

2022 Updated G20/OECD High-Level Principles on SME Financing

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G20



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Preamble

Background

Small and medium-sized enterprises (SMEs)¹, including micro-enterprises, are important engines of innovation, growth, job creation and social cohesion in high income and emerging economies as well as low-income developing countries (LIDCs)². However, they also experience gaps in relation to larger companies, such as in the areas of productivity, digitalisation and others. SMEs and entrepreneurs can only reach their full potential if they obtain the finance they need to start, sustain and grow their business.

A lack of appropriate forms of finance is a long-standing hurdle for SMEs, with varying severity of financing constraints across countries. In developing countries, credit to the private sector as a share of GDP is well below the average in high-income countries, SME loans represent a smaller proportion of business credit, and the lack of a well-developed financial infrastructure poses challenges³. Financing is also a major constraint in advanced economies, where financing gaps for SMEs and entrepreneurs persist, and where SMEs remain more vulnerable to shocks and downturns than their larger counterparts. For example, the 2008-09 financial and economic crisis had long-lasting impacts on SME access to finance. Furthermore, the recent economic crisis caused by the COVID-19 pandemic disproportionately affected SMEs, requiring significant policy responses to ensure that finance could continue to flow to these firms.

SMEs are typically at a disadvantage with respect to large firms when accessing finance, owing to opacity, under-collateralisation, high transaction costs and lack of financial skills. As a consequence, SMEs generally face higher interest rates, tighter borrowing terms and are more likely to be credit-rationed than large firms. Informal SMEs in particular may be unserved or underserved by financial institutions. Capital gaps also exist for innovative and growth-oriented firms, as well as for medium-sized enterprises that seek to invest and expand, and for SME seeking to undertake green investments. Furthermore, financial sources tend to dry up more rapidly for small firms than for large companies during economic downturns, making the economic and social consequences of crises more severe and long-lasting for SMEs. More generally, financing needs and constraints vary widely across the business population, with firm size, age of the firm, phase of business development, and gender, ethnicity and other characteristics of the business owner

¹ It should be noted that SMEs are defined differently across countries and regions, reflecting specificities in the economic, social and regulatory environment. In addition, different definitions are adopted for different policy purposes, such as based on profitability for taxation purposes or on number of employees for employment legislation.

² In high-income economies, SMEs undertake the majority of private economic activity, accounting for more than 60% of private sector employment and 50% of private sector GDP. In emerging economies, SMEs contribute on average to more than 50% of private sector employment and 40% of private sector GDP. In LIDCs, SMEs contribute significantly to broadening employment opportunities, social inclusion and poverty reduction.

³ Financial infrastructure refers to the framework and institutions for financial sector transactions, and includes elements such as payment systems, credit information bureaus and collateral registries.

having an important bearing on the type of financing needed as well as on access to different sources of financing.

While many SMEs face problems obtaining bank finance⁴, access to non-bank financing is often even more constrained⁵, despite recent improvements in SME uptake of alternative financing instruments. Most sources of finance beyond straight bank debt⁶ are at the reach of only a small share of SMEs, especially in economies where private capital markets are thin and SMEs lack the scale, knowledge and skills to approach alternative sources of finance. While bank financing will continue to be crucial for the SME sector across all economies, the need to develop a more diversified set of options for SME financing remains pressing, in order to reduce the vulnerability of SMEs to changes in credit market conditions, strengthen their capital structure, seize growth opportunities and boost long-term investment. This will also contribute to the resilience of the financial sector and the real economy and to fostering new sources of growth that help address key challenges such as digitalisation and sustainability. Financial diversification has become even more compelling in the post-pandemic world, where higher levels of business debt and the prospect of higher interest rates could pose challenges for SME debt management.

The origins of the G20/OECD High-Level Principles on SME Financing date back to April 2015, when the G20 Finance Ministers and Central Banks' Governors asked the OECD, together with other relevant international organisations, to develop voluntary high-level principles on SME financing⁷. These Principles, welcomed by G20 Leaders in November 2015, are voluntary and non-binding, and emphasise the need to strengthen SME access to traditional bank financing, while also promoting non-bank finance. The Principles are addressed to G20 and OECD members and other interested economies, since they can apply to different economic, social and regulatory environments. They provide broad guidelines for the development of cross-cutting policy strategies, policy benchmarking and the assessment of initiatives on SME financing at the local, national and international levels. They are complementary to other ongoing efforts to identify operational solutions to support SME financing, in particular those undertaken through the work of the G20 Global Partnership on Financial Inclusion (GPFI). The Principles also aim to encourage dialogue, exchange of experiences and coordination, including regulatory coordination, among stakeholders in SME finance, including policy makers, financial institutions, research institutions and SME management. They are included in the [Compendium of Standards of the Financial Stability Board \(FSB\)](#).

Following the development of the G20/OECD High-Level Principles on SME Financing, G20 Leaders called for support to identify effective approaches to facilitate the implementation of the Principles through their 2015 Antalya Action Plan. Following this request, the G20/OECD Effective Approaches for Implementing the G20/OECD High-Level Principles on SME Financing were developed and issued in July 2018. This report highlights common approaches in the implementation of the Principles across G20 and OECD countries, based on the results of two surveys submitted to policy makers through the OECD Working

⁴ Banks are defined here as licensed financial institutions, including chartered banks and credit unions, whose primary role is to receive monetary deposits from individuals and organisations, and to supply credit and other financial services to households and businesses.

⁵ This is especially true for groups already at a disadvantage in credit markets, such as women and minority-owned businesses.

⁶ Straight bank debt includes bank loans, overdrafts, credit lines and the use of credit cards. The defining characteristic of straight debt instruments is that they represent an unconditional claim on the borrower, who must pay a specified amount of interest to creditors at fixed intervals, regardless of the financial condition of the company or the return on the investment. The interest rate may be fixed or adjusted periodically according to a reference rate. Straight debt does not include any features other than payment of interest and repayment of principal, i.e. it cannot be converted into another asset, and bank claims have high priority in cases of bankruptcy ('senior debt').

⁷ OECD (2018), "G20/OECD Effective Approaches for Implementing the G20/OECD High-Level Principles on SME Financing", [Effective-Approaches-for-Implementing-HL-Principles-on-SME-Financing-OECD.pdf](#).

Party on SMEs and Entrepreneurship (now the OECD Committee on SMEs and Entrepreneurship) and the G20/OECD Task Force on Institutional Investors and Long-Term Financing (now the G20/OECD Task Force on Long-term Investment).

Key developments in the landscape for SME finance since 2015

Since the release of the G20/OECD High-Level Principles on SME Financing in 2015, there have been several important developments in the landscape for SME finance, which call for updating the Principles. For example, financial technologies (Fintech) and Fintech institutions have continued to grow in importance, particularly in developing and emerging economies where digital technologies are making it possible to deliver new financial services to previously excluded low-income individuals and businesses. In contexts characterised by high information asymmetries, Fintech has become a powerful tool for financial inclusion, by leveraging the speed, security and transparency of digital technologies. Across both high-income and middle-income economies, the use of online banking has continued to spread, both in traditional banks that offer an increasing number of services online, and through the proliferation of fully online banks. The use of digital credit scoring methodologies has also been growing, while collateral registries and credit bureaus have increasingly gone online, making financial information easier to access. Fintech platforms, such as those dedicated to peer-to-peer lending and crowdfunding, have also seen rapid growth in recent years.

Another important development relates to the increasing priority that governments attach to sustainability concerns, including adapting to and mitigating climate change⁸. Given the predominance of SMEs in the business economy and in greenhouse gas emissions by businesses⁹, as well as their important contributions to green solutions, these businesses will play a central role in meeting ambitious climate objectives. In this context, the role of sustainable finance for SMEs takes on greater importance, as research shows that lack of financing¹⁰ is a key challenge these firms face when trying to undertake green actions in the transition to a more sustainable economy¹¹. Furthermore, the challenges SMEs face in adapting to sustainable finance market practices and other emerging environmental, social and governance (ESG) disclosure requirements may limit their ability to tap into sustainable financing instruments.

Furthermore, beginning in 2020, the world experienced an unprecedented global economic crisis brought about by the COVID-19 pandemic and extended lockdowns. These events underlined the need to strengthen the resilience of SME financing, particularly in times of crisis. The crisis highlighted the critical role that responsive public support can play in addressing the liquidity constraints of SMEs; in reducing the social and economic consequences of crisis; and in ensuring that otherwise viable businesses can survive. It also demonstrated the importance of adapting government policy responses to a rapidly evolving context,

⁸ 197 Parties signed the Paris Agreement on Climate Change at the COP21 meeting on 22 April 2015. This Agreement aims to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

⁹ SMEs are estimated to account for 50-70% of GHG emissions in the business sector.

¹⁰ For instance, 27% of European SMEs signal a lack of financial resources as the main reason preventing them from becoming more sustainable, significantly higher than for large firms.

¹¹ With a view to supporting SMEs' access to sustainable finance, the OECD launched at the end of 2021 the OECD Platform on Financing SMEs for Sustainability, which provides a forum to foster dialogue and knowledge sharing among public and private financial institutions, policy makers and SME representative organisations on the topics related to financing for the SME green transition.

so that public support reaches its intended beneficiaries¹², and of deploying an appropriate mix of instruments, so that increased public and private debt do not become a stumbling block for recovery.

Finally, there has been a growing demand by policy makers for more disaggregated information on SME access to finance, in order to strengthen the evidence base and design policy responses tailored to different business needs, for example at regional or sector level, or based on the gender of the business owner¹³. These issues warrant additional attention in the context of efforts to improve demand- and supply-side data collection on SME finance¹⁴.

The 2022 Updated G20/OECD High-Level Principles on SME Financing takes these important developments into account through the inclusion of three new Principles:

- Principle 8: Leverage the role of financial technologies, Fintech institutions and digital relationships to reduce barriers to SME access to finance.
- Principle 9: Strengthen the availability and uptake of sustainable finance for SMEs.
- Principle 10: Strengthen the resilience of SME finance in times of crisis.

The content of Principle 1 has also been updated to reflect the emphasis on the need for more disaggregated data on SME financing. Other Principles have also been the subject of updates to reflect the latest developments.

Figure 1 provides a graphic representation of the 2022 Updated OECD/G20 High-Level Principles on SME Financing, with the new Principles highlighted in green. The ordering of the Principles has also been changed compared to the 2015 Principles, to go from the ones at the more macro level, for example concerning the regulatory framework, to the ones at the more micro level, for example dealing with issues related to policy design and implementation.

¹² The COVID-19 crisis also showed that, especially in emerging and developing economies, certain segments of the business population, such as informal entrepreneurs and workers, found it more difficult to access public support when needed.

¹³ For example, women entrepreneurs face specific barriers to receiving external finance, which is a consequence of many women-owned businesses clustering in low-margin, low-growth industries, but also of an insufficiently strong understanding of the needs and drivers of women entrepreneurs by financial institutions.

¹⁴ The GPMI, for example, is undertaking work on the collection of cross-country comparable information on SME financial inclusion, looking at both demand- and supply-side data.

Figure 1. Updated OECD/G20 High-Level Principles on SME Financing at a glance



Process and timeline for the update of the Principles

In June 2020, the G20 International Financial Architecture (IFA) Working Group discussed the evolution and trends in SME financing policies since the global financial crisis, based on the presentation of a paper by the OECD Secretariat¹⁵. In their July 2020 Communiqué and first G20 Action Plan progress report, G20 Finance Ministers and Central Bank Governors (FMCBG) noted that the OECD would consider reviewing and refining, as necessary, the G20/OECD High-Level Principles on SME Financing to incorporate the most recent data and financial developments¹⁶. The 2021-22 OECD Programme of Work includes the development of an update to the Principles, under the OECD Committee on SMEs and Entrepreneurship (CSMEE). In their October 2021 Communiqué, the FMCBG looked forward to the revision of the G20/OECD High Level Principles on SME Financing in 2022¹⁷. In February 2022, the FMCBG also looked forward to this revision, to be deliberated by the OECD Committee¹⁸.

The update of the Principles was channelled through the OECD CSMEE, in consultation with the G20/OECD Task Force on Long-term Investment, which brings together OECD countries and the G20. A light consultation was also undertaken with the G20 Global Partnership on Financial Inclusion (GPFI). Other OECD and G20 groups and stakeholders were consulted on specific issues or principles in the Update¹⁹. The preparation of the update proceeded along the following timeline:

- End-March: first draft of the Updated Principles circulated in writing to the OECD CSMEE and the G20/OECD Task Force on Long-term Investment.
- 12-13 April: Presentation and discussion in the CSMEE.
- 27-28 April: Presentation to the OECD International Network on Financial Education (INFE).
- 28-29 April: Presentation and discussion in the G20/OECD Task Force on Long-Term Investment.
- 12-13 May: Presentation and discussion in the G20 GPFI.
- May: second revised version circulated to the CSMEE and Task Force in writing for any further written comments by 31 May 2022.
- June: Circulation of third revised draft to the CSMEE for agreement, along with the Task Force.
- 30 June: approval of the final version by the CSMEE.
- July: Transmission of the document to the G20 Finance Ministers and Central Bank Governors.
- 15-16 July: The update of the Principles was welcomed by the G20 FMCBG (see [Chair's Summary](#)).

Comments received throughout this process were carefully considered and fed into the development of the final draft of the 2022 Updated G20/OECD High-Level Principles on SME Financing, which were submitted for agreement on 17 June 2022 to the OECD Committee on SMEs and Entrepreneurship, along

¹⁵ OECD (2020), "Evolution and Trends in SME Finance Policies since the Global Financial Crisis", [Policy developments in SME finance since the global financial crisis \(oecd.org\)](#).

¹⁶ Virtual meeting of the G20 finance ministers and central bank governors, 18 July 2020, Communiqué, [Communiqué: G20 Finance Ministers and Central Bank Governors, April 15, 2020 \(utoronto.ca\)](#).

¹⁷ Italian G20 Presidency, Fourth G20 Finance Ministers and Central Bank Governors meeting, Communiqué, 13 October 2021, https://www.mef.gov.it/inevidenza/2021/article_00064/G20-FMCBG-Communique-Fourth-G20-FMCBG-meeting-13-October-2021.pdf.

¹⁸ G20 Finance Ministers and Central Bank Governors Meeting, 17-18 February 2022, Jakarta, Indonesia, Communiqué, <https://g20.org/wp-content/uploads/2022/02/G20-FMCBG-Communique-Jakarta-17-18-February-2022.pdf>

¹⁹ For example, the International Network on Financial Education (INFE) was consulted on the Principle on financial skills and strategic vision.

with the G20/OECD Task Force on Long-term Investment. The final version was approved on 30 June, and the 2022 Updated G20/OECD High-Level Principles on SME Financing were transmitted in July, as planned, to G20 Finance Ministers and Central Bank Governors, who welcomed them during their meeting on 15-16 July (see [Chair's Summary](#)).

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Contacts: Ms. Miriam Koreen, Senior Counsellor and Head of SME and Entrepreneurship Financing Unit, OECD Centre for Entrepreneurship, SMEs, Regions and Cities (Miriam.KOREEN@oecd.org); Mr. Marco Marchese, Policy Analyst, OECD Centre for Entrepreneurship, SMEs, Regions and Cities (Marco.MARCHESE@oecd.org).

2022 Updated G20/OECD High-Level Principles on SME Financing

The Update of the G20/OECD High-Level Principles on SME financing is addressed to the G20 and OECD members and other interested economies to support their efforts to enhance access to a diverse range of financing instruments by SMEs, including micro-enterprises, informal enterprises and entrepreneurs. The principles are voluntary and non-binding, and build on existing international financial principles and guidelines.

Cross-cutting policy strategies to enhance SME access to finance are needed to provide a coherent framework for government actions in this area, within the broader policy ecosystem for SMEs. Such strategies are instrumental to define specific policy objectives; design, coordinate and implement policy measures; and to provide a framework for monitoring and evaluation¹.

The Principles that follow may serve the development of such strategies. They can apply to diverse circumstances and different economic, social and regulatory environments.

1. Identify SME financing needs and gaps and improve the evidence base

As a first step in developing a strategy to enhance SME access to finance, governments should assess the extent to which SMEs' financing needs are met and where gaps exist, in cooperation with relevant stakeholders, including central banks and financial supervisory authorities, financial and research institutions, financial sector organisations² and SME representatives, among others. This requires a strong evidence base and a better understanding of SME financing needs and challenges by public authorities and financial suppliers.³ Efforts should be placed on improving statistical information on SME financing, including through the use of public identification codes to match data about the same company from different datasets, particularly in developing economies, where a lack of reliable evidence constrains policy design, implementation and assessment. Furthermore, the heterogeneity of SMEs and SME financing conditions requires adapted policy solutions. Efforts to collect and disseminate more disaggregated data, including breakdowns by size, sector, location, age and stage of development of the firm, and gender of the business owner⁴, can enable the design of policies that are tailored to specific business needs. This calls for co-operation at the national and international levels (including through an expansion of the OECD Scoreboard on Financing SMEs and Entrepreneurs) to increase transparency regarding definitions, improve the comparability of data and indicators⁵, within and across countries, and regulatory co-ordination, and shed light on outstanding financing gaps, issues and good practices⁶.

2. Improve transparency in SME finance markets

Information asymmetries in finance markets should be reduced to increase market transparency, encourage greater investor participation and reduce financing costs for SMEs. Information infrastructures for credit risk assessment⁷ should aim to support an accurate evaluation of the risk in SME financing. To

the extent possible and appropriate, credit risk information should be standardised and made accessible to relevant market participants and policy makers to foster both debt and non-debt SME financing instruments⁸. Making such infrastructure available online can facilitate access and use by market participants. Accessibility of this information at the international level should be supported to foster SMEs' cross-border activities and participation in global value chains. Governments can also consider open banking, with a view to further improving transparency in credit markets and increasing competition in the banking sector, while ensuring data protection and privacy rights⁹.

3. Design regulation that supports a range of financing instruments for SMEs, while ensuring financial stability and investor protection

Policy makers and regulatory authorities should ensure that regulation is designed and implemented that facilitates SMEs' access to a broad range of financing instruments without compromising financial stability and investor protection, and enables a return on investment. Regulatory certainty is needed to ensure a predictable and stable operating environment for firms and investors. The combined effects of different regulations should also be considered. Regulations should be proportionate to the risks of different financing instruments, including those offered by Fintech institutions, while taking into account their impact in terms of financial inclusion. Efforts should be made to avoid undue administrative burdens (including through digitalisation), cut red tape and facilitate bankruptcy resolutions. Particularly in the equity space, flexibility provided to SMEs should be compatible with investor protection, integrity of market participants, corporate governance and transparency. Good corporate governance in SMEs should be encouraged to enhance their access to equity markets. Legal, tax and regulatory frameworks (including tax policies which provide incentives to encourage both debt and equity financing) should contribute to foster diverse sources of finance¹⁰. International regulatory coordination can serve to promote cross-border financing for SMEs¹¹.

4. Promote financial inclusion for SMEs and ease access to formal financial services, including for informal firms

Policy should aim to maximise the number of SMEs which have access to and use formal financial services and products at a reasonable cost. Financial inclusion is also an important tool to reduce business and labour informality¹². National financial inclusion strategies should include reviewing the legal and regulatory framework of the financial sector; defining a public intervention strategy and identifying appropriate delivery instruments; and ensuring the existence of tools for groups excluded from or underrepresented in the formal banking sector, including micro-entrepreneurs, women¹³, youth and other target populations¹⁴. Microfinance schemes should be given adequate attention, particularly in developing countries, as a means to enhance entrepreneurs' access to small amounts of funding at a more affordable cost than in informal credit markets¹⁵. Financial technologies (Fintech) and Fintech institutions should help extend banking and other financial services to wider segments of the population, making them particularly relevant in emerging economies¹⁶.

5. Enhance SME financial skills and strategic vision

To enable SMEs to develop a long-term strategic approach to finance and improve business resilience and prospects, governments should support the financial literacy of SME managers,¹⁷ as a way to improve their awareness, understanding and ability to use a broad range of available financial instruments, including alternative and digital ones, and to be aware of changes in legislation, public support and programmes for SMEs¹⁸. Public authorities should support and inform such efforts with the collection of evidence on the financial skills of SME managers, including through the use of the OECD/INFE survey on

MSMEs' financial literacy²⁰. SME managers should be encouraged to devote due attention to finance issues, acquire skills (including digital skills) for accounting and financial and risk planning, improve communication with investors and respond to disclosure requirements.²¹ Efforts should also aim to improve the quality of start-ups' business plans and SME investment projects, especially for the riskier segment of the market²². Programmes should be tailored to the needs, levels of financial literacy and levels of digitalisation of different constituencies and target groups, including groups that are underserved by financial markets and that have limited digital access and skills, such as micro-entrepreneurs, women, young entrepreneurs, minorities, and entrepreneurs in the informal sector, and to different stages in the SME business cycle, including early stages.

6. Strengthen SME access to traditional bank financing

As a main source of external finance for most small businesses, efforts to improve banks' capacity to lend to SMEs should be pursued. Measures may include credit guarantees, securitization²³, credit insurance²⁴, credit mediation, and adequate provisioning for loan losses. Risk mitigation measures should be strengthened, making use of new technologies and mechanisms for underwriting risk²⁵, while recognising the role of "relationship lending" in easing access to finance for SMEs²⁶. Effective and predictable insolvency regimes should ensure creditor rights while supporting healthy companies and offering a second chance for entrepreneurs who have gone through a transparent and orderly bankruptcy process. Likewise, SMEs should be afforded credit on reasonable terms, taking into account existing macroeconomic and credit market conditions, and with appropriate consumer protection measures in place. Policy makers should consider enabling SMEs to use a broader set of assets beyond fixed collateral to secure loans, including through the establishment of collateral registries for moveable assets²⁷. The use of intangible assets, including intellectual property rights, as collateral should be carefully considered to ease access to lending, particularly for knowledge-based companies and start-ups²⁸. Governments should also foster the use of credit information to improve credit risk management for lenders and access to funding for borrowers²⁹. The use of alternative data, including online data, to enhance credit risk assessment should be explored, while ensuring protection of privacy³⁰.

7. Enable SMEs to access diverse non-traditional financing instruments and channels

Recognising the complementary nature of the role of banks and other financing channels, including Fintech institutions, access to a sufficiently broad range of SME financing instruments is desirable in order to obtain the form and volume of financing best suited to SMEs' specific needs and the stage of the firm life-cycle, as well as to reduce SME vulnerabilities to financial shocks. Multiple and competing sources of finance for SMEs should be supported, and efforts should be made to increase entrepreneurs' awareness of the available financing options through targeted outreach initiatives³¹. The development of alternative financial instruments for SMEs should also aim to attract a wider range of investors, including institutional investors³², and to enhance their understanding of SME markets. Asset-based finance could be fostered to enable young and small firms to finance working capital on rapid and flexible terms³³. Similarly, supply chain and trade finance should be encouraged, where appropriate, to support the integration of SMEs in national and global value chains. Alternative forms of debt could be cultivated to enable SMEs to invest, expand and restructure³⁴. Adequate policy attention should go to the development of hybrid tools³⁵ and equity and quasi-equity instruments³⁶ to strengthen SMEs' capital structure and boost investment in innovative start-ups and high-growth SMEs³⁷. Special consideration should be given to venture and private equity financing, including capital for seed, early and later stage investments.

8. Leverage the role of financial technologies, Fintech institutions and digital relationships to reduce barriers to SME access to finance

Governments should encourage responsible financial innovation that supports the provision of affordable SME financing, reaches underserved market segments and regions, and increases competition among providers of financial services³⁸. By generating alternative data and the use of machine learning models³⁹, financial technologies and Fintech institutions should contribute to enhance credit risk assessment, including through collaboration with traditional financial institutions, especially in underserved markets where information asymmetries are more pronounced, thus improving access to external finance for SMEs⁴⁰. Fintech institutions can also be used to disburse loans more rapidly and to provide SMEs with the types of financing suited to their needs^{41 42}. Digital banking can help reduce transaction costs in banking services and simplify customer relationship management. Digital payment systems can support SMEs through safer and faster payments, increased transparency of transactions, improved bookkeeping, and by leading the unbanked to access other formal financial services. Given the rapid evolution of financial technologies, innovation through experimentation may be explored, including through the use of regulatory sandboxes⁴³, and regulatory frameworks for new Fintech institutions should take a technology-neutral approach. Monitoring and sharing information across countries on regulatory and supervisory approaches to Fintech can also prove useful. Consumer protection concerns should also remain at the forefront, including the collection and use of personal data and the security of transactions on digital platforms⁴⁴.

9. Strengthen the availability and uptake of sustainable finance for SMEs

Governments should strengthen the availability and uptake of sustainable finance for SMEs⁴⁵ in order to help reach environmental, social and governance (ESG) objectives⁴⁶. Governments and public financial institutions can facilitate SME access to a range of tailored sustainable finance instruments suitable to their diverse needs and ambitions⁴⁷. Financial support should be complemented with non-financial support in order to close gaps in SME awareness and knowledge of sustainable finance, improve SME reporting capabilities, strengthen investment-readiness⁴⁸ and boost SME demand for and access to sustainable finance. Governments should also promote the inter-operability of definitions, data and methodologies related to the integration and measurement of ESG standards to support the demand for and supply of sustainable finance⁴⁹. Proportionality in ESG reporting requirements could be considered, in line with SMEs' ability to measure and report on their ESG performance and efforts⁵⁰. Governments could also consider flexible timelines for the implementation of ESG considerations in SME business practices⁵¹, while supporting capacity building for reporting and compliance.

10. Strengthen the resilience of SME finance in times of crisis

In times of crisis, when firms often struggle with liquidity, governments should work to ensure the rapid delivery of SME financing support, including through the simplification of eligibility requirements and procedures and provision of related advisory services, while safeguarding accountability⁵². Support should seek to mobilise a wide range of instruments and traditional and non-traditional channels, including by leveraging relationship lending and digital delivery systems. Efforts should seek to reach vulnerable SMEs and entrepreneurs (e.g. micro-entrepreneurs, young firms, women entrepreneurs, entrepreneurs from under-represented groups, informal firms and firms in the hardest-hit sectors), that may be disproportionately affected by crises and may face challenges in accessing existing policy measures⁵³. The implementation and uptake of support measures should be carefully monitored and adjusted as appropriate during the crisis. During the recovery phase, reductions of broad-based support and shifts towards more targeted measures, including those that contribute to structural objectives, should be

considered⁵⁴. The phasing out of exceptional support measures should be managed through carefully designed and well-communicated exit strategies, in order to enable viable firms to adjust to their withdrawal.

11. Encourage timely payments in commercial transactions and public procurement

Timely payments and transparency in Business to Business (B2B) and Government to Business (G2B) transactions could be encouraged to enhance the cash flow of small business suppliers, recognising that timely payments are often essential in the cash-flow management strategies of small companies⁵⁵. Policy makers and regulators should ensure that SMEs, which are particularly vulnerable to late payments or non-payment⁵⁶, are offered clear and appropriate payment terms which are respected in practice. Norms could be designed, implemented and enforced to discourage late payments in commercial transactions, including for cross-border trade⁵⁷.

12. Design public programmes for SME finance which ensure additionality, cost effectiveness and user-friendliness

The design of public programmes to enhance SME access to finance should ensure financial and economic additionality⁵⁸, along with cost effectiveness. Policy coherence⁵⁹ across levels of government and between government and non-government bodies dealing with SME finance should be pursued, based on reliable evidence. The target population, eligibility criteria, credit risk management and fees structure should be considered carefully and defined clearly when designing programmes, which should be easy to understand for SMEs. The administrative burden and compliance costs of new and existing policies should be proportionate to the service provided, the impact on beneficiary firms and the broader economy, as well as to the nature and size of the targeted businesses.

13. Adopt principles of risk sharing for government-supported SME finance instruments

Public programmes for SME finance should help catalyse and leverage the provision of private resources, especially in risk capital markets. Under certain conditions⁶⁰, public schemes can be effective in kick-starting the offer of financing tools for SMEs. Leveraging private resources and competencies is important to enhance the resilience of SME financing in the face of rapid economic and regulatory change⁶¹. Policies should aim at encouraging the participation of private investors and developing appropriate risk-sharing and mitigating mechanisms with private partners which ensure proper functioning of public measures, including the allocation of government resources to their most efficient use. Policies should also be designed to avoid “moral hazard”, i.e. excessive risk-taking against the public interest⁶², and potential crowding-out effects⁶³. Multilateral development banks (MDBs), national development banks (NDBs) and other public funds should be encouraged to promote SME financing, directly and indirectly, in particular when SMEs are underserved by commercial banks⁶⁴.

14. Monitor and evaluate public programmes to enhance SME finance

Monitoring and evaluation of policies to ease SMEs’ access to finance should be promoted. Ex ante and ex post evaluation⁶⁵ should be performed regularly based on clearly defined, rigorous and measurable

policy objectives and impacts and in co-operation with financial institutions, SME representatives and other stakeholders. Evaluation findings should feed back into the process of policy making, in particular when measures fail to meet their stated objectives or are found to have undesirable impacts. The use of new data⁶⁶, depending on availability, should be explored to potentially produce more timely evaluation results, while maintaining appropriate standards of confidentiality⁶⁷. The establishment of national and international core metrics for the evaluation of SME finance programmes could help improve benchmarking the impact of these programmes within and across countries⁶⁸. Regional, national and international policy dialogue and exchange of experiences on how to monitor and evaluate public programmes to enhance SME finance should be encouraged.

Notes

¹ Strategies may be developed at various geographical and sectoral levels.

² Financial sector organisations include, among others, Fintech institutions, insurance providers and leasing and factoring companies.

³ Evidence on SME financing, including micro data and micro analysis, is needed for informed policy discussion; the evaluation of policies; monitoring the implications of financial reforms on SMEs' access to finance; and for a better understanding by financial suppliers' of SME financing needs. Evidence on financing needs and gaps by firm size and stage in the firm life cycle is especially important to tailor policy strategies. In this regard, regular quantitative demand-side surveys can represent an important source of information, and their coordination and harmonisation at the national, regional and international levels should be encouraged to improve the quality of information and cross-country comparability.

⁴ Evidence shows that women are often disadvantaged in credit markets, making data collection by gender useful to tackle gender biases and promote social and economic inclusion. International efforts, such as the "2013 OECD Recommendation of the Council on Gender Equality in Education, Employment and Entrepreneurship", call for the collection, production and development of timely and internationally comparable gender-sensitive data and indicators in the areas of education, employment and entrepreneurship.

⁵ At the international level, comparison of data on SME finance is significantly hampered by differences in definitions and methodology.

⁶ Strengthening the ability to document differences in SME access to finance across countries can shed light on policy experiences and facilitate the exchange and adaptation of policy good practices.

⁷ Credit bureaus or registries or data warehouses with loan-level granularity may be part of the information infrastructures for credit risk assessment.

⁸ Credit market information collected and disaggregated by firm size and gender of the business owner can be especially important in addressing information asymmetries that prevent access to finance by underserved business groups.

⁹ Open banking involves banks offering the option to their clients to share their financial information with other authorised providers of financial services. Open banking legislation requires banks to allow third party access to consumers' bank data (with their consent) through Application Programming Interfaces (APIs). Many countries have recently encouraged open banking through appropriate legislation in the expectation that this will spur competition in

the financial industry, as small business owners and entrepreneurs can share banking data securely and easily within a well-functioning open banking protocol.

¹⁰ This may be of particular importance to attract private investors to early stage investments.

¹¹ In addition, international exchange of experiences on regulation for new sources of finance can be particularly beneficial.

¹² Informal enterprises are defined on a country specific basis as the set of unincorporated enterprises owned by households which produce at least some products for the market but which either have less than a specified number of employees and/or are not registered under national legislation referring, for example, to tax or social security obligations, or regulatory acts.

¹³ A number of national and multilateral initiatives are currently underway among governments and financial institutions to raise awareness of the barriers to SME finance for women entrepreneurs; take actions to strengthen tools, resources and finance for women entrepreneurs; and to improve the evidence base through the collection of disaggregated data.

¹⁴ To promote financial inclusion, the introduction of technological platforms which enable the delivery of a broad variety of financial products and services, drive down the costs of financial access and reach previously untapped markets could be considered.

¹⁵ Governments can support microcredit through appropriate regulation and possibly by offering risk mitigation instruments to microcredit providers (e.g. guarantees), resulting in lower interest rates for small borrowers.

¹⁶ For example, the diffusion of point-of-sale terminals and non-branch outlets of commercial banks has been used to foster financial inclusion.

¹⁷ The OECD Recommendation on Financial Literacy (adopted by OECD Governments and Brazil in 2020, and welcomed by G20 FMCBG in 2021) defines financial literacy as a combination of financial awareness, knowledge, skills, attitudes and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being. The Recommendation is available at: <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0461>.

¹⁸ The OECD/INFE (International Network of Financial Education) has developed work on financial education for micro, small and medium enterprises. In particular, the OECD/INFE Core Competencies Framework on Financial Literacy for MSMEs (<https://www.oecd.org/finance/financial-education/OECD-INFE-core-competencies-framework-on-financial-literacy-for-MSMEs.pdf>) provides a useful framework for designing programmes aimed at improving the financial literacy of MSMEs' owners and managers.

¹⁹ SMEs' awareness about alternative lending options should also be improved, to enable them to obtain the most favourable credit terms and conditions.

²⁰ The OECD/INFE developed a survey instrument to measure the financial literacy of MSMEs (<https://www.oecd.org/finance/education/2020-survey-to-measure-msme-financial-literacy.pdf>) that was used by 14 countries in 2021 as part of a coordinated G20 exercise promoted by Italy's G20 Presidency. Initial results are available in the G20/OECD-INFE report "Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 times" (<https://www.oecd.org/finance/financial-education/navigating-the-storm-msmes-financial-and-digital-competencies-in-covid-19-times.htm>) that highlights the role of financial literacy and digitalisation in helping MSMEs cope with the COVID-19 crisis.

²¹ Efforts should be made to improve awareness and understanding by SMEs of the information required by creditors and other investors in order to consider their demand for finance. This should include feedback from financial institutions on how to improve the quality of applications for external financing. Entrepreneurs' financial literacy and skills can be improved either through the education system, as part of a more general effort to teach entrepreneurship skills, or through specific programmes and advocacy, including in cooperation with the private and not-for-profit sector. Approaches such as training, mentoring and coaching can help SMEs understand how different instruments serve different financing needs at specific stages of the life cycle; the advantages and risks implied; the complementarities

and possibility to leverage different sources of finance; and how to approach different types of investors and meet their information requirements.

²² Investment readiness programmes can support start-ups and SMEs in understanding investors' specific needs, gathering information and developing business plans so as to address these needs appropriately. Furthermore, accompanying support to financing, such as mentoring and coaching, including by investors, can improve the survival and growth of new and small firms.

²³ High-quality, transparent and standardised securitization of SME loans is one means to strengthen banks' balance sheets and foster their lending to SMEs.

²⁴ More generally, insurance, beyond credit insurance, can also play an important role in enhancing SMEs' access to finance. For example, property insurance can significantly reduce the risk profile of SMEs, thus increasing the likelihood of banks extending credit to SMEs insured with these products.

²⁵ To gather more accurate information about businesses, banks may also make use of external experts, particularly for technology-based business models. The use of credit scoring models may also serve to facilitate bank lending to MSMEs by reducing costs and increasing service levels.

²⁶ Relationship lending refers to lending facilitated by the in-depth knowledge of the business by the local branch bank officer. It has proven especially important in easing access to finance for SMEs, particularly during economic downturns when the simple application of credit scoring methodologies may not fully capture the economic viability of a business. Small local banks are generally considered to be well-skilled in relationship lending.

²⁷ An important choice for policy makers is whether to integrate moveable assets into existing collateral registries or to build new specific registries for moveable assets. Characteristics of well-functioning registries include: immutability, meaning that historical records are never deleted or changed; searchability, ideally online and in a user-friendly fashion; and comprehensiveness, referring to the breadth of information that is covered.

²⁸ Most lenders are not accustomed to identifying the existence of intangible assets and assessing their value, and specialist external evaluations are expensive. In addition, assessing the "recoverable value" (i.e. the value that can be extracted in case of default of the owner), which is different from the face value of the intangible asset, can prove difficult. The collateralisation of intangibles generally requires strong estimation techniques.

²⁹ The G20 Action Plan on SME Financing, which the Global Partnership on Financial Inclusion (GPFI) released under the G20 Turkish Presidency in 2015, highlights the importance of a solid financial market infrastructure to support SME access to finance. In particular, it points to the importance of three sets of reforms that are also referred to in this principle: i) improvements of the credit reporting framework for SMEs; ii) those that allow banks and non-banks to lend to SMEs against movable collateral; and iii) reforms of the insolvency framework.

³⁰ Credit risk assessment has traditionally been based on the use of information internal to the firm, such as balance sheets and the presence of collateral assets. The use of alternative data could enhance credit risk assessment, resulting in stronger credit supply. Alternative data can include the history of firm payments to its suppliers and public utilities, an assessment of the credit reliability of the main partners of the company, as well as broader sector trends.

Alternative data may also include online data from social media, although this would require the development of strong algorithms to ensure the quality of the information and the respect of individuals' privacy.

³¹ Alternative sources of finance, including those relying on financial technologies, have proven particularly important in enabling access to finance for business segments underserved by traditional sources of financing, including women entrepreneurs.

³² See also the G20/OECD High level Principles on long term investment financing by institutional investors and their related effective approaches.

³³ Asset based finance includes, for example, asset-based lending, factoring, purchase order finance, warehouse receipts, and leasing.

³⁴ The Cambridge Centre for Alternative Finance defines alternative finance as all financial instruments and channels that emerge outside the traditional financial system, from crowdfunding to peer-to-peer lending to virtual currency. Alternative forms of debt include corporate bonds, private placements, direct lending by non-bank institutions, peer-to-peer lending and debt-based crowdfunding.

³⁵ Hybrid instruments include subordinated loans and bonds, silent participations, participating loans, profit participation rights, convertible bonds, bonds with warrants and preferred stocks. The importance of hybrid tools has increased in the wake of the COVID-19 crisis, as this has involved increased levels of debt for many SMEs. Hybrid instruments, including semi-equity tools, can contribute to financing SMEs while reducing their levels of debt and increasing their leverage ratio. The use of guarantees on hybrid instruments has also become more common in recent years.

³⁶ Equity instruments comprise venture capital, business angel investing, other private equity instruments, specialised platforms for public listing of SMEs and equity-based crowdfunding.

³⁷ The existence of appropriate channels for exit can help increase the attractiveness of these instruments for investors.

³⁸ Fintech refers to the use of digital technologies in financial transactions. Fintech institutions (or "Fintechs") refer to institutions or platforms that have such technologies at the centre of their business models. Examples of digital technologies used in the financial sector include blockchain technology, Artificial Intelligence, big data, and robo-advisory, among others.

³⁹ Alternative data refer to information collected and analysed from non-traditional sources which can help assess the creditworthiness of business owners. This information can be gathered from various sources such as cash flows, invoices, personal transactions and bills, and social media activities, among others.

⁴⁰ Especially in emerging economies, large online banks have already tested and tried the use of big data and machine learning models to extend loans to unbanked SMEs, i.e. SMEs which did not have the required internal financial information to access traditional loans. In doing so, Fintech has supported the financial inclusion of underserved SMEs.

⁴¹ For example, this has been the case during the COVID-19 crisis when many banks and other non-bank financial institutions have been able to leverage their digital technologies and data about their customers to disburse targeted loans rapidly.

⁴² Fintech institutions can also provide companies with ways to access and manage insurance more easily (Insurtech).

⁴³ Many governments have developed regulatory sandboxes which allow for innovation and experimentation in the area of Fintech and which can facilitate the market entry of Fintech start-ups.

⁴⁴ The Revised G20/OECD High-Level Principles on Financial Consumer Protection set out the main standards in this area, also covering Fintech-related transactions. For example, they recommend that "financial services providers and intermediaries should provide consumers with key information on the fundamental benefits, risks and terms of the product (...) regardless of the distribution channel". The G20 GPF1 "Menu of Policy Options for Digital Financial Literacy

and Financial Consumer and MSME Protection” also offers a palette of policy instruments and principles to encourage digital financial inclusion while ensuring consumer protection.

⁴⁵ Sustainable finance takes into consideration environmental, social and/or governance factors into the investment decision. In the area of the environment, it involves the provision of direct financing for sustainability (e.g. green grants, repayable or not, green concessional loans, direct equity, green bonds, green credit lines for on-lending etc.), as well as crowding in private sustainable finance (green loan guarantees, first-loss capital, etc.).

⁴⁶ For example, high upfront costs and limited access to external finance are the main barriers that SMEs face when they invest in greening.

⁴⁷ For example, in the area of environmental policies, governments can support eco-adaptation, eco-entrepreneurship and eco-innovation. Eco-adopters implement environmental technologies and sustainable business practices in response to regulatory requirements or consumer demand. Eco-entrepreneurs seek new opportunities – caused by a shift in values or preferences, regulations, or problems – and subsequently develop and commercialise solutions to address the identified opportunities. Eco-innovators implement new or significantly improved products, processes, marketing methods and workplace organisation arrangements that reduce their environmental impact.

⁴⁸ Investment-readiness is a concept that involves ensuring that SME owners and entrepreneurs are ready for equity investments. This implies, first of all, that they are culturally open to receiving equity finance, even if this dilutes their ownership of the business; that they have the managerial skills needed to grow their business, including full understanding of the industry regulatory framework and market prospects; and that their business is investable, i.e. corporate information is transparent and accessible.

⁴⁹ Such endeavours are critical to facilitate and accelerate financial institutions’ integration of ESG in risk management and investment decisions and support better alignment of their portfolios with net zero objectives and outcomes.

⁵⁰ ESG ratings take into account not only how exposed enterprises are to climate-related risks and opportunities, but also how enterprises address these risks.

⁵¹ SMEs, particularly micro and small enterprises, have relatively fewer human and financial resources to dedicate to the measurement and reporting of their ESG performance relative to large enterprises. This may have to be taken into account when devising disclosure requirements.

⁵² For example, in the aftermath of the COVID-19 crisis, many countries simplified access to their SME financing policies, including through the lifting of fees and/or the shortening of approval procedures.

⁵³ For example, micro-entrepreneurs may not be eligible for traditional SME support measures, such as concessional loans or loan guarantees. Similarly, there is a large diversity within the micro-entrepreneur segment of the business population, which makes it challenging for policy makers to design appropriate policy interventions.

⁵⁴ This may involve, for example, tightening eligibility criteria and/or introducing conditionality in the offer of public programmes.

⁵⁵ Acceptable late payments are often used as a cash-flow management strategy, as companies may prefer holding back the payment of their suppliers until they have been paid by their buyers, especially in the context of supply chain relationships.

⁵⁶ Late payments typically force SMEs to seek external finance in order to cover cash flow gap and/or to cut back investment and hiring plans.

⁵⁷ Possible policy actions to encourage timely payments in commercial transactions include the restriction of the contractual freedom to pay invoices, the automatic entitlement to compensation for late payments, the possibility for

SMEs to challenge unfair terms and practices, and the simplification of debt recovery procedures, including for transnational transactions.

⁵⁸ Financial additionality means that public support reaches viable enterprises which would not otherwise have had access to finance or would have accessed finance at tighter conditions (e.g. higher financing cost, shorter debt maturity). Economic additionality implies that the intervention produces a net positive impact on the economy.

⁵⁹ Policy coherence is defined as the systematic promotion of mutually reinforcing policy actions across government departments and agencies creating synergies towards achieving the agreed objectives. Within national governments, policy coherence issues arise between different types of public policies, between different levels of government, and between different stakeholders.

⁶⁰ Public policy may be essential to maintain offer of finance to SMEs under certain conditions, such as economic crises, pandemics or natural disasters. Due to information asymmetries, public policy may also be important to kick-start or boost offer of financial products and services to specific types of SMEs and entrepreneurs, which are typically underserved by financial markets, including young and growth-oriented enterprises. Public policy can increase the amount of finance available to SMEs, while still complying with market principles, such as when governments and private investors co-invest in growth-oriented SMEs (for example, through funds-of-funds or co-investment in privately-managed VC funds).

⁶¹ Resilience is the capacity of individuals, communities and systems to resist, adapt, and grow in the face of stress and shocks. Resilience involves being prepared for uncertainty, but also developing the capacity to cope with change and emerge stronger than before.

⁶² In this respect, national and international banking sector regulations, such as the Basel III framework, also play a key role. The Basel III framework seeks to address a number of shortcomings in the pre-financial-crisis regulatory framework and provides a foundation for a resilient banking system that aims to avoid the build-up of systemic vulnerabilities. Among others, it specifies a minimum leverage ratio requirement to constrain excess leverage in the banking system and complement the risk-weighted capital requirements.

⁶³ Mechanisms for the development of effective public-private partnerships in SME financing may include co-investment schemes, private-public equity funds, the delivery of public support through private sector intermediaries and the provision of credit guarantees where risks are shared by the public and private sectors.

⁶⁴ For example, the World Bank has developed principles for the effective management of public credit guarantee schemes, which also highlight the importance of effective risk sharing between all parties involved in these schemes, i.e. borrowing companies, lending financial institutions and public guarantors.

⁶⁵ An ex-ante evaluation can be defined as an initial assessment aimed at identifying whether alternatives to the planned policy intervention can yield greater benefits. An ex-post evaluation typically assesses the impact of the policy intervention; in the case of SME financing policies, ex-post evaluations should preferably assess both the impact on the financial performance of the beneficiary company and the impact on broader economic outcomes (e.g. job creation).

⁶⁶ The collection of disaggregated data by the different characteristics of SMEs is important in order to understand the specific needs of different business segments, make informed policy decisions and evaluate the impacts of policy instruments.

⁶⁷ New data sources may include administrative data, data collected by banks and firm-level data from commercial databases.

⁶⁸ Core metrics to benchmark SME financing programmes could include increased sales, increased employment or higher survival rates.