

## Chapter 1. Recent Trends in SME and Entrepreneurship Finance

*This chapter analyses trends in SME and entrepreneurship finance over 2007-16, based on data collected for the country scoreboards and information from demand-side surveys. A short overview of the global business environment sets the framework for the analysis of SME financing trends and conditions, focusing in particular on the changes which occurred in participating countries between 2015 and 2016, and the first half of 2017. The chapter concludes with an overview of government policy responses put in place to improve SMEs' access to finance in light of recent developments.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

## Business environment and the macroeconomic context

Following an uneven recovery from the 2007-08 financial crisis, global GDP growth in 2016, the period covered in this report, stood at 3.1%, its weakest level since the post-crisis period. 2016 growth in global investments and international trade was also well below the historical average (OECD, 2017a).

Global GDP growth recovered to 3.6% in 2017 however, with 2018 and 2019 forecasts more upbeat with manufacturing growth picking up. In the OECD area, real GDP growth stood at 1.8% in 2016, was set to reach 2.4% in 2017 and is forecast to rise to 2.3% in 2018 and 2.1% in 2019. In non-OECD countries, growth is also expected to accelerate from 4.1% in 2016 to 4.6% in 2017 and then to 4.9% in 2018 in real terms (OECD, 2017a).

In particular, there are signals that corporate investments, which recovered slowly and unevenly after the financial crisis, may have turned the corner in 2017, spurred by an ageing of the capital stock. If it gathers pace, this trend could be expected to increase SME demand for finance over the next few years. Global trade, which grew at an exceptionally weak rate in 2016, is also experiencing an uptick.

Downward risks may compromise the recovery, however. Financial vulnerabilities persist in particular, with equity prices reaching historic highs in some OECD countries, paired with the fragile state of segments of the financial system, and a high indebtedness of households and non-financial corporations in many advanced economies. This may lead to sharp corrections of asset prices which would weigh on economic growth and on SME access to finance.

### *Financial conditions*

Since 2011, financial conditions have been loosening in the Euro area, Japan and the United States, and this trend continued in 2016 (Figure 1.1).<sup>1</sup> Inflation is expected to remain low by historical standards in much of the developed world, a recent increase in commodity prices notwithstanding. Monetary policy are expected to remain loose in the coming years as long as underlying inflationary pressures continue to be subdued, which is in turn largely dependent on the evolution of commodity prices (OECD, 2017a).

**Figure 1.1. Financial conditions indices in the Euro area, Japan and the United States**

Note: A unit increase (decline) in the index implies an easing (tightening) in financial conditions sufficient to produce an average increase (reduction) in the level of GDP of 0.5% to 1% after four to six quarters. Based on information available up to 30 May 2016

Source: OECD (2016a) and OECD calculations.

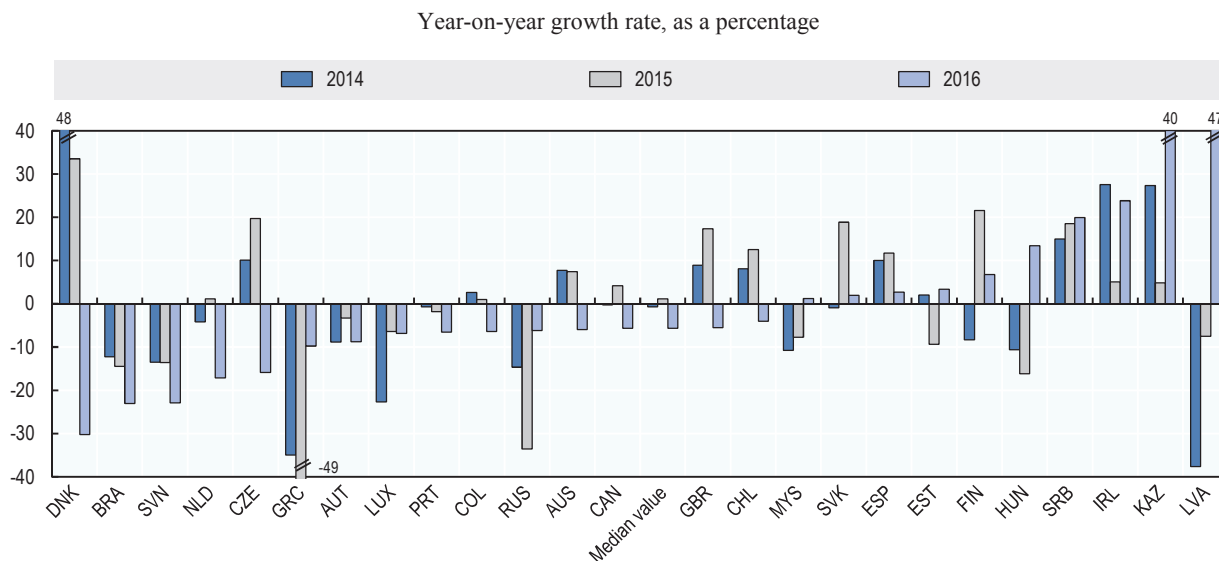
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## Lending to SMEs

Data on new lending shows a mixed picture, with growth rates turning negative in 2016 in 15 out of 25 countries. On the other hand, the outstanding stock of SME loans continued to increase in a majority of participating countries in 2016, following a trend observed since 2014. The fact that favourable credit conditions were paired with weak growth in new lending may reflect a decline in demand for credit (see section on credit conditions for SMEs).

### *New SME loans*

The data on new lending to SMEs depicts a more negative picture than in previous years. Of the 25 countries that provided data for 2016, growth in new SME loans was negative in 15 of them, sometimes substantially. In 7 countries (Australia, Canada, Chile, Colombia, the Czech Republic, Denmark and the United Kingdom), SME loan growth turned negative in 2016 following positive growth in the previous year. Austria, Brazil, Luxembourg, Portugal and Slovenia witnessed a bigger decline in 2016 than in 2015. In only a minority of instances, growth rates turned positive or strengthened. The median value growth rate in new SME lending fell from 2.6% in 2015 to -5.6% in 2016 (see Figure 1.2).

**Figure 1.2. Trends in new SME lending**

*Note:* Notes. 1. Definitions differ across countries. Refer to the table of sources and definitions in the full country profiles available online. 2. Countries with stock data only are not included. 3. All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank. 4. Countries not providing 2016 data were excluded.

*Source:* Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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It is important to note that the data from Figure 1.2 and following are in real terms, i.e. inflation-adjusted, as was already the case in previous editions of this publication, to provide a more accurate picture of the evolution of SME lending, undistorted by general price evolutions.

The decline in new lending can be attributed to several factors, often depending on national circumstances. In Australia, Austria, the Czech Republic, the Netherlands and the United Kingdom, survey data point to lower demand for credit as (partially) driving this development. Lower demand can be linked to weak investment dynamics (see Credit to SMEs: links with key economic variables for more information). In other countries, such as Greece, Slovenia and Portugal, financial institutions appeared to have become more risk-averse when lending to SMEs. In these countries, relatively high non-performing loans still weigh on the supply of credit, especially for segments within the SME population that are deemed risky. In Brazil and the Russian Federation, the decline appears mainly due to unfavourable macro-economic conditions.

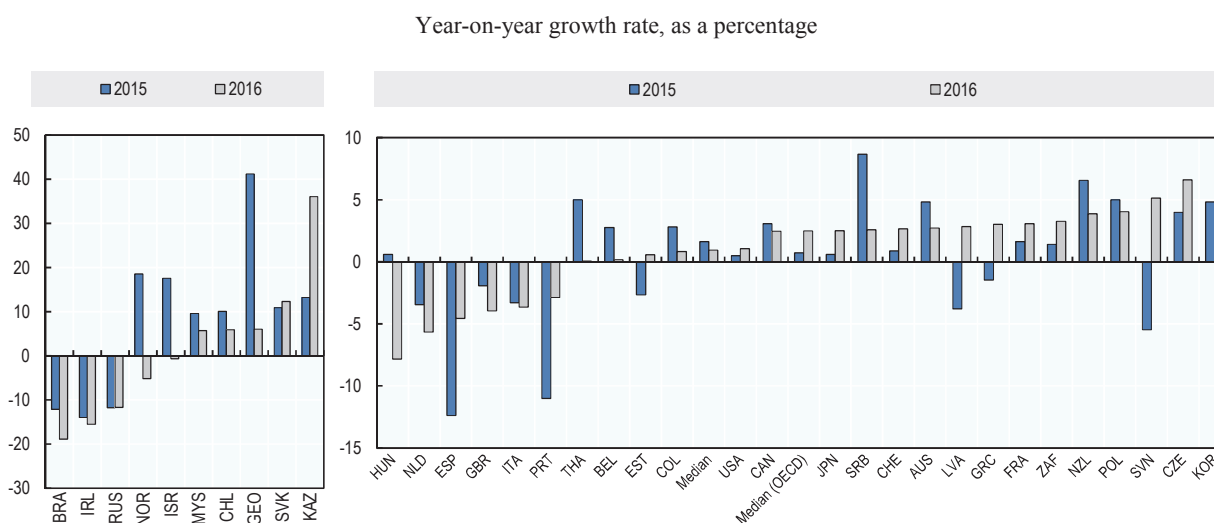
### ***Outstanding SME loans***

34 countries provide data on the outstanding stock of SME loans and in 2016, the stock of outstanding loans grew in 24 out of 34 countries. The median value of the year-on-year growth in outstanding loans stood at 2.5% in 2016, slightly up from the median growth of 2.19% in 2015. This acceleration in growth happened despite a slowing down in credit growth in mid-income countries such as Chile, Colombia, Kazakhstan, Georgia and Malaysia. The median value for OECD countries only more than doubled between 2015

and 2016 from 1.25% to 2.58%, reflecting relatively strong growth in the outstanding stock in most OECD countries.

In 2016, loan growth turned positive in Estonia, Greece, Latvia and Slovenia, while the outstanding stock of SME loans continued to fall in Portugal and Spain in 2016, albeit much less so than in previous years. By contrast, in 2016 the growth rate turned negative in Hungary, Israel and Norway after strong growth in 2014-15, and continued to decline by more than 10% in Brazil, Ireland and the Russian Federation (see Figure 1.3).

**Figure 1.3. Growth of outstanding SME business loans**



*Note:* 1. Definitions differ across countries. Refer to the table of sources and definitions in the full country profiles available online. 2. Countries not providing 2016 data are not included. 3. Georgia's 2015 growth rate of 41.19 is not depicted. Kazakhstan's 2016 growth rate of 36.06 is not depicted. 4. All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank.

*Source:* Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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The data on outstanding SME loans is influenced by a greater number of factors than data on new lending, which explains the divergence that can be observed between these two indicators, even though both of them provide information about developments in credit markets. In particular, the pace of loan repayments, changes to the maturity of loans and fluctuations in non-performing loans may lie behind different developments in stock and flow data in SME loans. In Ireland, for example, the outstanding stock of loans fell in 2016, even though new lending was up in the same year, because of increased repayments of existing loans. In Greece, the opposite happened in 2016 with the outstanding stock of loans increasing while new lending declined, which can be largely attributed to the rise in non-performing loans in recent years, which remain on bank's balance sheets, thereby inflating the stock of outstanding loans. In many countries, there has been an upward trend in the relative number of long-term loans compared to the short-term credit. This can explain in part the divergent trends in flow and stock data, since loans of greater maturity remain in the data on outstanding loans for a longer period.

### *SME loan shares*

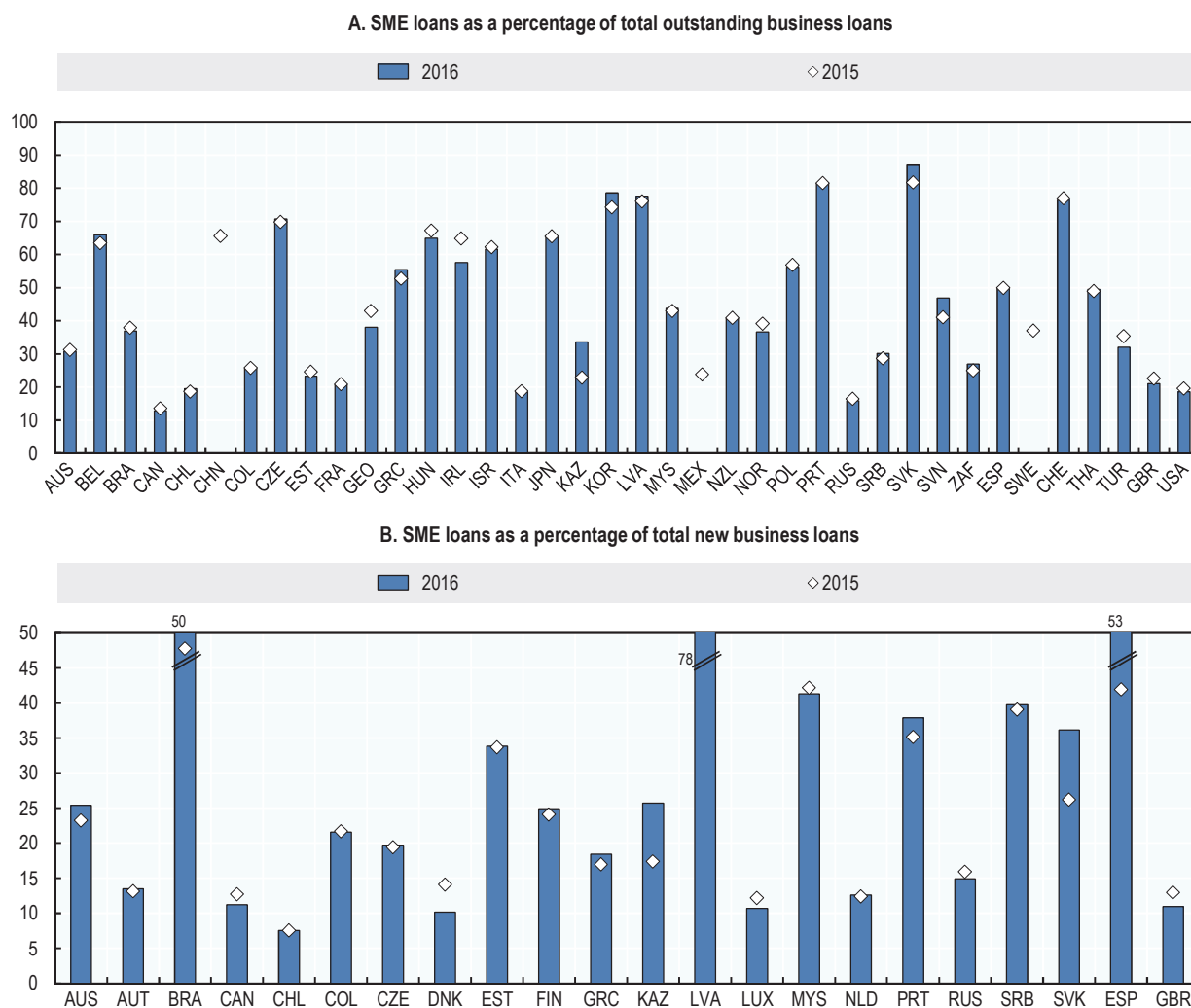
The evidence on outstanding SME loan shares, defined as the shares of SME loans over total business loans, helps to set the above indicators on SME lending into the context of general business lending conditions in participating countries. Figure 1.4 summarises the evolution of loan shares over the 2015-16 period.

The significance of SME loans as a percentage of all outstanding business loans varied greatly across countries in 2016, ranging from less than 20% in Brazil, Canada, France, Italy, the Russian Federation and the United States to levels of more than 75% in Latvia, Portugal, the Slovak Republic and Switzerland, and seems negatively correlated with the overall size of countries and their economies. In addition to the size of the country, income per head appears to be positively correlated with the loan share that is directed toward SMEs. In 2016, the median value of the loan share for all participating countries stood at 42.2%, compared to 55.7% in OECD countries. Participating non-OECD countries' loan share remains well below 50%, even in relatively small countries such as Georgia and Serbia. This possibly reflects a stronger preference from the banking sector in middle income economies to lend to large enterprises. China represents an exception, both in terms of its size and income level, with 65.5% of corporate loans flowing to SMEs in 2015.

The median value for SME loan shares as a proportion of all corporate loans provides some insight into overall trends. It declined from 40.9% in 2007 to a low of 38.5% in 2010, possibly indicating a more problematic access to bank credit for SMEs compared to large enterprises over this period. Between 2011 and 2016, the share of outstanding SME loans rose every year and stood at 42.2% in 2016. The SME share in new lending declined as well between 2007 and 2009, and recovered between 2014 at 19.8% to 24.2% in 2016.

Despite the general upward trend, there have been differences in the evolution of SME loan shares across countries in recent years. Since 2009, the SME loan share has been steadily and significantly increasing in countries such as Israel, Serbia and, since 2010, also in Greece. In contrast, this indicator has been declining substantially in Brazil, Canada, the Russian Federation and the United States.

Figure 1.4. SME loan shares



Note: 1. Definitions differ across countries. Refer to the table of sources and definitions in the full country profiles available online. 2. For Chart A, 2015 data for Greece and 2016 data for China, Mexico and Sweden are not available. 3. 2015 data for Latvia are not depicted.

Source: Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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Although the above data suggests that in recent years SMEs have generally experienced an improvement in access to bank funding compared to large enterprises, this indicator should be interpreted carefully and in context. An increase in SME loan shares potentially reflects trends in financing opportunities and strategies by large firms, rather than increased access to finance for SMEs, especially when occurring at a time of general lending contraction, during which large enterprises are expected to be resorting to other forms of finance. In addition, demand-side factors also potentially play a large role in these developments. The decline in the SME loan share in Brazil and the Russian Federation are likely due to more difficult access to bank financing for small firms vis-à-vis large enterprises. SME loan shares should therefore be interpreted in tandem with the evolution of total business loans and SME business loans. Changes in SME loan shares

could signal several developments: Rising shares might imply that SME loans were increasing more than business loans in general; that SME loans were stable or on the rise while business loans shrank; or that SME loans declined less than overall business loans. Even then, the individual context matters to put these developments into perspective; in the United Kingdom, for instance, SMEs decreased only marginally between 2015 and 2016, and mainly reflects a decline in overdrafts in favour of more longer-term options, and should therefore not necessarily interpreted as a negative development.

Table 1.1 describes the recent changes in SME loan shares in terms of business credit scenarios and highlights the different dynamics in total business and SME lending that underlie similar trends.

**Table 1.1. Trends in SME loan shares and credit market scenarios, 2015-16**

SME loan share change	Countries	Trends in SME and total business loan stock	Credit market scenarios
SME loan shares increased	Chile, China, Czech Republic, Finland, Japan, Korea, Latvia, Malaysia, Slovak Republic, Sweden	SME loans increased more than total loans increased	Increased share of a growing business loan stock
SME loan shares increased	Belgium, Greece, Kazakhstan, Serbia, Slovenia, South Africa, Thailand	SME loans increased but total loans decreased	Larger share of a shrinking business loan stock
SME loan shares increased	Austria, Spain	SME loans decreased slower than total loans decreased	Larger share of a shrinking business loan stock
SME loan shares decreased	Brazil, Denmark, Hungary, Ireland, Italy, Portugal, Russia	SME loans decreased faster than total loans decreased	Smaller share of a shrinking business loan stock
SME loan shares decreased	Israel, Luxembourg, Norway, United Kingdom	SME loans decreased while total loans increased	Smaller share of a growing business loan stock
SME loan shares decreased	Australia, Canada, Colombia, Estonia, France, Georgia, Mexico, New Zealand, Poland, Switzerland, Turkey, United States	SME loans increased but not as fast as total loans increased	Smaller share of a growing business loan stock

*Note:* 1. Austria, Denmark, Finland and Luxembourg use flow data. 2. China, Mexico and Sweden refer to 2014-15 data. 3. The Netherlands is not included in the table due to limited comparability of data on SME lending and total business lending. 4. All represented developments refer to inflation-adjusted data using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators.

*Source:* Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

### *Short-term versus long-term lending*

Data on loan maturities reveals a shift in the SME loan portfolio of banks from short-term to long-term lending. Short-term lending, defined as loans with an initial maturity of less than one year, such as overdrafts and lines of credit, is typically used to provide working capital, while long-term financing is often used for investment purposes. In Spain, 9 out of 10 loans to SMEs are of short-term nature, while in Brazil, Finland and Portugal, around 1 in 5 are. Looking at the median value of participating countries, an almost continuous decline in the share of short-term loans can be observed since 2007. In 2016, the median value rose by almost a percentage point, however. Nonetheless, this uptick in the median value masks a decline in the share of short-term loans in 14 out of 24 countries (see Table 1.2).

The shift towards long-term lending is corroborated by a recent study which shows that loans with a longer maturity made up a larger share of banks' portfolios since the financial crisis in the majority of EU countries, as well as in most economies in Eastern Europe (Park et al., 2015). Other research confirms this observation for the United States, where the average maturity of loans issued by small banks increased strongly over the



2007-11 period, with loans of over five years becoming more prevalent, and loans of less than three months less common (Bednar and Elamin, 2014).

**Table 1.2. The share of short-term SME loans as a proportion of all SME loans**

Country	As a percentage									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria			59.82	54.59	52.17	52.43	51.06	48.76	41.21	40.14
Brazil	39.75	35.25	30.24	27.86	28.03	25.25	23.81	22.58	21.61	21.20
Canada	41.62	..	43.40	36.30	35.13	39.00	46.00	55.71	47.20	36.20
Chile	..	..	..	60.20	63.27	60.28	47.76	41.94	36.87	35.78
China	..	..	..	..	..	..	56.10	49.24	47.56	54.69
Colombia	19.44	26.30	23.11	22.02	25.02	24.69	23.96	23.40	23.73	21.89
Estonia	19.73	19.09	17.74	16.76	19.39	18.74	19.20	19.62	18.00	18.46
Finland	..	..	..	20.20	20.44	20.82	17.90	18.29	19.60	20.52
France	26.47	25.93	25.66	26.81	26.56	25.69	25.46	24.99	24.73	24.27
Greece	..	..	..	..	..	..	..	37.57	37.58	38.94
Hungary	64.23	67.66	77.37	78.59	77.18	78.86	56.93	59.75	66.14	64.69
Ireland	89.07	88.62	89.09	86.69	86.90	85.08	83.34	75.46	62.04	67.11
Italy	33.94	31.87	29.25	26.83	26.35	26.60	25.64	25.14	23.62	22.86
Kazakhstan	19.66	18.96	13.82	14.83	16.34	19.64	15.51	21.95	18.93	26.60
Latvia	34.45	37.19	39.91	39.03	38.12	38.17	34.27	31.79	35.05	27.73
Malaysia							29.69	25.65	23.52	23.24
The Netherlands				85.07	87.87	87.20	87.29	86.70	85.76	86.39
Norway	19.26	18.60	16.79	16.85	16.72	18.87	18.73	19.05	18.22	18.03
Poland		26.15	25.10	25.17	24.86	24.60	23.24	23.70	23.12	22.79
Portugal	..	..	32.94	31.09	29.77	23.91	22.94	19.41	17.59	18.79
Serbia	34.98	31.67	34.20	34.17	30.28	28.87	34.13	29.40	25.09	24.82
Slovak Republic	50.45	39.67	41.40	41.40	39.51	40.60	42.22	45.24	43.78	42.61
Slovenia	28.62	31.19	27.33	28.54	31.55	33.47	30.51	18.22	14.70	17.87
Spain	96.19	96.92	93.54	93.33	95.40	95.21	93.33	92.47	92.77	90.00
Sweden	..	..	..	..	..	22.71	22.50	24.83	24.44	..
Thailand	43.43	44.41	44.22	58.12	47.11	48.08	61.35	..	..	..
Median Value	34.72	31.77	32.94	32.63	30.92	28.87	30.51	25.65	24.73	25.71

*Note:* 1. Definitions differ across countries. Refer to the table of sources and definitions in the full country profiles available online. 2. 1. Data for Austria, Canada, Chile, Finland, Hungary, Ireland, and Spain refer to flows. 2. There was a change in methodology for Chile, Serbia and Sweden in 2012. There was a change in methodology for Latvia in 2012 and 2014.

*Source:* Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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The reasons behind this shift towards long-term loans are not entirely clear. According to the “pecking order theory,” SMEs prefer to rely on internal sources of financing rather than debt (Myers and Majluf, 1984). Many SMEs’ cash flow position and their capacity to generate retained earnings was negatively affected by the financial crisis. This may have forced them to rely on relatively costly forms of short-term lending facilities such as overdrafts to finance their working capital needs, while cutting back long-term lending for investment purposes. Recent improvements in their cash flow and profitability are potentially allowing small firms to rely on internally generated revenues for their day-to-day operations, thus leading to a decline in external short-term financing.

Investment behaviour also likely played a role. In 2008 and 2009, gross fixed capital formation (GFCF) in the OECD area declined by 2.1% and 11.0% respectively. The

recovery in corporate investments has been relatively weak and uneven since. Nevertheless, GFCF growth rates for the OECD as a whole were positive over the 2010-16 period and if this trend continues and gathers pace, as is currently forecast, one would expect SME demand for credit to pick up in the future. Another potential explanation behind the shift towards long-term lending is that firms possibly want to borrow on longer terms as interest rates decline, so as to “lock in” low rates.

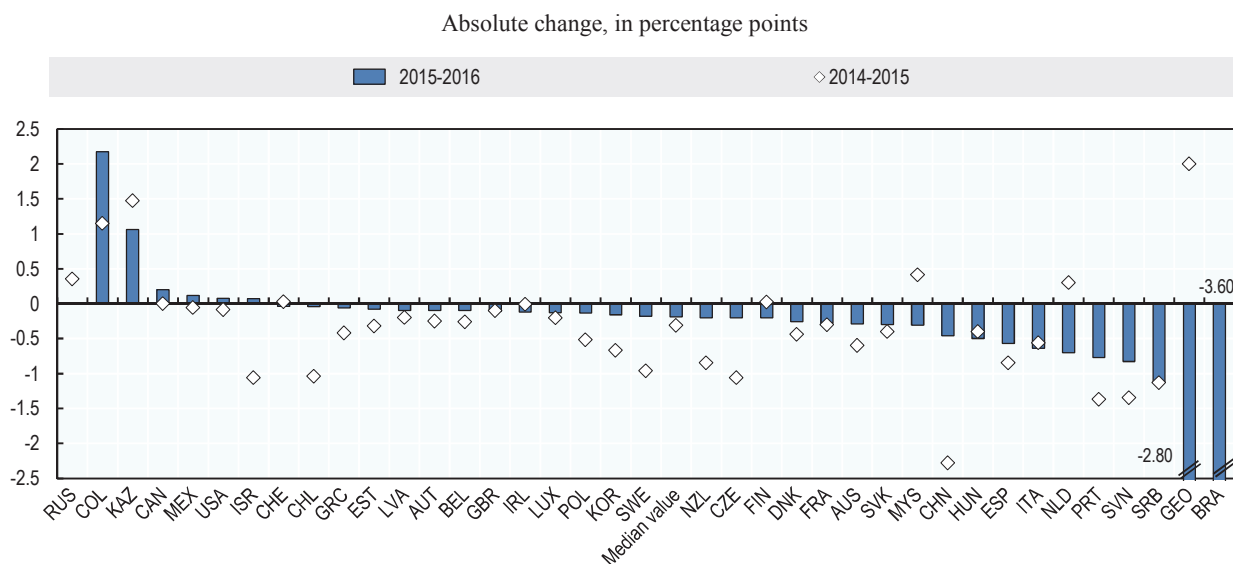
## Credit conditions for SMEs

This section describes credit conditions for SMEs and entrepreneurs based on data on the cost of bank finance, collateral requirements and rejection rates. It also draws on findings from supply-side and demand-side surveys. It is important to note that credit conditions can vary substantially for SMEs with different characteristics, such as size, age, risk profile and other factors. More granular data is needed to systematically analyse credit conditions within the SME population.

### Interest rates

The average interest rate charged to SMEs declined in 2016 for 30 out of 36 countries. SME interest rates already decreased significantly between 2011 and 2013, and have continued to decline since, with only few exceptions. Loose monetary policies in many parts of the world mostly drive this trend and continued to push down SME interest rates in 2016. The median decrease in the interest rate is, however, down compared to previous years. Whereas SME interest rates declined by a median value of 29 basis points between 2013 and 2014 and 31 basis points in 2014-15, the drop amounted to 19 basis points 2015-16, indicating that the decline may be on its way to bottoming out (see Figure 1.5).

**Figure 1.5. Change in SME interest rates**



*Note:* 1. Definitions differ across countries. Refer to the table of sources and definitions in the full country profiles available online. 2. Brazil’s interest rate change between 2014 and 2015 of 11.10 is not depicted 3. 2016 data for Mexico is not available. 2014 and 2016 data for Russian Federation are not available. 4. There were changes in methodology for Israel in 2015 and for Serbia in 2012. 5. Slovenian data refers to new SME loans smaller than EUR 1 million.

*Source:* Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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Canada, Colombia, Israel, Kazakhstan, Mexico and the United States were the only countries in the sample with an uptick of SME interest rates in 2016. In Colombia, Kazakhstan, Mexico and the United States, this coincided with an increase in the benchmark interest rate of the central bank in the same year, while Canada increased its rate in 2017 (and it remained constant in Israel in 2016-17). This suggests a relatively close link between interest rates charged to SMEs and the (anticipated) rates set by central banks.

In 10 European countries, the average interest rate declined from levels of more than 5% in 2007 and 2008, to levels of less than 3% in 2016, but remain relatively high in countries that were most affected by the financial crisis, such as Greece and Ireland. In middle income countries, interest rates remain relatively high, reaching double digits in Brazil, Colombia and Kazakhstan. The median value for all participating countries declined from 5.4 in 2012 to 3.6% in 2016, illustrating an overall drop in SME interest rates (see Table 1.3).

**Table 1.3. SME interest rates**

As a percentage

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Australia	8.56	7.99	7.56	8.29	7.94	7.07	6.43	6.18	5.58	5.29
Austria	5.11	5.47	2.89	2.43	2.92	2.46	2.28	2.27	2.02	1.92
Belgium	5.45	5.70	3.01	2.51	2.88	2.32	2.06	2.09	1.83	1.73
Brazil	..	..	..	..	..	20.50	24.10	26.00	37.10	33.50
Canada	7.50	..	6.20	5.80	5.30	5.40	5.60	5.10	5.10	5.30
Chile	..	..	..	..	..	..	11.80	10.33	9.29	9.25
China	..	..	..	..	..	..	8.39	7.51	5.23	4.77
Colombia	20.09	23.13	20.43	18.66	14.34	14.68	13.24	13.54	14.69	16.87
Czech Republic	5.03	5.57	4.64	4.01	3.73	3.48	3.13	3.76	2.70	2.50
Denmark	5.97	6.59	5.33	4.39	4.38	3.91	3.78	3.44	3.00	2.74
Estonia	6.11	6.71	5.34	5.06	4.92	4.02	3.41	3.36	3.04	2.96
Finland	5.39	5.58	3.02	2.66	3.23	2.86	2.81	2.94	2.96	2.76
France	5.10	5.42	2.86	2.48	3.11	2.43	2.16	2.08	1.78	1.50
Georgia	..	..	..	16.50	15.50	14.50	11.60	10.70	12.70	9.90
Greece	6.57	6.82	4.62	5.53	6.77	6.87	6.51	5.80	5.38	5.32
Hungary	10.19	11.25	12.31	8.99	9.38	9.70	7.40	5.10	4.70	4.20
Ireland	6.23	6.67	3.98	3.88	4.68	4.34	4.30	4.78	4.77	4.65
Israel	..	..	..	5.00	5.62	5.52	4.89	4.22	3.16	3.23
Italy	6.30	6.30	3.60	3.70	5.00	5.60	5.40	4.40	3.84	3.20
Kazakhstan	14.28	15.67	14.01	13.34	12.49	12.10	12.46	11.48	12.95	14.01
Korea	7.31	7.81	6.33	6.12	6.31	5.52	4.91	4.41	3.74	3.58
Latvia	8.30	8.90	7.90	7.10	5.80	4.50	4.50	4.70	4.50	4.40
Luxembourg	5.51	5.72	2.81	2.71	2.68	2.22	2.05	2.08	1.88	1.75
Malaysia	..	6.39	5.50	5.69	5.74	5.72	6.00	7.12	7.53	7.22
Mexico	..	..	11.88	11.70	11.26	11.04	9.80	9.14	9.08	9.20
Netherlands	5.40	5.70	4.50	6.00	6.40	5.10	4.30	4.10	4.40	3.70
New Zealand	12.15	11.19	9.82	10.12	10.02	9.55	9.53	10.26	9.41	9.21
Poland	..	5.37	3.82	4.31	4.57	4.86	3.85	3.52	3.00	2.86
Portugal	7.05	7.64	5.71	6.16	7.41	7.59	6.82	5.97	4.60	3.83
Russian Federation	..	..	..	..	..	..	..	16.09	16.44	..
Serbia	10.69	10.90	10.57	10.06	9.72	8.15	8.03	7.25	6.12	5.01
Slovak Republic	5.50	4.60	3.00	3.20	3.20	3.80	3.60	3.80	3.40	3.10
Slovenia	6.03	6.78	6.29	6.12	6.33	6.25	6.24	5.75	4.40	3.57
Spain	5.96	5.51	3.63	3.78	4.95	4.91	4.79	3.86	3.01	2.44
Sweden	4.86	5.66	2.43	2.59	4.17	4.07	3.29	2.71	1.75	1.57
Switzerland	..	..	2.21	2.11	2.08	2.01	1.99	2.05	2.07	2.04
Thailand	5.94	6.34	6.60	7.14	8.10	7.00	6.40	..	..	..
United Kingdom	..	4.54	3.47	3.49	3.52	3.71	3.60	3.43	3.33	3.22
United States	7.96	5.06	3.72	3.94	3.72	3.48	3.23	3.03	2.95	3.02
Median Value	6.17	6.36	4.64	5.06	5.30	5.25	4.90	4.56	4.40	3.58

*Note:* 1. Definitions differ across countries. Refer to the table of sources and definitions in the full country profiles available online. 2. There were changes in methodology for Israel in 2015 and for Serbia in 2012.

*Source:* Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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The interest rate spread between loans charged to large enterprises and to SMEs remained broadly constant between 2013 and 2015, but remained at higher levels than observed in

2007 and 2008. In 2016, the spread fell in 22 out of 34 countries for which 2016 data are available. As a result, the median value of the interest rate spread narrowed from 1.33% in 2015 to 0.88% in 2016, in line with the 2007 pre-crisis level. As interest rates have significantly declined in recent years, the interest rate spread remains higher in 2016 than in 2007 and 2008 in relative terms, however.

While the recent decline in interest rate spreads may indicate a loosening of credit conditions by banks toward SMEs, in some countries this has been driven by certain extenuating circumstances. Kazakhstan, for example, directed state funds toward commercial banks and imposed interest rate ceilings during liquidity shortages to provide concessional funding for SMEs. This created an artificially negative interest rate spread between SMEs and large enterprises in 2009, 2015 and 2016. In Poland, where the spread has remained under 0.5 percentage points over the entire reference period and has averaged 0.1 percentage points since 2011, credit conditions for SMEs in certain sectors (such as real estate) actually tightened in the second half of 2016, along with an increase in the cost of non-interest credit and tighter collateral requirements.

Overall, the interest rate spread remained positive for every country included over the whole period, with large firms consistently being offered credit at lower average interest rates than SMEs, with the exception of China (see Table 1.4).

**Table 1.4. Interest rate spreads between loans to SMEs and to large enterprises**

In percentage points

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Australia	0.96	1.83	1.71	1.62	1.57	1.78	2.14	2.03	1.99	2.09
Austria	0.42	0.43	0.56	0.47	0.37	0.48	0.51	0.53	0.41	0.38
Belgium	0.73	0.65	0.92	0.81	0.66	0.58	0.30	0.32	0.23	0.25
Brazil	..	..	..	..	..	8.20	9.20	11.00	19.70	12.70
Canada	1.40	..	3.10	3.20	2.30	2.40	2.60	2.10	2.30	2.60
Chile	..	..	..	..	..	..	7.13	6.31	5.49	5.29
China	..	..	..	..	..	..	0.67	0.04	-0.03	-0.12
Colombia	7.56	8.89	10.34	11.43	5.06	5.43	5.26	5.21	5.91	5.86
Czech Republic	0.98	0.73	1.18	0.67	1.10	1.05	1.24	1.76	0.90	0.70
Denmark	0.74	0.91	1.70	1.90	1.98	1.77	2.05	1.79	1.46	1.40
Estonia	0.43	0.58	1.14	1.16	1.16	0.98	0.56	0.68	0.99	0.88
Finland	0.56	0.50	0.78	0.80	0.64	0.79	0.90	1.02	1.50	1.43
France	0.58	0.66	0.90	0.91	0.89	0.71	0.70	0.78	0.59	0.35
Georgia	..	..	..	2.90	1.40	1.70	0.40	0.70	1.30	0.20
Greece	1.25	1.11	1.10	1.26	1.03	0.95	0.74	0.25	0.56	0.71
Hungary	1.22	0.97	1.24	1.74	1.30	0.80	1.50	1.00	2.30	1.40
Ireland	0.28	0.48	0.76	1.02	1.35	1.53	1.54	1.80	2.34	2.47
Israel	..	..	..	2.00	2.47	1.90	1.44	1.35	1.15	1.27
Italy	0.60	1.40	1.40	1.50	1.70	1.80	2.00	1.80	1.78	1.40
Korea	0.76	0.79	0.56	0.54	0.55	0.43	0.24	0.18	0.16	0.23
Latvia	1.70	1.80	2.70	2.80	1.80	0.90	0.70	1.40	1.40	1.90
Luxembourg	0.54	0.75	0.21	0.41	0.06	0.35	0.41	0.62	0.46	0.56
Malaysia	..	0.31	0.42	0.69	0.82	0.94	2.27	1.68	2.51	2.56
Mexico	..	..	3.75	3.78	3.57	3.45	3.24	3.10	3.08	3.51
Netherlands	..	..	..	..	2.90	1.50	0.90	1.30	2.00	0.50
New Zealand	3.15	2.96	4.12	3.82	3.97	3.54	4.15	4.31	4.03	4.61
Poland	..	-0.25	-0.47	0.30	0.12	0.12	0.02	0.12	0.09	0.09
Portugal	1.76	1.72	1.87	2.25	2.01	2.16	1.85	1.60	1.35	1.14
Russia	..	..	..	..	..	..	..	3.15	3.49	..
Serbia	4.37	2.85	3.35	2.70	1.85	1.55	1.70	2.07	2.79	1.89
Slovenia	0.39	0.27	0.35	0.20	0.42	0.88	0.87	0.87	0.65	0.23
Spain	0.63	1.21	1.47	1.21	1.59	2.30	2.10	1.87	1.04	0.88
Sweden	0.87	0.82	0.72	0.95	1.16	1.04	0.65	0.56	0.40	0.35
Switzerland	..	..	0.86	0.88	0.92	0.90	0.83	0.89	0.78	0.79
Thailand	1.20	1.31	1.42	..	2.65	1.50	1.30	..	..	..
United Kingdom	..	1.05	1.12	1.39	1.27	1.30	1.40	0.98	1.22	0.82
United States	1.21	0.86	0.81	0.83	0.82	0.89	0.92	0.82	0.93	0.86
Median Value	0.87	0.86	1.13	1.21	1.30	1.18	1.27	1.33	1.33	0.88

Notes: 1. Definitions differ across countries. Refer to the table of sources and definitions in the full country profiles available online. 2. There were changes in methodology for Israel in 2015 and for Serbia in 2012.

Source: Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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### *Collateral requirements*

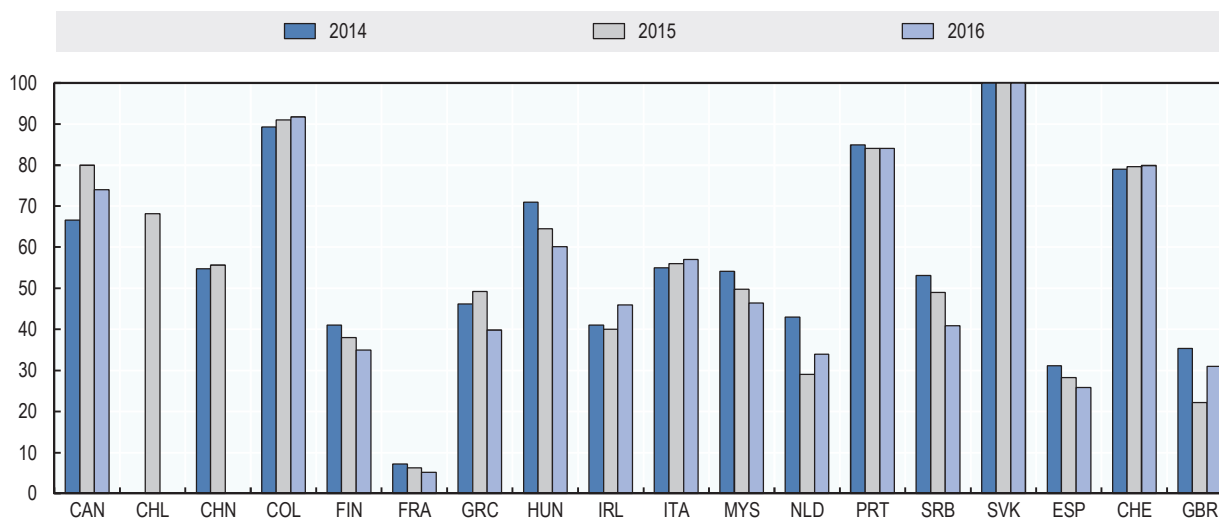
Data on collateral is difficult to obtain, and reporting improvements are needed to better assess the evolution in SME financing conditions in this respect. As the data comes from

demand-side surveys whose methodology, sample and questionnaire differ from one country to the other, cross-country comparisons should be made with caution.

Out of the 16 countries that provided 2016 data, 9 experienced a decline in collateral requirements, most pronounced in Greece and Serbia, while in 6 other countries (Colombia, Ireland, Italy, Malaysia, the Netherlands, Switzerland and the United Kingdom) collateral requirements increased (see Figure 1.6).

**Figure 1.6. Trends in SME collateral requirements**

Percentage of SME bank loans requiring collateral



*Notes:* 1. Definitions differ across countries. Refer to the table of sources and definitions in the full country profiles available online. 2. 2016 data for China, and 2014 and 2016 data for Chile, are not available.

*Source:* Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

StatLink  <http://dx.doi.org/10.1787/888933665523>

Despite no clear trend in collateral requirements, banks appear to have become more risk-averse compared to the pre-crisis period in recent years, to the detriment of innovative companies, young firms and start-ups. Although precise data is difficult to obtain, some evidence points in this direction. In Austria, for example, survey data points out that, while credit availability in general has improved, credit conditions have become tighter for start-ups and young enterprises with no track record and no tangible assets. Collateral requirements steadily increased year-on-year in the 2009-15 period in China and may be an indication of increased risk aversion from the Chinese credit system, from 50.6% in 2009 to 55.7% in 2015, possibly contributing to the dip in SME loan applications. The French Government recently enacted policy reforms to ease finance constraints for firms to undertake riskier projects by channelling existing support to fund intangible investments, export projects, and training or innovative upgrading of firms' production processes, given the persistent reluctance of its banking sector to provide credit for this purpose. In Portugal, 84.0% of SMEs required collateral to obtain bank financing, a figure that has remained roughly constant since 2009. Nonetheless, further analysis reveals that Portuguese SMEs were required to put up higher and better quality collateral to access bank financing in 2016.

Young and innovative SMEs generally have high financing needs relative to their turnover, are considered as more risky by financial institutions and have often relatively few or no tangible assets to collateralise. Although these firms are often well endowed with intangible assets, many challenges persist to unlock SME financing through intangible assets (see Box 1.1.).



### Box 1.1. Collateralising intangible assets: Current challenges

Intangible assets, i.e. “an identifiable non-monetary asset without physical substance” such as patents, copyrights, brand equity, software of computerised databases, etc. make up an increasing part of SMEs’ value. The value of fast-growing, innovative enterprises especially derives, for a large part, on investments in their intangible assets. A number of challenges inhibit small firms from leveraging this value to obtain debt funding, such as:

- **Gauging a proper value:** The biggest hurdles to lend against intangible assets may be the difficulties in attaching a value to them, as valuation models and standards vary, leading to potentially divergent outcomes, and the value over time may fluctuate substantially;
- **Insufficient corporate reporting:** Intangible assets only appear on firms’ balance sheets under certain defined circumstances. This underreporting, and the resulting lack of visibility increases information asymmetries and impedes a correct assessment of the importance of these assets to the firms’ performance;
- **Redeployment issues:** A limited ability to use the intangible assets in other companies other than the original developers and/or to separate the value of the assets from the business model given its association with the specific business model;
- **Obtaining effective security over the asset:** The process of taking over actual or conditional ownership of the assets may not be as straightforward as with tangible assets and may depend on the security interest regime of the country in which the firm is located. This also applies to enforceability.
- **Absence of disposal routes:** A lack of (secondary) markets for intangible assets, rendering the liquidation value of these assets uncertain;
- **High transaction costs:** Unfamiliarity with the asset class, well-established disposal routes, the lack of databases, and insufficient regulatory support all increase the transaction costs to value and collateralise intellectual assets, as well as to recover its value in case of an insolvency;
- **Insufficient bank understanding:** Banks often lack an understanding of how to value intangible assets, and do not always recognise how these assets can be factored into lending decisions.

The market failure appears to be most prominent in debt funding, which has therefore been the main area of policy focus, and is often driven by the policy objective to nurture fast-growing, innovative SMEs. Many recent initiatives therefore focus on helping to let the market determine which company-owned intangible assets have realisable value.

Public policy attention to the use of IP and intangibles for SME finance has been mostly concentrated in Asia. Approaches include the provision of subsidised IP evaluation reports in Japan. China’s State Intellectual Property Office acts as a central registry of pledges and evaluation regimes, complemented by a set-up of measures to stimulate IP financing techniques, such as state-backed compensation

schemes to cover bad debts, a guarantee coverage of up to 100% under certain conditions, lender incentives (dependent on the relative number of IP-backed loans), interest rate subsidies for IP-backed loans, and dedicated funds. In Korea, the Korean Development Bank has initiated loans for purchasing, commercialising and collateralising IP, and its credit guarantee institution offers underwriting for an IP valuation for lending or securitisation.

When assessing the effectiveness, additionality and (financial) sustainability of these and other measures in this area, it appears that these measures benefit from economies of scale and are relatively costly given the losses that will inevitably have to be absorbed. In addition, the engagement of the private sector, as well as the role of guarantees and/or insurance seems appears to play a vital role.

*Source:* OECD, forthcoming.

Financial institutions also continue to explore alternative means of risk mitigation. In the United Kingdom, for example, access to credit data held by the big banks has also been opened up to increase the reliability of credit scores, enabling alternative finance providers to make better-informed decisions about finance provision to smaller businesses.

In Portugal, the government has created the “SME Leaders Programme” to improve relations between banks and SMEs. This programme identifies the best SMEs and builds trust between SMEs and banks in terms of assessing credit worthiness. The distinction associates a set of benefits: access under better conditions to financial products, public and private differentiated financial products, network services, visibility and the facilitation of business in its relationship with the market. The number of SME Leader firms increased from 2 996 in 2008 to 7 120 in 2016, despite the increasingly more demanding prerequisites. Around 70% of these are SMEs. Given their lower risk profile, they are prime targets for lending. For example, in two important financial lines with shared risk by the state (SMEs Invest and SMEs Growth), the SME Leader accounted for 6% of operations but concentrated almost 50% of approved funding.

### ***Rejection rates***

As with data on collateral, data on rejection rates are usually gathered from demand-side surveys. Comparability across countries is likewise often limited. Nonetheless, this indicator helps shed light on the supply of credit to SMEs and gauge the overall financing conditions that they face. Higher rates of rejection are indicative of constraints in the credit supply. A high number of loan application rejections thus illustrates that loan demand is not being met, either because the terms and conditions of the loan offers are deemed unacceptable, the average creditworthiness of loan applications has deteriorated, or banks are rationing credit.

It should be noted that these figures do not include information on discouraged borrowers, i.e. entrepreneurs who are in need of finance, but do not apply for a bank loan for fear of being rejected, nor so-called “happy non-seekers”, i.e. firms which have not applied for external financing, because they do not experience a need for it. Further information on both phenomena would contribute to a better interpretation of the data on rejection rates and on financing conditions more generally.

19 countries reported 2016 data on SME loan rejection rates. 14 out of these countries reported a decline in the rejection rate between 2015 and 2016. This evolution contrasts with observations in recent years, where no clear trend was noticeable, and provides an indication of loosening credit conditions (see Table 1.5).

**Table 1.5. Trends in SME loan rejection rates**

As a percentage

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	..	..	10.2	2.6	0.8	0.4	2.7	6.0	5.5	2.5
Belgium	..	..	0.5	5.1	6.4	10.4	10.9	5.9	5.7	6.1
Canada	..	..	..	9	8	7	9	12.8	7	9
Chile	41.4	..	15	..	..	..	12.3	..	14.7	..
China	..	..	..	..	..	..	6.2	12.0	11.7	6.1
Colombia	2	4	9	5	3	4	7	3	7.5	4
Denmark	3	..	..	12	..	..	..	14	..	..
Finland	..	..	7.0	4.9	3.1	8.1	7.1	6.7	6.2	5.6
France	..	..	..	..	..	11.1	8.0	6.6	7.6	6.2
Georgia	..	..	..	..	..	..	4.6	..	..	..
Greece	..	..	25.8	24.5	33.8	28.3	26.0	21.5	19.9	18.2
Hungary	..	..	..	..	..	..	68.8	67	84.4	71.6
Ireland	..	..	..	..	30	24	20	14	15	16
Italy	3.1	8.2	6.9	5.7	11.3	12.0	8.9	8.4	6.0	4.0
Korea	41.5	45.8	38.2	44.3	38.9	36.9	34.9	40.8	34.9	27.1
Malaysia	..	..	..	..	..	..	14.6	8.3	24.0	..
Netherlands	..	..	31	10	13	28	28	27	21	20
New Zealand	6.9	11.6	18.4	20.9	11.4	14.6	9.4	8.4	10.6	4.8
Portugal	..	..	15.5	6.0	14.7	11.4	12.2	7.3	8.7	5.4
Serbia	18.7	17.2	28.4	27.1	15.8	32.0	32.2	25.1	24.3	28.1
Slovak Republic	..	..	..	..	20	..	15	..	13.0	5.0
Spain	..	..	22.7	15.9	12.8	18.5	12.9	9.8	7.9	7.0
Thailand	28.5	25.9	14.7	26.9	..	..	..	..	..	..
United Kingdom	..	..	..	27	30	31	33	19	18	19
Median Value	12.79	14.41	15.27	11.00	12.92	13.32	12.25	10.87	11.72	6.21

Source: Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018 and SAFE survey data.

StatLink  <http://dx.doi.org/10.1787/888933665675>

### *SME loan applications*

The data illustrates that, usually, one-fifth to one-third of SMEs applied for credit over the last six months and the majority of SMEs thus do not seek external financing. An increase in this ratio is indicative of a stronger demand for credit, and the data should thus be interpreted in tandem with the rejection rate and loan growth, as lower application rates could be due to either a lower demand for external financing or to a rise in discouragement. In Italy, the application rate remained broadly stable; and data from the Centrale Bank point out that demand for credit by SMEs declined in 2016. The 2016 data, covering 17 countries, does not demonstrate a clear trend, with the number of application rates rising roughly in balance with countries witnessing a decline, and remaining constant in one. As in previous years, the demand for credit thus appears to have remained broadly stable over time (see Table 1.6).

**Table 1.6. Trends in SME loan applications**

As a percentage of the total number of SMEs

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Change 2015-16
Austria	..	..	26.3	27.5	25.5	28.3	27.6	25.7	28.7	21.2	-7.4
Belgium			22.2	26.5	30.2	29.3	29.4	39.3	36.6	36.7	0.1
Canada	17.0	..	14.9	18.0	24.0	26.0	30.0	27.8	23.0	26.0	3.0
Chile	32.9	..	32.4	..	..	..	26.4	..	24.6	..	..
China	..	..	..	..	..	..	..	..	69.9	63.1	-6.8
Colombia	49.0	53.0	44.6	49.6	47.0	44.0	43.3	39.6	42.6	34.0	-8.6
Denmark	20.0	..	..	24.0	..	..	..	13.0	..	..	..
Finland	..	..	13.8	18.4	20.8	21.5	21.9	27.7	22.0	23.9	1.9
France						38.4	35.6	35.7	37.9	37.9	0.0
Greece	..	..	37.9	39.6	30.8	29.9	21.4	25.5	18.8	21.5	2.7
Ireland	..	..	..	..	36.0	39.0	36.0	31.0	30.0	23.0	-7.0
Italy	..	..	34.8	36.1	32.2	34.1	34.5	35.5	35.8	36.5	0.7
Luxembourg	..	..	..	..	18.2	..	25.8	16.4	23.0	26.2	3.2
Malaysia	..	..	..	12.5	..	..	..	..	..	..	..
Netherlands	..	..	29.0	22.0	18.0	22.0	21.0	21.0	24.0	21.0	-3.0
Portugal	..	..	24.5	30.1	26.3	23.7	23.5	18.3	23.0	24.2	1.2
Serbia	..	..	..	..	..	..	..	..	14.9	16.5	1.5
Slovak Republic					17.0		16.0		23.0	18.0	-5.0
Spain	..	..	38.1	36.3	34.7	31.9	31.5	34.4	33.8	32.8	-1.0
United Kingdom	..	..	..	..	9.7	..	13.0	18.0	18.0	15.0	-3.0
Median Value	..	..	29.00	27.00	25.89	29.62	27.02	27.70	24.30	24.21	

Note: Data for the United Kingdom is sourced from the annual SAFE survey and differs from the data in the individual profile.

Source: Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018 and SAFE survey data.

StatLink  <http://dx.doi.org/10.1787/888933665694>

There appears to be a moderately positive relationship between annual changes in the application and rejection rate, although the current sample size is too small to be statistically significant. Nonetheless, this may suggest that firms which have been declined credit sometimes apply again, possibly at another financial institution, and that this effect outweighs discouragement, which is expected to be higher when more credit applications are being refused. A larger number of credit applications might also lead to an overall deterioration in the quality of dossiers, resulting in more rejections.

### *Additional evidence on credit conditions from survey data*

Survey data illustrates that credit conditions remained relatively loose and interest rates on the decline in most of the Euro area, Japan, the United Kingdom and the United States. In addition, these studies indicate that SMEs continue to consider bank finance to be relatively available, especially when compared to the period following the financial crisis.

#### *Euro zone*

The ECB Survey on SME access to finance in euro area countries (SAFE), undertaken every six months, provides insights into how credit conditions are perceived by SMEs in

this area.<sup>2</sup> The data indicates that finance conditions and access for SMEs operating in the euro area have improved in recent years, and this trend continued into the last quarter of 2016 and the first quarter of 2017. According to the survey conducted between October 2016 and May 2017, the access of external funding outstripped the growth of financing needs, which has remained relatively stable in recent years. France, Italy and especially Greece constitute the only exceptions to this trend.

The survey data also shows a marked increase in loan applications that were granted in full, along with a decline of credit rejections in the second half of 2016 and the first half of 2017. SMEs reported a continued decline in interest rates for bank credits, although the pace of this decline slowed down considerably since the second half of 2016. Finally, collateral requirements continued to tighten, albeit at a slowing rate (see Table 1.7).

In addition, euro zone SMEs expect further improvements in the availability of bank loans, as well as most other sources of finance (ECB, 2017). Nonetheless, in the euro area, access to finance and financing conditions appeared consistently more favourable for large enterprises than for SMEs, with a smaller percentage of large firms reporting restrictions in the provision of bank loans, consistently higher rates of success, lower rejection rates, and with a considerably lower net percentage of large firms reporting an increase in interest rates and collateral requirements.

**Table 1.7. ECB Survey on SME access to finance**

As a percentage of total SMEs surveyed

Category	H1 2011	H2 2011	H1 2012	H2 2012	H1 2013	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017
<b>Availability of loans</b>													
Improved (net)	-14	-20	-22	-10	-11	-4	-1	7	8	11	11	13	13
<b>Need for loans</b>													
Remained unchanged (net)	5	9	6	5	5	5	1	3	1	1	1	3	0
Applied for a loan	32	28	30	31	31	32	30	30	30	30	29	32	27
Granted in full	65	63	61	65	66	68	59	64	66	68	69	74	74
Rejected	9	12	14	10	11	10	12	8	9	8	7	6	5
<b>Interest rate</b>													
Decreased (net)	54	42	27	17	19	9	-9	-25	-18	-30	-26	-9	-5
<b>Collateral requirements</b>													
Increased (net)	33	36	39	35	31	26	29	20	18	19	18	15	13

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

*Source:* ECB (2017), surveys were held in September-October 2016.

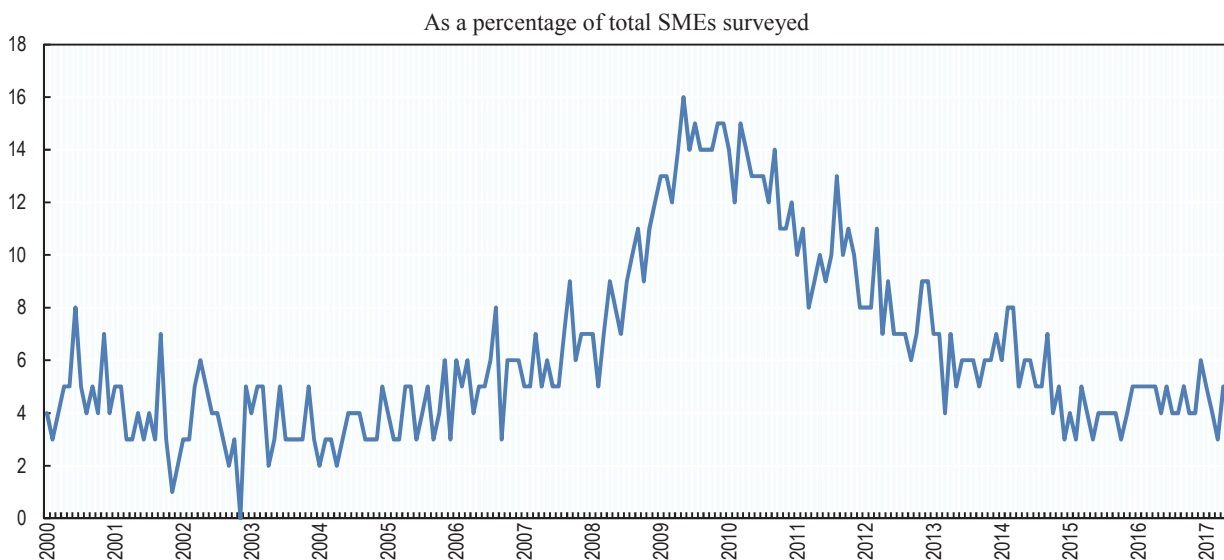
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Access to finance was considered to be the most pressing concern for only 9% of euro area SMEs at the end of 2016/ the beginning of 2017, further following the downward path in recent years, and suggesting a continued improvement of access to credit for SMEs. This decline has been almost uniform across participating countries, with Greece the main outlier with 27% of respondents describing access to finance as their main concern (up from 24% in the preceding wave).

### United States

In the United States, the NFIB Research Foundation collects Small Business Economic Trends data on a monthly basis since 1986. The survey illustrates that only 2% of surveyed small businesses in the United States stated that financing was their main concern, and only 3% reported that their financing needs were not being met. Both numbers remained constant compared to 12 months earlier and indicate the relative ease and affordability of accessing credit. The financial crisis had a marked impact on the reported loan availability, which bottomed in 2007, and steadily recovered afterwards to levels broadly comparable to the pre-crisis period. Between the beginning of 2015 to the first half of 2017, credit availability remained broadly constant according to this survey (see Figure 1.7).

**Figure 1.7. Loan availability in the United States**



Note: Net Percent "Harder" minus "Easier" Compared to Three Months Ago.

Source: Dunkelberg and Wade, 2017.

StatLink  <http://dx.doi.org/10.1787/888933665542>

The United States Federal Reserve Board surveys senior loan officers on their banks' lending practices on a quarterly basis, including a question on the evolution of credit standards for approving small business loans or credit lines. According to this survey, credit standards for small businesses in the United States (where small businesses are businesses with annual sales of less than USD 50 million) tightened dramatically between 2008 and 2010, and have mostly loosened after the second quarter of 2010. The data shows a moderate tightening in credit standards during most of 2016, and a very small loosening in the first half of 2017.

The same survey also includes a question regarding the demand for bank credit from small businesses. Senior loan officers are asked how the demand of small business loans changed over the last three months. Possible answers range from a "substantially stronger" demand to a "substantially weaker" demand. Subtracting the percentage of respondents who answered that demand was (substantially or moderately) weaker from the percentage who thought demand was (substantially or moderately) stronger, provides

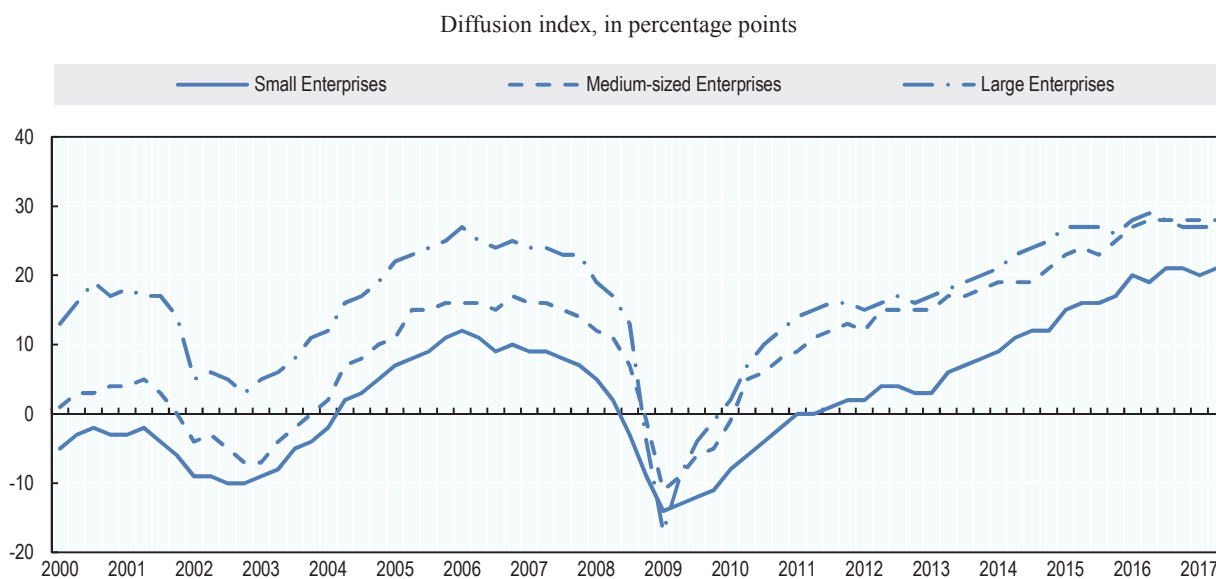
an indicator of overall demand for loans of small businesses. Between 2006 and 2011, the demand for industrial and commercial loans from small businesses plummeted. Between 2012 and 2015, demand picked up again, but has been on the decline again for most of 2016 and the first half of 2017.

### Japan

In Japan, the TANKAN survey of Japanese businesses (literally translated as the Short-Period Economy Observation), is a quarterly poll on business confidence published by the Bank of Japan. In order to provide an accurate picture of business trends, a representative and large-scale sample of the Japanese business population is asked to choose between different alternatives to best describe prevailing business conditions. One question pertains to the “lending attitude of financial institutions”, where the respondents can choose between “accommodative,” “not so severe” and “severe” as best describing their view of lending attitudes. A single indicator is derived on the basis of these answers.

As in many other countries, perceived lending attitudes deteriorated sharply between 2008 and 2009 according to the TANKAN survey. Between 2010 and 2015, financing conditions loosened according to this indicator. From 2015 onwards, lending attitudes for small and medium-sized enterprises have by and large remained constant and accommodative. It is noteworthy that the perceived lending attitudes for large and medium-sized enterprises have become largely similar in recent years, in contrast with the pre-crisis period, when medium-sized firms faced tighter conditions. The gap between small and large firms has remained large, however (see Figure 1.8).

**Figure 1.8. Lending attitudes in Japan**



Note: There is no continuity between the figures up to the December 2003 survey and those from the March 2004 survey.

Source: Bank of Japan (2017a).

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### *United Kingdom*

In the United Kingdom, the quarterly Credit Conditions Survey from the Bank of England surveys lenders about changes in trends. The survey covers secured and unsecured lending to households and small businesses; lending to non-financial corporations, as well as to non-bank financial firms. Data for SMEs is available from the fourth quarter of 2009 up to the first quarter of 2017. The survey shows that the credit availability for small businesses has improved in 2015 and remained more or less constant in 2016 and the first quarter of 2017. Demand for credit shows a decline in 2016, however, as did loan applications, even though both indicators picked up a bit again in the first quarter of 2017.

### **Credit to SMEs: links with key economic variables**

The section above reveals that in most countries covered, credit conditions have eased considerably and availability of credit progressed in 2016. In addition, the economic environment in which SMEs operate has generally improved. These developments, coupled with relatively favourable framework conditions, as evidenced by data on bankruptcies, payment delays and broadly favourable GDP forecasts, have not systematically led to more credit flowing to SMEs, however. The correlation between new lending and credit conditions appears to be weak in general; no clear relationship could be established between annual changes in credit to SMEs and the average interest rate, for instance. Over the 2007-16 period, the take-up of credit thus seems largely independent of its cost.

The fact that the favourable operating environment and lending conditions are paired with weak growth in credit, appears to reflect a decline in demand for credit in some countries. In Italy, for example, small firms' share of the total amount of outstanding credits reached a low point in 2016. Survey data provides indications that this is likely due to demand patterns, with small firms decreasing their demand for credit. In the United Kingdom, new loans to SMEs turned negative in 2016, which occurred simultaneously with a marked decline in demand for credit by small businesses.

This picture is far from uniform, however. Supply-side factors appear to play a role in the drop in SME lending in other countries, such as Greece, Portugal and Slovenia, where credit standards have remained tight, or recently tightened. In other countries, such as Brazil and the Russian Federation, both supply-side factors and the weak overall economic environment likely played an important role.

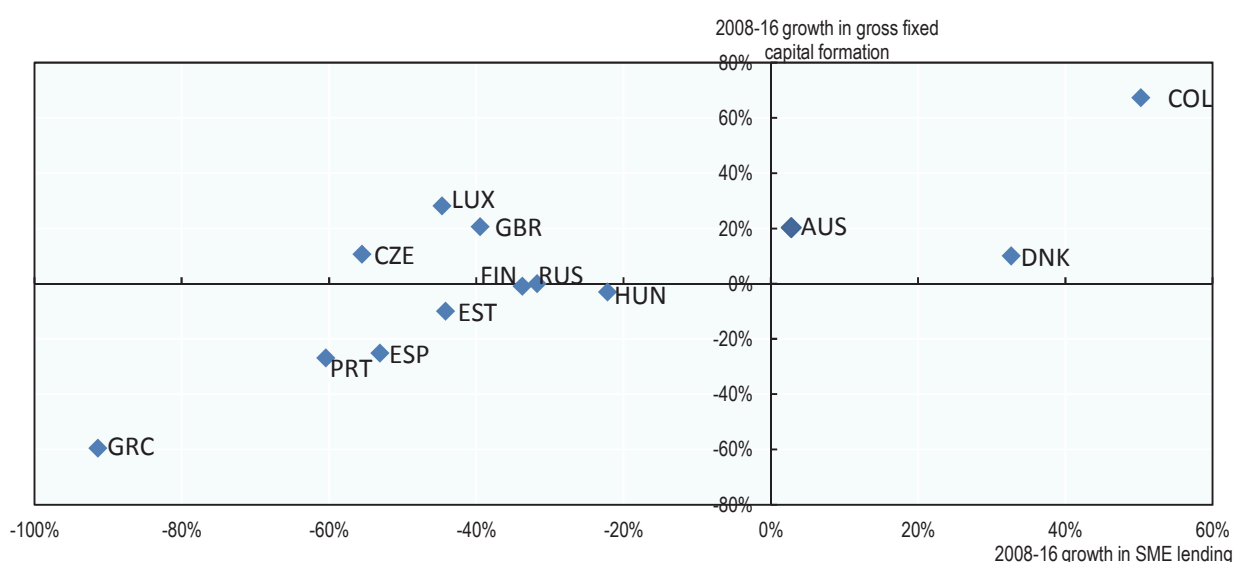
The subdued demand for credit in some countries is likely linked to the slow investment recovery since the financial crisis. Compared to previous economic crises, the decline in investment in 2008 and 2009 was much more pronounced and its recovery slow. In the United States, for example, 32% of small firms declared to plan a capital expenditure over the 1986-2007 period, on average. This proportion fell to 17-18% in 2009, and remained below the long-term trend afterwards (averaging 23% over the 2010-2017Q2 period), coinciding with a subpar recovery in SME borrowing. In Australia, another country where SME borrowing turned negative in 2016 despite strong economic growth, 2016 business investments outside of the mining industry were also sluggish. In Austria, weak demand for fixed investments have been cited as a reason why new lending by SMEs has been on the decline since 2011. In Japan, the share of SME lending in overall corporate lending has declined by more than 4 percentage points between 2007 and 2016, which mirrors weaker investments by small firms than by large businesses over this



period. In all four countries 2017 investments by SMEs are forecast to pick up, which is expected to coincide with more borrowing by SMEs.

Historical evidence suggests that a slowdown in investments by small businesses affects SME lending more generally. There is a strong correlation between credit flows (new lending) and corporate investments, as proxied by “growth in gross fixed capital formation (GFCF)” over the medium term (between 2008 and 2016) (Figure 1.9). The correlation coefficient equalled 0.8755, which illustrates that both variables move in the same direction. In Estonia, Hungary, Portugal, Spain and especially Greece, fixed capital formation declined over the 2008-16 period and these are the countries where net lending has remained well below pre-crisis levels. In Australia, Denmark and especially Colombia, both investments and new SME lending has increased over the same period. As corporate investments in fixed capital are forecast to rise over the next few years, SMEs could be expected to increase borrowing as well.

**Figure 1.9. Trends in new lending and gross fixed capital formation**



Source: Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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The demand for credit is also likely to be impacted by the availability and use of other finance instruments besides straight debt. The coincidence of relative strong economic performance in recent years with stagnant or negative growth of bank credit by SMEs in the United Kingdom and the United States may potentially be related to the rise in popularity of peer-to-peer lending platforms and other crowdfunding activities in these countries over the same period. As the section on “other sources of financing” in this chapter illustrates, crowdfunding activities in these two countries have become a non-negligible source of external funding for SMEs in 2015 and 2016. Research using data from the United States indicates that crowdfunding activities may indeed substitute for commercial bank loans (Wolfe and Yoo, 2017). In China, another country where crowdfunding volumes have reached critical mass, loan growth has declined considerably in 2015, remaining below GDP growth for the first time in the 2010-15 period, and loan applications fell by more than 8 percentage points.

Likewise, asset-based financing such as leasing and factoring have become more widely used, especially in 2016, and that may have also decreased demand for straight debt. Finally, SMEs may find it easier to rely on internal financing in 2016 than they have in the immediate aftermath of the financial crisis, potentially also lowering their demand for credit. In the Czech Republic, for instance, there are increasing efforts from small business to optimise their balance sheet and use own finances for investments and especially operational expenses.

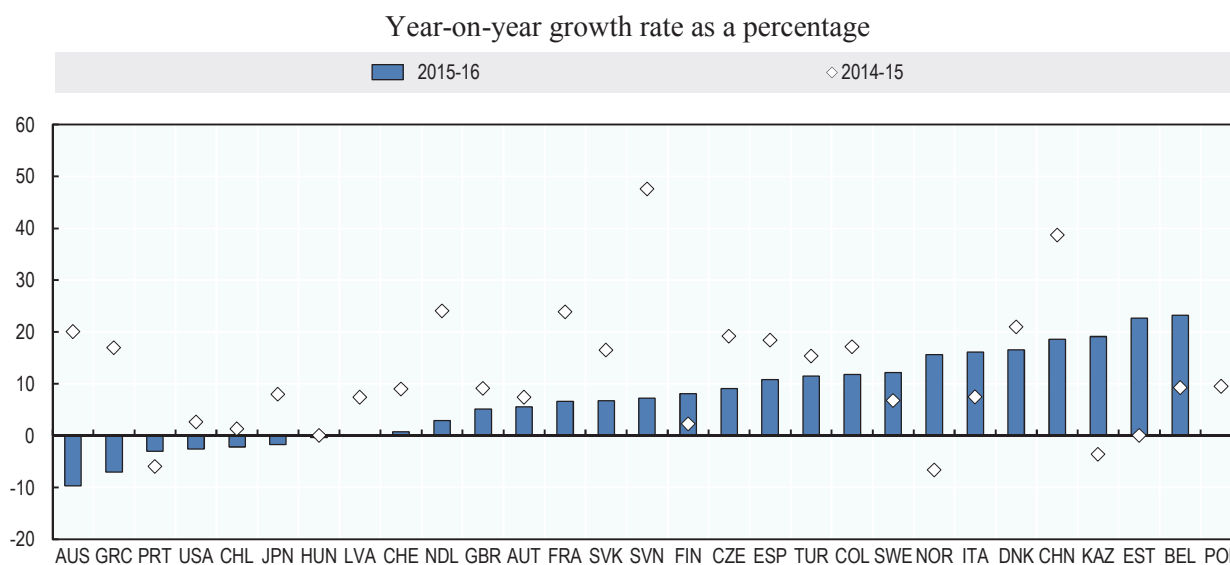
### **Asset-based finance**

Asset-based finance comprises all forms of finance that are based on the value of specific assets, rather than on the credit standing, and represent a well-established and widely used alternative for many SMEs. Within this category, leasing and hire purchases on the one hand, and factoring and invoice discounting on the other are the most well-known and widely used instruments in most parts of the OECD. In the case of leasing and hire purchases, the owner of an asset provides the right to use of the asset (like motor vehicles, equipment or real estate) for a specified period of time in exchange for a series of payments. Factoring and invoice discounting are financial transactions, whereby a business sells its accounts receivable to another party at a discount.

#### ***Leasing and hire purchases***

Data from national sources, complemented by information from Leaseurope,<sup>3</sup> shows an increase in leasing and hire purchase activities for the second consecutive year in 2016.

Out of the 27 countries for which 2016 data is available, leasing and hire purchase activities rose by double digits in ten, and declined in only seven (see Figure 1.10). This marks the second consecutive year of strong growth, albeit slightly less robust, with a median increase of 9.1% between 2014 and 2015 and 6.8% between 2015 and 2016 (and from 9.1% in 2014-15 and 6.1% when only considering OECD countries).

**Figure 1.10. New production in leasing and hire purchases**

*Note:* Data for Japan refers to leasing alone, as stocks. 2. 2014 data for Hungary was not available. 2016 data for Poland is not yet available. 3. All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank.

*Source:* Leaseurope (2017) and data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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### **Factoring**

Data on factoring volumes are sourced from Factors Chain International (FCI), and were broadly up in 2016, however with considerable country variation.<sup>4</sup>

Out of the 41 participating countries for which data is available, around two-thirds reported an increase in factoring volumes in 2016. The upward trend is far from uniform, however, with the year-on-year change in factoring volumes turning negative in Colombia, Finland, Georgia, Hungary, and Japan (see Table 1.8). In most participating countries, factoring volumes increased in the immediate aftermath of the financial crisis. The data thus suggests that the availability of factoring was not severely impeded by the outbreak of the crisis, and actually served as an attractive substitute in lieu of more traditional bank/credit financing.

**Table 1.8. Factoring volumes**

Year-on-year growth rate as a percentage

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016
Australia	-7.65	21.09	7.98	22.45	-13.46	-19.99	5.00	-0.63	12.84
Austria	19.52	2.45	23.99	6.19	19.68	26.64	14.21	9.28	6.01
Belgium	14.94	5.46	32.07	16.30	8.60	11.30	15.37	9.51	1.16
Brazil	-3.67	25.16	52.56	-14.16	-11.40	-32.71	-6.62	-15.56	44.63
Canada	-32.45	10.88	11.35	37.47	32.75	-21.25	0.75	-4.42	0.82
Chile	8.13	-12.31	3.94	26.97	10.38	4.19	-8.01	-13.90	8.25
China	54.68	22.52	114.74	63.74	22.67	7.60	6.53	-13.17	-15.55
Colombia	-3.82	10.13	12.09	67.94	-11.23	52.08	24.40	12.25	-30.24
Czech Rep.	2.52	-26.74	19.01	15.96	0.12	0.60	8.81	-15.19	-5.28
Denmark	-37.67	28.41	9.16	13.77	-6.16	0.61	16.24	19.40	4.62
Estonia	2.44	-29.92	20.07	-9.92	56.29	-2.45	3.90	-0.99	22.26
Finland	-2.99	-16.57	14.92	2.20	27.02	1.52	14.20	10.49	-5.47
France	8.39	-5.14	18.28	12.85	5.60	6.66	12.45	8.84	7.18
Georgia	..	..	..	..	..	..	..	164.43	-3.82
Greece	32.06	17.39	18.62	-0.59	-13.04	-2.74	9.70	-0.08	-0.81
Hungary	-1.40	-24.32	29.61	-17.48	-8.22	-3.53	2.90	31.45	-4.48
Ireland	5.24	-14.86	8.04	-12.42	6.06	4.80	21.58	-2.82	-6.59
Israel	71.02	-3.71	16.09	-1.69	-16.95	-27.02	179.99	-31.56	44.51
Italy	1.87	-4.94	15.32	20.11	2.41	-3.30	1.83	3.40	8.71
Japan	38.39	-20.93	19.96	14.86	-11.95	-20.26	-35.03	3.94	-8.96
Korea	-8.47	215.17	67.63	56.74	-2.10	52.98	2.39	0.59	6.08
Latvia	17.18	-34.39	-63.20	6.31	40.87	7.73	13.11	27.00	-0.71
Luxembourg	17.82	-42.62	-11.22	-46.50	61.96	34.16	-18.05	-0.69	0.58
Malaysia	4.93	33.99	40.32	-5.85	68.04	-0.17	-2.41	-81.41	354.00
Mexico	-2.32	-78.51	556.28	37.70	19.79	5.81	-13.25	-26.57	11.29
Netherlands	-8.00	-0.40	15.65	31.24	7.17	2.63	2.50	22.98	25.02
Norway	-20.11	6.19	-5.78	1.87	6.90	-12.28	5.09	10.07	19.81
Poland	-4.95	48.26	32.88	6.97	33.78	28.51	5.52	3.76	12.27
Portugal	4.76	-2.67	16.44	34.68	-17.36	-4.97	-4.75	4.90	5.28
Russia	4.51	-47.91	24.15	50.18	53.40	13.82	-37.18	-26.05	15.92
Serbia	48.00	2.32	15.18	69.04	-3.46	-32.21	-56.12	41.63	23.40
Slovak Republic	12.75	-28.54	-13.61	17.43	-13.64	3.76	-2.83	0.22	59.49
Slovenia	36.69	-3.25	1.00	-16.32	17.86	-4.51	-10.79	-42.13	202.13
South Africa	13.78	3.70	5.31	32.78	-4.80	-14.74	-22.30	-11.99	4.10
Spain	16.98	3.96	8.16	8.13	1.50	-6.37	-2.81	1.48	13.05
Sweden	-28.66	14.50	-1.05	54.15	12.22	-8.83	-8.96	-9.72	-22.58
Switzerland	1.24	92.00	-20.22	-13.92	-12.83	3.29	24.35	0.54	0.58
Thailand	0.51	-11.17	-4.45	41.71	38.24	-24.19	22.23	5.89	18.00
Turkey	-17.84	6.44	80.14	-27.05	-4.44	-4.53	19.58	-11.71	-16.99
United Kingdom	-36.18	2.48	13.90	16.16	6.98	3.82	11.96	6.81	-14.68
United States	1.11	-12.17	6.05	8.29	-27.49	6.27	14.58	-3.77	-7.05
Median value	2.48	0.96	15.25	14.32	5.83	0.60	4.45	0.54	4.95

Notes: All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank.

Source: Factors Chain International (2016).

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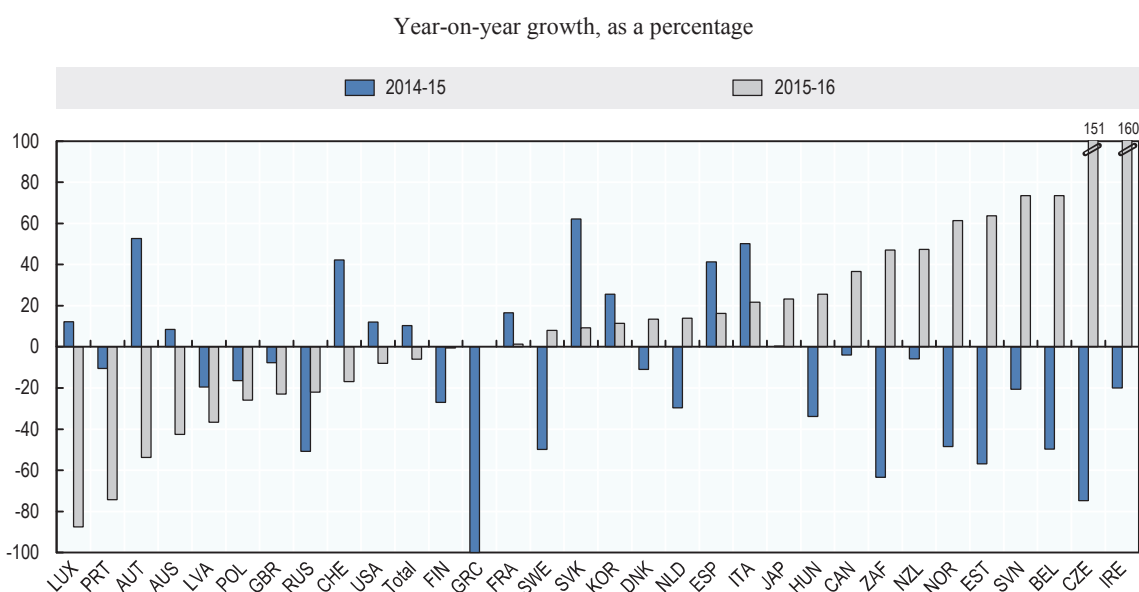
## Other sources of financing

With bank lending and credit conditions tightening for SMEs after the global financial crisis, there has been increasing attention to the potential of capital markets to offer alternative source of financing. This is especially true of innovative start-ups with high growth potential, which have been hit hardest by the decline in bank lending due to their higher risk profile and which typically rely on external equity in addition to debt to finance their growth ambitions. Venture capital investments, private debt, listings on stock exchanges, collective investment vehicles, as well as crowdfunding and business angel investments are discussed in this section.

### *Venture capital*

In 2016, venture capital investments were up in 19 out of 30 countries for which comparable information was available. This contrasts with developments in between 2014 and 2015 when VC investments were up in 11 countries and down in 20. Although year-on-year changes have to be interpreted with caution due to their volatility, the data suggest a pick-up in venture capital activities in 2016 (see Figure 1.11). It should be noted that total venture capital were up in 2015, but were in decline in 2016, following the trend in the United States (which accounts for more venture capital investments than all 29 other countries combined).

**Figure 1.11. Venture capital investments**



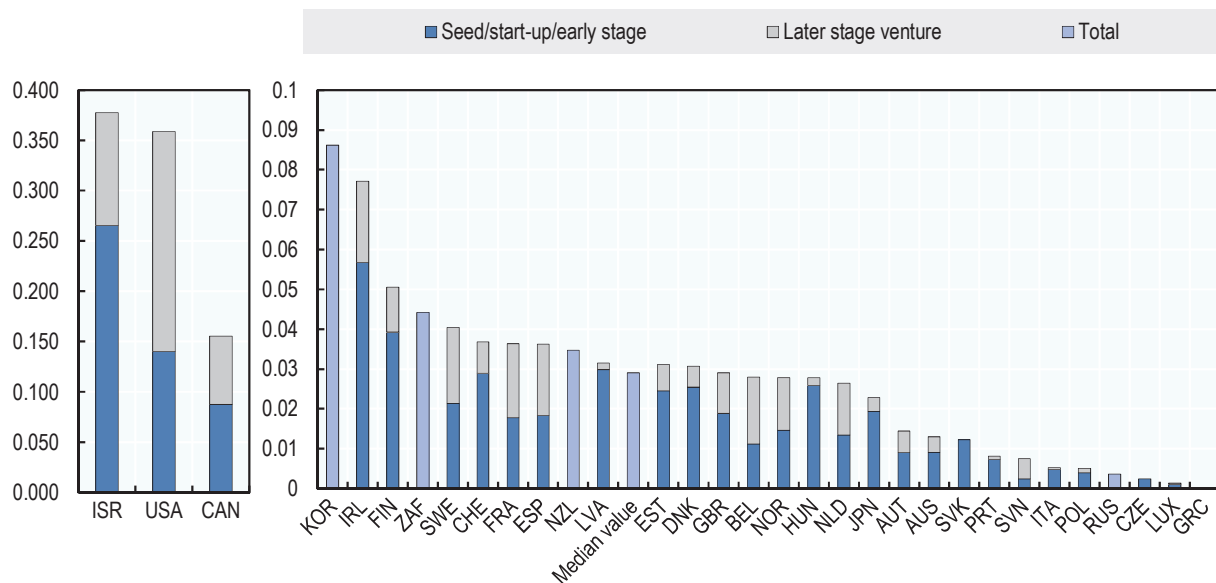
Source: OECD (2017b). Latvian data are sourced from Invest Europe at the request of the Latvian Government.

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Data on venture capital investments come from the OECD's *Entrepreneurship at a Glance 2017* publication. This annual study provides harmonised data on venture capital investments for 31 countries participating in the Scoreboard. All data in this section are expressed in USD, with the annual exchange rates (National currency per USD, period-average) sourced from the OECD Annual National Accounts database.

More granular data according to the investment stage are available for 28 countries. Analysis shows that investments at the seed stage were up in a majority of these countries, while later stage venture capital investments were generally down. Early stage VCs showed no clear trend. As in previous years, venture capital investments as a percentage of GDP show wide country variability, with VC investments accounting for more than 0.05% of GDP only in Canada, Finland, Ireland, Korea, Israel, and the United States, and amounting to less than 0.01% of GDP in other countries (see Figure 1.12).

**Figure 1.12. Venture capital investments as a percentage of GDP, 2016**



Note: For Israel and Japan data are from 2014.

Source: OECD (2017b).

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### *Private debt*

Private debt is a relatively recent innovation that has gained traction since the crisis, following tightened regulation on commercial banks. Akin to private equity, these specialised loan funds operate through an originator, typically unconnected to a banking institution, which originates a portfolio of SME loans. Many of the legal and institutional features of this instrument are similar to the private equity market with the crucial difference that it engages in debt rather than equity. These originators or “alternative lenders” are a diverse and expanding group that includes asset managers, subsidiaries of larger financial institutions, and even, more recently in the United States, Fintech enterprises.

Private debt is not unlike bank financing, but while commercial banks tend to operate on the low risk-low yield end of the spectrum, alternate lenders cover its entire range. Private debt markets are better placed to deal with liquidity risks than banks, as the latter are exposed to withdrawals of bank deposits in difficult market conditions. Private debt also deals better with funding risks, through the imposition of long-term funding commitments for investors or “lock-up periods” which restrict redemption of invested funds. However, firms tend to blend these two sources of finance to close their financing gaps, indicating

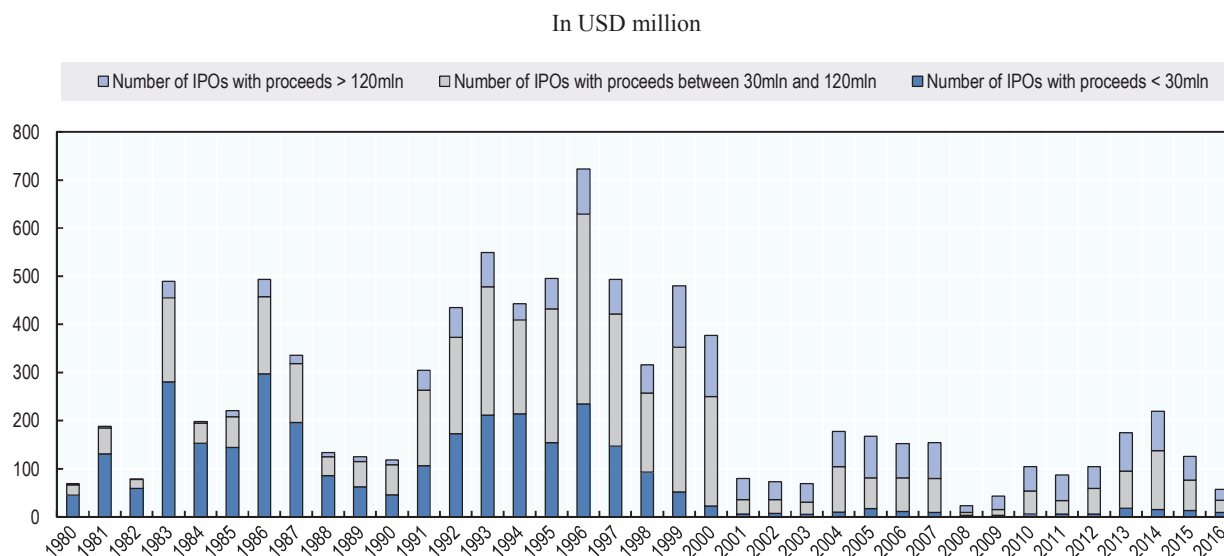
that banks can utilise alternative lenders to meet customers' financing needs without depleting their own resources or increasing their risk exposure. In addition, this allows banks to provide less capital-intensive products and services, which are an added source of revenue, as well as to retain the primary customer relationship. For these reasons, the private debt market is especially relevant for SMEs facing a major transition, such as a change in ownership, expansion into new markets and/or activities, or acquisitions.

Between 2006 and 2016, the global private debt industry nearly quadrupled in size, with assets under management increasing from USD 152 billion to USD 593 billion (McKinsey, based on Preqin). Around one-third of this market, USD 206 billion consisted of "dry powder" (unused capital commitments), meaning that substantial funds for new investments are on hand (Preqin). The market has been expanding steadily since 2006, with no visible slackening during the crisis. The largest single market is still the United States with around 60% of the world total, but the fastest growth is in Europe, whose share since 2010 has grown from 10% of the world market to 30% at the end of 2015. Although the data are not SME-specific, most activities are thought to fund SMEs (OECD, forthcoming).

### ***Stock markets***

Initial Public Offerings (IPOs) offer an alternative route for firms to access additional capital through a stock market launch, and conversion from privately-held to publicly-traded companies. After the global crash in 2008-09, stock markets are recovering and could be a viable, and even attractive, option for SMEs, even though large caps seem to dominate over smaller segments. In addition, an IPO can even prove to be an efficient tool in attracting further sources of funds as it is a potential signal of the company's strength.

However, two recent studies that looked closely into initial public offerings (IPO) in the United States identified a general declining trend in the number of companies going public since 2000 (Rose & Davidoff Solomon, 2016; Lowry, Michaely, & Volkova, 2017). What is more, small companies account for the bulk of the decrease in IPO volumes: Within the segment that contains companies with an initial market capitalisation lower than USD 75 million, there were 168 IPOs in 1997 but only seven in 2012 (Rose & Davidoff Solomon, 2016). Another indicator of this trend is the IPO proceeds. Within the groups of companies with proceeds under USD 30 million and between USD 30 million and USD 120 million, the number of IPOs is considerably lower compared to the mid-1990s (Figure 1.13). The annual average proceeds raised were not much lower in the two periods in comparison (USD 33 billion since 2000 compared to USD 37 billion in the 1990s), further documenting the increase in the number of IPOs by large firms.

**Figure 1.13. Initial returns by proceeds, United States, 1980-2016**

Note: Lowry M., Michaely R., and Volkova E, Initial Public Offerings: A synthesis of the literature and directions for future research;

Source: The dataset of the research paper is available online: <https://github.com/volkovacodes/IPO-Review-Chapter>.

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The picture is similar on European stock markets, especially when it relates to the number of listed small firms. According to MiddleNext's 2017 European Small & Mid Cap Outlook, there was an uptick in the number of companies listed on the stock market over the 2013-16 period, albeit remaining below the pre-crisis level. While this could indicate a renewed interest among firms in utilising improving market conditions to access funds, the different segments' activities exhibit considerable disparities. Large caps comprise only 6% of listed firms but contribute 80% to total trading volumes. In contrast, micro-cap's share of these volumes is a mere 1%. The micro- and nano-cap segments of European markets have been declining since 2014 and the number of European IPOs in 2016 (299) was insufficient to counterbalance that of companies whose stocks stopped being traded (MiddleNext European Small & Mid Cap Outlooks, 2016 & 2017).

There are several potential reasons for this apparent decline in participation in stock markets by SMEs. Entrepreneurs may be more likely to seek exits through mergers and acquisitions, rather than to acquire capital through an IPO. Furthermore, a stock market launch may not be particularly viable for entrepreneurs, who may lack the resources, knowledge or finances to structure an IPO. In addition, investor sentiment may not have fully recovered from the shock of the global financial crisis, and similar to bank lending, may have turned more risk-averse and favourable to large caps, leading SMEs to look for alternative sources of financing. Further study is needed to understand better the role of these factors.

### ***Collective investment vehicles***

Collective investment vehicles offer retail investors an opportunity to invest in SMEs, wherein other investment options like private equity may be restricted to institutional investors or individuals with a high net worth, sophistication, and other resources, such as



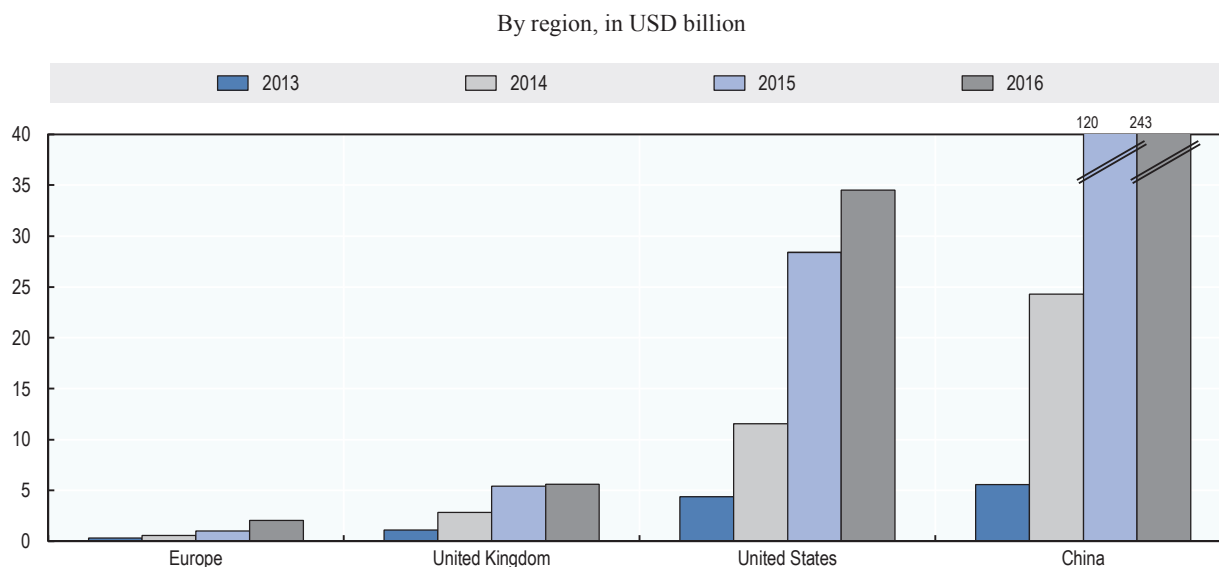
mentoring, to offer. A firm specialising in investment management creates a fund for collective investment with a stipulated investment strategy and markets the fund to the public. The investor acquires the right to proportional shares in assets of the collective investment scheme and the income generated by those assets in the form of interest, dividends and capital gains. One of the major developments in the financial systems of OECD countries in the past few generations has been the emergence of collective investment as the main channel through which individuals participate in the capital market.

Such collective investment vehicles are currently operating in countries such as France, Canada, the United Kingdom and the United States, among others. Until recently, these instruments had only modest significance in the overall financing of SMEs in their respective markets. However, due to its rapid growth in the past few years, the “BDC model” has achieved a fairly prominent role in overall SME finance in the United States. In Canada, the tax-advantaged fund is an established feature of the market and is an important part of the overall finance for SMEs in the province of Quebec, but of marginal significance in other provinces.

### *Online alternative finance*

Online alternative finance is a means of soliciting funds from the public for a project/firm through an intermediate platform, usually through the Internet, and comprises peer-to-peer lending activities, equity crowdfunding and online invoice financing. Although not a particularly new type of alternative finance instrument, its potential to complement traditional sources of financing to meet firms’ financing gap has increased in recent years. As reported in previous versions of this scoreboard, governments are increasingly seeking to create a framework for crowdfunding by crafting regulations for the industry.

Canada, South America and the United States observed growth in the industry, close to 23% from the previous year, with the lion’s share of activities taking place in the United States. The total market volume of the online alternative finance industry in 2016 amounted to USD 34.5 billion in the country (The Americas Alternative Finance Industry Report, 2017). China is by far the biggest market for online alternative financial instruments, with a total of USD 243.28 billion raised in the country during 2016 ( The 2nd Asia Pacific Region Alternative Finance Industry Report, 2017). In Europe, the online finance industry is most developed in the United Kingdom with volumes well above countries from other EU28 countries combined.<sup>5</sup> Volumes have roughly doubled every year between 2013 and 2016 for most of the regions and years, with the exception of the United Kingdom and the United States where 2016 growth levels, though still positive, are below recent levels. The global trends in volumes are summarised in Figure 1.14. below.

**Figure 1.14. Total online alternative finance market volumes**

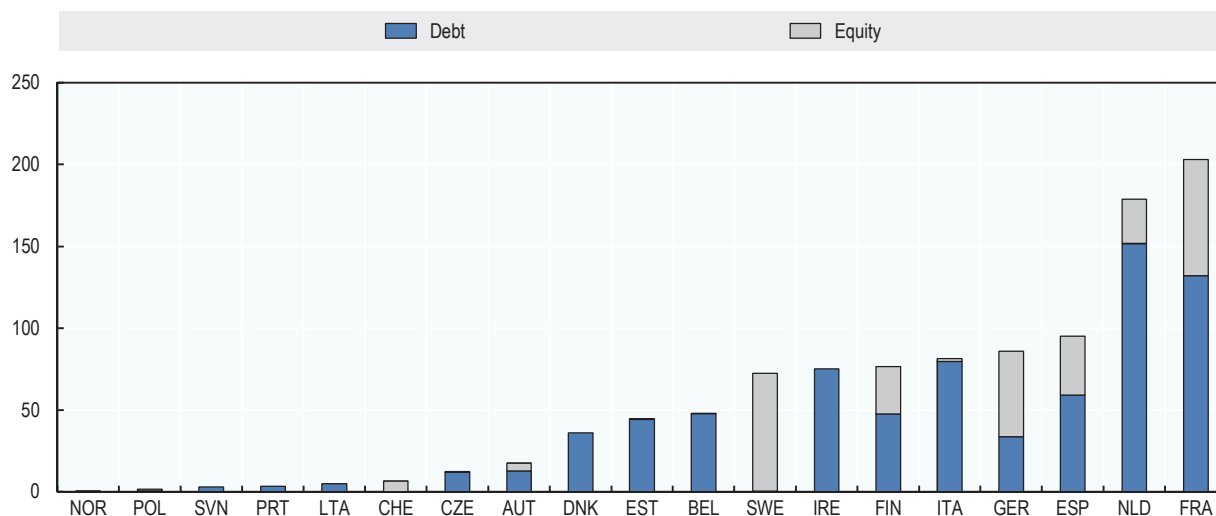
*Note:* All Lending and debt-models (ie P2P Business Lending, Business Balance Sheet Lending, Debt-based Securities, Invoice Trading, Mini-bonds and relevant debt volume from the profit-share model. Relevant business volume from P2P Consumer and Property Lending, and relevant balance sheet volumes were also included in this figure. All Equity based models including Equity-based Crowdfunding and Real Estate Crowdfunding relevant to business issuers. Spanish platform data was taken out of 2012-14. All the data are expressed in USD and are thus influenced by fluctuations in the value of currencies. In the United Kingdom, for example, volumes expanded by over 40% between 2015 and 2016 in GBP, but stagnated in dollar terms because of a depreciation of the currency over this period. The data on Europe includes all EU 28 countries except for Luxembourg and the United Kingdom.

*Source:* Regional reports of the Cambridge Centre for Alternative Finance at the University of Cambridge.

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More granular data, restricting only to activities relevant to SMEs (and thus not including consumer lending or most real estate activities) illustrates that within continental Europe, online finance activities vary significantly across countries with the Netherlands accounting for the largest market in debt-based crowdfunding and Sweden the most active market in equity-based crowdfunding (see Figure 1.15).

Figure 1.15. Debt and equity crowdfunding volume by country, 2016



*Note:* All Lending and debt-models (i.e. P2P Business Lending, Business Balance Sheet Lending, Debt-based Securities, Invoice Trading, Mini-bonds and relevant debt volume from the profit-share model. Relevant business volume from P2P Consumer and Property Lending, and relevant balance sheet volumes were also included in this figure. All Equity based models including Equity-based Crowdfunding and Real Estate Crowdfunding relevant to business issuers. Spanish platform data was taken out of 2012-14.

*Source:* Cambridge Centre for Alternative Finance at the University of Cambridge.

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Online finance does not only offer an additional route to access financing; successful campaigns are often a signal of the creditworthiness and viability of a project, making it therefore more likely to attract additional funding (Short et al., 2017). In addition, crowdfunding campaigns can function as a publicity tool, increasing public exposure and can be easily combined with crowdsourcing, i.e. using non-financial feedback from internet users to improve products and services and to test ideas (Macht and Weatherston, 2014). There is therefore a strong incentive for governments to push for better data collection and understanding on the crowdfunding industry. Many countries, such as Austria, Australia and China have recently adopted regulatory frameworks for the industry in order to stimulate the growth of the market. In the United Kingdom, for example, the strong industry performance is linked to progressive reform and tax breaks offered to participants (Crowdfunding Hub, 2016).

While in many countries online finance is still in its infancy, it has a strong potential to grow and serve the financing gap among SMEs, as illustrated by the recent developments in China, the United Kingdom and the United States. It is especially true for young firms with medium or high credit risk that have better chances to be funded by online lenders than banks. In 2016, this segment of the SME population in the United States faced a credit approval rate of 45%, compared to 35% and 26% from small and large banks, respectively. Among established, employer small businesses, however, banks still remain the single most popular source of financing and there is some reason for concern regarding the quality of crowdfunding services that were rated the least satisfactory by small businesses (Small Business Credit Survey 2017). In addition, online alternative finance carries some risks, which the European Commission has identified in a recent report (EU Commission, 2016). Apart from the common risks linked to investment for

retail investors, which raises investor protection concerns, there are few possibilities to exit the investment due to the absence of secondary markets, and difficulties in obtaining sufficient information to price securities correctly/assess the borrower's ability to repay. The platforms might also be used for illicit activities that in turn risk damaging the reputation of the crowdfunding market in general.

### ***Business angel investments***

Business angel investing is an important source of financing for early-stage start-ups, especially those which do not have own resources and/or are unable to access bank capital, but are not yet ripe for venture-capital funding. Angel investors tend to be wealthy individuals, or groups of them, who provide financing, typically their own funds, in exchange for convertible debt or ownership equity. This enables entrepreneurs to scale up to a stage where venture capitalists, who tend to invest larger amounts of capital in more advanced start-ups, may step in. It represents a potential means of narrowing the financing gap for early-stage, innovative SMEs, but is not suitable for all firms' profiles (OECD, 2016d).

Data on angel investment tends to be difficult to assess due to the discrete nature of such financing (leading to an "invisible market"), lack of regulation, and differences in definitions across countries on who qualifies as an angel investor. Further, survey-based data suffers from an inconsistency in number of respondents' year-on-year as well as from incomplete coverage of the market. Data shortcomings were extensively covered in the thematic chapter of the 2016 edition of this publication (OECD 2016d).

The European Business Angels Network has attempted to document the state of this industry in Europe since 2000. Angel investments increased by 8.2% in 2016, to EUR 6.7 billion, accounting for an estimated two thirds of all early stage investments (European Business Angels Network, 2017). Angel investment is growing in the United States as well, with angel groups' direct investments more than doubling in 2016 (Angel Capital Association, 2017).

In both Europe and the United States, the volume of angel investments differs considerably by region. In Europe, the United Kingdom holds the largest share of the market, followed by Spain, Finland and Germany (European Business Angels Network, 2017). In the United states, California garnered 30% of all angel investments in 2016, followed by New York with 11% (Angel Capital Association, 2017).

## **Payment delays, bankruptcies and non-performing loans**

In 2016, payment delays remained similar to 2015, with the proportion of countries experiencing a decline roughly in balance with those where payment delays increased. While the number of firms going bankrupt went up in 17 of 29 participating countries in 2016, some of the increase is attributed to methodology, definition or legislative amendments, and may thus not fully or accurately reflect business trends. This is also reflected in the median value of the bankruptcy growth rate, which remained negative in 2016, although less so than in 2015. Data on NPLs indicates a small improvement in 2016 compared to the previous year.

### ***Payment delays***

The 2016 data on payment delays show no clear trend, with considerable declines observed in Belgium, Chile, Italy, Portugal and the Slovak Republic, and strong increases

in Colombia, the Czech Republic, Greece and Korea. Out of 18 countries, a decline in payment delays in 2016 could be observed in seven, an increase in seven and no year-on-year change in four. The median value also remained broadly constant in 2016 compared to 2015 (see Table 1.9). This stands in contrast with data from the previous year, when an almost across the board reduction in payment delays between 2014 and 2015 could be observed.

**Table 1.9. Trends in payment delays**

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2015-16 change (%)
Australia	..	..	..	..	21.60	20.30	19.50	14.90	13.00	14.40	10.77
Austria	..	8.00	8.00	11.00	12.00	11.00	12.00	13.00	..	..	..
Belgium	..	..	17.00	17.00	15.00	19.00	18.00	19.00	13.00	10.00	-23.08
Chile	..	..	..	75.77	74.85	56.65	52.67	55.15	57.95	54.93	-5.21
China	..	..	..	..	..	..	95.91	72.31	64.44	65.21	1.19
Colombia	48.83	50.20	60.77	62.32	59.07	54.62	56.28	65.11	65.71	85.16	29.60
Czech Republic	16.00	18.00	19.00	14.00	14.00	15.00	14.00	14.00	14.00	19.00	35.71
Denmark	7.20	6.10	12.00	12.00	13.00	12.00	10.00	9.00	4.00	4.00	0.00
Estonia	9.00	8.10	12.70	12.80	10.20	10.10	9.40	7.00	6.90	6.00	-13.04
Finland	6.00	5.00	7.00	7.00	7.00	7.00	6.00	6.00	5.00	5.00	0.00
France	60.40	57.30	54.90	54.70	53.60	51.80	51.30	50.00	50.10	..	..
Greece	..	25.00	34.00	30.00	35.00	40.00	43.00	41.00	36.00	47.00	30.56
Hungary	16.30	19.00	19.00	15.00	22.00	20.00	..	17.40	17.40	..	..
Italy	..	23.60	24.60	20.00	18.60	20.20	19.90	18.50	17.30	15.40	-10.98
Korea	10.96	12.07	9.90	12.10	11.70	9.10	9.70	10.00	9.20	13.30	44.57
Netherlands	13.2	13.9	16.0	17.0	18.0	18.0	17.0	16.0	29.0	32.00	10.34
New Zealand	43.10	50.80	44.50	44.00	45.60	40.10	39.60	37.00	35.50	34.90	-1.69
Portugal	39.90	33.00	35.00	37.00	41.00	40.00	35.00	33.00	21.00	20.00	-4.76
Serbia	..	..	33.00	31.00	35.00	28.00	28.00	..	..	..	..
Slovak Republic	19.70	8.00	13.00	17.00	20.00	21.00	19.00	17.00	24.00	19.00	-20.83
Spain	5.00	5.00	14.00	12.00	6.00	9.00	16.00	11.00	8.00	..	..
Sweden	..	..	..	..	..	20.00	24.00	15.00	9.00	9.00	0.00
Switzerland	..	12.00	13.00	13.00	11.00	10.00	9.00	9.00	7.00	7.00	0.00
United States	..	..	..	..	..	..	23.58	..	41.24	..	..
Median Value	16.15	15.04	18.00	17.00	19.30	20.00	19.70	17.00	17.30	17.20	0.00

Source: Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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Scoreboard data suggest that changes in payment delays are linked to changes in GDP growth, with a correlation coefficient of -0.3 based on 152 observations. A potential assumption is that the observed decline in payment delays is linked to general improvements in the business climate in recent years. It is unclear how much policy has made an impact in this area, although policy makers have taken action in this area. In several countries including Australia, Ireland, the Netherlands, the United Kingdom and the United States, governments have adopted procurement and payment delay policies. These policies require payment within 5 to 30 days with terms enabling the request of penalty interests in case of late payments, depending on the country. In addition, in Australia, Ireland and the United Kingdom, a prompt payment code requires signatory companies that voluntarily commit to pay their suppliers in time. As of October 2017, the Code in the United Kingdom has over 2000 signatory companies, including 70 of the

FTSE100. In addition, the obligation to report by United Kingdom's largest companies and Limited Liability Partnerships took effect in April 2017, and requires these enterprises to report on a half-yearly basis on their payment practices (Duty to report on payment practices and performance, 2017).

The Late Payment Directive, as the most noticeable example, allows firms operating in EU countries to claim compensation and/or interest for late payment, limits the contractual in commercial transactions, has a provision on the recovery process of undisputed claims, and, in addition, aims to shorten or avoid payment delays by public authorities to businesses. It came into force recently in most member states with a transposition deadline of 2013. Although this directive is known among a clear majority of surveyed businesses, an evaluation shows that it has had little impact so far on the ground, to some extent due to reluctance on the part of firms to damage business relations (European Commission, 2015).

Evidence shows that late or non-payments are detrimental to the growth and even survival of enterprises, and especially of small businesses, that often lack cash-flow management capabilities and who have only limited possibilities to find sufficient funds elsewhere (Connell, 2014). While payment delays thus constitute a relevant indicator with respect to SMEs' cash flow position, they provide only partial information, and the picture could be complemented by examining other indicators.

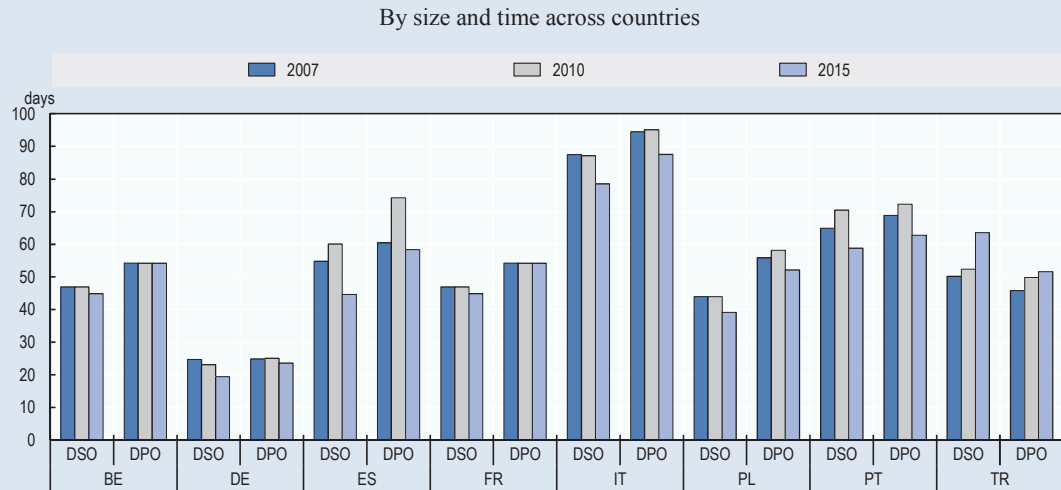
For example, trade credit indicators such as the average customer and supplier payment periods can provide additional insights. The provision of trade credit i.e. the credit that is accorded to business customers for the purchase of goods or services, is a widespread practice, and plays a crucial role in financing SMEs. There is evidence that trade credit can, to a certain extent, substitute for bank financing. In the aftermath of the financial crisis, financially vulnerable SMEs, whose access to credit markets especially deteriorated, made more use of this source of financing (McGuinness and Hogan, 2016). In the European Union, for instance, outstanding trade credits amount to an estimated 30% of GDP.

To get a better understanding in an area where data is often sparse and lacks comparability across countries, the European Committee of Central Balance Sheet Data Offices (ECCSBO) analysed balance sheet data from eight countries (see Box 1.2). It illustrates that there is a wide cross-country variance in terms of payment periods within the group of countries.

### Box 1.2. The use of accounting information to estimate indicators of customer and supplier payment periods

This Box presents some results from a study carried out by the European Committee of Central Balance Sheet Offices. The analysis is based on a large dataset of accounting information from non-financial firms for eight countries (Belgium, France, Germany, France, Italy, Poland, Portugal, Spain and Turkey). It shows that large differences exist across countries both in the level and in the time changes of trade credit indicators. Italian firms present a very high level of days sales outstanding (DSO), a proxy for customer collection periods, with an average DSO of more than 100 days in 2015, followed by Portuguese, Turkish and Spanish companies. German firms have the lowest values with an average of around 30 days. This country variance hold, even after controlling by firm size and sector. It mainly reflects business culture, economic conditions and power imbalances in the market (see Figure 1.16).

**Figure 1.16. Days of Sales Outstanding and Days of Payables Outstanding**

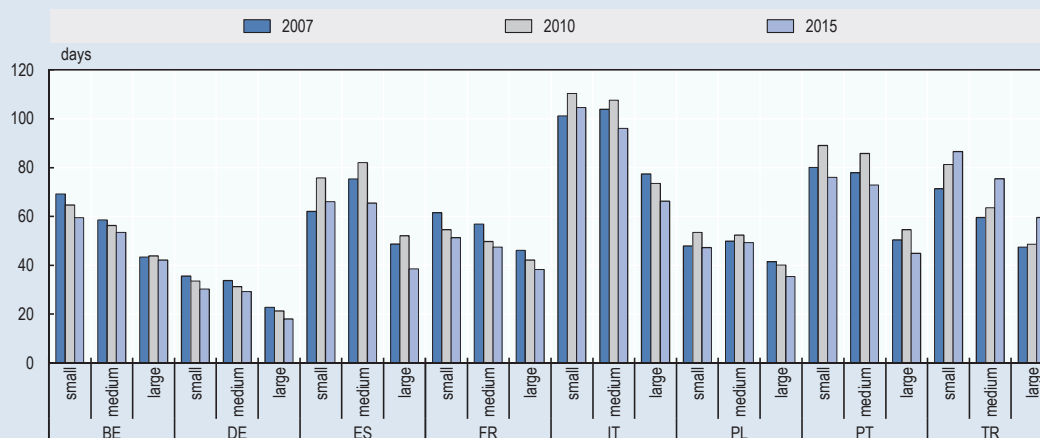


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Looking at firm size, the general evidence shows that DSO levels are substantially lower for large enterprises than for small businesses with medium-sized firms taking an intermediate position. This size effect points out that larger firms tend to have stronger bargaining power and a better ability to get paid earlier from customers.

**Figure 1.17. Days of Sales Outstanding**

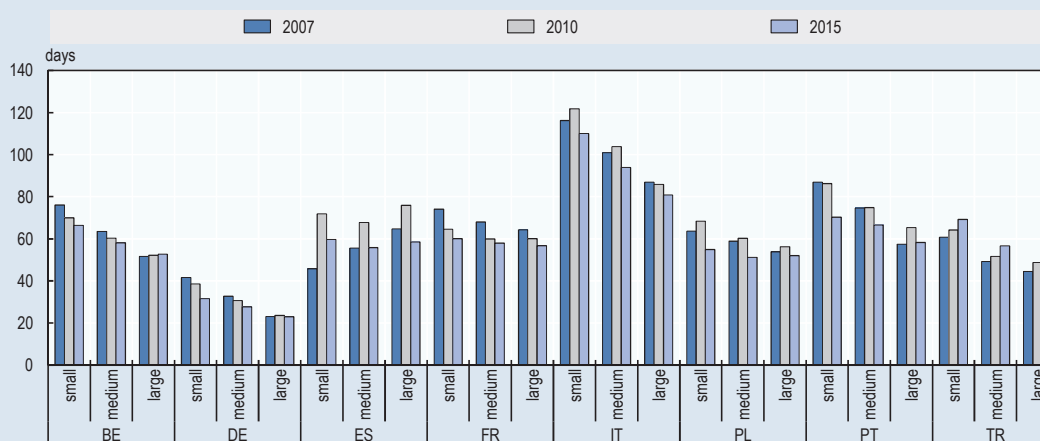
By size and time across countries

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Similar differences can be observed for days payable outstanding (DPO), a proxy for supplier payment periods. As for DSO, the differences across countries remain, the lowest DPO value is registered in Germany (on average, German firms pay their suppliers within less than 25 days) and the highest one in Italy, whose firms' payments often exceed 100 days (Figure 1.18.). Differences by size classes can also be observed (in the sense that in most countries, the larger the firm, the smaller the DPO); firm size and DPO are negatively correlated. In this case, larger firms may pay their supplier earlier for marketing reasons (e.g. retaining good suppliers) or because late payments may incur costs which large firms are better able to avoid.

**Figure 1.18. Days of Payables Outstanding**

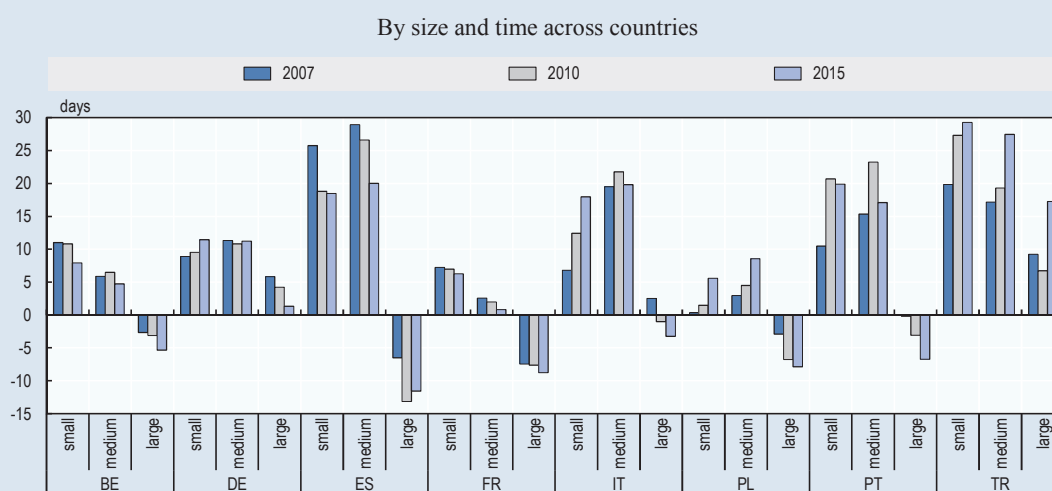
By size and time across countries

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Regarding the net position on trade credit (assets – liabilities), measured by trade credit balance (TCB), large firms generally have a lower trade credit balance than small and medium-sized businesses (Figure 1.19.). Moreover, in six out of eight countries, the net position is negative for large firms, while this is never the case for smaller enterprises. These findings mean that large firms are more likely to find financing through trade credit than other size categories, reflecting their strong bargaining power in the supply chain. In other words, the period in which large firms pay their suppliers often exceeds the period in which they are being paid. From 2007 to 2015, the time pattern of trade credits among small and medium-sized enterprises has not been homogeneous across countries: in Spain, Italy, Poland, Portugal payment periods noticeably increased during the 2008-2009 financial crisis for both DSO and DPO and declined afterwards. On the other hand, a constant declining trend is visible in Belgium, France and Germany. Turkey represents an outlier, showing an upward trend over time. In 2015, small Italian and Spanish firms still present higher values of DSO with respect to 2007. The various time patterns could have been affected by different disrupting factors, such as the use of trade credit as an alternative financing channel during the crisis, the inclusion of the European Directive on Late Payment or the idiosyncratic shocks which have affected some countries or sectors of activity during the crisis.

**Figure 1.19. Trade Credit Balance**



Note: All are weighted average figures. The sectors included in the sample are manufacturing, construction and trade. Firm size is defined with respect to turnover thresholds: less or equal to EUR 50 million for medium, less or equal to EUR 10 million for small, less or equal to EUR 2 million for micro firms.

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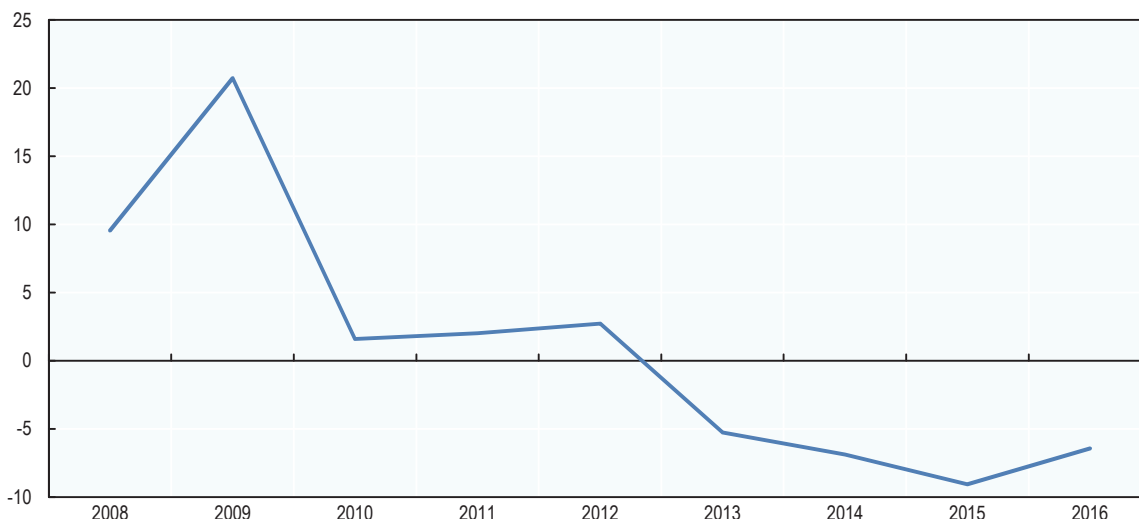
Source: FSA WG (2017).

## ***Bankruptcies***

For the fourth consecutive year, the number of bankruptcies was down in a majority of scoreboard countries. The median year-on-year change in bankruptcies declined by an annual 6.5% in 2016, after a fall of 6.9% and 9.1% in 2014 and 2015, respectively (see Figure 1.20).

**Figure 1.20. Trends in bankruptcies**

Year-on-year median value growth rates, as a percentage



Source: Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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In 2016, bankruptcies increased in seven out of 32 countries. In particular, after posting negative growth rates in 2015 and preceding years, Austria and the United Kingdom saw a reversal in the trend with positive single-digit growth in bankruptcy rates in 2016. France, Georgia, Greece, Korea and Portugal recorded the biggest 2016 improvements since 2007 in bankruptcy statistics in 2016 among participating countries (see Table 1.10).

While bankruptcy data over time is broadly indicative of the cash flow situation of enterprises, it should be highlighted that there are differences in the length and complexity of bankruptcy procedures between countries, meaning that insolvent enterprises are not declared bankrupt at the same pace. While bankruptcies (upon court ruling) constitute a very common path to firm closure or liquidation in some countries, this is not universally true. This also implies that legal and regulatory reforms that were introduced over this period can affect the numbers. A case in point is Chile, where only 6 firms were declared bankrupt in 2014. After a reorganisation and liquidation law passed in late 2014, bankruptcies rose to 154 and 256 in 2015 and 2016, respectively. Comparisons across countries, especially with respect to absolute levels of bankruptcies, should therefore be treated with caution. The increase in the United Kingdom is similarly due to changes in the regulatory framework leading to a sizeable number of companies entering creditors' voluntary liquidation in 2016.

**Table 1.10. Trends in bankruptcies**

Year-on-year growth rates, as a percentage

Country	Code	2008	2009	2010	2011	2012	2013	2014	2015	2016
Australia	Total, per 10 000 firms	4.44	0.00	6.38	2.00	3.92	-7.55	-20.41	5.13	-12.20
Austria	Total	0.32	9.30	-7.62	-7.95	2.93	-9.63	-0.66	-5.03	1.48
Belgium	Total	10.36	11.14	1.59	6.83	3.55	10.89	-8.55	-9.07	-6.06
Canada	SMEs, per 1 000 firms	-5.71	-10.61	-22.03	-6.52	-11.63	-5.26	-5.56	-2.94	-6.06
China	SMEs, per all SMEs							-4.36	-24.59	-13.37
Colombia	SMEs	187.88	56.84	6.71	11.95	-34.83	34.48	-9.62	16.31	21.95
Czech Republic	SMEs	4.05	46.62	1.64	-2.92	6.49	2.53	-10.95	-18.49	-9.69
Denmark	SMEs			0.78	-24.97	1.03	-13.28	-21.79	19.28	16.98
Estonia	SMEs	109.41	149.41	-2.56	-39.40	-20.55	-7.27	-6.75	-12.15	-10.90
Finland	SMEs	15.88	25.38	-12.55	2.90	0.48	5.74	-4.63	-13.80	-6.45
France	SMEs	8.23	13.76	-4.54	-1.40	2.72	2.36	-0.22	1.05	-7.92
Georgia	Total	-48.74	-14.75	3926.92	51.67	-20.53	-29.68	0.56	-12.61	-85.32
Greece	SMEs	-30.02	-1.11	0.00	25.35	-6.74	-5.54	-15.82	-42.73	-42.86
Hungary	total, per 10 000 firms	10.35	25.65	9.55	20.45	7.92	24.76	71.32	-24.18	-22.81
Ireland	SMEs	78.20	103.10	11.33	1.73	-6.60	-15.03	-10.01	-18.97	-21.32
Israel	SMEs			37.51	31.86	33.80	12.20	-5.13	-2.76	
Italy	Total	21.83	24.98	19.74	8.20	3.19	12.65	11.02	-6.08	-8.23
Japan	SMEs	10.76	-0.82	-13.96	-4.22	-4.81	-10.18	-10.37	-9.43	-4.17
Kazakhstan	Total		100.00	300.00	400.00	112.50	76.47	16.00	75.86	115.36
Korea	SMEs	19.22	-26.95	-21.42	-13.44	-9.64	-18.49	-15.98	-14.39	-22.92
Latvia	SMEs		59.32	-1.32	-67.65	7.16	-7.02	16.81	-16.37	-11.35
Luxembourg	Total	-12.90	20.73	32.47	6.54	7.36	-0.10	-18.97	2.71	10.08
Netherlands	SMEs	6.51	80.74	-10.63	-0.43	20.85	16.71	-20.51	-20.58	-16.53
New Zealand	Total	-31.28	2.11	21.14	-11.00	-10.45	-15.94	-6.89	4.25	-1.06
Norway	SMEs			-12.38	-4.38	-11.59	16.33	3.10	-1.91	-0.72
Portugal	SMEs	35.07	8.13	7.23	16.01	40.92	-9.84	-33.35	17.29	-23.29
Russian Federation	Total		11.19	3.46	-20.08	9.99	-6.59	10.32	0.86	
Serbia	SMEs, per all SMEs			14.17	5.52	-17.65	-4.76			
Slovak Republic	SMEs	48.52	9.96	24.64	5.52	-6.61	11.21	8.49	-14.43	-22.00
South Africa	Total	4.73	25.24	-3.41	-10.85	-23.69	-12.59	-13.06	-4.94	-1.43
Spain	SMEs	185.23	75.02	-6.18	17.32	34.91	13.43	-32.21	-22.94	-20.70
Sweden	SMEs	8.75	21.28	-4.77	-4.34	7.37	3.08	-7.05	-10.13	-6.44
Switzerland	Total	-2.16	23.55	19.94	6.49	2.70	-5.06	-9.67	3.94	6.66
Turkey	Total	-9.62	6.38	36.00	5.88	95.83	-51.06	43.48	9.09	105.56
United Kingdom	Total	33.07	13.99	-13.76	2.70	-4.16	-10.90	-6.73	-9.51	12.16
United States	SMEs	50.80	38.65	-8.60	-16.78	-17.69	-18.44	-20.18	-9.31	-3.78
Median value		9.55	20.73	1.59	2.00	2.70	-5.26	-6.89	-9.07	-6.45

Note: 1. China and Serbia use the percentage of firms in bankruptcy proceedings. 2. Data for Chile are not included since it was largely affected by a regulatory reform in 2014.

Source: Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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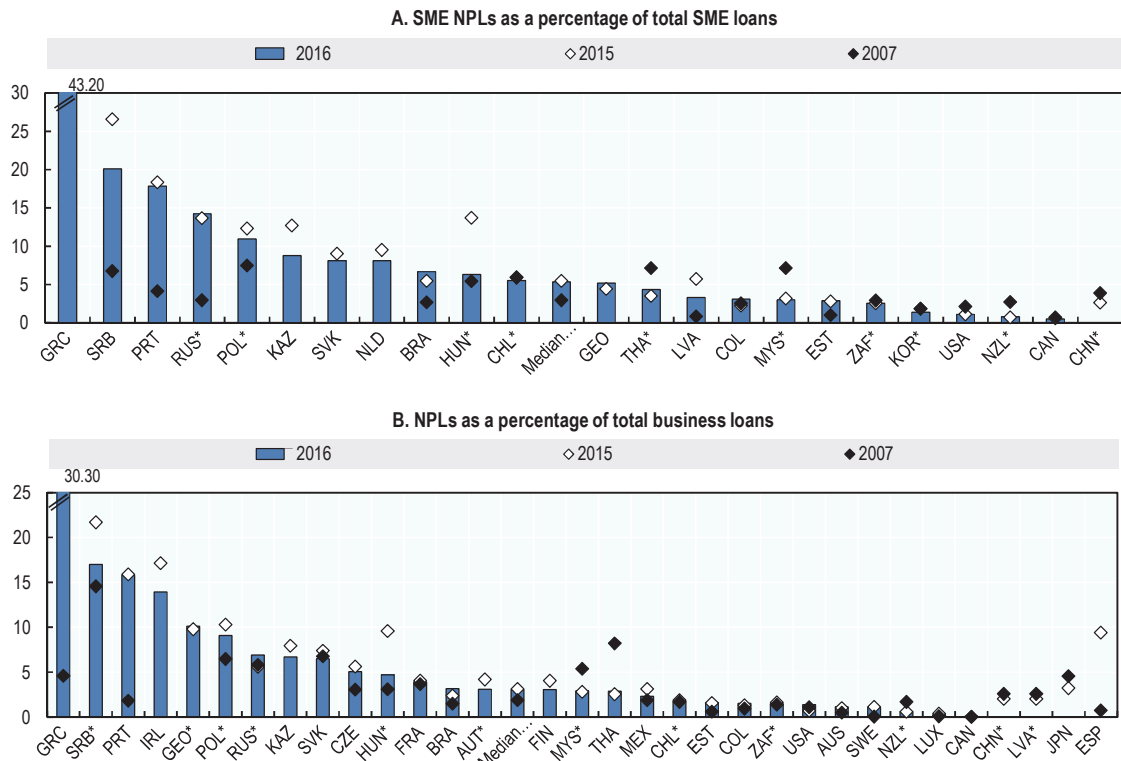
### *Non-performing loans (NPLs)*

An analysis of the data on non-performing loans show that these are generally more prevalent for SMEs than for all business lending with the median value of NPLs for all corporate lending remaining below the level observed for SME lending. In Greece, for example, 43.2% of the value of SME loans was considered non-performing, compared to

30.3% of the value of outstanding business loans. In Brazil and Latvia, SME NPLs are more than twice as prevalent as business NPLs (6.7% versus 3.2% and 2.0% versus 5.7%, respectively). In other countries such as China and Thailand, the gap is much smaller and in Georgia and the United States, NPLs are more common among large business loans than for loans to SMEs.

Data on non-performing loans show no clear trend; SME NPLs declined in 11 countries between 2015 and 2016, especially in Hungary and Serbia, where a fall of more than 5 percentage points could be observed, following a large increase after the financial crisis. Greece, Poland and Portugal also had double-digit SME NPL numbers in 2015 and experienced a reduction in 2016. In 9 other countries, the SME NPL rate rose, including in the Russian Federation, where SME NPLs roughly doubled in 2016 compared to 2014. NPL rates for all businesses show a clearer trend with NPL rates declining in 17 countries, increasing in 10 and remaining constant in two. In Brazil, Greece, Latvia, Portugal, the Russian Federation and Serbia, the proportion of non-performing loans in 2016 stood at a multiple of their pre-crisis level, likely weighing on SME lending activities. In most other countries, NPLs rose in the aftermath of the financial crisis, but have since levelled off to roughly pre-crisis levels (see Figure 1.21).

Figure 1.21. Non-performing loans as a percentage of loans



*Note:* 1. Canada reports a 90-day delinquency rate for small businesses, as a percentage of loans outstanding. 2. \*Countries where 2007 data is unavailable make use of 2008 data (For Chart A, Hungary, Korea, Malaysia, Poland, the Russian Federation and South Africa. 3. Italy is excluded from this chart as NPL data are represented by “bad loans,” a non-harmonised Italian subcategory which distinguishes the exposures with the worst credit quality from other non-performing exposures. For Chart B, Hungary, Malaysia, Poland, Serbia and South Africa) or 2009 data (For Chart A, Chile, China, New Zealand and Thailand. For Chart B, Chile, China, Latvia, Mexico, New Zealand and the Russian Federation). 3. For Chart A, 2016 data for China is not available. For Chart B, 2016 data for China, Finland, Hungary, Ireland, Japan, Latvia and Spain are not available.

*Source:* Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

StatLink  <http://dx.doi.org/10.1787/888933665409>

As with bankruptcy, data on non-performing loans must be interpreted within context on account of non-uniformity of syntax, definition and taxonomy. In addition, some countries do not differentiate between SME NPLs and total business NPLs, hence the figures given would include information on large enterprises as well. Nonetheless, the relationship between the year-on-year change in (SME) NPLs and corresponding changes in SME credit is strong (with a correlation coefficient of -0.41). Countries such as Brazil and the Russian Federation experienced a sharp increase in NPLs between 2015 and 2016, which coincided with a sharp decline in the outstanding stock of SME loans. In Hungary and Latvia, 2016 reductions in non-performing loans occurred simultaneously with a strong credit expansion for SMEs.

## Government policy responses in 2016-17

SME finance remains high on the policy agenda in most areas of the world, and many governments developed initiatives in 2016 and the first half of 2017 to ease access to various sources of finance, in addition to the wide range of policy instruments already in place. Based on information from 43 participating countries, a number of broad emerging trends can be discerned and are presented along with recent policy examples below. The profile of each participating country provides more detailed information on initiatives in this area.

### *a. Credit guarantees remain the most widespread instrument and their design is continuously being revised*

Most countries have a credit guarantee scheme in place, with the exception of Australia, Georgia and New Zealand. Credit guarantee schemes can be broadly categorised as individual guarantees or portfolio guarantees (see Box 1.3).

### Box 1.3. Individual and portfolio guarantees

Most credit guarantees are traditionally provided through an “individual guarantee approach.” This means that guarantee applications are studied by the guarantor’s credit managers individually, in order to assess projects’ feasibility and perform the adequate due diligence requirements. Nonetheless, a trend can be observed in recent years towards a growing use of portfolio guarantees.

“Portfolio guarantees” entail a much lighter process on the part of the credit guarantee scheme. Under this arrangement, an agreement has been signed between guarantor and selected lenders, defining conditions and a maximum volume of loans to be guaranteed. The guarantor accepts to grant the guarantees without a study of each project’s risk, and relies on the lender’s credit risk assessment. A ceiling (cap) is set to limit potential payments by the guarantor in the case of defaults.

In Europe, for instance, a recent survey illustrates that 12 AECM members (European Association of Guarantee Institutions) out of 23 respondents reported using portfolio guarantees, often alongside individual guarantees. Estimates indicate that portfolio activities represented about 18 % of the number of guarantees issued in 2016 by AECM members. In Central and Eastern European countries, such as Bulgaria, the Czech Republic and Poland, as well as in Ireland and the United Kingdom, credit guarantee institutions have mainly or exclusively adopted a portfolio process. In addition, 3 of out 23 respondents will adopt a portfolio approach for part of their activities from 2018 onwards.

The key advantages of portfolio guarantees are that it simplifies the whole procedure of according guarantees, with less red tape involved and offering immediate decisions (as often and increasingly demanded by both banks and borrowers). In short, it is a more customer friendly process. In addition, the guarantor incurs fewer operational costs (as due diligence and credit risk assessment are no longer required).

The outreach of the support of guarantee schemes can be increased for those reasons, especially for segments of the SME population where transaction costs are relatively high such as to smaller SMEs or SMEs located in underdeveloped or rural areas. This in turn increases the appeal of the risk sharing for new partner banks. The approach is especially appropriate in markets where SME borrowers are served by experienced banks staff, with accurate SME risk appreciation procedures where the guarantor’s analysis would bring little added value in risk mitigation.

Nonetheless, as the wide-spread continued use of the individual guarantee approach illustrates, they have their merits as well. Individual guarantees allow guarantors to select beneficiaries, and/or to modify the conditions and volume of their guarantee, which should minimise risks to supporting non-viable projects, as well as balancing the issuance of guarantees to a large population of eligible firms. Their reliance on their own risk experience (peer to peer appreciation in the mutual schemes, or risk specialisation on types of projects, for public schemes), can be considered as an asset in the relationship with lenders.

In choosing between these approaches, individual decisions appear to be more suitable when risk appreciation requires specific experience for projects that can be classified as challenging such as start-ups, business transfer, guarantees to innovative firms and so on

where the guarantor can be expected to have a comparative advantage over commercial banks. Large individual risks, potentially jeopardising the scheme's financial reserves are also more appropriately managed by an individual approach. It matters also when moral hazard is high among emerging SME populations, and when bankers' skills are limited.

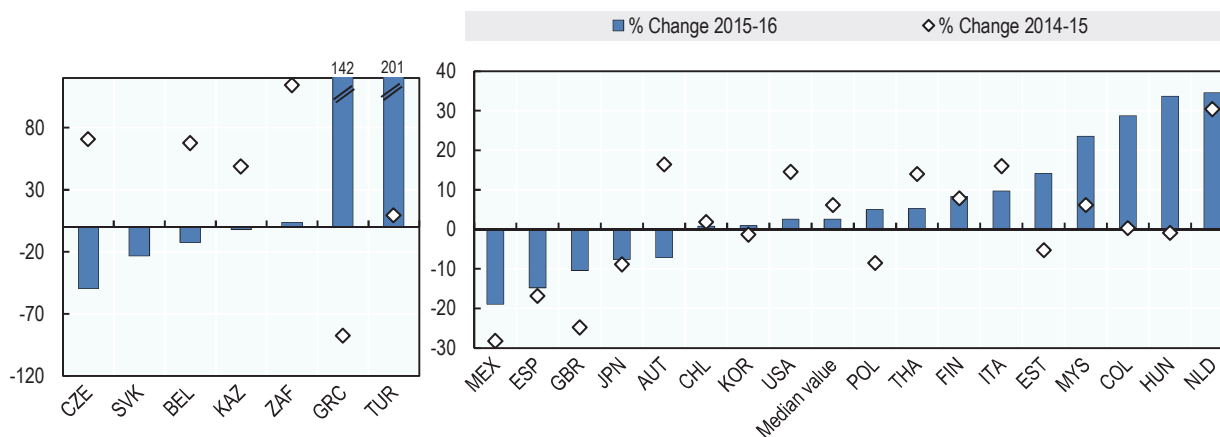
Portfolio processes can be used when risk competence is not higher in the guarantor staff than in the bank according the credit, typically for small projects of a well-known risk pattern presented by experienced lenders, allowing a reliable assessment of the risks at the portfolio level. Recent schemes can provide guarantees to a wide group of SMEs in a limited amount of time under this scheme. Finally, some schemes adopt a portfolio approach because of counter guarantee requirements such as imposed by EIF programmes for example, (such as COSME, INNOFIN, and SME initiative).

*Source:* Based on data and information from AECM (European Association of Guarantee Institutions).

Loan guarantees were the main instrument for governments to mitigate the impact of the financial crisis and witnessed a sharp increase in volumes in many countries in its aftermath. In recent years, the pattern has diverged across countries. In total, 2016 volumes were up in 13 countries and down in 9 others (see Figure 1.22). In some countries, the volume of credit guarantees expanded between 2014 and 2016. This trend is most apparent in middle income countries, such as Turkey where volumes tripled in 2016, and South Africa which saw an increase in 2015 by 114%, as well as in Colombia, Malaysia and Thailand. In other countries, volumes dropped in 2015 and 2016, but remain above pre-crisis levels. As a consequence, government loan guarantees remained much more important in scope in 2016 than in 2007 in a majority of participating countries.

**Figure 1.22. Trends in government loan guarantees for SMEs**

Year-on-year percentage growth between 2014 and 2015 and between 2015 and 2016



*Note:* 1. 2014-15 data for Belgium (67.31) and South Africa (114.03) is not depicted. 2. All represented data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries was extracted from the World Development Indicators, World Bank.

*Source:* Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

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Credit guarantee schemes are continuously being revised and their offer adjusted to keep up with the shifting demands of their beneficiaries. In Switzerland, the federal government funds loan guarantee cooperatives to facilitate SME access to bank loans. These provide a maximum guarantee of CHF 500 000 per firm on an interest rate that is set by the bank and dependent on the riskiness of the project. In addition to the interest rate, the firm has to pay a 1.25 % commission fee to the guarantee cooperative. Currently, the Federal Council is amending the Federal Law on Financial Aid for guarantee organisations to allow guarantees up to CHF 1 million.

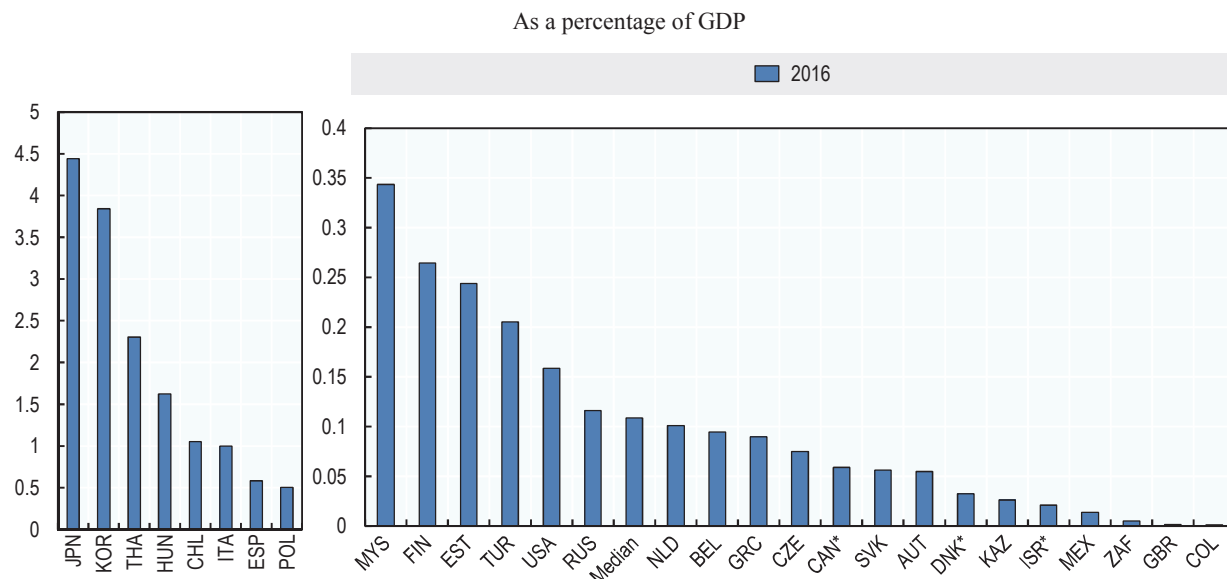
In March 2016, a new state-guaranteed small and medium-sized business fund was established in Israel, replacing the old fund. Various improvements have been introduced in favour of businesses, including the opening of a designated loan option for industry investments, in which a long-period 12-year loan can be issued, as well as increasing the maximum credit limit for exporters.

In Latvia, the Latvian Development Finance Institute (ALTUM) introduced credit guarantees to serve as collateral for SMEs to obtain loans from commercial banks. Active from 2007-13 and reintroduced for 2014-20, the programme issued 564 credit guarantees as of 2016 for a total public funding of EUR 158 million at an average interest rate of 0.4%. While there are no restrictions regarding SME categories, credit limits and maturity periods vary between SMEs and large firms, and among categories of large firms. The guarantee is limited to 80% of the financial services for both large companies and SMEs. It has certain restrictions for activities (e.g. financial and insurance activities, alcohol trade, etc.) and limitations on sectors as per EU regulation.

Austria, through the federal development and financing bank *Austria Wirtschaftsservice Gesellschaft* (aws), increased its guarantee volume by EUR 100 million to support innovative projects and growing companies in 2016. This follows its 2014 introduction of the principle of second chance, whereby failed entrepreneurs are not excluded from subsidies.

Loan guarantees amount to 4.4% of GDP in Japan and 3.8% in Korea, followed by Thailand where they make up 2.3% of GDP. In most other countries, the value of credit guarantees represents considerably less than 1% of GDP, as indicated by the median value of 0.11% (see Figure 1.23).

In addition, some countries have introduced measures to reduce the reliance of banks on tangible collateral, as another means to boost lending to SMEs (see Collateral requirements section).

**Figure 1.23. Government loan guarantees for SMEs**

Note: 1. The median value refers to all depicted countries in both graphs. \*Countries where 2016 data is unavailable make use of 2015 data.

Source: Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2017. Given the importance of credit guarantees to support SMEs' access to finance in many countries, it is crucial to carefully monitor and evaluate the impact and effectiveness of such schemes. The thematic chapter of this publication provides insights from a recent survey in OECD countries on evaluation practices in this area (see Chapter 2).

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### ***b. Policies to boost equity-type instruments and other sources of finance complementary to straight debt are proliferating***

In general, a more balanced capital structure increases the likelihood of attracting bank credit at good conditions, and is associated with higher growth in employment and turnover (Brogi and Lagasio, 2016). Evidence also suggests that the recovery from the financial crisis was impeded by the strong dependence on bank lending observed in many European countries (EIB, 2014). High-growth SMEs especially struggle to find sufficient external financing to sustain their growth ambitions, as illustrated in the relationship between capital market financing and firm growth in many countries (Didier et al., 2016).

The Czech Republic's new venture capital fund was launched in January 2017 through the *Československá Obchodní Banka* (CSOB) with the cooperation of the European Investment Fund (EIF). This fund will focus on seed and start-up financing of innovative firms with an initial budget of EUR 50 million over two years. Support for this also comes from the Juncker Plan, the European Commission's Investment Plan for Europe. This is the first of its kind EIF-managed equity fund of funds, and its aim is to boost entrepreneurship and innovation in the country, as well as reform the equity ecosystem for early stage development of SMEs.

The government of Canada also committed to make available CAD 400 million over three years, starting in 2017-18 through the Business Development Bank of Canada (BDC). These will go toward the creation of a new Venture Capital Catalyst Initiative (VCCI) that will increase late-stage venture capital available to Canadian entrepreneurs.

With funds leveraged from the private sector and dependent on proposals received, VCCI could inject CAD 1.5 billion into the Canadian innovation capital market. *Futurpreneur Canada*, a not-for-profit organisation providing mentorship, learning resources and start-up financing to young entrepreneurs, also received funding of CAD 14 million over two years, starting in 2017-18, to continue its support of Canada's next generation of entrepreneurs. BDC also announced the first closing of StandUp Ventures Fund I on 8 May 2017. This fund invests in Canadian pre-seed and seed-stage high growth, capital-efficient ventures in health, IT and cleantech with at least one female founder in a senior executive role, such as a Chief Executive Officer. BDC has contributed CAD 5 million into this fund with other investors being sought.

In Georgia, although exact data on the availability and use of alternative finance instruments are lacking, available evidence suggests that SMEs are very dependent on the banking sector to meet their financing needs. However, one source of alternative finance that is becoming increasingly relevant in the country is micro-finance. As of the fourth quarter of 2016, there were 80 micro-finance organisations registered in Georgia and supervised by the National Bank. These have over 430 branches throughout Georgia. Since 2010, the lending of microfinance-organisations to SMEs has steadily grown. By the end of 2016, the total amount of loans to SMEs in the portfolio of microfinance-organisations amounted to GEL 7.7 million compared to GEL 6.1 million in 2015 and GEL 1.7 million in 2010. The main clients of microfinance institutions in Georgia are non-bankable micro and small enterprises.

Market-complementary financing through state actors aims at contributing to improved access to finance in stages and segments, where the private market is particularly thin. In Sweden, market-complementary financing is currently provided by, among others, the state-owned corporation Almi (loans, as well as venture capital through the subsidiary Almi Invest), and the foundation *Industrifonden*. In June 2016, the Swedish parliament (*Riksdag*) adopted a proposal concerning the structure of public financing for innovation and sustainable growth. One aim of this new structure is to clarify and simplify the current system of state venture capital financing. The new structure also aims to utilise public resources within the area better, and thereby contribute to the development and renewal of the Swedish industry. In 2016 the government established a new, joint stock company, Saminvest AB, which is a funder of funds, and invests in companies in the development stages through privately managed venture capital funds.

The two-pronged approach to complement government policies to ease SMEs' access to credit with initiatives to support a more diversified financial offer for small businesses is in line with the G20/OECD High-Level Principles on SME Financing (see Box 1.4). In 2015, the OECD, together with other international organisations, developed these Principles at the request of G20 Finance Ministers and Central Banks Governors. They serve as a general framework to guide policy making by providing broad guidelines to governments aiming to improve SMEs' access to finance and that apply to diverse circumstances and different economic, social and regulatory environments (see Box 1.4). They highlight the importance of broadening the range of financial instruments by SMEs, especially for segments within the SME population that are not appropriate candidates for debt financing, owing to their lack of collateral or positive cash flows, their need for longer maturities to finance capital expenditure and investment, or other impediments to servicing debt, such as irregular cash flow generation. The implementation of the G20/OECD High-Level Principles on SME Financing would go a long way to addressing these issues. The OECD is supporting efforts to identify effective approaches to implementing the G20/OECD High-Level Principles on SME Financing.

#### Box 1.4. G20/OECD High-Level Principles on SME Financing

1. Identify SME financing needs and gaps and improve the evidence base.
2. Strengthen SME access to traditional bank financing.
3. Enable SMEs to access diverse non-traditional bank financing instruments and channels.
4. Promote financial inclusion for SMEs and ease access to formal financial services, including for informal firms.
5. Design regulation that supports a range of financing instruments for SMEs, while ensuring financial stability and investor protection.
6. Improve transparency in SME finance markets.
7. Enhance SME financial skills and strategic vision.
8. Adopt principles of risk sharing for publicly supported SME finance instruments.
9. Encourage timely payments in commercial transactions and public procurement.
10. Design public programmes for SME finance which ensure additionality, cost effectiveness and user-friendliness.
11. Monitor and evaluate public programmes to enhance SME finance.

#### *c. Governments around the world continue to stimulate crowdfunding activities, mainly through changes to financial regulation*

New forms of innovative finance, such as peer-to-peer lending and crowd-sourced equity funding (CSEF), can increase the financing options available to SMEs.

In China, Internet financing is believed to be key to addressing SME financing needs in the near future. To encourage this, the Chinese Government included developing a crowd-funding industry as a key task in the 13<sup>th</sup> National Five-Year Plan. The government has also become more aware of risks associated with Internet financing in 2015-16, and initiated reforms like a risk supervision framework for the Internet financing industry, which included shutting down illegal online financing platforms. In 2016, the China Internet Finance Association was established to strengthen industry self-discipline.

New Zealand introduced a licensed equity crowdfunding framework in 2014. The first full year of market activity saw four licensed operators run successful campaigns that raised NZD 14.9 million of retail investment for 27 companies. There are currently eight crowdfunding platforms in New Zealand licensed by the Financial Markets Authority to let businesses sell shares to the public through their website.

The crowdfunding industry in Chile has faced considerable growth since the creation of the first Chilean crowdfunding platform, Cumplo, in 2012. In October 2016, a crowdfunding association, *Asociación Chilena de Financiamiento Colaborativo* (AFICO), was founded to create an autoregulation framework and a code of best practices to increase transparency for investors and for SMEs in the industry. Furthermore, the Financial Stability Council led by the Minister of Finance has established a working group to determine a regulatory framework for crowdfunding. The regulatory framework should balance investor protection as well as facilitate financing options for SMEs.

France has undertaken an innovative method to encourage the usage of crowdfunding as a source of finance for SMEs. Its credit mediation scheme, *Mediation du Credit* signed an agreement with *Finance Participative France*, the association of crowdfunding platforms, in 2015. Firms in mediation will be informed of the possibility to use crowdfunding to

address their financing needs, and crowdfunding platforms will inform firms which are not selected on their website that they can turn to the *Médiation du Crédit*. This synergy between the two sources of funding aims to increase access to finance for SMEs of varied profiles.

The Mexican Government has been supportive to the crowdfunding industry since the first platform (*Fondeadora*) started operations in 2011 and the Mexican crowdfunding association, *Asociación de Plataformas de Fondeo Colectivo, A.C.* (AFICO), was created in 2014 by 8 founding members (24 members by the end of 2017). Several organisations and government institutions and the Office of the Digital Strategy of the Presidency of Mexico have worked together to accelerate the crowdfunding ecosystem in the country. As a result, Mexico is committed to establish a regulatory framework for this new industry through the proposal of the *Ley para Regular las Instituciones de Tecnología Financiera* (known as Fintech Law), which seeks to protect users of crowdfunding platforms and other fintech developments against the risks of fraud, cyber-attacks that compromise their data, as well as enforce transparency and disclosure of information. In addition, this law seeks that financial technology institutions (including crowdfunding platforms) implement policies to prevent money laundering and financing terrorism, and it is expected that in early 2018 its final draft will be discussed in the Chamber of Deputies for its final approval and publication, after being unanimously approved by Mexico's Senate in December 2017.

#### ***d. Governments addressed the financing gap among innovative start-ups with comprehensive policy reforms***

Governments moved to foster growth of a start-up ecosystem for high growth potential and technologically advanced SMEs with wide-ranging policy measures that include specific efforts to improve their access to finance, but also address other concerns such as the regulatory burden, managerial skills, access to labour, governance, innovation and internationalisation. In particular, several countries implemented comprehensive “start-up packages” that aim to encourage creation and growth of high-impact firms. Such programmes or instruments are now in place in many participating countries, with some examples provided below.

The development of start-up ecosystem is a priority of the Latvian Government. Start-up Law has come into force on January 2017 and it reduces taxes on employees' salaries for start-ups. It allows for a flat tax on employee salaries, co-financing of highly qualified labor, and waives personal and corporate income tax. Additionally, there is start-up visa for start-up founders introduced into the market that come into force starting May 2017. In addition, several new acceleration funds and seed and start-up funds will be made available, as well as innovation vouchers for start-ups providing support for experimental development, prototyping, intellectual property issues and new product or technology testing and certification.

In July 2016, the Austrian Government launched a start-up programme with a total volume of about EUR 185 million in three years. This aims at fostering existing assets, realising potentials and reducing barriers to improve the start-up ecosystem in Austria. Key initiatives addressing the existing market failure of risk financing in Austria include an expansion of the Austrian Business Angel Fund, a new risk capital premium for investors to promote equity stakes in innovative start-ups, and tax exemptions for dividends of private investments in *Mittelstandsfinanzierungsgesellschaft*, a financing company for SMEs.

“Startup Georgia” was launched in May 2016, as part of the Georgian Government’s reform agenda to facilitate the development of innovative start-ups. The total budget of the programme is GEL 35 million, while GEL 11 million was spent in 2016 for the first round of the project. In addition to financial support, Georgia’s Innovation and Technology Agency (GITA) provides training, coaching, mentoring and consulting services for all programme beneficiaries. In total 65 participants were financed in 2016 in both components.

In Chile, the *Corporación de Fomento de la Producción de Chile* (CORFO) manages the Start-Up Chile programme that aims to attract world-class entrepreneurs in early-stage projects to Chile to create a vibrant entrepreneurial ecosystem. The programme provides entrepreneurs with CLP 10 million of equity-free capital through a reimbursement process. For foreign entrepreneurs, a one-year working visa is granted to the founder and to a team of up to three people included in the formal application. Start-up Chile also has incentives for project owners willing to develop their business non-metropolitan areas, as well as to Chilean postgraduate students that have finished their graduate programmes abroad, and are returning to the country. It has a follow-on fund called Scale Up that provides start-ups graduating from the Start-up Chile accelerator with follow-on funding of up to CLP 60 million per project. CORFO also has a pre-accelerator programme, S Factory that supports start-ups led by female entrepreneurs.

Italy has continually updated provisions of its “Startup Act”, introduced in 2012 to benefit innovative Italian start-ups. The legislation consists of a vast and diversified package of measures that touch every aspect of a company’s lifecycle, including the introduction of more flexible corporate management tools, the liberalisation of remuneration schemes, the facilitation of access to credit – for example by facilitating the investment in equity, and support in the process of internationalisation of innovative enterprises. In 2014, the Italia Startup Visa (ISV) programme was launched by the Italian Ministry of Economic Development, introducing an online, centralised, fast-track and free procedure aimed at granting self-employment visas to non-EU citizens who wish to establish an innovative start-up company in Italy, as defined by the Italian Startup Act. Other measures include “fail fast” procedure to enable entrepreneurs to start-up again instead of being stuck in bankruptcy proceedings, fast-track and free access to the state SME Guarantee Fund, and the possibility to collect capital through online equity crowdfunding portals.

Mexico has taken the route of matching grants to encourage innovation in its start-up ecosystem. One of Mexico’s key programming areas in recent years has been the High-Impact Entrepreneurship Programme to support knowledge-based innovative SMEs in Mexico. SMEs with the highest growth potential can thus develop projects such as IT platforms and financial/managerial/commercial consulting. In 2013, *Instituto Nacional del Emprendedor* (INADEM) created the Programme to Foster the Venture Capital Industry, which aims to multiply the resources allocated to VC funds, throughout the co-investment in foreign and national vehicles to invest in high impact Mexican enterprises. Beneficiaries also receive mentoring and counselling in order to scale their projects in a more successful way.

Greece, which saw a huge drop in venture capital after the global financial crisis, has also recognised the need to foster growth of innovative start-ups and has implemented several measures toward this. The Institution for Growth (IfG) was established in 2014 as a non-bank financial institution to support innovation and growth in Greece by catalysing private sector financing, especially for SMEs. EquiFund, established in December 2016,

is a participating fund to provide equity to enable high value-added investments. The fund's initial total resources of EUR 320 million will go toward investments in three key areas – research and innovation, general entrepreneurship for start-up enterprises, and general entrepreneurship for enterprises in development. Special emphasis will be given to the strategic sectors of the Greek economy such as tourism and energy. Additionally, the European Investment Fund signed agreements under the Equity Facility for Growth (EFG) mechanism of COSME programme for the provision of equity to innovative SMEs with high opportunities to expand.

***e. Financing needs of SMEs are increasingly being addressed at regional level***

Governments are increasingly catering more to local needs and requirements of SMEs, which can sometimes be region-specific. This allows for more tailor-made policy reforms and enables a better uptake of policy. In addition, best practices are sometimes transferrable to other regions, increasing the impact of knowledge-sharing while allowing for experimentation with policy proposals.

In Belgium, the capital region of Brussels has focussed resources on helping SMEs that were adversely affected by the “lockdown” of 2015 and the terror attacks of March 2016. The aim is to ensure the continuity of Brussels enterprises, which were hit by a fall in their turnover in the aftermath of the above-mentioned events, by granting them crisis loans of up to EUR 250 000 guaranteed by the Brussels guarantee fund. In 2016, crisis loans amounting to EUR 5 219 000 had been granted, representing more than EUR 3 450 000 in associated guarantees from the fund.

In China, the national SME development fund that was established in 2015 set up its first regional subsidiary fund in Shenzhen City in 2016. In 2017, Special Funds for SME Development changed its funding system to initiate a national programme of innovative demonstration cities for small micro-enterprises. A fund of CNY 600-900 million will be granted to each innovative demonstration city, and will be used to directly fund innovative small business and entrepreneurship, or to improve the environment at the city-level for SME innovation and entrepreneurship.

In Ireland, regional balance is an important policy priority and the Strategic Banking Corporation of Ireland (SBCI), Ireland's National Promotional Institution for SMEs, has a broad regional spread of the SMEs supported for that reason, with 84.8% of them based outside Dublin. The SBCI is currently seeking to broaden its distribution capability and market coverage; it is engaging with potential new on-lenders in this regard. Alongside promoting enhanced access to sources of finance for SMEs, the Irish Government is also keen to remove other bottlenecks toward the scaling up of such firms. Digital technology can open up new opportunities for rural SMEs in Ireland, but access to high-speed broadband can still be an issue. The state is currently intervening to subsidise such a service to all parts of the country. There is also a focus on encouraging e-hubs or spaces where entrepreneurship, e-working business assistance and networking are combined.

In the United Kingdom, the British Business Bank launched its first regionally-focused fund in February 2017 – the GBP 450 million “Northern Powerhouse Investment Fund (NPIF)”. NPIF is a collaboration between the government-owned British Business Bank and ten Local Enterprise Partnerships (LEPs) in the North West, Yorkshire & the Humber and Tees Valley and provides commercially-focused finance to help SMEs start up and grow. It combines GBP 400 million of funding from the UK Government, European Regional Development Fund, British Business Bank and European Investment Bank to help businesses in the region to scale-up and become a successful part of the

government's Northern Powerhouse vision. NPIF provides commercial finance through three types of product funds: microfinance, debt finance and equity finance. NPIF therefore aims to nurture regional entrepreneurship by providing investment and support for small and medium businesses between 2016 and 2021. NPIF's funding will support new and growing SMEs, create jobs and encourage and attract additional private sector investment. The Bank will introduce similar interventions for the Midlands in 2017-18.

In Chile, there is a focus on access to finance, advertising and training through local development centres, internationalisation by taking advantage of free trade agreements and reducing bureaucracy and regulatory burdens by implementing a one-stop shop which will facilitate interaction between SMEs and local governments.

Similarly, in France's efforts to support very small enterprises, the *Banque de France* has put in place a correspondent for these firms in every region, to provide advice and discuss their financial situation if necessary, to avoid specific difficulties before they encounter them. Around 100 advisors have been designated in this perspective and focus on firms with less than 10 employees and turnover of less than EUR 2 million. The rationale behind such an initiative, launched in September 2016, is to break the isolation of entrepreneurs and to solve financial problems before they become too heavy for a small firm (Banque de France 2017c).

### ***Overview of government policies***

Table 1.10 summarises the types of measures in place in 2016. These measures carry different costs for public budgets, including some with significant costs (e.g. government direct lending and loan guarantees); some that are cost neutral (e.g. bank targets for SME lending), and some with even negative costs (e.g. negative interest rates for bank deposits at the central bank). These measures also imply varying degrees of engagement by public agencies. These policies sometimes have a focus on groups which are underrepresented in entrepreneurship, such as women. Box 1.5 provides evidence from Canada on female-owned businesses and their access to finance compared to male-owned enterprises.



**Table 1.10. Government policy instruments to foster SME access to finance**

Policy instruments	Sample of countries using the instrument
Government loan guarantees	Austria, Belgium, Brazil, Canada, Chile, Colombia, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Greece, Hungary, Ireland, Israel, Italy, Japan, Kazakhstan, Korea, Latvia, Luxembourg, Malaysia, Mexico, the Netherlands, Norway, Poland, Portugal, Russian Federation, Serbia, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, United Kingdom, United States  at EU level: EC and EIB Group (EIF)
Special guarantees and loans for start ups	Austria, Brazil, Canada, Chile, China, Czech Republic, Denmark, Estonia, France, Israel, Italy, Kazakhstan, Latvia, Malaysia, Mexico, the Netherlands, New Zealand, Serbia, Sweden, Turkey, United Kingdom  at EU level: EC and EIB Group (EIF)
Government export guarantees, trade credit	Austria, Belgium, Brazil, Canada, Chile, Colombia, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Israel, Greece, Korea, Latvia, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Portugal, Russian Federation, Slovak Republic, Spain, Sweden, Switzerland, Thailand, United Kingdom, United States  at EU level: EIB Group (EIF)
Direct lending to SMEs	Austria, Belgium, Brazil, Canada, Chile, China, Czech Republic, Estonia, Finland, France, Greece, Hungary, Ireland, Japan, Latvia, Korea, Malaysia, Norway, Portugal, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland*, Turkey
Subsidised interest rates	Austria, Czech Republic, China, Georgia, Hungary, Kazakhstan, Latvia, Malaysia, Portugal, Russian Federation, Slovak Republic, Spain, Switzerland*, Thailand, Turkey, United Kingdom
Venture capital, equity funding, business angel support	Australia, Austria, Belgium, Brazil, Canada, Chile, China, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Greece, Hungary, Ireland, Israel, Latvia, Luxembourg, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Russian Federation, Slovak Republic, Spain, Sweden, Turkey, United Kingdom, United States  at EU level: EC and EIB Group (EIF)
SME banks	Brazil, Canada, China, Czech Republic, France, Ireland, Luxembourg, Kazakhstan, Latvia, Malaysia, Poland, Portugal, Russian Federation, Thailand, Turkey, United Kingdom
Business advice, consultancy	Australia, Austria, Belgium, Brazil, Canada, Chile, Colombia, Czech Republic, Denmark, Finland, France, Georgia, Ireland, Israel, Latvia, Malaysia, the Netherlands, New Zealand, Norway, Poland, Russian Federation, Sweden, Switzerland, Thailand, Turkey, United Kingdom, United States  at EU level: EC and EIB Group (EIF)
Tax exemptions, deferrals	Australia, Belgium, Brazil, Chile, China, Finland, Italy, Latvia, New Zealand, Norway, Spain, Sweden, Turkey, United Kingdom
Credit mediation/ review/ code of conduct	Belgium, France, Ireland, New Zealand, Spain
Bank targets for SME lending, negative interest rates for deposits at central bank	Denmark at EU level: ECB
Central Bank funding to banks dependent on net lending rate	Russian Federation, United Kingdom

*Note:* Switzerland discontinued subsidised interest rates in May 2016; direct lending is only provided to hotels.

*Source:* Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2018.

**Box 1.5. Access to finance for male-owned and female-owned businesses: Evidence from Canada**

Although the percentage of majority female-owned Canadian SMEs increased by 1.4 percentage points between 2000 and 2014, they still compromise a relatively small proportion of the overall business population at 15.7% in 2014. In addition, these companies are generally smaller as 91.6% of majority female-owned SMEs employed 1 to 19 workers, compared with 85.8% of SMEs majority-owned by males. Majority female-owned SMEs were concentrated in the Retail Trade, and Accommodation and Food Services sectors. These two factors – the smaller size of majority female-owned SMEs, and their concentration in less export-oriented sectors – explain, in part, why fewer majority female-owned SMEs (8.4%) export compared to majority male-owned SMEs (12.8%).

In 2014, 45% of majority female-owned SMEs sought external financing, compared with 53% of majority male-owned SMEs. The primary reason for not seeking external financing given by both majority female-owned (86%) and majority male-owned (89%) SMEs was that financing was not required. Among SMEs that did not seek external financing, very few were discouraged borrowers. Nonetheless, 2.6% of majority female-owned SMEs did not seek external financing because they thought their request would be rejected, compared to 1.4% of male majority-owned SMEs. Moreover, the overall request rate for debt financing was lower for majority female-owned SMEs (23.2%) compared to majority male-owned SMEs (29.0%) in 2014. Request rates for majority female-owned SMEs were also lower for all forms of debt financing and the ratios of total amount authorised to total amount requested varied by gender of ownership across types of debt financing in 2014. In 2014, the average interest rate for each type of debt financing by gender of ownership were similar, however.

While there were differences in 2011, econometric results suggest that by 2014 there were no statistically significant differences in the ratio of debt financing authorised to requested and charged interest rates due to the gender of business ownership. By 2014, there were no differences on these measures between majority male-owned and majority female-owned SMEs, all other things equal. The results show that any differences in the descriptive statistics for these groups on these measures could be accountable for by the assessed risks that the financial sector placed on factors such as sector risk and business size and not on gender.

*Source:* Rosa and Sylla, 2016.

## Recommendations for data improvements

Data gaps on SME finance remain prominent and further efforts to improve the collection of data and evidence on SME finance could be pursued. First, the SME population is very heterogeneous, and financial challenges differ substantially alongside different parameters such as the age of the firm, its size, location, sector, growth potential as well as on characteristics of the principal business owner such as their gender or business experience. Despite the widespread recognition of the need to tailor policies to the different needs of the enterprise population, data collection efforts do not always capture

granular information along these parameters. This negatively impacts policy makers' ability to assess the impact and effectiveness of initiatives on these different segments.

Second, quantitative surveys, either directed to a representative group of SMEs or to senior loan officials, provide valuable additional insights alongside more qualitative information. These surveys are not universally adopted, however. In addition, there appears to be wide differences in terms of methodology, questions asked, coverage and scale of existing surveys, hindering international comparisons. An international harmonisation of survey methods in this area would enable more meaningful analysis SMEs' access to finance and financial conditions.

Third, the evidence base continues to be weak when it comes to most sources of finance other than straight bank debt. Often, data are not SME-specific, incomplete, hard to compare from one country to the other, and sometimes questions arise about the reliability and methodology of data collection efforts. Initiatives to promote the use of alternative sources of financing by SMEs have proliferated in recent years, but their impact often remains hard to gauge because of the lack of data.

## Notes

<sup>1</sup> Financial conditions indices are an extension of monetary policy indices, often used to evaluate the effect of monetary policy on economic activity. It does not only include changes in the exchange rate and short and long term interest rates, which are typical monetary policy indices, but also changes in credit availability for households and firms, corporate bond yields (or the spread with respect to government bonds) and household wealth, usually measured by equity and house prices. An increase in the financial conditions index implies that financial conditions have become more inductive for economic growth (see Guichard et al., 2009, for more information)

<sup>2</sup> The ECB Survey on SME access to finance is undertaken every six months to assess the latest developments in the financing conditions for firms in the Euro area. Among the most important questions are: was there a deterioration in the availability of bank loans, in the willingness of the banks to lend; what was the outcome of the loan application (granted in full or rejected) and did interest rates and collateral requirements increase or decrease. A joint ECB/EC survey round is conducted every two years for all the EU member states and some additional countries

<sup>3</sup> The European Federation of Leasing Company Associations (Leaseurope) is an umbrella company for both the leasing and automotive rental industries in Europe and is composed of 44 member associations in 34 countries. It publishes European-wide statistics on the leasing industry and covers approximately 92% of the European leasing market

<sup>4</sup> Factors Chain International is an umbrella organisation for factoring organisations and currently has over 275 members in 74 countries

<sup>5</sup> Countries included in this report include all EU 28 countries except for Luxembourg and the United Kingdom. UK data are reported in a different periodical study.

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