



Financing SMEs and Entrepreneurs 2013

AN OECD SCOREBOARD



RECENT TRENDS IN SME AND ENTREPRENEURSHIP FINANCE

This chapter analyses trends in SME and entrepreneurship finance over 2007-2011, based on data collected for the country Scoreboards and information from demand-side surveys. A short overview of the global business environment and economic prospects sets the framework for the analysis of SME financing trends and conditions, focusing in particular on the changes which occurred in participating countries between 2010 and 2011. These recent developments are compared with trends over the crisis and early recovery stages. The pre-crisis year 2007 serves as a benchmark. The chapter concludes with an outlook on 2012 emerging trends and an overview of government policy responses intended to improve SMEs' access to finance.

1. Introduction

18. The present chapter illustrates the emerging trends in SMEs' and entrepreneurs' access to finance for 25 countries over 2007-2011, within the framework of global macroeconomic prospects. This period comprises the most severe global financial and economic crisis in decades (2008-2009) and a recovery period (2010), which lost momentum in 2011 in all but four of the Scoreboard countries. The year 2007 serves as the benchmark from which trends over the entire period are measured. The chapter focuses in particular on the changes which occurred in SME financing during 2010-2011 and comments on some emerging trends and prospects in 2012-2013.

19. The analysis is based on the Scoreboard's core indicators which address specific questions related to financing SME and entrepreneurs at the country level. Most of the indicators are derived from supply-side data provided by financial institutions. This is supplemented by national and regional demand-side surveys in order to provide a more comprehensive view of the evolution in financing trends and needs¹.

20. Consistent time series for country data permit an analysis of national trends in the participating countries. It is by comparing trends that insights are drawn in the present chapter on the varying conditions in SME financing across countries. The analysis on *changes* in variables, rather than on *absolute levels*, helps overcome the main limitations to cross-country comparability of the core indicators, due to differences in definitions and reporting practices. With regard to the comparison of indicators across countries, caution should be exercised, taking into account the use of both flows and stocks to calculate some of the indicators.

2. Business environment and the macroeconomic context

21. The 2008-2009 financial and economic crisis was the most severe in decades and deeply affected the business and financing environment in many OECD countries (OECD, 2012a). GDP contracted by 3.6% in the OECD area as a whole in 2009, and by 4.3% in the Euro area. The 2010 recovery was uneven and, in many instances, came to a halt in the second quarter of 2011. As Table 2.1 illustrates for the OECD area and Scoreboard countries, over 2010-2011, the recovery lost momentum in most cases. GDP growth slowed in the United States, from 2.4% in 2010 to 1.8% in 2011. Similarly, in the Euro area, where the 2010 recovery had been less pronounced, the growth rate decreased from 1.9% to 1.5%. In Europe, however, growth performance varied significantly across countries. While some countries, such as Sweden (3.9%), Finland (2.7%), and the Slovak Republic (3.2%) experienced sustained growth rates, Southern European countries like Italy (0.6%) and Spain (0.4%) grew at a much slower pace, or even experienced negative GDP growth, as in Portugal (-1.7%). On the other hand, stronger growth continued to be observed in other countries, including Turkey (8.5%), Chile (5.9%) and Russia (4.3%).

22. Inflationary pressures continued to be low, although rising, in 2011. The OECD countries experienced an average inflation of 2.5% in 2011, as compared to 1.9% in 2010. In the European Union, the increase in consumer prices reached 3.3% in 2011, against 1.8% in the previous year (OECD, 2012b).

23. In general, however, demand remained weak as households and businesses sought to improve balance sheets. Unemployment remained high in some countries and increased further in others. Meanwhile, the stimulus provided by additional liquidity and funding to the banking sector ran its course, and the stance of fiscal policy became less expansionary in most countries in 2010-2011. Concerns about the sovereign debt crisis and its possible impact on the fragile banking sector intensified and contributed to heightened risk aversion, which also discouraged bank lending.

¹ See Chapter 1 and Annex A for a discussion of the core indicators and sources of data.

Table 2.1. Real GDP Growth in Scoreboard countries, 2007-2011 (%)

Country	2007	2008	2009	2010	2011
Canada	2.1	1.1	-2.8	3.2	2.6
Chile	5.2	3.1	-0.9	6.1	5.9
Czech Republic	5.7	3.1	-4.5	2.5	1.9
Denmark	1.6	-0.8	-5.7	1.6	1.1
Finland	5.3	0.3	-8.5	3.3	2.7
France	2.2	-0.2	-3.1	1.6	1.7
Hungary	0.1	0.9	-6.8	1.3	1.6
Ireland	5.4	-2.1	-5.5	-0.8	1.4
Italy	1.5	-1.2	-5.5	1.8	0.6
Korea	5.1	2.3	0.3	6.3	3.6
Netherlands	3.9	1.8	-3.7	1.6	1.1
New Zealand	3.4	-0.6	-0.2	0.9	0.5
Norway	2.7	0.0	-1.7	0.7	1.4
Portugal	2.4	0.0	-2.9	1.4	-1.7
Russia	8.5	5.2	-7.8	4.3	4.3
Serbia	5.4	3.8	-3.5	1.0	1.8
Slovak Republic	10.5	5.8	-4.9	4.4	3.2
Slovenia	7.0	3.4	-7.8	1.2	0.6
Spain	3.5	0.9	-3.7	-0.3	0.4
Sweden	3.4	-0.8	-5.0	6.3	3.9
Switzerland	3.8	2.2	-1.9	3.0	1.9
Thailand	5.0	2.5	-2.3	7.8	0.1
Turkey	4.7	0.7	-4.8	9.2	8.5
United Kingdom	3.6	-1.0	-4.0	1.8	0.9
United States	1.9	-0.3	-3.1	2.4	1.8
Euro area	3.0	0.3	-4.3	1.9	1.5
OECD area	2.8	0.2	-3.6	3.0	1.8

Source: OECD (2012c), World Development Indicators.

Financial conditions

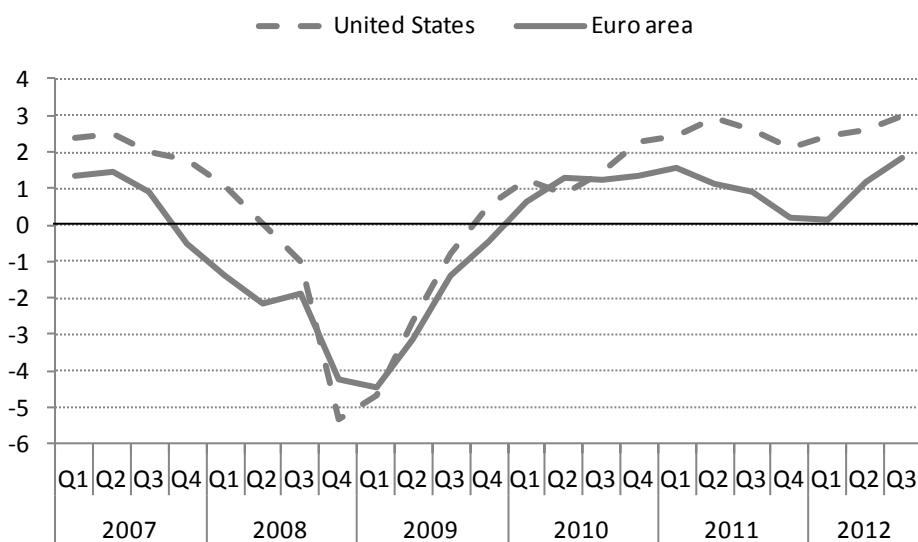
24. Over 2010-2011, developments in overall financial conditions displayed substantial cross-country variation. Concerns about public debt sustainability led to a rise in government bond yields during 2011. For countries that have sought assistance from the European Union and the IMF, such as Ireland and Portugal, in spite of financing support and strong fiscal consolidation, sovereign spreads continued to widen in 2011. In several other European countries, including Italy and Spain, the rise in government bond yields contributed to a further tightening of credit conditions to the private sector in general. In countries like the United States or some Northern European countries, however, pressures on government bonds decreased and overall credit conditions eased (OECD, 2011, 2012b).

25. As Figure 2.1 illustrates, a significant degree of uncertainty continued to characterise the financial environment in 2011, with non-negligible swings across quarters and an overall flat trend with respect to the recovery observed between 2009 and 2010 (OECD, 2012c).

26. As a response to the financial and economic crisis and the turbulence in financial markets, the United States Federal Reserve and the European Central Bank pursued expansionary monetary policy, which remained largely unchanged in 2011. In order to sustain the banking sector, additional funds were made available, amounting to USD 700 billion in the United States. In Europe, in December 2011, the ECB introduced a three-year long-term refinancing operation (LRTO), which provided an injection of low-interest rate funding (EUR 489 million) to banks in the Euro area, with sovereign debt as collateral on loans. A second LTRO was introduced in February 2012, amounting to EUR 530 billion. Despite continuous monetary easing, however, financial institutions had difficulties in translating the increased flow of funds into credit to the private sector.

27. In 2012, aggregate indicators of financial market conditions improved in the United States and the Euro area. However, this aggregate trend masks large differences across EU member states, with financial strains in vulnerable Euro area countries and better conditions in others (OECD, 2012c).

Figure 2.1. Financial Conditions Indices in the Euro area and the US , 2007-2012



Note: The index is calculated on the basis of real exchange rate, real interest rate, household wealth, spreads and credit conditions. This latter measure takes into account survey responses reporting tighter bank lending conditions. For the US and the Euro area the survey is addressed to banks. A unit increase (decline) in the index implies an easing (tightening) in financial conditions sufficient to produce an average increase (reduction) in the level of GDP of ½ to 1% after four to six quarters. See details in Guichard et al. (2009). Estimation done with available information up to 15 November 2012.

Source: OECD (2012c).

3. Lending to SMEs in 2010-2011

Business loans, SME loans and SME loan shares

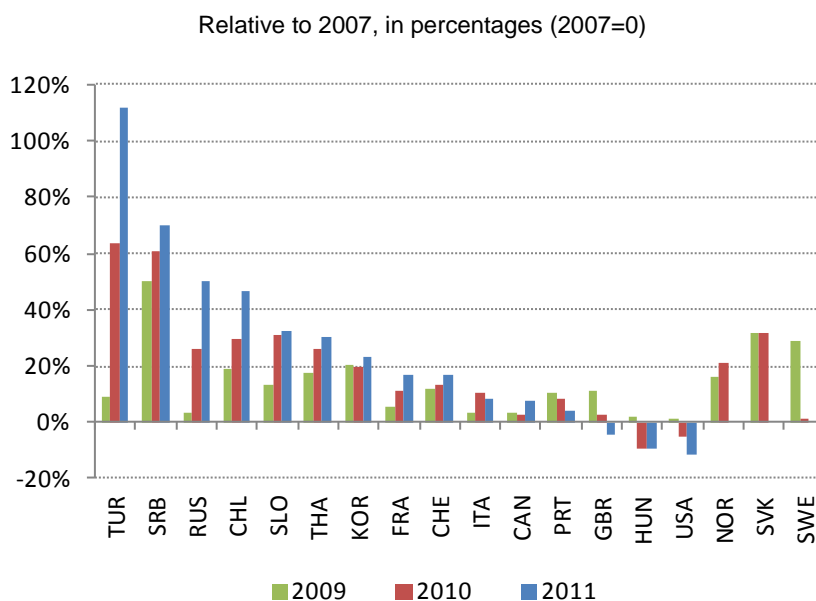
28. The Scoreboard indicators reflected the uncertain or slow recovery during 2010-2011, although, similarly to what was observed for the macroeconomic developments, performance varied significantly across countries.

29. Outstanding SME loans (i.e. stocks) grew between 2010 and 2011 in the majority of the countries in the Scoreboard, but declined in four countries, including Italy, Portugal, the United Kingdom, and the United States. In the UK and the US, this decline continued a negative trend, so that the stock of SME

loans was lower in 2011 than in the pre-crisis period (Figure 2.2). On the other hand, in Italy SME loans recorded negative growth for the first time in 2011, following a substantial increase in the previous two years (Table 2.2). In Portugal as well, in spite of the negative trend since 2010, the stock of SME loans remained above the pre-crisis level.

30. Conversely, business financing in Chile, France, Korea, Russia, Serbia, Slovenia, Switzerland and Turkey was characterised by continued growth in SME lending, though at different rates. Turkey experienced the greatest expansion in SME lending over 2010-2011, within a context of overall expansion of business lending.

Figure 2.2. Trends in SME loans 2007-2011



Notes. Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. Data for SME loans in 2011 is not available for Norway, Sweden, and the Slovak Republic. Countries with flow data are not included (the Czech Republic, Denmark, Finland, the Netherlands, Spain). The base year for Russia is 2008. For Ireland, data is not available for 2007-2009. For New Zealand, the indicator is not available.

Source: National Scoreboards.

Table 2.2. Growth of SME business loans, 2007-2011

Year-on-year growth rate, in percentages

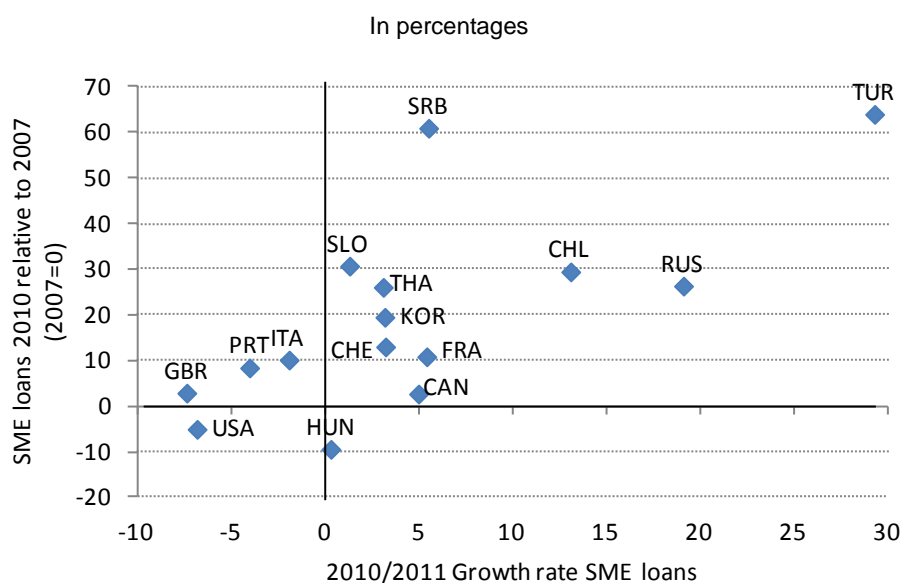
Country	2008	2009	2010	2011
Outstanding SME business loans (stocks)				
Canada	-0.1	3.7	-0.9	5.0
Chile	11.3	6.9	8.8	13.1
France	4.8	0.3	5.4	5.4
Hungary	10.3	-7.6	-11.1	0.3
Ireland	n.a.	n.a.	n.a.	0.9
Italy	2.1	1.2	6.6	-1.9
Korea	14.4	5.0	-0.5	3.2
Norway	25.7	-7.7	4.2	n.a.
Portugal	9.2	0.9	-1.6	-4.0
Russia	n.a.	3.7	21.9	19.1
Serbia	47.0	2.3	7.1	5.5
Slovak Republic	32.4	-0.5	0.1	n.a.
Slovenia	16.6	-2.9	15.4	1.3
Sweden	7.2	20.4	-21.4	n.a.
Switzerland	5.9	5.3	1.3	3.2
Thailand	9.5	7.4	7.2	3.1
Turkey	10.6	-1.6	50.7	29.3
United Kingdom	7.9	3.0	-7.4	-7.4
United States	3.6	-2.3	-6.2	-6.8
New SME business loans (flows)				
Czech Republic	-14.3	-15.0	-14.8	3.6
Denmark	-13.7	-19.2	22.9	-2.4
Finland	2.6	-16.3	-16.5	-4.8
The Netherlands	-5.0	-24.2	5.1	17.6
Spain	-9.5	-26.3	-20.0	-17.2

Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. Nineteen countries reported outstanding SME loans (stocks), five countries reported new SME loans (flows). The indicator is not available for New Zealand.

Source: National Scoreboards.

31. Figure 2.3 monitors the consistency of growth patterns over the period, by comparing the growth rate of outstanding SME loans in 2010-2011 with the trend recorded over 2007-2010, as measured by the ratio of SME loans in 2010 to 2007 levels. The graph suggests a certain degree of consistency in trends. It shows a positive relationship between the two indicators, implying that growth in SME loans was stronger in countries which had recovered to their 2007 level of SME loans in 2010, or which had not been affected as severely by the credit contraction in 2008-2009. On the other hand, countries which still struggled with the effects of the crisis in 2010 experienced lower, mostly negative, growth rates of SME lending in 2011.

Figure 2.3. Growth patterns of outstanding SME loans, 2007-2011



Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. Data for SME loans in 2011 is not available for Norway, Sweden, and The Slovak Republic. Countries with flow data are not included (Czech Republic, Denmark, Finland, The Netherlands, Spain). The base year for Russia is 2008. For Ireland, data is not available over 2007-2009. For New Zealand, the indicator is not available.

Source: National Scoreboards.

32. In countries that recorded changes in flows, rather than in stocks, volatility was more pronounced, with strong negative growth rates being common over 2008-2010 (Table 2.2). In Spain, new loans to SMEs fell substantially each year since 2007. However, in the Czech Republic, the trend reversed to positive growth in 2011, while in the Netherlands, the recovery in lending flows, which started in 2010, strengthened in 2011.

SME loan shares

33. The evidence on outstanding SME loan shares, defined as the shares of SME loans over total business loans, helps to set the above indicators on SME lending into the context of general business lending conditions in the Scoreboard countries. As Table 2.3 shows, over the period 2007-2011, SME loan shares increased in only four countries and declined in nine countries. This even occurred where SME loan growth was positive, as in the case of Korea, Russia and Turkey, underscoring that total business loans were growing faster.

34. It is well recognised that SMEs are more dependent on debt financing than are larger enterprises, which can turn to other types of finance, such as launching public offerings for debt and equity.² The narrow set of financing sources typically available to SMEs make them more vulnerable to the changing conditions in credit markets. For this reason, a decline in SME loan shares, which suggests the credit market allocates a relatively smaller share of funding to SMEs, may be particularly worrisome. However, the specific indicator adopted here also reflects the trends in financing opportunities and strategies by large firms. Hence, an increase in SME loan shares can occur also at a time of general lending contraction and

² However, it should be noted that the use of financing instruments alternative to straight debt (e.g. factoring, leasing, mezzanine finance) has increased also among SMEs in recent years.

might indicate that large enterprises are resorting to other forms of finance, creating more space for SMEs in debt channels. This is the situation observed in the United Kingdom, where the marginal increase in SME loan shares over the period did not indicate better access to debt, as the overall loan volume decreased.

35. Similarly, a decline in SME loan shares can occur in rather different financing environments. In Russia, in a context of overall expanding loan activity, SME loans grew by 19%, but their share of total business loans fell by 1.2% over 2010-2011. This is explained by the fact that large enterprises were getting a larger share of expanding resources.

Table 2.3. Share of SME loans in total business loans, 2007-2011

As a percentage of total business loans

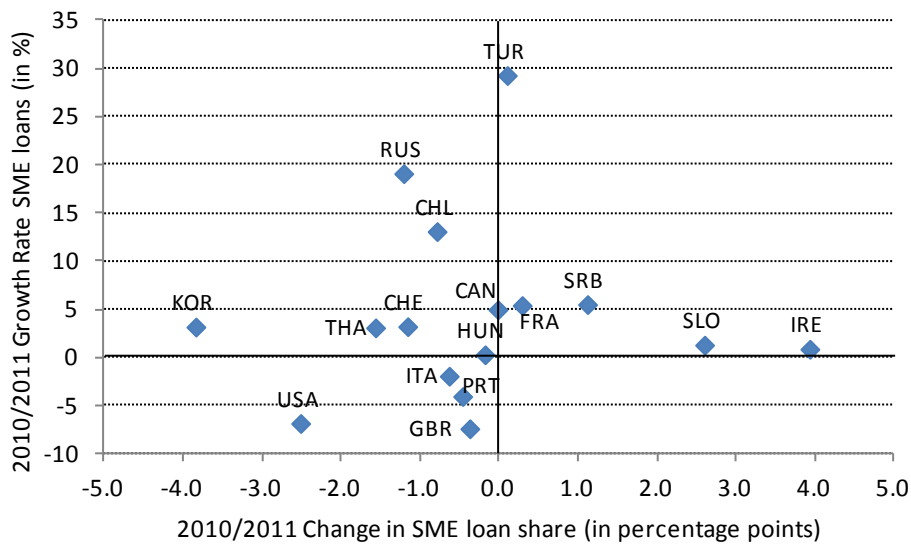
Country	2007	2008	2009	2010	2011
Outstanding SME business loans (stocks)					
Canada	17.4	15.6	17.9	17.5	17.5
Chile	16.7	15.2	17.5	18.2	17.4
France	20.7	20.4	20.2	20.6	20.9
Hungary	62.4	60.6	60.0	54.5	54.4
Ireland	n.a.	n.a.	n.a.	63.9	67.8
Italy	18.8	17.9	18.3	19.0	18.3
Korea	86.8	82.6	83.5	81.5	77.7
Norway	42.9	43.7	40.4	41.0	n.a.
Portugal	78.3	77.7	77.4	77.3	76.8
Russia	0.0	19.9	21.3	23.7	22.5
Serbia	21.3	23.4	23.7	25.0	26.1
Slovak Republic	65.7	77.1	79.4	79.4	n.a.
Slovenia	49.1	48.2	47.0	51.8	54.3
Sweden	88.9	88.5	92.4	91.1	n.a.
Switzerland	81.4	81.3	80.3	80.1	79.0
Thailand	28.1	26.6	26.9	38.4	36.8
Turkey	40.1	33.8	31.7	35.6	35.7
United Kingdom	20.2	18.0	20.8	21.0	20.6
United States	30.1	27.7	27.6	29.0	26.5
New SME business loans (flows)					
Czech Republic	24.6	19.3	18.8	17.0	18.1
Denmark	12.3	9.1	9.0	11.2	11.7
Finland	27.1	21.9	19.6	15.3	21.1
Spain	39.8	38.4	30.3	31.6	33.0

Note: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. The indicator is not available for New Zealand and the Netherlands.

Source: National Scoreboards.

36. Figure 2.4 illustrates this by plotting changes in SME loan shares against the growth rate in SME loans and shows a negative relationship between the two indicators over 2010-2011. In other words, in countries where credit volumes to SMEs expanded, the increase in loans towards large firms was even more pronounced. In four countries (Italy, Portugal, the United Kingdom and the United States) the decrease in SME lending in 2011 also corresponded to a decrease in the share of SME loans.

Figure 2.4. Trends in SME loan shares, 2010-2011



Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. Countries with flow data are not included (Czech Republic, Denmark, Finland, the Netherlands, Spain). Data for SME loans in 2011 is not available for Norway, Sweden, and the Slovak Republic. For New Zealand, the indicator is not available.

Source: National Scoreboards.

4. Credit conditions for SMEs

Costs of credit

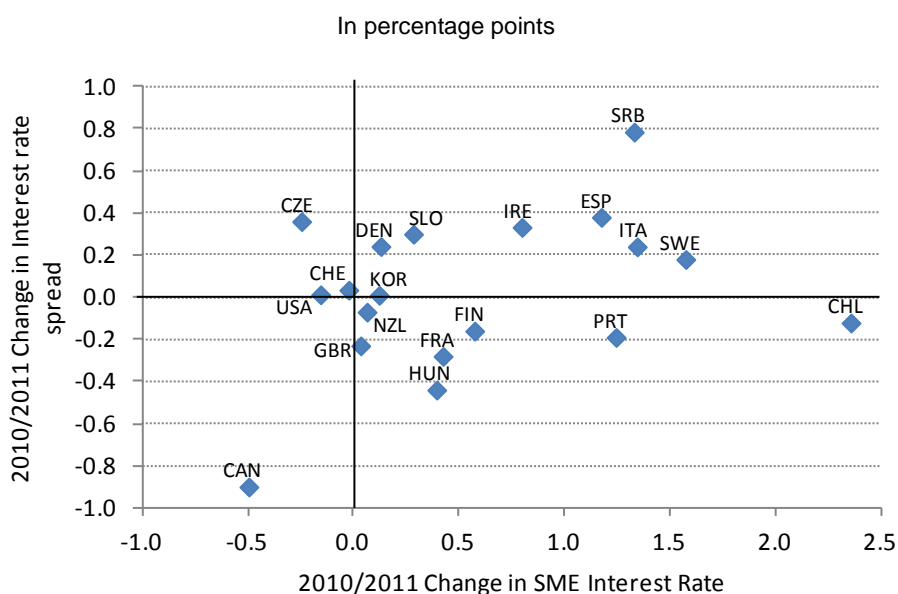
37. Over 2007-2010 in most countries, SMEs faced more severe credit conditions than did large enterprises, in the form of higher interest rates, shortened maturities and increased request for collateral (OECD, 2012a). After a slight improvement in 2010, credit conditions tightened in most countries in 2011, possibly triggered by an increased awareness of risk on the part of lending institutions.

38. In 2011, the cost of SME credit trended upward in most countries, as evidenced by the increase in nominal interest rates charged to SMEs³. Of the 22 countries that provided information on SME interest rates, only Canada and the Czech Republic experienced a slight decrease. In the Euro area, trends in nominal interest rates reflected tensions on sovereign debt, which increased at the end of 2011, as the interest rate on national debt is usually a lower threshold for the cost of financing in the remaining sectors.

39. The increase in nominal rates was matched in 12 countries by a significant increase in the interest rate spread between loans for SMEs and large firms, which suggests a heightened perception by lenders of risk for SME loans. In this case, however, within the Euro area, the cross country comparison does not reveal a common pattern, since in several countries, the SME interest rate increase was accompanied by a reduction in the spread with respect to large firms (Figure 2.5).

³ Interest rates for SMEs are defined differently across the sampled countries, depending on the definition of SME loans. See Chapter 4 for methodological details.

Figure 2.5. Trends in SME nominal interest rates and interest rate spreads



Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. Data for the interest rate spread is not available for the Netherlands (2011), Thailand (2010), and the Slovak Republic (2007-2011). For Norway, Russia, and Turkey data on SME interest rates is not available.

Source: National Scoreboards.

40. The general trend towards higher costs of credit was accompanied by a continued high level of collateral requirements, which remained substantially higher than in 2007. In some instances, they increased further in 2010-2011. However, it should be highlighted that data on collateral are more difficult to obtain and represent an area where reporting improvements are needed to better assess the evolution in SME financing conditions.

Evidence from demand-side surveys on credit conditions

41. Information on the demand side complements the evidence from the supply-side data reported in the Scoreboard. In particular, the ECB Survey on SME access to finance, undertaken every six months⁴, shows that, in the Euro area, the net balance of SMEs stating that the availability of loans had deteriorated more than doubled in 2011, increasing from 9% in the second half of 2010 to 20% in the second half of 2011. However, this still represented an improvement with respect to the 33% net balance during the crisis (1H2009) (OECD, 2012a). Similarly, the net balance of firms that declared that banks' willingness to lend had deteriorated increased to 23% in 2H2011, compared to 16% over 2010, bringing this indicator close to the highest crisis level (25% in 2H2009) (Table 2.4). The deterioration in perception about banks' propensity to lend can also be linked to the increase in the request for collateral. Higher interest rates were

⁴ 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. It has been undertaken since the first half of 2009. Among the most important questions are: was there a deterioration in the availability of bank loans and 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.

also reported for 2010 and continued to rise in 2011. These trends are in line with the supply-side data from the Scoreboard.

42. At the same time, perceptions about tightened credit conditions did not result in a change in borrowing behaviour, as the share of SMEs which applied for a loan remained almost constant. Respondents reporting a rise in rejection rates increased by 2% over this period and the share of loans granted in full decreased slightly.

Table 2.4. ECB Survey on SME access to finance, 2010-2011

As a percentage of total SMEs surveyed

Category	1H2010	2H2010	1H2011	2H2011
Availability of loans				
Deteriorated (net)	12	9	14	20
Willingness to lend				
Deteriorated (net)	16	16	20	23
Applied for a loan				
Granted in full	63	66	63	62
Rejected	11	11	10	13
Interest rate				
Increased (net)	17	44	54	42
Collateral				
Increased (net)	43	48	49	50

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

Source: ECB.

5. Equity financing

43. Equity financing was severely affected by the financial crisis. A sharp decline in venture capital and growth capital occurred between 2008 and 2009. In 2010, equity funding had not recovered to its 2007 level, despite an overall positive economic trend (OECD, 2012a). Countries with high growth rates for venture capital in 2011 include Denmark (+80%), Hungary (+62%), the Netherlands (+56%) and Canada (+30%). On the other hand, a strong decrease was observed in Portugal (-80%), New Zealand (-61%), Switzerland (-37%), Sweden (-25%) and Ireland (-11%).

44. For half of the countries in the Scoreboard, the level of equity investments in 2011 was still well below the pre-crisis period (2007), averaging about 5% of total financing. This suggests that the uncertain economic climate continued to act as a drag on equity investment (Table 2.5). It should be noted, however, that trends in venture capital investment are difficult to analyse because of the extreme volatility in the data. In particular, just one large deal can cause volatility in countries where the market is not very developed. Furthermore, for most countries, the data are available for venture and growth capital invested in *all enterprises*, irrespective of the size class. Interestingly, in 2011 a significant growth in volumes was recorded for some countries that collect data specifically on SMEs, such as Italy (+65%), Turkey (+33%), and Russia (+20%).

Table 2.5. Venture and growth capital invested, 2007-2011

Relative to 2007 (2007=1) and percentages

	Relative to 2007 (2007=1)					2010/2011 Growth rate (in %)
	2007	2008	2009	2010	2011	
Canada	1.00	0.72	0.50	0.56	0.72	30.0
Chile	1.00	0.99	0.86	n.a.	n.a.	n.a.
Czech Republic	1.00	2.19	1.84	1.40	n.a.	n.a.
Denmark	1.00	0.93	0.44	0.35	0.63	80.5
Finland	1.00	0.76	0.48	0.76	0.63	-16.9
France	1.00	1.21	1.20	1.47	1.78	21.3
Hungary	1.00	3.49	0.18	1.77	2.86	62.0
Ireland ¹	1.00	1.08	1.28	1.37	1.21	-11.5
Italy ¹	1.00	1.54	0.99	0.98	1.61	65.3
Korea	1.00	0.73	0.87	1.10	1.27	15.6
The Netherlands	1.00	1.18	0.77	0.73	1.15	56.5
New Zealand	1.00	0.81	0.42	1.15	0.45	-61.2
Norway	1.00	0.74	0.37	0.76	n.a.	n.a.
Portugal ¹	1.00	0.88	0.39	0.58	0.12	-80.0
Russia ^{1,2}	n.a.	1.00	1.06	1.17	1.40	19.6
Serbia	1.00	21.67	n.a.	220.13	n.a.	n.a.
Slovak Republic ¹	1.00	1.14	2.06	1.63	1.64	0.9
Spain ^{1,2}	n.a.	1.00	1.08	1.08	n.a.	n.a.
Sweden	1.00	1.46	0.75	0.67	0.50	-25.3
Switzerland	1.00	1.03	0.91	1.12	0.70	-36.9
Turkey ¹	1.00	0.52	0.44	1.13	1.49	32.6
United Kingdom ²	n.a.	1.00	0.63	0.82	0.83	1.8
United States	1.00	0.94	0.63	0.73	0.92	26.3

Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. The indicator is not available for Slovenia and Thailand. 1. SMEs only. 2. Base year is 2008.

Source: National Scoreboards.

6. Payment delays and bankruptcies

45. Statistics on payment delays and bankruptcies reflect difficulties in maintaining cash flows because of the stalled recovery and tightening of credit markets, as shown by the decline in SME loan shares, and the increase in interest rates and collateral requirements. Payment delays remained high or grew in 10 out of the 15 countries that were able to report. Bankruptcies continued to rise in 2011 in some countries, reaching levels that surpassed the height of the crisis in 2009 (Czech Republic, Italy, Serbia, the Slovak Republic, Spain and Switzerland). Only in Canada, Chile, Korea and New Zealand were bankruptcies lower in 2011 than in 2007.

46. Compared to 2010, bankruptcies in 2011 followed an upward trend in half of the countries (Table 2.6). While bankruptcy data over time are broadly indicative of the cash flow situation of enterprises, it should be highlighted there are differences in the length of the bankruptcy procedures between countries, so that insolvent enterprises are not declared bankrupt at the same pace.

Table 2.6. Trends in bankruptcies 2007-2011

Relative to 2007 (2007=1) and percentages

		Relative to 2007 (2007=1)					2010/2011 Growth rate (in %)
		2007	2008	2009	2010	2011	
Canada	per 1 000 firms	1.00	1.00	0.94	0.71	0.65	-9.1
Chile	all firms	1.00	1.05	1.21	0.94	0.93	-0.7
Czech Republic ¹	all firms	n.a.	1.00	2.57	3.02	3.45	14.3
Denmark	all firms	1.00	1.54	2.38	2.69	2.28	-15.4
Finland	% of firms ³	1.00	1.11	1.33	1.11	1.22	10.0
France	only SMEs	1.00	1.08	1.23	1.18	1.16	-1.0
Hungary	per 10 000 firms	1.00	1.10	1.39	1.52	1.83	20.4
Ireland	all firms	1.00	1.25	1.89	1.90	2.13	12.1
Italy	all firms	1.00	1.22	1.53	1.83	1.97	7.8
Korea	all firms	1.00	1.19	0.87	0.68	0.59	-13.4
The Netherlands ²	only SMEs	n.a.	n.a.	1.00	0.89	0.88	-0.8
New Zealand	all firms	1.00	1.02	1.24	1.10	0.99	-10.4
Norway	only SMEs	1.00	1.41	2.07	1.71	1.72	0.4
Portugal	all firms	1.00	1.35	1.46	1.57	1.82	16.0
Russia ¹	all firms	n.a.	1.00	1.11	1.15	0.92	-20.1
Serbia	all firms	1.00	1.05	1.21	1.39	1.54	11.3
Slovak Republic	all firms	1.00	1.49	1.63	2.04	2.45	20.3
Spain	only SMEs	1.00	2.83	4.92	4.64	5.16	11.3
Sweden	all firms	1.00	1.09	1.32	1.26	1.25	-0.6
Switzerland	all firms	1.00	0.98	1.21	1.45	1.54	6.5
Turkey	all firms	1.00	0.90	0.96	1.31	1.38	5.9
United Kingdom	all firms	1.00	1.23	1.51	1.32	1.40	5.7
United States	all firms	1.00	1.54	2.15	1.99	1.69	-15.1

Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. The indicator is not available for Slovenia and Thailand. 1. Base year is 2008. 2. Base year is 2009. 3. Percentage of firms in bankruptcy proceedings.

Source: National Scoreboards.

7. Summing up and looking ahead

47. Following a severe crisis in 2008-2009 and an uneven recovery in 2010, conditions to access finance in 2011 remained tight for SMEs and entrepreneurs in most countries. Only one country in the Scoreboard had positive developments in 2011 for most of the core indicators. In Canada, SME loans increased while the SME loan share in total business loans was stable. Credit conditions improved, venture capital recovered and bankruptcies continued to decline. Eleven other countries experienced improvements in SME lending but a deterioration in credit conditions (Chile, France, Korea, the Netherlands, New Zealand, Norway, Russia, Sweden, Switzerland, Thailand and Turkey). For the rest of the countries that experienced modest or no recovery, most, but not all, of their core indicators deteriorated (Czech Republic, Denmark, Finland, Italy, Ireland, Portugal, Serbia, the Slovak Republic, Slovenia, Spain, United Kingdom and the United States).

48. While this edition of the Scoreboard mainly analyses the data up to 2011, looking ahead, there are indications that both the supply of and demand for credit by SMEs deteriorated in 2012 and will continue to do so.

49. The sovereign debt crisis that hit several European countries is expected to lead to further deterioration in the lending activities of banks in 2012-2013, increasing the risk of further credit constraints for small businesses in these countries. Table 2.7 shows, for some European countries in the Scoreboard, banks' exposure to sovereign debt, measured as the amount of sovereign bonds relative to core Tier 1 capital. While exposure of banks to their national sovereign bond holdings ranges from 161% (Italy) to 42% (Ireland), the exposure of banks to other countries' sovereign debt is rather limited (Blundell-Wignall, 2012). Banks that hold sovereign bonds of high-debt countries in their portfolio face wholesale refinancing difficulties. As such, they could experience a further deterioration of their balance sheet position, due also to the recessionary environment and emerging credit losses, which would lower their capacity to provide credit to the private sector.

50. The implementation of Basel III requirements is also expected to have a significant impact on SME lending and credit conditions. In particular, OECD (2012a) discussed the implications of a rapid versus gradual increase in capital adequacy ratios, the so-called "gold plating", which could lead banks to reduce their balance sheets instead of raising capital, thus, dampening loan growth especially for SMEs.⁵ The 2012 IMF Global Financial Stability Reports indicates that European banks continued their deleveraging in 2011 and highlight the risk that a large-scale reduction in bank assets could lead to a credit crunch (IMF, 2012a, 2012b).

51. Furthermore, the Basel III reforms are likely to affect the use of credit guarantee instruments, depending on the nature of the guarantee institutions (see Chapter 3). As credit guarantees are an instrument of choice in many countries to address the SME financing gap, it will be important to monitor these changes by strengthening and refining indicators that capture access to guarantees provided by public and private schemes.

52. It will be critical to continue monitoring these conditions through the Scoreboard indicators. It will also be important to improve monitoring of the demand side, in order to assess the degree to which the rapid adaptation of lenders to new requirements is altering credit conditions and borrowers' behaviour. In this regard, the downward trend in loan demand is expected to continue. In the Euro area, according to the October 2012 Bank Lending Survey by the ECB, the demand for loans by enterprises continued to decline in the third quarter of 2012, with the demand for mergers and acquisition, inventories and working capital contributing the most to the decrease⁶.

⁵ International pressure resulted from Basel III requirements and from decisions taken at the October 2011 EURO summit and EU Council meeting, which gave banks a deadline of June 2012 to raise their "core" capital ratios to 9%, after marking to market their holdings of sovereign debt. The European Banking Authority estimated that the total capital shortfall to be made up at EUR 106 billion.

⁶ See www.ecb.europa.eu/stats/money/surveys/lend/

Table 2.7. Bank exposures to the sovereign debt of six countries

As a percentage of Core Tier 1 Capital, by country

Sovereign Exposure to						
	France	Greece	Ireland	Italy	Portugal	Spain
France	49%	4%	1%	18%	2%	3%
Ireland	*	*	42%	*	*	*
Italy	*	2%	*	161%		4%
The Netherlands	29%	*	*	*	1%	2%
Portugal	*	6%	3%	6%	130%	*
Slovenia	19%	*	1%	*	*	*
Spain	*	*	*	5%	3%	152%
Sweden	5%	*	*	*	*	*
United Kingdom	9%	*	*	*	1%	1%

Note: * = less than 1%.

Source: Blundell-Wignall (2012).

8. Government policy responses in 2010-2011

53. Governments responded to the global financial crisis and its effects on SME financing with a variety of instruments. The most popular measure was loan guarantee programmes, which expanded substantially over 2007-2011. With the exception of Ireland and New Zealand, every Scoreboard country had a loan guarantee programme that could be ramped up during the crisis, in terms of the total amount of guarantee funds, the share of the loan guaranteed or the number and types of eligible firms. Furthermore, new elements were added to these programmes, or new instruments were created outside of the traditional guarantee programmes⁷. Other public instruments to enhance SME finance included direct loans, micro loans, export guarantees, and support for risk capital (equity) either in the form of co-financing or tax credits for investors.

54. Table 2.8 reports the broad range of measures undertaken in the Scoreboard countries. These measures carry different costs for public budgets, including some with significant costs (e.g. government direct lending and loan guarantees); some that are cost neutral (e.g. bank targets for SME lending); and some with even negative costs (e.g. negative interest rates for bank deposits at the central bank). These measures also imply varying degrees of engagement by public agencies.

55. The trends in government policy responses in 2010-2011 reflected the strength or weakness of the recovery at the country level. In economies where the recovery began to fade and bankruptcies continued to mount, many of these programmes were extended or enhanced.

56. Some countries have adopted programmes based on models in place elsewhere, while others have established new forms of public support. Thus, countries are beginning to react differently to the crisis over time. For example, in 2011, Ireland established lending targets for banks, as well as a Code of Conduct for Business Lending to SMEs. In addition, a loan guarantee programme was launched in October 2012. Russia and Turkey both engaged in subsidising interest rates, which tended to be much higher than in most other Scoreboard countries. Russia offered low interest rate financing for innovation and modernisation.

⁷ See Chapter 3.

Turkey has created interest rate support programmes to assist enterprises during the financial crisis, as well as to help enterprises in the high technology sector invest in new machinery and equipment⁸.

57. Among new programmes, Denmark has recently introduced negative interest rates for excess funds on deposit at its Central Bank in order to encourage bank lending. Far from costing the government money, this approach even earns funds. The European Central Bank is also considering using negative interest rates on deposits to encourage banks to lend. The United Kingdom has taken another approach to encourage lending in its Funding for Lending programme. Banks are provided with funds at below-market rates depending on their net lending rate.

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

Table 2.8. Government policy responses to improve SME access to finance

2007-2011

Policy response	Countries
Increased amount of government loan guarantees and/or % guaranteed, number of firms eligible, countercyclical loans	Canada, Chile, Denmark, Finland, France, Hungary, Italy, Korea, the Netherlands, Slovak Republic, Slovenia, Spain, Switzerland, Thailand, United Kingdom, United States, Spain
Special guarantees and loans for start ups	Canada, Denmark, the Netherlands
Increased government export guarantees	Canada, Denmark, Finland, the Netherlands, New Zealand, Sweden, Switzerland, Spain, United Kingdom
Gov. co-financing / Pension fund co-financing	Sweden, Ireland, Denmark
Increased direct lending to SMEs	Canada, Chile, Hungary, Korea, Serbia, Slovenia, Spain
Subsidized interest rates	Hungary, Portugal, Russia, Spain, Turkey, United Kingdom
Venture capital and equity funding, guarantees	Canada, Chile, Denmark, Finland, France, Hungary, the Netherlands, Spain, United Kingdom
Business advice, consultancy	Denmark, Finland, New Zealand, Sweden
Tax exemptions, deferments	France, Ireland, Italy, New Zealand, Spain, United Kingdom
Credit mediation/ review/code of conduct	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

Note: Policy responses in bold identify new policy measures introduced in 2011.

Source: National Scoreboards.

⁸ More than 400 000 enterprises benefited from Turkey's interest rate support programmes.

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