Financing SMEs and Entrepreneurs 2022:

AN OECD SCOREBOARD

POLICY HIGHLIGHTS

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About this publication

Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard contributes to filling the knowledge gap in SME finance trends and conditions. The publication provides information on debt, equity, asset-based finance, and conditions for SME and entrepreneurship finance, complemented by an overview of recent policy measures to support access to finance. By providing a solid evidence base, the report supports governments in their actions to foster SME access to finance and encourages a culture of policy evaluation.

In addition to the core indicators on SME financing, it provides information on recent developments in online alternative finance, and findings of demand-side surveys. It contains a thematic chapter on the evolution of SME financing support during the COVID-19 crisis, from the rescue to recovery phases. This document presents highlights from Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard.

The full book is accessible at

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Introduction

The COVID-19 pandemic delivered a severe and global economic shock. Containment measures depressed demand, disrupted supply chains, and triggered investment uncertainty, contributing to a significant contraction of GDP and global trade. SMEs and entrepreneurs have been at the centre of the impact: not only are they overrepresented in the sectors most affected by the pandemic, but they are also more vulnerable to liquidity shocks compared to large firms.

Thanks to large-scale fiscal and monetary stimuli, financing has continued to flow to the economy, including to liquidity-strapped SMEs and entrepreneurs, with the global economy rebounding by 5.6% in 2021 However, the war in Ukraine, while first and foremost a humanitarian crisis, has also exacerbated risks that existed prior to Russia's large scale aggression. Inflation, in particular in energy prices and raw materials, volatility in financial markets and disruptions in supply chains and trade, are all having negative impacts on SME operations and performance, jeopardising their recovery.

Against this backdrop, we need to enable SMEs and entrepreneurs to cope and to continue to drive employment, including for new refugees. Strong data and evidence are essential for getting support policies right and ensuring that these businesses can continue to access the finance they need to operate, invest and grow.

This document is based on the report **Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard**. It provides evidence on developments in SME and entrepreneurship finance for 48 countries worldwide; gives an overview of the range of policies and instruments governments deployed to support SME access to finance; and offers recommendations to further strengthen the evidence base.

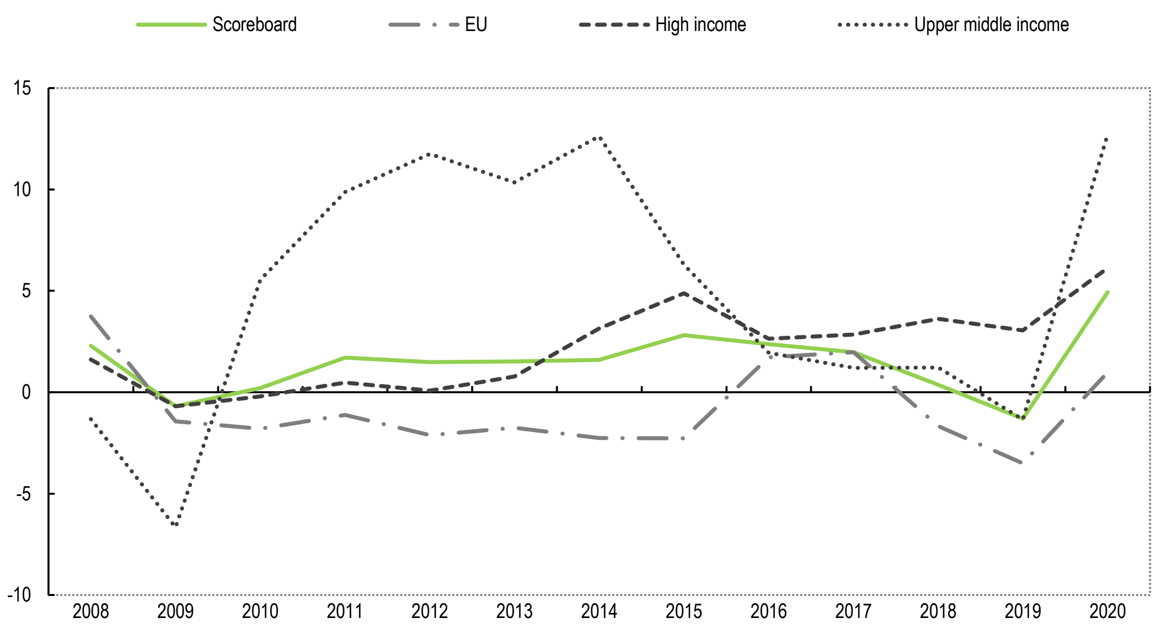
SME lending increased remarkably in the first year of the pandemic

Many economies recorded an increase in SME lending in 2020, supported by accommodative monetary policy and government support measures, including credit guarantees and debt moratoria. **The outstanding stock of loans increased in most Scoreboard countries (27 out of 41 countries), with the median increasing at an unprecedented rate: 4.9% in 2020 compared to an average annual increase of 1.2% in the previous five years** (Figure 1).

The increase in the outstanding stock of SME loans results from several factors. In addition to new loans to SMEs, the widespread use of debt moratoria affected the pace of loan repayments. Furthermore, the extension of loan maturities as part of debt restructuring schemes led to many SME loans remaining on bank balance sheets longer than they would have otherwise. In addition, given that SME profits took a strong hit in 2020, their repayment capacity was severely affected, increasing the number of non-performing loans, and thus the stock of SME loans in some countries.

Figure 1. Median growth in outstanding SME loans by groups of countries, 2008-20

Year-on-year growth rate, as a percent



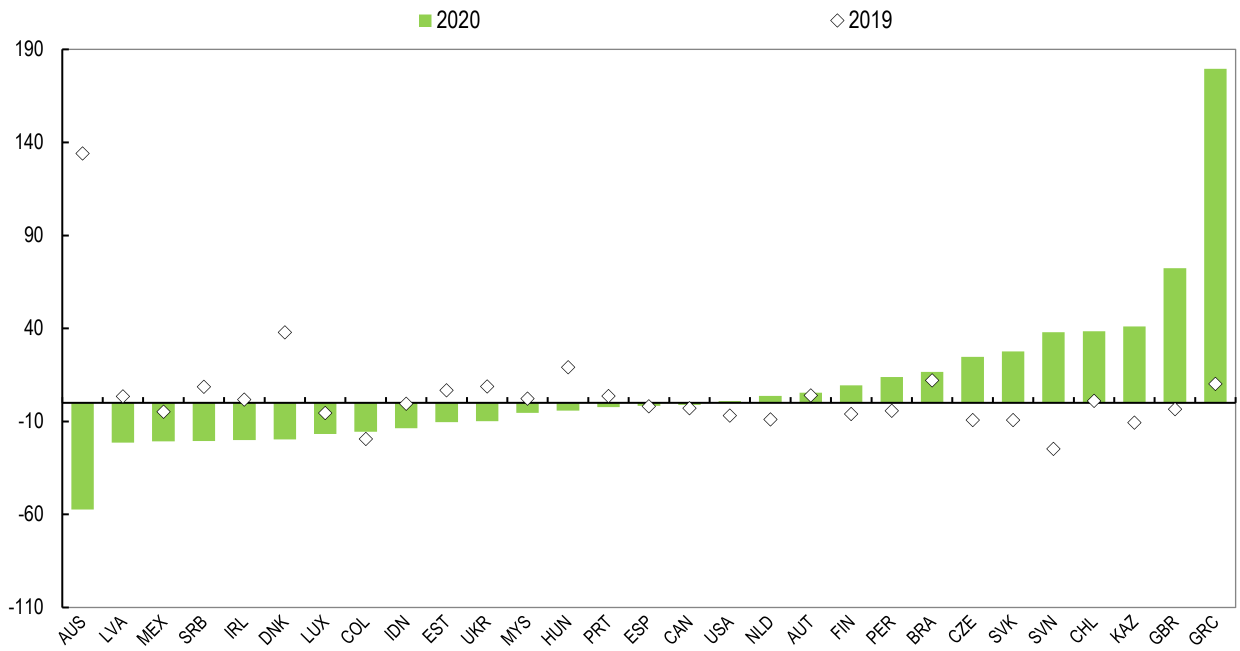
Note: All data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries were extracted from the World Development Indicators from the World Bank. The other high-income country category in this sample are Australia, Canada, Chile, Israel, Japan, New Zealand, Switzerland and the United States.

Source: Data compiled from information received from individual country Scoreboards.

New lending showed mixed results (Figure 2). It increased in half the Scoreboard countries, as a result of strong demand from SMEs in highly impacted sectors, as well as an increase in precautionary borrowing. In those high-income countries showing a decrease in this indicator, new lending may have been offset by other types of financial support (e.g deferrals, subsidies, debt moratoria). In upper middle-income economies, new lending declined by a median rate of 5.47%. This likely reflected more limited government support relative to advanced economies, and, in some cases, limited scope for loosening monetary policy in the context of inflationary pressures.

Figure 2. New SME loans

Year-on-year growth rate, as a percent



Note: All data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries were extracted from the World Development Indicators from the World Bank.

Source: Data compiled from the individual country profiles

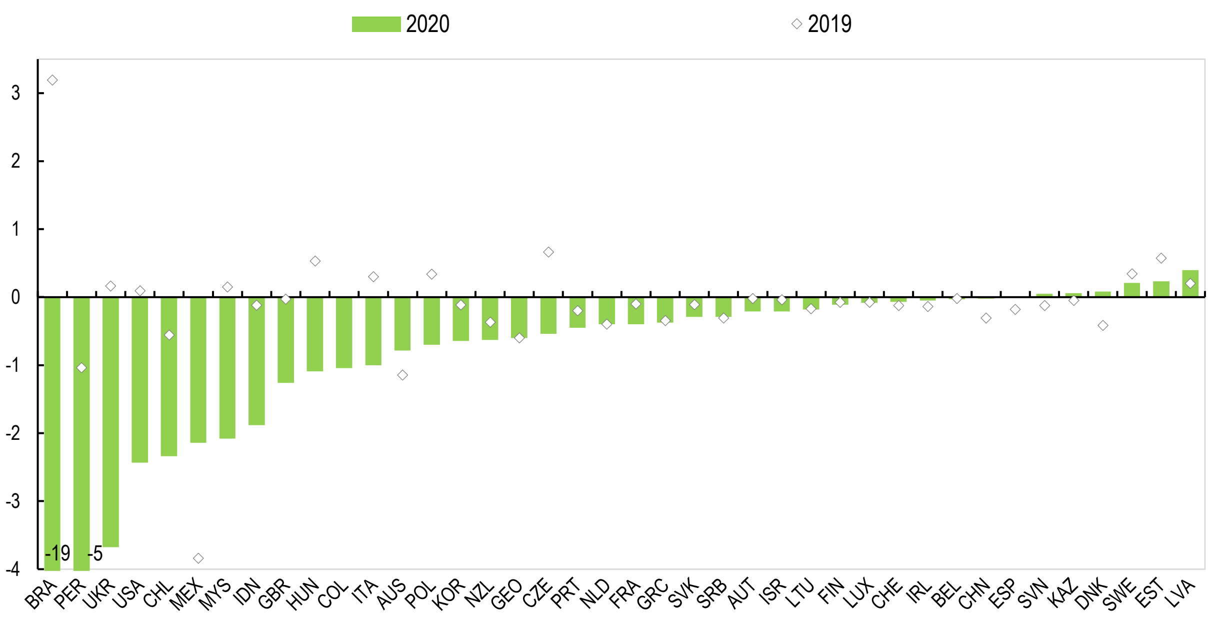
The composition of enterprise lending among SMEs and large enterprises remained stable in 2020. This means **that the COVID-19 crisis did not shift lending away from SMEs towards less risky clients**. Measures taken to strengthen banks' capacity to lend, including the increase in coverage of guarantees programmes, contributed to accommodative lending standards and increased lending to SMEs.

Credit conditions for SMEs were favourable, thanks to large scale fiscal and monetary stimulus

In 2020, interest rates declined in almost all reporting economies (34 out of 42), and in others, they increased only marginally (less than 1 percentage point in all remaining countries) (Figure 3). **The median SME effective interest rate for Scoreboard countries declined by 0.4 percentage points in 2020, the largest drop recorded in the Scoreboard since 2009**. This decline reflects the monetary policy interventions by central banks to swiftly reduce the cost of credit, as well as the significant recourse to public lending and guarantee schemes. In addition, interest rate spreads narrowed considerably in most Scoreboard countries (27 out of 40 countries), which indicates more favourable lending conditions for SMEs during the crisis, and collateral requirements declined in nine out of 12 countries that provided data for this indicator.

Figure 3. Changes in effective SME interest rates

Nominal growth rates, percentage points



Source: Data compiled from the individual country profiles

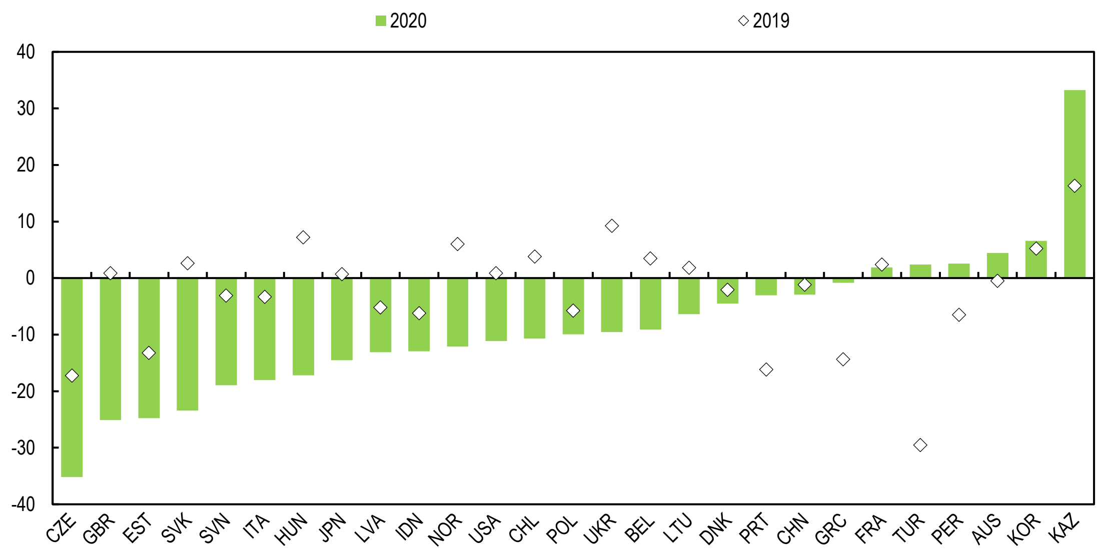
Other sources of finance declined significantly in 2020

Evidence on asset-based finance indicate that the COVID-19 crisis reduced the availability of alternative sources of finance for SMEs, reversing the pre-crisis trend of SME diversification of financing sources.

The decline in leasing was unprecedented. **In 2020, 21 out of 27 countries registered a decline in leasing activities, the highest number of Scoreboard countries that registered a decline since 2009** (Figure 4). This decline can be explained by the weaker demand for new leasing services, as well as by lower payment capacity on leases, both of which were impacted by decreased economic activity in the context of the pandemic.

Figure 4. Leasing and hire purchases growth rate by country

Year-on-year growth, as a percent

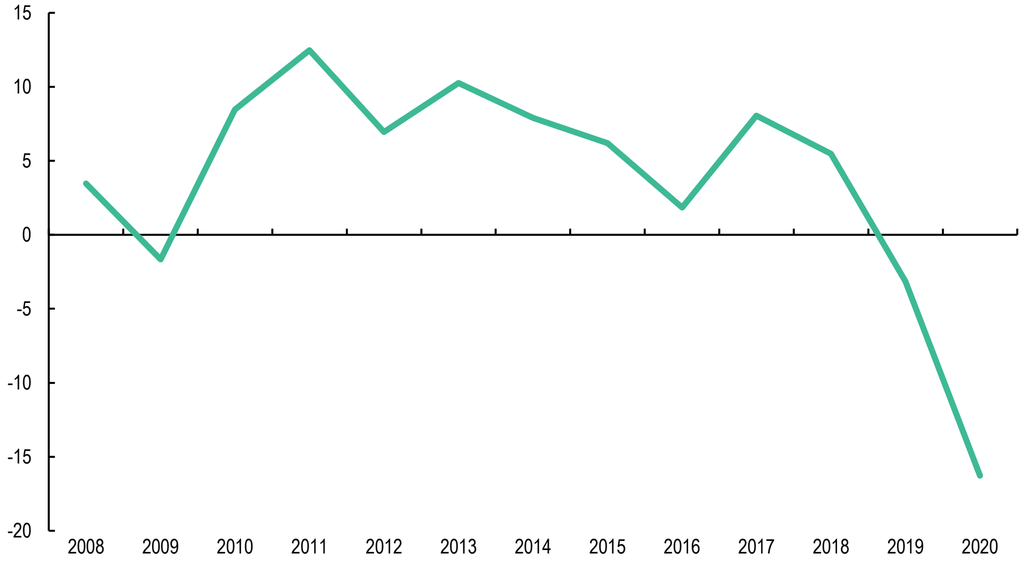


Source: Data from Austria, Czech Republic. Denmark, Italy, Slovenia, Slovak Republic, Norway and Poland is compiled from Leaseurope Annual Statistics 2021; the data for other countries is compiled

Factoring also registered a significant decline in 2020, with the Scoreboard median declining by 16.27% (Figure 5). The negative trend likely reflects the sharp reduction in economic output and trade related to COVID-19 restrictions.

Figure 5. Median factoring growth rate for Scoreboard countries

Year-on-year growth, as a percent

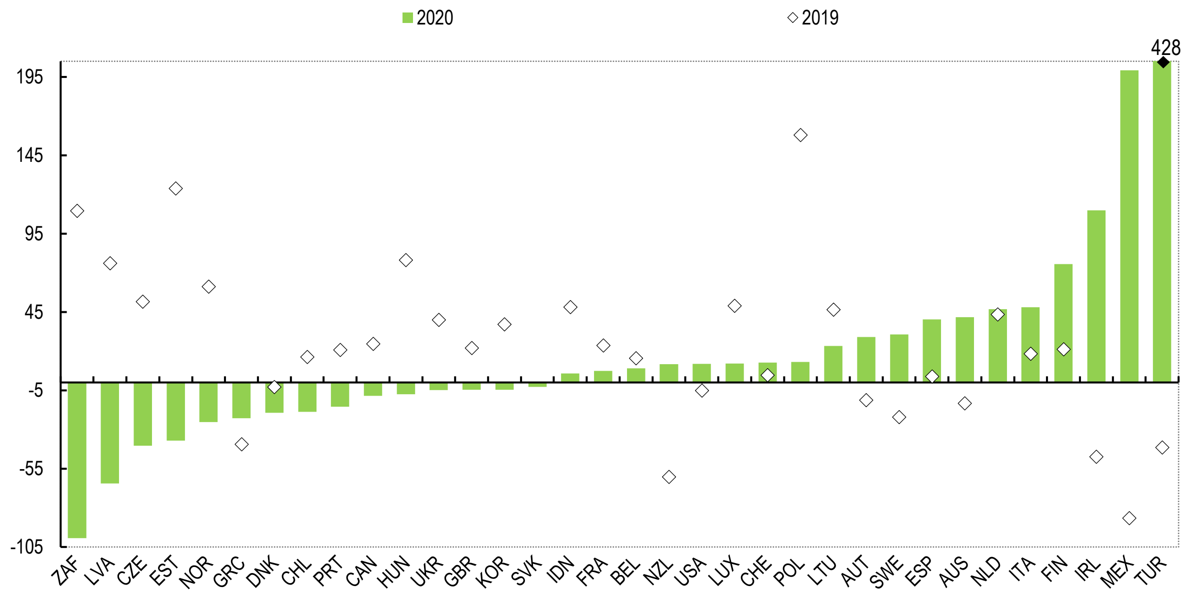


Source: Data compiled from the individual country profiles.

On the other hand, evidence on equity finance shows a fairly resilient venture capital (VC) sector despite the COVID-19 pandemic. Half of the countries that provided data for this indicator registered positive growth in 2020 (Figure 6). In regions with significant VC market shares, the sector registered growth. In 2020, in Europe, VC saw an increase of 15% y-o-y, and in the United States, the sector increased by 13% y-o-y, reaching a new record in total deal value. Venture capital volumes continued to grow in 2021. Looking at developments by stages in 2020, **the crisis took a heavier toll on seed and early stage funding than on later stage investments**. Seed funding closed the year with a decline of 27% y-o-y, and early stage funding declined by 11% y-o-y, while later stage investments grew by 4% y-o-y.

Figure 6. Venture capital investments

Year-on-year growth rates, percent



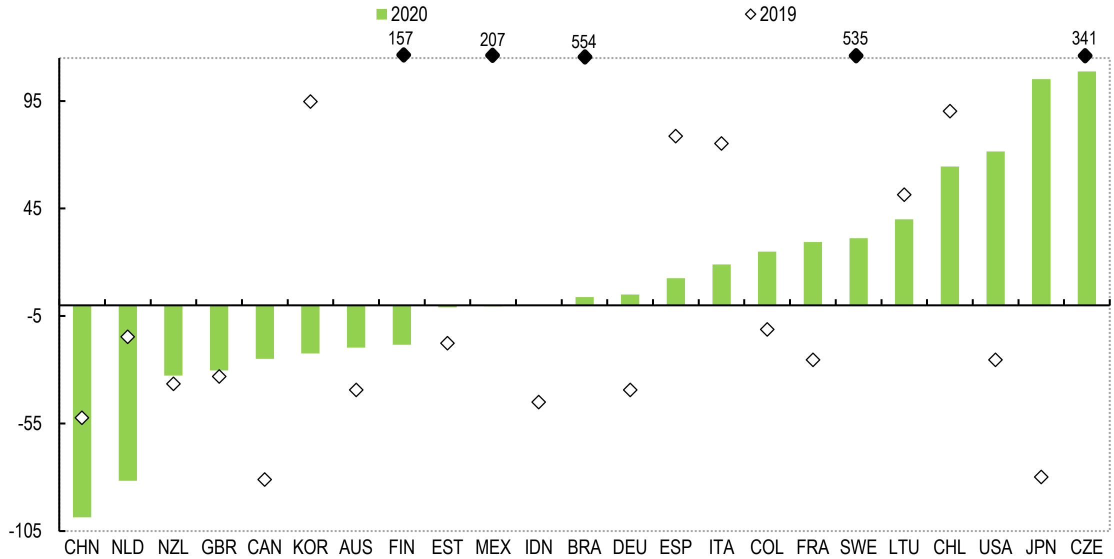
Note: Data is year-on-year change of current USD volumes, at the exception of Australia, Belarus, Chile, Indonesia, Luxembourg, Mexico, Turkey and Ukraine for which the indicator captures variations of volumes in current local currencies.

Source: OECD Entrepreneurship at a Glance; based on Entrepreneurship Finance Database, and data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2022 when the information was not otherwise provided.

Online alternative finance activities also continued to rise rapidly in 12 out of the 24 Scoreboard countries with available data, spurred in part by new opportunities opened up by the COVID-19 crisis. However, some countries with a traditionally high market share registered a sharp decline in online alternative finance. In some cases, the decline can be explained by lower demand for online lending, which may have been displaced by large-scale government support. In others, changes in local regulations to combat fraud and defaults of improperly licenced platforms had a strong negative impact on online alternative finance.

Figure 7. Growth in online alternative finance volumes

Year-on-year growth, as a percent



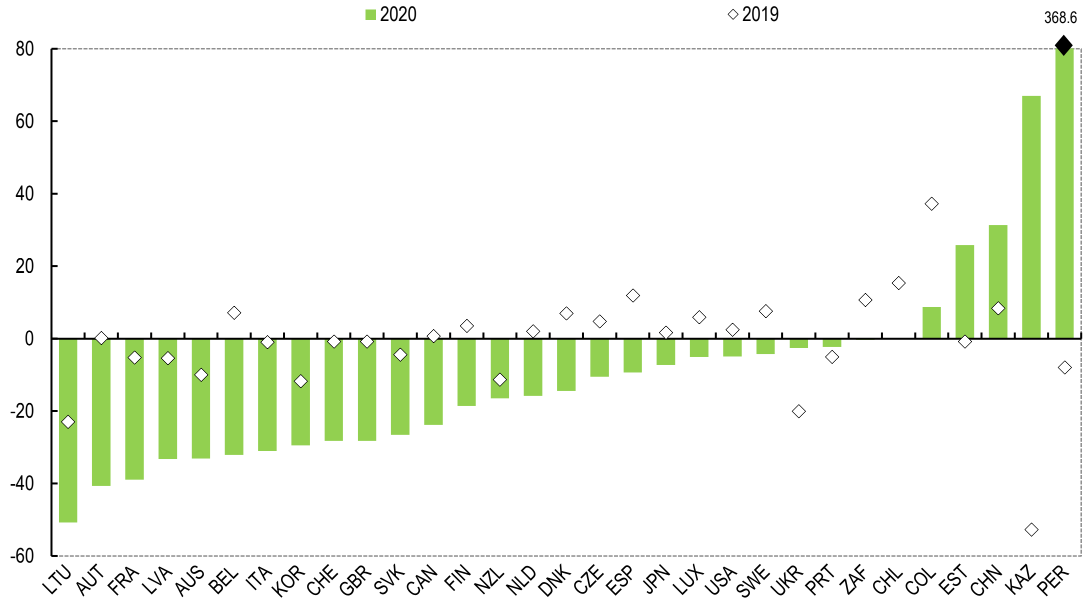
Source: Cambridge Centre for Online Alternative Finance, 2021.

Public support measures contributed to a sharp decline in bankruptcies and helped mitigate payment delays

In most economies, the unprecedented provision of public financial support was broad-based and accessible to all SMEs. This enabled most enterprises to continue to operate; as a result, bankruptcies declined in 26 out of 32 Scoreboard countries (Figure 8), with the median bankruptcy rate down by 11.7%. Changes in bankruptcy procedures also contributed to this decline, allowing insolvent SMEs to have more time to recover without having to file for bankruptcy. In light of the phasing out of support measures, an increase in this indicator is expected going forward.

Figure 8. SME bankruptcy rates

Year-on-year growth, as a percent



Note: Definitions of the indicator vary across jurisdictions. In addition to this, some countries provide bankruptcy data for all firms rather than for SMEs.

Source: Data compiled from the individual country profiles

Support for SME liquidity also allowed SMEs to meet their payment obligations. As a result, despite the large disruption caused by the pandemic, **aggregate payment delays did not increase significantly in 2020: the median value stood at 14 days compared to 12.4 days in 2019.** However, as public support measures are phased out, more SMEs foresee a higher risk of late or non-payments due to debtors' persistent liquidity challenges. In Europe in particular, 65% of SMEs perceived this risk in 2021 versus 46% in 2020.

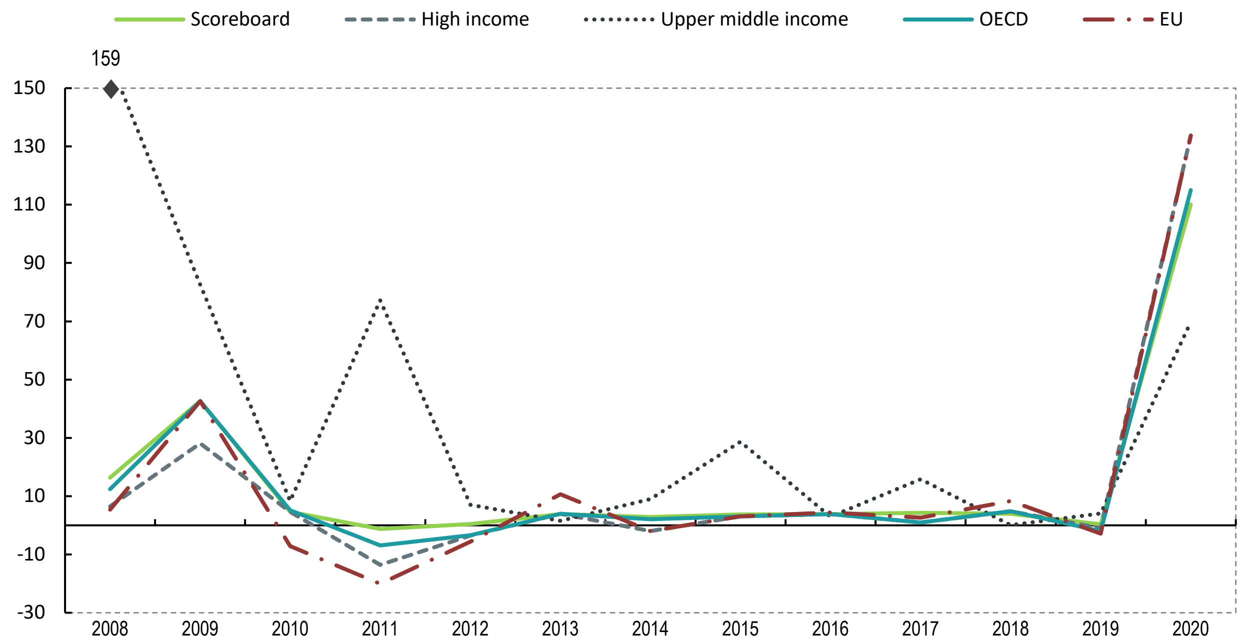
The SME financing policy landscape evolved significantly in response to the COVID-19 pandemic

Government responses to the COVID-19 pandemic represented a return to primarily counter-cyclical support, including a wide range of short-term policy instruments introduced to ease liquidity pressures on SMEs. There has also been support geared towards more structural objectives such as digitalisation, innovation, environmental sustainability and skills (Box 1). In terms of government policies, a number of trends can be discerned:

- In the first phase of the pandemic, government-backed lending by private banks was one of the most used channels as it was the fastest way to reach a wider number of SMEs. As such, **credit guarantees were used in all 27 countries providing data in the Scoreboard with a median increase of 110% between 2019 and 2020** (compared to an increase of 0.32% between 2018 and 2019) (Figure 9).

Figure 9. Median growth of SME government loan guarantees

Year-on-year growth, as a percent



Source: Data compiled from the individual country profiles.

- As in the great financial crisis, direct lending was one of the most widely used policies. In 2020, **the growth in direct loans was positive in 12 out of 14 countries** that provided data for this indicator.
- Short-term instruments such as deferred payments were also part of the government response. In the first stages of the pandemic, **deferrals on corporate and income tax were used in 90% of a sample of 55 countries**, debt moratoria in 60%, deferral of value added tax in 47%, and social security and pension contributions in 40%. The widespread use of debt moratoria, for example, affected the pace of loan repayments, contributing to the increase of SME outstanding stock of loans in some countries.
- While deferral of payments and tax reductions were used to prevent depletion of SMEs' working capital, **grants and subsidies were used to help SMEs maintain investment levels. In the first stages of the pandemic, 67% of studied countries provided grants**, and as the crisis persisted, the deployment of grants became even more widely used by governments to support structural goals such as digitalisation, innovation, upskilling and reskilling and sustainability.
- Despite the growing use of equity support measures prior to the COVID-19 crisis, these measures were not commonly used as a way to support SME access to finance during the early stages of the pandemic. **From a sample of 55 countries, only 36% implemented equity measures**, versus 87% that used direct lending and 83% that used government guarantees. Nonetheless, as the crisis has unfolded, equity measures have increasingly been introduced to alleviate SME over indebtedness, as well as to support young and innovative SMEs and start-ups.
- Prior to the pandemic, several measures were implemented to facilitate the development of the Fintech industry given its relevance for the diversification of sources of finance. Despite this, and the subsequent growth that Fintech firms experienced prior to the crisis, their involvement in the delivery of COVID-19 related relief has been limited. According to one study, **only 7% of Fintechs participated in the delivery of stimulus funding for MSMEs, despite 30% indicating interest in delivering the support.**

As governments continue to roll out recovery measures, **it will be important to consider the need to better balance SME debt and alternative instruments**, in line with the G20/OECD High-Level Principles on SME Financing, which are being updated in 2022.

SME finance policy developments will likely continue to be shaped by megatrends such as the green transition, digitalization, innovation, and the need to upskill and reskill the labour force. In this context, governments should work to address the challenges SMEs face in these areas, providing targeted support as appropriate.

SME financing policy will also need to take account of the effects on SMEs of the war in Ukraine, in terms of impacts on growth, financial markets, inflation, supply chains and trade.

Box 1. Assessing SME financing needs in COVID-19 recovery packages

The thematic chapter of the 2022 edition of the Scoreboard puts a spotlight on COVID-19 recovery packages, analysing the explicit SME related policies by number and financial value. The analysis benefits from the use of different databases that track the policies announced since the start of the pandemic. Some of the findings of the analysis show:

- Recovery packages have a relatively lower SME orientation compared to crisis measures, both in terms of number of policies and value of funding.
- Efforts to boost SME liquidity through debt, grants and deferral instruments carry less weight in recovery packages: USD 31.9 billion (4.46% of total packages) compared to crisis measures USD 3135.6 billion (39.72% to total measures).
- Rescue measures mobilised alternative sources and instruments of finance for SMEs to a limited extent. In the recovery, this situation broadly persists.
- Insolvency measures such as debt restructuring solutions and improvement in insolvency systems, are less present than liquidity measures (debt, deferral, and grants) and alternative finance.
- Start-up related policies receive greater attention in the recovery compared to rescue measures. Conversely, the focus on the self-employed has declined in the recovery phase.
- Looking at policy domains in the recovery packages, innovation is the policy area with the highest number of SME-related policies, although digitalisation receives the highest volume of financial support among explicit SME-related policies.

Despite the high priority governments and business attach to the issues of greening and sustainability, these are clearly the areas where explicit SME-related policies are least prevalent in the recovery packages, both in terms of number and financial value of policies.

Recommendations for data improvements

Data gaps in SME finance remain significant, and further efforts to improve the collection of data and evidence on SME finance should be pursued. Despite the importance of diversification of financing instruments for SMEs, data on non-debt sources of finance tend to be incomplete or not SME-specific. This hinders the ability of policy makers to monitor trends and should constitute a point of focus for data improvement efforts. Furthermore, demand-side side surveys have limited comparability between countries, given differences in coverage, methodology and definitions, and efforts towards greater harmonisation are needed.

Another crucial issue relates to the granularity of available data. Given the diversity of the SME population, the value of disaggregated SME finance data has long been recognised for policy making and analysis. The OECD is currently undertaking efforts to collect more disaggregated data. This will support the longer-term ambition to report and analyse more granular data in the future, by firm size, sector of operation, geographical location, and gender of the principal owner.

More generally, through the SME financing Scoreboard, the OECD will pursue its efforts to increase transparency in definitions, support data collection of an increasing number of indicators by a wide range of countries, share and disseminate lessons learned and good practices, and improve international co-operation in these areas.

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