



OCDE ORGANISATION DE COOPÉRATION ET  
DE DÉVELOPPEMENT ÉCONOMIQUES

# **SME and Entrepreneurship Financing: Policy Responses to the Global Crisis and the way forward to recovery**

*AECM Seminar*

*Managing the Recovery:*

*the role of the guarantee schemes in a changing  
environment*

Bled, Slovenia, October 7, 2010

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OECD

# The OECD Working Party on SMEs and Entrepreneurship (WPSMEE)

The main OECD body responsible for SME activities (since 1993)

## **Mission**

To help OECD and non-OECD economies develop policies that:

- Foster entrepreneurship
- Facilitate sustainable growth, competitiveness, and skilled jobs creation, and
- Help their SMEs to meet the challenge of globalisation.

# The OECD WPSMEE Strength

- A unique **forum** for dialogue among governments to address issue and policies related with SMEs and Entrepreneurship:
  - compare policy experiences
  - seek answers to common problems
  - identify good practice
  - co-ordinate policies
- Analytical, monitoring and forecasting activity
  - OECD one of the largest and most reliable sources of comparable statistical, economic and social data
- Research and Peer Reviews

## **AECM at the WPSMEE:**

- Participant on ad hoc basis
- Candidate for *Observership*

# OECD WPSMEE's Work on SME and Entrepreneurship Financing

- **Study on Women's entrepreneurship financing (1998)**
- **2<sup>nd</sup> OECD Ministerial Conference on SMEs (Istanbul 2004)**
  - Workshop on SME and Entrepreneurship Financing
- **OECD Global Conference on 'Financing for Entrepreneurship & SME Growth', Brasilia (2006)**
  - Study on: "The SME Financing Gap: Theory and Evidence"
  - *"The Brasilia Action Statement for SME & Entrepreneurship Financing"*
- **Turin Round Table on the Impact of the Global Crisis on SME & Entrepreneurship Financing**
  - Report on: "The Impact of the Global Crisis on SME & Entrepreneurship Financing and Policy Responses" (June 2009)
- **Assessment of Government Support Measures to Facilitate SME Access to Finance in the Global Crisis (2010)**
- **Pilot OECD Scoreboard on SME & Entrepreneurship Financing Data & Policies (2010)**

## SMEs' and Entrepreneurs' Financing: the *monitoring and evaluation* challenge

Since the onset of the crisis, the assessment of its impact on SMEs and Entrepreneurs revealed that policy makers and major stakeholders (e.g. financial institutions) lack the **hard data** necessary to:

- **Monitor** SME financing trends and needs
- **Evaluate** SME financing policies and programmes

# The impact of the global crisis on SMEs' and Entrepreneurs' financing

- SMEs and entrepreneurs suffered two shocks that adversely affected their cash flows:
  - 1) *a drastic **drop in final demand** for goods and services*
  - 2) *a **deterioration of credit conditions.***
- SMEs reacted by:
  - a) Conserving liquidity through
    - reducing operating costs
    - running down inventories
    - cutting investment including innovation spending
  - b) Reducing use of external finance
  - c) Changing the composition of credit demand
    - Less investment finance
    - More working capital and export finance

# The Unemployment Impact of the Crisis 2007-2010

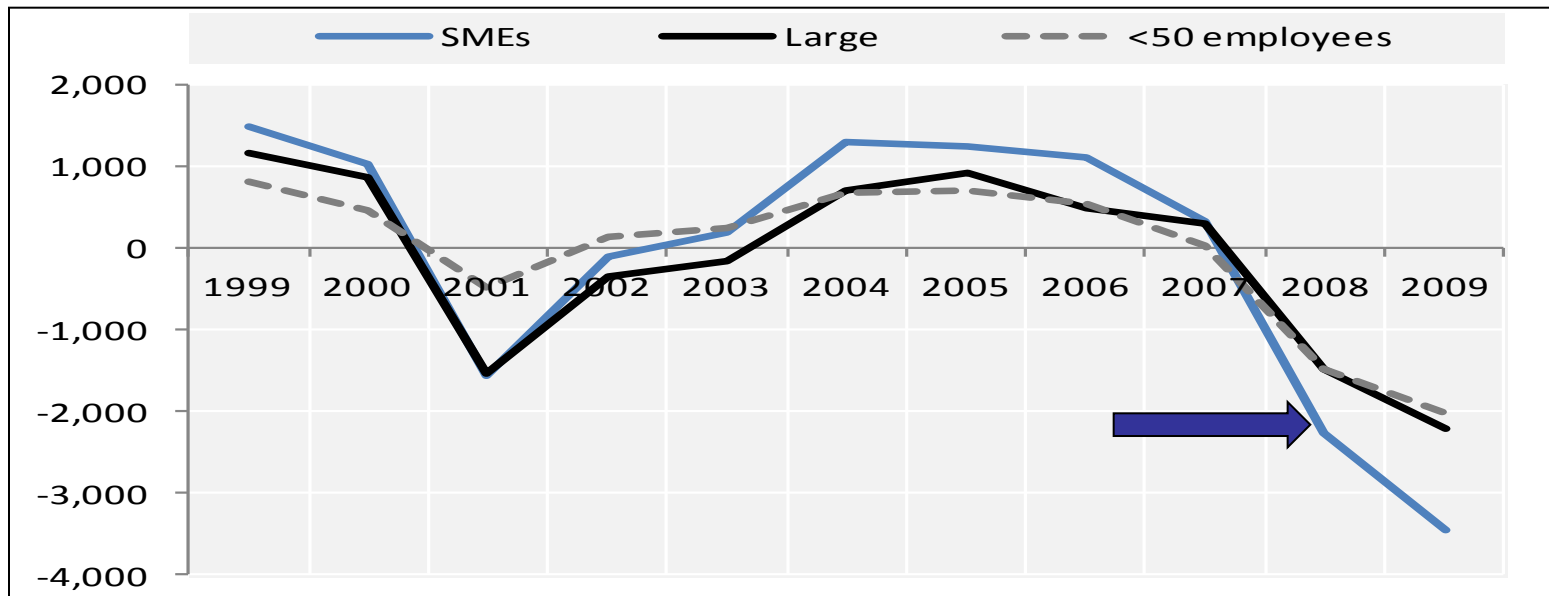
- Unemployment rises by 50% in OECD, with wide dispersion by country
- Strongest Impact: **Denmark, Iceland, Ireland, New Zealand, Spain, USA**



# The Unemployment Impact of the Crisis on SMEs

- SMEs usually support employment more than larger firms. In several EU countries (e.g. Germany) SME employment fell less than for large firms.
- In the US, SMEs have been shedding jobs fast in the crisis

Net job creation/destruction in the **United States**  
(seasonally adjusted) 1999-2009, by firm size, in thousands



Source: US Bureau of Labor Statistics.

Note: "SME" refers to firms with 1-499 employees, "large" refers to firms with 500+ employees.



## *Monitoring*

# Pilot **OECD Scoreboard** on SME and Entrepreneurship Financing Data and Policies

# Pilot OECD Scoreboard on SME and Entrepreneurship Financing

- 11 pilot countries including:
  1. Canada
  2. Finland
  3. France
  4. Italy
  5. Japan
  6. Korea
  7. Netherlands
  8. New Zealand
  9. Sweden
  10. Thailand
  11. United States

# The Criteria for Selection of Indicators

- 1. Availability:** they must be based on existing data or
- 2. Feasibility:** data that could be made available easily
- 3. Usefulness:** they must assist policy makers in assessing the situation
- 4. Timeliness:** they must be produced annually or quarterly to serve as a tool for monitoring
- 5. Comparability:** they must cover the same target population of SMEs for the same time period; target population are firms that are non-financial and independent and have at least 1 employee

# The 'Core' Indicators

DEBT	
SME loans / business loans	SME non-performing loans/SME loans
SME short term loans/SME loans	SME interest rates
SME gov. guaranteed loans/SME loans	Interest rate spreads (small vs. large firms)
SME gov. direct loans/SME loans	SME collateral
SME loans authorized/SME loans requested	

EQUITY	OTHER
Venture capital invested in SMEs	SME payment delays
	SME bankruptcies

# Definitions of Indicators

Indicator	Definition
<b>SME loans / business loans</b>	Bank loans to non-financial firms, stocks or flows.; national definition of SME or loan amounts less than EUR 1 million
<b>SME short-term loans</b>	Loans equal to 1 year or less or for working capital
<b>SME interest rates</b>	Average annual rate on new SME short term loans, base rate plus risk premium; for maturity less than 1 year, amount less than EUR 1 million
<b>Interest rate spreads</b>	Between large and small firms, for maturity less than 1 year
<b>Government guaranteed loans</b>	Guaranteed loans stock or flows from central government
<b>SME non-performing loans</b>	SMEs non-performing loans out of total SMEs loans (%)
<b>SME Collateral</b>	% of SMEs that were required to provide it on latest bank loan
<b>Venture capital</b>	Actual amount invested in SMEs in the country
<b>Payment delays</b>	Average number of days, business-to-business (B2B)
<b>Bankruptcies</b>	No. SMEs legally bankrupt; No. per 10,000 SMEs

# SCOREBOARD: ITALY (1)

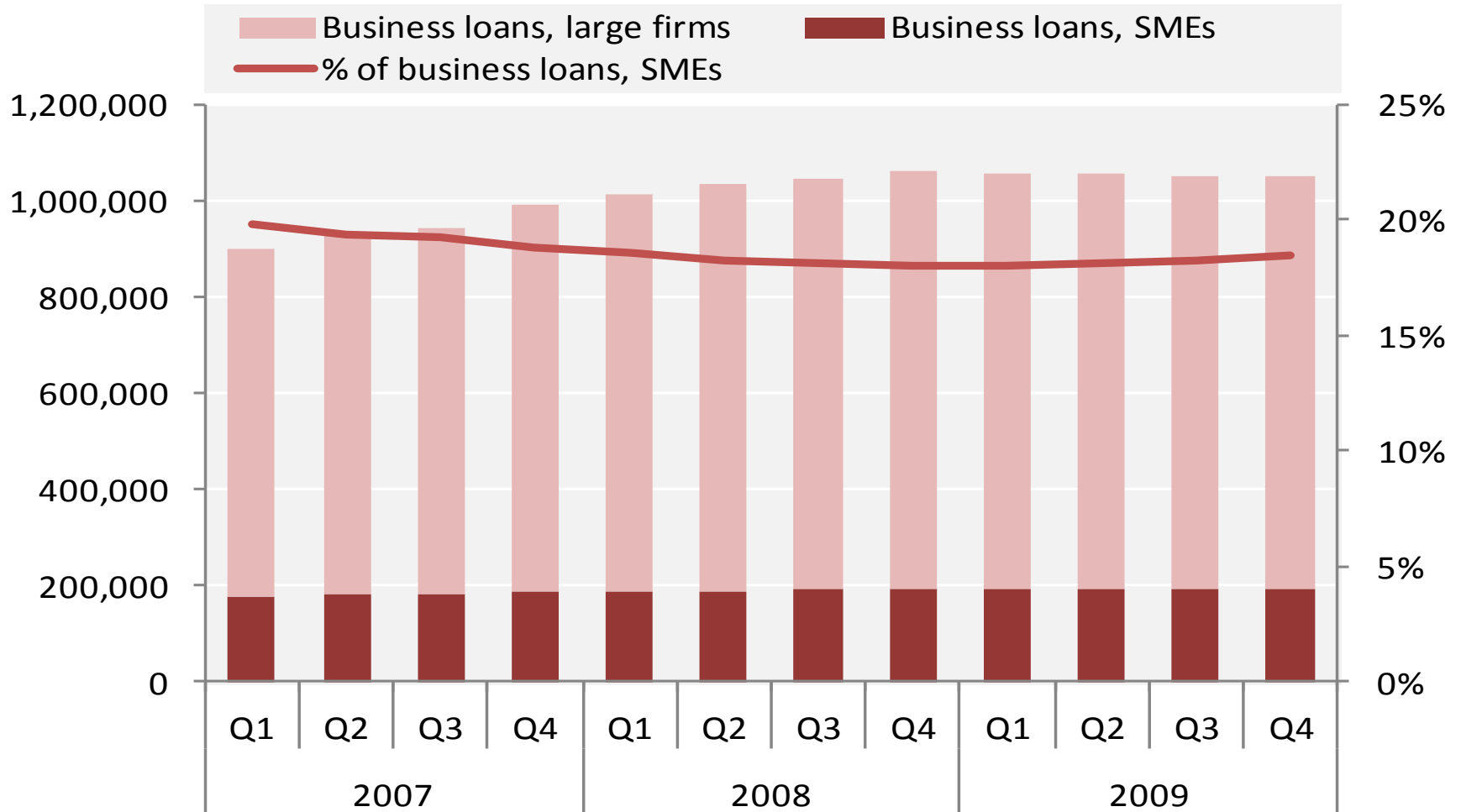
Scoreboard for Italy, 2007-2009

	2007	2008	2009
<b>DEBT</b>			
Business loans, SMEs (EUR millions)	186 906	190 758	194 769
Business loans, total (EUR millions)	993 808	1 061 548	1 054 337
Share of SME business loans in total business loans (% of total business loans)	18.8	18.0	18.5
Short-term loans, SMEs (EUR millions)	59 007	56 309	51 557
Long-term loans, SMEs (EUR millions)	115 180	120 692	126 796
Share of SME short-term loans in total short and long-term SME loans (% of total SME loans)	33.9	31.8	28.9
Government guaranteed loans, CGF (EUR billions)	2.3	2.3	4.9
Direct government loans, SMEs (EUR millions)	412	376	276
Loans authorised, SMEs (EUR millions)	172 430	171 828	177 678
Loans used, SMEs (EUR millions)	135 367	137 279	142 872
Ratio of loans used to authorised (stocks, %)	78.5	79.9	80.4
Non-performing loans, total (EUR millions)	44 521	49 252	65 568
Non-performing loans, SMEs (EUR millions)	12 719	13 758	16 416
Non-performing loans, SMEs (% of SME business loans)	6.8	7.2	8.4
Interest rate, average SME rate (annual percentage rate of change, %)	6.3	6.3	3.6
Interest rate spread (between average interest rate for SMEs and large firms, %)	0.8	1.4	1.3
Collateral, SMEs (% of SMEs required to provide collateral)	46.1	45.5	51.6
<b>EQUITY</b>			
Venture capital, total amount invested (EUR millions)	707	911	469
Venture capital, SMEs (EUR millions)	361	556	358
Venture capital (annual rate of change, %)	97.6	54.1	-35.6
<b>OTHER</b>			
Payment delays, all firms (average number of days)	23.9	20.0	21.0
Bankruptcies, total (number)	6 144	7 496	9 385
Bankruptcies, total (per 10 000 enterprises)	11.2	14 13.6	16.8

# SCOREBOARD: ITALY (2)

## Total and SME business loans, 2007-09

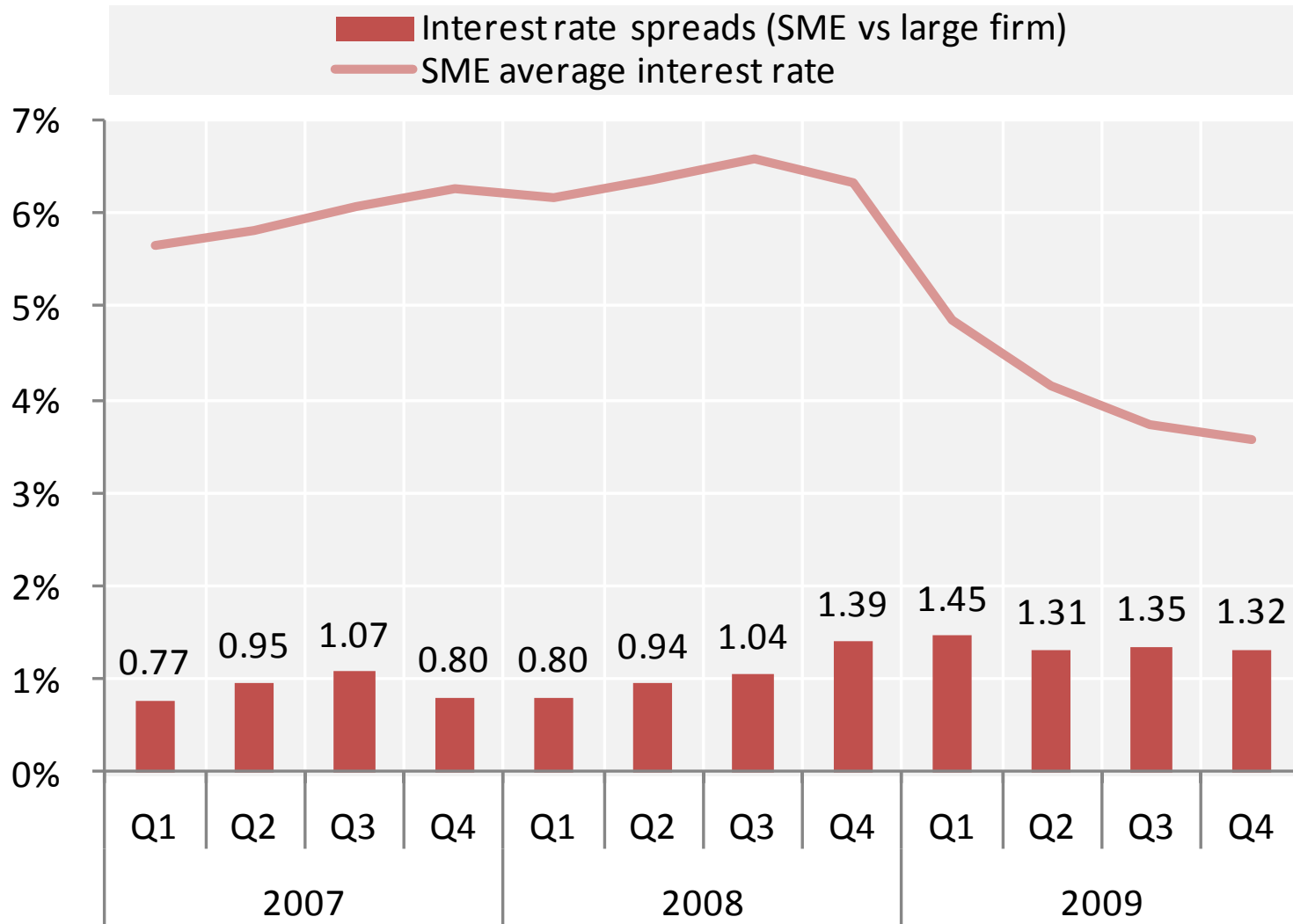
Quarterly, in EUR millions and as a % of total business loans



# SCOREBOARD: ITALY (3)

## Interest rate and spreads, 2007-09

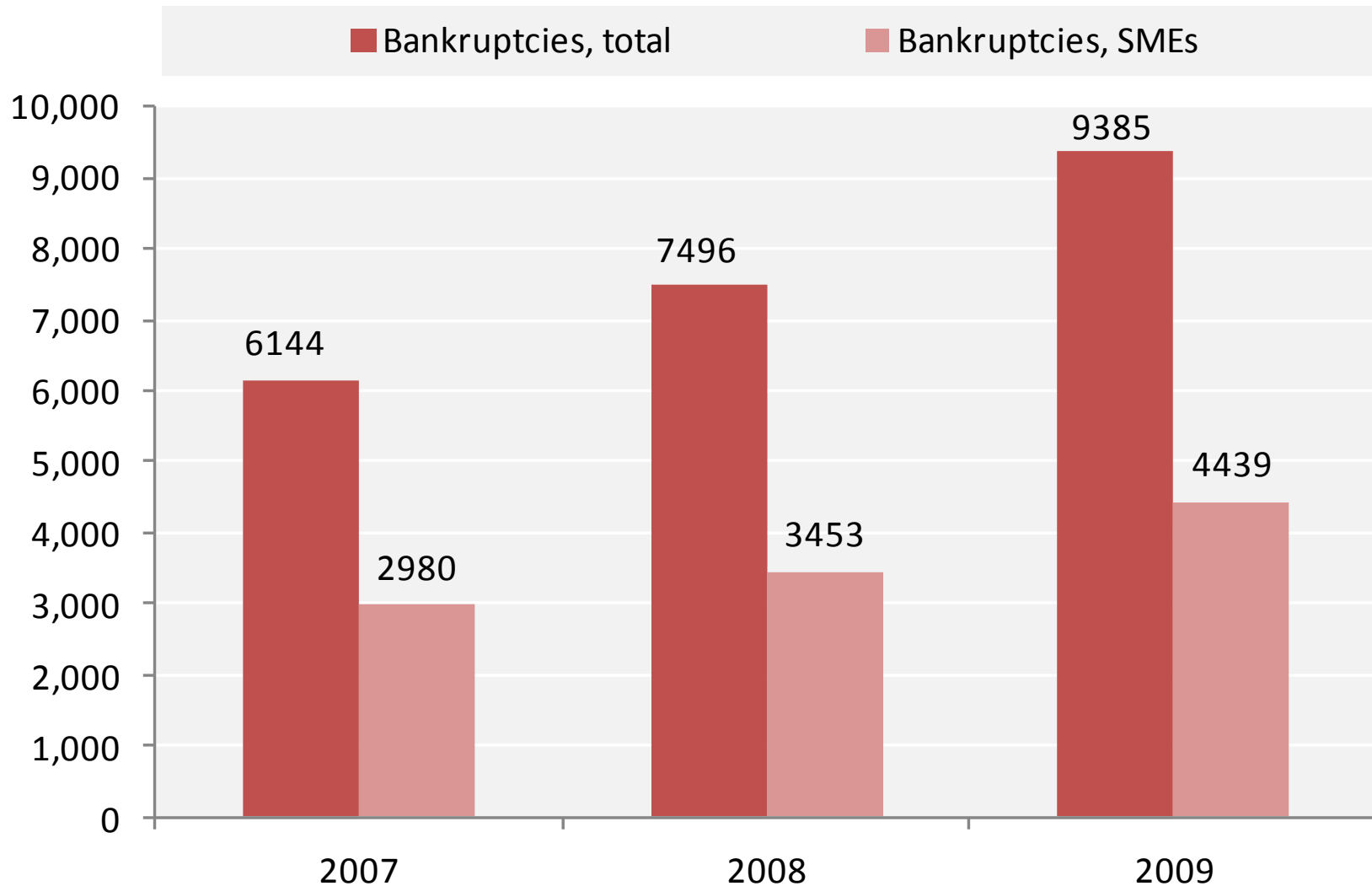
Quarterly, average SME interest rate and spreads between SMEs and large firm rates





# SCOREBOARD: ITALY (4)

Total and SME Bankruptcies, 2007-09  
Annual, number of bankruptcies



# Key trends

- SME loans shares in business lending generally declined: supply and demand components (“discouraged borrowers”)
- The ratio of SME short-term vs. long-term loans increased
- Interest rate spreads increased
- Rejection rates increased
- % of SMEs providing collateral increased
- **Government guarantee programmes increased with the government reducing bank risk and need for collateral and causing a substitution of private finance by public**
- Venture capital invested declined
- Payment delays increased
- Bankruptcies increased

# *Evaluation*

Assessment of Government Support  
Programmes for SMEs' and Entrepreneurs'  
Access to Finance  
*(Questionnaire to Policy Makers)*

&

Inquiry to Beneficiary SMEs  
*(SME Survey)*

# Selected G-20 members' policy responses to the crisis related to SMEs' and entrepreneurs' financing from 2009 to early 2010

	Government Loan Guarantee Programmes		Strengthening capital base and private equity and venture capital	Direct Credit	Export facilitation			Credit Mediation and monitoring
	Working Capital (Short-term)	Investment Capital (Long-term)			Export Credits	Export Guarantees or Insurance	Increased capital of export support institutions	
Australia			✓		#			
Brazil*	✓	✓			✓	✓		
Canada	✓	✓	✓	✓	✓	✓	✓	
European Commission*	✓	✓						
France	✓	✓	✓	✓	✓	✓		Mediator
Germany	✓	✓	✓		✓	✓		Mediator
Italy	✓	✓	✓		✓	✓		Monitor & collective agreement
Japan	✓	✓	✓	✓	✓	✓	✓	
Mexico*	✓	✓	✓		✓	✓		
Russia*	✓	✓						
Turkey	✓	✓		✓	✓	✓		Mediator
UK	✓	✓		✓				
USA	✓	✓		✓				Monitor

*Source:* Country Responses to the OECD WPSMEE Questionnaire on the Impact of the Global Crisis on SMEs and Entrepreneurship Financing and the Policy Responses: follow-up, launched November 2009 and publicly available information (in particular, for the United States)

\* Results are taken from the original Questionnaire on the Impact of the Global Crisis on SMEs and Entrepreneurship Financing and the Policy Responses, which was launched in January 2009 and responses received in March 2009.

# In 2009, Australia provided extra AUD 50 million to the Export Market Development Grants which encouraged SMEs to develop export markets by reimbursing up to 50% of expenses incurred on eligible export promotion activities.

## Direct Loans & Loan Guarantees

- Official loan guarantees and direct official loans were the most widely used policy measures to increase access to finance
  - New or expanded programmes
  - Change in nature:
    - Before the crisis mainly concentrated on long term investment credits
    - Following liquidity shortages, government increasingly supported working capital

# Loan Guarantees

- Boost of the *leverage factor* of private and public guarantee schemes by:
  - raising the total *counter-guarantee*:
    - ✓ Increased volume, coverage rate or sectoral coverage
    - ✓ Creation of new counter-guarantee funds
  - increasing the *coverage rate*:

Increased share of the loan risk that can be covered by guarantees (e.g. in France and Germany from 50%-60% to 90%)

# Utilisation of Assistance Programmes

- Heavy take-up of official programmes, especially for Working Capital and Trade Finance
- Largest users of Official Guarantees & Direct Loans
  - ✓ Medium-Sized Firms
  - ✓ Manufacturing Firms
  - ✓ Export-Oriented Firms
- Some Programmes heavily used by Smaller firms
  - ✓ Mutual Guarantee Societies (MGS)
  - ✓ Credit Mediation

# Credit Mediation

- Objective:

**Improve information flows and *use moral suasion*** (i.e. informal pressure or influence from authorities such as central banks) to encourage agreement between prospective lenders and SMEs.

- Mechanism:

Firms whose credit applications are rejected bring their case before a ***mediation panel*** (usually organised by the central bank) in which the SME, the bank and other interested parties (i.e. industry associations) participate

- Advantages

- ✓ remedy to information asymmetry
- ✓ low cost (through existing institutions)



# Credit Mediation in France

## November 2008 - 31 August 2010:

- 26 894 enterprises had sought mediation
- 22 100 enterprises had been accepted for mediation
- The rate of successful mediation was 63%.
- The credit mediation scheme has reinforced 12 175 firms of all sizes; unblocked EUR 3.1 billion in credit and preserved 218 423 jobs.

*Source:* Médiateur du crédit aux entreprises, September 2010.

# Expansion of Assistance Programmes, 2009-10

- Termination Dates Extended
- Increased Funding
- Capitalisation of Supporting Institutions Raised
- Maximum Percentage Guarantees Raised
- Special Facilities for Working Capital
- Eligibility Criteria Eased
  - » Firms with Export Orders or Subcontractors to Exporters
  - » Larger Firms

# Assessment of Assistance Programmes

## Policy makers

In the light of the deep recession and risks of collapse of credit to SMEs, programmes were **necessary** in 2008-2010 and **broadly effective**

## Beneficiary SMEs (Survey on 2160 firms, August 2010)

- + Guarantee programmes helped to get more favourable **loan terms**
  - level of interest rate (41%)
  - size of loan (30%)
  - collateral requirements (25%)
  - maturity (25%)
- + Schemes enabled saving existing jobs or creating new ones (53%)
- + Measures credited for the business survival (21%)
- Much room for improving programme administration and communication

# The way forward towards recovery

- “Bottoming out” in mid-late 2009
- Gradual recovery in 2010
- Expected moderate acceleration in 2011

But...

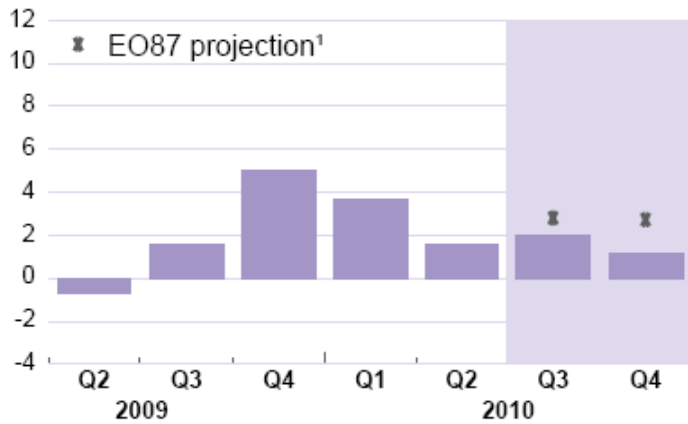
... growth is much slower than in earlier recoveries

... protracted restructuring is expected

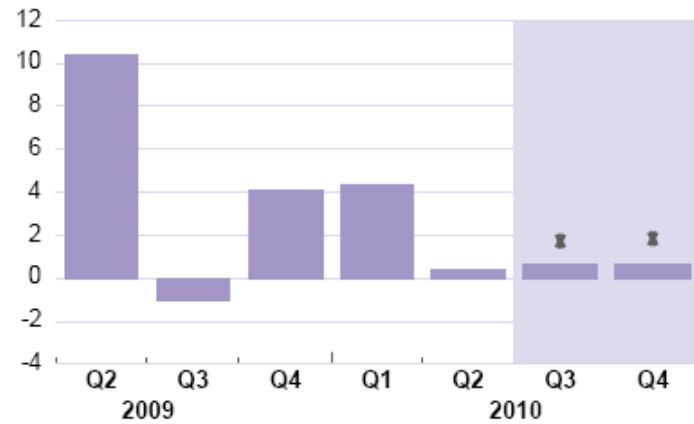
## The pace of recovery could be slower than anticipated

Annualised quarter-on-quarter real GDP growth, in per cent

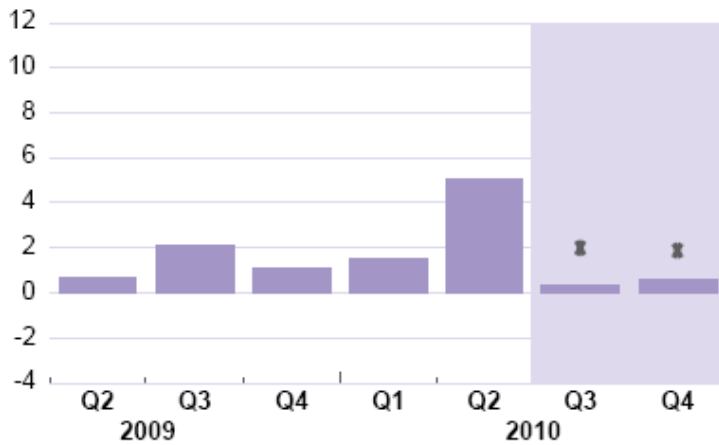
**United States**



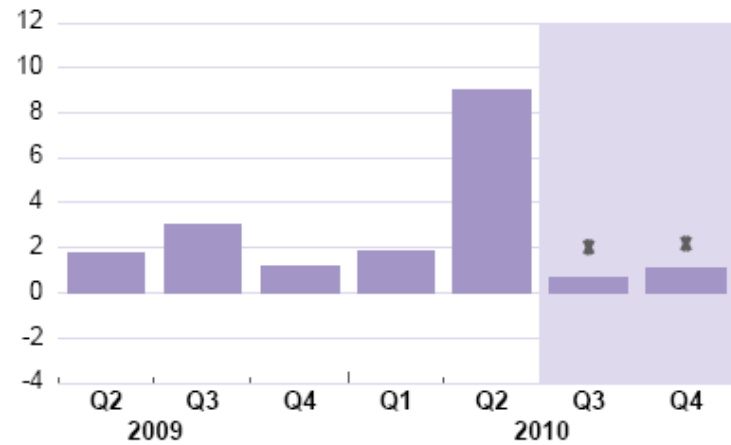
**Japan**



**Euro 3<sup>2</sup>**

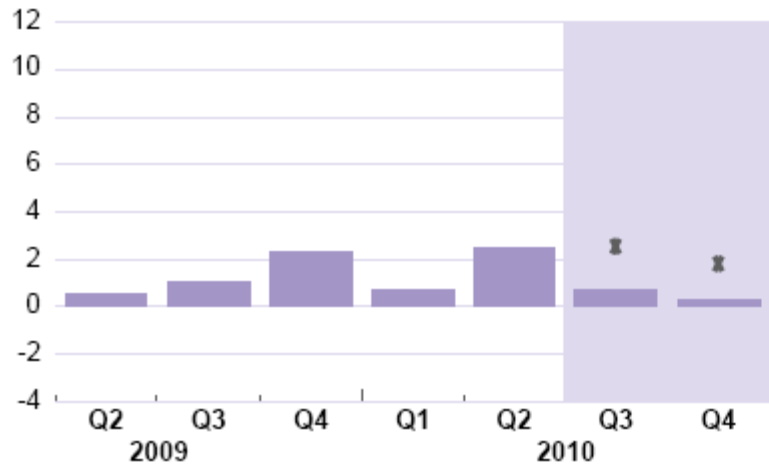


**Germany**

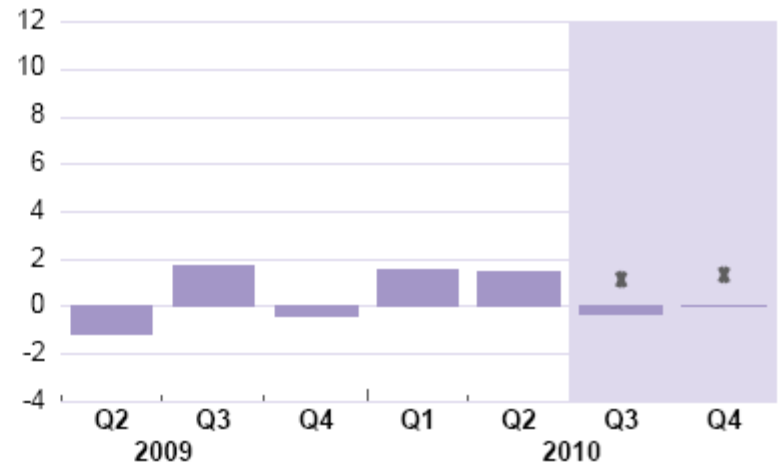




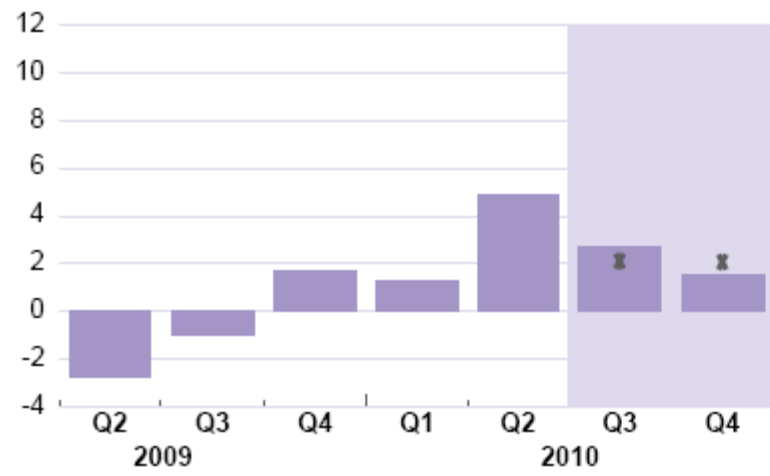
France



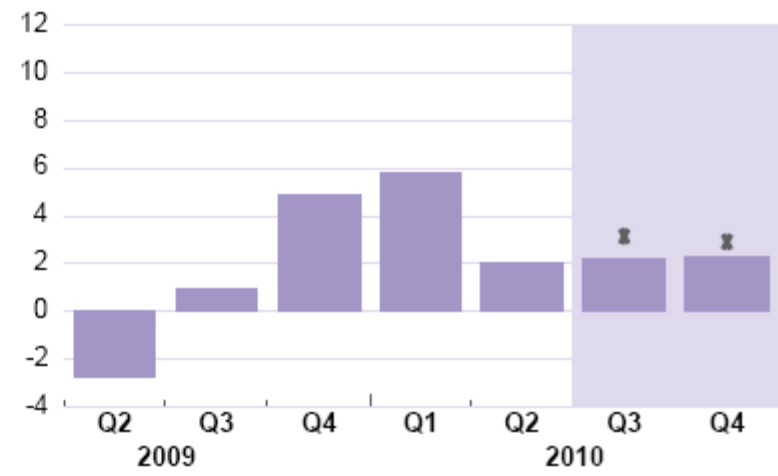
Italy



United Kingdom

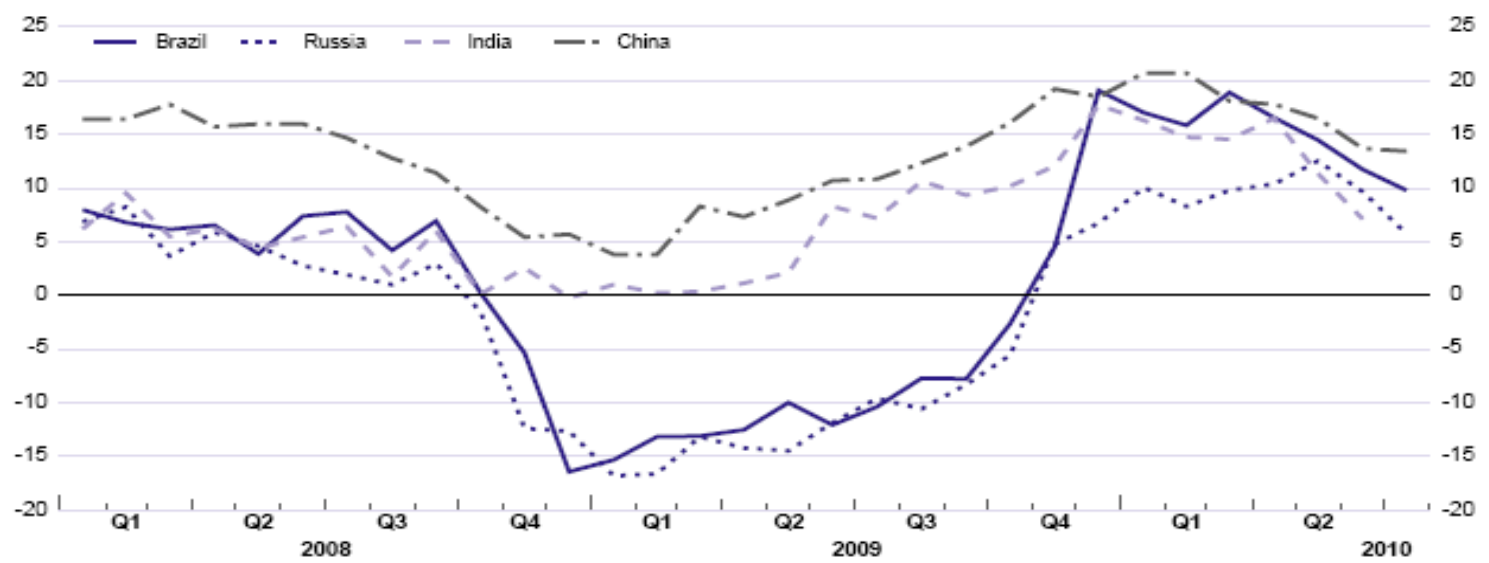
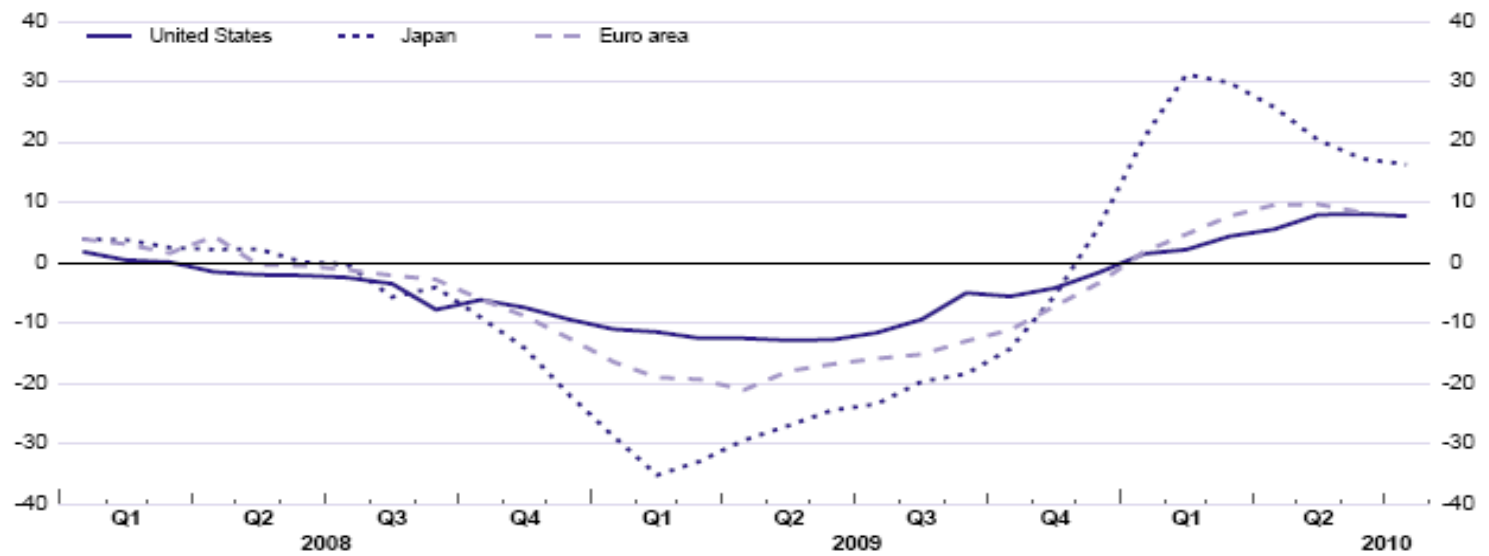


Canada



# The bounce-back in industrial production is moderating

Year-on-year percentage changes



# Financial Environment

## POSITIVE

- Banks no longer facing imminent collapse
- SME finance is part of bank strategy in OECD countries
- SME Finance stabilisation in 2010
  - Sales and Output rise
  - Slightly stronger in loan demand
  - Export-oriented firms rebound
  - Medium firms re-enter the market
  - Conditions finally improve for small firms in mid-2010
  - Many SMEs contemplate higher investment and employment in 2011



# Financial Environment

## NEGATIVE

- Banks are still fragile (sovereign bond crisis, commercial real estate)
- SME creditworthiness deteriorated. Decline in
  - Economic prospect
  - Balance sheet quality
  - Real estate
- Several countries have long-standing, structural problems in financing new/innovative companies

# The questions ahead

- *What measures have been most effective in addressing financing constraints for business growth and job creation of new and small firms during the crisis? What short-term measures are to be phased out?*
- *Has the financial crisis created additional structural impediments to SME and entrepreneurship finance, and if so, is a longer term policy response required?*
- *How could more resilient mechanisms for the financing of SMEs and entrepreneurs be implemented within the context of a reformed financial system?*



# The 'BOLOGNA+10' High-level Meeting on

**“SMEs and Entrepreneurship: lessons from the global crisis and the way forward to job creation and growth”**

**17-18 November 2010**

**OECD Headquarters, Paris**

*Ten years after the **First OECD Conference for Ministers responsible for SMEs, Bologna, June 2000***

- Enable a thorough discussion among high-level policymakers on policy successes and failures;
- Identify best practices;
- Strengthen the policy dialogue and co-operation among OECD and non-OECD economies ;
- **Design a roadmap for the medium to long term in the area of SME and Entrepreneurship Policy.**

# The 'BOLOGNA+10' High-level Meeting

- **THEME A: INNOVATION**

*Innovative SMEs and Entrepreneurship for job creation*

- **THEME B: FINANCING**

*Better Financing for SMEs and Entrepreneurs for Job Creation and Growth*

- **THEME C: SMEs and GREEN GROWTH:**

*Promoting sustainable manufacturing and eco-innovation in small firms*

# OECD WPSMEE Programme of Activities 2011-2012

## ACTIVITY 1 - SMEs AND ENTREPRENEURSHIP FINANCING and TAXATION

### i) Analytical Studies on:

- the potential expansion of **credit mediation** and **mutual guarantees** as a tool to make credit available on a wider basis to smaller enterprises.
- financial instruments **alternative to debt** that may have greater relevance for smaller enterprises.
- barriers for **women and minority** SME owners
- tax policy options **to correct the distortive effects of tax systems** on the financing costs for SMEs vs MNEs
- **Tax law and offshore tax planning** strategies affecting financing costs of SMEs vs large firms

### ii) Development of the OECD Scoreboard on SME and Entrepreneurship Financing Data and Policies.

***THANK YOU***

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