

Annex A:

Conference Programme

for OECD Global Conference on

Better Financing for Entrepreneurship and SME Growth

Ministério do
Desenvolvimento, Indústria
e Comércio Exterior

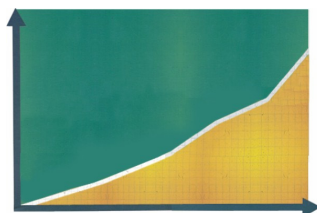


CONFERENCE PROGRAMME

**OECD GLOBAL CONFERENCE
ON
BETTER FINANCING FOR
ENTREPRENEURSHIP AND SME GROWTH**

*Jointly organised by the OECD and the Brazilian Ministry for
Development, Industry and Foreign Trade*

To be held in Brasilia, Brazil, 27-30 March 2006



**OECD CONFERENCE
BETTER FINANCING FOR
ENTREPRENEURSHIP
AND SME GROWTH**

BRASÍLIA - BRASIL 27 - 30 March 2006

Background & Objectives

Lack of access to financing *continues* to be one of the most significant impediments to the creation, survival and growth of small and medium-sized enterprises (SMEs), including innovative ones, especially in a time when enterprises operate in environments of high complexity and rapid change. In addition, globalisation and the shift to a knowledge-based economy have highlighted the vital need for innovative solutions for SME financing.

SMEs form a broad spectrum as far as their relative size, sector of activity, seniority, location and performance are concerned. They can be innovative and growth oriented or basically subsistence-driven. Depending on the enterprise's characteristics and stage of business creation and development, the financing needs and sources (*e.g.* family, banks, equity, etc.) are likely to differ.

SMEs tend generally to have a high risk profile for a number of reasons: *e.g.* absence of track records, informational asymmetries, shortage of assets and collateral, insufficient management skills. Additionally, the disproportionately high administrative costs in relation to the financing amounts involved, as well as uncertainties about future performance generally make SME financing unattractive to potential funding sources. When SMEs are able to raise capital, they may still encounter higher interest rates, as well as credit rationing due to shortage of collateral.

Consequently, SMEs experience difficulty in accessing long-term credit and risk capital, which are necessary for starting up, expanding or upgrading a business. Financing issues vary at different stages of business development, as well as country development. But overall, the greater variability in the perceived prospects for profitability, survival and growth of SMEs, compared to larger firms, accounts to a large extent for their specific problems with regard to financing.

At the 2nd OECD Ministerial Conference on SMEs held in Istanbul, Turkey in June 2004, Ministers recognised in the *Istanbul Ministerial Declaration* “the need to improve access to financing for SMEs on reasonable terms [...] policies should aim to ensure that markets can provide financing for credit-worthy SMEs and that innovative SMEs with good growth prospects have access to appropriately structured risk capital at all stages of their development. Policies should also contribute to increasing the managerial and technical expertise of those intermediaries whose role is to evaluate and monitor companies with a view to matching expanding small firms with investors.”

Ministers underlined the importance of this issue by encouraging the OECD to organise a thematic conference in order to further discuss and seek more innovative solutions, and/or initiatives for facilitating SME access to the financing from creation to all stages of development. In pursuit of these objectives and at the invitation of the Brazilian Ministry of Development, Industry and Foreign Trade, the OECD Working Party on SMEs and Entrepreneurship (WPSME), in co-operation with the Committee on Financial Markets (CMF), decided to organise the OECD Global Conference on *Better*

*Financing for Entrepreneurship and SME Growth in Brasilia, Brazil on 27-30 March 2006 in the framework of the OECD Bologna Process on SME and Entrepreneurship Policies.*¹

The Conference provides the key stakeholders — *representatives of SMEs, the financial community and Governments* — with an opportunity to:

- Discuss additional evidence relating to continuing difficulties encountered by SMEs in gaining access to both debt and equity finance at all stages of business development, in the context of a globalised economy;
- Assess current policies and programmes aimed at addressing these difficulties, and highlight specific areas where changes and improvement are warranted;
- Provide guidance to Governments, the financial community and SMEs on the options for improving SME financing; and,
- Develop a tripartite dialogue among the key stakeholders.

Monday, 27 March 2006
Official Opening

18:00- **Mr. Luiz Inacio Lula da Silva**
20:00 *President of Brazil*

Mr. Luiz Fernando Furlan
Minister of Development
Industry and Foreign Trade
Brazil

Mr. Ali Coskun
Minister of Industry and Trade
Turkey

Ms. Edmee Betancourt
Ministra de Industrias Ligeras y Comercio
Venezuela

Mr. Federico Poli
Under Secretary of State, SMEs & Regional Development
Ministry of Industry, Trade and SMEs
Argentina

Mr. Alejandro Gonzalez Hernandez
Under Secretary of State
Ministry of Economy
Mexico

Mr. Andrzej Kaczmarek
Under Secretary of State
Ministry of Economy
Poland

Mr. Joan Trullén Thomás
Secretary General of Industry
Ministry of Industry
Tourism and Trade
Spain

Mr. Herwig Schlögl
Deputy Secretary-General
OECD

KEYNOTE ADDRESS: **Mr. Takao Suzuki**, Chairman, Organization for Small & Medium Enterprises and Regional Innovation, Japan

COCKTAIL RECEPTION

Plenary Keynote Session

The SME Financing Gap: Theory and Evidence Tuesday, 28 March (9:00 - 13:00)

Small and medium-sized enterprises (SMEs) are the engines of job creation and growth in most countries. Ensuring the health of this important group of businesses is a major priority for most governments. Many governments have intervened in the market to ensure SMEs have access to financing. The rationale for government intervention in financial markets is based upon the existence of “market failures” arising from information asymmetries, misuse of market power, or distortion in relative prices or interest rates. In addition, government policies may lead to distortions that may cause market failure. In the simplest case, excessive controls on interest rates will lead to excess demand for credit. In the case of SMEs, some analysts have postulated that a “financing gap” exists, but others deny that such a gap can be identified.

There is no commonly agreed definition of the financing gap, but the term is basically used to mean that a sizeable share of economically significant SMEs cannot obtain financing from banks, capital markets or other suppliers of finance. Furthermore, it is often alleged 1) that many entrepreneurs or SMEs that do not now have access to funds would have the capability to use those funds productively if they were available, 2) but that due to structural characteristics, the formal financial system does not provide finance to such entities.

The first plenary keynote session will focus on better understanding the *SME Finance Gap* looking at the issue from both a debt and private equity capital perspective, and *providing new insights* into the nature of market failure in SME finance. In so doing, it will provide the framework and broad overview for both Workshops A and B through covering both credit and equity issues.

During this session, keynote speakers will present the perspectives of: SMEs, the Financial Sector (both debt and equity), Governments and international institutions, while the OECD will present a background paper. After each group of presentations, a discussion will take place led by selected discussants representing SME policy makers from OECD countries.

This Plenary Keynote Session will consider the following issues:

- Does your country/company/institution feel that an SME financing gap exists? For which financing sources (credit and equity) does such a gap exist?
- What are the main reasons for this gap?
- What are the main policy actions which are (or have been) undertaken in your country to address this gap?

Tuesday, 28 March 2006 – Morning

**PLENARY KEYNOTE SESSION:
“THE SME FINANCING GAP: THEORY AND EVIDENCE”**

9:00-9:05 *CHAIR:* **Mr. Herwig Schlögl**, Deputy Secretary-General, *OECD*

9:05 – 9:25 ***PRESENTATION OF THE OECD KEYNOTE PAPER***

Mr. André Laboul
Head of Division
Directorate for Financial and Enterprise Affairs - *OECD*

Mr. John Thompson
Consultant
Centre for Entrepreneurship, SMEs & Local Development, OECD

9:25 – 10:30 ***THE PERSPECTIVE OF THE SME SECTOR:***

Speakers:

Mr. Hugh Morgan Williams
Chair CBI SME Council,
Vice Chair Entrepreneurship and SME Committee
Union des Industries de la Communauté Européenne (UNICE)

Mr. Cuauhtemoc Martinez Garcia
President of Camara Nacional de la Industria de Transformación
(CANACINTRA)
Mexico

Mr. Hammad Kassal
President of PME-PMI-CGEM Federation
Director General, Rayane
Morocco

Mr. Stuart Wilson
CEO, Breathe Communications, and Member of SME Advisory
Group
New Zealand

Discussant:

Mr. Roger Wigglesworth
Director
SME Department, Ministry of Economic Development
Chair of the *OECD Working Party on SMEs & Entrepreneurship*
New Zealand

10:30-10:45 ***Coffee Break***

10:45-11:15

***THE PERSPECTIVE OF THE FINANCIAL SECTOR:
CREDIT FINANCING***

Speakers:

Mr. Roberto Luis Troster,
Chief Economist of Febraban
Brazilian Federation of Banks
Brazil

Ms. Fabiana Drummond de Melo
Senior Advisor and Basel II Implementation Project Manager
Banco Central do Brasil
Basel Committee
Brazil

Mr. Enrique Garcia
President & CEO
Corporacion Andina de Fomento(CAF)

Discussant:

Mr. Raffaele Rinaldi
Head of the Credit and International Department at the Italian
Banking Association (ABI)
Italy

11 :15-11:50

***THE PERSPECTIVE OF THE FINANCIAL SECTOR:
EQUITY FINANCING***

Speakers:

Mr. Alvaro Gonçalves
President of ABVCAP - Associação Brasileira de Venture Capital
(Brazilian Association of Venture Capital)
Brazil

Mr. Jorma Routti
Partner
CIM Funds
Finland

Mr. Norbert Irsch
Chief Economist – KFW
Germany

Discussant:

Mr. Peter Webber
Director
Small Business Financing Policy Industry,
Entrepreneurship & Small Business Office
Delegate to the *OECD Working Party on SMEs & Entrepreneurship*
Canada

11:50-12:50 ***THE PERSPECTIVE OF THE GOVERNMENT***
Speakers:

Mr. Alejandro Gonzalez Hernandez
Under Secretary of State for SMEs
Ministry of Economy
Mexico

Mr. Andrzej Kaczmarek
Under Secretary of State
Ministry of Economy
Poland

Mr. Joan Trullén Thomás
Secretary General of Industry
Ministry of Industry
Tourism and Trade
Spain

Ms. Nguyen Hong Lien
Director- General, Business
Information Centre, Bureau of SMEs
Ministry of Planning and Investment
Vietnam

Mr. Augusto de la Torre
Senior Regional Financial Sector Advisor
Latin America & the Caribbean
World Bank

Discussant:

Mr. Serge Boscher
Deputy-Director
Ministry of SMEs
Vice-Chair of the *OECD Working Party on SMEs & Entrepreneurship*
France

12:50-13:00 ***Closing Remarks by the Chair***
Rapporteurs:

Mme Marie Florence Estimé
Deputy Director
Centre for Entrepreneurship,
SMEs & Local
Development, OECD

Mr. Marcos Bonturi
Head of Private Office of
the Deputy Secretary
General
OECD

Mr. Tim Davis
Project Manager
Entrepreneurship
Indicators
Statistics Directorate
(STD)OECD

13:00-14:30 *Lunch*

Workshop A:*Credit Financing for SMEs: Constraints and Innovative Solutions****First Session: The Nature of the Market Failure in Relation to Debt Financing****Tuesday, 28 March (14:30-18:00)*

Although there has been an increasing diversification of SME financing sources in OECD countries in the last decade, the bulk of their funding still relies on credit. In this light, the aim of this workshop is to explore a number of critical aspects in credit financing, focusing on issues, case studies, and alternative solutions. This analysis and debate take place against the backdrop of major changes in the framework conditions for SMEs financing. New regulations are coming into effect, such as the new Basel Accord on bank capitalisation and the new International Accounting Standard (IAS) rules. The rising trend towards securitisation of enterprise financing has also opened new opportunities to SMEs. Furthermore, major advances have been made in supplying financial services to these enterprises.

At the same time, globalisation of production and investment, with increasing recourse to outsourcing and spreading of enterprise operations beyond national boundaries, raises new difficulties for SMEs in their quest for funding their development. In tapping into international savings, SMEs are still at a disadvantage as compared to larger firms. Their credit-worthiness appraisal is subject to a wider margin of uncertainty, due to higher difficulties for lenders in gathering much needed information. Nor have SMEs benefited from a particular attention by credit rating institutions. By another token, lending to SMEs might be affected in some instances by recent trend towards concentration in the financial industry, which has led to fewer and larger institutions.

The first Session “The Nature of the Market Failure in Relation to Debt Financing” will review two themes: the **regulatory and institutional framework** and **Risk Evaluation, Mitigation and Sharing**.

This Session will consider the following issues:

Regulatory and Institutional Framework

- Do the accounting framework and other mechanisms satisfy information needs?
- Does law or jurisprudence ensure appropriate conditions for creditor income?
- How do financial institutions ensure secure contractual arrangements between creditors and borrowers?

Risk Evaluation, Mitigation and Sharing

- What is the perceived impact of international banking regulations (Basel II) on the assessment of risk represented by SMEs?
- How can risk be managed when debt cannot be securitised through the financial market?
- What practices have financial institutions developed to fund: innovation? creation? exports? high-growth SMEs?
- What are some alternative means in which borrowers can manage their relationship with financial institutions?
- What is the role of government and rating agencies in the management and sharing of information between partners?

Tuesday 28 March 2006 – Afternoon

**WORKSHOP A: CREDIT FINANCING FOR SMEs:
CONSTRAINTS AND INNOVATIVE SOLUTIONS**

Session 1: The Nature of the Market Failure in Relation to Debt Financing

14:30-14:35 **CHAIR:** **Mr. Peter Webber**
Director
Small Business Financing Policy Industry
Entrepreneurship & Small Business Office
Delegate to the *OECD Working Party on SMEs & Entrepreneurship*
Canada

14 :35-14 :55 **Keynote Speaker:**
Mr. José Mauro Morais
Expert, Applied Economic Research Institute
IPEA, Ministry of Planning
Brazil

14:55-16:00 **Speakers:**
Mr. Sumant Batra
Director
Board of INSOL International
India
Mr. Claudio Giovine
CONFAPI (SME Association)
Italy
Mr. Luis Humberto Parra
Director of International Production Chains
Nacional Financiera, (Mexican Development Bank)
Mexico

Discussant:
Mrs. Doris Thurau
Director of GTZ-Brazil
Germany

Speakers:
Mr. Nobuo Tanaka
Director
Directorate for Science, Technology and Industry
OECD
Mr. Ladislav Dvořák
Česká spořitelna (Czech Savings Bank)
Director of Special Programmes Department
Czech Republic

16:00-16:15 *Coffee break*

16:00-17:50**Speakers:**

Mr. Edgardo Alvarez
General Manager
Corporación Financiera de Desarrollo S.A. (COFIDE)
Peru

Mr. Matthew Gamser
Program Manager
SME Finance
International Finance Corporation
World Bank Group

Discussant:

Mr. Aurel Saramet
Guarantee Fund
Romanian Commercial Bank
Romania

Speakers:

Mr. Iichiro Uesugi
Fellow, Research Institute of Economy
Trade and Industry
Japan

Mr. Michele Cincera
Université Libre de Bruxelles
Belgium

Discussants:

Mr. Federico Bonaglia
Economist
Development Centre, OECD

Mr. Paul H. Dembinski
Director
Observatoire de la Finance
Switzerland

17:50-18:00***Concluding Remarks by the Chair*****Rapporteurs:**

Mr. Stephen Lumpkin
Principal Administrator,
Directorate for Financial and
Enterprise Affairs
OECD

Mme Mariarosa Lunati
Associate Professor of Research Methods at the
European Business School of Sophia-Antipolis
France

Workshop A:*Credit Financing for SMEs: Constraints and Innovative Solutions****Second Session: What Role for Government?****Wednesday 29 March (9:00-13:00)*

Where the financial markets are not meeting SMEs financing needs, Governments have developed new instruments and institutions aimed at improving SME access to financing. These have, however, shown differing degrees of effectiveness in reaching their targets. Moreover, they can only complement the private market for credit and should not be seen as a substitute for it. In such a context, it is no surprise that in the last decade, credit risk mitigation mechanisms and institutions have emerged, to an increasing extent, as a bridge to fill the gap between potential lenders and borrowing firms.

Second Session: What Role for Government?

This session will look at the lessons learnt for the future from an assessment of past and current government policies and programmes with regard to the *issues addressed in the first session of Workshop A* on the Nature of the Market Failure in Relation to Debt Financing. In particular, the session will look at the most effective and efficient SME financing schemes and incentives, taking into account policy targets/priorities, the various types of SMEs they serve and the overall budget constraints.

This Session will consider the following issues:

- What are the most effective and efficient SME financing schemes and incentives, taking into account policy targets/priorities, the various types of SMEs they serve and the overall budget constraints and financial markets?
- What are the best ways to encourage the active involvement of informed intermediaries, without which investors perceive high risks and low returns from investment and entrepreneurs find themselves unable to raise capital?
- Session speakers are invited to share good and bad practices based on their country/institutional experiences.

Wednesday 29 March 2006 – Morning

**WORKSHOP A: CREDIT FINANCING FOR SMEs:
CONSTRAINTS AND INNOVATIVE SOLUTIONS**

Session 2: What Role for Government?

9:00-9:05	CHAIR: Mr. Peter Webber Director Small Business Financing Policy Industry Entrepreneurship & Small Business Office Delegate to the <i>OECD Working Party on SMEs & Entrepreneurship</i> <i>Canada</i>
9:05-9:25	Keynote Speaker: Mr. Salvatore Zecchini Economic Advisor to the Minister Ministry of Productive Activities <i>Italy</i>
9:25-10:30	Speakers: Mr. Tamas Lesko Deputy Head of SME Development Department Ministry of Economy and Transport Delegate to the <i>OECD Working Party on SMEs & Entrepreneurship</i> <i>Hungary</i> Mr. Osamu Tsukahara Managing Director Japan Finance Corporation for Small and Medium Enterprise <i>Japan</i> Mr. Asdessalem Mansour Président Directeur général de la Banque de Financement des PME <i>Tunisia</i> Discussant: Mr. Bernd Balkenhol Director of the Social Finance Programme <i>International Labour Organisation (ILO)</i> Speakers: Mr. Juan José Llisterri Principal Financial Specialist Sustainable Development Department Private Enterprise and Financial Markets Division <i>Inter-American Development Bank (IDB)</i> Ms. Margaret Miller Senior Economist Financial Sector Operations & Policy Development <i>IFC/ World Bank Group</i>

10:30-10:45 *Coffee break*

10:45-12:50**Speakers:****Mr. Young-Sam Cho**

Research Fellow, Korea Institute for Industrial Economics & Trade
Korea

Mr. Fernando Nogueira da Costa

Vice-president
Caixa Econômica Federal
Brazil

Mr. Daniel Gabrielli

Chef du Service d'ingénierie et de coordination statistique
Eurosystème, Banque de France
France

Mr. Byron McDonald

Development Bank
Jamaica Promotions Corporation (JAMPRO)
Jamaica

Discussants:**Mr. Steven Lumpkin**

Principal Administrator
Directorate for Financial and Enterprise Affairs, OECD

Ms. Miriam W. O. Omolo

Programme Officer,
Trade Information Programme
Institute of Economic Affairs
Kenya

Speakers:**Ms. Barbara Bartkowiak**

President of Management Board
Polish Association of Loan Funds (PSFP)
Poland

Mr. Bruce Cameron

Senior Loan Officer, the SME Finance Department
Overseas Private Investment Corporation
United States

Discussant:**Mr. Keith Martin**

Senior Marketing Specialist
MIGA, World Bank Group

12:50-13:00**Concluding Remarks by Chair***Rapporteurs:***Mr. Stephen Lumpkin**

Principal Administrator,
Directorate for Financial and
Enterprise Affairs
OECD

Mme Mariarosa Lunati

Associate Professor of Research Methods at the
European Business School of Sophia-Antipolis
France

13:00-14:30**Lunch**

Workshop B:

Equity Financing for SMEs and the Role of Government

First Session: The Nature of the Market Failure/Distortion

Tuesday, 28 March (14:30-18:00)

The justification for government intervention in the development of venture capital markets in a number of countries has been the existence of a *finance or equity gap* in which firms are unable to secure debt financing and need to access equity finance to substantially expand their businesses.

OECD countries have had varied success in channelling funds, particularly venture capital, to early-stage firms in high-growth sectors. On the supply side, this may be due to a lack of funds, risk-adverse attitudes and/or the absence of an equity investment culture. On the demand side, there may not be a sufficient pool of entrepreneurs and investment-ready small firms. Countries need to first determine where financing gaps exist and assess all possible supply and demand factors which may be contributing to market failures in terms of access to venture capital. In particular, the study highlights the specific issues related to young firms with rapid growth potential. The constraints faced by such firms would be different from those of small firms in general. A broader support structure is needed to ensure that small innovative firms have access to technology development and transfer programmes, high-skilled labour, and international markets.

The objectives of Workshop B are to gather additional evidence relating to difficulties for SMEs in gaining access to equity finance, *to report on policies and programmes to address these difficulties, the lessons learnt in applying policies and programmes* and to provide guidance to Governments, as well as to SMEs, on the options for intervention to improve SME equity financing.

First Session: The Nature of the Market Failure/Distortion

This Session will consider the following issues:

- Are the problems of financing for innovative small and medium-sized enterprises (ISMEs) most visible at any particular point in the life cycle of the firm? Is the absence of activity in formal risk capital (business angels) a particularly serious problem?
- Why do rates of return differ so much among countries? In particular, to what degree do low rates of return on early stage innovation finance represent impediments to ISME financing in Europe?
- What have we learnt since the technology bubble burst in 2000 and the more recent rebound of innovative finance?
- Where can government intervention be most effective in promoting ISME development and finance?
- How are trading platforms for SMEs vehicles like to develop in the next few years? What are the most serious barriers to successful exits by ISMEs?

Tuesday 28 March 2006 – Afternoon

**WORKSHOP B: EQUITY FINANCING FOR SMEs AND THE
ROLE OF GOVERNMENT**

Session 1: The Nature of the Market Failure/Distortion

14:30-14:35 **CHAIR:** **Mr. Christian Motzfeldt**
Director of the Danish Growth Fund (Vaekstfonden)
Denmark

14 :35-14 :55 **Keynote Speaker:**

Mr. Jean-Noel Durvy
Head of Unit
Financing SMEs, Entrepreneurs & Innovators
DG Enterprise and Industry
European Commission

14:55-16:00 **Speakers:**

Ms. Brigitte Smith
Managing Director
GBS Venture Partners
Australia

Mr. Gui Liang
Director
Administration Center for Innovation Fund for Technology-Based
SMEs
China

Mr. Peter Jungen
President
European Enterprise Institute

Discussant:

Mr. Peter Fritz
Managing Director, TCG Group
Australia

Mr. Claudio Vilar Furtado
Executive Director of the Center for the Study of
Private Equity and Venture Capital of FGV-EAESP
Editor
Brazil

16:00-16:15 *Coffee break*

16:15-17:50 Speakers:**Mr. Don Mashele**

Khula Enterprise

*South Africa***Ms. Susan Strommer**

CEO National Association of Seed and Venture Funds, Inc.

*United States***Ms. Katrina Reid**

Economist

Small Business Service

*United Kingdom***Ms. Kimberlie Cerrone**

Chief Financial Officer Feeva Tecnology

*United States****Discussant:*****Mr. Joseph Badevokila**

Fonder and Director of KYOCI Capital Luxembourg and SOYO

Business Partner

The Republic of the Congo

17:50-18:00 Concluding Remarks by the Chair

*Rapporteurs:***Mr. Sergio Arzeni**

Director

Centre for

Entrepreneurship, SMEs

& Local Development,

OECD

Mr. John Thompson

Consultant

OECD Centre for

Entrepreneurship, SMEs &

Local Development

OECD

Mr. Alain Dupeyras

Administrator

Centre for Entrepreneurship,

SMEs & Local Development,

OECD

Workshop B:*Equity Financing for SMEs and the Role of Government****Second Session: What Role for Government?***

Wednesday 29 March (9:00-13:00)

Previous OECD work on venture capital stressed that taking into account the global downturn in technology and financial markets, which affected OECD in the early 2000s, countries need to re-evaluate and redirect government venture capital initiatives to assure their continuing contributions as market conditions change. And as the market becomes more global, countries need to enhance their ties to international venture capital flows, which are a source of both finance and expertise.

Second Session: What Role for Government?

This session will build on the outcomes from *Session 1 on the Nature of the Market Failure/Distortion* and, in particular, look at the lessons learnt from an assessment of past and current government policies and programmes related to private equity.

This Session will consider the following issues:

- What have we learnt about the most effective programmes to stimulate ISMEs?
- Can we specify best practices with respect to incentives and risk sharing in ISME finance?
- How important is taxation in determining ISME finance?
- Why have countries with relatively high capital gains taxes (US, UK and Sweden) had more success in ISME finance than countries where such taxes are low?
- To what degree does the lack of suitable legal vehicles impede the expansion of venture capital?
- What can government do to delay exits by venture capital backed firms?

Wednesday 29 March 2006 – Morning

**WORKSHOP B: EQUITY FINANCING FOR SMEs AND THE
ROLE OF GOVERNMENT**

Session 2: What Role for Government?

9:00-9:05

CHAIR:

Mr. Christian Motzfeldt
Director
Danish Growth Fund (Vaekstfonden)
Denmark

9:05-9:25

Keynote Speaker:

Ms. Susana Garcia-Robles
Investment Officer
Mercosur
Central America and Mexico Multilateral Investment Fund
Inter-American Development Bank

9:25-10:30

Speakers:

Mr. Edmundo M. Oliveira
Executive Manager of ABDI
Brazilian Agency for Industrial Development
Brazil

Mr. Michel Bergeron
Director
Strategic and Business Solutions
Business Development Bank
Canada

Mr. Marko Seppä
Founding Director of EBRC
Joint E-Business
Research Center
Tampere University of Technology
Finland

Mme Hélène Clément
Chargée de mission Entreprises
Cabinet de M. le Président du Sénat
France

Discussant:

Mr. Henry Savajol
Directeur des Etudes BDPME
France

10:30-10:45

Coffee break

10:45-12:50	<p>Speakers:</p> <p>Mr. Jung Hyun Cho Deputy General Manager Korea Venture Investment Company <i>Korea</i></p> <p>Mr. David Quysner Chairman Abingworth Management Limited <i>United Kingdom</i></p> <p>Mr. Dinand Maas Ministry of Economic Affairs <i>Netherlands</i></p> <p>Mr. José Fernando Figueiredo CEO SPGM (IAPMEI - Institute for Support to SMEs and Investment) <i>Portugal</i></p> <p>Discussant:</p> <p>Mr. Pertti Valtonen Counsellor Finance Policy Division Ministry of Trade and Industry <i>Finland</i></p> <p>Speakers:</p> <p>Mr. Philippe Jeanneret Head of SME Policy Ministry of Economics <i>Switzerland</i></p> <p>Mr. Georges Noël Director of Research Public Affairs and Development <i>European Venture Capital Association (EVCA)</i></p> <p>Ms. Jhitraporn Techacharn Director General of the Office of small and medium enterprises promotion, <i>Thailand</i></p>
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12:50-13:00 *Concluding Remarks by Chair*

<i>Rapporteurs:</i>	<p>Mr. Sergio Arzeni Director Centre for Entrepreneurship, SMEs & Local Development, OECD</p>	<p>Mr. John Thompson Consultant OECD Centre for Entrepreneurship, SMEs & Local Development OECD</p>	<p>Mr. Alain Dupeyras Administrator Centre for Entrepreneurship, SMEs & Local Development, OECD</p>
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13:00-14:30 *Lunch*

TECHNICAL WORKSHOP
ON PRIVATE EQUITY DEFINITIONS & VALUATION METHODS
Tuesday, 28 March 14:30-18:00

This Technical Workshop on Private Equity Definitions will gather experts and key stakeholders to discuss the elaboration of common definitions and valuation methods related to private equity and venture capital. *This Workshop will be divided into two themes:* 1) Equity Capital Definitions – The Need for International Consistency; and 2) Valuation Guidelines – What is the Current Situation?

A lack of agreed definitions, comparable statistics, and transparency in valuation methods could be major impediments to the detailed and informed examination of the venture capital sector by both domestic and international institutional investors (and asset consultants). Consequently, these impediments may impinge on their ability to recommend venture capital as an asset class to their clients. Governments also depend on reliable data when considering and developing venture capital policy and programmes to assist early-stage business development.

The *purpose of this Technical Workshop* is to promote discussion and seek agreement from Workshop participants for the development of standard definitions for venture capital with the objective of improving the comparability of venture capital statistics across countries. The Workshop will also consider the two broad frameworks for measurement, the PEIGG (Private Equity Industry Guidelines Group) Guidelines and the International Guidelines, which have developed by several European venture capital associations.

In striving to develop common definitions, *the Workshop will consider the following issues:*

- How many stages are useful for international comparison of data? It is possible that just three may be preferable (early, expansion and late)?
- Where should the boundary line of venture capital be drawn? (*e.g.* Should all expansion capital be considered as venture capital, or should some later stage expansion capital be considered beyond venture capital?)
- What categories should be adopted for funds raised?
- Could either the PEIGG Guidelines or the International Guidelines be adopted (or endorsed) in valuing all private equity deals?

Tuesday 28 March 2006 – Afternoon

***TECHNICAL WORKSHOP ON PRIVATE EQUITY DEFINITIONS
& MEASUREMENTS***

**Session 1: Equity Capital Definitions – The Need for International
Consistency & Valuation Guidelines – What is the Current Situation?**

14 :30-14 :40 Co-Chairs: **Mr. Randy Mitchell**,
Venture Capital / Private Equity Specialist, Department of Commerce
United States

Mr. Thomas Meyer
Head of Risk Management and Monitoring
European Investment Fund

14:40-16:00 **Speakers:**

Mr. Victor Bivell
Editor and Publisher
Australian Venture Capital Journal
Private Equity Media
Australia

Mr. Dhruba Gupta
Managing Director and CEO of EM Capital India
India

Mr. Jeong Min Kim
Managing Director
Hanmi Venture Capital Corporation
Korea

16:00-16:15 *Coffee break*

16:15-18:00 Speakers:

Ms. Barbara James
Managing Director
African Venture Capital Association

Mr. Georges Noël
Director of Research
Public Affairs and Development
European Venture Capital Association (EVCA)

Mr. Ghyanendra Nath Bajpai
Chairman
Securities and Exchange Board of India, SEBI
India

Mr. David Quysner
Chairman
Abingworth Management Limited
United Kingdom

<i>Rapporteurs:</i>	Mr. Tim Davis Project Manager, Entrepreneurship Indicators, Statistics Directorate (STD) OECD	Mr. Alvaro Gonçalves President of ABVCAP Associação Brasileira de Venture Capital (Brazilian Association of Venture Capital) <i>Brazil</i>
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Plenary Session

Financial Innovations for SME Credit and Equity Financing:

The Contributions of Markets and Governments

Wednesday 29 March, 14:30 – 18:00

This plenary session will bring together participants from each of the parallel workshops in order to bridge the gap between the bank lending side and the risk capital side in order to find innovative instruments and solutions to the obstacles facing entrepreneurs and SMEs when access financing.

With the goal of proposing innovative approaches to government intervention and market responses, this Plenary Session aims to set the path towards the development of *a new public/private partnership*. At the same time, the Session should also look at any limitations brought about by different cultural approaches across countries and the implications this may have for policy and programme learning and transferability.

The Plenary Session will consider the following issues:

- How can the availability of equity finance improve the chances of getting loans?
- Under what circumstances are SMEs likely to have both?
- Are there learning opportunities between banks and risk capital investors?
- What about banks as venture investors – has Basel II changed their willingness to invest? And,
- Who can best provide mezzanine finance?

At the end of this Plenary Session for the Parallel Workshops, the General Rapporteur of the Conference will report on the discussion and identify the proposed financial innovations that could be retained for the draft Recommendations of the Conference.

1. The OECD Bologna Process on SME & Entrepreneurship Policies, *i.e.* the follow-up to the first OECD Ministerial Conference on SMEs held in Bologna in June 2000, is a dynamic political mechanism which: fosters the entrepreneurial and SME agenda at the global level through extended analytical work; promotes high-level dialogue on SME and Entrepreneurship policies worldwide; and encourages co-operation between OECD countries and non-member economies, other international organisations and/or institutions, and non-governmental organisations in the field of SMEs and entrepreneurship. It involves at present more than 80 economies, including all OECD countries and APEC economies, and a number of African and Latin American countries, including Brazil. The OECD enjoys an undoubted edge in this domain, as the only institution that effectively deals with these issues horizontally and applying a global perspective and approach.

Wednesday 29 March 2006 – Afternoon

**PLENARY SESSION:
FINANCIAL INNOVATIONS FOR SME CREDIT AND EQUITY
FINANCING: THE CONTRIBUTIONS OF MARKETS AND
GOVERNMENTS**

14 :30-14 :40 CO-CHAIRS:

Workshop A Chair:

Mr. Peter Webber

Director

Small Business Financing Policy Industry

Entrepreneurship & Small Business Office

Delegate to the *OECD Working Party on SMEs & Entrepreneurship
Canada*

Workshop B Chair:

Mr. Christian Motzfeldt

Director

Danish Growth Fund (Vaekstfonden)

Denmark

14:40-16:00 Speakers:

Mr. Ciro de Falco

Executive Vice President

Inter-American Development Bank (IDB)

Mr. Dave Thomas

General Director

Intel Capital Latin America

Discussant:

Mr. Steven Maken

Small Business Development Corporation

Ministry of Trade and industry

Papua New Guinea

Speakers:

Mr. Roger Wigglesworth

Director

SMEs Department, Ministry of Economic Development

Chair of the *OECD Working Party on SMEs & Entrepreneurship*

New Zealand

Mme Nadine Levratto

Chargée de recherche au Centre National de la Recherche Scientifique

France

Discussant:

Mr. Ivan Ornelas Diaz

Director of International Relations

General Direction of Exportable Goods, Ministry of Economy

Vice-Chair to the *OECD Working Party on SMEs & Entrepreneurship*
Mexico

16:00-16:15 *Coffee break*

16:15-17:45 **Speakers:**

Mr. Brendan Morling

General Manager

Industry Policy Branch

Department of Industry

Tourism and Resources

Australia

Ms. Simonetta Iannotti

Economist

Bank Supervision Dept

Banca d'Italia

Italy

Discussant:

Mr. Luboš Lukasič

MBA, CzechInvest

Director of Company Competitiveness Division

Czech Republic

Speakers:

Mr. Allan Riding

Deloitte Professor of Growth Enterprises

Canada

Mme Cândida Maria Cervieri

Diretora do Departamento de Micro

Pequenas e Médias Empresas (DMPME)

Secretaria do Desenvolvimento da Produção

Ministério do Desenvolvimento, Indústria e Comércio Exterior

Brazil

Mr. Carlos Alberto dos Santos

Gerente

Unidade de Acesso a Serviços Financeiros

Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (SEBRAE)

Brazil

Discussant:

Mr. Eli Bentata
Deputy Director General
ISMEA-Israel SMEs Authority
Israel

17:45-18:00 Summary by the General Rapporteur:

Mr. Thomas Andersson
President
Jönköping University
Sweden

<i>Rapporteurs:</i>	Mme Marie Florence Estimé Deputy Director Centre for Entrepreneurship, SMEs & Local Development, OECD	Mr. Marcos Bonturi Head of Private Office of the Deputy Secretary General OECD	Mr. Tim Davis Project Manager Entrepreneurship Indicators, Statistics Directorate (STD) OECD
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FINAL PLENARY SESSION: CONCLUSIONS AND RECOMMENDATIONS

Thursday, 30 March (9:00-12:00)

The final Plenary Session on Thursday, 30 March 2006 will be co-chaired by Mr. Luiz Fernando Furlan, Minister of Development, Industry and Foreign Trade, Brazil, and Dr. Herwig Schlögl, Deputy Secretary General, OECD

On this occasion, the chairs of the three workshops will present the conclusions of their respective workshops to the plenary audience.

In bringing the Conference to an official close, Minister Furlan and OECD Deputy Secretary General Schlögl will present the final Recommendations and the *OECD Action Statement for SME & Entrepreneurship Financing*.

Thursday 30 March 2006 – Morning

FINAL PLENARY SESSION

9:00-10:45 **CO-CHAIRS:**
Mr. Luiz Fernando Furlan
 Minister of Development, Industry and Foreign Trade
Brazil
Mr. Herwig Schlögl
 Deputy Secretary-General
OECD

**PRESENTATION OF THE WORKSHOP CONCLUSIONS AND RECOMMENDATIONS
 BY THE CHAIRS**

Workshop A Chair:

Mr. Peter Webber
 Director
 Small Business Financing Policy Industry
 Entrepreneurship & Small Business Office
 Delegate to the *OECD Working Party on SMEs & Entrepreneurship*
Canada

DEBATE WITH THE AUDIENCE

Workshop B Chair:

Mr. Christian Motzfeldt
 Director
 Danish Growth Fund (Vaekstfonden)
Denmark

DEBATE WITH THE AUDIENCE

Technical Workshop Co-chairs:

Mr. Randy Mitchell
 Venture Capital / Private Equity Specialist
 Department of Commerce
United States

Mr. Thomas Meyer
 Head of Risk Management and Monitoring
European Investment Fund

DEBATE WITH THE AUDIENCE

10:30-10:45 *Coffee Break*

10:45-12:00 **THE OECD ACTION STATEMENT
 FOR SME & ENTREPRENEURSHIP FINANCING**

PRESENTED BY:

Mr. Luiz Fernando Furlan
 Minister of Development, Industry and Foreign Trade
Brazil

Mr. Herwig Schlögl
 Deputy Secretary-General
OECD

COUNTRIES / ECONOMIES
INVITED TO PARTICIPATE IN THE OECD GLOBAL CONFERENCE ON
SME AND ENTREPRENEURSHIP FINANCING

OECD MEMBERS	NON-MEMBERS	
1. Australia	1. Albania	44. Laos
2. Austria	2. Algeria	45. Latvia
3. Belgium	3. Antigua & Barbuda	46. Lebanon
4. Canada	4. Argentina	47. Lithuania
5. Czech Republic	5. Azerbaijan	48. Former Yugoslav Republic of Macedonia (FYROM)
6. Denmark	6. Bahrain	49. Madagascar
7. Finland	7. Bangladesh	50. Malaysia
8. France	8. Barbados	51. Moldova
9. Germany	9. Belarus	52. Philippines
10. Greece	10. Belize	53. Mongolia
11. Hungary	11. Bolivia	54. Morocco
12. Iceland	12. Bosnia - Herzegovina	55. Namibia
13. Ireland	13. Brazil	56. Nicaragua
14. Italy	14. Brunei Darussalam	57. Nigeria
15. Japan	15. Bulgaria	58. Oman
16. Korea	16. Cambodia	59. Pakistan
17. Luxembourg	17. Chile	60. Palestine National Authority
18. Mexico	18. China	61. Panama
19. Netherlands	19. Colombia	62. Papua New Guinea
20. New Zealand	20. Congo	63. Paraguay
21. Norway	21. Costa Rica	64. Peru
22. Poland	22. Croatia	65. Qatar
23. Portugal	23. Djibouti	66. Romania
24. Slovak Republic	24. Dominican Republic	67. Russian Federation
25. Spain	25. Egypt	68. Saudi Arabia
26. Sweden	26. Ecuador	69. Senegal
27. Switzerland	27. Estonia	70. Serbia & Montenegro
28. Turkey	28. Ethiopia	71. Singapore
29. United Kingdom	29. Georgia	72. Slovenia
30. United States	30. Ghana	73. South Africa
31. <i>European Commission</i>	31. Guatemala	74. Syria
	32. Haiti	75. Chinese Taipei
	33. Honduras	76. Tajikistan
	34. Hong Kong, China	77. Thailand
	35. India	78. Trinidad and Tobago
	36. Indonesia	79. Tunisia
	37. Israel	80. Turkmenistan
	38. Jamaica	81. Ukraine
	39. Jordan	82. United Arab Emirates
	40. Kazakhstan	83. Uruguay
	41. Kenya	84. Uzbekistan
	42. Kuwait	85. Venezuela
	43. Kyrgyz Republic	86. Vietnam
		87. Yemen

**INTERNATIONAL ORGANISATIONS / INSTITUTIONS
INVITED TO PARTICIPATE IN THE OECD GLOBAL CONFERENCE ON
SME AND ENTREPRENEURSHIP FINANCING**

I. INTERNATIONAL ORGANISATIONS (PART OF THE UN SYSTEM)	III. NON-GOVERNMENTAL INTERNATIONAL ORGANISATIONS / INSTITUTIONS (NGOs)
<ol style="list-style-type: none"> 1. Economic and Social Commission for Asia and the Pacific (UNESCAP), Bangkok 2. Economic and Social Commission for Western Asia (UNESCWA), Beirut 3. Economic Commission for Africa (UNECA), Addis Ababa 4. Economic Commission for Europe (UNECE), Geneva 5. Economic Commission for Latin America and the Caribbean (UNECLAC/CEPAL), Santiago de Chile 6. International Labour Organisation (ILO), Geneva 7. International Monetary Fund (IMF), Washington 8. United Nations Conference on Trade and Development (UNCTAD), Geneva 9. United Nations Development Programme (UNDP), New York 10. United Nations Industrial Development Organisation (UNIDO), Vienna 11. World Bank, Washington 12. World Intellectual Property Organisation (WIPO), Geneva 	<ol style="list-style-type: none"> 13. Arab Business Council (ABC) 14. Arab International Women's Forum (AIWF) 15. Association Internationale de Recherche en Entrepreneuriat et PME (International Association for Research on Entrepreneurship and SMEs) (AIREPME) 16. Association of European Chambers of Commerce and Industry (EUROCHAMBRES), Brussels 17. Association of Small and medium Enterprises (ASME), Singapore 18. Business and Industry Advisory Committee to the OECD (BIAC) 19. The Business Council Europe-Africa Mediterranean, Brussels 20. The Competitiveness Institute (TCI), Barcelona 21. Center for International Private Enterprise (CIPE) 22. "Dirigeantes" International Association 23. EURO-MED Trade, Distribution and Service Initiative, Rome 24. European Association of Craft and Small and Medium-Sized Enterprises (UEAPME) 25. European Banking Federation (FBE), Brussels 26. EuroCommerce (Confédération Européenne du Commerce de Détail) 27. European Council for Small Business (ECSB), Halmstad 28. European Development Finance Institutions (EDFI), Brussels 29. European Network to Promote Women's Entrepreneurship (WES) 30. European Private Equity and Venture Capital Association (EVCA) 31. Les Femmes Chefs d'Entreprises Mondiales (FCEM) 32. International Accounting Standards Board (IASB) 33. International Chamber of Commerce (ICC) 34. International Council of Small Business (ICSB) 35. International Electrotechnical Commission (IEC), Geneva 36. International Organisation for Knowledge Economy and Enterprise Development (IKED)
II. OTHER INTERNATIONAL ORGANISATIONS AND INSTITUTIONS	
<ol style="list-style-type: none"> 53. African Development Bank, Abidjan 54. African Union (AU) 55. APEC Business Advisory Council (ABAC) 56. Asian Development Bank (ADB), Manila 57. Asia-Pacific Economic Co-operation (APEC), Singapore 58. Association of Southeast Asian Nations (ASEAN), Jakarta 59. Caribbean Community (CARICOM) 60. Central European Initiative (CEI), Trieste 61. Euro-Mediterranean Network of Investment Promotion Agencies (ANIMA/EURAID) 	

<p>62. European Bank for Reconstruction and Development (EBRD), London</p> <p>63. European Central Bank (ECB)</p> <p>64. European Economic and Social Committee, Brussels</p> <p>65. European Investment Bank (EIB), Luxembourg</p> <p>66. European Investment Fund (EIF)</p> <p>67. Inter-American Development Bank (IADB), Washington</p> <p>68. League of Arab States</p> <p>69. New Partnership for African Development (NEPAD)</p> <p>70. Organisation Internationale de la Francophonie (International Organisation of French-Speaking Communities) (OIF)</p> <p>71. Pacific Economic Co-operation Council (PECC), Singapore</p> <p>72. Pacific Islands Forum (PIF)</p> <p>73. Trans Atlantic Business Dialogue (TADB), Brussels</p> <p>74. World Trade Organisation (WTO)</p>	<p>37. International Organisation for Standardisation (ISO), Geneva</p> <p>38. International Network for Small and Medium-sized Enterprises (INSME)</p> <p>39. International Small Business Congress (ISBC)</p> <p>40. International Union of Crafts and Small and Medium-sized Enterprises (UIAPME)</p> <p>41. Islamic Financial Service Board (IFSB)</p> <p>42. Latin American Venture Capital Association (LACVA)</p> <p>43. Organisation Internationale des Employeurs (International Organisation of Employers) (OIE), Geneva</p> <p>44. Quantum Leaps, Inc., A Global Accelerator for Women's Entrepreneurship, USA</p> <p>45. Trade Union Advisory Committee to the OECD (TUAC), Paris</p> <p>46. Union of Industrial and Employers' Confederations of Europe (UNICE)</p> <p>47. World Association of Investment Promotion Agencies (WAIPA)</p> <p>48. World Association of Industrial and Technological Research Organisations (WAITRO), Malaysia</p> <p>49. World Association of Small and Medium Enterprises (WASME)</p> <p>50. World Economic Forum</p> <p>51. YES for Europe, European Confederation of Young Entrepreneurs</p> <p>52. Young Entrepreneurs of the European Union (JEUNE)</p>
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Annex B:

The OECD Brasilia Action Statement

on SME and Entrepreneurship Financing

1. On the invitation of the Brazilian Government, the OECD Global Conference on *Better Financing for Entrepreneurship and SME Growth*, took place in **BRASILIA** on 27-30 March 2006. Convened in the framework of the OECD Bologna Process on SME & Entrepreneurship Policies¹, the meeting brought together the key stakeholders – *Small and medium-sized enterprises (SMEs), the financial community, and government participants at senior levels* – from OECD member countries, as well as from non-member economies.

2. Taking into account the perspectives of SMEs, the financial community and governments, the Conference assessed to what extent the potential contribution of SMEs is held back by various constraints. Access to financing represents an important issue for SMEs. Financing gaps may arise due to agency problems², asymmetric information and other market and policy imperfections that can give rise to incomplete financial markets and constrain SMEs access to financing. Analysis reveals not one, but several kinds of financing gaps. Many OECD countries have partial gaps, which tend to be severe especially in the early-stage firms. However, financial gaps are more pervasive in emerging, transition and developing economies. The Conference particularly examined issues related to two types of SME financing: *Debt and Credit* and *Risk Capital*. Taking stock of current facts, practices and issues, the Conference proposed ways forward to improve statistical data, and to identify and diffuse innovative and appropriate solutions for SME financing, spanning the role of markets, governments and international organisations while recognising the need to develop further work.

3. Access to appropriate types of financing structures and facilities are especially required to allow SMEs and entrepreneurs to take advantage of the opportunities provided by innovation, notably through the diffusion of information and communications technology (ICT). They are also needed for SMEs with new business models and high growth prospects, as they make a very important contribution to economic growth accompanied by job creation and social cohesion.

4. Building on the outcome of the first OECD Conference for Ministers responsible for SMEs on "*Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies*", held in **BOLOGNA** on 13-15 June 2000, and the second on "*Promoting Entrepreneurship and Innovative SMEs in a Global Economy*" in **ISTANBUL** on 3-5 June 2004, which provided major opportunities to advance the global policy dialogue on enhancing *entrepreneurship and SME innovation*, **Participants recommended this Action Statement.**

Main findings and actions required:

5. The financing gaps are not insurmountable and can be mitigated by a series of actions. Participants considered a number of issues that can create problems, some of which are discussed below. Examples of initiatives that respond to these programmes are also provided for consideration in the context of the proposed actions.

Put in place the appropriate broader framework

The overall economic, legal, institutional and regulatory framework is a critical determinant of SME financing. A predictable and stable macroeconomic policy environment is fundamentally important, along with reliable governance, tax, regulatory and legal frameworks that provide a level playing field for all economic entities irrespective of size. For law enforcement to be efficient, national and regional administration - including tax authorities - must possess the appropriate competencies to address SME-issues, and adopt rationalised and trustworthy practices. Of key importance is an environment that supports entrepreneurship, protects intellectual capital, and fosters science/industry linkages that promote high-tech commercialisation.

Strong focus on early stages while maintaining flexibility

SMEs in mature stage have often been able to access finance through a broad range of financial instruments, including asset-based SME-lending, leasing, non-financial sector loans, securitization and trade credit. In early stages, however, access to finance is often lacking, suggesting a need for public policy to focus on firms in formative stages. Appropriate and timely financing can nonetheless be an issue at all stages of SME-development, which calls for some degree of flexibility.

Bolster early stage finance to innovative SMEs (ISMES)

A lack of appropriate financing notably represents a hindrance to the creation and expansion of innovative SMEs (ISMES), putting a drag on job creation and hurting economy-wide competitiveness. Comprehensive efforts are needed to bolster the early stages (*i.e.* pre-seed, seed and start-up) of ISMES, which are marked by negative cash flows and untried business models. This can be done by entrepreneurs themselves leveraging the capital lying dormant in their personal assets, or by “business angel networks” or venture capital markets. Efforts to integrate mutually supportive activities include for instance the New Zealand Venture Investment Fund which assists growth in early stages, while also managing a Seed Co-Investment Fund designed to stimulate investment by business angels. Successful approaches to developing early stage venture capital markets include both tax-based programs and programs that use government’s ability to leverage private risk capital.

Encourage SMEs to join the formal sector

Whereas informal sources of funding are greatly important, especially in transition and developing economies, incentives are needed to induce SMEs to move into the formal sector. One approach, applied by Brazil in its SIMPLES program, is to simplify procedures and facilitate tax compliance for micro and small businesses. Another is to induce closer collaboration between MFIs (micro-credit schemes and micro-finance institutions) and banks, which can serve both to enhance the financial sustainability of the former, and to provide a basis for transferring clients to banks as their financing needs increase.

- Reduce barriers to cross-border funding** Financial markets are becoming increasingly global but remaining regulatory and institutional compartmentalisation continues to hamper financial cross-border collaboration, the internationalisation of SMEs and associated resource and knowledge flows. This has a special impact on SMEs from emerging, transition and developing countries, which have difficulty in accessing foreign financing. In these countries, SMEs receive a small share of overall domestic credits, with the majority dependent on informal channels operated outside the formal financial system. New instruments and mechanisms are needed for handling risk associated with the cross-border funding of SMEs.
- Use principle of risk-sharing and apply assessments to guide public programmes** Public policies aimed at promoting SMEs should be focused, aimed at making markets work efficiently and at providing incentives for the private sector to assume an active role in SME finance. The principles of risk sharing should guide public programmes, with official contributions encouraging partnership with entrepreneurs, banks, businesses, and universities. Assessments and evaluations should be applied rigorously to phase out ineffective public policy, and where market activities are maturing and prepared to take over.
- Inform SMEs of financing options through targeted programmes** Informing SMEs of the range of financing options available, *e.g.*, public guarantee programmes, business angels, and bank loans will ensure greater take-up of schemes. Awareness- and competence-building should spur qualified demand for financing among SMEs. Special targeting and adaptation of communication is needed to bridge between regional, sectoral, ethnical and cultural divisions, or special features of entrepreneurs (gender, age, educational profile, etc.).
- Measure and value intellectual assets more effectively** Methods of measuring and disclosing intellectual capital should be developed, diffused and linked to the upgrading of financial services especially for ISMEs. These methods need to be developed in ways that can enable their widespread application. Intellectual assets, if better measured and valued, can be used as collateral, thus underpinning the development of financial services that are more effective in supporting ISMEs. Innovative approaches, such as enabling knowledge economy societies which examine ways to evaluate and develop comparable reporting of intangibles, could make a valuable contribution.
- Better leverage social capital** Trust, tacit knowledge, and reputation matter in the development of entrepreneurship. Better leveraging of social capital, *e.g.* embedded in local networks of entrepreneurs, can help strengthen SMEs' access to finance. Approaches such as those developed by the CONFIDI consortia in Italy could be further applied.
- Use a pluralism of tools adapted to specific needs** Each stage of firm development requires an appropriate financing tool. Public policy must recognise the need for flexibility, including a plurality of tools in relation to the specific needs of the local and regional context. At the same time, it is important to recognize the role of cooperative credit banks and savings banks in addressing the financial need of handicraft, the self-employed, and micro enterprises. Specialised financial institutions, such as Shorebank in Chicago, are playing a crucial role in urban regeneration programmes creating sustainable communities.

Engage SMEs in policy design Entrepreneurs and SMEs are agile and flexible but vulnerable to fixed costs such as those caused by heavy administration, excessive bureaucracy, reporting practices, and intermediation rates by banks. Improving access to financing for SMEs requires removing unduly barriers to entrepreneurship and innovation, *e.g.* by cutting red tape, reducing transaction costs, and improving contractual conditions. Often, entrepreneurs and SMEs are not sufficiently represented in traditional policy-making, nationally and internationally. In order to make reforms less reactive and more appropriate, SMEs should be engaged in the design of relevant policies from the outset, to ensure that their perspectives and needs are well understood and taken into account.

6. Furthermore, **Participants concluded that innovative approaches should be adopted** to overcome constraints and diffuse viable solutions in SME-financing through debt and credit, and through risk capital. **On debt and credit financing, actions include:**

Ensure that banking systems are market based and well functioning Banking regulatory systems should be reformed based on market-principles, barriers to foreign competition should be dismantled, and other measures introduced as needed to ensure healthy competition in these markets.

Improve SME financial knowledge and management Expertise and working practices should be advanced at firm level, *e.g.*, to improve knowledge on funding techniques, raise credibility and elevate bargaining strength vis-à-vis banks. Processing of lending to SMEs should be improved within banks while government policies that increase costs to banks should be minimised in order to make small business lending profitable. Creation of private sector credit bureaus could increase collaboration among lending institutions. This would benefit all parties as credit-risk information compiled in the credit bureau would be available to help mitigate problems of fixed costs hindering lending to SMEs, while maintaining an adequate degree of diversity in credit risk measurement methods. There is a rationale for speeding coordinated use of new technologies, including ICT, while countering common problems as regards privacy, authentication and fraud.

Enhance guarantee funds and make better use of related public funds Guarantee schemes are among the most effective instruments governments can use to ease SMEs' access to credit financing. However, measures have to be taken to promote appropriate risk sharing with private lenders and SMEs themselves. Initiatives which help reduce the risks assumed by guarantee funds may be applied to facilitate the access to a guarantee. As in the case of FOGAPE in Chile, appropriate regulation and supervision can be applied to induce banks to compete in using the guarantees provided by the funds. Another example is the Counter-Guarantee System run by the European Investment Fund (SME Guarantee Facility). The Polish guarantee fund POLFUND, like the Spanish Guarantee System, significantly improved access to guarantees for entrepreneurs after obtaining EIF counter-guarantees in 2005.

Keep fees and guarantee schemes affordable Fees paid by SMEs for guarantees can usefully be differentiated to balance selectivity and financial sustainability. Fee levels should take into account market imperfections and other considerations that lower affordability for SMEs. The Italian State Fund for guarantees to SMEs has managed to keep default rates and operating costs low by exploiting the risk balancing effect and economies of scale in the scheme.

Expand the scope of micro-credit and micro-finance schemes

Micro-credit and micro-finance institutions (MFIs) fill important gaps, especially in developing countries, based on proximity to local entrepreneurship and the adoption of a flexible formula. An example is Novobanco, active in Africa and Latin America, which provides credit to micro-businesses based on no-fees account with no minimum balance, informal guarantees (house assets and a guarantor), and a continued relationship with loan officers. Agreements between MFIs and private providers of non-financial services should be promoted to ease capacity constraints, whereas regulatory barriers that often prevent MFIs from extending their lending activities to micro-businesses should be dismantled. In emerging and developing economies, ICT can help diffuse the use of MFIs and counter costly fragmentation in rural markets.

7. In most economies, only a very small percentage of SMEs seek risk capital. However, it is a form of financing of particular importance to high-growth ISMEs. In this regard, **Participants stressed the need of the following actions in the area of risk capital:**

Promote awareness among SMEs of the value of equity finance

There is a need to promote enhanced awareness, educate and communicate more broadly the value of equity financing, including raising the recognition among entrepreneurs of fair value and transparency in valuing investments.

Facilitate access to institutional capital

The channelling of further funding by institutional investors should be facilitated through flexible regulation consistent with prudent investment management principles

Ensure that the regulatory framework is neutral among different sources of finance

The combined legal, tax and regulatory framework should ensure that risk capital is not discriminated against, including by safeguarding orderly, equitable and transparent exit routes. Taxes should not put SMEs, entrepreneurs or their financial backers at a disadvantage. There should be neutrality between alternative sources of risk capital, such as domestic versus foreign venture capital funds. Maintaining neutrality between debt and equity should also be an aim for tax policies.

Steps should be taken to improve the exit environment

The exit environment in many countries is not favourable to venture capitalists. Liquid stock markets either do not exist or are too fragmented, and listing requirements may be too stringent. Also, local specifics hinder trade sales/mergers and acquisitions, and barriers to these activities should be removed.

Use public schemes to leverage competencies and serve as catalysts for private equity funding

Public programmes can make an important contribution by enhancing SME skills in accessing and using risk capital, as practiced by Vaekstfonden in Denmark. With appropriate incentives for management, public equity funds can operate so as to help catalyse and leverage the provision of private risk capital. Measures strengthening market access for SMEs, for instance along the lines of the US SBA programmes, should be further developed.

Provide additional guidance on the application of fair value guidelines for

While venture capital associations have developed credible fair value guidelines for private equity investments (AFIC/BVCA/EVCA and PEIGG), valuing venture capital remains judgemental and approximative. Further guidance and training on applying such guidelines can increase investors'

venture capital investments

confidence in the consistency and reliability of valuations of venture capital investments. The valuation of investments in venture capital funds for accounting purposes is one of those areas that should be more clearly examined.

Help venture capitalists and business angels flourish

There is no venture capital without venture capitalists and business angels greatly enhance the effectiveness of informal finance. Representing an evolving entrepreneurial breed, these actors thrive on their ability and courage to assume risk. Obstacles should be identified and eliminated. Effective role models can also be promoted to spur the dynamism of these actors. Ways should be explored to facilitate the establishment of “business angel networks”, which may greatly enhance information and capital flows.

Reduce obstacles to cross-border risk capital markets

Efforts should be made to reduce obstacles to the creation of cross-border markets for private equity and venture capital. Cross-border venture capital and private equity funds could be encouraged as a means to strengthen information exchange and enhance the competitiveness of SMEs in global markets.

8. Finally, **Participants called upon the OECD to work further** in developing better data and statistical information as a basis for measures to address the issues of SME financing. Gaps in data and statistical information, and the huge variation between countries, make it difficult to determine to what extent a financing gap hampers SMEs and entrepreneurship in a general sense. A new partnership should be put in place to overcome current obstacles to SME financing. More focus needs to be brought to improving the availability of statistical data, and identifying and diffusing best policy practices in financing of SMEs and entrepreneurship. Building on the valuable work of the *OECD Working Party on SMEs and Entrepreneurship* and the *OECD Committee on Financial Markets*, Participants invited the OECD to further develop the following areas (subject to the availability of resources):

Recommendations for further work by the OECD

In order to improve the availability of **data and statistics**, as well as the **understanding of outstanding issues** in financing of SMEs and entrepreneurship, the OECD should:

- Prepare a handbook of definitions (including what constitutes a “financing gap”), indicators and statistical methodology for gathering data on the supply of financing available to SMEs and the demand for financing by SMEs.
- Encourage use of this handbook to survey SMEs and suppliers of finance on a regular basis to provide policy-makers and market actors with more accurate and detailed information, help them determine if and where a financing gap exists, better understand the functioning of the national, regional and global financial markets as they pertain to SMEs, and to identify deficiencies or impediments in their operations.
- Take the lead in developing better data and statistical information, thereby allowing the establishment of international benchmarks to facilitate comparisons of the relative performance of markets in providing financing to SMEs and entrepreneurs; and, to shed light on outstanding financing gaps and issues.

In order to support **the adoption and diffusion of best policy practice** for financing SMEs and entrepreneurship, the OECD should *inter alia*:

- Analyse and assess current policies relevant for SMEs and entrepreneurship, including the related financial regulatory and policy landscape, and promote the sharing of experience among policymakers on best policy practice (and on policies which have proven less successful) to address funding gaps.
- Explore appropriate mechanisms for the development of stronger public/private partnerships in SME financing and of appropriate instruments for furthering the role of institutional investors.
- Examine the fragmentation of markets resulting from inconsistent tax/regulatory regimes and improve conditions for cross-border capital formation programmes.
- Examine how training, skills transfers, and programmes promoting financial education, better accounting practices and awareness more generally, best underpin the information and competencies within SMEs that are required for effective access to finance. Strong involvement of non-member economies should be sought in this project.
- Examine how to develop further information flows and transparency on SMEs.

In order to build a new partnership to **address the existing obstacles** to SME financing, the OECD should work with non-member economies and the key stakeholders to:

- Establish an *OECD Global Forum for Tripartite Dialogue*, convening Governments, the Financial Community and SMEs in OECD and non-OECD economies, to periodically review progress in strengthening SME and entrepreneurship financing. The work would be jointly conducted by the relevant OECD bodies, *i.e.* the Working Party on SME and Entrepreneurship and the Committee on Financial Markets, in co-operation with other international organisations/institutions.

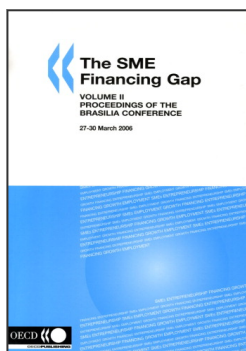
Notes

- 1 *The OECD Bologna Process on SME and Entrepreneurship Policies* is a dynamic political mechanism that:
 - Fosters the entrepreneurial and SME agenda at the global level through extended analytical work;
 - Promotes high-level dialogue on SME and Entrepreneurship policies worldwide; and
 - Encourages co-operation between OECD countries and non-member economies, other international organisations/ institutions, and non-governmental organisations in the field of SMEs and entrepreneurship.
- 2 There is no precise generally accepted definition of a financing gap, but the term implies that a sizable share of economically significant SMEs are unable to obtain adequate financing. Agency problems arise because it is impossible to write complete contracts and the interests of the contracting parties may not coincide. See further the OECD Keynote Paper on “The SME Financing Gap: Theory & Evidence”, OECD, 2006.

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