stated this cause as their most important limitation to access to a bank loan).

Another obstacle is the high level of collateral demanded by commercial banks to secure loans. According to the 2013 OECD policy review, 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, however.

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 and closed its financing round in 2010. In 2006, a fund of funds was created with the collaboration of all 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 were added to the Seed Capital Fund. In 2013, the National Institute of the Entrepreneur (INADEM) was established and its management team launched new programmes to develop equity financing, such as the Conacyt-Nafin Fund, the Mexican Ventures and Seed Capital Fund. The Institute's 2013 budget was at MXN 590 million and it will have a leverage ratio of about two. Until 2015, the Institute has contributed to the creation of 30 new funds that will invest equity in high impact firms.

With the establishment of the INADEM, one of its most important programmes, the "Development of the Venture Capital Ecosystem", was created. Its objective is to foster the Mexican venture capital industry by sharing risks with private investors and encourage them in becoming institutional partners. By the end of 2014, INADEM had invested in 30 new VC funds accounting for MXN 3.2 billion, that are expected to invest in around 300 high impact firms. The leverage ratio is about 2.4 times the private investment.

Table 24.2. **Equity financing in Mexico, 2004-13**

Year	SME fund size (MXN million)	No. of projects/ funds	Average equity investment (MXN)
2004-10	230	43	5 500 000
2006*	2 500	ND	ND
2011	1 170	15	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: AMEXCAP, (2015).

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As a result of these efforts, equity financing in Mexico, almost doubled between 2007 and 2012. However, it showed large variations in annual growth which is also a pattern observed in most other countries.

Table 24.3. **Equity financing in Mexico, 2007-12**

In MXN million

Year	2007	2008	2009	2010	2011	2012
Amount	2 370	2 610	2 730	3 900	3 900	4 200
Growth		1.6	4.6	42.9	0	7.7

Source: NAFIN (2012).

StatLink http://dx.doi.org/10.1787/888933333185

Government policy responses

In Mexico, 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 was also started, whereby suppliers in the value chains of large firms can obtain prepayment of their invoices.

Seed Capital Programme

The Seed Capital Programme 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 a lack of credit history and collateral. The programme is managed by non-banking financial institutions. Loan amounts range from MXN 50 000 to MXN 1.5 million and 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 and the approval rate was about 45%. In 2011, this programme was replaced by the Financing Programme for Entrepreneurs through Commercial Banks.

Table 24.4. **Seed Capital Programme in Mexico, 2007-10**

Year	SME fund expense (MXN million)	No. of projects	Average 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: INADEM (2015a).

StatLink http://dx.doi.org/10.1787/888933333197

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 incentivise 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 then 75% for the third and fourth years. This programme is intended to support 187 entrepreneurial 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 – MXN 1.5 million 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 24.5. **Financing Programme for Entrepreneurs in Mexico, 2010-13**

Year	Emprende Trust Fund guarantees MXN million	No. of projects	Average 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: INADEM (2015b).

StatLink http://dx.doi.org/10.1787/888933333203

SME productive projects

This programme promotes the creation of SMEs in underdeveloped regions, particularly in rural areas, by providing loans to entrepreneurial projects. The loan can be used for financing equipment, infrastructure and up to 50% of working capital, up 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

The national credit guarantee system is the main policy tool to increase credit financing to SMEs. It has several novel aspects:

- In public auctions, where financial institutions bid for the right to obtain guarantees, the selection of winners is made on the basis of the 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.
- The loan guarantee programme is targeted to micro-enterprises and SMEs in general, rather than to a specific disadvantaged group (women, youth etc.).
- The 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 of 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 24.6. **National credit guarantee system in Mexico, 2007-14**

In MXN million

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	4 272	101 562

Source: INADEM (2015c).

StatLink http://dx.doi.org/10.1787/888933333210

While the loan guarantee programme is larger in scale than in many other OECD member countries, this mainly reflects the relatively underdeveloped private finance market for SMEs and micro-enterprises in Mexico. The immediate challenge is to insure that bank finance reaches a higher proportion of the more than 4 million SMEs, given that the guarantees cover only 70 000 to 80 000 enterprises 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 the domain of equity financing 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 MXN 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 are 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 advisory services for listing. Some 124 firms registered and ten were selected.

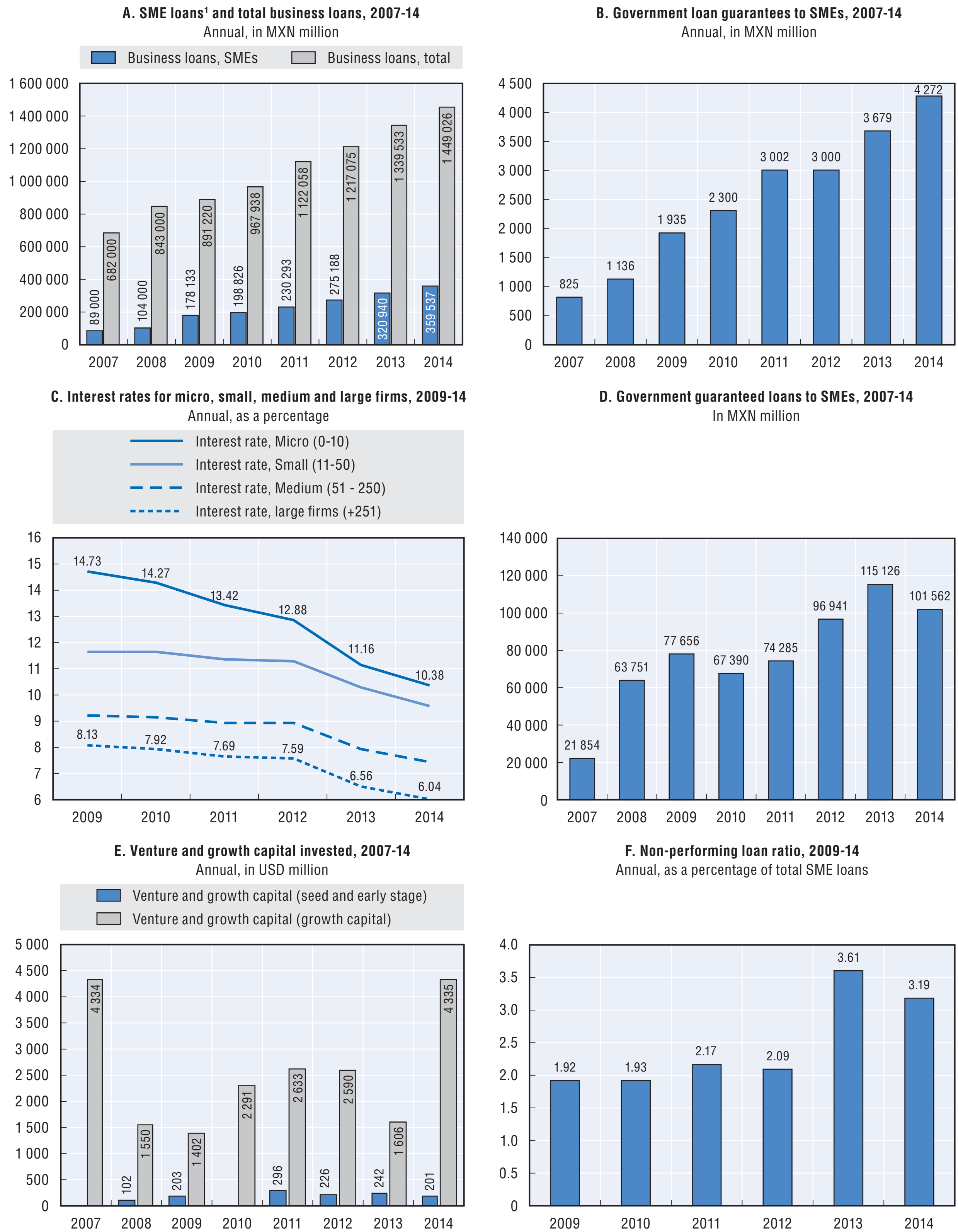
Table 24.7. **Scoreboard for Mexico, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	MXN million	89 000	104 000	178 133	198 826	230 293	275 188	320 940	359 537
Business loans, total	MXN million	682 000	843 000	891 220	967 938	1 122 058	1 217 075	1 339 533	1 449 026
Business loans, SMEs	% of total business loans	13.0	12.3	20.0	20.5	20.5	22.6	24.0	24.8
Government loan guarantees, SMEs	MXN million	825	1 136	1 935	2 300	3 002	3 000	3 679	4 272
Government guaranteed loans, SMEs	MXN million	21 854	63 751	77 656	67 390	74 285	96 941	115 126	101 562
Non-performing loans, ratio	% of SME loans	..	..	1.92	1.93	2.17	2.09	3.61	3.19
Interest rate, Micro (0-10)	%	..	..	14.73	14.27	13.42	12.88	11.16	10.38
Interest rate, Small (11-50)	%	..	..	11.68	11.67	11.4	11.3	10.28	9.58
Interest rate, Medium (51 - 250)	%	..	..	9.22	9.15	8.97	8.95	7.96	7.46
Interest rate, large firms (+251)	%	..	..	8.13	7.92	7.69	7.59	6.56	6.04
Interest rate spread Large Vs. Micro	pp	..	..	6.6	6.35	5.73	5.29	4.6	4.34
Interest rate spread Large Vs. Small	pp	..	..	3.55	3.75	3.71	3.71	3.72	3.54
Interest rate spread Large Vs. Medium	pp	..	..	1.09	1.23	1.28	1.36	1.4	1.42
Equity									
Venture and growth capital (seed and early stage)	USD million	..	102	203	0	296	226	242	200.5
Venture and growth capital (growth capital)	USD million	4 334	1 550	1 402	2 291	2 633	2 590	1 606	4 335

Source: Refer to Table 24.8.

StatLink http://dx.doi.org/10.1787/888933333221

Figure 24.1. **Trends in SME and entrepreneurship finance in Mexico**



Source: Refer to Table 24.8.

StatLink http://dx.doi.org/10.1787/888933331422

Table 24.8. **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.	CNBV (2015)
Total business loans	Bank and financial institution business loans to all non-financial enterprises, amount outstanding (stocks)	CNBV (2015)
SME government guaranteed loans	Amount induced credit by the guarantee programs	INADEM (2015c)
SME government loan guarantees	Fiscal resources to guarantee programs provided	INADEM (2015c)
SME loans authorized	Stocks	CNBV (2015)
SME loans requested	Stocks	CNBV (2015)
SME non-performing loans ratio	SME non-performing loans out of total SME loans as a percentage	CNBV (2015)
SME Interest rate	Average annual interest, including rate and fee	CNBV (2015)
Interest rate spreads	Between small & large enterprises	CNBV (2015)
Collateral	Percentage of SMEs that were not required to provide collateral on latest bank loan	CNBV (2015)
Equity		
Venture & growth capital (& early stage)	Investments made by year (Seed + VC)	AMEXCAP (2015)
Venture & growth capital (growth capital)	Investments made by year (PE+ Real Estate + Infrastructure and Energy + PE Fund of Funds)	AMEXCAP (2015)

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The Netherlands

SMEs in the national economy

SMEs comprised 99.8% of Dutch enterprises and employed 66.5% of the labour force in 2014.

Table 25.1. **Distribution of firms in the Netherlands, 2014**

Firm size (full time employees)	Number	%
All firms	**870 961**	**100**
SMEs (0-250)	**869 456**	**99.8**
Micro (0-10)	818 457	94.0
Small (10-49)	42 380	4.9
Medium (50-250)	8 619	1.0
Large (250+)	**1 505**	**0.2**

Note: Number of employees refers to full-time employees. All industries are included, as are non-employer enterprises.
Source: European Commission, 2014.

StatLink http://dx.doi.org/10.1787/888933333231

SME lending

The Dutch Central Bank uses loan size to define an SME loan. Furthermore, each bank uses its own reporting system, constituting a challenge to the aggregation of loan data. The economy was recovering in 2014. Up until 2014, the number of new SME loans remained approximately on the same level, although they had not recovered to their 2008 level. Some SMEs, such as start-ups, high growth and innovative SMEs had particular difficulties in accessing finance. In 2014, total business loans outstanding increased over the entire 2009-14 period by 5.4%.[1] The share of SME short-term loans in total SME loans decreased from 49.8% in 2013 to 48.3% in 2014.

SME loans authorised vs. requested

The percentage of SMEs seeking loans has fluctuated over the last couple of years (29% in 2009, 22% in 2010, 18% in 2011, 21% in 2013 and 2014). Of those SMEs seeking finance in 2014, 64% obtained the full loan they requested, compared to 49% in 2009. The percentage of small businesses (less than 50 employees) that did obtained all the requested funding in 2014 was 49%, compared to 65% for larger companies (more than 250 employees). Thus, small businesses had more difficulty in obtaining the required funding.

Credit conditions

Credit conditions for SMEs eased in 2014, with the interest rate for small firms (2-49 employees) dropping by 20 basis points compared to 2013, standing at 4.1% in 2014. In addition, large firms' interest rate decreased by 60 basis points, standing at 2.8% in 2014.

Collateral requirements to SMEs decreased in 2014, with 43% of SMEs required to provide some form of collateral (compared to 50% in 2013 and 47% in 2012).

Equity financing

There was a turnaround in equity investments in 2011, indicating that firms, both small and large, were increasingly seeking alternative sources of finance. Venture capital investment increased by 48.2% between 2010 and 2011. After two years with decreasing amounts of venture and growth capital investment, in 2014 the amount of venture and growth capital investment on a year-to-year basis increased again by 27.3% compared to 2013.

Other indicators

The average number of days with a payment delay was 16 days in 2014, equalling the average in 2009. However, 2014 marked a year-to-year improvement, as payment delays decreased with respect to their 2013 level (17 days).

Bankruptcies in 2014 decreased to a total of 6 645 companies, representing a 20.7% decrease compared to 2013.

Government policy response

Government loan guarantees decreased from EUR 1.3 billion in 2010 to EUR 415 million in 2013. This reduction was mainly attributed to a decrease 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, increased in 2013. In 2014 the amount of government loan guarantees increased again to EUR 516 million.

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. Banks were more willing to provide a loan if that loan was partially guaranteed. In 2014 the features were: a maximum amount of EUR 1.5 million, for start-ups and for small non start-ups a maximum guarantee of 67.5% of the loan.

The Growth Facility (GFAC) offers banks and private equity enterprises a 50% guarantee on newly issued equity or subordinated loans, up to a maximum of EUR 5 million for subordinated loans and up to EUR 25 million for private equity.

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 thus substantially lowers banks' risk when issuing credit to entrepreneurs applying for new loans.

In 2013, the government, in cooperation with the EIF, introduced 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 was established for entrepreneurs as a central information point for financial questions. In July 2014, the government introduced an action plan to promote SME financing. This plan contains three goals, which are translated into 9 actions. Firstly, increasing the amount of risk capital available for SMEs; secondly, increasing the number of (alternative) suppliers of SME financing: and thirdly, enhancing cost efficiency of SME financing.

In 2009, a successful microcredit institution, Qredits, was launched, supported by the government and banks. A programme to support coaching and advice for micro-entrepreneurs was also recently funded by the government. In November 2014, the maximum amount of loans was increased to EUR 250 000.

In October 2014, the NLII (Dutch Investment Institution) was founded by a group of Dutch institutional investors. The aim of the NLII is to create a better match between the supply and demand of long-term financing in the Netherlands, and by doing so remove bottlenecks in the financing of specific sectors, such as the SME sector or sustainable energy.

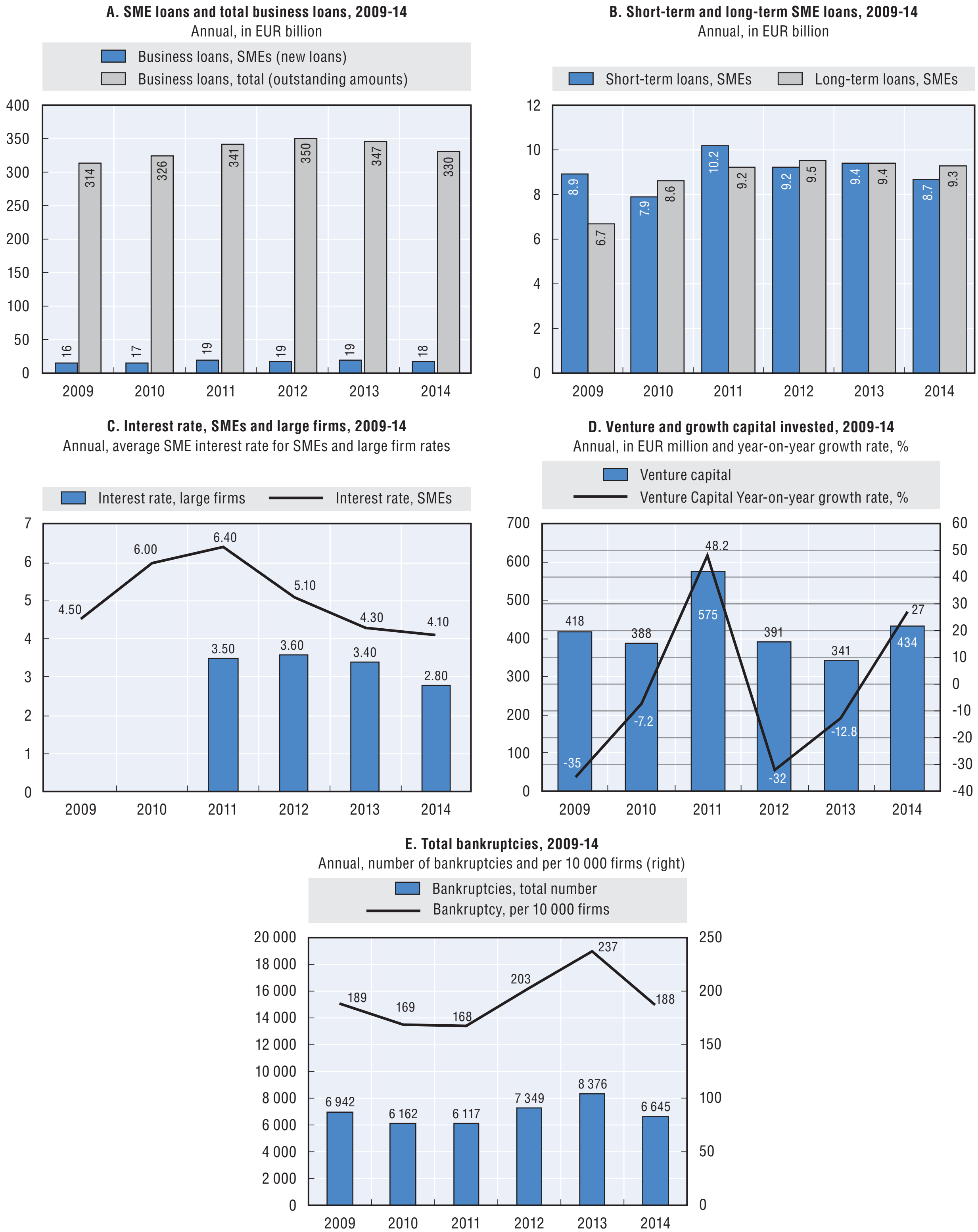
Table 25.2. **Scoreboard for the Netherlands, 2009-14**

Indicators	Units	2009	2010	2011	2012	2013	2014
Debt							
Business loans, SMEs (new loans)	EUR billion	15.7	16.5	19.4	18.7	18.8	18.0
Business loans, total (outstanding amounts)	EUR billion	313.5	325.7	341.1	350.0	346.5	330.3
Short-term loans, SMEs	EUR billion	8.9	7.9	10.2	9.2	9.4	8.7
Long-term loans, SMEs	EUR billion	6.7	8.6	9.2	9.5	9.4	9.3
Short-term loans, SMEs	% of total SME business loans	57.1	47.9	52.6	49.2	49.8	48.3
Government loan guarantees, total	EUR million	1 060	1 318	1 161	687	415	516
Government loans guarantees, SMEs	EUR million	370	945	1 040	590	415	480
Loans authorised, SMEs	% of SMEs which requested a bank loan and received it in full	49	60	66	60	54	64
Loans requested, SMEs	% of SMEs requesting a bank loan	29	22	18	22	21	21
Interest rate, SMEs	%	4.50	6.00	6.40	5.10	4.30	4.10
Interest rate, large firms	%	..	..	3.50	3.60	3.40	2.80
Collateral, SMEs	% of SMEs required to provide collateral for last bank loan	47.0	45.0	44	47	50	43
Equity							
Venture capital	EUR million	418	388	575	391	341	434
Venture capital	Year-on-year growth rate, %	-35.0	-7.2	48.2	-32	-12.8	27.3
Other							
Payment delays	Average number of days	16.0	17.0	18.0	18.0	17.0	16.0
Bankruptcies	Number	6 942	6 162	6 117	7 349	8 376	6 645
Bankruptcies	Year-on-year growth rate, %	82.1	-11.2	-0.7	20.1	14	-20.7
Bankruptcies, total	Per 10 000 firms	189	169	168	203	237	188

Source: See Table 25.3.

StatLink http://dx.doi.org/10.1787/888933333245

Figure 25.1. **Trends in SME and entrepreneurship finance in the Netherlands**



Sources: See Table 25.3.

StatLink http://dx.doi.org/10.1787/888933331438

Table 25.3. **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.	Dutch Ministry of Economic Affairs
Government guaranteed loans, SMEs	Government guaranteed loans to SMEs (defined as loans guaranteed under BMKB, GFAC and part of GO: companies under 250 employees)	Dutch Ministry of Economic Affairs
Loans authorised, SMEs	Loans authorised to SMEs (defined as firms with less than 250 employees).	Panteia
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)	Panteia
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	Panteia
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.	Panteia
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	Number of organisations (pronounced bankrupt) and institutions with more than 2 employees	Centraal Bureau voor de Statistiek (Statistics Netherlands)
Bankruptcies	Number of organisations (pronounced bankrupt) per 10 000 organisations	Centraal Bureau voor de Statistiek (Statistics Netherlands)

Note

1. The SME share in total business loans cannot be calculated because the figures for SME loans are flows and those for business loans are stocks.

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New Zealand

SMEs in the national economy

Small businesses dominate in New Zealand, with 99% of New Zealand enterprises classified as SMEs (less than 50 employees) in 2014. They had 870 570 employees, representing around 43% of the country's workforce.

Table 26.1. **Distribution of firms in New Zealand, 2014**

By firm size

	Number	%
Zero employees	338 745	69.5
Micro (1-5)	98 030	20.1
Small (6-19)	37 071	7.6
Small-medium (20-49)	9 186	1.9
Medium (50-99)	2 673	0.5
Large (100+)	2 170	0.4
Total	**487 875**	**100**

Source: Statistics New Zealand Business Demography, February 2014.

StatLink http://dx.doi.org/10.1787/888933333256

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 in 2014 was 13.7% above its 2010 low and has surpassed its 2008 level.

Data on lending to SMEs is available from 2009 onwards. Lending increased by 5.6% in 2014 to NZD 34.2 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 has since declined to just below 41%.

Credit conditions

The Reserve Bank of New Zealand's May 2015 Financial Stability Report noted that increased business confidence and the broader recovery in economic activity have led to a moderate recovery in lending growth (in the non-property business sector) since 2011, bringing the outstanding stock of credit back to near pre-global financial crisis (GFC) levels. Businesses have been cautious in taking on debt since the GFC, despite the increased availability of debt finance in recent years. SMEs' demand for working capital has increased. Some banks, however, expect a softening in overall SME credit demand related to lower rural spending, mostly due a steep fall in global dairy product prices.

In 2008, the interest rate for bank lending to SMEs, defined as the base interest rate for new overdrafts, was at 11.2%. It then trended downwards to reach 9.6% in 2013, before increasing again to 10.4% in 2014. The spread between the SME interest rate and that for large firms was 420 basis points in 2009, and it increased to 443 basis points in 2014.

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 loans to SMEs declined to 1.7% in 2014. Non-performing loans as a proportion of all business loans have consistently been lower, reflecting the higher risk profile of SME lending. In 2014, for example, 1.4% of all business loans were non-performing, against 1.7% for SME loans.[1]

28% of SMEs with six to eighteen employees requested debt finance in 2008 and 2009. Of those requesting finance in 2008, 88% obtained it on acceptable terms, a proportion that then declined to 78% in 2010. The proportion of those SMEs requesting debt finance also fell, to 22% in 2011. Both indicators illustrate the increasing reluctance of banks to lend over that period. Although the proportion of SMEs requesting debt finance has fallen to 21% in 2014, the success rate has recovered to 89%. This is likely to reflect a change in lenders' appetite for risk and the terms they offered. Table 26.2 summarises the proportion of this group of SMEs requesting and obtaining finance in New Zealand from 2008 to 2014.

Table 26.2. **SMEs requesting and obtaining finance in New Zealand, 2008-13**

As a percentage of SMEs with between 6 and 19 employees

SMEs	2008	2009	2010	2011	2012	2013	2014
Requesting debt finance	28	28	26	22	26	24	21
Of which obtaining debt finance on acceptable terms	88	82	78	87	86	90	89

Source: Statistics New Zealand, Business Operations Survey.

StatLink http://dx.doi.org/10.1787/888933333269

Equity financing

The global financial crisis had an adverse effect on New Zealand's early-stage capital markets. The reported amounts invested by venture capital and angel investors fell by 72% and by 43%, respectively from 2010 to 2012, before recovering to NZD 56 million each in 2014. The 2010 venture capital data included two international deals totalling NZD 45 million.

Consistent with the trend observed in recent years, the information technology and software sector was the main beneficiary of most venture capital funding in 2014. Other sectors obtaining funding in that year included technology, food and beverages, and manufacturing. At the same time, there was a marked drop in investment in the health/ bio-sciences sector.

Around 45% of angel investment in 2014 was made in software and services, underscoring that sector's strong performance over the past two years. The technology, food and beverages, and materials and pharmaceutical sectors each accounted for around 9% of investment by value.

The government established the New Zealand Venture Investment Fund Limited (NZVIF) in 2001 to place NZD 160 million with private sector venture capital funds investing in innovative young New Zealand firms, and thereby catalyse the evolution of a viable venture capital market in New Zealand. A NZD 40 million Seed Co-Investment Fund for co-investment with angel investors, administered by NZVIF, was launched in 2006. NZVIF has now co-invested with venture capital funds and angel investors in over 190 companies.

Other indicators

Business to Business (B2B) payment delays reached an 8-year low in 2014, 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 37 days in 2013, three days less than in 2012, and more than 27% 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 intervening period, they totalled to 1 902 in 2014. 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 further contributed to the decrease in bankruptcies.

Government policies

The government has no general loan guarantee facility or direct loan programme for SMEs, although there is a working capital guarantee for exporting SMEs. The New Zealand Export Credit Office's Short Term Trade Credit Guarantee was extended in May 2009, raising the total available to NZD 150 million.

The Financial Markets Conduct Act came into force in April 2014 and seeks to help improve access to capital by raising investor confidence. It reduces compliance costs for some SMEs through clearer disclosure regulations, including exemptions from full disclosure requirements for some firms. It also permits new forms of capital-raising, such as crowd-funding and peer-to-peer lending. By mid-September 2015, New Zealand's Financial Markets Authority had issued seven equity crowd funding licences and three peer-to-peer lending licences.

A new programme for technology-focussed incubators incorporating repayable grants for start-ups in those incubators was introduced in July 2014. NZD 10.2 million of repayable grants are available each year for high-growth potential, early-stage enterprises commercialising intellectual property. The grants will provide funding of up to NZD 450 000 per business with the incubator owners investing up to NZD 150 000 on a 3:1 basis. The grants are repayable as a royalty of 3% on the incubated firm's gross revenues. The incubator owner will receive a negotiated equity stake of 30%-50% in each business.

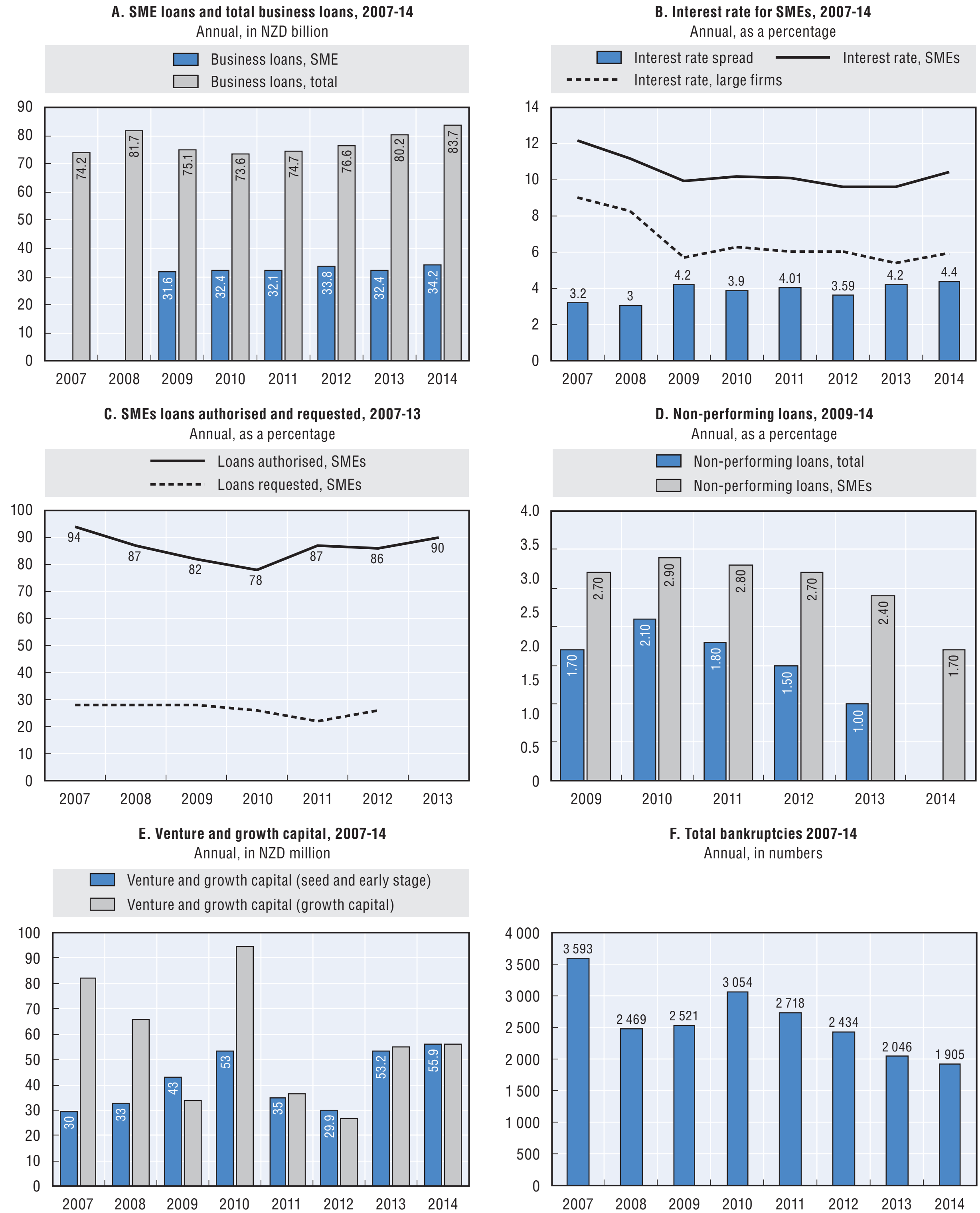
Table 26.3. **Scoreboard for New Zealand, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Outstanding business loans, SMEs (stock)	NZD billion	..	..	31.6	32.4	32.1	33.8	32.4	34.2
Outstanding business loans, total (stock)	NZD billion	74.2	81.7	75.1	73.6	74.7	76.6	80.2	83.7
SME loans share	%			0.42	0.44	0.43	0.44	0.41	0.41
Rejection rate	% of SMEs	6	13	18	22	13	14	10	13
Non-performing loans, SMEs	% SME loans	..	..	2.7	2.9	2.8	2.7	2.4	1.7
Non-performing loans, total	% total loans	..	..	1.7	2.1	1.8	1.5	1	..
Interest rate, SMEs	% pa	12.15	11.19	9.88	10.19	10.05	9.6	9.59	10.37
Interest rate, large firms	% pa	9	8.23	5.68	6.29	6.04	6.01	5.39	5.94
Interest rate spread	% points	3.15	2.96	4.2	3.9	4.01	3.59	4.2	4.43
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	55.9
Venture and growth capital (growth capital)	NZD million	81.9	66.1	34	94.4	36.6	26.8	54.8	55.8
Other									
Payment delays, B2B	Average no. of days	43.1	50.8	44.5	44	45.6	40.1	39.6	37
Bankruptcies, total	Number	3 593	2 469	2 521	3 054	2 718	2 434	2 046	1 905

Source: See Table 26.4.

StatLink http://dx.doi.org/10.1787/888933333278

Figure 26.1. **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/10.1787/888933331449

Table 26.4. **Definitions and sources of indicators for New Zealand's scoreboard**

Indicators	Definitions	Source
Debt		
Business loans, total	Lending to the resident business sector by registered banks and non-bank lending institutions, excludes agriculture, finance and insurance, general government, household and non-resident sector loans. Includes non-employer enterprises	Reserve Bank of New Zealand
Business loans, SMEs	Estimated lending to SMEs. Data is not standardised and definitions may vary across banks	Reserve Bank of New Zealand
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.	*New Zealand Private Equity and Venture Capital Monitor* NZ Private Equity and Venture Capital Association and Ernst & Young
Angel Investment	Amount invested in seed and start-up enterprises	*Startup: Young Company Finance Index* New Zealand Venture Investment Fund and Angel Association New Zealand
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

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.

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Norway

SMEs in the national economy

There was a total of 435 093 enterprises in Norway in 2012, out of which 285 673 were non-employer firms. The bulk of the employer firms were SMEs, employing between 1 and 249 employees and accounting for 99.8% of total firms with employees. Of the firms with employees, 99.5% had less than 250 employees and of the enterprises with at least one employee, 81.3% were microenterprises. Lowering the threshold to 100 employees or more, only 1.3% of the firms with employees, constituting 1 952 firms, may be categorised as large enterprises. If the threshold is set at enterprises with not more than 49 employees, then 145 270 enterprises or 97% of all Norwegian enterprises with employees are SMEs.

Table 27.1. **Distribution of firms in Norway, 2013**

Firm size (employees)	Number	%
Total firms	435 093	100
Firms with 0 employees	285 673	65.7
SMEs (1-249)	148 746	34.1
01-09	121 400	27.9
10-49	23 870	5.5
50-99	2 198	0.5
100-249	1 278	0.3
Large (250+)	674	0.2

Source: Statistics Norway.

StatLink http://dx.doi.org/10.1787/888933333286

When defining SMEs as firms having less than 250 employees – the definition used in several EU countries – virtually all Norwegian firms are classified as SMEs, which would be too high with respect to the structure of Norwegian business. In order to contribute to cross-country comparison, and make indicators also relevant to Norway, Statistics Norway used firms with less than 250 as well as those with less than 50 employees to analyse the Norwegian SME population along the indicators covered 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.

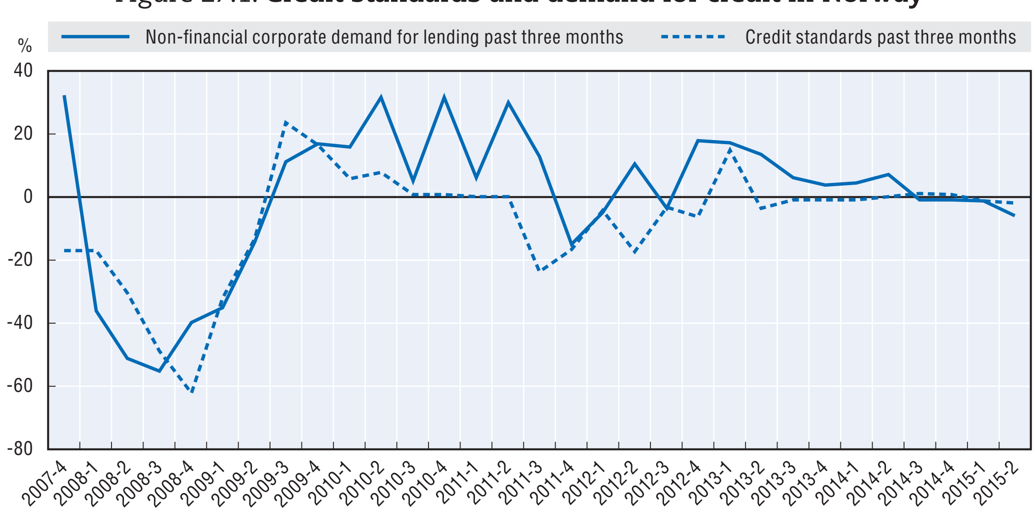
SME lending

SME loan data are based on administrative data collected from non-financial limited and public limited companies. The data are sourced from the financial statements and compiled annually by Statistics Norway. SME loans went up by 26.5% over the period 2007-11 from NOK 359 billion in 2007 to NOK 454 billion in 2011, but declined afterwards by 0.2% between 2011 and 2012, and by 4.4% between 2012 and 2013. Total corporate lending evolved somewhat differently, with the outstanding stock of business loans increasing every year between 2009 and 2013, peaking at NOK 1.2 million. As a consequence, the share of SME loans in total business loans declined from 42.9% in 2007 to 40% in 2012, to a low of 36.2% in 2013. SME lending nevertheless still 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%, only dropping slightly to 18.7% in 2013. The strength of legal rights and the depth of credit information, such as conditions that support creditors' confidence towards lending to SMEs, could be one of the reasons long-term lending has prevailed, contrary to most countries' short-term bias.

According to Norges Bank's Survey of Bank Lending, banks reported a significant decline of demand for credit from the corporate sector in the aftermath of the financial crisis, which started to recover in the first half of 2009, and continued to increase up to the first half of 2014. Credit demand turned negative in the second half of 2014 and declined further in the first two quarters of 2015. Credit standards tightened significantly right after the financial crisis and recovered between the second half of 2009 and 2010. Credit conditions mostly became tighter between the second half of 2011 up to the second quarter of 2015 (see Figure 27.1).

Figure 27.1. **Credit standards and demand for credit in Norway**



Source: Norges Bank.

StatLink http://dx.doi.org/10.1787/888933331455

Equity financing

Equity financing in Norway has been on the increase since 2010; between 2010 and 2013, the latest date for which comparable data is available, invested equity for new enterprises rose by 76.6%. Most of these equity investments are channelled to large enterprises; the overall amount of invested equity totalled NOK 255.2 billion in 2013, with NOK 63.2 billion going to midsized enterprises with between 50 and 249 employees, and NOK 44.9 billion flowing to small enterprises with fewer than 50 employed. Equity investments to medium-sized and small SMEs more than doubled between 2010 and 2013, rising faster than equity investments in large enterprises over this period. 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 27.2. **SME equity financing in Norway, 2010-13**

In NOK billion

New enterprises in the last two years	2010	2011	2012	2013
Invested equity for new enterprises	144.5	164.8	189.2	255.2
Invested equity for enterprises with less than 250 employees	30.3	39.3	37.7	63.2
Invested equity for enterprises with less than 50 employees	21.2	37.4	32.8	44.9

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

StatLink http://dx.doi.org/10.1787/888933333297

Other indicators

Business-to-business payment delays peaked in 2009 to 11 days, but declined s in 2010. In 2012 and 2013, B2B payment delays slightly picked up, but are still well below 2009 levels and also below the European average.

Bankruptcy data refer to enterprises which are in actual bankruptcy proceedings, covering 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 (952 bankruptcies) and 2009 (2 060 bankruptcies) as a result of the deterioration of the economic environment. Bankruptcies of SMEs then declined for three consecutive years, registering a 4.4% and then 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% and another 3% year-on-year in 2014.

Government policy response

A number of public support instruments are continuously delivered through agencies, such as Innovation Norway, SIVA and the Research Council of Norway. Innovation Norway and SIVA target SMEs in particular. The instruments include loans, guarantees, grants and tax incentives. There are relatively more funds available in rural than in 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 the EU's de minimis regulation allows (EUR 200 000). The grants can finance a variety of activities in the firm, such as product development or market entry.

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 one third 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.

In 2015, the Norwegian government launched an entrepreneurship plan, with a set of policies in areas such as financial support or access to skills, with the objective of making Norway a more attractive country for entrepreneurs. The entrepreneurship plan presented measures worth over NOK 400 million.

The plan improves access to capital by increasing the pre-seed funding scheme by NOK 100 million in 2016. This is to release private investment capital to young, innovative businesses operating in an innovative environment, with public authorities partially funding projects in cooperation with private investors. In addition, the entrepreneurship grant scheme was strengthened by NOK 150 million in order to promote particularly promising, high-growth businesses, and possibly increase the funding for these businesses by matching provided financial support with capital from private investors.

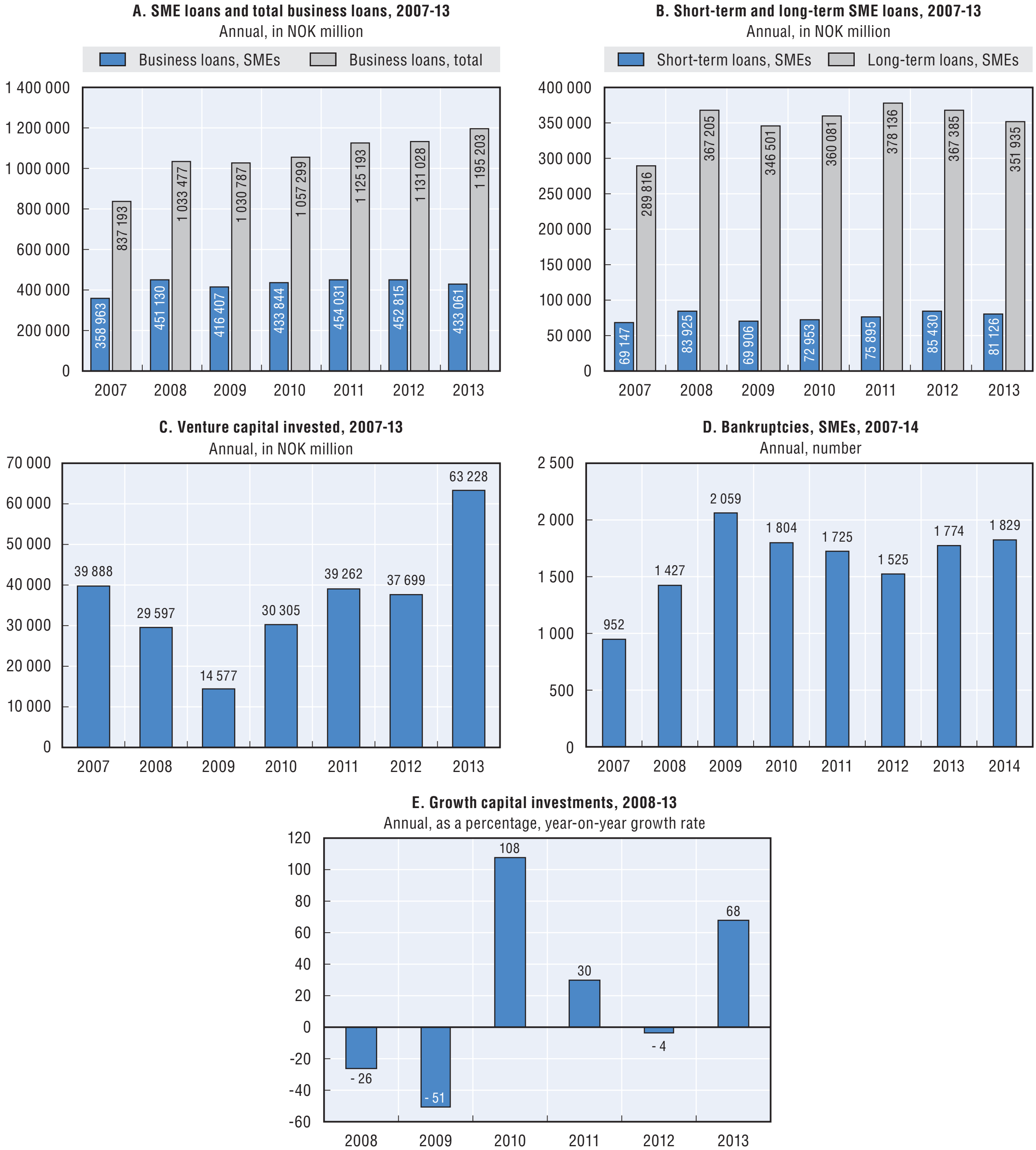
Table 27.3. **Scoreboard for Norway, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	NOK million	358 963	451 130	416 407	433 844	454 031	452 815	433 061	..
Business loans, total	NOK million	837 193	1 033 477	1 030 787	1 057 299	1 125 193	1 131 028	1 195 203	..
Business loans, SMEs	% of total business loans	42.9	43.7	40.4	41.0	40.4	40.0	36.2	..
Short-term loans, SMEs	NOK million	69 147	83 925	69 906	72 953	75 895	85 430	81 126	..
Long-term loans, SMEs	NOK million	289 816	367 205	346 501	360 081	378 136	367 385	351 935	..
Total short and long-term loans, SMEs	NOK million	358 963	451 130	416 407	433 844	454 031	452 815	433 061	..
Short-term loans, SMEs	% of total SME loans	19.3	18.6	16.8	16.8	16.7	18.9	18.7	..
Equity									
Venture capital investments	NOK million	39 888	29 597	14 577	30 305	39 262	37 699	63 228	..
Growth capital investments	%, year-on-year growth rate		-25.8	-50.7	107.9	29.6	-4.0	67.7	..
Other									
Bankruptcies, total		952	1 427	2 060	1 806	1 725	1 527	1 776	1 829
Bankruptcies, total	%, year-on-year growth rate		49.9	44.4	-12.3	-4.5	-11.5	16.3	3.0
Bankruptcies, SMEs		952	1 427	2 059	1 804	1 725	1 525	1 774	1 829
Bankruptcies, SMEs	%, year-on-year growth rate		49.9	44.3	-12.4	-4.4	-11.6	16.3	3.1

Source: See Table 27.4.

StatLink http://dx.doi.org/10.1787/888933333301

Figure 27.2. **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/10.1787/888933331462

Table 27.4. **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	Total SME debts owed to financial lending institutions	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). Excludes non-employer firms.	Accounting statistics for non-financial limited companies and Statistics Norway's Central Register of Establishments and Enterprises
Equity		
Venture capital	Invested equity for enterprises with less than 250 employees	Accounting statistics for non-financial limited companies
Other		
Bankruptcies, total	Bankruptcy proceedings for enterprises excluding 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), excluding non-employer firms and sole proprietorships.	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 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 enterprises.

Table 28.1. **Distribution of firms in Portugal, 2012**

By firm size

Firm size (employees)	Number	%
All enterprises	**353 611**	**100**
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, IP.

StatLink http://dx.doi.org/10.1787/888933333317

SME lending

The recent evolution in lending policy over the period 2010-14, 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, as well as a consistently declining trend in lending stocks since 2010. In 2014, the global stock of business loans decreased by 5.8% year-on-year, with most of the decline attributed to the decrease in SME lending, which recorded a 5.1% drop. The share of SME loans in total business loans remained at an 80% level.

Over the period 2009-14, SME lending declined by 24.6%, while total business loans dropped by 23.8%. This decline was more pronounced in short-term SME lending, having dropped by 61% over the period 2009-14, and registered a 21.2% decrease in 2014 compared to the year before, whereas long-term SME loans decreased by 2.8% year-on-year. SMEs were particularly affected by difficulties in accessing short-term financing to cover for their short-term liquidity management, with short-term lending accounting for 16.2% of the entire SME loan portfolio in 2014, down from 19.5% in 2013.

The share of government guaranteed loans in total SME loans grew significantly from 5.4% in 2009 to 7.8% in 2014, demonstrating the sustained public efforts to maintain SME access to finance.

Credit conditions

Over the period 2009-14, banks 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 26 basis points, from 5.71% in 2009 to 5.97% in 2014, however there was an interim decline of 162 basis points between 2012 and 2014. The interest rate spread between SMEs and large firms increased from 1.9% in 2009 to 2.2% in 2012, and decreased again to 1.6% in 2014, indicating an improvement on SME financing conditions. 83% of collateralised loans were SME loans in 2014, at almost constant levels throughout the past six years, underlying the tight collateral requirements for SMEs compared to large enterprises.

Equity financing

The global amount of venture capital invested in SMEs fell significantly over the 2009-11 period, reaching EUR 12.8 million in 2011, 69% less than in 2009, due to investors' high risk aversion as a consequence of the financial crisis. However, between 2012 and 2014, there were signs of recovery, with total venture capital investment in 2014 increasing by 268% since 2011.

Table 28.2. **Equity capital invested by business stage in Portugal, 2009-14**

In EUR million

Stage	2009	2010	2011	2012	2013	2014
Early stage	30.1	53.2	10	12.9	22.8	42.2
Seed	0.1	0	0.5	0.6	5.4	5.9
Start up	30	53.2	9.5	12.3	17.4	36.3
Later stage	11.8	12.1	2.8	3.7	5.8	4.9
Total	**41.9**	**65.4**	**12.8**	**17.4**	**28.6**	**47.1**

Source: Portuguese Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933333324

Other indicators

The drop in sales and the difficulties in accessing finance had a negative impact on SME cash flow, causing an increase in payment delays, which rose from 35 days in 2009 to 41 days in 2011, and declining again from 40 days in 2012 to 33 days in 2014. The number of enterprise bankruptcies almost doubled over the period 2009-12, with total bankruptcies increasing from 3 815 (2009) to 6 688 (2012). This significant increase, although transversal to 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 four years of continuous increase (2009-12) in the number of bankruptcies, 2014 ended with a significant and encouraging reduction of almost 40% in comparison with 2012.

Government policy response

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

In the framework of anti-crisis measures adopted by Portugal, SMEs' access to finance has been a major priority for the government. In this context, twelve "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 12.8 billion, have long-term maturities (up to 7 years) and preferential conditions, 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 as well as SME working capital.

As of 15 December 2014, about 144 000 projects were eligible for the "SME Invest and SME Growth" credit lines. EUR 12 billion in finance were provided to about 73 000 SMEs, supporting more than 932 000 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 "SME 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 include the three Revitalizar Funds, totalling EUR 220 million for venture capital investment in the start-up and expansion phases, which have shown to have had a positive impact with a substantial increase of the stock of venture capital investment in SMEs.

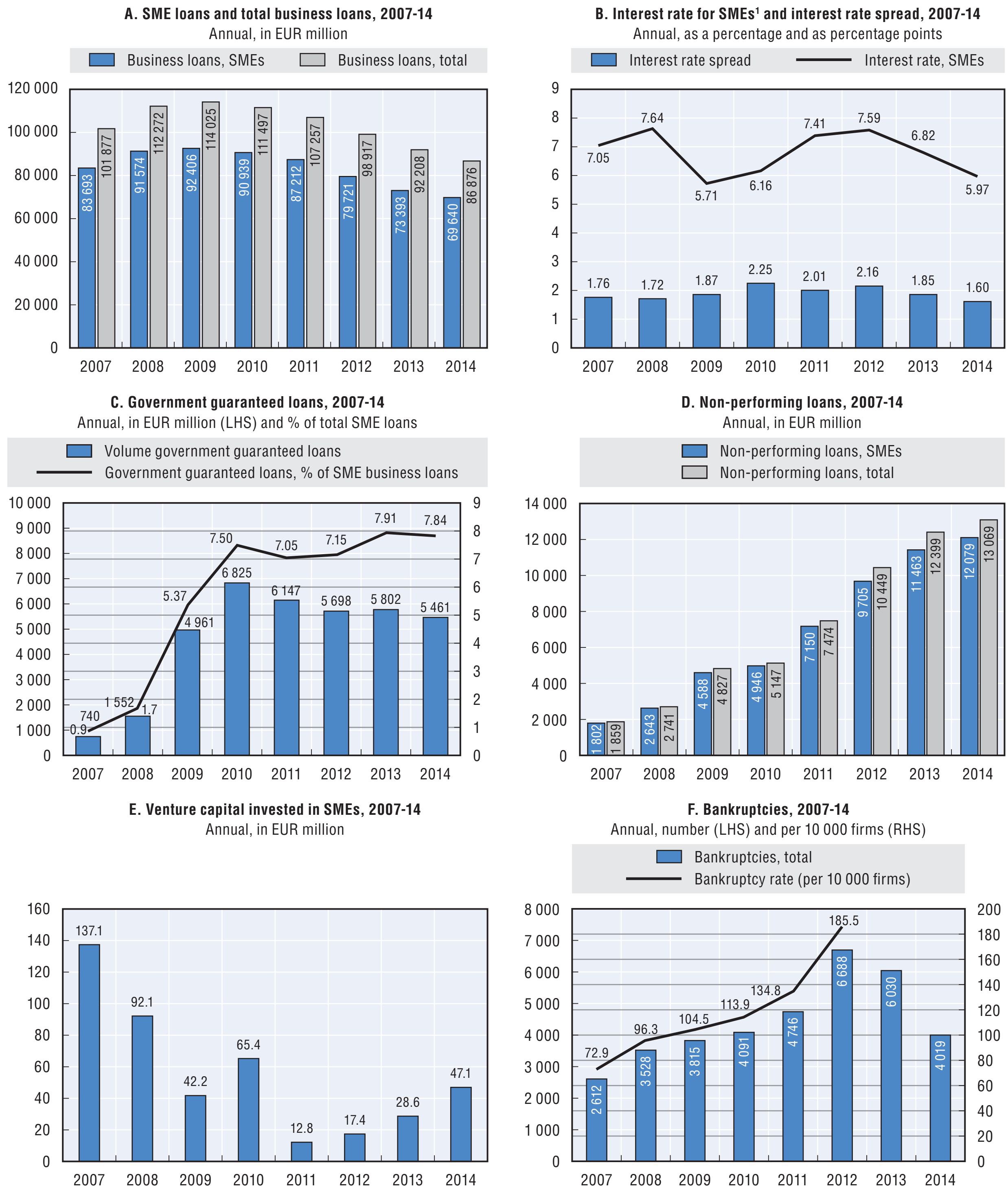
Table 28.3. **Scoreboard for Portugal, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	EUR million	83 693	91 574	92 406	90 939	87 212	79 721	73 393	69 640
Business loans, total	EUR million	101 877	112 272	114 025	111 497	107 257	98 917	92 208	86 876
Business loans, SMEs	% of total business loans	82	82	81	82	81	81	80	80
Short-term loans, SMEs	EUR million	26 581	27 725	28 891	26 702	23 846	16 714	14 286	11 251
Long-term loans, SMEs	EUR million	55 310	61 206	58 927	59 291	56 216	53 302	47 644	46 311
Total short and long-term loans, SMEs	EUR million	81 891	88 931	87 818	85 993	80 062	70 016	61 930	57 561
Short-term loans, SMEs	% of total SME loans	32	31	33	31	30	24	23	20
Government guaranteed loans, CGF	EUR million	..	..	4 961	6 825	6 147	5 698	5 802	5 461
Government guaranteed loans, CGF	% of SME business loans	..	..	5.4	7.5	7.0	7.1	7.9	7.8
Non-performing loans, total	EUR million	1 859	2 741	4 827	5 147	7 474	10 449	12 399	13 069
Non-performing loans, SMEs	EUR million	1 802	2 643	4 588	4 946	7 150	9 705	11 463	12 079
Non-performing loans, large	EUR million	57	98	238	201	324	744	936	990
Interest rate, average SME rate[1]	%	7.05	7.64	5.71	6.16	7.41	7.59	6.82	5.97
Interest rate spread (between average SME rate and large firm rate)	%	1.76	1.72	1.87	2.25	2.01	2.16	1.85	1.60
Collateral, SMEs	% of collateralised loans granted to SMEs in total collateralised loans	..	..	86	86	85	85	83	83
Equity									
Venture capital, SMEs	EUR million	137.1	92.1	42.2	65.4	12.8	17.4	28.6	47.1
Venture capital	Year-on-year growth rate, %		-32	-54	55	-80	36	64	65
Other									
Payment delays	Days	39.9	33	35	37	41	40	35	33
Bankruptcies, total	Number	2 612	3 528	3 815	4 091	4 746	6 688	6 030	4019
Bankruptcies, total	Year-on-year growth rate, %	..	..	8.1	7.2	16.0	40.9	-9.8	-33.3

Source: See Table 28.4.

StatLink http://dx.doi.org/10.1787/888933333338

Figure 28.1. **Trends in SME and entrepreneurship finance in Portugal**



Notes: 1. Interest rates on new loans up to EUR 1 million (prior to 2010) and loans up to EUR 250 000 (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/10.1787/888933331473

Table 28.4. **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 EUR 50 million, 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 250 000 (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 250 000 (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. All enterprises.	Intrum Justitia, European Payment Index
Bankruptcies, total	Data include all dissolved companies	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 for SMEs (see Box 29.1). Moreover, the criteria defining an SME are regularly changing (in 2005, 2009 and 2015), making it thus difficult to conduct a comparative analysis and regular assessments in respect of this segment. The Russian State Statistics Service undertakes a complete statistical census of SMEs every 5 years.

The Russian Government is working to increase the number of business entities that may be granted the status of an SME and on this basis, benefit from existing state support programmes.

Limit values of revenue from sale of goods (works, services), used for classification of SMEs, have been increased in two times in order to enhance participation of high-performance business entities in state support programs

According to the Federal law, adopted for organisation of a new framework for mutually beneficial cooperation among Russian and foreign companies as well as for the creation of new technological linkages, enterprises established by foreign citizens are recognised as SMEs from 1 October 2013 onwards. Prior to that, it was considered that as long as the share of a foreign citizen in share capital of a company exceeded 25%, this company was deprived of its SME status;

In 2015, the limit of participation in share capital of an SME was increased from 25% to 49% for legal entities that were previously not recognised as SMEs, as well as for foreign legal entities.

Box 29.1. **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:

Table 29.1. **Definition of SMEs in the Russian Federation**

Type	Employees	Sales (RUB million)
Micro	Up to 15	Not more than 120
Small	16-100	Not more than 800
Medium	101-250	Not more than 2 000

StatLink http://dx.doi.org/10.1787/888933333340

The role of SMEs in the Russian Federation is smaller than in most OECD countries and a range of other emerging economies. Less than 30% of the Russian Federation's workforce is employed in SMEs, and only 5% of the Russian Federation's adult population is currently involved in starting or running a new business (OECD, 2015).

There are more than 5.6 million micro, small, and medium-sized enterprises in Russia. In 2014, SMEs' contribution to GDP was about 21%. In 2014, SMEs' share in total investment in fixed assets totalled only 6%. SMEs in Russia are primarily microbusinesses. More than 63.5% of all SMEs are individuals, and 33.4 % are micro enterprises.

Considering the industrial structure of the sector, it should be noted that as the size of the company grows, its specialisation becomes more complicated. The small business sector focuses on trade and the provision of services to the population. Medium-sized companies are more represented in the areas with higher added value such as manufacturing, construction and agriculture.

According to statistics provided by the Ministry for Economic Development of the Russian Federation and based on data of the Russian State Statistics Service and State Tax Administration, the figures are the following:

Table 29.2. **Distribution of firms in the Russian Federation, 2014**

By firm size

Firm size (employees)	Number (as of 1 January 2015)
SMEs (up to 250)	
Individual entrepreneurs	3 550 900
Micro (up to 15)	1 862 900
Small (16-100)	235 600
Medium (101-250)	13 600
Total	**5 663 200**

Note: Individual entrepreneurs can be self-employed or they can have employees but almost all of the individual entrepreneurs are SMEs. Non-employed enterprises are included.

Source: State Tax Administration, the Russian State Statistics Service.

StatLink http://dx.doi.org/10.1787/888933333350

SME lending

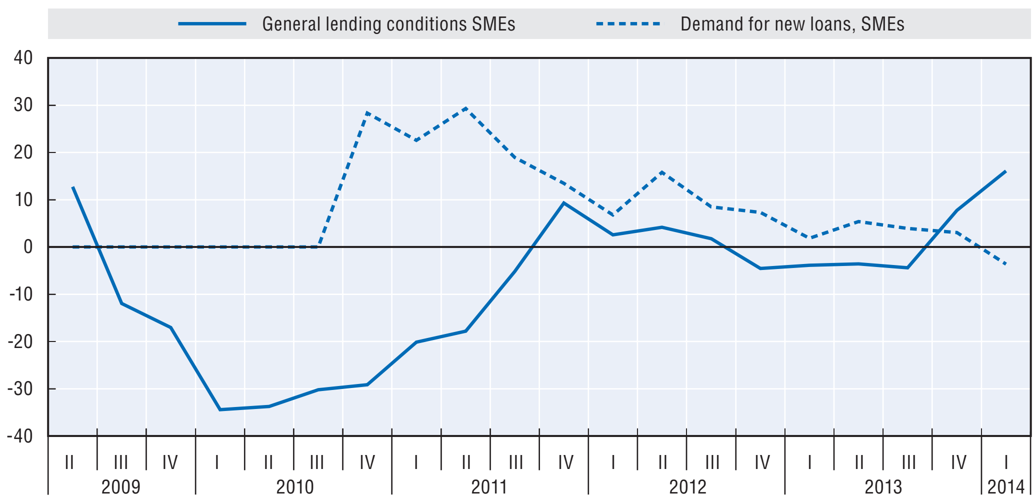
New SME loans in Russia doubled between 2008 and 2013, but in 2014 this upward trend stopped and the amount of new SME loans decreased. Total outstanding business loans were also drifting, increasing by 71% over the 2008-13 period, and unlike SME loans, this growth continued in 2014. As a result of these multidirectional trends, the SME share of total new loans decreased from 22.3% in 2013 to 19.8% in 2014.

Despite this rapid expansion of loans to businesses, especially to the SME segment, the insufficient availability of financing is one of the major constraints to SME development in the Russian Federation. Mature industrial SMEs, SMEs that lack access to bank finance (due to a lack of collateral or high borrowing costs), as well as beginning individual entrepreneurs all represent key groups who, in particular, require financial support (EIB, 2014).

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 loans. 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 lending conditions was observed. The interviewed loan officers also expected loan 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 29.1. **Bank lending conditions and SME demand for new loans in the Russian Federation, 2009-14**



Source: Bank of Russia.

StatLink http://dx.doi.org/10.1787/888933331489

The Central Bank of Russia (CBR) provides monthly data on average interest rates for SMEs from 2014 onwards. According to the CBR, the average interest rate on long-term loans for SMEs charged in January 2014 amounted to 12.3%, slightly more than 200 base points higher than for non-financial enterprises. In January 2015, the average interest rate on long-term loans for SMEs increased to 17.6% and the gap of the average interest rate for all non-financial enterprises grew up to 272 base points.

Equity financing

Venture capital (VC) has grown steadily over the period 2008-14. The total capital of VC and private equity funds doubled from 2008 and stood at USD 29.1 billion at the end of 2014. The main driver of this expansion was the growing number of funds investing in internet projects, which absorbed the bulk of these investments.

The federal government has been an important player in developing the venture capital sector through the establishment of the Russian Venture Company (RVC) in 2006, a federal government financed fund-of-funds seeking to stimulate venture capital investment in the high-technology sector. The total amount of funds, formed by RVC as of the end-2014 reached twenty (including two funds in foreign jurisdictions), their summary rate was EUR 457 million.

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 29.3. **Venture capital investment in the Russian Federation by stage, 2008-12**

In USD million, flows

	2008	2009	2010	2011	2012
Seed & Start up	67.8	13.3	21.5	129.2	129.0
Other early stages	94.0	110.5	131.8	143.0	269.0
Expansion	1 310.7	314.2	2 257.9	979.9	2 037.0
Restructuring	0.0	70.0	2.7	6.8	353.0
Later stage	0.0	0.0	100.0	1 823.9	1 364.0
Total	**1 472.4**	**507.9**	**2 513.8**	**3 082.8**	**4 152.0**

Source: Russian Venture Capital Association.

StatLink http://dx.doi.org/10.1787/888933333368

Total flows of private equity and venture capital investments in the Russian Federation have reached levels comparable to many OECD countries (OECD, 2015).

Other indicators

The number of bankruptcies reached a peak in 2010, but sharply declined in 2011, as the economy recovered from the 2008-09 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. In 2014, the number of bankruptcies increased to 14 500. In 2015, a further increase is expected due to the economic crisis.

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, and has increased again to 7.7% in 2014. Total NPLs 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 share of SME NPLs in total NPLs has grown from 27.7% in 2008 to a staggering 42.1% in 2012, adding to the reluctance of banks to provide loans to SMEs. The share of SME NPLs has declined somewhat in 2012 to 31.1%.

There is evidence that NPLs might be underreported and that both, the level of non-performing loans as well as its increase since 2007 would be much higher if a broader definition was 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 (Biarritz, 2013).

International and national policy response for promoting SME finance

A number of large-scale financial state support programmes have been implemented that give an opportunity to entrepreneurs in every region of the country to get a grant to start their own business, including microcredits, credit guarantees or credits on concessional terms. In 2013-14, RUB 135 billion were allocated from the federal budget to SME support.

Since 2005, the Ministry for Economic Development of Russia has been implementing the State SME Support Program which includes direct measures and the creation of |a special infrastructure for SME (such as business incubators, guarantee funds, micro-financing organisations, technology and industrial parks, business development centres, centres for export support, etc.).

The prevalence of micro finance institutions (MFIs) is growing in Russia. In 2008, there were approximately 2 300 MFIs with an aggregate loan portfolio of approximately RUB 25 billion (Russian Microfinance Centre, 2013). In comparison, there were already 3 570 registered non-bank microfinance providers in Russia in 2012, collectively managing a portfolio of approximately RUB 35 billion. 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 the portfolio), payday loan operations and commercial non-bank companies. An estimated 70% of MFIs loan to SMEs, with approximately 20% of loans going to start-ups and 80% to more established small enterprises.

In 2014, the Russian Government established the Credit Guarantee Agency. The new agency aims to provide guarantee support to SMEs. Its authorised capital totals RUB 50 billion (USD 1.4 billion) in budget funds. The agency began operations on June 30 and complements the system of existing regional organisations through coordinating their activities, now working 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.

In 2015 it was decided to set up the Federal Corporation on SME Development (Corporation) on the basis of the Credit Guarantee Agency. The Corporation will fulfil the following tasks: financial, infrastructure, property, legal, methodological and other support to SMEs; raising Russian, foreign and international organisations' funds in order to support SMEs; organisation of the information, marketing, financial and legal support for SME investment projects; realisation of measures aimed at increasing the share of the goods, work and services procurement of certain types of legal entities for SMEs; as well as SME state support measure improvement, including legal regulation.

Private sector MFIs receive funds from private investors (often the founder) who operate on a for-profit basis. Private sector MFIs include credit cooperatives funded by members who are also eligible loan recipients. Private sector loans from MFIs to SMEs average approximately RUB 120 000, 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.

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 1 January 2014, reached RUB 96.2 billion. SME bank partners comprise 137 banks and 150 infrastructure organisations, including leasing and factoring companies, micro-financing companies, and regional SME support foundations. In SME bank debt structure, banks dominate, with 80%. The share of factoring companies accounts of a tenth of the total debt, with the highest share being held by infrastructure companies.

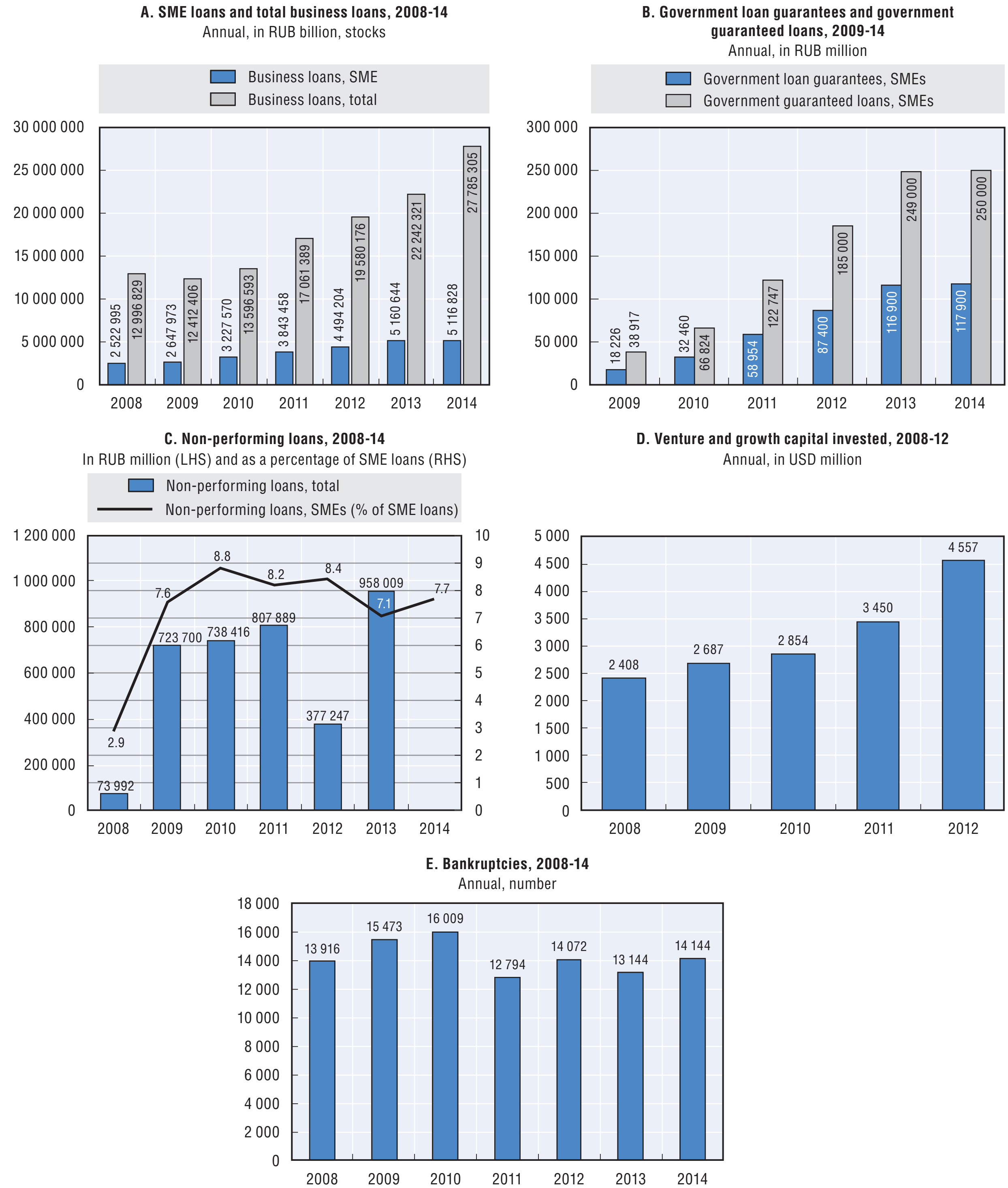
Table 29.4. **Scoreboard for the Russian Federation, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
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	5 116 828
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	27 785 305
SME loan share	%	..	19	21	24	23	23	23	20
New business loans, SMEs (flows)	RUB million	..	4 089 500	3 014 572	4 704 715	6 055 744	6 942 525	8 064 759	7 610 594
New business loans, total (flows)	RUB million	..	..	19 091 541	20 662 219	28 412 267	30 255 044	36 224 567	38 529 851
Government loan guarantees, SMEs	RUB million	..	..		32 460	58 954	87 400	116 900	117 900
Government guaranteed loans, SMEs	RUB million	..	..	..	66 824	122 747	185 000	249 000	250 000
Non-performing loans, SMEs	%	..	4.27	7.56	8.8	8.19	8.39	7.08	7.08
Non-performing loans, total	%	..	…	5.83	5.43	4.74	4.57	4.31	4.31
Interest rate, SMEs	%	..	..	..	..	..	..	13.10	13.10
Interest rate, large firms	%	11.50	14.10	13.80	9.80	10.60	10.60	11.10	11.10
Equity									
Venture and growth capital (seed and early stage)	USD million	1 625	2 408	2 687	2 854	3 450	4 557	5 211 (at the end of 1Q)	6 211 (at the end of 1Q)
Other									
Bankruptcies, total	Number	..	13 916	15 473	16 009	12 794	14 072	13 144	14 144

Source: See Table 29.5.

StatLink http://dx.doi.org/10.1787/888933333376

Figure 29.2. **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/10.1787/888933331499

Table 29.5. **Definitions and sources of indicators for the Russian Federation's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs (stocks)	Bank and other credit institution loans to SMEs outstanding, stock, 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

In 2013, 99.8% of all Serbian enterprises were SMEs[1], employing almost 65% of the labour force. According to data from the Ministry of Economy, SMEs accounted for 54.1% of total gross value added of non-financial sector and for 43.2% of total exports of non-financial sector in 2013. At the same time, only 4.4% of all Serbian SMEs recorded net income from exports. Sectorial breakdown shows that most SMEs are involved in trade (30%), manufacturing (15.9%), professional, scientific and innovative activities (11.7%), and in transportation and storage (10.2%).

Table 30.1. **Distribution of firms in Serbia, 2013**

By firm size

Firm size (employees)	No. firms	%	No. employees	%
All enterprises	**315 906**	**100**	**1 184 944**	**100**
SMEs (1-249)	**315 412**	**99.8**	**768 550**	**64.9**
Micro (1-9)	303 927	96.1	356 384	30.1
Small (10-49)	9 353	3.0	189 172	16.0
Medium (50-249)	2 132	0.7	222 994	18.8
Large (250+)	**494**	**0.2**	**416 394**	**35.1**

Note: Non-employer enterprises are not included. Entrepreneurs are included under micro enterprises.

Source: Ministry for Economy, Report on SMEs, 2013.

StatLink http://dx.doi.org/10.1787/888933333383

Looking at the changes in the distribution of firms over time, a decrease in small and medium size enterprises from 4.2% in 2007 to 3.6% in 2013 can be observed, whereas the percentage of microenterprises grew from 95.6% in 2007 to 96.1% in 2013.

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 an annual survey on SME financing among commercial banks residing in Serbia. 25 banks participated in the 2015 survey.

SME loans had a rising tendency over the 2007-11 period, where SME loans recorded an overall increase by 51.2%, but declined afterwards by 10% and 8.1% (year-on-year) in 2012 and 2013, respectively. In 2014, due to subsidised loans, a growth level of 8.4% was recorded. Total outstanding business loans grew by 34.1% year-on-year between 2007 and 2008, with growth slowing down significantly afterwards to 5% over the 2008-12 period, while in 2013 and 2014 year-on-year decreases by 5.9% and 5.1%, respectively were recorded. The SME loan share as a total of all business loans increased from 21% to 23.1% over the 2007-11 period, and dropped to 20.3% and 19.8% in 2012 and 2013, respectively. In 2014, this downward trend was reversed and the SME loan share increased again to 22.7%. Short-term loans represent around one third of SME lending, but they were on a slightly downward path since 2007 (35% of total SME loans being short-term in 2007, against 27.2% in 2012), until 2013 and 2014 when a reversal of this trend became visible as the share of short-term SME loans grew to 29.8% and 29.9%, respectively.

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 2014 by 70 basis points year-on-year, standing at 7.8 % compared to a 5.6% equivalent rate charged to large enterprises in 2014, marking a risk premium for SMEs of 2.2%, a significant jump compared to 2013, but at the same time a decline compared to the 2007-10 period. On the other hand, due to subsidised loans, interest rates for SME loans in the national currency recorded a drop of 440 basis points in 2014 year-on-year, down to 13.9%, while the equivalent for large enterprises dropped to 9.8%. The interest rate spread for loans in national currency therefore slightly declined (by 32 basis points) in 2014 vis-a-vis 2013.

In 2014, the percentage of SMEs required to provide collateral (in addition to a bill of exchange) remained on almost the same level as in 2013, standing at 56.2%. During 2007-13, this percentage increased from 31.6% in 2007 to 57% in 2013. At the same time, after two years of high levels of interest rates, the rejection rate dropped from 31.8% in 2013 to 24.7% in 2014, which is, however, still significantly higher than it was in 2007 (17.2%) or 2011 (15.8%). This decrease could be explained by the subsidised loans programme which was implemented during 2014.

Equity financing

Venture capital financing is rare in Serbia. There are legal problems because there is no formally established process to create a venture capital fund. According to a survey conducted by the Statistical Office of the Republic of Serbia, SMEs' main source of finance comes from own funds. One third of SMEs are using external sources of finance, mostly bank lending (over 40%), but also borrowing from friends and family members.

Other indicators

The percentage of SMEs waiting for more than 60 days for payment declined from 35% in 2011 to 28% in 2013 (the indicator for 2014 is not yet available). At 12%, the share of SME bankruptcies in 2013 remained almost the same as in the previous year (data for 2014 are not yet available). The number of newly established SMEs per capita recorded a year-on-year growth of 3.8%, putting the ratio of newly established SMEs vs. SMEs liquidated from 1.2:1 in 2012 to 2.2:1 in 2013.

Over the 2008-13 period, the relative number of SME non-performing loans increased dramatically from 10.6% in 2008 to 28.9% in 2014, one of the highest among countries participating in the scoreboard. The share of non-performing loans to all business loans in 2014 was 24.6%.

Government policy response

The Serbian Ministry of Finance is responsible for entrepreneurship and SME development. The framework for SME policy development is integrated in the Development Strategy of Competitive and Innovative Small and Medium-Sized Enterprises. The strategy is based on five pillars, which include:

- promotion and support of entrepreneurship and establishment of new enterprises;
- human resources for a 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 2013 in the field of promotion and support of entrepreneurship and the establishment of new enterprises included:

- The Serbian Development Fund (SDF) implemented a credit support programme for start-ups. Within this programme, 33 start-up loans of a total amount of RSD 67.8 million were approved.
- In the field of financing and taxation of SMEs, the SDF realised 86 loans of a total amount of RSD 1.8 billion in 2013. At the same time, a new Apex loan, specifically designed for and only accessible by SMEs, was approved by the ECB for SMEs and signed at the end of 2013 for the amount of EUR 150 million.
- Currently, the Ministry of Economy is preparing a new strategy for the development of entrepreneurs and their competitiveness, which will cover the period 2014-20 and largely be in line with the EU Small Business Act.

Box 30.1. **Definition of an SME in Serbia**

The Serbian Accounting and Auditing Law (2006) defines SMEs as enterprises which fulfill at least two out of the following three conditions: 1) employees up to 250, 2) annual turnover up to EUR 10 million, and 3) total assets up to EUR 5 million.

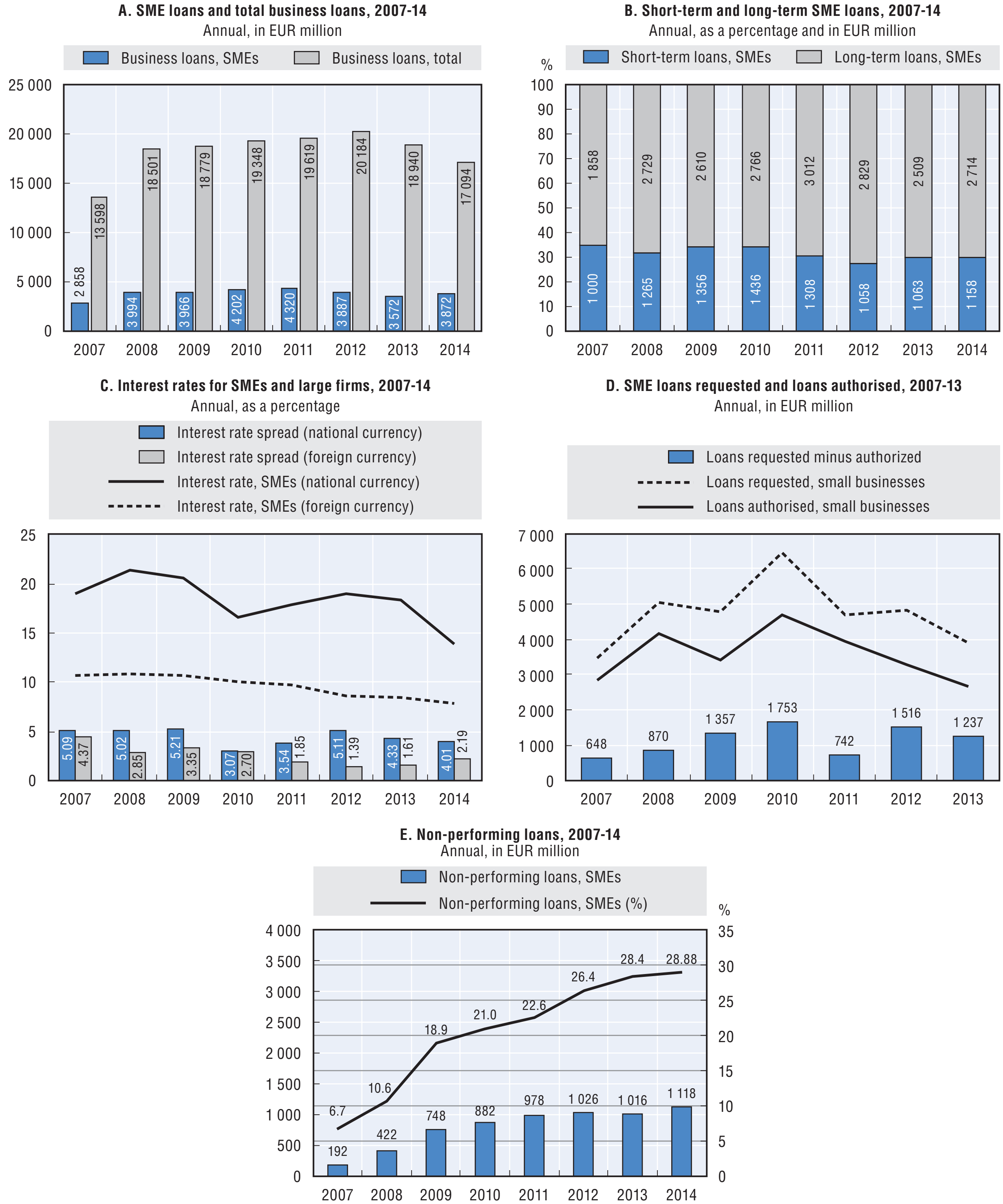
Table 30.2. **Scoreboard for Serbia, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	EUR million	2 858	3 994	3 966	4 202	4 320	3 887	3 572	3 872
Business loans, total	EUR million	13 598	18 501	18 779	19 348	19 619	20 184	18 940	17 094
Business loans, SMEs	% of total business loans	0.21	0.22	0.21	0.22	0.22	0.19	0.19	0.23
Short-term loans, SMEs	EUR million	1 000	1 265	1 356	1 436	1 308	1 058	1 063	1 158
Long-term loans, SMEs	EUR million	1 858	2 729	2 610	2 766	3 012	2 829	2 509	2 714
Total short and long-term loans, SMEs	EUR million	2 858	3 994	3 966	4 202	4 320	3 887	3 572	3.872
Short-term loans, SMEs	% of total SME loans	35	31.7	34.2	34.20	30.3	27.2	29.8	29.
Government guaranteed loans, SMEs	EUR million	0.2	0.2	297.9	522.7	390.3	540.9	316.4	603.54
Loans requested (new loans total)	EUR million	3 472	5 045	4 776	6 460	4 705	4 810	3 896	..
Loans used (new loans total)	EUR million	2 027	3 409	3 015	3 190	3 323	2 847	2 326	..
Loans authorised (new loans total)	EUR million	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	EUR million	192	422	748	882	978	1 026	1 016	1 118
Non-performing loans, SMEs	% of total SME loans	6.70	10.60	18.90	21.00	22.60	26.40	28.40	28.88
Interest rate, SMEs (loans in foreign currency)	%	10.70	10.90	10.60	10.10	9.70	8.60	8.50	7.83
Interest rate, large firms (loans in foreign currency)	%	6.30	8.00	7.20	7.40	7.90	7.20	6.90	5.64
Interest rate spread (loans in foreign currency)	Percentage points	4.37	2.85	3.35	2.70	1.85	1.39	1.61	2.19
Interest rate, SMEs (loans in national currency)	%	18.90	21.30	20.50	16.50	17.90	19.00	18.30	13.85
Interest rate, large firms (loans in national currency)	%	13.80	16.30	15.30	13.40	14.40	13.90	13.90	9.84
Interest rate spread (loans in national currency)	Percentage points	5.09	5.02	5.21	3.07	3.54	5.11	4.33	4.01
Collateral, SMEs	%	31.60	38.80	43.10	44.50	45.60	54.90	57.00	56.16
Equity									
Venture and growth capital EUR million		0.1	1.3	..	13.2	..	..	..	..
Other									
Payment delays		..	..	34.00	31.00	31.00	36.00	..	..
Bankruptcies, total	Per 1 000 firms	18.3	12.5	19.4	22.3	25.9	44	43.5	
Bankruptcies, total	%, year-on-year growth rate	..	-32.00	55.00	15.00	16.00	69.00	..	..

Source: See Table 30.3.

StatLink http://dx.doi.org/10.1787/888933333391

Figure 30.1. **Trends in SME and entrepreneurship finance in Serbia**



Source: Chart A, B, C, D, and E: National Bank of Serbia.

StatLink http://dx.doi.org/10.1787/888933331503

Table 30.3. **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

Note

1. Serbia does not use the standard EU definition for an SME (see Box 30.1).

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Slovak Republic

SMEs in the national economy

SMEs dominate the Slovak economy, covering 99.6% of the enterprise population in 2014. There has been a constant growth in the number of SMEs over recent years, with a 3% year-on-year increase in 2014. The vast majority of SMEs (87.6%) were micro-enterprises, employing up to 9 employees. Moreover, self-entrepreneurs are an important component of the enterprise population in the Slovak Republic and constitute a significant part of firms with employees. In 2014, there were altogether 37 773 self-entrepreneurs with at least one employee, all of them counted as part of the SME population.

Table 31.1. **Distribution of firms in the Slovak Republic, 2014**

By firm size

Firm size (employees)	Number	%
All firms (with minimum of 1 employee)	141 386	100
SMEs (1-249)	**140 758**	**99.6**
Micro (1-9)	123 847	87.6
Small (10-49)	14 158	10.0
Medium (50-249)	2 753	1.9
Large (250+)	**628**	**0.4**

Note: Data include non-financial enterprises, including self-entrepreneurs.

Source: Database of Statistical Office of the Slovak Republic.

StatLink http://dx.doi.org/10.1787/888933333405

SME lending

Because of different SME definitions used in the National Bank statistics and the Tax Authority financial statements database, it is not possible to provide harmonised and comparable data for all indicators. The situation is expected to change in the future, as the use of the EU SME definition has been imposed to banks by law, meaning that their statistics will have to incorporate this definition accordingly. As a consequence the figures in six categories of the current scoreboard edition represent SMEs that are not classified as SMEs according to the EU SME definition. The majority of data for SMEs originate from the Tax Authority database that is composed of the financial statements (balance sheets) of enterprises. The data are taken from the financial statements provided by enterprises for the previous year, therefore it is only possible to get N-1 data. The data are processed according to the size of the firm (represented by number of employees), and 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 sub-total for legal persons/ enterprises from the financial statements database with the sub-total for natural persons from the National Bank statistics (alternative 1 in the scoreboard). There are also SME data available in the banking statistics, but as the definition of SMEs within the banking sector is not harmonised, this data does not correspond to the EU SME definition either (alternative 2 in the scoreboard). Once harmonised, SME data are made available from banking statistics, which will be used for both, natural and legal persons.

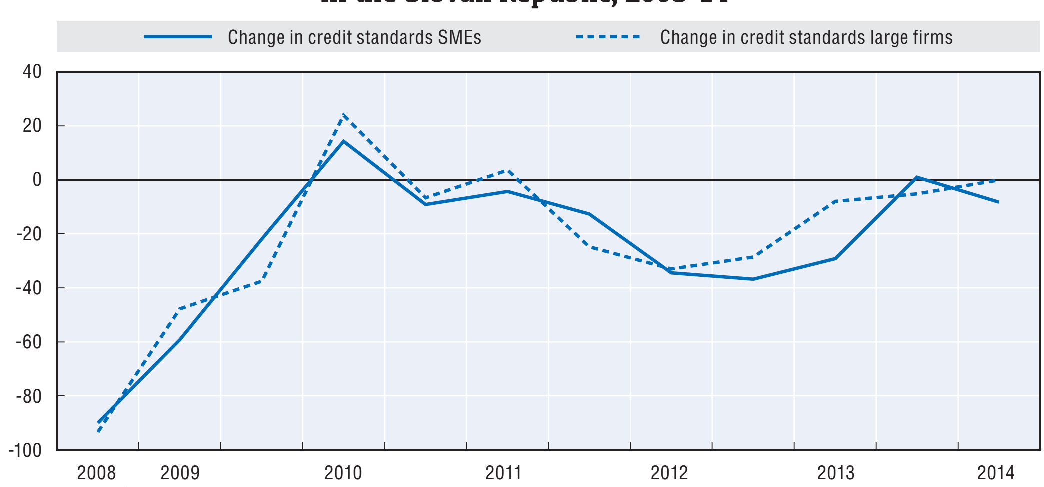
Total SME lending surged in 2008 by 32% year-on-year, and remained broadly constant up to 2010. In 2011, SME lending fell by 12%, picking up again in 2012 and 2013 by 4.1% and by 11.7%, respectively. Total SME lending increased in 2008 and stagnated in 2009-10, decreasing by 12% in 2011. The decline in SME lending in 2011 was more pronounced in short-term loans (-16%) 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 2012-14, total lending to enterprises slowed down, recording a 3.7%, 2.7% and 1.8% decrease, respectively. Nevertheless, lending in 2014 was still above the 2007 level.

Credit conditions

SME interest rates plummeted from 5.5% in 2007 to 3% in 2009, but rose again to 3.2% in 2010-11, oscillating between 3.6%-3.8% afterwards, thus above the 2009 level, but well below the pre-crisis level observed in 2007-08. Interest rates for self-entrepreneurs were at 6% in 2012, increased slightly to 6.2% in 2013, and reverted back to 6% in 2014.

According to the Slovak Republic's Central Bank Lending Surveys, published twice each year, credit conditions 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 as well as 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 31.1).

Figure 31.1. **Change in credit standards for SMEs and large firms in the Slovak Republic, 2008-14**

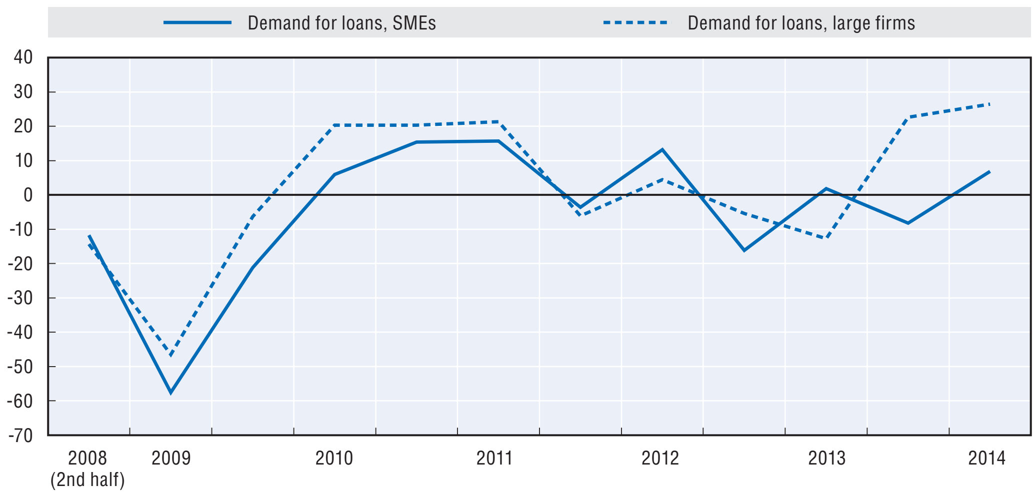


Source: National Bank of Slovakia.

StatLink http://dx.doi.org/10.1787/888933331511

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 31.2. **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/10.1787/888933331524

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 2014 remained equal comparing to the previous year, but they were still far from their peak in 2009. Total funding over the period was very marginal. In 2014, there was a launch of the operation of the Venture Capital instrument under the JEREMIE initiative that led to significant increases of investments into the seed phase. However, the bulk of investment was still concentrated into the development phase, accounting for a 67% share of overall VC investing, despite the quite significant dropdown in comparison to the previous year. It is expected that further investments will be targeted at the seed and start-up phase in connection to the implementation of the JEREMIE risk capital instrument, which is supposed to focus on these investment stages.

Table 31.2. **Venture capital investments in SMEs in the Slovak Republic, 2007-14**

In EUR million, by investment stage

	2007	2008	2009	2010	2011	2012	2013	2014
Seed	0.22	3.85	2.10	0.06	0.87	1.19	0.06	1.20
Start-up	0.05	0.45	3.90	10.90	4.80	0.20		1.72
Development	6.77	3.69	8.37	0.46	5.80	5.59	8.93	6.05
Total	**7.04**	**7.99**	**14.37**	**11.42**	**11.47**	**6.98**	**8.99**	**8.97**

Source: Reports on the state of SMEs in the Slovak Republic.

StatLink http://dx.doi.org/10.1787/888933333416

Other indicators

Average B2B payment delays were at a low in 2008, amounting to 8 days, and then rose sharply in the next few years, reaching 21 days in 2012. Suppliers' payment delays remained high, allowing SMEs to retain cash and evidencing liquidity problems. 2013 marked a turning point as the average payment delay dropped for the first time in five years to 19 days, decreasing further in 2014 to 17 days. This evolution contrasts with the B2C payment delays, which increased in 2014 by 2 days, up to 14 days.

Total bankruptcies increased continuously over the 2007-11 period, standing at 169 in 2007, and increasing by a factor of 2.45 by 2011. The decrease in the number of bankruptcies of 4% year on year in 2012, was followed by an uptick of 9.4%, reaching 394 bankruptcies in 2013, with the number of bankruptcies increasing further to a new high of 410 (out of them 409 SMEs) in 2014. SMEs account for the lion's share of total bankruptcies, covering 99.8% of the total in 2014, up from 94.2% in 2012.

Government policy response

There are financing instruments providing loans and guarantees for SMEs operated by specialised state banks and the Slovak Business Agency (SBA).

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 finance for expansion purposes. The government is therefore committed to increasing the basic capital of the two state banks: the Slovak Guarantee and Development Bank and the Eximbank, both of 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 two targeted lending schemes by the Slovak Guarantee and Development bank, 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, secondary materials, fuel and energy saving 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 of EUR 60 million. Part of this amount was used to support an increased number of SMEs. However, financing of SMEs represents only 18.9% of the total portfolio. While the overall volume of SME loans slightly increased in 2014 (EUR 43.7 million) compared to the previous year (EUR 42.5 million), the support of SMEs through guarantees decreased significantly, from EUR 2.4 million in 2013 to EUR 1 million in 2014, due to their lower attractiveness compared to direct loan products.

EU-JEREMIE initiative

Another government initiative, carried out in cooperation with the EIF, is the EU-JEREMIE initiative that includes three 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. The leverage effect generated by these financing instruments should provide a minimum of EUR 306.6 million for SMEs under favourable conditions. In 2014, all three financing instruments were operational with six participating commercial banks and two investment companies. In total, 174 SMEs were supported by loans, guarantees and venture investments, totalling a volume of EUR 52.8 million.

In 2014 all three planned financing instruments were successfully started. As a result, government/ EU-guaranteed loans increased from the previous year by 20.6% to EUR 189.4 million. Contrary to that, the provision of government loan guarantees continued to decline, as in 2013, by 31.5%, down to EUR 26 million. This measure is being replaced by other measures such as portfolio guarantee schemes. Direct government loans, including government/ EU-subsidised loans, increased significantly, reaching EUR 235.3 million in 2014, representing a 19.4% year-to-year growth. The availability of repayable financial resources for SMEs will further increase in the upcoming period in consequence of further deployment of the EU-JEREMIE resources and a prepared launch of new financing instruments funded by the structural funds and EU horizontal programmes.

Operational Programme Competitiveness and Economic Growth

Besides funding provided by the state banks and public financing instruments, the most prominent programme of the government for 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. IFI 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 1.1 billion, including a replenishment by EUR 225 million made in 2012, with the actual cost standing at EUR 593.5 million at the end of 2014 (52.3% of the total allocation). In 2014, a total of 74 SMEs were supported by the Operational Programme Competitiveness and Economic Growth, which is almost the equal number as in 2013 (75). Since the beginning of the programme operation in 2008, 1 350 SMEs have received support.

Risk Capital Programme

The objective of this programme is to facilitate access for SMEs to development capital through venture investments. The programme is implemented by seven 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 to target companies, alternatively complemented by loans. 43 new investments amounting to EUR 8.9 million were realised in 2014. The total cost of realised investments amounted to EUR 83.4 million so far, supporting 183 companies.

Micro Credit Programme

This scheme, originating in 1997 and suspended in 2010, was relaunched 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 3.6 million have been lend. In 2014, 70 SMEs were supported, 24% of them were start-ups.

Table 31.3. **Scoreboard for the Slovak Republic, 2007-14**

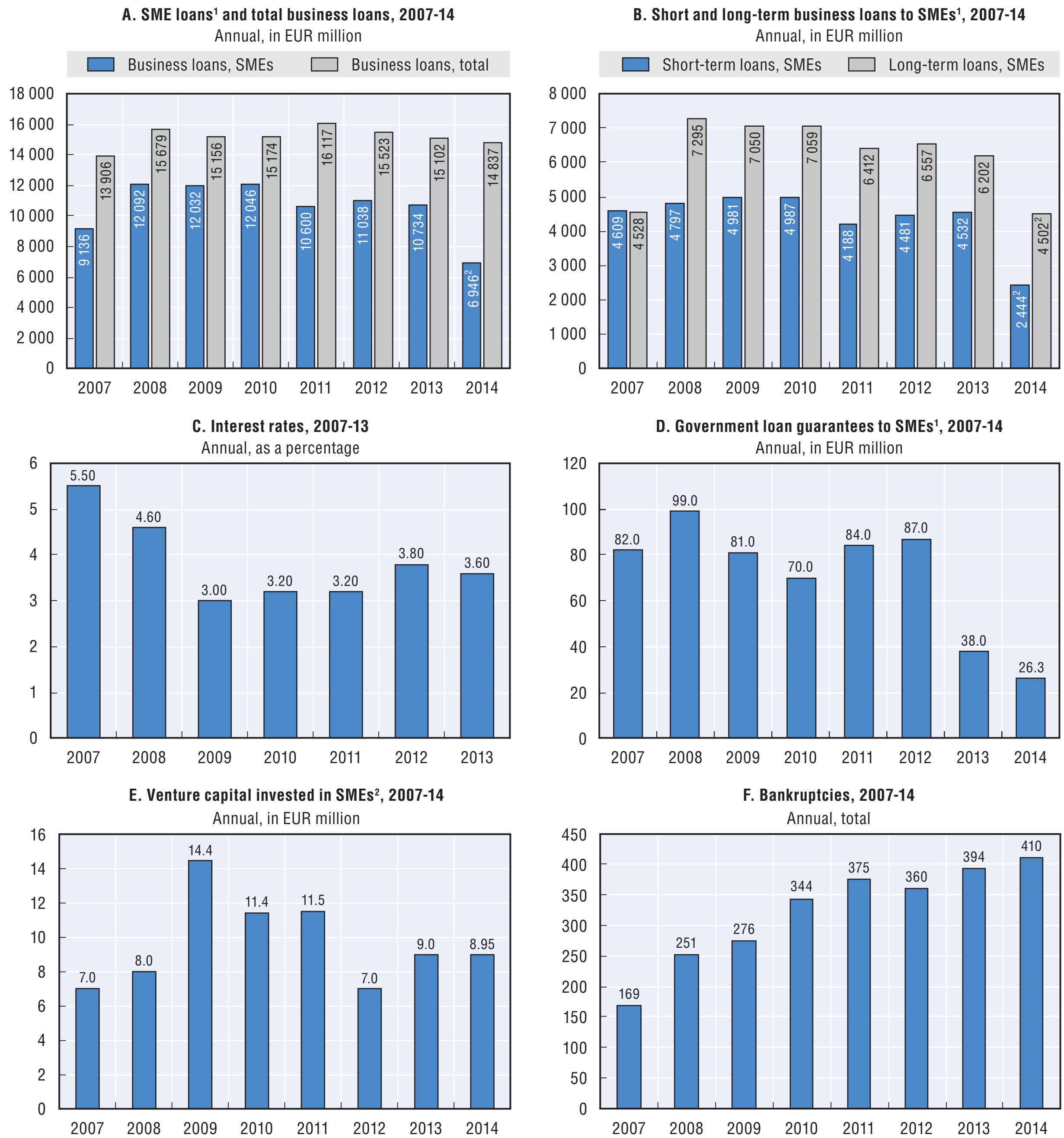
Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Outstanding business loans, SMEs (stock)	EUR million	9 136	12 092	12 032	12 046	10 600	(1) 11 038 (2) 5 893	(1) 10 734 (2) 6 704	(2) 6 946
Outstanding business loans, total (stock)	EUR million	13 906	15 679	15 156	15 174	16 117	15 523	15 102.39	14 837.1
Business loans, SMEs	% of total business loans	65.7	77.1	79.4	79.4	65.8	71.1	71.1	..
Outstanding short-term loans, SMEs (stock)	EUR million	4 609	4 797	4 981	4 987	4 188	4 481		
Short-term loans, SMEs (stock)	EUR million	4 609	4 797	4 981	4 987	4 188	4 481	4 532	2 444 (2)
Long-term loans, SMEs (stock)	EUR million	4 527	7 295	7 051	7 059	6 412	6 557	6 202	4 502 (2)
Total short and long-term loans, SMEs	EUR million	9 136	12 092	12 032	12 046	10 600	11 038	10 734	6 946 (2)
Short-term loans, SMEs	% of total SME loans	50.4	39.7	41.4	41.4	39.5	40.6	42.2	35.2 (2)
Government loan guarantees, SMEs	EUR million	82	99	81	70	84	87	38	26
Government guaranteed loans, SMEs	EUR million	115	157	143	139	167	136	157	112.7
Non-performing loans, SMEs	EUR million	..	..	..	..	..	613	666	716
Non-performing loans, SMEs	% of total SME loans						10.4	9.9	10.3
Interest rate, SMEs	%	5.5	4.6	3.0	3.2	3.2	3.8	3.6	..
Interest rate spread	% points	..	..	..	..	..	(1) 1.9 (2) 3.7	(1) 1.8 (2) 2.2	(1) 1.8 (2) 2.6
Collateral, SMEs (3)	% of SMEs required to provide collateral on latest bank loan	100	100	100	100	100	100	100	100
Rejection rate	SME loans authorised/ SME loans requested	..	..	..	..	57.2	..	53.2	..
Equity									
Venture and growth capital (seed and early stage)	EUR million	7	8	14.4	11.4	11.5	7.0	9.0	8.95
Other									
Payment delays, B2B	Days	19.7	8.0	13.0	17.0	20.0	21.0	19.0	17.0
Bankruptcies, total		169	251	276	344	375	360	394	410
Bankruptcies, total	%, year-on-year growth rate		48.5	10.0	24.6	9.0	-4.0	9.4	4.1
Bankruptcies, SMEs						363	339	377	409
Bankruptcies, SMEs	%, year-on-year growth rate						-6.6	11.2	8.5

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: See Table 31.4.

StatLink http://dx.doi.org/10.1787/888933333421

Figure 31.3. **Trends in SME and entrepreneurship finance in the Slovak Republic**



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/10.1787/888933331532

Table 31.4. **Definitions and sources of indicators for the Slovak Republic's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs (stock)	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 (stock)	Bank and financial institution business loans to all non-financial enterprises, including natural persons – entrepreneurs, stocks	National Bank of Slovakia
Short-term loans, SMEs (stock)	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), (2) by firm size using banking sector definition	Tax Authority/ financial statements (balance sheets) database for the period 2007-2013. National Bank of Slovakia (self-trade entrepreneurs).
Long-term loans, SMEs (stock)	Loans more than one year 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 for the period 2007-2013. National Bank of Slovakia (self-trade entrepreneurs).
Total short and long-term 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
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 (Slovak Business Agency), Slovak Guarantee and Development Bank, Export-Import Bank
Government guaranteed loans, SMEs	Loans guaranteed by government. 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
Non-performing loans, SMEs	Non-performing SMEs loans classified	National Bank of Slovakia
Interest rate, SMEs	Figures represent the general interest rate for all business for the period 2007-2011. Interest rate from 2012 represents the general interest rate for SMEs - non-financial enterprises.	National Bank of Slovakia
Interest rate spread	Figures represent the difference between highest and lowest monthly interest rate	National Bank of Slovakia
Collateral, SMEs	Figures relate to development loans, for working capital loans collateral is usually not requested	National Bank of Slovakia, Slovak Business Agency survey
Rejection rate	The proportion of SMEs applied for bank loan and got everything	European Commission: SMEs' Access to Finance Survey
Equity		
Venture capital investments	Actual amounts invested in SMEs: seed, start-up and development 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, based on Com Recommendation 2003/361/EC).	Annual reports on the state of SMEs in the Slovak Republic (Slovak Business Agency).
Other		
Payment delays, B2B	Average number of days delay beyond the contract period for Business to Business (B2B)	European Payment Index reports (Intrum Justitia)
Bankruptcies, total	Number of enterprises ruled bankrupt	Statistics of the Ministry of Justice for the period 2007-2010. CRIF - Slovak Credit Bureau for the period 2011-2014.
Bankruptcies, SMEs	Number of enterprises ruled bankrupt	CRIF - Slovak Credit Bureau for the period 2011-2014.
Equity		
Venture capital, SMEs	Actual amounts invested in SMEs: seed, start-up and development 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 (Slovak Business Agency)
Others		
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

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Slovenia

SMEs in the national economy

In 2014, 99.6% of all firms in Slovenia were SMEs and 89.2% of firms employed less than 10 employees.

Table 32.1. **Distribution of firms in Slovenia, 2014**

By firm size

Firm size (employees)	2014	%
All firms	**59 856**	**100**
SMEs (0-249)	**59 620**	**99.6**
Micro (0-9)	53 413	89.2
Small (10-49)	5 088	8.5
Medium (50-249)	1 119	1.9
Large (250+)	**236**	**0.4**

Notes: Data include enterprises in all industries and excludes non-employer enterprises.

Source: Statistical Office of the Republic of Slovenia.

StatLink http://dx.doi.org/10.1787/888933333437

SME lending

Enterprises with more than EUR 2 million in assets have to report their financial position for the purpose of financial accounts, but sole proprietors are excluded. While data on business loans are collected by the Bank of Slovenia directly from commercial banks, they do not provide sufficient granulation to be able to obtain SME data directly. Information on SME loans comes from data reported for financial accounts together with the reports from other monetary and financial institutions. They consist of non-financial corporations (S11 enterprises) with less than 250 employees and asset value above EUR 2 million. Thus, many smaller SMEs might be omitted from the loan data, but are approximated.

While SME lending increased between 2007 and 2011, it more than halved between 2011 and 2014, decreasing from EUR 12.1 billion in 2011 to EUR 5.4 billion in 2014. Over this period, short-term SME lending declined more than long-term SME lending; short term SME loans accounted for 34% of SME loans in 2011, compared to 21% in 2014. Business loans rose between 2007 and 2010, but fell afterwards, however not as dramatically as the share of SME loans.

This evolution follows a protracted decline of GDP in Slovenia since 2008; it is estimated that real GDP decreased by more than 9% between 2008 and 2013 (European Commission, 2015). Although 2014 growth figures are estimated to be positive, credit lending, especially to SMEs, continued to drop in 2014. This is in large part due to the losses suffered by the Slovenian banking system, especially its large state-owned bank. Slovenia experienced a lending boom prior to the financial crisis and financial institutions suffered substantial losses, as well as high and increasing levels of non-performing loans (OECD, 2015).

Credit conditions

Interest rates for SMEs declined in recent years, from 6.4% in 2011 to 5.8% in 2014 for short-term loans, and from 5.8% in 2011 to 5% in 2014 for long-term loans, but not as much as in most other Euro zone countries, thus remaining at relatively high levels. The interest rate spread between bank loans to large enterprises and to SMEs for short-term lending rose in recent years, from -0.2% in 2011 to 0.3% in 2014. The interest rate spread for long-term loans decreased between 2010 (1.3%) and 2013 (0.7%), but rose again slightly in 2014 to 0.7%. Large enterprises enjoyed overall better credit terms.

Government policy response

Direct loans are mostly provided by Slovenian Investment and Development Bank (SID) and also 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 Economic Development and Technology provides credit guarantees and interest rate subsidies through the Slovene Enterprise Fund. The programme of Guarantees for bank loans with interest rate subsidies started in the beginning of 2009, but the guarantees for bank loans were provided prior to this by the SEF. At the end of 2009 Slovene Enterprise Fund introduced a new Programme of financial engineering instruments for SMEs 2009 – 2013 (PIFI) that was adopted by Slovene Government. Programme PIFI combines different financial instruments: debt instruments (guarantees for bank loans with subsidies of interest rate, microcredits) and equity instruments (venture capital, seed capital – convertible loans and capital investment). Loans for SMEs are also provided by SID bank which is responsible for developing, providing and promoting innovative and long-term (direct and indirect) financial services, designed to supplement financial markets for the sustainable development of Slovenia. SID Bank provides besides direct loans for SMEs also indirect loans; i.e. funds to banks to on-lend

Box 32.1. **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 as well as requirements from the EU Commission Recommendation 2003/361/ES.

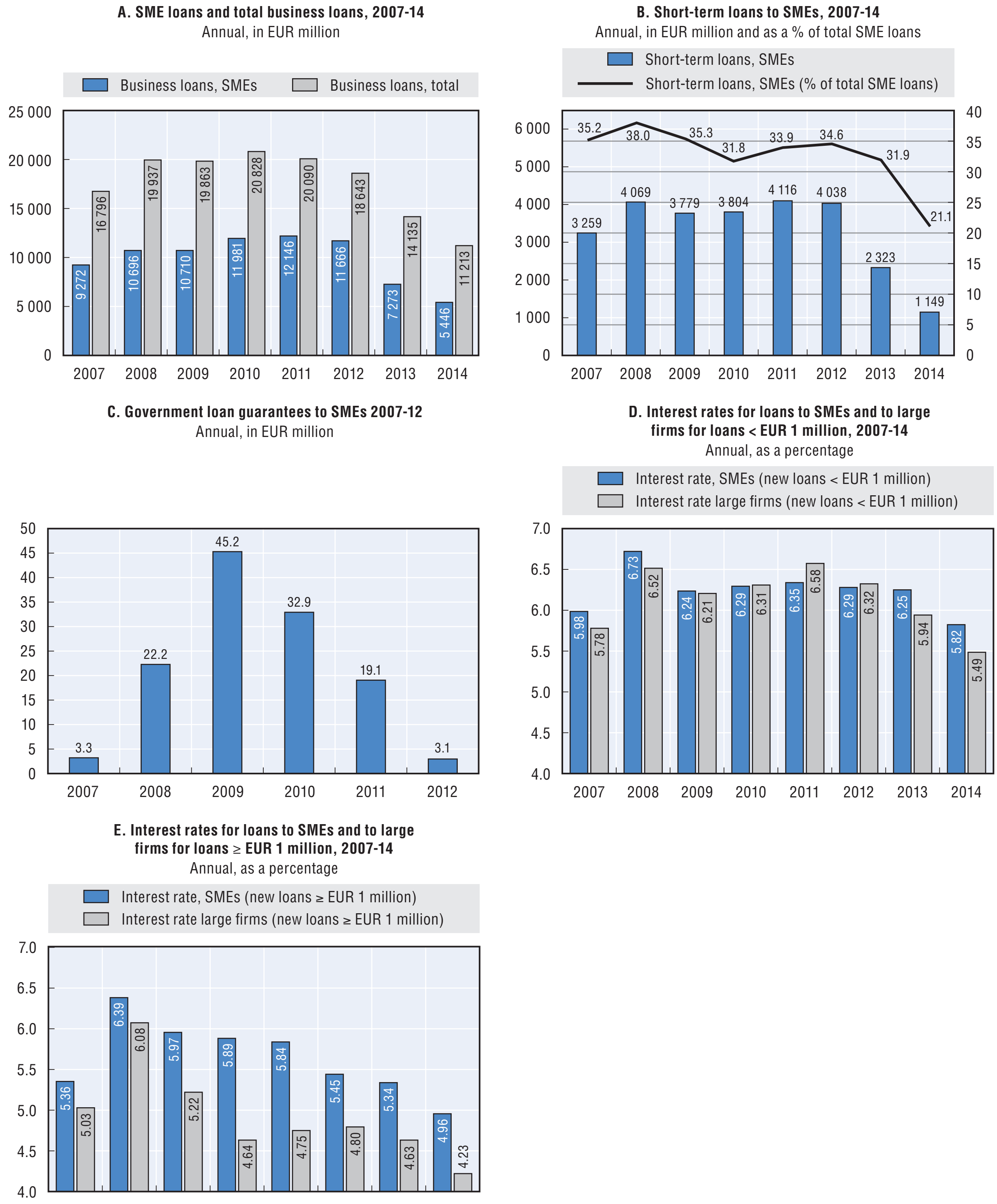
Table 32.2. **Scoreboard for Slovenia, 2007-2014**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Total Business Loans	EUR million	16 796	19 937	19 863	20 828	20 090	18 643	14 135	11 213
SME Short-Term Loans	EUR million	3 259	4 069	3 779	3 804	4 116	4 038	2 323	1 149
SME Long-Term Loans	EUR million	6 012	6 628	6 931	8 176	8 030	7 628	4 950	4 297
SME Business Loans	EUR million	9 272	10 696	10 710	11 981	12 146	11 666	7 273	5 446
SME Short term lending	Share of SME lending (%)	35.15	38.04	35.29	31.75	33.89	34.61	31.94	21.09
SME loans	Percentage of business loans (%)	55.20	53.65	53.92	57.52	60.45	62.58	51.45	48.57
Interest rate SME, new loans < EUR 1 million (%)	%	5.98	6.73	6.24	6.29	6.35	6.29	6.25	5.82
Interest rate SME, new loans >= EUR 1 million (%)	%	5.36	6.39	5.97	5.89	5.84	5.45	5.34	4.96
Interest rate LE, new loans < EUR 1 million (%)	%	5.78	6.52	6.21	6.31	6.58	6.32	5.94	5.49
Interest rate LE, new loans >= EUR 1 million (%)	%	5.03	6.08	5.22	4.64	4.75	4.80	4.63	4.23
Interest rate spread SME (between interest rate for loans of < EUR 1 million and of >= EUR 1 million	Percentage points	0.62	0.34	0.28	0.40	0.50	0.84	0.92	0.86
Interest rate spread LE (between interest rate for loans of < EUR 1 million and of >= EUR 1 million	Percentage points	0.75	0.44	0.99	1.67	1.83	1.52	1.30	1.27
Interest rate spread between SME and LE (< EUR 1 million)	Percentage points	0.21	0.21	0.03	-0.02	-0.23	-0.03	0.31	0.33
Interest rate spread between SME and LE (>= EUR 1 million)	Percentage points	0.33	0.31	0.75	1.25	1.09	0.65	0.70	0.74
Government loan guarantees, SMEs	EUR million	3.28	22.22	45.20	32.93	19.15	3.07	..	..

Source: See Table 32.3.

StatLink http://dx.doi.org/10.1787/888933333448

Figure 32.1. **Trends in SME and entrepreneurship finance in Slovenia**



Source: Bank of Slovenia.

StatLink http://dx.doi.org/10.1787/888933331546

Table 32.3. **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	Bank loans to companies of nonfinancial sector (S.11)	Bank of Slovenia
Short-term loans, SMEs	Short-term bank loans to companies of nonfinancial sector (S.11) with less or equal to 250 employees	Bank of Slovenia
Long-term loans, SMEs	Long-term bank loans to companies of nonfinancial sector (S.11) with less or equal to 250 employees	Bank of Slovenia
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 SME, new loans < EUR 1 million (%)	Interest rates for loans to companies of nonfinancial sector (S.11) with less or equal to 250 employees	Bank of Slovenia
Interest rate SME, new loans >= EUR 1 million (%)	Interest rates for loans to companies of nonfinancial sector (S.11) with less or equal to 250 employees	Bank of Slovenia
Interest rate LE, new loans < EUR 1 million (%)	Interest rates for loans to companies of nonfinancial sector (S.11) with over 250 employees	Bank of Slovenia
Interest rate LE, new loans >= EUR 1 million (%)	Interest rates for loans to companies of nonfinancial sector (S.11) with over 250 employees	Bank of Slovenia
Interest rate spread, SMEs	Interest rate spread between interest rate for loans of < EUR 1 million and of >= EUR 1 million	Bank of Slovenia
Interest rate spread LE	Interest rate spread between interest rate for loans of < EUR 1 million and of >= EUR 1 million	Bank of Slovenia

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Spain

SMEs in the national economy

In Spain, 99.9% of all enterprises were SMEs in 2012, employing 73.8% of the labour force. Out of these, 94.4% were micro-enterprises, 4.8% were small and 0.6% were medium sized enterprises.

Table 33.1. **Distribution of firms in Spain, 2012**

By firm size

Size	No. enterprises	%	No. employees	%
All Firms	**2 340 221**	**100**	**10 874 191**	**100**
SMEs (up to 250 employees)	**2 337 578**	**99.9**	**8 029 132**	**73.8**
Micro enterprises (1 to 9 employees)	2 210 171	94.4	4 423 192	40.7
Small enterprises (10-50 employees)	112 955	4.8	2 137 121	19.7
Medium enterprises (50-250 employees)	14 452	0.6	1 468 819	13.5
Large enterprises (250 employees+)	**2 643**	**0.1**	**2 845 059**	**26.2**

Note: Data includes financial enterprises with the exception of holding companies (ISIC Rev.4 sector 642). Non-employer enterprises are not included.

Source: OECD (2015).

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SME lending

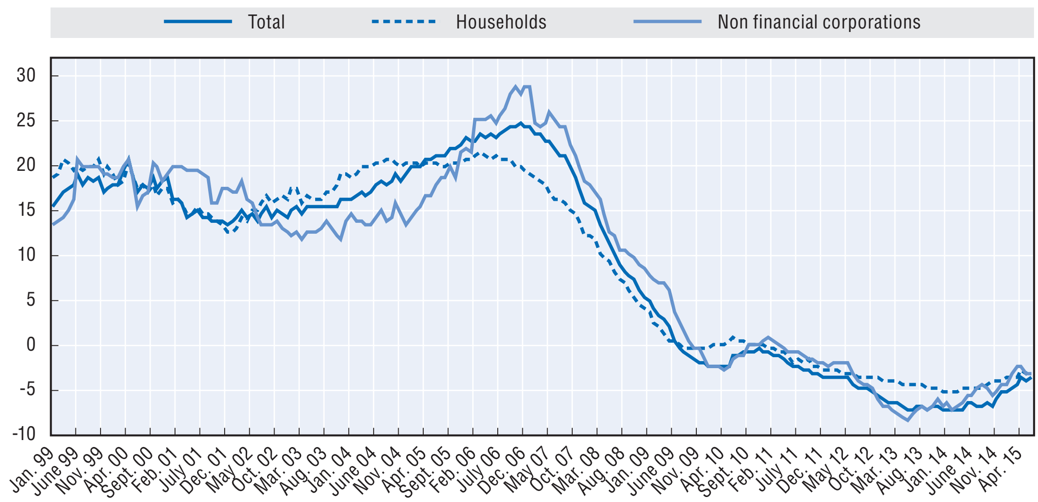
In the years leading up to the financial crisis, lending to businesses expanded rapidly in Spain, leading to a high level of indebtedness of non-financial enterprises compared with other OECD countries. The stark contraction of credit since the financial crisis could thus, at least in part, be seen as a correction of the previously high levels of credit expansion and over-indebtedness.

Spain's economy suffered disproportionately from 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 SME lending. In effect, as Figure 33.1 shows, the 2007-13 period was characterised by a decline in the volume of lending, both to companies and to SMEs.

Since the second half of 2013, economic activity in almost all sectors of the economy has been picking up as a result of buoyant growth in exports and a strengthening of domestic consumption.

Figure 33.1. **Credit to the non-financial sector adjusted for securitisation and sales in Spain, 1995-2015**

Year-on-year growth



Source: Banco de España.

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After a protracted period of economic and financial crisis, there was a turnaround in lending to SMEs and their financing conditions in 2014, along with clear signs of recovery in investment and corporate earnings, all of which was consistent with gradual economic and employment growth, whereas in 2014, although corporate debt levels overall continued to decline, lending to SMEs increased. In addition, lending to SMEs as a proportion of all lending has risen slightly, from 23% in 2012 to 29% in 2014.

As regards loan maturities, a high proportion of lending to SMEs continues to be short-term (still more than 90% of the total). In particular in 2014, 92% of lending to SMEs had a maturity of less than one year. This figure is higher than for large corporations which are therefore less vulnerable in the refinancing process. However, the moderate rise in long-term borrowing that was first observed in 2012 has continued. Thus, over the last three years longer-term borrowing has increased, from EUR 7 million to EUR 11 million, which could signal a minor change of trend in SME loan maturities.

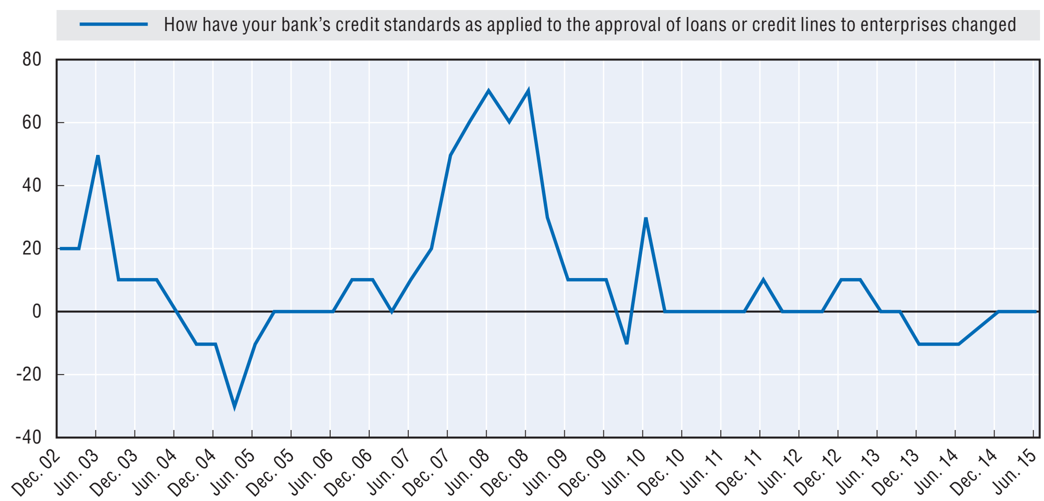
Credit conditions

With respect to financing conditions of SMEs, the most striking development has been the continued decline in interest rates and narrowing of spreads in the last year for which figures are available, as well as the relaxation of credit standards. In effect, interest rates on loans of less than EUR 1 million have fallen across the board, from 4.9% in 2012 to 3.9% in 2014, and in 2015 to date interest rates on new lending (with the same credit risk) have continued to head down. Spreads have also gradually narrowed, from 231 basis points (bp) in 2012 to 191 bp in 2014, which is consistent with the ECB's more expansionary monetary policy, the decline in money market rates and the significant improvement in the credit conditions that credit institutions offered to their customers. In this respect, a key point to note is the lower level of guarantees that financial institutions require of their borrowers. Thus, as Table 33.2 shows, collateral as a proportion of total lending has continued to decline, from 35% in 2010 to 31% in 2014, which is a clear sign of lenders' renewed confidence in SMEs.

Along the same lines, there has been a continued and significant improvement in the outcome of loan applications, with the proportion of successful applications continuing to rise, from 82% in 2012 to 88% in 2014, according to the survey on the access to finance of SMEs (SAFE).

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 to early-2013. Credit conditions, however relaxed in the second half of 2013 and in the first half of 2014 (see Figure 33.2).

Figure 33.2. **Credit standards in Spain, 2002-15**



Source: Banco de España.

StatLink http://dx.doi.org/10.1787/888933331568

Equity financing

Venture capital and private equity financing remain underdeveloped in Spain and their performance usually mirrors the evolution of the Spanish economy. In 2012, a decline of 23.5% in investment volume was recorded for this sector, reaching EUR 2.5 billion, down from EUR 3.6 billion 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 1.5 billion, consisting of EUR 320 million for seed capital, EUR 215 million for early stage and EUR 918 million for growth capital. Although the last year for which official statistics are available is 2013, initial estimates, albeit still very provisional, point to a moderate increase in 2014 in venture capital financing and investment, the bulk of which went to SMEs.

Fiscal incentives are used to promote venture capital investment. Venture capital companies registered with the *Comisión Nacional del Mercado de Valores* (CNMV), the Spanish Securities and Exchange Commission, 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 years old, with equity of no more than EUR 200 000. Investments eligible for relief may not exceed EUR 25 000 a year or EUR 75 000 in three consecutive years. Furthermore, individual investors may not hold over 40% of the company's share capital and must hold the shares for a period of between three and seven years.

Export subsidies

The financial measures to boost exports include the reform of the System of Contracts for Reciprocal Interest Adjustment (CARI) to encourage the granting of export credit, as well as promoting export credit insurances 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.

Other indicators

Payment delays were reduced in the years prior to the crisis, but rose again in 2009 (from 12 to 26 days). The modification of the former Law against delays in 2010 (Law 15/2010, modifying Law 3/2004) reduced B2B delays from 26 to 14 days. It should also be stressed that the information 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. 2014 data on payment delays is not yet available.

In turn, after several years of a gradual decline in state aid, in 2014 there was a slight surge in state guarantees, which grew by approximately EUR 1 billion to EUR 3 billion. A turnaround in business mortality was also confirmed in 2014 when the number of company insolvencies fell for the first time. This development was most pronounced among SMEs, where insolvencies fell by 32% in 2014.

The NPL ratio had remained very stable and low at a level of under 1% of private non-financial resident loans prior to the financial crisis (the average of 2005-07 period was 0.8%). It was after the financial incertitude that began in the summer of 2007 (and the growth in interest rates 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 even accelerated in 2011 and 2012. In 2012,the decision of transferring to a "bad bank" (the SAREB) the real state assets coming from nationalised banks caused a slight fall in the ratio, but after that decrease, mostly 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 modest decline of the ratio could be observed (slightly above 13%). 2014 witnessed a decline in the NPL ratio for two consecutive months, which has not been observed since 2006.

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 of the distribution of national wealth and in particular to cultural, innovative or ecological priorities. In this regard, it responded to the economic crisis by extending and improving its traditional credit lines and direct loans to SMEs. It also created a number of new facilities. Among the most important ones were the following:

- New ICO-Liquidity Facility for SMEs, established in 2008 to finance working capital for SMEs.
- New ICO-SME Moratorium, declared in 2009, which allowed for the postponement of the 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. 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 include improved financing conditions for liquidity and the differentiation of interest rates depending on the repayment periods of transactions. The maximum amount of funding is EUR 10 million 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 investments abroad, and to cover the liquidity needs that these investments require.
- 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 the ICO SME and entrepreneur's facility stood at 12.1 EUR billion for more than 175 thousand operations and the ICO Internationalisation facility reached 1.7 EUR billion for almost 14 thousand deals.

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 counter guarantee programme, funded by the Ministry of Industry, Energy and Tourism. The maximum financing allowed is EUR 1 million per SME or group, and the counter guarantee coverage reaches 50%. The programme targets involve the provision of guarantees to 10 000 SMEs with a corresponding amount of EUR 400 million in 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 are also drawing from 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 until the end of the year
- accelerated depreciation for new assets
- new regime for instalment payments for income taxes

Box 33.1. **SME definition used in Spain's SME and entrepreneurship finance scoreboard**

Country definition

In Spain, SMEs are classified according to the European Union standard definitions (2003/361/EC), which are 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.

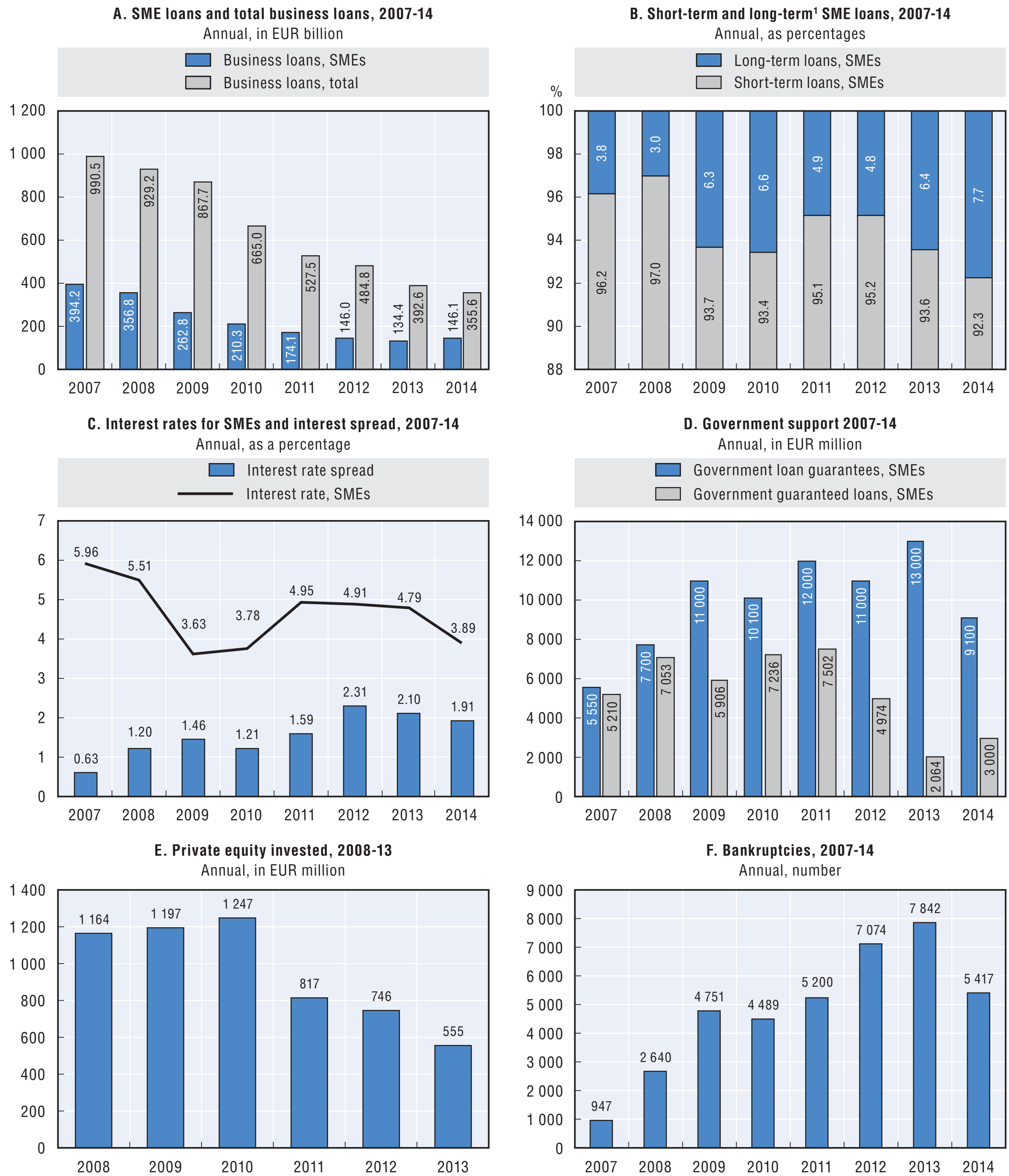
Table 33.2. **Scoreboard for Spain, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	EUR billion	394	357	263	210	174	146	134	146
Business loans, total	EUR billion	991	929	868	665	527	485	393	356
Business loans, SMEs	% of total business loans	40	38	30	32	33	30	34	41
Short-term loans, SMEs	EUR billion	379	346	246	196	166	139	126	135
Long-term loans, SMEs	EUR billion	15	11	17	14	8	7	9	11
Short-term loans, SMEs	% of total SME loans	96.2	97	93.7	93.4	95.1	95.2	93.6	92.3
Government loan guarantees, total	EUR million	5 550	7 700	11 000	10 100	12 000	11 000	13 000	9 100
Government guaranteed loans, SMEs.	EUR million	5 210	7 053	5 906	7 236	7 502	4 974	2 064	3 000
Interest rate, SMEs	%	5.96	5.51	3.63	3.78	4.95	4.91	4.79	3.89
Interest rate, large firms	%	5.33	4.3	2.16	2.57	3.36	2.61	2.69	1.98
Interest rate spread	%	0.63	1.2	1.46	1.21	1.59	2.31	2.1	1.91
Collateral, total	% of collateralised loans	..	..	..	35.1	34.4	31.5	30	31.2
Equity									
Venture capital investments	EUR million	..	1 164	1 197	1 247	817	746	555	..
Growth capital investments	EUR million	..	2 172	2 399	2 353	1 858	1 399	918	..
Other									
Payment delays, B2B	Days	7	6	16	14	9	13	21	
Bankruptcies, total	Number of enterprises	947	2 640	4 751	4 489	5 200	7 074	7 842	5 417
Bankruptcies, total	%, year-on-year growth rate		179	80	-6	16	36	11	-31
Bankruptcies, SMEs	Number of enterprises	894	2 550	4 463	4 187	4 912	6 627	7 517	5 096
Bankruptcies, SMEs	%, year-on-year growth rate		185	75	-6	17	35	13	-32

Source: See Table 34.3.

StatLink http://dx.doi.org/10.1787/888933333463

Figure 33.3. **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/10.1787/888933331573

Table 33.3. **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 securitization 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 securitization funds. Stocks.	Dirección General del Tesoro y Política Financiera
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 investments	Actual amounts invested in SMEs: seed and start up (excludes buyouts, turnarounds, replacements). SME defined as firms with less than 250 employees.	Comisión Nacional del Mercado de Valores
Growth capital investments	Actual amounts invested in SMEs: 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 which have been selected following a more literal application of the European Recommendation 2003/361/CE (in particular, the SMEs belonging to a group have been eliminated in the calculations). It has been calculated, subtracting the accounting payment period, to the legal maximum average payment period prescribed in the law.	Banco de España
Bankruptcies, total	Number of enterprises, with employees, ruled bankrupt.	
Bankruptcies, SMEs	Number of SMEs enterprises, which have been selected following a more literal application of the European Recommendation 2003/361/CE (in particular, the SMEs belonging to a group have been eliminated in the calculations), ruled bankrupt.	Banco de España obtained from Mercantile Register information.

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Sweden

SMEs in the national economy

The Swedish business sector comprises a significant number of SME companies. Together they account for 59% of value added and 66% of employment. Micro-businesses constitute 94.6% of all companies. Most SMEs operate in services, wholesale trade and retail, and construction. There are relatively few Swedish small and medium enterprises in the manufacturing sector. The manufacturing sector provides 17% of the workforce and value added of small and medium-sized enterprises (European Commission, 2014).

Table 34.1. **Distribution of SMEs in Sweden, 2013**

By firm size

	Firms		Employees		Value added	
	Number	%	Number	%	EUR billion	%
Micro (0-9)	631 004	94.6	793 520	25.9	45	21.8
Small (10-49)	29 670	4.4	658 938	21.5	38	18.4
Medium (50-249)	5 145	0.8	564 451	18.4	39	18.8
SMEs	665 819	99.9	2 016 909	65.8	121	59.0
Large (250+)	996	0.1	1 050 230	34.2	84	41.0
Total	**666 815**	**100**	**3 067 139**	**100**	**206**	**100**

Note: These are estimates for 2013 produced by DIW Econ, based on 2008–11 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health.

Source: European Commission (2014).

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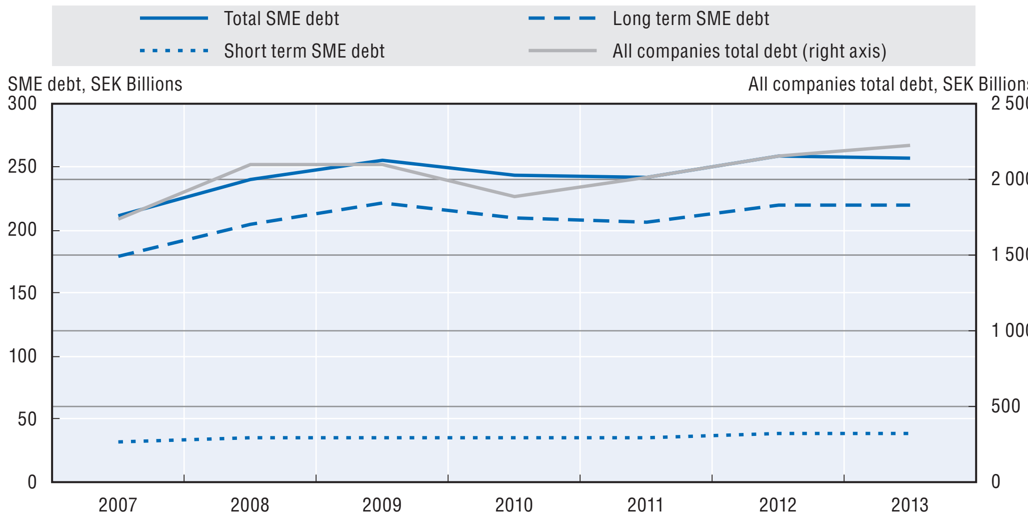
SME lending (stocks)

The majority of SMEs use the commercial banking sector when seeking external finance. The stock of (private and non-financial) SME debt to banks and other financial institutions was SEK 211 billion in 2007.[1] The level of debt increased significantly in 2008, the first year of the financial crisis, and increased further in 2009. In 2009, SME debt to banks and other financial institutions was SEK 256 billion – 18 % higher than in 2007. Since 2009 the debt level has stabilised somewhat. In 2013 Swedish SMEs' debt to banks and other financial institutions was SEK 258 billion.

While total SME debt increased during the crisis, the short term SME debt remained constant between 14% and 15% (or less than a fifth) of total SME debt between 2007 and 2013. Similarly, SME debt as a share of all companies' debt remained consistently between 11% and 13%.

Figure 34.1. **SME debt in Sweden, 2007-13**



Note: SMEs are here defined in accordance with Commission Recommendation 2003/361/EC. Limitations of population: Only limited liability companies are included, and companies within NACE sectors 01-03 and 64-66 are excluded.

Source: Statistics Sweden (2015).

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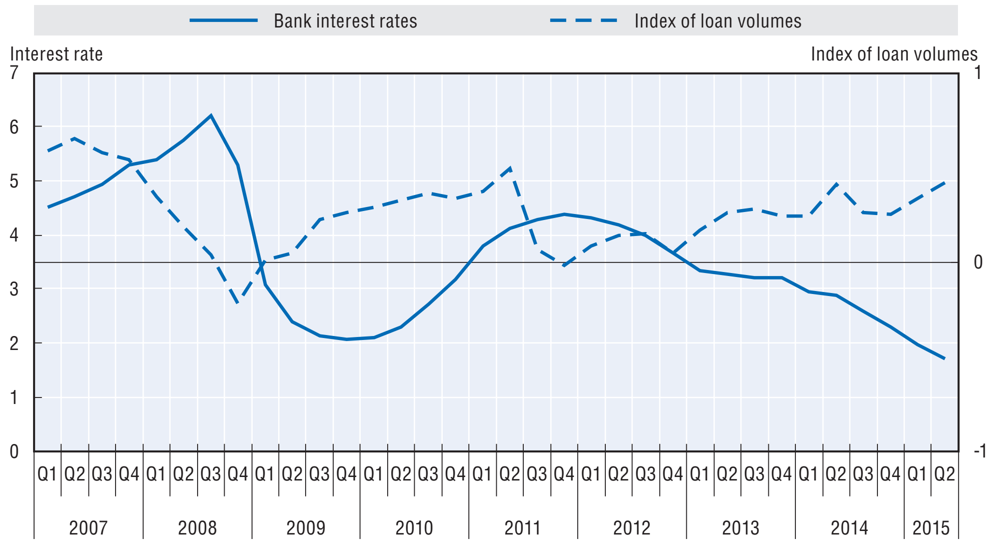
Credit conditions

The Swedish Central Bank (*Sveriges Riksbank*) continuously increased the repo rate[2] up until the eve of the financial crisis, rising up to 4.8% just a week before the fall of Lehman Brothers in September of 2008. As the crisis hit, the rate was lowered stepwise, reaching a minimum of 0.3 percent towards the end of 2010. At that time the Central Bank chose to start to increase the repo rate again. There was a stepwise increase of the rate until it reached 2% in mid-2011. After this point, the Central Bank once again started to decrease the repo rate. In February of 2015 the Central Bank introduced a negative repo rate of -0.1%. The repo rate has since decreased even further and was at -0.35% in September 2015.

The interest rates charged to SMEs have closely followed the repo rate of the Central Bank over the observed period. Bank interest rates on SME loans reached a peak in the third quarter of 2008, as was the case in many other EU countries, and then declined as a result of monetary easing (see Figure 34.2).The average interest rate for SME loans was 2.6% in 2010. It was considerably higher in 2011 (4.2%) and 2012 (4%) due to tighter monetary policy. The average interest rate fell in 2013 to 3.3% and continued to decline to 2.7% in 2014, as the repo rate reached new lows.

The difference in interest rates between small and large enterprises (proxied by interest rates on loans below and above EUR 1 million respectively) was 1.1 percentage points (40%) in 2011 (the largest difference during the observed period). The difference in interest rates has since halved, reaching an eight year minimum of 0.6 percentage points (26%) in 2014.

Figure 34.2. **Bank interest rates and index of loan volumes in Sweden, 2007-15**



Source: Calculations by the Swedish Agency for Growth Policy Analysis, based on data from Almi (2015a), and Sveriges Riksbank (2015b).

StatLink http://dx.doi.org/10.1787/888933331597

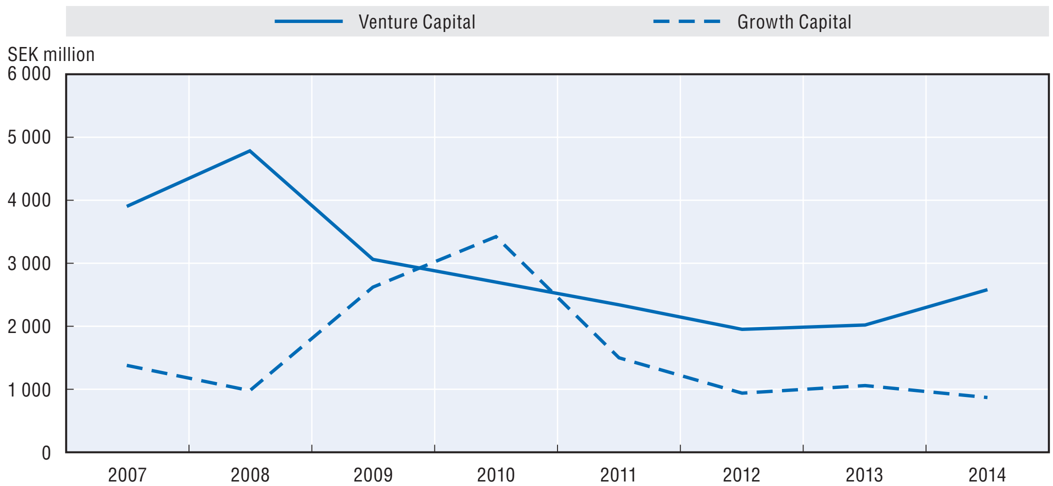
Index of bank loan volumes

Almi (a state owned corporation), performs quarterly surveys of bank managers' views on business loan volumes. The survey is meant to be a relatively fast indicator of where the Swedish economy is headed.[3] An index has been constructed based on this survey data.[4] The index takes a *positive* value if a majority of bank managers report *increasing* loan volumes in comparison with the previous quarter (and a *negative* value if a majority of bank managers report *decreased* loan volumes). The index value is positive for most of the period, indicating that the majority of bank managers report increasing loan volumes. The index value has been below zero only twice during the observed period. The first time this happened was in the last quarter of 2008 (during the most critical time of the financial crisis), and the second time was in the fourth quarter of 2011 (during this quarter Swedish GDP also decreased with 1.1%, a drop attributed to economic problems in Europe affecting Swedish exports[5]). Since the first quarter of 2012, the index has been positive, up to and including the second quarter of 2015. This development since 2012 of reported increasing loan volumes corresponds with decreasing interest rates on SME loans (see Figure 34.2).

Equity financing

Venture capital investments reached a peak in 2008 with SEK 4.8 billion invested. Venture capital investments (VCI) then decreased sharply to SEK 3.1 billion in 2009 (-36% compared to 2008). VCI decreased for another three years and reached a low of SEK 2.0 billion 2012. In 2013, VCI increased slightly (by 4%) for the first time since 2008. And in 2014, venture capital investments increased again (by 27% compared to 2013) to SEK 2.6 billion.[6] Growth capital investments were lower than VCI every year but 2010 - when they reached SEK 3.4 billion.

Figure 34.3. **Venture and growth capital investments in Swedish companies, 2007-14**



Source: SVCA (2015).

StatLink http://dx.doi.org/10.1787/888933331608

Other indicators: Payment delays, bankruptcies and non-performing loans

The share of enterprises having difficulties caused by payment delays increased from 19% in Q4 2008 to 24% in Q1 2009. However, while payment delays increased during the recession, the average increase of delays in the B2B sector was very limited (from 7 days in 2007 to 8 days in 2009), and remained among the lowest in Europe. The average number of B2B payment delays again stood at 7 days in 2012 and remained at this low point in 2013. In 2014 it increased again to 8 days (Intrum Justitia, 2014).

SMEs account for nearly all recorded bankruptcies in the country. In the aftermath of the global financial crisis the number of SME bankruptcies increased from 5 791 in 2007 to 7 632 in 2009. A decreasing trend in 2010 and 2011 brought bankruptcies down to 6 955 in 2011, but the trend was reversed in 2012 and bankruptcies continued to increase until 2013, when 7 696 SMEs declared bankruptcy. In 2014 the increasing bankruptcy trend was yet again reversed with 7 158 bankruptcies being declared, 7 % less than the previous year.

Non-performing loans are low by international standards, but increased between 2007 (0.24% of all business loans) and 2010 (0.88% of all business loans). The proportion of non-performing loans has declined in the following years and was 0.6% in 2014.

Government policy response

A well-functioning system for access to finance is considered crucial to the start and growth of companies. Initiatives to promote access to finance are therefore an essential part of the government's efforts to improve the innovation and business climate. A well-defined framework that supports stable financial markets is fundamental. Market complementary financing through state actors aim at contributing to an improved access to finance in stages and segments where the private market is particularly thin. Market complementary financing is provided, among others, by the state-owned corporations Almi (loans, as well as venture capital through Almi Invest), Inlandsinnovation and Foureriertransform, and the foundations Industrifonden and Norrlandsfonden.

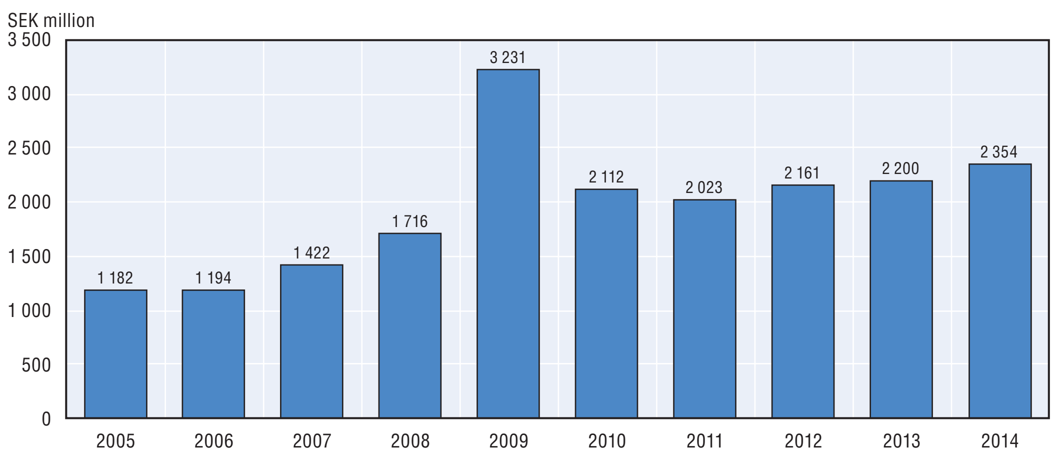
Almi loans

Almi is, as mentioned above, a state owned corporation and the parent company of 16 regional subsidiaries. Almi has a broad mandate and its activities include brokering of debt, equity, and advisory services to companies. The mission of the operations is to complement the private market and to ensure that services are accessible nationwide. Almi is not limited to any particular sectors or phases of business. The focus, however, is on small and medium sized enterprises with a high growth potential (SOU 2015:64, 2015).

Throughout the financial crisis of 2008-09, the Swedish government undertook a number of measures, such as supporting the banking sector (through strengthening the capital base and securing bank lending), provision of tax credits, export credit facilitation and business development programmes. An increase in Almis loanable funds was the largest government measure taken in order to increase access to finance for SMEs. A capital injection by the government in 2009 increased lending capacity. This was combined with allowing for a higher share of co-financing in new loans. As a result, ALMI nearly doubled the amount of loans granted between 2008 and 2009. In 2010, as the crisis subsided, the lending volume of ALMI returned to a more normal level and has since increased only slightly year on year.

Figure 34.4. **Loans granted by ALMI in Sweden, 2005-14**

New lending per year in SEK million



Source: Almi (2015b).

StatLink http://dx.doi.org/10.1787/888933331616

Export credit guarantees

In Sweden export credit guarantees are provided through the Swedish National Export Credits Guarantee Board (*Exportkreditnämnden*, EKN). EKN offers guarantees of up to 75% of total transactions. In 2007, EKN created a separate 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” (SMEC), which is inconsistent with the normal Swedish SME definition. During 2008, the volume of guarantees to “SMECs” was close to SEK 3 billion. Guarantees then decreased until 2012 with just over SEK 2 billion guaranteed. Since 2012, the amount of guarantees has increased again, setting a record of guarantees to “SMEs” with just over SEK 3 billion guaranteed in 2014 (EKN 2015).

Recent policy developments

A tax break for private business angel investors was launched in December 2013. The tax break allows for a tax relief on the capital income tax up to 15% of the investment. The regular capital income tax rate is 30%. Private individuals purchasing shares in a small company can deduct up to 50% of the investment from capital income tax owed, up to a yearly limit of SEK 650 000 and to a total maximum of SEK 1.3 million. A number of different conditions have to be met by the target firm, the investor and the investment for the deduction to be available, such as a minimum holding period of 5 years.

In early 2015 the Swedish government appointed a special investigator to analyse how well public measures meet the need for market complementary financing and to locate segments where there are still market failures. The investigator was also to analyse and propose structural changes in the system of public actors engaged in SME financing. The investigator presented its recommendations in mid-June (in final report SOU 2015:64). Based on his final report and other input, the government will make reforms and improvements in the national public system supporting SME access to finance. This should be accomplished by, for example, better resource utilisation, reduced incarceration of funds and a stronger focus on market supplementary financing of early stage investments. In reference to these recommendations, in order to increase early stage financing for innovative SMEs and to strengthen the market for venture capital, the government proposed to establish a public fund-of-funds corporation in the budget bill for 2016.

Table 34.2. **Scoreboard for Sweden, 2007-14**

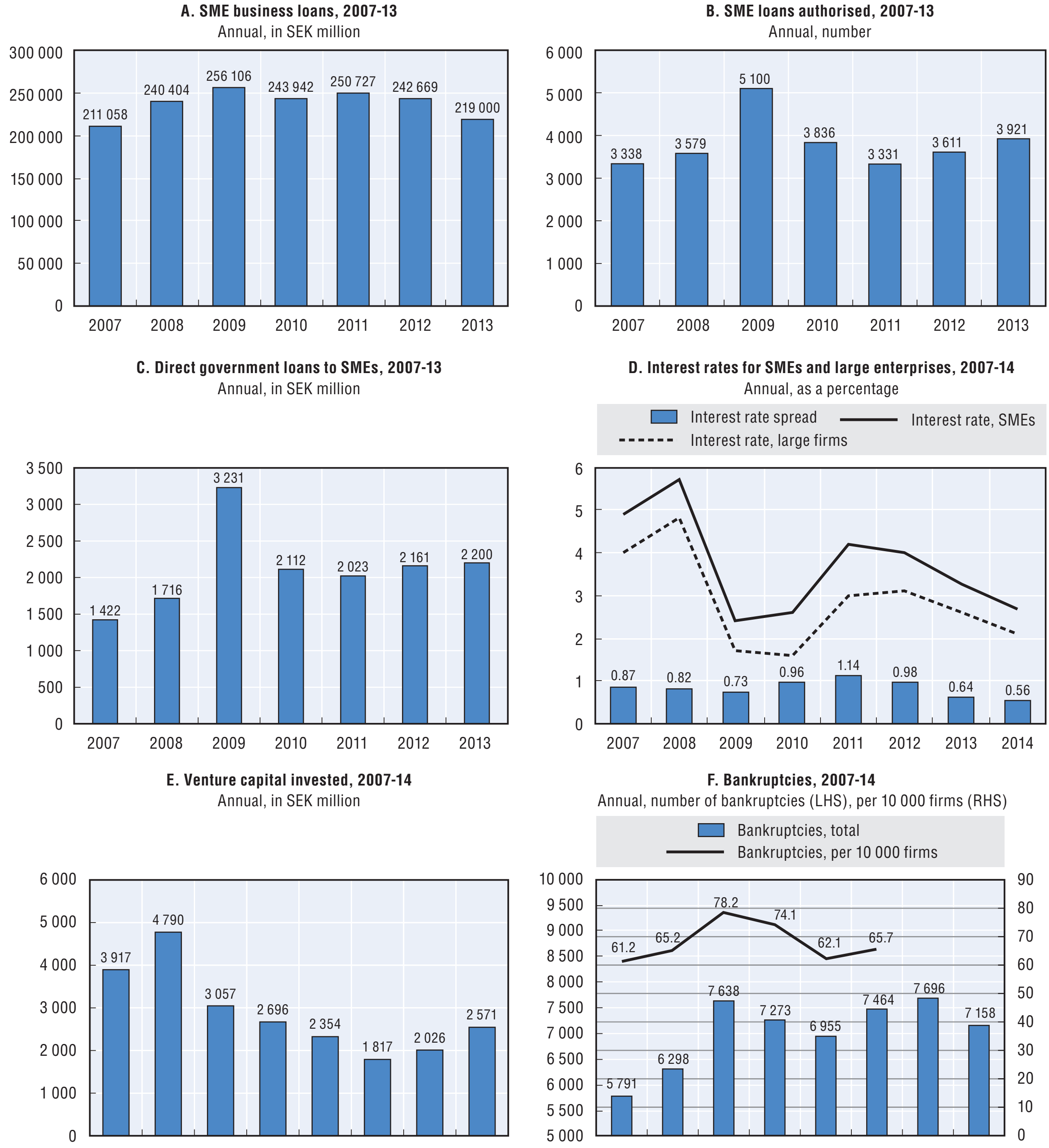
Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	SEK billion	211.1	240.4	256.1	243.9	242.3	258.8	257.8	..
Business loans, total	SEK billion	1739.0	2106.0	2096.4	1893.3	2008.4	2155.8	2226.8	..
Business loans, SMEs	% of total business loans	12.14	11.41	12.22	12.88	12.06	12.01	11.58%	..
Short-term loans, SMEs	SEK billion	31.9	35.3	34.9	35.1	35.6	38.3	38.5	..
Long-term loans, SMEs	SEK billion	179.1	205.1	221.2	208.8	206.7	220.5	219.3	..
Short-term loans, SMEs	% of total SME loans	15.12	14.68	13.62	14.39	14.67	14.79	14.92	..
Non-performing loans, total	%	0.24	0.37	0.85	0.88	0.78	0.74	0.68	0.56
Interest rate, SMEs	%	4.9	5.7	2.4	2.6	4.2	4	3.26	2.68
Interest rate, large firms	%	4	4.8	1.7	1.6	3	3.1	2.62	2.12
Interest rate spread	Percentage points	0.87	0.82	0.73	0.96	1.14	0.98	0.64	0.56
Equity									
Venture Capital	SEK million	3 917	4 784	3 058	2 696	2 360	1 951	2 025	2 571
Growth Capital	SEK million	1 371	968	2 630	3 411	1 491	949	1 065	869
Other									
Payment delays, B2B	Days	7	7	8	8	8	7	7	8
Bankruptcies, SMEs	Number of firms	5 791	6 296	7 632	7 273	6 955	7 464	7 696	7 158
Bankruptcies, SMEs	%, Year-on-year growth rate	..	8.72	21.22	-4.7	-4.37	7.32	3.11	-6.99
Bankruptcies, total	Number of firms	5 791	6 298	7 638	7 274	6 958	7 471	7 701	7 158
Bankruptcies, total	%, Year-on-year growth rate	..	8.75	21.28	-4.77	-4.34	7.37	3.08	-7.05
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: See Table 34.3.

StatLink http://dx.doi.org/10.1787/888933333489

Figure 34.5. **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/10.1787/888933331628

Table 34.3. **Definitions and sources of indicators for Sweden's scoreboard, 2007-14**

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)
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

Source: See Table 34.3.

Notes

1. Debt is defined as the sum of long-term and short-term liabilities on the balance sheet in the yearly tax return. Long-term liabilities include: Bonds and debentures, convertible loans and the like; overdraft; building credit (Swedish: "byggnadskreditiv") and other long-term liabilities to credit institutions. Short-term liabilities include: overdraft (short term) and other short-term liabilities to credit institutions.
2. The repo rate is the rate of interest at which banks can borrow or deposit funds at the Riksbank for a period of seven days.
3. Almi cooperated with the Swedish central bank in the design of the survey. See Sveriges Riksbank (2009), and Almi (2015a).
4. An index of 0 means that either all bank managers' report unchanged lending compared to the last quarter or that equally many managers report increased lending as managers reporting decreased lending. An index of 1 (-1) means that all bank managers reported increased (decreased) lending compared to the last quarter.
5. Swedish GDP shrank by 1.1 percent in the fourth quarter of 2011, a drop attributed to economic worries in Europe affecting Swedish exports (Statistics Sweden, 2012).
6. There is a number of venture capital firms/ actors in Sweden established and/or controlled by the Government, most notable among them are: Industrifonden, Almi Invest, Fouriertransform and Inlandsinnovation. In 2014 the VCI from these four actors constituted 27 percent of total VCI in Sweden. See Tillväxtanalys (2015) for details.

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Switzerland

SMEs in the national economy

SMEs, defined as firms with up to 250 employees, constituted 99.3% of Swiss enterprises in 2013, employing 66.9% of the labour force. Micro enterprises with up to 9 employees accounted for the majority of SMEs (69.6% of SMEs), employing 16.5% of the country's workforce.

Table 35.1. **Distribution of firms in Switzerland, 2013**

By firm size

Firm size (employees)	Number	%
All firms	**132 760**	**100**
SMEs (1-249)	**131 766**	**99.3**
Micro (1-9)	92 423	69.6
Small (10-49)	33 938	25.6
Medium (50-249)	5 405	4.1
Large (250+)	**994**	**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 (2015).

StatLink http://dx.doi.org/10.1787/888933333495

SME lending

The Swiss economy has weathered the global financial crisis starting in 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 2014 has maintained almost the same level of 2013 (1.9%) with a rate of 2%. This is mainly due to a solid domestic economy, as well as 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.

While total business loans continued to grow, SME business loans shrank in 2014 on a year-to-year basis. In 2014, SME business loans decreased at a rate of 0.6% (compared to the 5.2% growth in the previous year), while total business loans grew at a rate of 2.5% (decelerating from 5% in 2013). Except in 2014, over 2007-14, SME loans increased year after year and the growth throughout that period totalled 24.5%. SME loans expanded less rapidly than overall business growth (equalling 31.1% over the same period). Consequently, the share of SME loans in total business loans has contracted from 80.4% registered in 2007 to 76.4% of 2014.

Credit conditions

Lending standards have slightly tightened in 2014, while the demand for credit slightly decreased according to the information reported by Swiss banks to the Central Bank of Switzerland.

Interest rates for loans under CHF 1 million increased for the first time since 2009, the first year for which data are available. After a period of continuous decrease since 2009, the interest rates slightly increased from 1.99% in 2013 to 2.04% in 2014. The interest rate spread for loans to SMEs and loans to large firms, proxied by loans for an amount of less than or equal to or greater than CHF 1 million, respectively, increased modestly between 2009 and 2011 and declined afterwards to 83 base points in 2013, before increasing again in 2014 to 88 base points.

The Monthly Bulletin of Banking Statistics of the Swiss National Bank shows that the percentage of SME loans requiring collateral rapidly increased from 75% in 2013 to 78.8% in 2014, although the level witnessed between 2007 and 2014 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 2011.

Table 35.2. **Private equity and venture capital investments in Switzerland, 2007-14**

By phase of investment, in EUR thousand

	2007	2008	2009	2010	2011	2012	2013	2014
Seed	10 413	17 236	6 105	5 237	6 503	12 631	8 087	3 991
Start-up	114 761	95 051	151 839	127 862	160 934	73 173	145 805	91 015
Later stage venture	152 011	57 866	67 295	48 637	34 201	95 886	42 406	73 916
Growth	56 412	137 657	76 735	213 557	43 373	98 304	36 480	59 363
Total Venture capital	**333 597**	**307 810**	**301 975**	**395 294**	**245 012**	**279 994**	**232 777**	**228 285**

Source: ECVA Yearbook 2015.

StatLink http://dx.doi.org/10.1787/888933333505

As seen in Table 35.2, venture capital investment declined to its lowest level recorded since 2007 in 2014, dropping by 1.9% year-on-year from 2013. The evolution of start-up lending was mainly responsible for this decrease; investment in later stage and growth capital partly recovered, after more than halving in 2013, but this increase was not enough to compensate for the said reductions. Seed capital again more than halved in 2014, after a big decrease in 2013.

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 by 9.7% in 2014, after the 5.1% decrease of 2013. 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 co-operatives that help promising SMEs obtain bank loans of up to CHF 500 000. Three are regional cooperatives and a national one for women. The Confederation covers 65% of the guarantee provided by these cooperatives. Loan guarantees increased steadily in the period 2007-10, declined slightly in 2011, and continued to grow in 2012, 2013 and 2014. The latest increase was largely due to a restructuring of the guarantee programmes. The guarantee programmes increased the amount of risk that they covered, and this in turn increased the demand for guarantees.

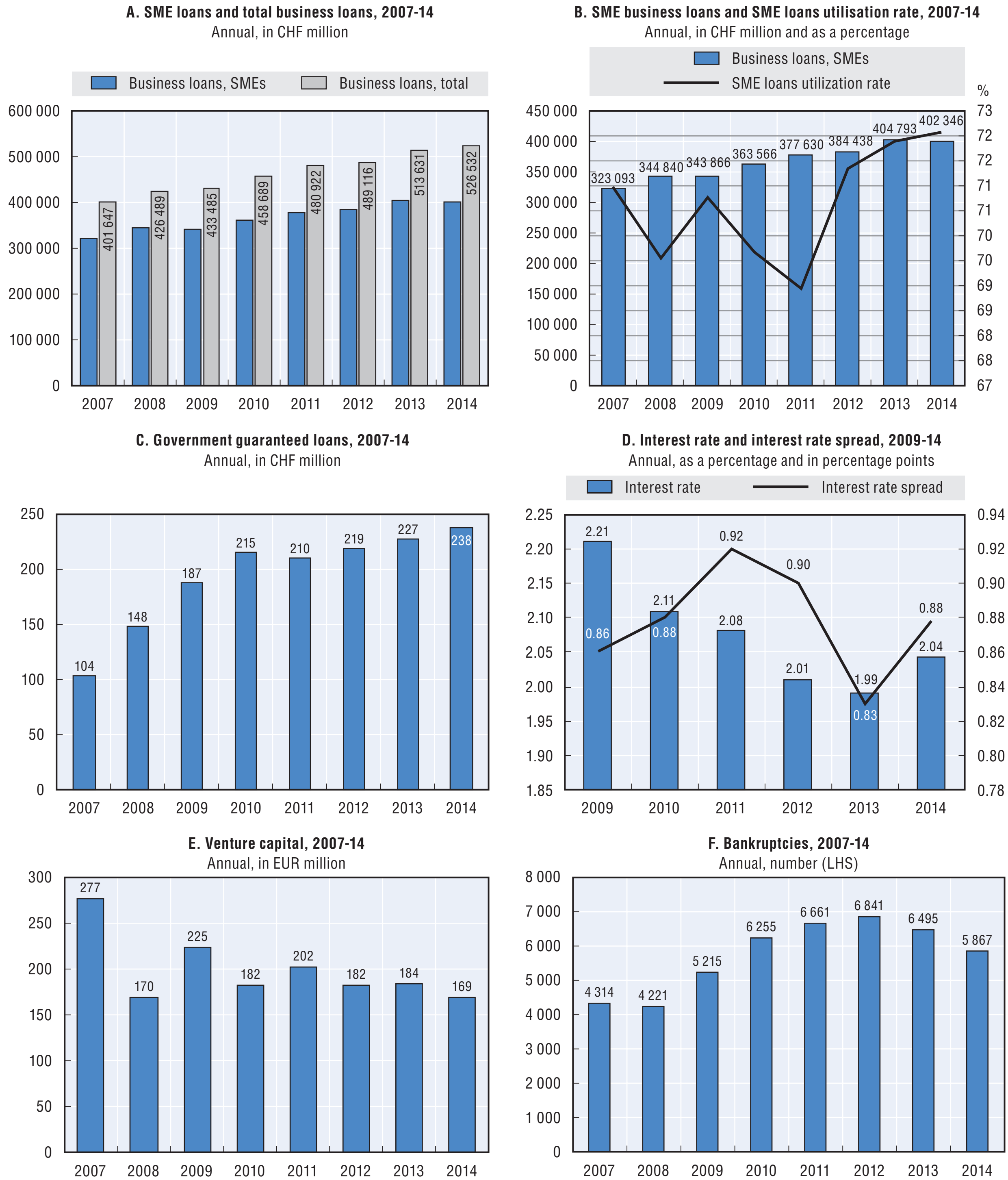
Table 35.3. **Scoreboard for Switzerland, 2007-14**

Indicators	Definitions	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Business loans, SMEs	CHF million	323 093	344 840	343 866	363 566	377 630	384 438	404 793	402 346
Business loans, total	CHF million	401 647	426 489	433 485	458 689	480 922	489 116	513 631	526 532
Business loans, SMEs	% of total business loans	80.4	80.9	79.3	79.3	78.5	78.6	78.8	76.4
Government export-related credit covers	CHF million	3 527	2 394	3 529	3 588	3 321	3 843	3536.1	4465.0
Government guaranteed loans, SMEs	CHF million	104	148	187	215	210	219	227	238
Utilisation rate, SMEs	%	71.0	69.6	70.8	69.7	68.9	71.3	71.9	72.1
Interest rate	%	..	..	2.21	2.11	2.08	2.01	1.99	2.04
Interest rate spread	%	..	..	0.86	0.88	0.92	0.9	0.83	0.88
Collateral, SMEs	%	..	..	76.4	75.1	76.6	76.7	74.9	78.8
Equity									
Venture and growth capital	EUR million	333	308	302	396	245	280	220	228
Venture and growth capital	Year-on-year growth rate, %	..	-7.5	-1.9	31.1	-38	14.3	-21.4	3.72
Other									
Payment delays, SMEs	Days	..	12	13	13	11	10	9	9
Bankruptcies, total	Number	4 314	4 221	5 215	6 255	6 661	6 841	6 495	5 867
Bankruptcies	Year-on-year growth rate, %	..	-2.2	23.5	19.9	6.5	2.7	-5.1	-9.7
Bankruptcies	% of total enterprises	3.2	3.2	3.9	4.7	5.0	5.2	4.9	4.4

Source: See Table 35.4.

StatLink http://dx.doi.org/10.1787/888933333519

Figure 35.1. **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 2015. Chart F: Creditreform.

StatLink *http://dx.doi.org/10.1787/888933331630*

Table 35.4. **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 credits	New commitments	Swiss Export Risk Insurance 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
Utilisation rate, SMEs	SMEs loans used/ Credit lines 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 2015
Other		
Payment delays	B2B	Intrum Justitia, European Payment Index
Bankruptcies, total	Number of bankruptcies	Creditreform
Bankruptcies	Bankruptcies as a percentage of total enterprises	Number of enterprises according to OECD 2015

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Thailand

SMEs in the national economy

There were 2.7 million SMEs (firms with less than 200 employees) in Thailand in 2012, constituting 99.7% of all enterprises and employing 78% of the labour force, including agriculture. Most banks do not use the national SME definition. Instead, they use the loan size as a proxy, and definitions vary across banks.

Table 36.1. **Distribution of firms in Thailand, 2012**

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/10.1787/888933333522

SME lending

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.

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%).

The ratio of loans authorised vs. requested rose from 71.5% (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, and remained at a similarly high level in 2012 (while data for 2013 is not yet available). However, this was not entirely surprising given the historically 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 (MAI) was established in 1999. It provides a simpler and lower cost alternative to smaller firms than the Stock Exchange of Thailand (SET). As such, MAI provides an exit point for venture capital investors and facilitates capital raising by firms from institutional and sophisticated investors. As of 2010, the MAI had 62 companies listed; and the market capitalisation of MAI listings was at THB 43 billion. In 2009, there were only 11 members of the Thai Venture Capital Association. In addition, the weak Thai legal system and the underdeveloped capital market made exits difficult (Scheela and Jittrapanum, 2008).

Government policy response

Thailand established a five-year Portfolio Guarantee Scheme for SMEs in February 2008. All local commercial banks signed a Memorandum of Understanding to participate. It was expected that this would assure participating banks an acceptable level of risk. This supplemented the activities of the state-owned banks such as the Small Business Credit Guarantee Corporation (SBCGC).

The SBCGC provides credit guarantees to viable small businesses which do not have sufficient collateral. The SBCGC provides a letter of guarantee for approved applications to the financial institutions after the SME has paid the guarantee fee. In 2009, it had a THB 30 billion loan guarantee facility. In 2007, 2 866 SMEs were accepted for credit guarantees. The total number of loans guaranteed was an average of 7 800. This is a relatively small number compared to the total number of SMEs, pointing to an unexploited potential to ease SMEs' access to credit. In 2011, the SBCGC had THB 89 billion in outstanding loan guarantees.

Box 36.1. **Definition of SMEs used in Thailand's SME and entrepreneurship finance scoreboard**

Country definition

On 11 September 2002, the Ministry of Industry introduced the definition of Thai small and medium-sized enterprises (SMEs). This definition is based on the firm's number of employees and fixed capital. An enterprise is categorised as an SME if it has less than 200 employees and fixed capital of less than THB 200 million, excluding land and properties. SMEs in Thailand are classified along three sectors: production, service, and trading.

Table 36.2. **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

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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 36.3. **Scoreboard for Thailand, 2007-13**

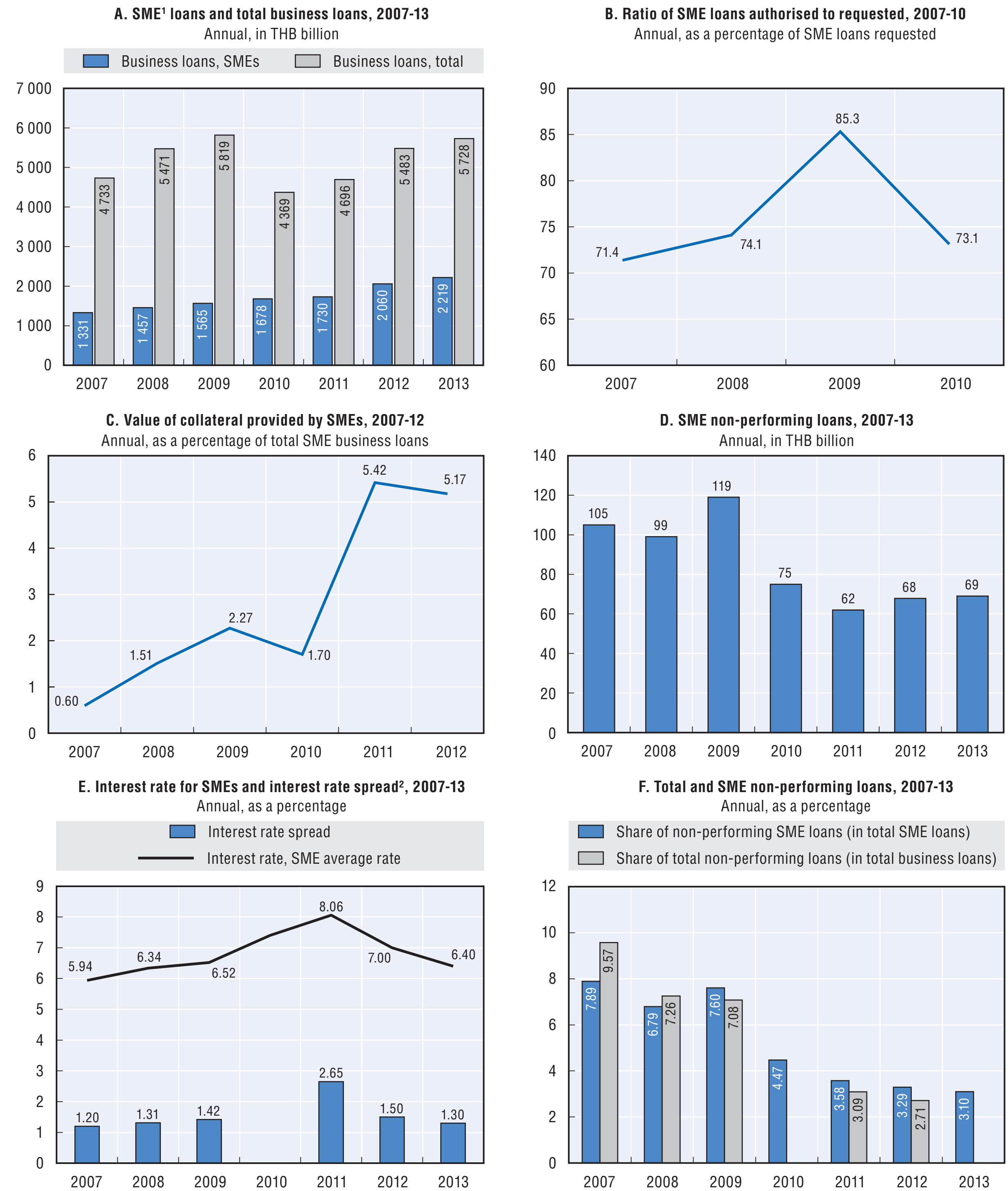
Indicators	Definitions	2007	2008	2009	2010	2011	2012	2013
Debt								
Business loans, SMEs	THB billion	1 331	1 457	1 565	1 678	1 730	2 060	2 219
Business loans, total	THB billion	4 733	5 471	5 819	4 369	4 696	5 483	5 728
Business loans, SMEs	% of total business loans	28.1	26.6	26.9	38.4	36.8	37.6	38.7
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	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, total1	% of insolvencies over total number of SMEs	66	..	..	..	..	..	..

Note: 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 37.3.

StatLink http://dx.doi.org/10.1787/888933333547

Figure 36.1. **Trends in SME and entrepreneurship finance in Thailand**



Notes: 1. Firms with sales less than THB 400 million (EUR 10 million). 2. Spread between average interest rate for loans to SMEs and large firms. Banks did not provide information for 2010.

Source: Bank of Thailand.

StatLink http://dx.doi.org/10.1787/888933331647

Table 36.4. **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 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 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 36.1.	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 36.1.	Business online

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Turkey

SMEs in the national economy

In Turkey, an enterprise is a legal unit or a combination of legal units. The Turkish SME definition has been prepared in line with the EU definition; although the financial thresholds applied are lower (see Box 37.1). As illustrated in Table 37.1, micro-enterprises accounted for more than 97% of all firms in 2013, whereas only 0.2% of all enterprises employ more than 250.

Table 37.1. **Distribution of firms in Turkey, 2013**

Firm size (employees)	Number of firms	%
All enterprises	**2 695 131**	**100**
SMEs (0–249)	2 690 546	99.8
Micro (0-19)	2 613 047	97
Small (20-49)	54 021	2
Medium (50 -249)	23 478	0.9
Large (250+)	**4 585**	**0.2**

Note: Data excludes financial and insurance enterprises. Non-employer enterprises are included. The figures have been measured by the Annual Industry and Service Statistics 2013 Survey include data such as income generated, purchases, Gross Value Added and employment costs of businesses within this part of the economy. The results are provisional for 2013.

Source: Turkish Statistical Institute, Annual Industry and Service Statistics, 2013.

StatLink http://dx.doi.org/10.1787/888933333558

SME lending

Both total business loans and SME loans increased significantly over the period 2007-14 by 358% and 342%, respectively. SME loans followed a consistent growth pattern with the exception of 2009, when they decreased slightly by 1.6%. In 2014, SME loans increased by 22.7% compared to 2013, reaching TRY 333.3 billion. Total business loans also followed an uninterrupted growth trend, with a 23.8% increase in 2014, reaching TRY 872 billion. The SME share of total business loans was 38.2% in 2014, slightly down from 38.6% in 2013.

Equity financing

The data provided in Table 37.8 only include information on venture capital/ private equity investments by venture capital/ private equity investment companies which report to the Capital Markets Board (SPK). Comparing the years 2007 and 2014, additional investments in venture capital/ private equity by venture capital/ private equity investment companies increased more than eightfold. The total amount of venture capital/ private equity investments realised in 2014 equalled TRY 124.4 million. After the enactment of the new Capital Market Law in December 2012, secondary legislation regarding venture capital/ private equity investment companies was published in October 2013, and the secondary legislation regarding venture capital/ private equity investment funds was 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 25 February 2013, authorising the 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, the 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 they invest in innovative and high growth SMEs whose shares are not traded at the 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 were supported by the Ministry of Science, Industry and Technology, the Scientific and Technological Research Council of Turkey (TÜBİTAK) and the Small and Medium Enterprises Development Organisation (KOSGEB) in the last five years. The issued licenses will be valid for five 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 the Turkish Treasury to be eligible to receive business angel investment, such as having maximum annual net sales of TRY 5 million and not having more than 50 employees.

Between February 2013 and June 2015, 314 business angels have applied for a license and 308 of them have been licensed. In the same period, 16 investment applications were made by the licensed business angels and nine of them, amounting to a total of TRY 2.7 million were benefiting from the current programme.

As a general problem of the 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 the Turkish Treasury currently has a database which analyses the collected data.

Regulation regarding fund of funds

The law regarding capital contribution of the Turkish Treasury to funds of venture capital funds (fund of funds) was enacted by the Parliament on 3April 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, the upper limits of all fees and expenses pertaining to the resources committed, and other related issues regarding received resources from the 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

The Turkish Treasury will commit the funds to a fund of funds under several conditions. The amount committed to the fund 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 fund of funds by the Turkish Treasury until the end of 2018 shall not exceed TRY 500 million, excluding charges and fees to be paid to the fund of funds. The Turkish Treasury may pay this amount at once or in instalments. The total amount to be injected into the financial ecosystem according to the above stipulations would exceed TRY 2 billion.

The law aims to strengthen the financial ecosystem together with the fund of venture capital funds and the business angel programme. Moreover, as a new financial instrument, the fund of funds programme aims to improve the ecosystem via co-investments with angel investors. To be more specific, co-investment funds will invest together with the angel investors into early stage companies. In that respect, a substantial increase in the volume of venture capital and angel investments can be expected, which would eventually support early stage companies not only financially but also in terms of institutionalisation and corporate governance. These mechanisms are expected to accelerate the establishment of innovative start-ups, increase the dynamism of the economy and contribute to a stronger and more sustainable economic growth. Furthermore, the fund of funds mechanism is expected to attract foreign investors, as well as ease the exit process of angel investments. It is expected that the programme will be started by the end of 2015.

Other indicators

The share of SME non-performing loans in total SME loans stood at 3.8% in 2007, peaked at 8.3% in 2009, but then rapidly declined again to 3.2% in 2011. The relative number of SME non-performing loans remained roughly constant between 2011 and 2014.

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, along with the court costs. If there are no objections, the payment order becomes final. However, the debtor can object and the proceedings are then halted. In addition, the creditor can also file a bankruptcy case with the commercial court. These legal proceedings can be lengthy, resulting in a low number of bankruptcies. Article 35 of the Turkish Code of Commerce orders amendments to the trade registry to be published in the Turkish Trade Registry Gazette, including announcements on bankrupted firms. According to the Turkish Trade Registry Gazette database, there were a 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. By the end of 2014, the number of SMEs registered in the KOSGEB data base had reached approximately 771 000 and 68 140 of these enterprises had been directly supported by KOSGEB between 2010 and 2014 via different incentive schemes, totalling an amount of EUR 377 million.

KOSGEB's services are accessible across the whole country. It provides its services and support to SMEs and entrepreneurs via different kinds of KOSGEB Service Centres. By the end of 2014, there were 88 Service Centres, 43 Technology Development Centres, 73 R&D Innovation Cooperations, and 73 representatives in 81 provinces.

Eight different support programmes (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 offered to SMEs by KOSGEB. These programmes are designed by taking into consideration the basic needs of SMEs and with the goal of disseminating a culture of entrepreneurship in the society.

Access to finance is one of the major priority areas for Turkish SME policy. To overcome the banking system's apparent inability to provide funds to support SMEs and related infrastructure investments, a number of targeted investment credit interest support programmes were introduced by KOSGEB. Within these programmes, KOSGEB pays the loan interests of SMEs that obtain loans from banks contractual with KOSGEB. Thus, SMEs have been able to access and utilise bank loans at more favourable conditions. More than 200 000 SMEs have benefited from the KOSGEB's credit interest support programmes and used credits from the banks, both public and private, that signed protocols with KOSGEB. These programmes created a EUR 4 billion credit volume in the years 2003-14.

Table 37.2. **The KOSGEB credit interest support programme in Turkey, 2003-14**

	Number of beneficiary 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
2014	3 140	47 430 767
Total	**215 184**	**4 090 407 992**

Source: KOSGEB, Activity Report, 2014.

StatLink http://dx.doi.org/10.1787/888933333563

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 financial structures such as the Credit Guarantee Fund (KGF), the KOBİ Venture Capital Investment Trust Inc. Co. (KOBİ GSYO A.Ş), and the Istanbul Venture Capital Initiative (iVCi), and created its latest support programme "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 similar 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 numerous Turkish banks. KOSGEB holds 33.2% of the total capital of KGF. The Turkish Treasury provides counter-guarantees to the KGF. In addition to the Turkish Treasury counter-guarantee, the KGF also benefits from counter guarantees by foreign institutions, such as the European Investment Fund (EIF). KGF's cooperation with the EIF has been productive with projects such as the Instrument for Pre-Accession (IPA), the Competitiveness and Innovation Programme (CIP), the *Multiannual programme for enterprises and entrepreneurship* (MAP), focusing in particular for small and medium-sized enterprises and setting successful examples of this partnership.

Table 37.3. **KGF guarantees and credit volumes in Turkey, 2007-14**

Year	No. enterprises	No. guarantees	Guaranteed amount *(TRY million)*	Credit volume *(TRY million)*
2007	249	305	52.9	75.4
2008	914	1 138	284.5	402.5
2009	1 905	2 605	565.3	790.6
2010	1 933	3 090	938.9	1 302
2011	2 256	3 207	1 123	1 622
2012	5 012	5 517	1 114	1 553
2013	2 462	2 760	1 061	1 467
2014	4 233	5 262	1 392	1 888

Source: KGF.

StatLink http://dx.doi.org/10.1787/888933333577

In addition, international financial organisations such as the World Bank, the European Commission, the European Investment Bank and the Council of Europe's Development Bank provided direct loans to SMEs which were guaranteed by the Turkish Treasury.

Table 37.4. **International financial institutions' direct loans with treasury guarantee in Turkey, 2007-14**

In USD million

	2007	2008	2009	2010	2011	2012	2013	2014
Direct loans	552	842	997	1 321	1 174	1 315	2 632	1 709

Source: Turkish Treasury.

StatLink http://dx.doi.org/10.1787/888933333589

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 was founded in 2007 as 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, the National Bank of Greece Group (NBG) and the European Investment Fund (EIF). The EIF is also the advisor to iVCi.

By November 2015, iVCi's total amount of commitments was about EUR 160 million, including contribution of investors. Total funds raised by iVCi portfolio funds reached EUR 1.5 billion, and iVCi signed ten commitments, including one co-investment, amounting to EUR 156 million.

Table 37.5. **Capitalisation of KOSGEB to iVCi in Turkey, 2008-14**

Year	Amount (EUR)
2008	1 500 000
2009	1 093 750
2010	1 406 250
2011	3 025 000
2012	11 250 000
2013	5 000 000
2014	5 000 000
Total	**28 275 000**

Source: KOSGEB Activity Report, 2014.

StatLink http://dx.doi.org/10.1787/888933333595

iVCi's contribution to the development of the venture capital/ private equity industry is multi-layered; with five first time teams being supported out of ten investments, over 80 investment professionals being employed by the fund managers and so far 35 companies accessing this means of finance. Around EUR 200 million have already been leveraged for the benefit of Turkish SMEs.

G-43 Anatolian Venture Capital Fund

The G43 Anatolian Venture Capital Fund which is also called the G43 VC Fund ("G43") is a project developed under the IPA (Instrument for Pre-accession) funds, under the Measure 1.2 "Creation and Development of Financial Instruments" of the Regional Competitiveness Operational Programme to improve the alternative investment market in Turkey, focusing especially on SMEs. The Ministry of Science, Industry and Technology is the operating structure for IPA funds allocated to the Regional Competitiveness Operational Programme. KOSGEB is responsible for the management and performance of the operations and is the end recipient of the assistance. The EIF, through a Contribution Agreement, is the trustee administrator of the EIF-IPA Commitment.

In total, 43 provinces of Turkey, defined as the Target Region, fall into the geographical scope of the fund. The G43 targeted regions are characterised by having per capita income lower than 75% of the Turkish national average according to 2001 statistics. The nine administrative provinces of the South-Eastern Anatolia Region (Adıyaman, Batman, Diyarbakır, Gaziantep, Kahramanmaraş, Mardin, Kilis, Siirt and Şanlıurfa) are the recipients of the project. Other NUTS II Regions[1] with an income per capita lower than 75% of the Turkish national average can also be beneficiaries of up to 50% of the fund. The Instrument for Pre-Accession Assistance (IPA) funds is being provided 85% by the European Union and 15% by the Republic of Turkey.

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 fund was established in 2012 and a fund management company was selected. 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 which dedicates more than 60% of its budget to facilitating access to finance for SMEs. Part of the COSME budget will be dedicated to investments in risk capital funds that provide venture capital and mezzanine finance to expansion and growth-stage SMEs, and in particular to those operating across borders. Fund managers working on a commercial basis will ensure that investments are focused on SMEs with the greatest growth potential.

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 securities are issued in order to raise funds from the capital markets for 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 as a grant. By the end of 2014, a total of 17 enterprises' applications for support were confirmed.

KOBİ Venture Capital Investment Trust Inc. Co. (KOBİ GSYO A.Ş.)

Turkish entrepreneurs who lack adequate experience, capital or collateral find it very hard to utilise various bank resources to obtain the seed and initial capital required at the beginning of the business, or the additional capital necessary for expanding their businesses. The Company is held by three main partners, the Union of Chambers and Commodity Exchanges of Turkey (TOBB), Halkbank and KOSGEB, and 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, products, or new ways of production.

KOBİ Venture Capital Investment Trust Inc. Co. provides both, financial and managerial support 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 provided under the authority and supervision of the company's main partners. The range of the support varies from USD 1 to 5 million based on the SME/ company evaluation. The investment involves the company acquiring a minority preferred share of the SME for a planned period of 5-6 years.

To date, the company has made nine investments in SMEs operating in various economic sectors.

KOSGEB's support for start-ups

Start-ups in Turkey have very limited access to start-up capital since they lack prior period financial records and collateral required by the banks.

KOSGEB is in charge of interventions 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. The support rate ranges between 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 a KOSGEB-approved public or civil organisation.

Between 2010 and 2014, 302 077 participants, of which 46% were women, completed start-up training programmes. From this population 16 904 participants set up their businesses (approximately 50% were 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 was TRY 267.4 million. The remaining opted to become self-employed, however they can still set up their businesses at a later stage. In that case, they will be eligible for KOSGEB capital support.

KOSGEB's energy efficiency programmes

KOSGEB considers energy efficiency an important issue and therefore introduced a support programme for trainings, audits and consultancy services to be offered to SMEs. Preliminary or detailed surveys, consultancy services for the projects aiming to increase energy efficiency and energy management training services are offered by accredited energy efficiency companies which are subsidised under "Energy Efficiency Supports" issued via regulation. The upper limit for Energy Efficiency Support is TRY 30 000. The cost of a preliminary survey can be supported up to TRY 2 000, for a detailed survey up to TRY 20 000, and consultancy support offered to projects aiming to increase the energy efficiency can be supported up to TRY 5 000.

Borsa Istanbul Private Market platform

Borsa Istanbul's Private Market is a web-based platform initiated in November 2014, which brings together companies and investors in order to buy or sell shares without going public. It offers liquidity for company partners intending to sell their shares and offers investors the chance to find buyers to liquidate their investments. KOSGEB is preparing a new support model to cover the expenses of SMEs benefiting from this platform.

Greater Anatolia Guarantee Facilities (GAGF) project

By the Directorate General of Internal Trade of the Ministry of Customs and Trade, and 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 2010-17. Both, micro enterprises and SMEs can benefit from the project. Until 2015, the credit volume provided to the enterprises was over EUR 580 million with 8 040 enterprises benefiting from that amount. By the end of the project, it was planned to provide a credit volume of up to EUR 937.5 million in these 43 cities. However, after the success of the project, an extension was realised and the new target of the project has now reached over EUR 1 billion. Additionally, the new target number of enterprises which will have benefited at the end of the project was raised to 9 000.

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 took place between September and December that same year.

The aim of this programme is to utilise 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.

The fund managers or prospective fund managers which were selected to be supported by TÜBİTAK after evaluation processes, commit to raise about TRY 450 million until the end of 2015. In the context of the programme, TÜBİTAK will provide at most 20% of the fund size of each venture capital fund not exceeding TRY 15 million.

Development agencies

Development Agencies (DAs) are designed as a coordinator, organiser and catalyst body that support regional development, ensure sustainability and help reduce intra and inter-regional development disparities in accordance with the principles and policies set in the National Development Plans and Programmes.

Revenues of DAs come from various resources, mainly from central budget and transfers from the budgets of local partners (special provincial administrations, municipalities, chambers of commerce and industry). DAs are in charge of planning, programming and managing support schemes that are similar to the EU type of implementation. Each DA has prepared regional plans for their regions with the active participation of regional and local actors. In accordance with the priorities in their regional plans, DAs provide financial grants and technical support to private sector projects, public institutions, local authorities, universities, and NGOs and in their regions.

The total amount of grants for SME's provided by Development Agencies has reached over TRY 987 million since 2008. The total number of supported projects was 4 064 for the same period. To date, together with co-financing, the total volume of resources devoted to regions added up to some TRY 2.1 billion.

Table 37.6. **Support of development agencies to SMEs in Turkey, 2008-15**

Year	2008	2009	2010	2011	2012	2013	2014	2015	Total
Number of Supported Projects	133	224	892	940	487	444	917	27	4 064
Amount of Support (Thousand TRY)	31 220	51 386	199 353	218 633	129 274	91 563	261 072	5 195	987 696
Total amount with co-financing (Thousand TRY)	74 302	74 302	74 302	463 521	272 834	191 014	544 129	10 427	1 704 831

Source: Ministry of Development.

StatLink http://dx.doi.org/10.1787/888933333602

Leasing, Factoring and Financing Companies Law

The parliament enacted a new Leasing, Factoring and Financing Companies Law in November 2012 which streamlines previous leasing, factoring and financing company regulations. This new Law is expected to help non-banking financial sector growth and improve SMEs' access to finance, especially by expanding the variety and size of the leasing transactions available to them. This Law supports two secondary regulations which entered into force in late 2013, “the Regulation on Establishment and Activities of Leasing, Factoring and Financing Companies”, and “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”. The 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. Both, claims form leasing transactions and claims from factoring transactions of these companies increased significantly over the last two years, indicating progress since the mentioned legislation’s enacted date. The volume of claims from leasing transactions of leasing companies increased by 72.7% and reached TRY 29.6 billion from TRY 17.2 billion in the last two years. Similarly, the volume of claims from factoring transactions of factoring companies increased by 53.1% and reached TRY 25 billion from TRY 16.3 billion for the same period.

Box 37.1. **SMEs in Turkey**

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.

Table 37.7. **Definition of SMEs used in Turkey’s scoreboard**

	Micro Enterprise	Small Enterprise	Medium Enterprise
Employees	< 10	< 50	< 250
Annual turnover	≤ TRY 1 million	≤ TRY 8 million	≤ TRY 40 million
Annual balance sheet	≤ TRY 1 million	≤ TRY 8 million	≤ TRY 40 million

Source: Law on the SME definition, 04 November 2012.

StatLink http://dx.doi.org/10.1787/888933333619

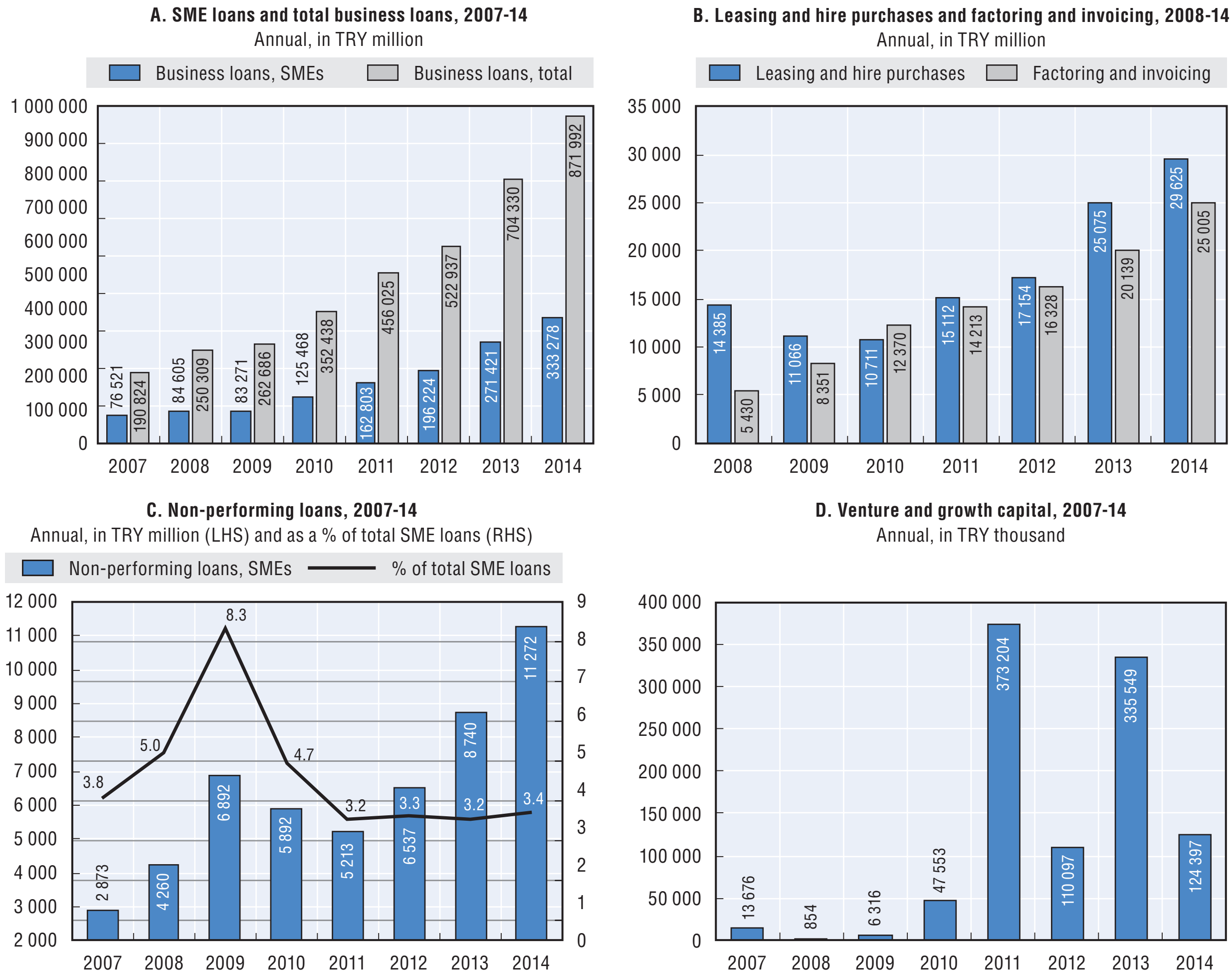
Table 37.8. **Scoreboard for Turkey, 2007-14**

Indicator	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Outstanding business loans, SMEs (stock)	TRY million	76 521	84 605	83 272	125 468	162 803	199 743	271 421	333 278
Outstanding business loans, total (stock)	TRY million	1901 42	249 434	261 671	351 627	456 025	522 937	704 330	871 992
Business loans, SMEs	% of total business loans	40.1	33.8	31.7	35.6	35.5	37.5	39	38.2
Government loan guarantees, SMEs	TRY million	53	285	565	939	1 123	1 114	1 061	1 392
Government guaranteed loans, SMEs	TRY million	75.4	403	791	1 302	1 622	1 553	1 467	1 888
Direct Loans	USD million	552	842	997	1 321	1 174	1 315	2 632	1 709
Non-performing loans, SMEs	TRY million	2872.65	4 260	6 892	5 892	5 213	6 537	8 740	11 272
Non-performing loans, total	TRY million	10345	14 053	21 853	19 993	18 973	23 408	29 622	36 426
Non-performing loans, SMEs	% of total SME loans	3.8	4.8	7.6	4.5	3.1	3.2	3.2	3.4
Equity									
Venture and growth capital	TRY thousand	13 676	854	6 316	47 553	373 204	110 097	335 549	124 397
Venture and growth capital	%, year-on-year growth rate	..	-94	639. 5	653	685	-71	205	-63
Other									
Bankruptcies, total	Number	52	47	50	68	72	141	69	..

Source: Sources: See Table 37.9.

StatLink http://dx.doi.org/10.1787/888933333626

Figure 37.1. **Trends in SME and entrepreneurship finance in Turkey**



Sources: Charts A, B and C: Turkish Banking Regulation and Supervision Agency (BDDK). Chart D: Capital Markets Board of Turkey (SPK). AS.

StatLink http://dx.doi.org/10.1787/888933331655

Table 37.9. **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 investment companies)	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)

Note

1. The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU for the purpose of the collection, development and harmonisation of European regional statistics, as well as for socio-economic analyses of the regions. More information available at: *http://ec.europa.eu/eurostat/web/nuts/overview*.

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United Kingdom

SMEs in the national economy

There were 1.3 million employer enterprises in the United Kingdom at the start of 2014. 99.5% of these employer enterprises were SMEs with less than 250 employees, employing 52% of the UK workforce. 82% were SMEs with less than 10 employees, also known as micro enterprises.

Table 38.1. **Distribution of firms in the United Kingdom, 2014**

By firm size

Firm Size (Employees)	Number	%
All employers	**1 277 360**	**100**
SME (1-249)	**1 270 615**	**99.5**
Micro (1-9)	1 044 385	81.8
Small (10-49)	194 755	15.2
Medium (50-249)	31 475	2.5
Large (250+)	**6 745**	**0.5**

Source: Department for Business, Innovation & Skills.

StatLink http://dx.doi.org/10.1787/888933333635

SME lending

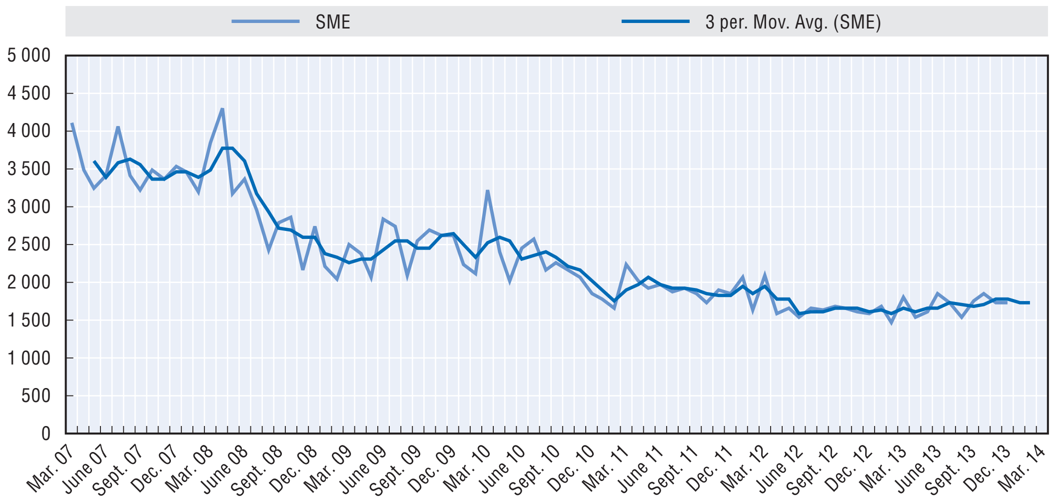
Gross lending to SMEs has shown a slightly positive trend in both, 2013 and 2014. Despite the figure for March 2015 with gross lending to SMEs being only 57% of the absolute value of the pre-crisis peak, recovery is evident. However, net lending remained negative for the majority of months in 2014, as repayments exceeded gross lending. There are, though, signs this may be changing, as the first three months of 2015 all produced positive net lending figures.

The stock of lending to SMEs suffered a 2% decline in 2014, from GPB 99.7 billion to GPB 97.9 billion. This represents a continuation of a downward trend which has been visible for a number of consecutive years, although the trend might be expected to change if net lending becomes consistently positive.

The stock of lending to corporations also continued its descent at a faster rate in comparison to the SME lending stock. The corporate lending stock fell by 4% over 2014, with no evidence to suggest this slowing down in the near future. However, the more rapid fall in lending to corporations likely reflects their greater options for raising significant amounts of finance, in particular their access to capital markets (where low interest rates continue to support high corporate bond issuance). SMEs are more dependent on banks, and are more adversely affected by lending declines.

Figure 38.1. **Gross lending to SMEs in the United Kingdom, 2007-14**

In GBP million

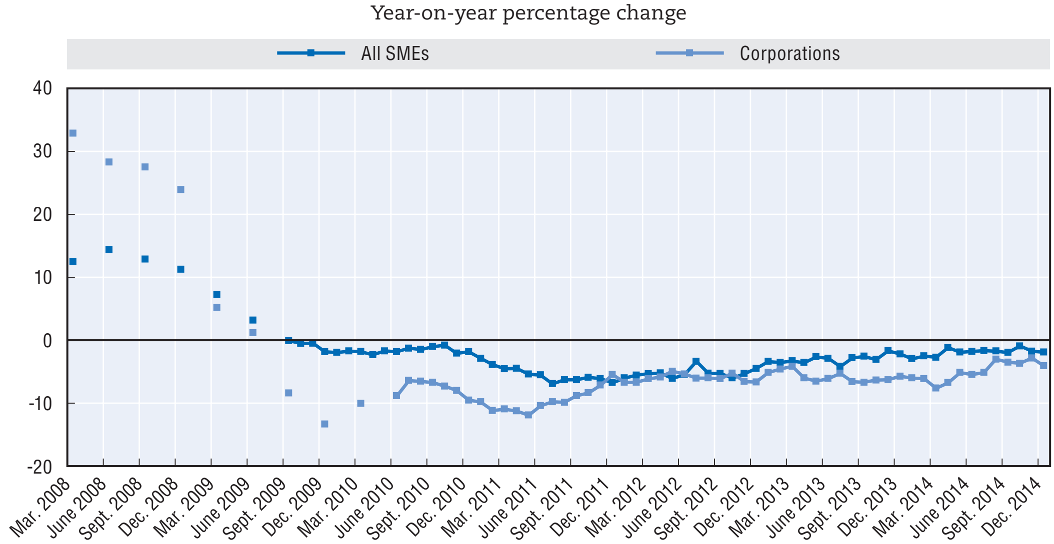


Source: British Business Bank calculations based on BBA and BIS data.

StatLink http://dx.doi.org/10.1787/888933331661

Figure 38.2. **Stock of lending to SMEs and corporations in the United Kingdom, 2008-14**

Year-on-year percentage change



Source: British Business Bank calculations, based on BBA, Bank of England and BIS data.

StatLink http://dx.doi.org/10.1787/888933331676

Credit conditions

The combined rejection rate for SME loans and overdrafts fell from 33% to 22% in 2014. This was due to a fall in the rejection rates for both forms of finance from 44% to 34% and from 27% to 15%, respectively. This is a change in the trend from the last 3-4 years, where the combined rate had risen from 27% in 2010 to 33% in 2014. The Bank of England Credit Conditions Survey suggests that there was an increased availability of credit to SMEs at the beginning of 2014, which might indicate a change in risk appetite among lenders.[1]

The utilisation rate, defined as the ratio of SME loans authorised/ SME loans used – fell slightly from 89% in December 2013 to 88.5% in December 2014, whilst the use of overdrafts fell from 53.9% in 2013 to 50% in 2014. This may suggest that there is an overall easing on SMEs' financial accounts, as a decrease in the usage of overdrafts could indicate fewer businesses were facing financial distress.

Since 2012, the average interest rate for SMEs has been consistently falling to 3.4% in 2014, 1.1 percentage points lower than in 2008. This is in contrast to corporate interest rates, which have increased in the prior calendar year from 2.2% to 2.5%. The spread between SME and corporate interest rates fell below 100 basis points in 2014.

In 2014, 33.6% of all loans to SMEs required collateral for approval. There have been slight fluctuations in the last five years; however it appears as if an approximate level may be established, with the most recent years recorded at 34.2% and 33.6%, respectively.

Leasing, hire purchases, asset-based financing and equity financing

In the 2014 calendar year, the total value of leasing and hire purchase finance to all new SMEs rose by 11%. This occurred due to a spike in hire purchases, which increased from GPB 6.7 billion to GPB 7.9 billion – which offset leasing which remained stagnant. When comparing both leasing and hire purchases to their pre-crisis peak, evidence shows that the latter has experienced a relatively rapid recovery since 2010, surpassing the 2007 figure by 21% this year. Leasing, however, has not recovered, with the 2014 figure 31% less than in 2007, and the value of new businesses stagnant since 2010. The figures also suggest that there may have been a change in preference from SMEs to utilise hire purchases over leasing since the economic crisis.

Table 38.2. **Leasing and hire purchases to SMEs in the United Kingdom, 2007-14**

GBP million; SMEs defined as 60% of all PNFC facilities by value

Year	Leasing	Hire purchase	Total
2007	8 249	6 566	14 814
2008	8 653	5 943	14 596
2009	6 012	4 180	10 191
2010	5 772	4 706	10 477
2011	5 536	5 312	10 848
2012	5 678	5 916	11 593
2013	5 572	6 748	12 320
2014	5 731	7 942	13 673

Source: Finance & Leasing Association: data provided directly to British Business Bank.

StatLink http://dx.doi.org/10.1787/888933333640

Asset-based finance includes domestic factoring, domestic invoice discounting, export factoring and import factoring. It is used by many SMEs to improve cash flow and provides working capital. The strong positive trend continued in 2014, with an annual growth of 10%. In addition to double-digit growth, the total SME figure has exceeded pre-crisis levels for the first time, being 3% higher than in 2008. The strong increase in 2014 was mainly due to growth amongst SMEs with GPB 10-50 million in turnover, where facilities increased by GPB 1 billion. For smaller firms with a turnover of less than GPB 10 million, growth was 1% in 2014. Despite being below the 2008 pre-crisis peak, growth since 2009 in this segment has been slow and stable, with an upward trajectory recorded for six consecutive years.

Table 38.3. **Stock of asset-based financing in the United Kingdom, 2007-14**

By turnover in GBP million

Turnover bands	GBP 0 - GBP 500 000	GBP 500 000 - GPB 1m	GBP 1m - GBP 5m	GBP 5m - GBP 10m	GBP 10m - GBP 50m	GBP 50m - GBP 100m	Over GBP 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	558	571	2 846	1 747	3 129	973	3 533	13 357	8 851
2010	683	527	2 769	1 829	3 645	996	4 067	14 516	9 453
2011	687	527	2 738	1 903	4 253	1 270	3 954	15 332	10 108
2012	537	565	2 902	1 946	4 189	1 481	4 481	16 101	10 139
2013	556	584	2 932	1 987	4 643	1 785	5 293	17 780	10 702
2014	616	561	2 914	2 053	5 630	1 801	5 855	19 430	11 774

*Clients with turnover below GBP 50 million.

Source: Asset Based Finance Association.

StatLink http://dx.doi.org/10.1787/888933333651

It is estimated that only 1% of SMEs currently use equity finance to fund themselves.[2] Yet while it is used by few SMEs, equity is a vital source of finance for those companies which are innovative and have high-growth potential, but lack tangible capital that might be used as security for bank finance[3]. In 2014, equity investment rose by 30% compared to 2013. Annual increases were experienced at both, venture and growth stages, at rates of 39% and 25%, respectively. Over time, there has been a shift in the composition of investment by equity funds away from venture and towards the growth stage, which was only partially redressed in 2014.

Table 38.4. **Venture and growth capital investment in the United Kingdom, 2007-14**

By stage of development, GBP million

	2007	2008	2009	2010	2011	2012	2013	2014
Seed	9	6	8	8	32	6	3	3
Start-up	354	461	340	268	232	320	281	318
Later stage venture	665	749	351	386	431	208	201	355
Total venture	1 028	1 216	699	661	695	534	485	676
Growth	899	1 409	995	1 216	971	738	906	1 139
Total	**1 926**	**2 625**	**1 693**	**1 877**	**1 666**	**1 271**	**1 391**	**1 815**

Source: Invest Europe (formerly European Venture Capital Association).

StatLink http://dx.doi.org/10.1787/888933333666

Other indicators

The total number of bankruptcies in the United Kingdom fell by 8% in 2014, continuing the trend where the number of bankruptcies has been on a continuous decline since 2011. Fewer bankruptcies may suggest an economic environment where SMEs are not as constrained as in previous years. In comparison to pre-crisis years, the number of bankruptcies has returned to similar levels that were witnessed in 2006, and is only slightly above the pre-crisis low of 2007.

Payment delays are defined as the average days beyond term for all B2B transactions. In 2014, the number of days fell to 24.5, which is a decrease when compared to the 2013 figure of 25.2 days. Since 2012, payment delays have been stable, with no real indication of a positive or negative trend forming.

Government policy response

The British Business Bank, a new public financial institutional set up by the UK Government, has been operationally independent since November 2014 (before which it was run directly by the Department for Business Innovation & Skills). The Bank aims to improve the structure of finance markets to the benefit of SMEs by increasing competition and diversity of supply, and manages a range of programs to achieve this objective.

As of 31 March 2015, over 43 000 SMEs have benefitted from British Business Bank programmes. The method in which the Bank achieves its objectives is not via lending directly to businesses, but rather through over 80 delivery partners that are already working in the market to provide finance to SMEs. The stock of finance facilitated by the Bank's programmes amounts to more than GBP 3 billion throughout the United Kingdom.[4]

One of the main financial products used to assist SMEs in obtaining loans is the Enterprise Finance Guarantee (EFG). It is targeted at viable SMEs lacking adequate collateral or proven track record for a commercial loan. Businesses are only considered for an EFG loan when the lender is satisfied that the business is able to afford the loan repayments (in other words, the debt can be serviced). EFG loans are available to viable businesses with a turnover of up to GBP 41 million, and that are seeking finance between GBP 1 000 and GBP 1.2 million (changed from GPB 1 million originally).[5]

After a pick-up in 2013, the volume and value of EFG loans fell back in 2014 in what appears to be a continuation of a downward trend. However, this trend might to some extent be expected in an environment where credit conditions are improving: The EFG is designed to be used only where an SME would otherwise be unable to secure finance, so it is likely to be drawn upon less as approvals by lenders increase.

Table 38.5. **EFG loans drawn and offered in the United Kingdom, 2009-14**

Year	Number of Loans Offered	Value of Loans Offered (GPB m)	Number of Loans Drawn	Value of Loans Drawn (GPB m)	Loans Drawn/ Loans Offered (%)
2009	7 415	759.4	6 168	626.4	82.5
2010	5 831	588.2	5 324	529.3	90
2011	3 602	362.1	3 311	325.8	90
2012	3 173	337.6	2 716	288.3	85.4
2013	3 741	408	3 162	337.3	82.7
2014	3 017	347.7	2 667	297.2	85.5

Source: British Business Bank.

StatLink http://dx.doi.org/10.1787/888933333673

The ENABLE Guarantee programme is designed to encourage additional lending to smaller businesses. Participating banks are incentivised by a government-backed portfolio guarantee to cover a portion of a designated lending portfolio's net credit losses in excess of an agreed 'first loss' threshold, which they receive in exchange for a fee. The ENABLE Guarantee programme is open to all UK banks and UK branches of foreign banks which lend, or intend to lend, to viable small and medium-sized enterprises operating in the United Kingdom. The first transaction of the ENABLE guarantee was completed in March 2015 with Clydesdale and Yorkshire Banks.[6]

The ENABLE funding programme, launched in November 2014, is aimed at improving the provision of asset and lease finance to smaller UK businesses. It addresses an issue whereby many providers of asset finance lack sufficient scale to access capital markets in a cost-efficient manner. ENABLE Funding will 'warehouse' newly-originated asset finance receivables from different originators – bringing them together into a new structure. Once the structure is big enough, it will seek to refinance a portion of its funding through securitisation techniques, thereby enabling smaller finance providers to tap institutional investors' funds.

In March 2015, the UK Government brought forward two new pieces of legislation intended to improve competition in SME finance markets. The first obliges banks to offer a referral to an online finance platform to those businesses whose finance applications they reject, with the aim being that viable businesses are able to find alternative funding after being turned down by a bank. The second sets out to increase credit information on SMEs available to credit reference agencies by requiring the banks to share this information, with the aim of encouraging more smaller finance providers to enter the market, drawing upon the newly-available credit information.[7]

The "Help to Grow" pilot scheme intends to address the financing needs of SMEs looking to grow, but unable to obtain a loan from banks because of their level of risk. The scheme will provide "Growth Loans", i.e. debt-based finance which goes beyond senior debt in terms of risk appetite. This is often referred to as unitranche, mezzanine, stretch debt, venture debt or long-term patient capital. It is typically unsecured, with a proportion of the financial return deferred and – in some cases – linked to the future success of the business. The scheme is in the process of being established in 2015, with delivery mechanisms and partners yet to be decided.

Enterprise Capital Funds (ECFs) bring together private and public money to make equity investments in potential high-growth businesses. They are managed by experienced investors from a variety of backgrounds, including teams from the Venture Capital industry and serial entrepreneurs with a history of success in building early stage UK companies. 2014 saw a change in the rules on fund size and investment size: previously, the government contribution to a fund was capped at GBP 25 million and the maximum investment in individual companies was at GBP 2 million[8]; these have been increased to GBP 50 million and GBP 5 million, respectively. Alongside an additional GBP 400 million of funding commitment announced in December 2014, these changes allow the ECF programme to continue backing high-potential businesses, whilst addressing identified gaps in the later-stage VC market.[9]

A significant source 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 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.

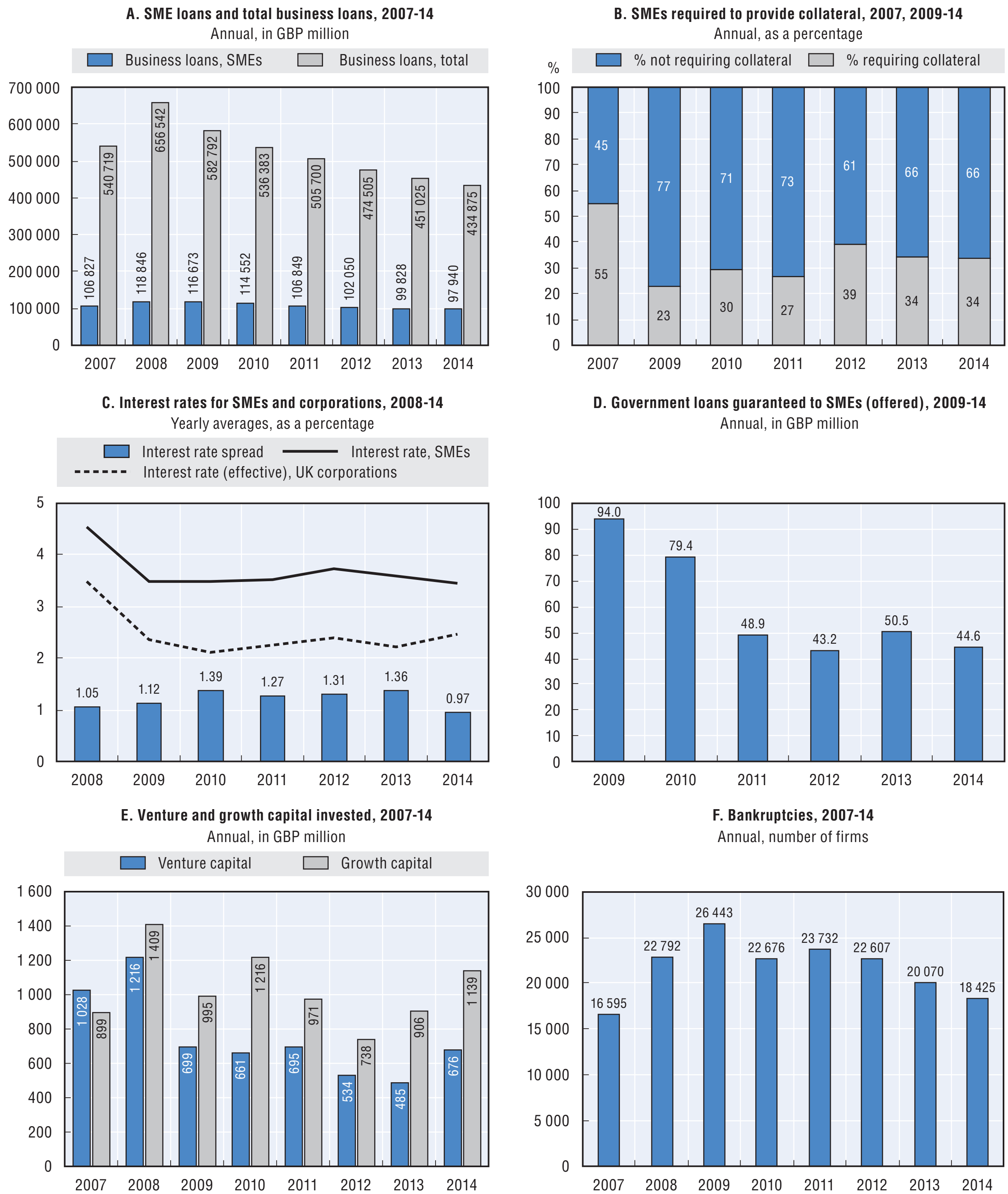
Table 38.6. **Scoreboard for the United Kingdom, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Outstanding business loans, SMEs (stock)	GBP million	10 827	118 846	116 673	114 552	106 849	102 050	99 828	97 940
Outstanding business loans, total (stock)	GBP million	540 719	656 542	582 792	536 383	505 700	474 505	451 025	434 875
SME loan share	%	20	18	20	21	21	22	22	22.5
New business loans, SMEs (flows)	GBP million	..	37 388	29 469	27 671	22 835	20 521	20 395	22 578
New business loans, total (flows)	GBP million	..	..	..	..	..	145 843	162 936	189 525
Government loan guarantees, SMEs	GBP million	..	..	94	79.4	48.9	43.2	50.5	44.6
Government guaranteed loans, SMEs	GBP million	..	..	626	529	326	288	337	297.2
SME loans authorised/ SME loans requested	%	..	..	..	62	68	69	64	..
SME loans used/ SME loans authorised	%	..	..	..	..	86.00	86.00	89.00	88.00
Interest rate, SMEs	%	..	4.54	3.47	3.49	3.52	3.71	3.60	3.43
Interest rate, large firms	%	..	3.49	2.35	2.10	2.25	2.41	2.20	2.45
Interest rate spread	% points	..	1.05	1.12	1.39	1.27	1.31	1.40	0.97
Collateral, SMEs	% of loans requiring collateral	55	..	23.0	29.5	26.9	39.2	34.2	33.6
Equity									
Venture capital	GBP million	1 028	1 216	699	661	695	534	485	676
Growth capital	GBP million	899	1 409	995	1 216	971	738	906	1 139
Leasing and hire purchases	GBP Million	14 814	14 596	10 191	10 477	10 848	11 593	12 320	13 673
Factoring and invoicing	GBP Million	11 087	11 384	8 851	9 453	10 108	10 139	10 702	11 774
Other									
Payment delays, B2B	Average days beyond term	19.1	21.5	22.8	22.6	25.7	24.7	25.2	25
Bankruptcies, total	Number	16 595	22 792	26 443	22 676	23 732	22 607	20 070	18 425
Bankruptcies, total	%, Year-on-year growth rate		37	16	-14	5	-5	-11	-8

Source: See Table 38.9.

StatLink http://dx.doi.org/10.1787/888933333680

Figure 38.3. **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/10.1787/888933331686

Table 38.7. **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); UK 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

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2. BDRC Continental - SME Finance Monitor. Available at: *http://bdrc-continental.com/products/sme-finance-monitor/*.
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6. *http://british-business-bank.co.uk/market-failures-and-how-we-address-them/wholesale-solutions/*.

7. *http://british-business-bank.co.uk/market-failures-and-how-we-address-them/finance-platforms-and-credit-reference-agencies/.*
8. With some allowances for follow-on investments to avoid dilution.
9. British Business Bank (2015), "Review of Equity Investment in Small Businesses": *http://british-business-bank.co.uk/wp-content/uploads/2015/03/050315-Equity-report-FINAL.pdf.*

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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[1]. These firms account for more than 28 million businesses, or 99.9% of all firms. They employ about half of the private sector's employees, pay about 42% of the total private sector payroll, generate about 63% of net new private sector jobs, and create about 46% of the private-sector output.[2]

Table 39.1. **Distribution of firms in the United States, 2011**

By size of firm

Firm size (employees)	Number	%
Total firms	**28 175 504**	**100**
SMEs (0-499)	**28 157 833**	**99.9**
Non-employer firms	**22 491 080**	**79.8**
Employer Firms	5 684 424	20.2
SMEs (0-499)	5 666 753	20.1
Micro (0-9)	4 511 051	16.0
Small (10-99)	1 074 459	3.8
Medium (100-499)	81 243	0.3
Large (500+)	**17 671**	**0.063**

Source: US Small Business Administration.

StatLink http://dx.doi.org/10.1787/888933333694

The macroeconomic environment

Steady, but subpar economic growth has continued during the most recent recovery period (1999Q2 to 2015Q2), with real GDP recording an average growth of 2.1%, below the historical average of 3.4%. This modest growth created pronounced underutilisation of resources in the early years of the recovery, but this gap tightened in the 2013-15 period. This improvement translated into more noticeable progresses in the labour market, solid but flattening corporate profits, and increases in small business credit markets.

Data from the federal tax agency, the Internal Revenue Service, provide a glimpse of profits by firm receipts size, and indicate that profits at small firms, (those with annual receipts of less than USD 10 million), got hit harder during the 2008-09 recession, and are still below the historical average. Profits at large firms, those with annual profits greater than USD 10 million, fared better, with recent levels surpassing the historical average. More specifically, data for 2012 indicate that profit margins for small firms, stood at 1%, thus still below the historical average of 1.3% (see Table 39.2). Profit margins at the large firms stood at 4.3%, and were above the historical average of 4.2%.

Table 39.2. **Net pre-tax income in the United States**

As a percentage of receipts

Period	Small firms	Large firms
	Under USD 25 000 to USD 10 000 000	Over USD 10 000 000
1994-2007 average	1.31	4.22
2008-2009 average	0.98	3.92
2012	1.03	4.34

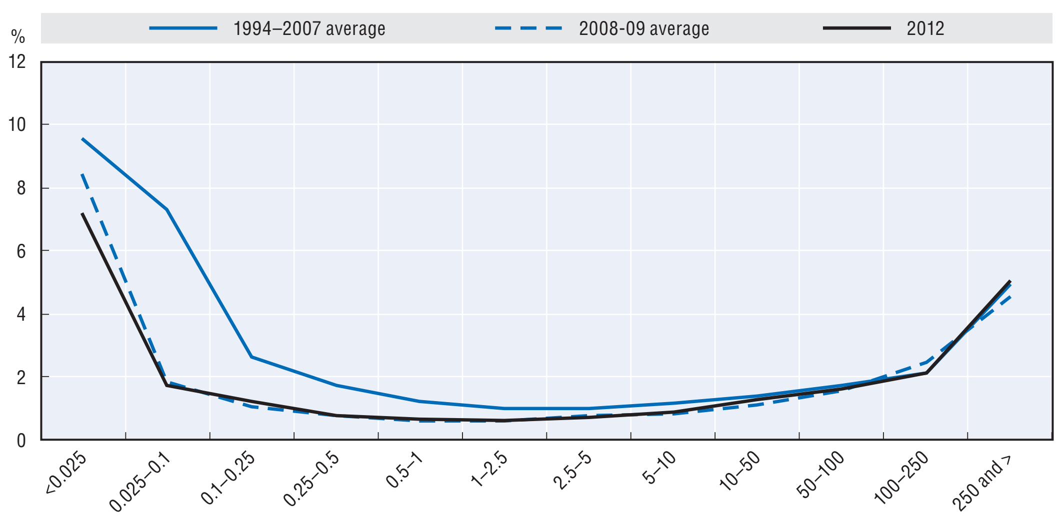
Source: US Small Business Administration.

StatLink http://dx.doi.org/10.1787/888933333708

The same data set indicates that these averages over wide firm size hide a large divergence of profit margins within these wide size classes (see Figure 39.1). More specifically, there is a large divergence of profit margins within the small firms and large firm size spectrum. Historical profit margins at the smallest firms, (those with average annual receipts of USD 100 000 or less), range from 7.3% – 9.5%. Profit margins at the high end of the small firm spectrum, (firms with annual receipts of USD 5 million or more), range from 1.1% – 4.9%. A possible explanation for this specific distribution is that competition is strongest in the middle of the size spectrum, which it is populated by the largest number of firms.

Figure 39.1. **Average net pre-tax profit margins in the United States**

As a percentage



Source: Internal Revenue Service, Statistic of Income and SBA calculations.

StatLink http://dx.doi.org/10.1787/888933331690

The corporate sector: net firm formation across firm-size

While corporate profits experienced a strong rebound during the recovery period, net firm formation posted a dramatic decline. Data from the US Census show that net firm formation declined continuously during the 2008-11 period, but rebounded during 2012, thus averaging a 5.4% decline for the entire recovery period. This decline was more than thirteen times larger than the 0.4%drop recorded during the steep 1991 recession (see Table 39.3). More recent data from the Bureau of Labor Statistics (BLS) indicate that the improvement registered in 2012 has continued into 2014, with the number of establishment births outpacing establishment deaths, thus indicating a continuation of positive net firm formation into 2014.

Table 39.3. **Percent change in the number of US firms, 1989-2012**

DATE	TOTAL	0*-4	5-9	10-19	20-99	100-499	500+
1988							
1989	1.3	0.8	1.5	2.3	3.1	4.3	8.2
1990	1.0	0.6	1.6	1.7	2.2	1.2	1.1
1991	**-0.4**	0.5	**-1.1**	**-2.0**	**-3.1**	**-3.0**	**-0.3**
1992	0.9	1.3	0.5	0.1	**-0.2**	1.2	1.0
1993	1.9	2.1	1.8	1.4	1.6	3.4	3.6
1994	1.6	2.2	0.3	0.6	1.5	2.5	2.5
1995	1.7	1.3	1.7	2.4	3.9	4.0	3.0
1996	2.0	2.4	1.6	1.6	1.4	**-0.1**	1.1
1997	1.2	0.9	1.1	1.3	2.3	4.7	3.0
1998	0.7	0.5	0.5	1.1	1.4	0.5	1.9
1999	0.5	0.4	0.1	0.9	1.5	1.6	2.2
2000	0.8	0.2	0.8	1.9	2.8	3.7	2.5
2001	0.1	0.1	**-0.2**	**-0.2**	0.4	1.1	1.2
2002	0.7	1.9	**-0.8**	**-0.4**	**-1.9**	**-3.5**	**-3.0**
2003	1.2	1.1	1.5	1.1	1.3	3.0	0.5
2004	2.1	2.1	1.8	2.0	2.2	2.0	0.7
2005	1.7	2.7	0.6	**-0.4**	**-1.0**	0.9	2.5
2006	0.6	**-0.2**	1.0	2.7	2.9	3.8	3.4
2007	0.5	1.0	**-0.1**	**-0.3**	**-0.6**	**-2.2**	1.3
2008	**-2.0**	**-2.4**	**-1.5**	**-1.8**	**-1.1**	2.0	0.9
2009	**-2.7**	**-1.6**	**-4.1**	**-3.5**	**-5.8**	**-7.8**	**-5.2**
2010	**-0.6**	0.5	**-3.3**	1.0	**-4.1**	**-1.9**	**-1.6**
2011	**-0.9**	**-1.2**	1.1	**-3.9**	1.3	**-0.6**	2.5
2012	0.7	0.3	1.4	0.1	2.6	2.7	3.1
08-12	**-5.4**	**-4.7**	**-7.8**	**-8.2**	**-9.8**	**-8.3**	**-3.4**

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: US Census, County Business Patterns, various years.

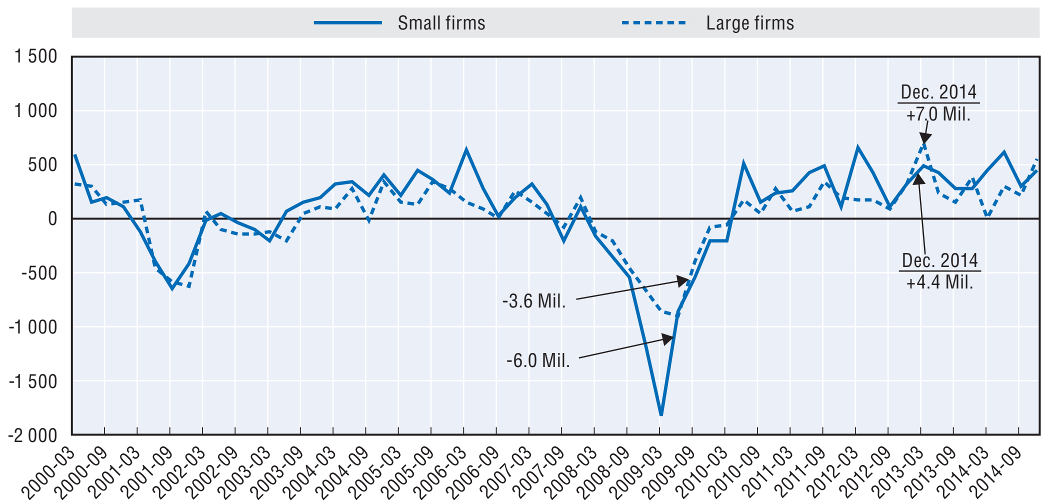
StatLink http://dx.doi.org/10.1787/888933333711

The labour market by firm size

After 2011, gains in the labour markets outpaced improvements in national output. As a result, the noticeable level of underemployment experienced during the early recovery years (2010-2011) has diminished. Employment data by firm size show a similar overall improving trend, with the largest gains coming from small firms. Data from the BLS indicate that since the second quarter of 2010 small firms gained 7.0 million jobs, and large firms gained 4.4 million jobs. It should be noted that during the Great Recession of 2008-09, small firms lost 6 million jobs, nearly twice as many as the 3.6 million jobs lost at large firms. More recent data from the private sector firm ADP indicate that this mildly positive employment trend among small firms continued into 2014 (see Figures 39.2 and 39.3).

Figure 39.2. **Quarterly net employment change by firm size in the United States, 2000-14**

In USD thousand

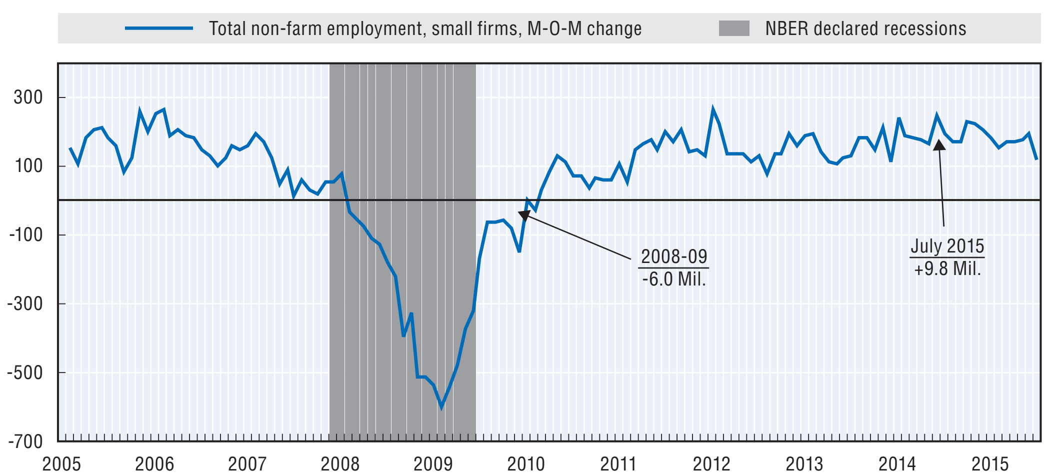


Source: U.S. Department of Labor, Bureau of Labor Statistics, Business Employment Dynamics.

StatLink http://dx.doi.org/10.1787/888933331705

Figure 39.3. **ADP, total employment month-over-month change at small firms in the United States, 2005-15**

In USD thousand



Source: Automatic Data Processing Inc (ADP).

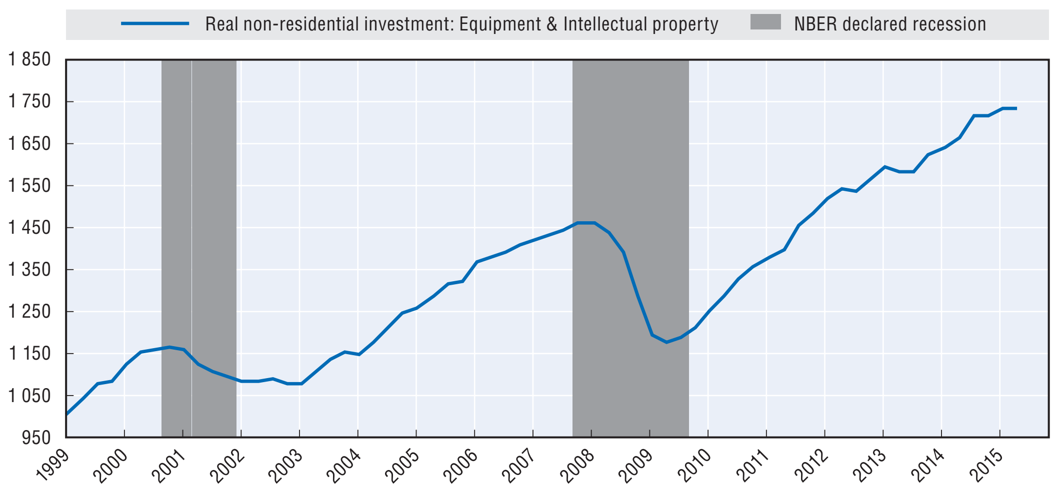
StatLink http://dx.doi.org/10.1787/888933331717

Capital expenditure by firm size

Real Investment in Equipment and Intellectual Property, a proxy for Business Investment, rebounded strongly from the steep decline of the Great Recession of 2008-09, posting an average quarterly growth rate of 6.7 percent during the recovery period. This compares to a historical average growth rate of 3.8 percent. As a result, Real Investment in Equipment and Intellectual Property as a percent of real GDP averaged 9.8 percent during the recovery period, slightly above the historical average rate of 9.3 percent. The strong business investment rate during the recovery period seems not to have translated to strong productivity gains, which grew only 1.3 percent during the period versus the long-term average 2.4 percent growth rate. Significantly subpar investment in the residential sector continues to constrain total real investment continues.

Figure 39.4. **Real business investment in the United States, 1999-2015**

As a percentage of real GDP



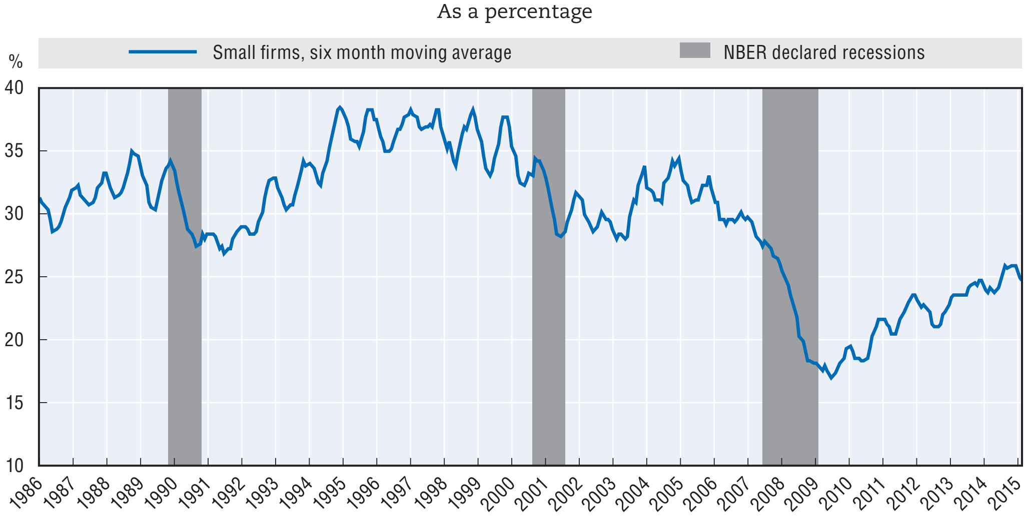
Source: US Department of Commerce: Bureau of Economic Analysis and SBA calculations.

StatLink http://dx.doi.org/10.1787/888933331728

Current data on capital expenditure by firm size for the entire economy is not readily available. Data from the National Federation of Independent Businesses (NFIB) does provide a diffusion index, which measures the net percentage of members planning capital expenditures during the next three to six months (see Figure 39.5). This index shows that since the latter parts of 2009, a greater number of small firms have been planning capital expenditures one to two quarters forward. However, the percentage of small firms planning capital expenditures during the recent recovery is still well below previous recessions' bottom.

Figure 39.5. **Small firms planning capital expenditures during the next three to six months in the United States, 1986-2015**

As a percentage



Source: National Federation of Independent Businesses.

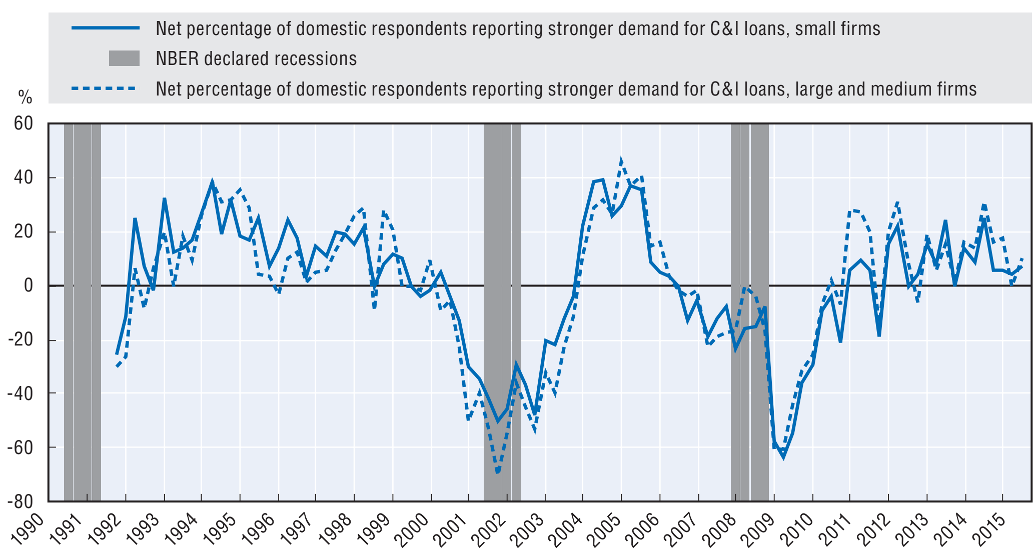
StatLink http://dx.doi.org/10.1787/888933331733

Small firms' credit demand

Data on small firm credit demand is somewhat inconclusive, yet some evidence indicates that the economic growth during the recovery period (1999Q2 to 2015Q2), even though subpar, has generated very modest increases in credit usage by small firms. Data from the Federal Reserve *Senior Loan Officer Opinion Survey on Bank Lending Practices* indicates that small firms' demand for commercial and industrial loans rose during the early part of the recovery, but flattened thereafter. More specifically, the net percentage of bankers reporting stronger credit demand by small firms exhibited a positive but volatile trend during the early part of the recovery (2009Q2-12Q2), but then exhibited a flat and volatile trend during the 2012Q3-15Q3 period (see Figure 39.6). It is also important to note that the net percentage of respondents reporting stronger demand during the most recent recovery has remained below the heights of the previous two recoveries.

Figure 39.6. **Net percentage of responders reporting stronger demand for commercial and industrial loans in the United States**

As a percentage



Source: Board of Governors of the Federal Reserve System, Senior Loan Officer Opinion Survey on Bank Lending Practices.

StatLink http://dx.doi.org/10.1787/888933331746

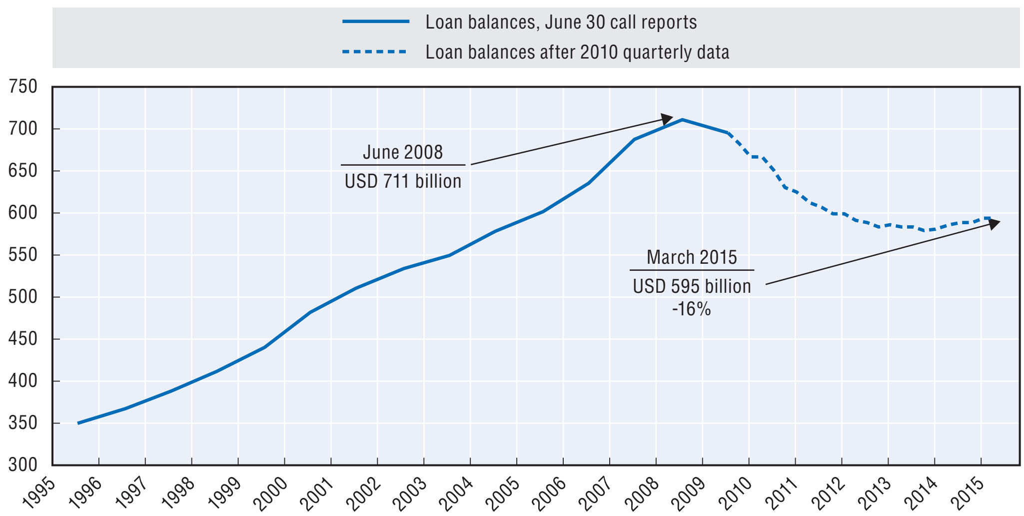
Data from the National Federation of Independent Business (NFIB) seem to indicate that small firms that are regular borrowers are concurring with bankers that credit conditions have indeed been steadily improving. As a total group, however, small firms are reporting that a lower percentage of them are borrowing. Several possible factors may explain this lower borrowing rate among small firms. For example, some small firms, presumably the financially weaker ones, may not have re-entered the credit markets. In addition, even financially strong firms, are choosing to adopt a conservative approach to capital expenditure and debt utilisation.

Small firms' credit supply

Traditionally, many analysts have use data from the Federal Deposit Insurance Corporation (FDIC) Call Reports to assess the credit supply of small firms.[3] This dataset shows what banks hold at the end of the quarter, but not what they produced (originate) during the quarter. As such, it is an indicator for small loan usage by the corporate sector, and possibly by small firms. This data shows that the balances of small loans (loans of USD 1 million or less) at FDIC insured institutions declined continuously from 2008Q2 to 2013Q3, but hen posted very modest gains thereafter, but were still 16%below the peak level of 2008 (see Figure 39.7).

Figure 39.7. **Small business loans at FDIC-insured institutions in the United States**

In USD billion



Notes: Small business loans = commercial and real estate + commercial and industrial loans.

Source: FDIC and SBA calculations.

StatLink http://dx.doi.org/10.1787/888933331757

The importance of small loans for FDIC-insured institutions, whether measured as a percentage of institutions' total assets or as a percentage of total business loans, has been on the decrease since the mid-1990s. This decrease has accelerated after 2010 (see Figure 39.8). More specifically, from 1995 to 2015, small loans as a share of total business loans declined from 35.2% to 20.7%, respectively, representing a decline of 14.5 percentage points. Likewise, small loans as a share of total assets declined from 7.6% to 4.2%, respectively, representing a decline of 3.4 percentage points. The FDIC dataset also indicates that large financial institutions (those with assets over USD 10 billion) have continuously increased their share of small business loans, with their share increasing from 64.2% in 2005 to 69.4% in 2013.

Data from private sector firms indicate that origination, or the flow of new supply, of credit to small firms may have been on the rise for several years. Thus, contradicting the apparent downward trend in the stock data from the FDIC and the FED. One such dataset is provided by Paynet, a private-sector firm that tracks credit supplied to small firms by the largest 200 financial institutions.

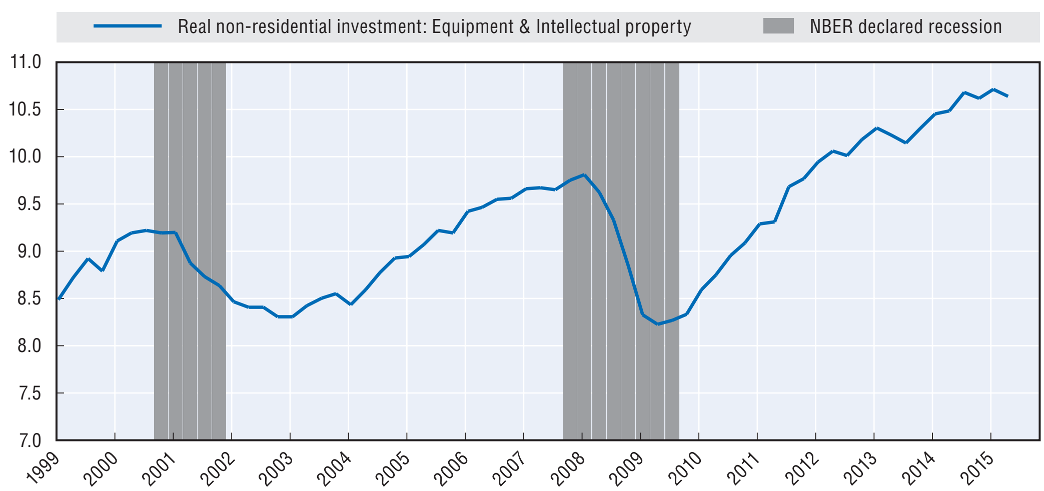
The Paynet Small business Index indicates that the new supply of credit to small firms has been steadily rebounding since the second half of 2009, and surpassed the previous peak level recorded during the end of 2007 (see Figure 39.9). This data also indicates that the growth rate of credit origination directed at small firms reached a cyclical high at

19.4% during October 2011, and more importantly since the first half of 2013, has flattened at an average of 9.1%. This more recent growth rate is nearly three times 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. This dataset classifies as a small business any firm with less than USD 1 million in total debt outstanding across its 200 members.

Interest rates for small loans continue to remain low, reflecting the low interest environment fostered by the Federal Reserve's strong intervention in the short-term and long-term markets (see Figure 39.10). Thus, the nominal interest rates and the Paynet volume index support the notion that credit conditions for businesses in general, and for small business in particular, have improved significantly since the depths of the Great Recession of 2008-09.

Figure 39.8. **Selected ratios of small business loans at FDIC-insured institutions in the United States, 1995-2015**

As a percentage of real GDP



Source: FDIC and SBA calculations.

StatLink http://dx.doi.org/10.1787/888933331767

Table 39.4. **Value of small business loans outstanding in the United States**

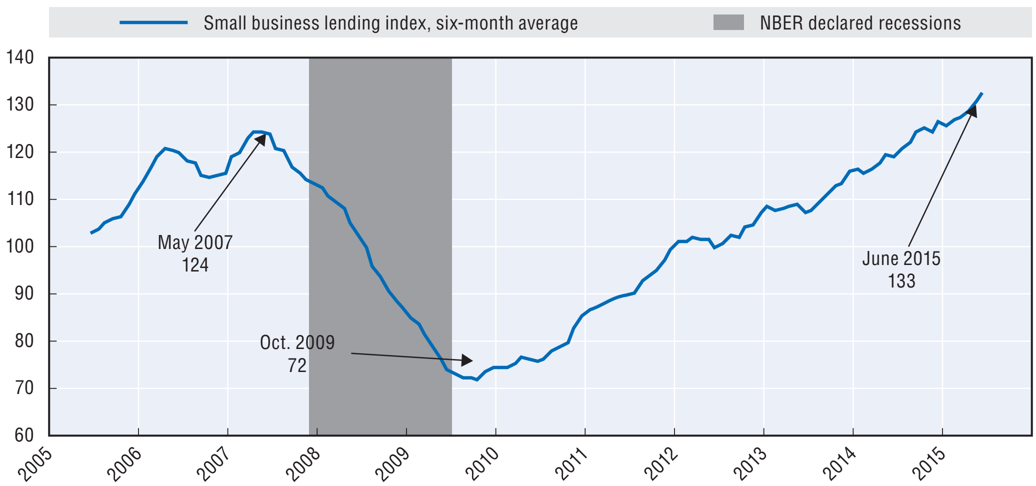
By lender size (in USD billion, nominal)

	Value of small business loans outstanding								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Lenders by total asset size									
Under USD 10 billion	215.5	220.3	218.4	222.5	218.5	209.6	194.0	184.6	179.0
Over USD 10 billion	386.0	413.9	468.4	489.0	476.7	442.8	412.9	403.3	406.3
	Value of small business loans outstanding as a percentage of total business loans, by lender size								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Lenders by total asset size									
Under USD 10 billion	35.8%	34.7%	31.8%	31.3%	31.4%	32.1%	32.0%	31.4%	30.6%
Over USD 10 billion	64.2%	65.3%	68.2%	68.7%	68.6%	67.9%	68.0%	68.6%	69.4%

Source: FDIC and SBA calculations.

StatLink http://dx.doi.org/10.1787/888933333721

Figure 39.9. **Paynet, small business lending index in the United States**

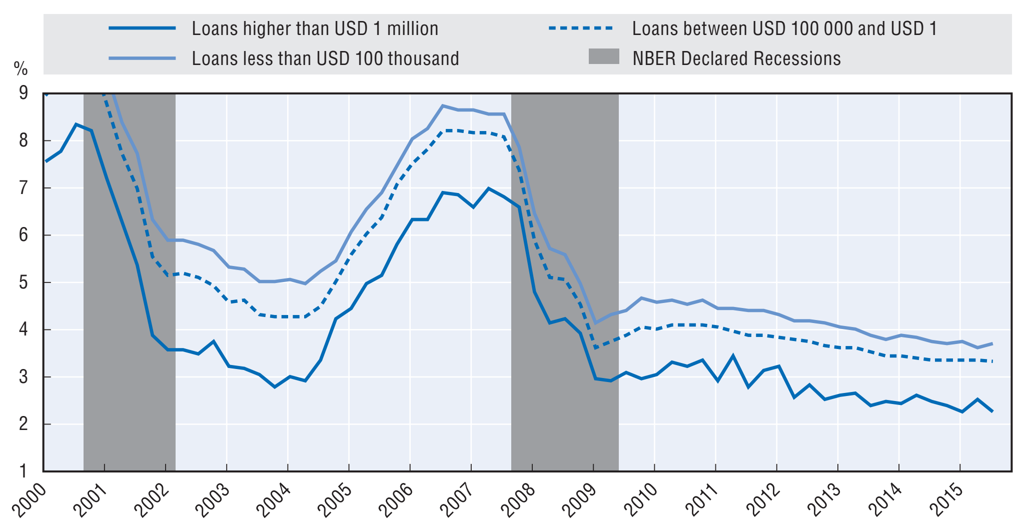


Source: Thomson Reuters/ Paynet, SBA calculations.

StatLink http://dx.doi.org/10.1787/888933331770

Figure 39.10. **Selected interest rates in the United States, 2000-15**

As a percentage



Source: Board of Governors of the Federal Reserve System, SBA calculations.

StatLink http://dx.doi.org/10.1787/888933331785

Small business loan performance

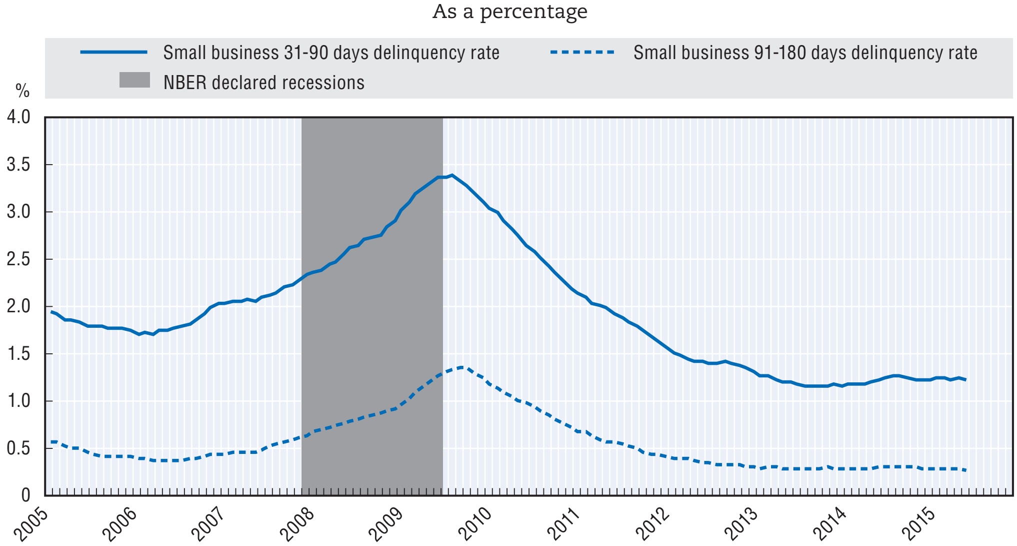
Available data on business loans in general, and small business loans in particular, indicate that loan performances are showing strong and broad-based improvements, with delinquency rates at or near historical lows. This strong performance can be partly attributable to the modest improvement in the economy, but also to the strong performance of corporate profits.

A comparison of delinquency rates across the various sectors of the economy indicates that during the most recent recession peak delinquency rates of business loans only slightly surpassed the peak rates recorded during the 2001 recession, and were well below the peak rates experienced during the steep 1990-91 recession. Delinquency rates in the domestic residential sector, on the other hand, experienced a radical increase during the most recent recession (see Figure 39.11 and Figure 39.12). This pronounced difference in loan performance between these two sectors raises the question if the banking sector took insufficient risk in the business, and especially the small business sector.

A close analysis of delinquency rate data across time and by bank size indicates that large financial institutions experienced the best improvements in business loan performance, with delinquency rates dropping from a historical average rate of 2.8% to a post-recession average rate of 1.8%, representing a 1 percentage point improvement. On the other hand, business loan performance at small financial institutions experienced a much smaller improvement, with delinquency rates dropping from a historical average of 3.2% to a post-recession average of 2.6%, representing an improvement of only 0.5 percentage points. Data from the private firm Paynet and the US Small Business Administration indicate that small business loan delinquency rates experienced a similar decline as the decline in overall business loan delinquency rates, reaching recent historical lows.

Figure 39.11. **Small business delinquency rates in the United States**

As a percentage

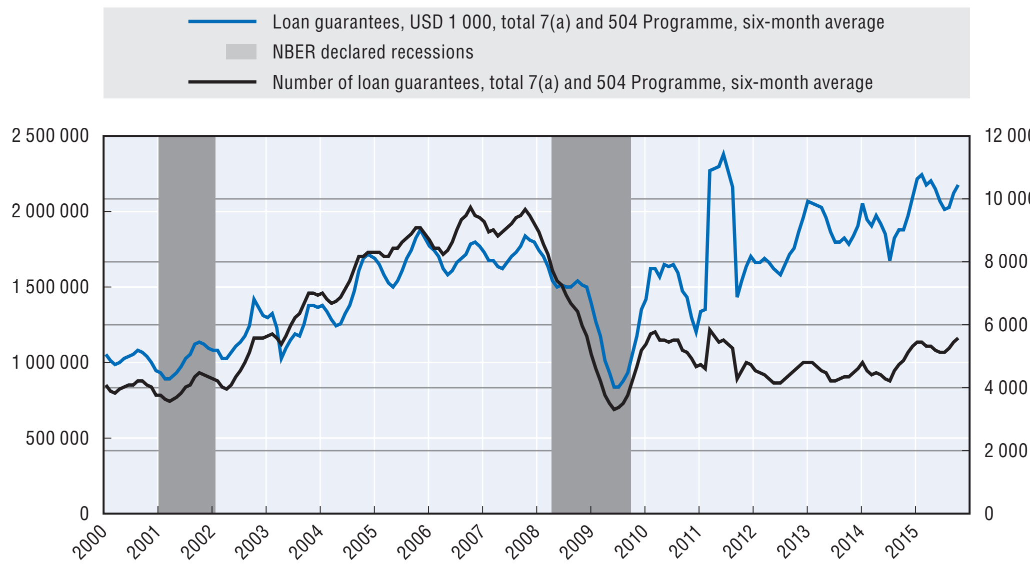


Source: Thomson Reuters/ Paynet.

StatLink http://dx.doi.org/10.1787/888933331792

Figure 39.12. **Gross loan guarantees in the United States, SBA 7(a) and 504 programmes**

In USD



Source: US Small Business Administration.

StatLink http://dx.doi.org/10.1787/888933331801

The role of the US Small Business Administration

The SBA works with approximately 5 000 banks and credit unions, some 250 Community Development Corporations (CDCs), over 170 non-profit financial intermediaries and Community Development Financial Institutions (CDFIs), and approximately 300 small business investment companies (SBICs). The SBA Capital Access Programme has several major sub-programmes that provide guarantees and co-funding for a wide range of products designed to meet the diverse financial needs of small firms throughout their life cycle, starting from small start-ups to established firms[4].

The largest of these, the *7(a) Loan Programme*, provides guarantees for working capital loans up to USD 5 million to new and existing small businesses. The second largest sub-programme, the *Certified Development Corporation 504 Loan Programme*, provides guarantees and co-funding for loans up to USD 5 or USD 5.5 million used for the purchases of fixed assets.

The financial and economic crisis of 2008-09 had a pronounced impact on SBA's Capital Access Programmes, however, after several major interventions by the federal government, the dollar volume of these two programmes surpassed previous peak levels, reaching USD 24.5 billion during 2014.[5] The bulk of these federal interventions were in the form of additional incentives to financial institutions, structural changes to its programmes, and assistance in the secondary markets for SBA guaranteed loans.

More specifically, the Agency employed additional funding received from Congress to temporarily increase its guarantees from around 75% to 90%. The SBA also temporarily reduced or eliminated the fees it charges financial institutions participating in its loan guarantee programmes. The Agency also increased its loan limits. Finally the US Department of Treasury would purchase USD 15 billion of SBA loans on the secondary market[6]. Through this programme the government promised to be a buyer of last resort for these recent loans.

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. Noticing that loan guarantees to start-ups and underserved communities were of smaller value, the SBA eliminated lender's fees for loan guarantees equalling or lower than USD 150 000. In addition, having considered many comments from its lender partners that fixed cost was a significant challenge with smaller loans, the SBA paid the fees for obtaining a borrower credit score information. Credit score are often the sole or primary basis for small loans. Much of these fixed costs are associated with obtaining or processing borrower information. Thus, as an additional step, the Agency has invested in automating the guarantee application process.

The Small Business Investment Company (SBIC) is the Agency's third largest small business capital access programme, which acts as a fund of fund for venture capital firms that have been certified by the SBA. Like other SBA capital access programmes, SBIC financing experienced a pronounced decline during the 2008-09 recession, with 2009 financing declining by 30%from peak 2007 levels. SBIC financing rebounded strongly during the recovery period, with financing reaching USD 5.6 billion during 2014, nearly tripling the USD 1.9 billion low reached during 2009.

Table 39.5. **SBA SBIC financing in the United States**

In USD billion

	SBA SBIC financing	
FY	USD billion	YOY %
2006	..	..
2007	2 648	..
2008	2 427	**-8.3**
2009	1 856	**-23.5**
2010	2 047	10.3
2011	2 833	38.3
2012	3 227	13.9
2013	3 498	8.4
2014	5 546	58.6

Note: FY: 1 October – 30 September.

Source: US SBA.

StatLink http://dx.doi.org/10.1787/888933333734

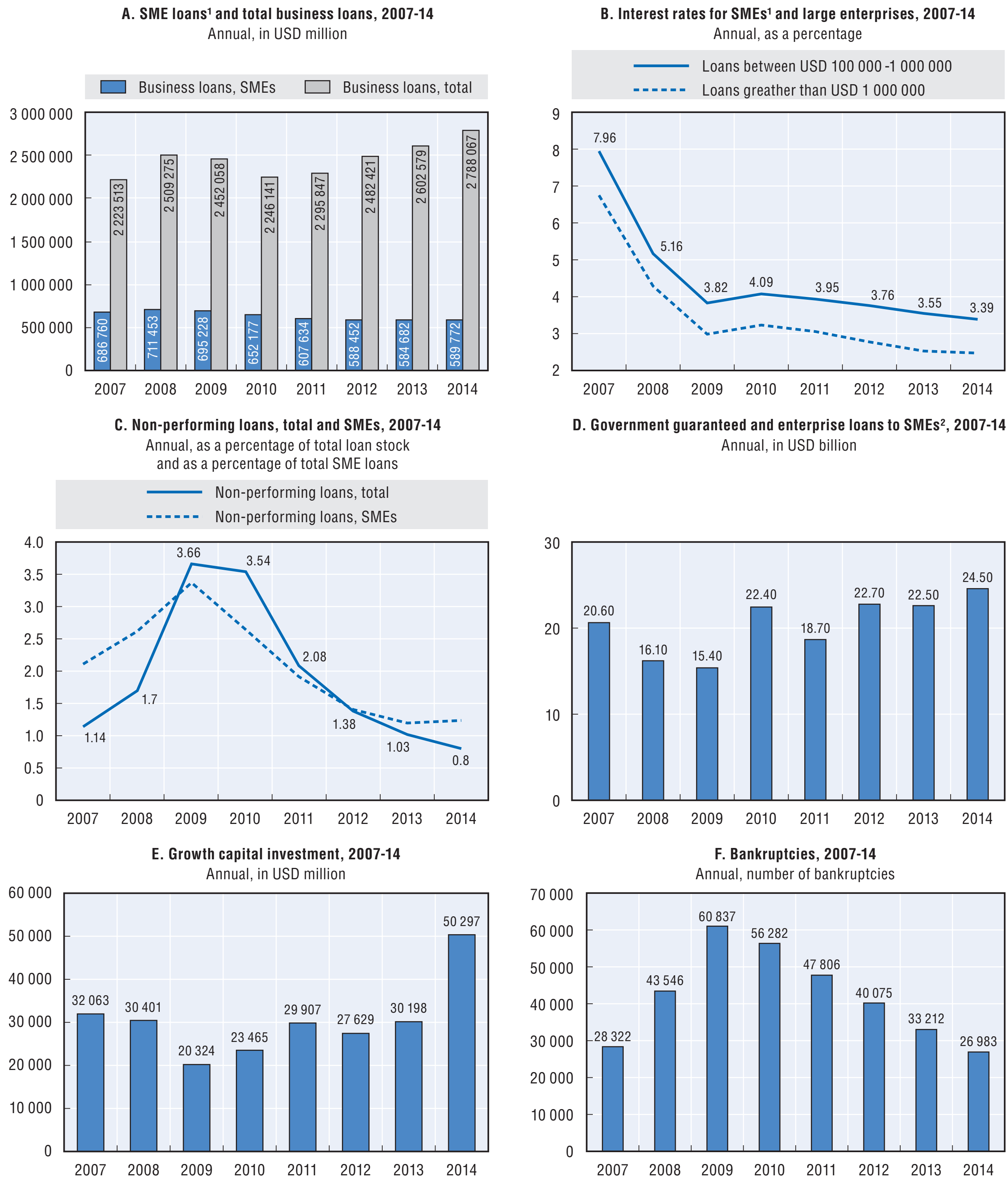
Table 39.6. **Scoreboard for the United States, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Outstanding business loans, SMEs (stock), As of June 30	USD million	686 760	711 453	695 228	652 177	607 634	588 452	584 682	589 772
Outstanding business loans, total (stock), As of June 30	USD million	2 223 513	2 509 275	2 452 058	2 246 141	2 295 847	2 482 421	2 602 579	2 788 067
SME loan shares		0.31	0.28	0.28	0.29	0.26	0.24	0.22	0.21
Government loan guarantees, SMEs	USD billion	20.6	16.1	15.4	22.4	18.7	22.7	22.5	24.5
Non-performing loans, SMEs	Percent SMEs	2.10	2.62	3.37	2.65	1.92	1.42	1.20	1.23
Non-performing loans, total	Percent of total enterprises	1.14	1.70	3.66	3.54	2.08	1.38	1.03	0.80
Interest rate, SMEs, loans between USD 100 000 - 1 000 000	%	7.96	5.16	3.82	4.09	3.95	3.76	3.55	3.39
Interest rate, large firms, loans, Greater than USD 1 000 000	%	6.75	4.29	2.99	3.23	3.07	2.79	2.53	2.48
Interest rate spread	%	1.21	0.88	0.83	0.86	0.88	0.97	1.02	0.92
Equity									
Venture capital investments	Number of deals	4 230	4 203	3 169	3 670	4 044	3 975	4 281	4 412
Growth capital investments	USD million	32 063	30 401	20 324	23 465	29 907	27 629	30 198	50 297
Leasing and hire purchases	USD million	594 735	613 066	508 239	448 999	361 262	375 681	394 821	401 356
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	26 983

Source: See Table 39.7.

StatLink http://dx.doi.org/10.1787/888933333748

Figure 39.13. **Trends in SME and entrepreneurship finance in the United States**



1. For loans up to USD 1 million. 2. Proxied by loans sponsored by the Small Business 7(a) loan programme.

Source: Chart A: FDIC, Consolidated Reports of Condition and Income for US Banks and thrift institutions. Chart B: Board of Governors of the Federal Reserve, Flow of Funds Accounts of the United States. Chart C: Federal Reserve Board. Chart D: Federal Reserve and US SBA. Chart E: National Venture Capital Association, PwC Money Tree Survey. Chart F: Adm. Office of US Courts: Business Bankruptcy Filings.

StatLink http://dx.doi.org/10.1787/888933331817

Table 39.7. **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 US 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	US SBA, 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, SMEs	Total USD value of small business loans 31-90 days delinquent divided by total USD value of small business loans outstanding	Federal Reserve Board
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

Notes

1. 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 US Small Business Administration (2009) SBA Size Standard Methodology.
2. For more details on the importance of small businesses in the US economy see The US Small Business Administration, Frequently Asked Questions.
3. For data on balances held by depository institutions see FDIC, Call Reports.
4. For further details on the SBA's Capital Access Programmes see *www.sba.gov*.
5. The SBA provides a range of guarantees through its various guarantee products. For a quick reference on the details of its loan guarantee programmes see the US Small Business Administration, Quick Reference to SBA Loan Guarantee Programmes.

6. The Federal Reserve had already started to purchase some SBA guaranteed loans under the Term Asset-Backed Securities Loan Facility (TALF). For more details see Board of Governors of the Federal Reserve System, Term Asset-Backed Securities Loan Facility (TALF) Terms and Conditions, *http://www.federalreserve.gov/newsevents/press/monetary/monetary20081125a1.pdf* and the (White House Office of the Press Secretary 2010).

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ANNEX II.A1

EIB Group support to SMEs and midcaps[1]

The EIB Group

The EIB Group (the Group) consists of the European Investment Bank (EIB) and the European Investment Fund (EIF). The EIB is the European Union's bank; it is the only bank owned by and representing the interests of the *European Union Member States*. The EIF is the Group's specialist arm providing SME risk finance via financial intermediaries, including equity, mezzanine, guarantees and securitisations. The EIB is the majority EIF shareholder with the remaining equity held by the European Union (represented by the European Commission, EC) and other European private and public bodies.[2]

Supporting access to finance for smaller businesses is one of the four public policy goals of the EIB Group, it represents the EIB's single largest policy priority in terms of activity volume, and it is EIF's sole mission. The EIB Group's financial support focuses on developing innovative products and partnerships that facilitate access to finance for SMEs at all stages of their development in a bid to boost employment opportunities.

In 2014, the EIB Group provided support to a record number of SMEs and midcaps, the pillars of the economy and drivers of employment and value added. Through a network of over 900 financial intermediaries, the Group made available an increasingly wide range of intermediated debt-financing, risk-sharing products and private equity instruments aimed at improving financing conditions and enabling continued access to finance for SMEs.

Over the course of 2014, the EIB Group intensified collaboration with its partners at the European Commission, launching a new generation of financial instruments in favour of SMEs and midcaps. Other highlights for 2014 include the contribution to the revitalisation of the European SME-based securitisation market and the preparation of the Joint SME Initiative, which leverages Member States, EU and EIB Group resources. Moreover, with the introduction of the Skills and Jobs – Investing for Youth programme, the EIB make a significant contribution to supporting youth employment, helping to address one of the EU's most pressing problems.

The EIB Group is committed to stepping up its engagement in support of productive investment for growth and employment. The Investment Plan for Europe announced by the European Commission in late 2014 provides a further opportunity to achieve this. With the management of the European Fund for Strategic Investments (EFSI), the EIB Group is building on the partnerships with the European Commission, Member States, public promotional institutions and public authorities, in a common bid to catalyse private sector investment and support Europe's SMEs.

In terms of products, access to finance for SMEs can be strengthened through instruments that either enhance banks' ability to lend or provide complementary sources of financing. The EIB Group is specialised in a wide range of financing solutions that can address access to finance constraints. These include:

- intermediated lending, providing complementary access to finance on improved terms
- credit guarantees, widely used to alleviate market failures in SME financing
- SME securitisation, effectively creating a secondary market for SME loans and enhancing the ability of banks to lend to SMEs
- microfinance and social impact finance, serving both economic and social objectives
- investments in venture capital and growth capital funds, as well as co-investments with Business Angels, providing equity support from the very earliest stages of intellectual property development to more mature phases of enterprise development
- investments in mezzanine funds in order to support the development of alternative financing solutions (hybrid debt/ equity) for SMEs
- targeted intermediated loans and tailor-made initiatives, supporting SMEs' internationalisation

The EIB Group aims to mitigate the cyclical and structural bottlenecks in SME financing and thereby enhance SMEs' access to finance. Even though the focus of the EIB Group is Europe, the Group also makes a significant contribution in order to support EU external policy. Here as well, SME finance is a key priority, underpinning wider private sector development objectives. In addition, to supporting access to finance for SMEs, the EIB provides advice and technical assistance for the development of local private enterprises.

In the following sections, the most recent EIB Group activities will be presented in more detail, starting with the activities of the EIB, followed by sections about EIF's actions, and areas of new joint initiatives. The chapter ends with a brief look forward.

EIB's SME activities in 2014

Selected results:

- Increased SME activity levels in EU Member States by more than 30%, reflecting market conditions, SME demand, the importance of SMEs in the EU, as well as the enhanced public support for this segment of the economy.
- Signed EUR 22.2 billion of new operations, with expected leverage impact of at least EUR 44.4 billion.
- Supported some 110 000 SMEs, mainly through intermediated loans. These enterprises employ 3 million people.
- Enhanced cooperation with EU Member States and their public promotional institutions and authorities for the establishment of tailor-made financing facilities for SMEs, accounting for over a quarter of 2014 signatures in the EU (signed EUR 6.1 billion in new operations).
- Jointly with the EIF, contributed to the revitalisation of the European SME-based securitisation market, investing EUR 1.9 billion in ABSs, with the EIF providing guarantees for third party investors.
- Launched InnovFin – EU Finance for Innovators together with the EIF under Horizon 2020, the EU's research and innovation programme. InnovFin is providing debt, guarantees and advisory services to innovative enterprises

- EUR 13 billion signed in favour of the Skills and Jobs – Investing for Youth programme as significant contribution to supporting youth employment.
- Around 60% of the number of loan allocations involved micro-enterprises with fewer than 10 employees, and half of the loan allocations to SMEs were for less than EUR 24 000.

Selected highlights:

Enhancing cooperation with public promotional institutions and public authorities

2014 was a year in which EIB Group enhanced its cooperation with the EU's public promotional institutions and authorities. Financing small businesses is the primary aim of many of these entities, which are long-standing EIB Group partners in terms of funding, risk sharing, funds of funds, co-investment and knowledge sharing. In 2014, loans for SMEs via public promotional institutions and public authorities amounted to EUR 6.1 billion.

Jobs for Youth

In 2013, the EIB launched the 'Skills and Jobs – Investing for Youth' programme in response to a European Council request for the Bank to contribute to the EU-wide effort to support youth employment. The programme's goal is twofold: (i) to boost 'Jobs for Youth' across the EU by improving access to finance for SMEs and (ii) to enhance employability via 'Investment in Skills', targeting projects focused on education, vocational training and student finance.

Targeting financing gaps

The Bank continued to diversify the sectors benefiting from loans for SMEs, addressing specific market needs. Agricultural SMEs received a boost from EIB financing in Spain and Germany, trade abilities were strengthened and the Bank's focus on specific midcap finance continued.

EIB support for SMEs outside the EU

The geographical scope for deploying SME support outside the EU is wide. It spans more than 130 partner countries, with very diverse economic, political and institutional features. EIB funding of SMEs supports activities in a wide range of sectors, including: manufacturing and food processing industries, tourism, business services and commerce, agriculture and fisheries, education and health sectors, energy. In many countries outside the EU, the EIB works in collaboration with other IFIs, international donors or other relevant partners. Main results of EIB support outside the EU in 2014:

- supported private sector development outside the EU through partnerships with the European Commission, EU Member States, international financing institutions and international donors
- EUR 2.6 billion of new operations signed with expected leverage impact of at least EUR 5.2 billion
- cooperated with over 100 counterparts across all regions outside the EU
- signed 39 new intermediated lending operations for SMEs, as well as seven new microfinance operations
- made new commitments to six SME funds amounting to EUR 79 million, which aim to invest EUR 425 million in SMEs

- concluded seven new technical assistance agreements for a total amount of EUR 10.6 million
- support for approximately 5 700 SMEs, mainly through intermediated loans, equity and microfinance activities. These enterprises employed 270 000 people

EIF's activities in 2014

Selected results:

- In 2014, the year in which EIF celebrated its 20th anniversary, considerable expansion of its capacity to put European SMEs and midcaps back on the road to recovery.
- With its activities in the EU Member States, EU Candidate and potential Candidate Countries, as well as in EFTA countries, EIF reached 25% more SMEs in 2014, i.e. some 175 000 companies employing over 630 000 people.
- Committed EUR 3.3 billion in support of European SMEs and mobilised EUR 14 billion of capital to enhance access to finance and contribute to boosting entrepreneurship and innovation in Europe.
- Provided long-term finance to the private equity market by investing a record EUR 1.7 billion in 74 SME-and midcap-focused funds, attracting over EUR 8.2 billion of additional resources from other market players.
- Guaranteed portfolios of SME loans and leases and supported the revival of the European SME securitisation market with guarantee commitments of over EUR 1.6 billion in 60 different transactions, which generate EUR 5.6 billion of new loans for SMEs.
- Launched the EC Competitiveness of Enterprises and SMEs (COSME) and InnovFin – EU Finance for Innovators programmes, as a means to boost European businesses' innovation, increase their competitiveness and enhance their access to finance.
- Promoted social inclusion and job creation, supporting micro-entrepreneurs and social enterprises with EUR 51 million, generating a loan volume for them in the order of EUR 135 million.
- EUR 189 million of Structural Funds were committed to financial intermediaries for the benefit of SMEs across JEREMIE Holding Funds.
- Joint operations and complementary instruments with the EIB were increased for enhanced impact and improved access to finance for SMEs.

Selected highlights:

Capital increase

EIF shareholders' approved the EIF capital increase, giving extensive scope to develop operations, strengthen the financial offering and increase transaction volumes.

Equity activity

EIF is a leading financial institution in the European Private Equity market, with many different product lines ranging from Technology Transfer, via Business Angel support, the entire Venture Capital space - including impact investing - to the Growth segment of the market. Through its equity interventions, EIF plays a crucial role in the creation and development of high-growth and innovative SMEs by **facilitating access to equity** for these companies across the entire life cycle of corporate innovation.

Risk-sharing on new lending

The EIF manages several SME and midcap initiatives aimed at providing enhanced access to finance for businesses. These programmes are implemented via banks and guarantee institutions, which are required to take additional risk so that the EIF can guarantee a substantial part of their portfolio of new SME loans or leases. 2014 saw the launch of new programmes to ensure continued support in this vital area.

Securitisation

The EIF continued to participate in the revival of the SME securitisation market by helping to credit-enhance tranches of SME loan or lease securitisation transactions and enabling financial institutions to apply a 0% risk weighting to assets with an EIF guarantee.

Regional development and country specific initiatives

In 2014, the EIF expanded its regional activity, working to reduce the financing gaps across Member States. the EIF continued to enhance its leveraging of public funds through SME-focused funds of funds.

Moreover, the EIF supports regional development under the EC-EIF instrument Joint European Resources for Micro to Medium Enterprises (JEREMIE), which enables EU Member States to use part of their European Structural and Investment Funds (ESIF) to provide risk financing to SMEs, deployed via financial intermediaries through a Holding Fund acting as an umbrella fund.

Impact investing

The Social Impact Accelerator, SIA, is the first pan-European public-private partnership addressing the growing need for availability of equity finance to support social enterprises. SIA is a first step in the EIB Group's strategy to pioneer the impact investing space and respond to the wider EU policy aim of establishing a sustainable funding market for social entrepreneurship in Europe.

EIB Group – areas of new joint initiatives

SME initiative

The SME Initiative is a joint financial instrument of the EC and the EIB Group which aims to stimulate SME financing by providing partial risk cover for SME loan portfolios of originating financial institutions. Alongside the European Structural and Investment Funds resources contributed by the Member States, the SME Initiative is co-funded by the European Union through *COSME* and/ or *Horizon 2020* resources as well as EIB Group resources. The EIF is the entrusted entity by the adhering Member States to implement and manage the SME Initiative in close cooperation with EIB. The Joint SME Initiative is a flagship example of enhanced cooperation with the EC and Member States.

Revitalising the securitisation market

SME securitisation creates a secondary market for SME loans and enhances the ability of banks to lend to SMEs. With the combination of long-term liquidity provided by the EIB and EIF's long-standing market experience in providing guarantees for SME portfolios, the EIB Group is well placed to help revive the securitisation market.

The EIB Group Risk Enhancement Mandate (EREM)

In response to the June 2013 European Council's call for private sector and capital market instruments for SME finance to be leveraged and the EIF's risk-bearing capacity to be enhanced, the EIB Group Risk Enhancement Mandate was established as a new mandate, to be managed by the EIF on behalf of the EIB. EREM aims to support credit enhancement, ultimately benefiting SMEs, and to provide funding for particular market segments, including social impact finance and loan/ debt funds.

Accelerating innovation in the EU

InnovFin – EU Finance for Innovators is a joint European Commission-EIB Group initiative under Horizon 2020, the new EU research programme for 2014-20. InnovFin consists of a range of tailored financing and advisory products to help innovative firms access finance more easily.

It is expected that over the next seven years InnovFin products will make more than EUR 24 billion of finance available for research and innovation by SMEs, midcaps and large companies and the promoters of research infrastructure.

Table 40.A1. **InnovFin financing and advisory products**

SMEs	Leasing	Hire purchase	Total
InnovFin SME Guarantee	InnovFin MidCap Guarantee	InnovFin Large Projects	InnovFin Advisory
InnovFin SME Venture Capital	InnovFin MidCap Growth Finance	Direct products	Indirect products

Source: EIB Group

EFSI – Investment Plan for Europe

In late 2014 the European Commission proposed an Investment Plan for Europe, which aims to revive investment in strategic projects across Europe. As part of the Plan, the creation of the European Fund for Strategic Investments (EFSI), a joint European Commission-EIB Group initiative, will help address market failures holding back investment. EFSI is expected to mobilise at least EUR 315 billion overall in private and public investments across the EU 28. EFSI will benefit from a guarantee financed by the EU budget of EUR 16 billion; the EIB is contributing a further EUR 5 billion to EFSI in cash. EFSI will especially support strategic investments, such as in broadband and energy networks, as well as smaller companies with fewer than 3 000 employees, with a particular focus on SMEs.

It is envisaged that EUR 5 billion out of EFSI's EUR 21 billion capacity will be deployed by EIF under the SME Window which is fully in line with EIF's central mission to support Europe's SMEs and Small Mid-caps.

The formal start of the EFSI implementation was given on 22 July 2015 with the signature of the agreements establishing the working arrangements for EFSI between the EIB, the European Commission and the EIF. However, the EIB Group has not waited for the finalisation of these formal steps to start the implementation of EFSI operations. Heeding the call of the European Council of December 2014, EIF has already approved and signed numerous EFSI operations since January 2015, covering the relevant risk with its own resources, until the working arrangement for EFSI are in place, whereupon the risk will be transferred to the EFSI. Based on estimates from experience, the multiplier effect of EFSI is expected to be 1:15. In other words, for every public euro that is mobilised through EFSI, an investment amount of EUR 15 is expected to be generated.

So far (as per end of September 2015), 46 SME-related operations have already been signed by EIF under EFSI, with total financing over EUR 1.9 billion, which is expected to trigger more than EUR 15 billion of investments. Some 50 000 SMEs and Midcaps are expected to benefit, including in Belgium, Bulgaria, Czech Republic, France, Germany, Italy, Luxembourg, Netherlands, Poland, Portugal and UK.[3]

Looking ahead

As key pillar of the EU architecture supporting growth and employment, the EIB Group will continue

- To contribute to the economic recovery in the EU. Support for SMEs remains a key priority for the Group. In order to address identified market gaps, and adapting its range of instruments in line with market needs, the EIB and EIF are ready to provide high lending, guarantee, and equity volumes.
- To join forces with the European Commission, public promotional institutions, partner financial intermediaries and public authorities. Particular emphasis will also be put on innovative SME finance models in response to specific market needs.
- To promote private sector led growth outside the EU, both by supporting access to finance for SMEs and much-needed economic and social infrastructure and by providing advisory and technical assistance support.

Together, the EIB and EIF will continue to mobilise financial resources and technical expertise to act as a catalyst for SME financing, in order to achieve smart, sustainable and inclusive growth.

Notes

1. Unless otherwise stated, in the remainder of the text references to 'SMEs' include midcaps. The EIB defines SMEs as enterprises with fewer than 250 employees and midcaps as enterprises with a minimum of 250 and maximum of 3 000 employees.
2. For detailed information please refer to *www.eib.org* and *www.eif.org*.
3. For more information, see: *http://www.eib.org/attachments/thematic/investment_plan_for_europe_en.pdf* and *http://www.eif.org/what_we_do/efsi/index.htm*.

Financing SMEs and Entrepreneurs 2016
An OECD Scoreboard

Annex A

Methodology for producing the national scoreboards[1]

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).

This 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.

Data collection

The scoreboard data are provided by experts designated by participating countries. The data come from a range of sources specified in a table at the end of each country profile. They cover access to finance for employer firms, that is, for SMEs which have at least one employee, and are 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 are used in 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. In principle, this data does not include personal credit card debt and residential mortgages.

The data in the present edition cover the period 2007 to 2014. The year 2007 serves as the benchmark against which trends over the entire period can be identified. The pre-crisis benchmark is used to assess trends over the crisis (2008-09) and the recovery period (2010-14). Specific attention is placed on changes which occurred in SME financing conditions in 2013-14.

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 business angel investing, describing its role in the entrepreneurial eco-system and recent trends in the market. The chapter also highlights the limitations of the data and explores avenues to collect data on business angel investments for future editions of this publication.

Each country profile includes a section on government policy measures, in order 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. The 2016 edition of the scoreboard examines the extent to which these policies and programmes were continued, phased out or altered in 2013-14 and early 2015. A number of new policy initiatives are also described.

Scoreboard indicators and their definitions

Core indicators

Trends in financing SMEs and entrepreneurs are monitored through 15 core indicators, which tackle specific questions related to access to finance (Table A.1.). These core indicators meet the following criteria:

- Usefulness: the indicators must be an appropriate instrument to measure how easy or difficult it is for SMEs and entrepreneurs to access finance and to help policy makers formulate or adjust their policies and programmes.
- Availability: the data for constructing the indicators should be readily available in order not to impose new burdens on governments or firms.
- Feasibility: if the information for constructing the indicator is not publicly available, it should be feasible to make it available at a modest cost, or to collect it during routine data exercises or surveys.
- Timeliness: the information should be collected in a timely manner so that the evolving conditions of SME access to finance can be monitored. Annual data may be more easily available, but should be complemented by quarterly data, when possible, to better capture variability in financing indicators and describe turning points.
- Comparability: the indicators should be relatively uniform across countries in terms of the population surveyed, content, method of data collection and periodicity or timeliness.

Table A.1. **Core Indicators of the OECD Scoreboard on financing SMEs and entrepreneurs**

1. SME loans/ all business loans
2. SME short- term loans/ SME loans
3. SME government loan guarantees
4. SME government guaranteed loans
5. SME direct government loans
6. SME 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. Leasing and hire purchases
13. Factoring and invoicing
14. B2B Payment delays
15. SME 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.

Leasing and hire purchases: This indicator contains information on the use of leasing and hire purchases. New production of leasing includes finance leases and operating leases of all asset types (automotive, equipment and real estate) as well as the rental of cars, vans and trucks.

Factoring and invoice discounting provides information on factoring turnover volumes, including invoice discounting, recourse factoring, non-recourse factoring, collections (domestic factoring), export factoring, import factoring and export invoice discounting (international factoring).

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 per 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 per 1 000 SMEs are the preferred measures, because this indicator is not affected by the increase or decrease in the total number of enterprises in the economy.

Inflation-adjusted data

Differences in inflation levels across countries hamper comparability of trends over time. For the first time in the 2016 edition of this report, indicators in the trends chapter have been adjusted for inflation when appropriate. For this purpose, the GDP deflator from the OECD Economic Outlook publication, deflating nominal values into real values, is used. This deflator is derived by dividing an index of GDP (measured in current prices) by a chain volume index of GDP. It is therefore a weighted average of the price indices of goods and services consumed by households; expenditure by government on goods, services and salaries; fixed capital assets; changes in inventories; and exports of goods and services minus imports of goods and services.[2] It is a very broad indicator of inflation and, given its comprehensiveness, it is very suitable to deflate current price nominal data into a real terms prices basis for measures of national income, public expenditure and other economic variables with a focus beyond consumer items.

Inclusion of median values

In order to facilitate interpretation of the data, median values of core indicators are included when appropriate in Chapter 1 of this publication. This enables better assessment of how participating countries are positioned in terms of core indicators on SME financing. Given the limited comparability of some indicators, this relative position needs to be interpreted carefully and within the country-specific context, however. Median values rather than average values are displayed because they are less sensitive to outliers in the data.

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 and hire purchases	New production of hire purchases and 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
SME bankruptcies	Number of enterprises ruled bankrupt; and number bankrupt per 10 000 or 1 000 SMEs	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 2014, which includes three distinct economic stages: pre-crisis (2007), crisis (2008-09) and recovery (2010-14). The year 2007 serves as the benchmark year against which changes in SME access to finance can be measured. Adopting an average of a number of years as a benchmark would allow for controlling for exceptional events or stages in the cycle of a given year. However, such an SME data series would be difficult to compile, and it was therefore decided to use just one data point as the benchmark. Specific attention is given to the period 2013-14, in order to identify the most recent trends in SME finance and policies.

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 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.[3]

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. 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 is also covered.. 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 are 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.

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.[4] 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.

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
Australia	Size of firm: less than 200 employees	Business loans, SMEs	Loan size: amounts outstanding under AUD 2 million
		Interest rate, SMEs	Loan size: amounts outstanding under AUD 2 million
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
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

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
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 (Outstanding business loans, SMEs – stock)	Firm size: up to 250 employees
		Interest rate, SMEs	Loan size: amount up to CZK 30 million
Denmark	Size of firm: less than 250 employees	Business loans, SMEs	Loan size: amounts up to EUR 1 million
		Short- and long-term loans, SMEs	Loan size: amounts up to EUR 1 million
		Government loan guarantees, SMEs	Firm size: up to 250 employees
		Interest rate, SMEs	Loan size: amounts up to EUR 1 million
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
Georgia	Less than 100 employees and turnover below GEL 1.5 million	Business loans, SMEs Non-performing loans, SMEs Interest rate, SMEs Collateral SMEs	Less than 100 employees and turnover below GEL 1.5 million
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)

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
		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[i]	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 and less than 250 employees
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
Malaysia	Manufacturing sector: Sales turnover not exceeding MYR 50 million or full-time employees not exceeding 200. Services and other sectors: Sales turnover not exceeding MYR 20 million or full-time employees not exceeding 75.	SME loans	Firm size: Sales turnover not exceeding MYR 50 million or full-time employees not exceeding 200 for firms operating in the manufacturing sector and sales turnover not exceeding MYR 20 million or full-time employees not exceeding 75 for firms operating in services and other sectors,
		SME short-term loans	Firm size: Sales turnover not exceeding MYR 50 million or full-time employees not exceeding 200 for firms operating in the manufacturing sector and sales turnover not exceeding MYR 20 million or full-time employees not exceeding 75 for firms operating in services and other sectors,

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
		SME long-term loans	Firm size: Sales turnover not exceeding MYR 50 million or full-time employees not exceeding 200 for firms operating in the manufacturing sector and sales turnover not exceeding MYR 20 million or full-time employees not exceeding 75 for firms operating in services and other sectors,
		SME non-performing loans	Firm size: Sales turnover not exceeding MYR 50 million or full-time employees not exceeding 200 for firms operating in the manufacturing sector and sales turnover not exceeding MYR 20 million or full-time employees not exceeding 75 for firms operating in services and other sectors,
		SME loans authorised	Firm size: Sales turnover not exceeding MYR 50 million or full-time employees not exceeding 200 for firms operating in the manufacturing sector and sales turnover not exceeding MYR 20 million or full-time employees not exceeding 75 for firms operating in services and other sectors,
		SME loans requested	Firm size: Sales turnover not exceeding MYR 50 million or full-time employees not exceeding 200 for firms operating in the manufacturing sector and sales turnover not exceeding MYR 20 million or full-time employees not exceeding 75 for firms operating in services and other sectors,
		SME interest rate	Firm size: Sales turnover not exceeding MYR 50 million or full-time employees not exceeding 200 for firms operating in the manufacturing sector and sales turnover not exceeding MYR 20 million or full-time employees not exceeding 75 for firms operating in services and other sectors,
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)

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
		Government guaranteed loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC)
		Loans authorised and requested, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC)
		Non-performing loans, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC)
		Interest rates, SMEs	Loan size: up to EUR 1 million (prior to 2010) and loans up to EUR 0.25 million (in 2010)
		Collateral, SMEs	Firm size: EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million, Com Recommendation 2003/361/EC)
Russian Federation	Less than 250 employees, not more than RUB 1000 million	Business loans, SMEs	Firm size: Less than 250 employees, not more than RUB 1000 million
		Government loan guarantees, SMEs	Firm size: Less than 250 employees, not more than RUB 1000 million
		Government guaranteed loans, SMEs	Firm size: Less than 250 employees, not more than RUB 1000 million
		Non-performing loans, SMEs	Firm size: Less than 250 employees, not more than RUB 1000 million
Serbia	Up to 250 employees, turnover up to 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

Table A.3. **Difference between national statistical and financial definitions of SMEs** *(cont.)*

Country	National statistical definition of SMEs	Indicator	Definition of SMEs used
Spain	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Loan size: less than EUR 1 million
		Short- and long-term loans, SMEs	Loan size: less than EUR 1 million
		Government guaranteed loans, SMEs	Firm size: less than 250 employees
		Interest rate, SMEs	Loan size: less than EUR 1 million
		Venture capital, SMEs	Firm size: less than 250 employees
		Payment delays, SMEs	Firm size: EU definition
		Bankruptcies, SMEs	Firm size: EU definition
Sweden	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)	Business loans, SMEs	Firm size: 1-249 employees
		Short- and long-term loans, SMEs	Firm size: 1-249 employees
		Government guaranteed loans, SMEs	Firm size: 0-249 employees
		Government loan guarantees, SMEs	Firm size: 0-249 employees
		Direct government loans, SMEs	Firm size: 0-249 employees
		Loans authorised, SMEs	Firm size: 0-249 employees
		Interest rates, SMEs	Loan size: up to EUR 1 million
Switzerland	Size of firm: less than 250 employees	Business loans, SMEs	Firm size: less than 250 employees
		Government guaranteed loans, SMEs	Firm size: less than 250 employees
		Loans used, SMEs	Firm size: less than 250 employees
		Collateral, SMEs	Firm size: up to 249 employees
		Interest rates, SMEs	Loan size: less than CHF 1 million
Thailand	Number of employees and fixed capital: less than 200 employees and fixed capital less than THB 200 million	Business loans, SMEs	Firm size: sales less than THB 400 million and/ or a credit line less than THB 200 million
		Short- and long-term loans, SMEs	Firm size: sales less than THB 400 million and/ or a credit line less than THB 200 million
		Government guaranteed loans, SMEs	Firm size: sales less than THB 400 million and/ or a credit line less than THB 200 million
		Loans authorised and requested, SMEs	Firm size: sales less than THB 400 million and/ or a credit line less than THB 200 million
		Non-performing loans, SMEs	Firm size: sales less than THB 400 million and/ or a credit line less than THB 200 million
		Interest rate, SME average rate	Firm size: sales less than THB 400 million and/ or a credit line less than THB 200 million
		Payment delays, SMEs	The National definition of SMEs differs according to sector
		Bankruptcies, SMEs	The National definition of SMEs differs according to sector
Turkey	Less than 250 employees and TRY 40 million in assets	Business loans, SMEs	Firm size
		SME non-performing loans	Firm size
United Kingdom	Size of firm: less than 250 employees	Business lending, SMEs	Firm size: turnover of up to GBP 25 million
		Interest rates, SMEs	Firm size: turnover up to GBP 25 million
		Collateral, SMEs	Firm size: less than 250 employees, including non-employer enterprises
United States	Size of firm: less than 500 employees	Business loans, SMEs	Loan size: up to USD 1 million
		Short-term loans, SMEs	Loan size: up to USD 1 million
		Government guaranteed loans, SMEs	Varies by industry
		Collateral, SMEs	Loan size: up to USD 1 million

Impact of diversity in definitions

The many limitations in data collection above outlined limit the possibility to make cross-country comparisons using the raw data. However, it is possible to observe general trends for the indicators, both within and across countries, using growth rates. When analysing trends, the differences in the exact composition of the indicators are muted by the fact that the changes in the indicators over time are being examined instead of levels. Additionally, if the indicators are analysed as a set, it is possible to form an overview of the country trends in SME financing. It is precisely comparing trends that the scoreboard sheds light on changing market conditions and policies for financing SMEs and entrepreneurs.

However, again, caution is required in cross-country comparisons, especially as concerns the use of flow variables and stock measures. Flows, which are measured over an accounting period (i.e. one year), capture changes of a given variables and are therefore more volatile than stocks, which measure levels, i.e. the value of an asset at a given point in time, and thus reflect latest flows, as well as values that may have cumulated over time, net of depreciation. The comparison of flows and stock measures can be particularly problematic when growth rates are considered. In fact, a negative growth rate of a flow variable can be compatible with a positive growth rate of the same variable measured in stocks. This would be the case if the stock variables increases over time but the absolute increase by which the stock variables grows becomes smaller. Similarly, a negative growth rate of a loan stock does not necessarily mean a decline in SME lending, but could be attributed to maturing loans exceeding the value of new loans granted. Such difficulties underline the importance of complementing stock data with flows of new loans.

Recommendations for data improvements

Standardised templates

To enable more timely collection of data and better cross-country 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 data collection and submission on SME finance (Annex B) has contributed to improve the process of data collection for the scoreboard, while allowing for some customisation at the country level, and should thus 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 benefits of using the standardised templates are not limited to efficiency and timeliness, as their recurrent use also allows for better inter-temporal analysis, as well as for a greater level of detail in reported information.

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.
- Working 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.

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: Obtain data broken down by firm size or a functioning proxy of firm size. Currently, business associations usually do not 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. 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. OECD (2009), OECD Factbook 2009: Economic, Environmental and Social Statistics, OECD Publishing, Paris, *http://dx.doi.org/10.1787/factbook-2009-en*.
3. 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.
4. 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.

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An OECD Scoreboard

Annex B

Standardised table for SME finance data collection

Country Name												
Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014	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												
Rejection rate	SME loans authorised/ requested											
Utilisation rate	SME loans used/ authorised											
Non-bank finance												
Venture and growth capital												
Venture and growth capital	%, Year-on-year growth rate											
Leasing and hire purchases												
Factoring and invoicing												
Other												
Payment delays, B2B												
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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