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OECD Financing SMEs and Entrepreneurs Scoreboard: 2023 Highlights

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OECD Financing SMEs and Entrepreneurs Scoreboard

2023 Highlights

The Financing SMEs and Entrepreneurs Scoreboard: 2023 Highlights document SME and entrepreneurship financing trends, conditions, and policy developments. The report provides official data on SME financing in close to 50 countries, including indicators on debt, equity, asset-based finance, and financing conditions. Data for 2021 are complemented by available information for 2022, along with demand-side information and recent developments in public policy and private initiatives to support SME finance.

Findings reveal that most economies showed the beginnings of a dynamic recovery from the COVID-19 crisis in 2021. However, data available for 2022 point to a deterioration in a number of SME finance indicators, due to high inflation and rising interest rates, exacerbated by the effects of Russia's war against Ukraine. These factors are impacting the accessibility and cost of debt finance for SMEs and foreshadow a slowdown in lending. Likewise, equity finance showed a significant decline in 2022. In this context, governments should continue to foster the diversification of SME financing instruments and channels to enable them to build resilience and undertake crucial investments, such as those in digitalisation and greening.

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Overview

The *Financing SMEs and Entrepreneurs Scoreboard: 2023 Highlights* provide a tool to help governments and financial institutions monitor SME access to finance and financing conditions and build evidence-based policies to support the recovery of SMEs and entrepreneurs.

The 2023 Scoreboard Highlights provide information on SME and entrepreneurship financing trends and policy developments, against the backdrop of the economic crisis precipitated by the COVID-19 pandemic and the emergence of a recovery in 2021. The report provides official data on SME financing in nearly 50 countries, including indicators on debt, equity, asset-based finance and financing conditions. Data for 2021 are complemented by information available for 2022, along with demand-side information and recent developments in public policy and private initiatives to support SME finance. The data provided in the *Highlights* therefore capture a specific moment in time in a rapidly changing context, and findings in next year's 2024 *Scoreboard* can be expected to evolve significantly.

In 2021, most economies showed the beginnings of a dynamic recovery from the COVID-19 crisis. However, available information for 2022 points to a deterioration in a number of SME finance indicators, due to a challenging macroeconomic environment, which was exacerbated by the large-scale aggression of Russia against Ukraine and its detrimental effects on financial and energy markets. In the face of subdued growth and a continued fight against inflation, the outlook for 2023 remains uncertain.

In 2021, SMEs gradually started to recover their liquidity positions, as a result of rising consumer demand and a resumption of business activities, thanks to rising vaccination coverage, strong policy support and continued favourable financial conditions. In consequence, lending activities in 2021 saw growth in new lending and in the outstanding stock of loans moderate compared to 2020, reflecting the phasing out of exceptional policy support, including debt moratoria and extended loan maturities, and improvements in financial performance of SMEs.

Alternative financing instruments showed a strong recovery in 2021 after being hard hit in 2020. This marked a positive step towards the resumption of the diversification of SME financing instruments and sources, an emerging trend prior to the pandemic. Although the recovery in leasing and hire purchases was less vigorous compared to factoring, the uptake of both of these instruments grew in 2021. Likewise, venture capital activities grew strongly in 2021, registering the highest growth ever recorded in Scoreboard history. This development can be explained by significant activity in the healthcare and financial services sector and a jump in the uptake of digital technologies. In 2022, however, this positive trend showed another reversal, in part due to rising interest rates, which have led some large-scale investors to shift to fixed-return asset classes. As a result, in 2022 some large VC markets showed a sharp decline in both number of deals and values invested.

In terms of financing conditions, the rebound of consumer demand prior to Russia's war in Ukraine, and the resumption of corporate activity, contributed to an increase in prices in many economies. Due to these inflationary pressures, and after a drop in interest rates in 2020 almost across the board, central banks started to tighten credit conditions in 2021 to counteract inflation. In fact, almost half of the countries that provided data showed an increase in SME interest rates in 2021, while collateral requirements continued to decline, albeit to a lesser extent than in 2020. However, a persistent high-interest rate environment is impacting the accessibility and cost of finance for SMEs, who reported high collateral requirements and greater difficulties in accessing debt financing in the second part of 2022, while banks reported rising rejection rates for loans.

Enterprise distress indicators were broadly positive for SMEs in 2021. Payment delays declined, after having increased in 2020 as a result of the COVID-19 crisis. Bankruptcies continued to decline in some countries. In others, they began to increase after a historic decline, but remained below pre-pandemic levels. Data on non-performing loans (NPLs) showed a downward trend for both SME loans and large business loans. However, the landscape is shifting. In 2022, more SMEs reported being affected by late payments, with negative effects on their growth. In the short and medium term, banks expect an increase in NPLs, in part as a result of declining SME liquidity positions and lower repayment capacity. As such, bankruptcies are also expected to increase at a more rapid pace in 2023.

In this context, the policy mix continues to evolve to respond to emerging developments. In 2020, governments acted swiftly to support SMEs, as the hardest-hit business segment. In 2021, however, as most economies began to recover and consumer demand rebounded, the policy mix gradually changed. In 2022, as economies faced a new set of adverse shocks, financial support was increasingly being targeted to continue to support distressed firms, but also to achieve more structural policy goals such as the climate agenda. For example, credit guarantees were extended in many countries, but were increasingly targeted to specific sectors in distress or contingent on the achievement of environmental objectives. This evolution led to a natural decline in guarantee activity from the unprecedented performance in 2020 of this widely used instrument. Similarly, direct government loans showed positive but weak growth compared to 2020. Debt restructuring schemes, as well as policies that facilitate the growth of digital alternative finance, are also increasingly being used to support SMEs.

Furthermore, in 2022, some governments implemented new measures to address increasing payment delays, along with financial support to help SMEs weather the energy crisis. Other ongoing measures have sought to address the rise in non-performing loans by increasing SME repayment capacity, as well as to enhance regulatory transparency in the financial sector.

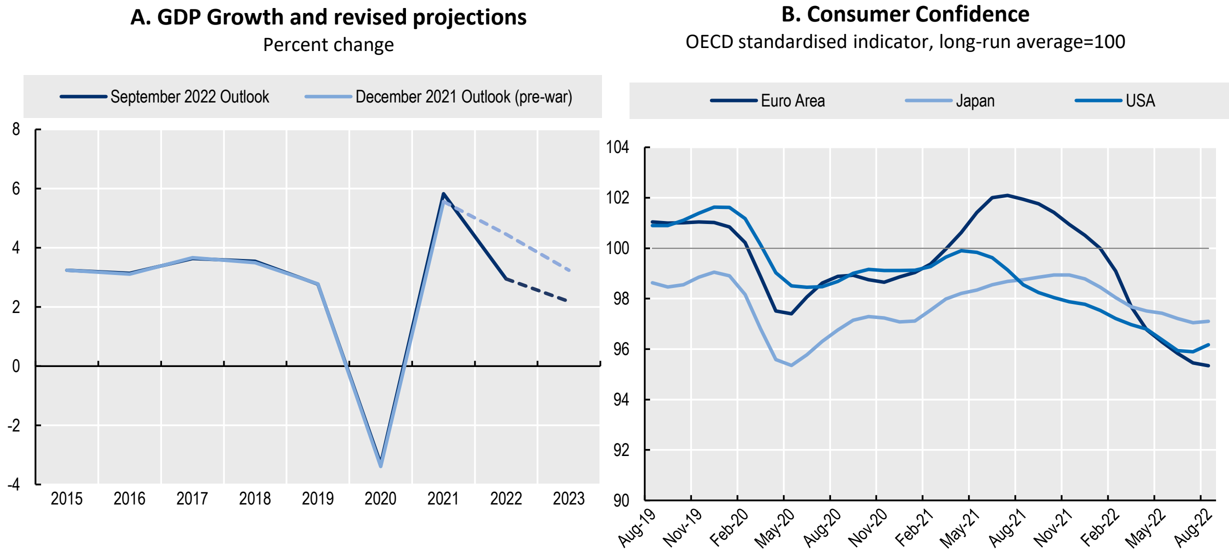
The outlook for 2023 remains highly uncertain. Macro-economic developments in 2022, notably sluggish growth, high inflation and interest rate increases, which were exacerbated by the impacts of Russia’s war in Ukraine, will continue to weigh on both debt and non-debt financing for SMEs in the medium term. The fallout from the recent collapse of Silicon Valley Bank may also have potential additional impacts on the lending environment for SMEs. In this volatile context, continued evidence-based government support will be more important than ever to ensure that SMEs and entrepreneurs can obtain the financing to meet their cash flow and investment needs and engage in the pressing environmental and digital transitions. Rising energy prices have only increased the urgency for SME action towards the green transition. By fostering better access and continued financial diversification for SMEs, the implementation of the 2022 Updated G20/OECD High-Level Principles on SME Financing will enable them to develop, grow, become more resilient and contribute to an inclusive and sustainable recovery. This Scoreboard will continue to play its role in monitoring developments and supporting governments in devising evidence-based policies to foster SME access to finance.

2023 Highlights

Business environment and macroeconomic context

As economies around the world were experiencing an uneven recovery following the COVID-19 crisis, in 2022 they once again faced a major disruption brought on by the large-scale aggression of Russia against Ukraine. The war unleashed a new set of adverse shocks directly threatening the economic recovery. Apart from the major humanitarian crisis that affected millions of people, global commodity, trade and financial markets have been strongly affected. GDP growth slowed sharply in 2022 to under 3% and is projected to slow further in 2023, to 2.25% (Figure 1, Panel A) (OECD, 2022[1]). Global economic activity, as measured by business survey indicators have declined sharply since the start of the war, and consumer confidence, which had started to recover in early 2021 in most advanced economies, weakened again by the end of 2021 and continued to decline in 2022 (Figure 1, Panel B). By the first half of 2021, most OECD countries had started to recover, thanks to rising vaccination coverage, strong policy support and favourable financial conditions. However, in Q3 and in particular in Q4 of 2021, economic activity weakened as more infectious COVID-19 variants spread rapidly in many countries, leading to a return of health measures and subdued economic growth.

Figure 1. Global GDP growth and consumer confidence



Note: In panel A, dotted lines indicate projections. In panel B, values below 100 indicate a pessimistic attitude towards future developments in the economy. The long-term is a simple average over the whole period of the series. Data series are amplitude adjusted.
Source: OECD Economic Outlook, Interim Report September 2022. OECD Business tendency and consumer opinion surveys; OECD Main Economic Indicators database.

The impacts of the war in Ukraine and the exacerbation of inflationary pressures continue to affect businesses worldwide. Energy and commodity prices have risen substantially despite some recent stabilisation[1], in large part reflecting the importance of supply from Russia and Ukraine in many markets, with particularly severe effects on SMEs in high energy-intensive sectors. In H1 2022, inflation, which had already begun to increase prior to the war, reached levels not seen in two decades. However, as a result of energy price subsidies and monetary tightening by most major central banks, consumer price inflation began to moderate, and is expected to continue to do so in 2023 (OECD, 2022[1]) (OECD, 2023[2]).

The rise in inflation has affected the whole business sector, but the effects are particularly acute for SMEs, in particular energy intensive SMEs. Considering their lower cash buffers and more vulnerable financial positions compared to large companies (particularly as many have not fully recovered from the COVID-19 crisis), and as intermediate supplies and services are more expensive, SMEs are often forced to either reduce inventories or investments, or increase their prices (IMF, 2020[3]) (Business.org, 2022[4]) (Forbes, 2022[5]). If SMEs opt to increase their prices, they become less competitive compared to large firms that have greater capacities to absorb price increases for a longer period. Such price increases by SMEs, apart from further fuelling inflation, may cause a decline in their customer base, further affecting their capacity to invest and grow. Likewise, reducing investments also impacts their competitiveness over the longer term.

The recent increases in interest rates by central banks to tame inflation also impact interest rates of new SME loans and the cost of existing SME loans with floating interest rates, aggravating the debt position of SMEs and potentially contributing to a rise in defaults and bankruptcies. On the other hand, for those SMEs that borrowed on fixed rates, the real cost of credit may decline in a contact of inflationary pressures.

Trade and supply chains

Trade and supply chain disruptions affected SMEs worldwide in 2021 and 2022. The sharp rise in the demand for goods and the re-introduction of pandemic restrictions, in particular the strict zero-COVID strategy that was in place in China through 2022, limited capacity in airports and seaports, and increased the waiting times of ships in major ports and the proportion of goods that were waiting on container ships (OECD, 2022[6]). In early 2022, disruptions in international freight and supply delivery times were compounded by the outbreak of the war in Ukraine. Supply chain disruptions were high in the most exposed areas, notably in Eastern European countries and the Balkans (OECD, 2022[7]), with unprecedented sanctions against Russia, ports temporally closed in the Black Sea, and air traffic over Ukraine and Russia suspended for some countries (OECD, 2022[6]). Russia is a dominant supplier of agricultural products, inputs into agriculture, industrial raw materials, and fuels (OECD, 2022[8]), affecting SMEs that use these intermediary inputs for their production. More generally, SMEs are more vulnerable to supply chain disruptions and price increases compared to large firms, particularly those with lower supply chain capabilities, limited supplier networks and low diversification in sourcing and production locations (OECD, 2021[9]).

Global trade rebounded in 2021, (OECD, 2021[10]), and continued to recover in 2022, registering volumes 7% higher than in Q4 2019; a more subdued recovery was registered in services trade (OECD, 2022[11]). Despite the abrupt end of restrictive measures in China, the decline in consumer confidence and high inflation could impact growth in international trade going forward.

[1] Gas prices in Europe more than tripled by September 2022 when compared to the same period in 2021 and are roughly ten times their average over 2010-19 (OECD, 2022[1]).

Financial conditions

To counteract inflation, most governments in advanced and emerging economies started to raise policy interest rates in Q1 2022, and gradually continued throughout the year. The war in Ukraine led to a substantial tightening of global financial conditions, with volatility increasing significantly in equity, bond and foreign exchange markets. The continued rise in policy rates may increase financial vulnerabilities in the corporate sector. In OECD countries, debt of non-financial firms reached 141% of GDP in 2021, 29 percentage points higher than in 2000 (OECD, 2022[11]) and in the United States, default volumes on leveraged loans and high-yield bonds in June 2022 were three times higher than in mid-2021 (FitchRatings, 2022[12]).

Government bond yields have risen and most currencies have depreciated against the US dollar (OECD, 2022[6]), due, in part, to faster interest rate increases by the US Federal Reserve compared to, for example, the European Central Bank (ECB) but also to greater exposure of European economies to the war in Ukraine. Currency depreciations vis-à-vis the US dollar pose challenges for SMEs in countries with a high share of loans issued in foreign currency, where SMEs are vulnerable to exchange rate fluctuations.

Lending to SMEs

In 2021, lending to SMEs declined, reflecting a nascent recovery as well as the phasing out of pandemic support, such as deferrals, subsidies and grants. In 2021, the continuation of the downward trend reflects the gradual phasing out of lending schemes, significant recovery in business activity, an important rebound in consumer demand in 2021, and a concern about increased indebtedness levels after the COVID-19 crisis.

At the same time, the outstanding stock of SME loans showed very weak growth in 2021, representing a reversal from 2020, when, as a result of extensive policy support to counteract the effects of the pandemic, the stock of loans increased strongly.

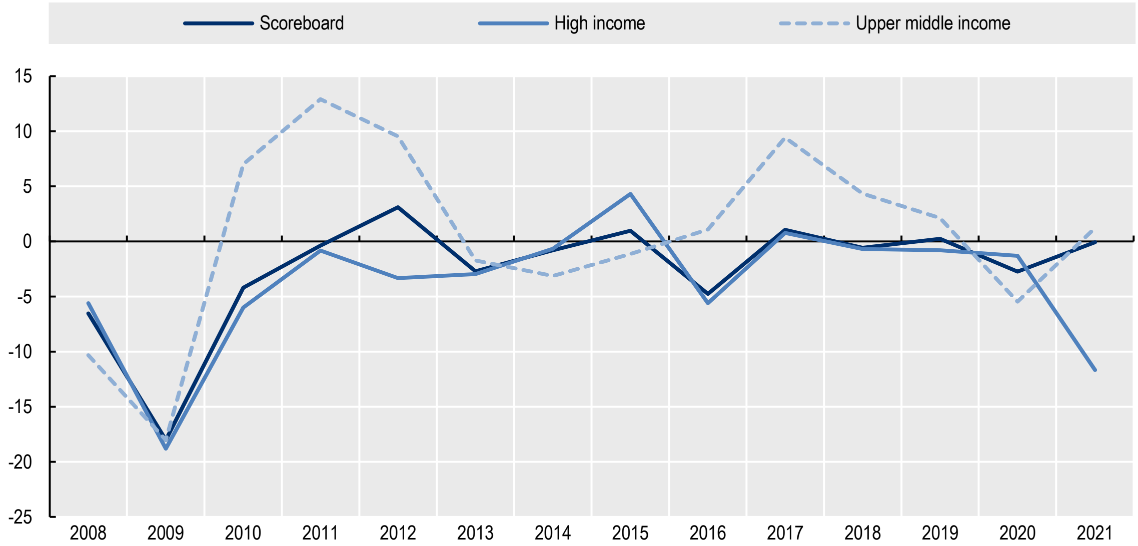
In 2022, the significant tightening of interest rates around the world impacted a large range of financial products, including for small businesses. If credit conditions continue to tighten, access and cost of debt finance could become more challenging for SMEs, particularly those with already high amounts of debt, or with relatively risky profiles. The figures for 2022 are therefore likely to show a continued, and possibly accelerating, decline.

New SME loans

In 2021, the Scoreboard median of new SME loans continued the negative trend experienced in 2020. After declining 2.7% in 2020, it dropped slightly, by 0.08% in 2021. When looking at the median by group of countries, new SME lending in high-income countries declined in 2021 by 11.6%. On the other hand, upper-middle-income economies showed an increase of 1.2% in 2021, following a decline of 5.5% in 2020. The decline in new SME lending in high-income countries can be explained by the phasing out of debt support schemes in 2021, as well as by increased targeting of public credit guarantees. However, the modest increase in middle-income countries might be explained by smaller COVID-19-related emergency and recovery measures compared to high-income economies, resulting in a decline of new SME lending in 2020.

Figure 2. Growth in new SME lending, 2008-21

Median year-on-year growth rate, as a percentage



Note: All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using base year 2007. GDP deflators for non-OECD countries were extracted from the World Development Indicators from the World Bank. High-income countries include EU countries plus Australia, Canada, Chile and the United States.
Source: Data compiled from individual country profiles.

Looking at the growth of new lending between 2020 and 2021 by country, most countries show swings from one year to the next. In 2021, 16 out of 29 countries registered a decline in new lending, of which 12 had experienced (sometimes strong) growth in the previous year. This is the case of the United Kingdom (-45% in 2021), Chile (-31%), the Czech Republic (-30%), Slovenia (-29%), Finland (-18%), Peru (-18%), the Netherlands (-16%), Austria (-12%), Brazil (-8%), and Greece (-7%). This decline is often an adjustment after the growth in 2020, with performance in 2021 indicating a return to pre-pandemic levels. The United Kingdom is a case in point. In 2021, a total of GBP 43.9 billion[2] was lent to UK SMEs, which is 4% higher than in 2019, indicating that lending activity was close to return to pre-pandemic levels (British Business Bank, 2022[13]). However, because in 2020 new SME loans had increased by 73%, from GBP 45.8 billion to GBP 79.4 billion mostly due to the UK Coronavirus Loans Facility[3] (OECD, 2022[14]), 2021 showed a drop of 45% year-on-year[4].

[2] Figures are adjusted for inflation using the UK GDP deflator published in the OECD Economic Outlook database.

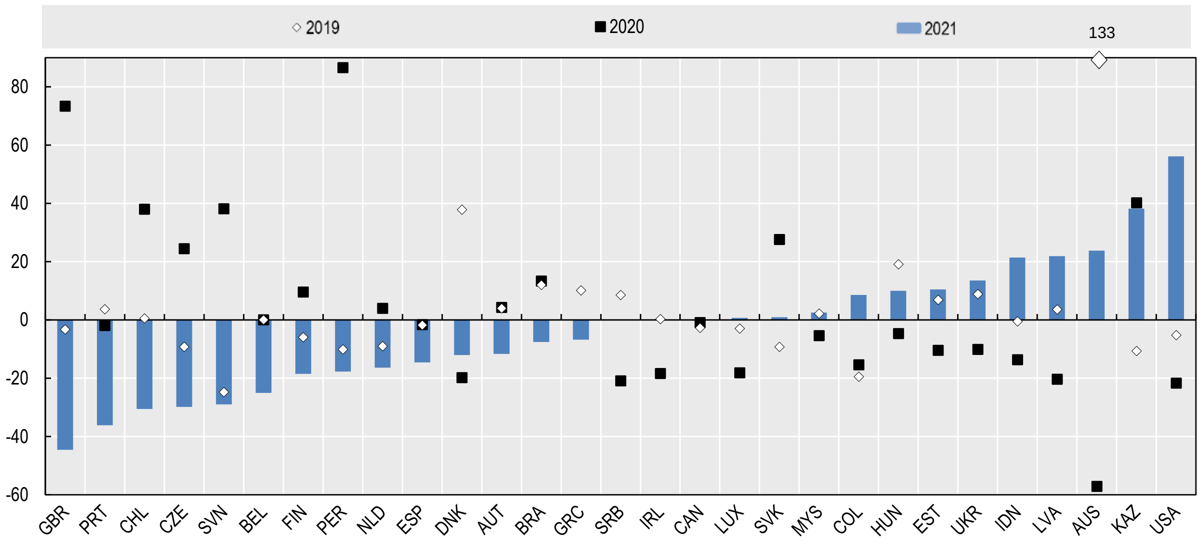
[3] Figures are adjusted for inflation using the UK GDP deflator published in the OECD Economic Outlook database.

[4] It should be noted, however, that the British Business Bank's report also found that less than half of small businesses used their full coronavirus loan facilities, thus reducing the actual indebtedness of SMEs during the Covid-19 crisis.

In contrast, 13 countries experienced positive growth in new SME lending, with the highest growth rates registered in the United States, Kazakhstan, Australia, Latvia and Indonesia (above 20% year-on-year growth). In the United States, the strong growth in 2021 can be explained by the implementation of the American Rescue Plan (ARP), under which the Small Business Administration (SBA) delivered a record number of its traditional loans to SMEs, and in 2021 distributed USD 44.8 billion in debt support to SMEs (SBA, 2021[15]). Kazakhstan continued its growth trajectory between 2020 and 2021, with the emergency measures introduced by the government in 2020, such as subsidies of interest rates on loans to entrepreneurs and loan guarantees, continued to be rolled out in 2021 (Damu Entrepreneurship Development Fund, 2022[16]) In Indonesia, the Kredit Usaha Rakyat (KUR) programme was revised in 2021, increasing the amount of government loans to SMEs. Loan ceilings increased for micro companies, and different interest rate subsidies were implemented (OECD, 2022[14]).

Figure 3. Growth in new SME loans by country

Year-on-year growth rate, as a percentage



Note: All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using base year 2007. GDP deflators for non-OECD countries were extracted from the World Development Indicators from the World Bank.
Source: Data compiled from individual country Scoreboards.

Box 1. New SME lending volumes as a percent of GDP in selected groups of countries

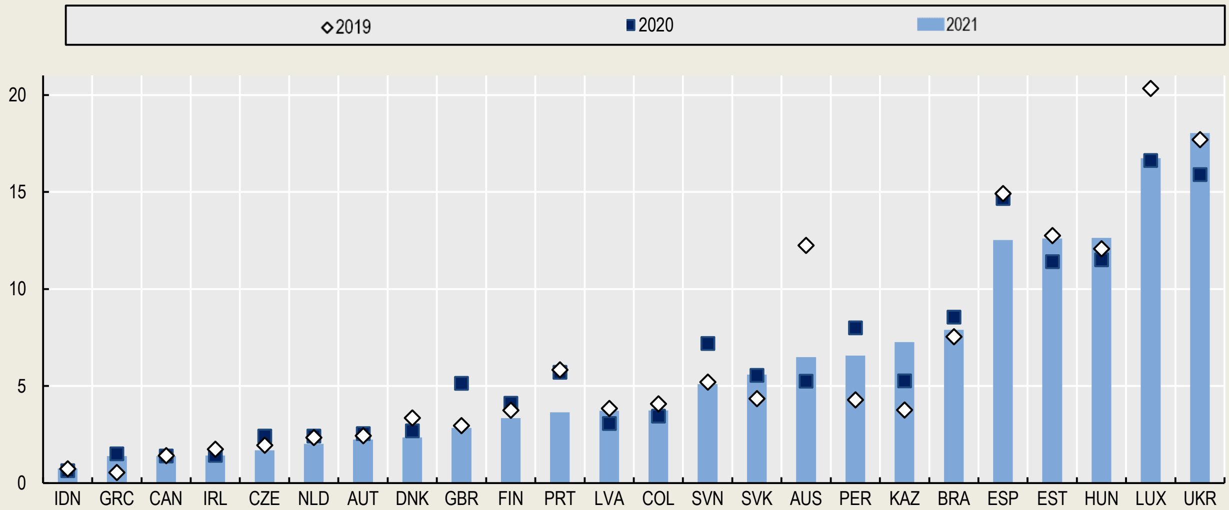
Figure 4. shows that in several countries, the shares of new lending returned to pre-COVID-19 levels in 2021. In 9 out of 24 economies, the shares of lending in relation to GDP increased in 2020 and declined again in 2021, with ratios similar to (or even below) those registered pre-COVID. This is the case in Austria, Czech Republic, Finland, the Netherlands, Slovenia and the United Kingdom. In the Netherlands, survey data from SMEs indicate reductions in the availability of bank loans and decreased willingness of banks to provide credit (ECB, 2021[17]) (ECB, 2022[18]). In the United Kingdom, the exceptional increase in 2020 in the value of SME deposits and in the share of SMEs holding large credit balances, contributed to the weak demand for SME new loans in 2021 (British Business Bank, 2022[13]).

Other countries whose shares of new lending to SMEs increased in 2021 and remained above pre-pandemic levels are Greece, Brazil, and Peru. The latter two countries registered the sharpest decline of SME interest rates among the Scoreboard countries in both 2020 and 2021 (Figure 12), which may have contributed to the strong flow of new lending to SMEs. In Peru, however, new lending volumes in 2021 were lower compared to 2020, possibly as a result of low disbursement rates of the main support measures to SMEs. The PAE-MYPE, for example, had utilised only 7.2% of the funds a year after its creation in February 2021 (Gestión, 2022[19]; Ministerio de la Producción, Perú, 2022[20]). On the other hand, in Colombia, Estonia, Latvia, and Ukraine new lending shares declined in 2020 and rebounded near pre-pandemic levels in 2021.

In other countries, new SME lending shares were stable between 2019 and 2020 but declined in 2021. This is the case in Portugal and Spain, with shares of new lending to SMEs in relation to GDP dropping 2 percentage points. Survey data from SMEs in Portugal indicate low uptake of loans in 2021, with high-interest rates and prices being the main reason for not using bank loans (ECB, 2022[18]).

Figure 4. SME new lending

Volumes as a percent of GDP



Note: The graph shows the list of countries for which data of new loans is available for the three referenced years, except for Chile and Serbia whose data is not comparable given the difference in the definition of new loans to SMEs. In Chile, SME loans refer to loans of up to UF 18 000, making up a very small share of total corporate loans. In Serbia, SME loans are loans to firms of less than 250 employees and turnover up to EUR 10 million, in contrast with the EU definition which includes turnover of up to EUR 50 million. All data are adjusted for inflation using the

GDP deflator of each country published in the OECD Economic Outlook database using base year 2007. As the volumes are expressed as a share of GDP, caution is needed in the interpretation of the graph, considering the impact of the COVID-19 crisis on GDP.
Source: Data compiled from individual country Scoreboards. GDP deflators for non-OECD countries were extracted from the World Development Indicators from the World Bank. Data on GDP was extracted from OECD.stat aggregate accounts database. For countries with no available data for 2021, data was extracted from the International Monetary Fund, World Economic Outlook Database, April 2022.

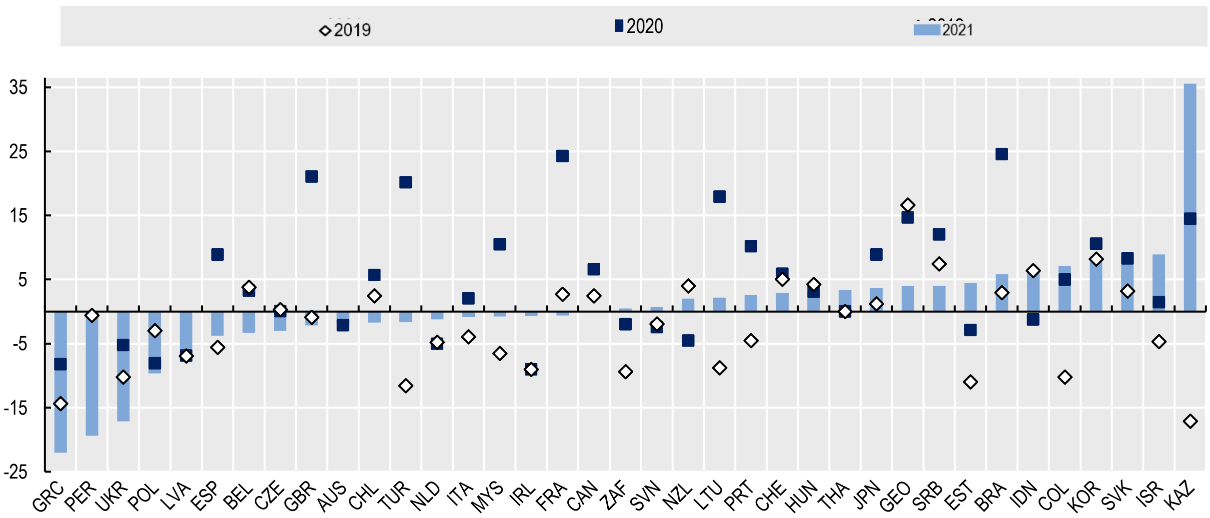
Outstanding stock of SME loans

With respect to the stock of outstanding SME loans, 21 out of 37 countries pursued the growth trajectory of 2020, while 15 observed a change of direction (e.g. France, Peru and the United Kingdom, among others). Countries which recorded positive growth rates in both 2021 and 2020 include Kazakhstan, Israel, the Slovak Republic, Korea and Colombia, while countries which experienced annual negative growth rates in both years include Greece, Ukraine, Poland and Latvia.

In countries such as Kazakhstan, Indonesia, and Colombia, the significant growth in new loans can explain in part the rise in outstanding SME loans. On the other hand, in countries that saw a weaker performance in 2021, the roll-out in 2020 and then the winding-down of COVID-19 measures in 2021 can explain these trends. In France, for example, the growth in outstanding SME loans in 2020 can be attributed to the scaling up of the national loan guarantee programme which supported mainly SMEs (Banque de France, 2022[21]). As most of these programmes became increasingly targeted, France's outstanding SME loans declined slightly in 2021. The United Kingdom presents an evolution similar to that of France, increasing significantly in 2020 and slightly declining in 2021: SMEs were recovering in 2021 from the debt acquired in 2020, with debt repayments covering a smaller share of SME turnover than in 2020 (British Business Bank, 2022[13]).

Figure 5. Growth SME outstanding stock of loans by country

Year-on-year growth rate, as a percentage

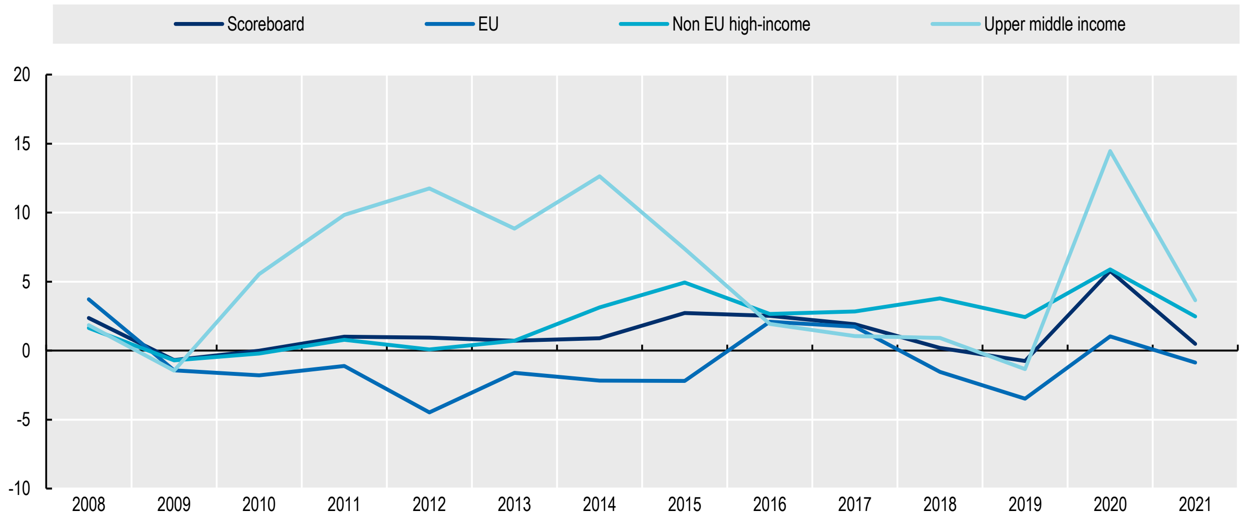


Note: Data from Peru are not shown due to the scale used. In 2019, the growth of outstanding stock of SME loans was 62.9%. All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using base year 2007. GDP deflators for non-OECD countries were extracted from the World Development Indicators from the World Bank.
Source: Data compiled from individual country Scoreboards.

In 2021, the growth of the Scoreboard median of outstanding SME loans was positive, although it was considerably weaker than in 2020. While in 2020, many SME loans remained on bank balance sheets as a result of the implementation of debt moratoria and extension of loan maturities, in 2021, as lending schemes were phased out and many loans were repaid, the median growth of the outstanding stock of loans was more modest. This is visible in the medians of all groups of countries. In fact, in the EU, the median stock of loans declined by 0.9% in 2021.

Figure 6. Growth in outstanding SME loans, 2008-21

Median year-on-year growth rate, as a percentage



Note: All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using base year 2007. Data for non-OECD countries were extracted from the World Development Indicators from the World Bank. Non-EU high-income countries include Australia, Canada, Chile, Israel, Japan, Korea, New Zealand, Switzerland and the United States.
Source: Data compiled from information received from individual country Scoreboards.

Box 2. Outstanding stock of loan volumes as a percent of GDP in selected group of countries

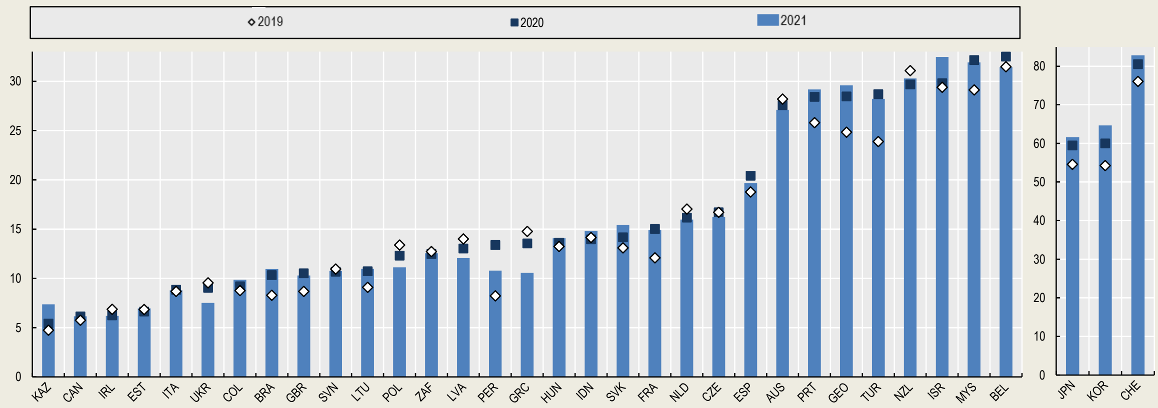
The shares of outstanding stock of loans complements the information of the growth rate of the stock of SME loans. Figure 7 shows that in 2020, most economies increased the shares of SME outstanding loans in relation to GDP, with 13 economies continuing to grow in 2021. This is the case of Switzerland, Korea, and Japan, which have the highest shares of stock of SME loans (above 60%), and whose ratios increased the most in the last three years (more than 7 p.p.). This growth can be attributed to strong financing support through debt channels, including loan guarantees whose growth was also exceptional in these countries in 2020 and 2021. In the case of Japan, this is part of a long-term trend, with SME outstanding loans increasing steadily since 2013. However, after the pandemic this behaviour accelerated as many SMEs request loans to have in-hand liquidity as a precaution (OECD, 2022[14]) (Bank of Japan, 2022[22]). Other countries where the stock of loans to SMEs grew in the last three years include Brazil, Georgia, Lithuania, Portugal and the Slovak Republic. The increase in new lending might have contributed to the growth in the stock of loans in Brazil and the Slovak Republic.

On the other hand, some countries saw an increase in the shares of SME outstanding loans in 2020, followed by a decline in 2021. In most countries the decline is small, and ratios in 2021 are still far above pre-pandemic levels. This is the case of France, Malaysia, Peru, Spain, Türkiye and the United Kingdom.

In contrast, some countries registered a continuous decline in the shares of stock of SME loans in the last three years. This is the case of Austria, Latvia, the Netherlands, Poland, Ukraine (with a decline between 1 and 2 p.p.). In Greece, the decline of 4 p.p. over the period is the result of the removal of a significant share of NPLs from Greek banks' balance sheets (Hellenic Republic Ministry of Finance, 2021[23]). In Austria and Poland survey data show strong use of government policy support which may have mitigated the need for loans (ECB, 2022[18]). In Poland strong uptake of public support translated into high repayment rates, resulting in a decline in the volumes of outstanding stock of loans (Narodowy Bank Polski, 2021[24]).

Figure 7. Outstanding stock of SME loans

Volumes as a percent of GDP



Note: The graph shows the list of countries for which data of outstanding stock of loans are available for the three referenced years, except for China, Serbia, and Chile which data is not comparable given difference in the definition of outstanding stock of loans to SMEs. In Chile, SMEs loans refer to loans of up to UF 18 000, making up a very small share of total corporate loans. In China, the definition of SME differs according to the sector. In Serbia, SME loans are loans to firms of less than 250 employees and turnover up to EUR 10 million, in contrast with the EU definition which includes turnover of up to EUR 50 million. All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using base year 2007. As the volumes are expressed as a share of GDP, caution is needed in the interpretation of the graph, considering the impact of the COVID-19 crisis on GDP.
Source: Data compiled from individual country Scoreboards. GDP deflators for non-OECD countries were extracted from the World Development Indicators from the World Bank. Data on GDP was extracted from OECD.stat aggregate accounts database. GDP data was also extracted from the International Monetary Fund, World Economic Outlook Database, for countries with no available GDP data for 2021.

In addition to cross-country differences, there is evidence of significant variations in SME lending across different regions within countries. Box 3 provides preliminary insights from the new Scoreboard pilot exercise on disaggregated data at the subnational level.

Box 3. SME lending shows significant differences at subnational level

With the support of the European Commission, the SME Financing Scoreboard undertook a pilot exercise to collect data on SME and entrepreneurship financing conditions at subnational level.

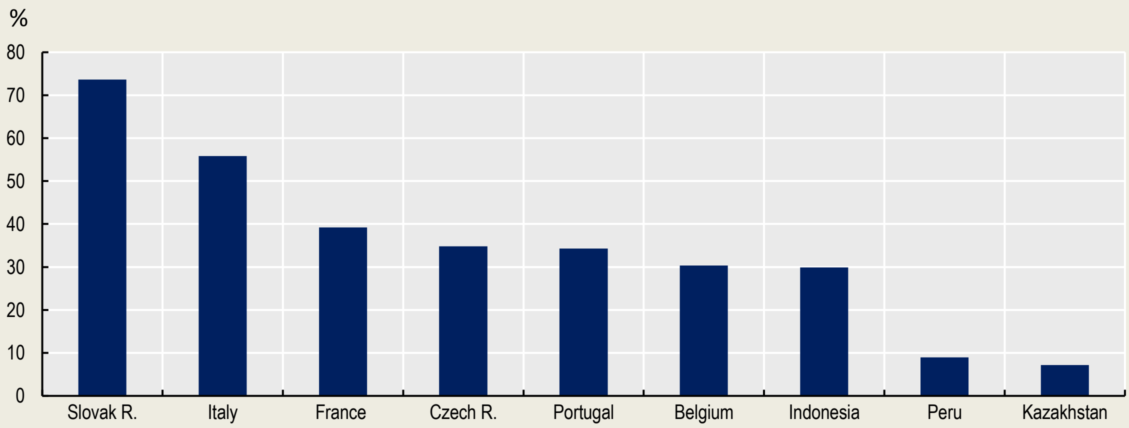
There is strong evidence that access to finance and financing conditions for SMEs vary significantly across different regions of the same country. Regional differences stem from an uneven geographical distribution of investments, innovation and entrepreneurial opportunities, as well as from different local market conditions (Ughetto, Cowling and Lee, 2019[25]). For example, peripherally located SMEs are disproportionately affected by credit constraints, especially innovative SMEs (Lee and Brown, 2017[26]). Similarly, different local economic conditions translate into strong regional variations in enterprise distress indicators, such as the rate of non-performing loans, which is much higher in lagging regions (European Commission, 2017[27]).

Subnational data collection by the Scoreboard confirms the existence of strong regional differences in SME financing conditions and helps measure the extent of these differences across selected countries. For example, Figure 8 measures the standard deviation (i.e., the average distance of regional values from the mean value) in the average size of regional SME loans (i.e., outstanding SME loans divided by number of SMEs at regional level) across TL2 regions. Because the average loan size varies by the country's income level, the standard deviation in the average SME loan is shown in relation to national GDP per capita. Based on the collected data, regional differences in SME lending are strongest in Slovakia, followed by Italy and France, among the Scoreboard countries for which the information was available.

Data collection at the subnational level will now become a regular feature of the Scoreboard.

Figure 8. Regional variation in SME lending, 2021

Standard deviation in regional average SME loans as a percentage of national GDP per capita



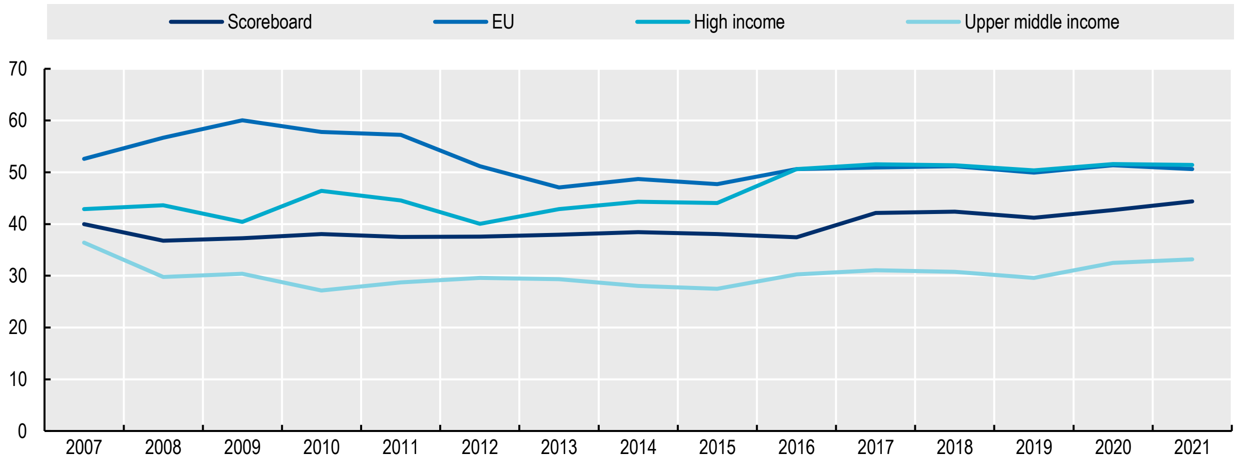
Source: OECD calculations based on disaggregated data collection pilot. Average SME loan at regional level is the ratio between outstanding SME loans and the number of companies at regional level. The standard deviation of these regional values is then put into relation with national GDP per capita to better assess regional differences across countries.

SME loan shares

In 2021, the Scoreboard median of SME loan shares increased modestly to reach 44% (up from 42%). This indicator, which shows the portion of SME loans to total business loans, provides important insights about SME lending in the context of general business lending. The small-scale increase is a continuation of the trend registered in 2020, when SME loan shares also grew slightly as a result of the strong SME focus of the COVID-19 policy response, which avoided lending shifting away from SMEs toward larger companies. Figure 9 reveals relatively persistent differences in SME loans shares across countries of different income levels. Upper-middle income countries, which historically have registered lower SME loan shares compared to other groups of countries, have increased gradually since 2015 and continued the positive trend in 2020 and 2021.

Figure 9. Share of SME outstanding loans, 2008-21

As a percent of total outstanding loans



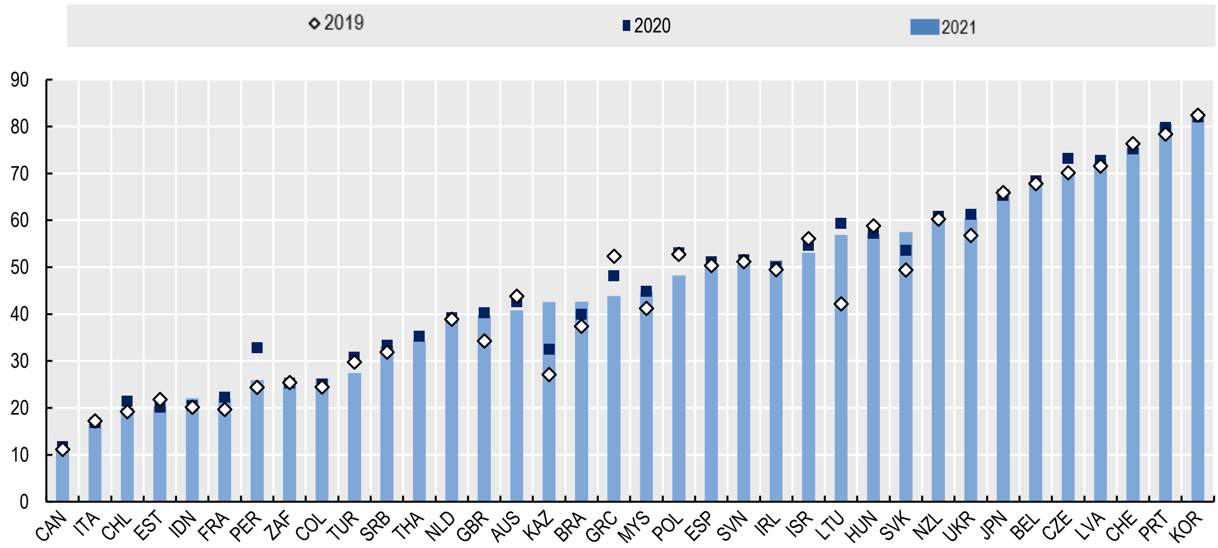
Note: All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using the base year 2007. High-income countries include the EU plus Australia, Canada, Chile, Israel, Japan, Korea, New Zealand and Switzerland, Norway until 2017 and United States until 2020.
Source: Data compiled from information received from individual country Scoreboards.

While shares increased in 25 out of 32 countries in 2020, in 2021, they declined in 15 of those countries, reflecting in part the gradual phasing out of COVID-related lending schemes and the tightening of SME credit conditions. For most countries the drop was marginal. The largest declines were registered in Peru (-7 p.p.), Poland (-5 p.p.) and Greece (-4 p.p.). In the cases of Poland and Greece, the fall in the share of SME loans follows a long-term trajectory, which started in 2013 for Poland (reaching 48% in 2021, down from 59% in 2013) and in 2017 for Greece (reaching 44% in 2021, down from 54% in 2017).

The sharp increase (15 p.p.) in the shares in Lithuania and Kazakhstan between 2019 and 2021 is notable. In Kazakhstan the sharp increase in new SME lending in 2021 (from 4% to 7% as a share of GDP) contributed to an increase in the SME loan share. In contrast, in Lithuania, the increase in SME loan shares largely reflects a decline in the demand of loans from large companies driven by postponed investments, and structural changes in non-financial corporations loan portfolio (OECD, 2022[14]).

Figure 10. Share of SME outstanding loans

As a percentage of total outstanding loans



Note: All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using base year 2007.
Source: Data compiled from information received from individual country Scoreboards.

Short-term versus long-term lending

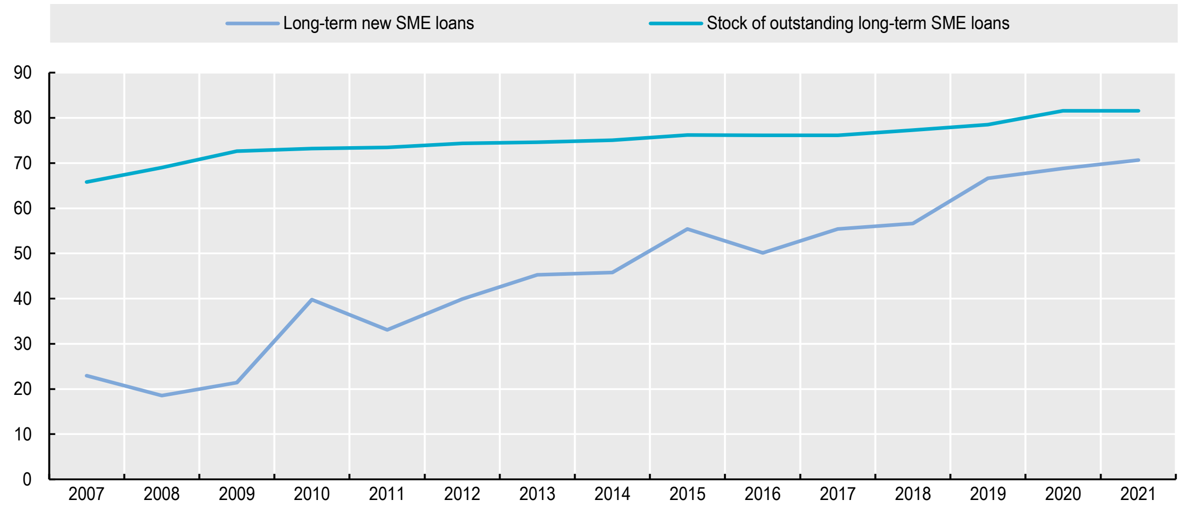
As documented by previous editions of the Scoreboard, since 2009 there has been a progressive shift in the SME loan portfolio from short-term loans[5] to loans with longer maturities, and 2021 data show a continuation of this trend.

One possible explanation is that the maturity of COVID-19 government direct loans and loan guarantees are often more than one year, measures also included the restructuring of loan terms, which included the extension of loan maturities in many countries to help companies not only weather the crisis but also to manage the first phase of the recovery. Given the large role of government-supported loans in total business loans since 2020, this would help explain the continued increase in the share of long-term SME loans. In 2020, the share of long-term loans over total SME loans grew in Chile (+18 p.p.), the Czech Republic (+6 p.p.), Hungary (+7 p.p.), and Spain (+16 p.p.). In 2021, however, these countries saw a decline in the shares of long-term SME loans. In 2021, in Ireland SME uptake of long-term new loans increased 46 p.p. in 2021 (although from a low base in 2020).

[5] Short-term loans are defined as loans with maturities of less than a year, and are often used to provide working capital. Long-term loans, on the other hand, are often used to finance investments, but can also indicate a strategy used by SMEs to lock in lower interest rates. Small loans with short-term maturities typically carry high-interest rates largely explained by the presence of fixed screening costs given higher risk of default compared to long-term loans (EIF, 2022[79]).

Figure 11. Share of long-term SME loans, 2007-2021

Percentage of total SME loans, median value



Note: All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using base year 2007.
Source: Data compiled from information received from individual country Scoreboards.

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. Overall, available evidence suggests that in 2021 demand for loans declined, coinciding with a small decline in collateral requirements and credit rejections. Data on credit conditions diverge across countries of different income levels. This is especially the case for interest rates. In 2022, however, as many Central Banks moved to increase their policy interest rates, the lending environment for SMEs changed markedly and can be expected to impact these indicators going forward. Survey data show a large proportion of SMEs indicating higher borrowing costs and lower availability of credit in 2022. In some regions, SMEs found it difficult to meet new credit requirements, resulting in a weakened demand for loans. Survey data from banks also indicated tightening terms and conditions due to the increased perception of a more uncertain economic outlook, and reduced tolerance for risk.

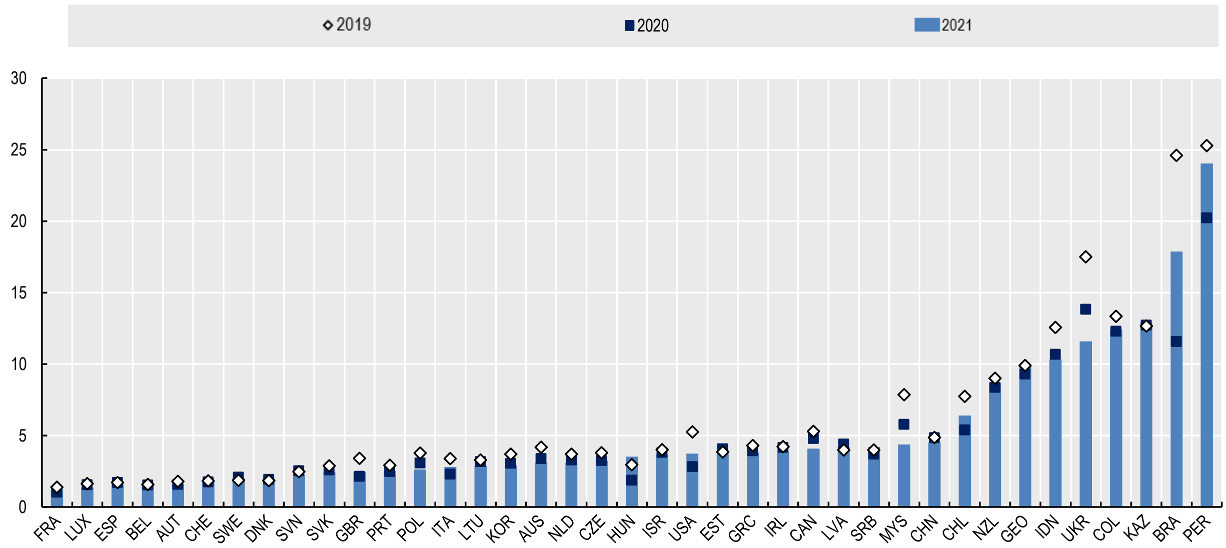
Interest rates

In contrast to 2020, in 2021 a significant number of countries saw the cost of obtaining bank credit rise for SMEs. In 17 out of 39 countries, the average SME interest rate increased in 2021 compared to only 7 in 2020. As documented in the 2022 edition of the Scoreboard, the COVID-19 crisis led many central banks to lower the policy interest rate, thereby easing lending conditions for businesses, including SMEs. In 2021, as most economies started to experience inflationary pressures due to a rebound of consumer demand and concurrent bottlenecks in global supply chains, credit conditions started to tighten in some economies.

The highest increase in the cost of credit to SMEs was experienced in Brazil, which passed from a 11.6% interest rate in 2020 to 18% in 2021, but not yet returning to pre-pandemic levels. Increases in interest rates were also seen in Peru (+4 p.p.), Hungary (+1.6 p.p.), Chile (+1 p.p.) and the United States (+0.9 p.p.). In contrast, Ukraine registered the largest drop, with the average SME interest rate declining by 2.2 p.p. in 2021 after a decline of 3.7 p.p. in 2020. Malaysia also registered a strong decline in 2021 (-1.4 p.p.).

Figure 12. SME interest rates

Nominal rates, as a percent



Note: All data are adjusted for inflation using the GDP deflator of each country published in the OECD Economic Outlook database using the base year 2007.
Source: Data compiled from individual country Scoreboards.

Despite the fact that SME interest rates increased in many countries in 2021, the Scoreboard median registered a decline, albeit a small one compared to 2020: 0.06 percentage points in 2021 versus 0.4 percentage points in 2020. The European Union and non-EU high-income countries follow the trend of the Scoreboard median in 2021. The median of non-EU high-income countries dropped by 0.07 p.p. and the EU registered a decline of 0.15 p.p. This can be explained in part by the decision of some central banks to delay the increase in policy interest rates, leaving the cost of credit low in the economy for most of 2021 and providing space for businesses to recover.

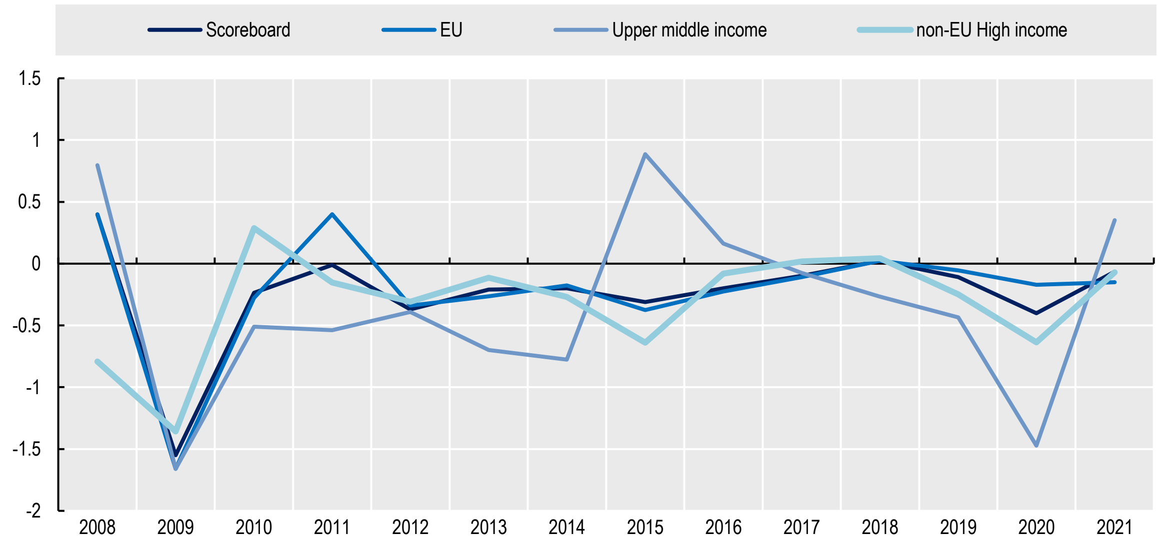
The median of SME interest rates in upper-middle-income countries increased by 0.35 p.p. in 2021, after a decline of 1.47 p.p. between 2019 and 2020. This sharp increase is partly explained by inflationary pressures experienced in some of these countries in 2021, including Colombia, Georgia, Kazakhstan, Malaysia, Peru, and Serbia, (World Bank, 2022[28]). Nonetheless, in most of the abovementioned countries, SME interest rates continued to remain below pre-pandemic levels (Figure 12).

Many central banks have moved to increase their policy interest rate (i.e. the fixed-term tender which is used to provide the bulk of liquidity to the banking system), which will imply higher borrowing costs for SMEs going forward. The ECB abandoned its zero-interest-rate policy in July 2022, when it raised its interest rate to 0.5%. Meanwhile, the US Federal Reserve has introduced a series of interest rate hikes to contain high inflationary pressures in the United States, moving its main interest rate from 0.25% in March to 2.5% in August 2022, and then implementing relatively small increases throughout the last quarter of 2022 to reach 4.5% in December 2022 (United States Federal Reserve, 2022[29]). Other OECD countries have followed suit (e.g. Australia, Canada and the United Kingdom, among others). These developments are naturally impacting a large range of financial products, from mortgages to consumer loans to business loans, including those for small businesses[6].

[6] Central banks' interest rates are the rates at which financial institutions borrow from the central bank.

Figure 13. Change in SME interest rates

Median value, nominal rates, percentage points



Note: Non-EU high income countries include Australia, Canada, Chile, Israel, Korea, New Zealand, Switzerland, and the United States. Upper-middle income countries include Brazil, China, Colombia, Georgia, Kazakhstan, Malaysia, Peru, and Serbia.
Source: Data compiled from individual country Scoreboards.

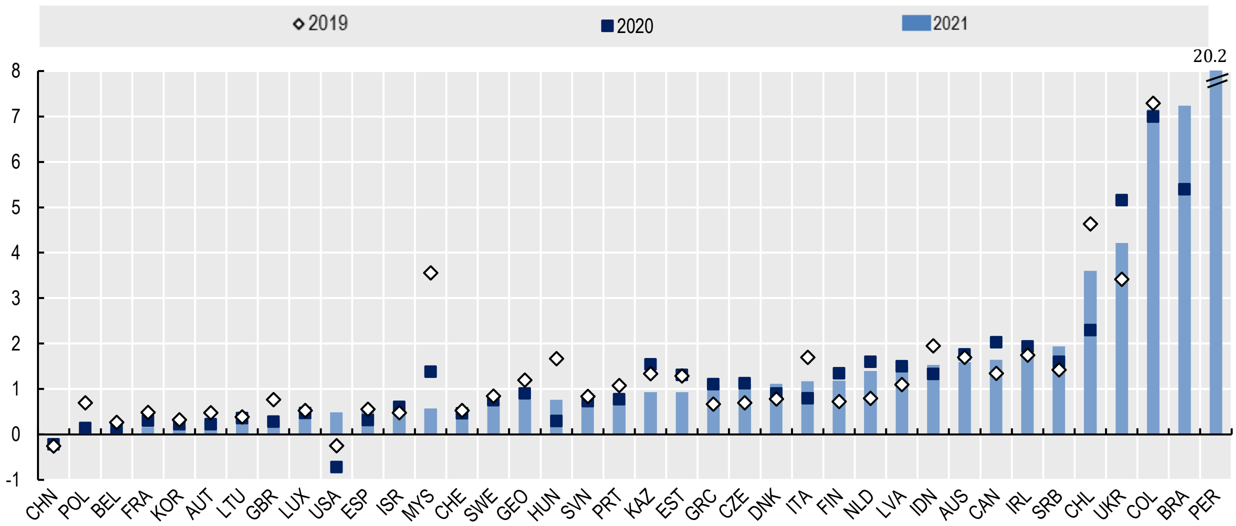
The indicator on interest rate spreads offers additional insights into credit conditions for SMEs. Given their inherently riskier profile as borrowers, they typically pay higher interest rates than large firms. As such, a narrowing interest rate spread indicates more favourable lending conditions for SMEs, while a widening spread indicates tighter lending conditions (OECD, 2012[30]).

In 2021, 21 out of 38 countries that provided data for this indicator registered narrower interest rate spreads. In 2021, the largest changes were experienced in Ukraine, Kazakhstan, Canada and Estonia, all of which had wider spreads in 2020. In the case of Ukraine, Canada and Estonia, the narrower spreads are in line with the decline in SME interest rates and so indicate better borrowing conditions for SMEs. However, in the case of Kazakhstan, the decline in the interest rate spread is due to an increase in the interest rate charged to large companies. On the other hand, there were countries that registered reductions in spreads both in 2020 and 2021, with the highest narrowing experienced in Malaysia (-3 p.p.), and Poland (-0.7 p.p.).

The highest spreads were registered in Peru, Brazil, Colombia, Ukraine and Chile and the highest change in the interest-rate spread between 2020 and 2021 (where the difference in the cost of credit charged to SMEs compared to large companies was marked) was observed in Peru (+4 p.p.), followed by Chile (+1.3 p.p.) and the United States (+1.2 p.p.). In the case of Peru and Chile, the increase in interest rates spreads can be explained by a greater perception of risk from lenders towards small companies once financial conditions started to tighten in 2021 (Banco de Chile, 2022[31]), or by sluggish economic growth (OECD, 2022[14]). In the case of the United States, this increase may be linked to the large-scale Paycheck Protection Program (PPP), which provided small businesses with roughly USD 800 billion in uncollateralised, low-interest loans in 2020. With 93% of small businesses ultimately receiving one or more loans, the PPP nearly saturated its market in just two months (National Bureau of Economic Research, 2022[32]), and is likely to be one of the main causes behind the drop in the interest rate spread in the United States in 2020, and the ensuing rebound in 2021, when the programme was terminated[7].

Figure 14. Interest rate spreads between loans to SMEs and to large firms

Nominal rates, percentage points



Note: Data from Peru do not enter the graph due to the scale used. In 2019, the interest rate spread was 19.35 p.p., in 2020 15.84 p.p. and, in 2021 20.22 p.p.
Source: Data compiled from individual country Scoreboards.

Collateral requirements

Data on collateral requirements come from demand and supply-side surveys, whose methodology, sample and questions asked differ from one country to the other. Cross-country comparisons should therefore be made with caution, and reporting improvements are needed to better assess the evolution in SME financing conditions in this respect.

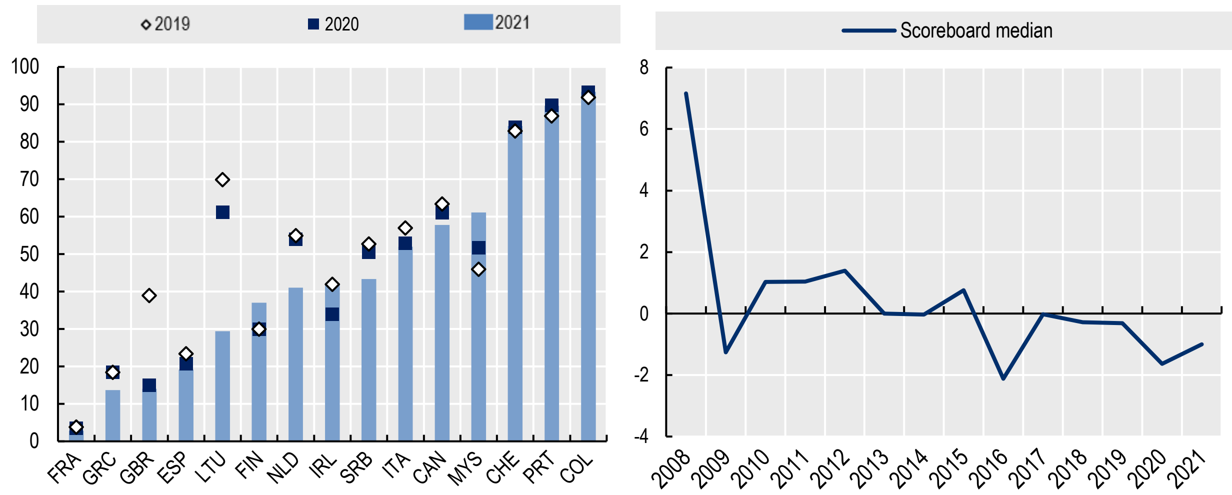
In 2021, the median share of SMEs requiring collateral to access bank credit declined, but less so than in 2020. In 2021, 10 out of 15 countries indicated a decline in the share of SMEs requiring collateral, (same number of countries as in 2020). The decline was most pronounced in Lithuania (-32 p.p.), the Netherlands (-13 p.p.), Serbia (-7 p.p.), and Greece (-5 p.p.). Malaysia, Ireland and Finland, on the other hand, experienced the largest increase in the share of SMEs requiring collateral, 9 p.p., 8 p.p., and 7 p.p., respectively. In Malaysia the share of SMEs requiring collateral has increased consistently since 2016. Similarly, countries that present the highest share of SMEs requiring collateral, such as Colombia, and Switzerland, reported increases in the shares before the pandemic.

In most countries (9 out of 15 providing data), however, the share of SMEs requiring collateral continue to be below pre-pandemic levels.

[7] This programme ran until mid-2021. It should be noted that almost all PPP loans (94%) issued in 2020 were eventually forgiven due to a specific feature of this programme, which means the PPP has not directly resulted in the increased indebtedness of small businesses in the United States.

Figure 15. Collateral requirements

By country (left), median growth rate (right)



Source: Data compiled from individual country Scoreboards.

SME loan applications

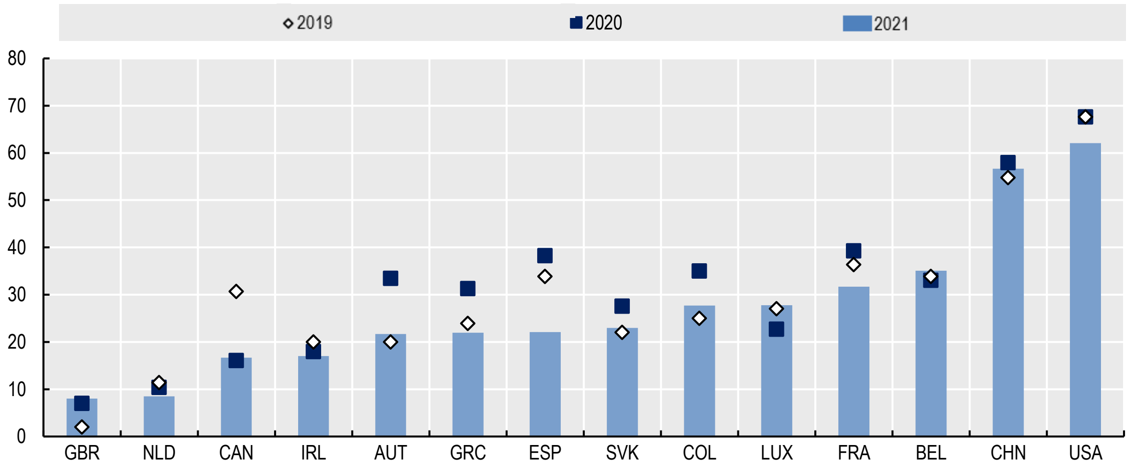
Data on loan applications come from demand-side surveys. Like with collateral requirements, cross-country comparisons should be made with caution, and reporting improvements are needed to better assess the evolution in SME financing conditions.

Evidence from 10 out of 14 countries shows that SME demand for credit, expressed as the share of SMEs that applied for loans over the total number of SMEs, declined in 2021. Of those, 8 had increased in 2020, indicating that the demand for SME loans was trending towards pre-pandemic levels. The decline is most pronounced in Spain, Austria and Greece, with demand dropping more than 10 percentage points. The Survey on Access to Finance of Enterprises (SAFE) also registered a moderate demand for bank loans and credit lines in general in the Euro Area in March and September 2021, with particularly modest activity in Spain (4% down from 19%). In Spain, a high percentage of SMEs indicated not applying for loans for fear of rejection (ECB, 2022[18]). In contrast, the largest increase in SME loan applications was registered in Finland, with a growth of 18 percentage points in the share of SMEs applying for loans.

The United States and China, which had registered the highest levels in SME loan applications in 2020, continued to have the highest share in 2021, despite a slight decline in both countries. The decline in loan applications in the United States can be explained in part by the large-scale Paycheck Protection Program (PPP), which had led to a strong surge in loan applications in 2020 but was terminated in mid-2021. According to survey data from SMEs in the United States, loan applications continued to decline in Q3 2022 (Federal Reserve Bank of KansasCity, 2022[33]).

Figure 16. SME loan applications

As a percentage of total number of SMEs



Source: Data compiled from individual country Scoreboards.

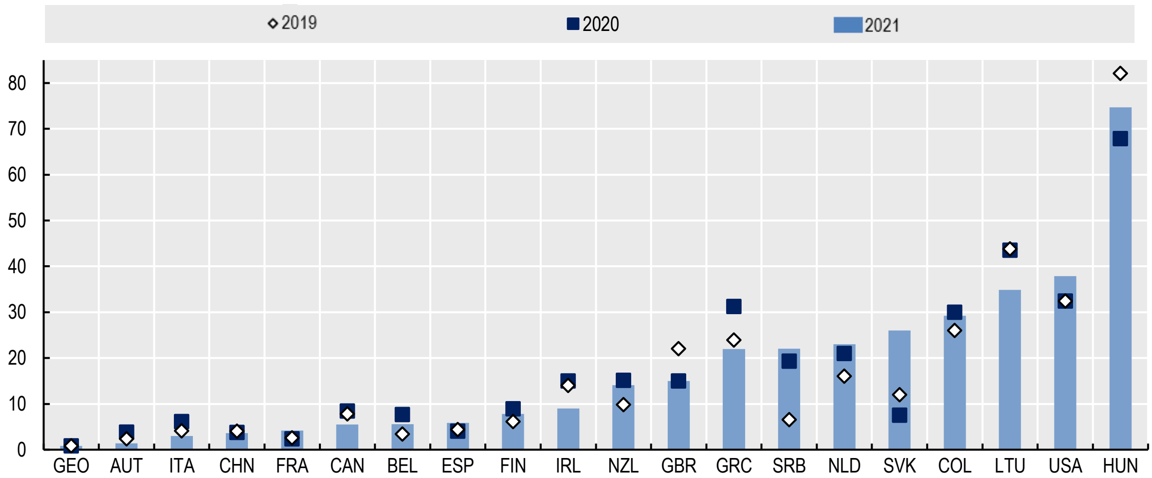
Rejection rates

Rejection rates help to shed light on the supply of credit to SMEs and gauge overall financing conditions. Higher rates of rejection are indicative of constraints in the supply of credit and suggest that demand for loans is not being met, 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. Nevertheless, rejection rates should be analysed in the context of new lending trends, in order to have a more comprehensive perspective on SME access to finance. Data on rejection rates are usually gathered from demand-side surveys, with limited comparability across countries, however.

Despite a small drop in the median growth of rejection rates for SMEs in 2021, 8 out of 20 countries that provided data for this indicator registered an increase in rejection rates. The countries with the highest levels of rejection rates in 2020, namely Hungary and the United States, registered an increase in the share of rejected applications from SMEs in 2021. In Hungary SME lending activity increased considerably, with a direct effect on rejection rates. In fact, Hungary registered the third highest amount of new lending volumes as a share of GDP across the board (Figure 4). Under the state-subsidised loan programme alone, nearly 100,000 SMEs applied for loans from May 2020 to May 2022 (amounting to more than HUF 3600 billion). Of those, 70,000 transactions were concluded amounting to HUF 2500 billion. In terms of annual change, the Slovak Republic experienced a large increase (over 18 p.p.) in rejection rates. In the United States, the Small Business Lending Survey showed an increase in SME rejections, particularly in Q2 2021, with borrower financial performance and credit history as the two most cited reasons for denying a loan. In Q3 2022, the share of rejected loans increased slightly (3 p.p. q-o-q growth) with borrower financial performance and lack of collateral as the most cited reasons (Federal Reserve Bank of Kansas City, 2022[34]). In Europe, in Q3 2022, demand-side survey data show that in some European countries, rejection rates also began to register slight increases (ECB, 2022[35]).

Figure 17. Rejection rates

As a percentage of loans requested by SMEs



Source: Data compiled from individual country Scoreboards.

Additional evidence on credit conditions from survey data

Euro area

The SAFE survey provides data on the financial situation of European firms, along with need for and availability of external financing. It is conducted twice a year: once by the ECB, covering the Euro area, and once in cooperation with the European Commission, covering all EU economies and some additional countries. The Survey covering the period of April to September 2021 shows a rebound in economic activity, with SMEs indicating an increase in their turnover and a subdued decline in profits compared to 2020 (ECB, 2021[17]). This continued through the last quarter of 2021 and through the first three quarters of 2022 as reported in the following surveys, with large companies reporting a stronger rebound compared to SMEs (ECB, 2022[18]) (ECB, 2022[35]).

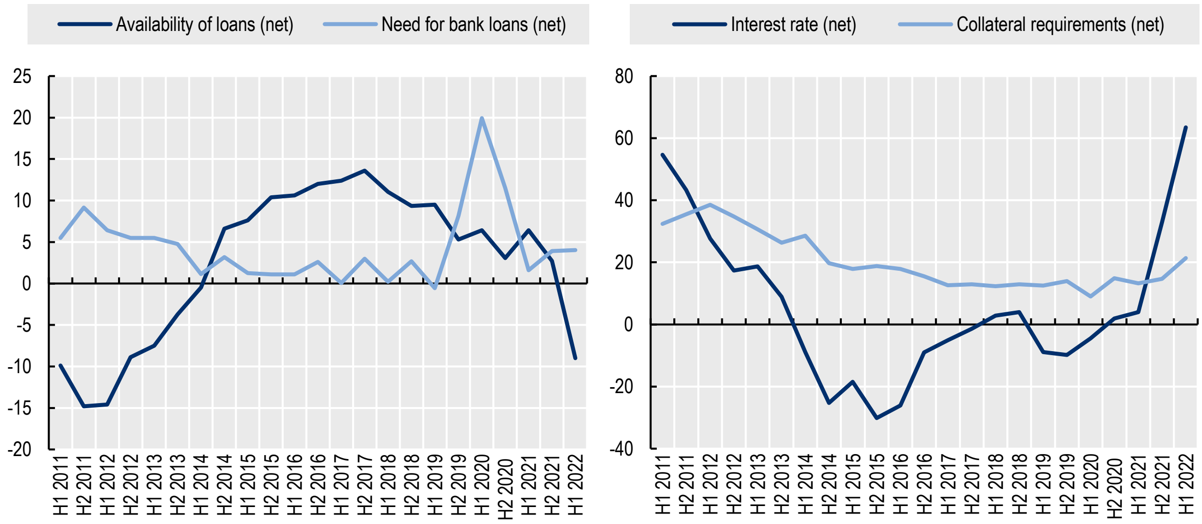
In the survey, access to finance was one of the least reported concerns for businesses in the euro area; this likely mitigated the demand for bank loans and credit lines. This is shown in Figure 18 (left panel), where the need for bank loans declined from 20% to 1.6% in H1 2021. In the following half of 2021 and in H1 2022, however, a slight increase in the need for bank loans (up to 4%) was observed. This increase in demand for bank loans was particularly marked for SMEs in October 2021. In terms of the improvement of loan availability, in H1 2021, more SMEs reported an improvement in loan supply (from 3% in H2 2020 to 6% in H1 2021). Notably, small companies reported a return to pre-COVID 19 levels. In the second half of 2021, availability of bank loans declined slightly. Nonetheless, this evolution changed markedly in the first half of 2022, as SMEs reported (in net terms) a decline in the availability of bank loans (from 3.9% to negative 9%).

The right panel of Figure 18 shows the perceptions of SMEs about the developments in credit conditions (interest rates and collateral requirements) in the Euro Area. The curve on interest rates is telling. In the first half of 2021, few SMEs reported an increase in bank interest rates (from 2% to 4%); however, a sharp increase of the share of SMEs reporting higher interest rates was registered in H2 2021 (up to 33%), and continue to increase in H1 2022 (up to 63.5%). The perception of SMEs with respect to collateral requirements is more stable. Thirteen percent of SMEs indicated an increase in collateral requirements in

H1, a trend which continued in the second half of 2021, however in the first half of 2022 the increase is slightly higher (up to 21.4%).

Figure 18. ECB Survey on SME access to finance

Selected indicators as a percentage of total SMEs surveyed



Note: The net percentage is the difference between the percentage of firms reporting that the given factor has improved and the percentage reporting that it has deteriorated, or the difference between the percentage reporting that it has increased and the percentage reporting that it has decreased. H1 2021 refers to round 25 (April to September 2021), published in November 2021. H2 2021 refers to round 26 (October 2021 to March 2022), published in May 2022. H1 2022 refers to round 27 (April to September 2022), published in November 2022.
Source: European Central Bank, 2022.

United States

Survey data from The Senior Loan Officer Survey captures the opinion of senior bank officials on lending practices in the United States. Information from the last quarter of 2021 shows loosened standards in the terms of corporate loans for all firm sizes. Banks also reported eased credit terms, reduced costs of credit lines and lower premium costs charged on riskier loans (Federal Reserve, 2022[36]). In the first half of 2022, a significant share of banks reported tightening of credit standards in all firm sizes. This was most widely reported for premiums charged on riskier loans. In addition, a larger proportion of banks reported tightening conditions for large and medium companies compared to the share which reported doing the same for small companies. Some of the reasons for tightening lending conditions was the worsening of industry-specific problems and reduced risk tolerance (Federal Reserve, 2022[37]). This trend continued through Q3 2022, with a significant share of banks tightening terms and conditions to all firm sizes due to the increased perception of more uncertain economic outlook, reduced tolerance for risk, and decreased liquidity in secondary markets for corporate and industry loans (Federal Reserve, 2022[38]).

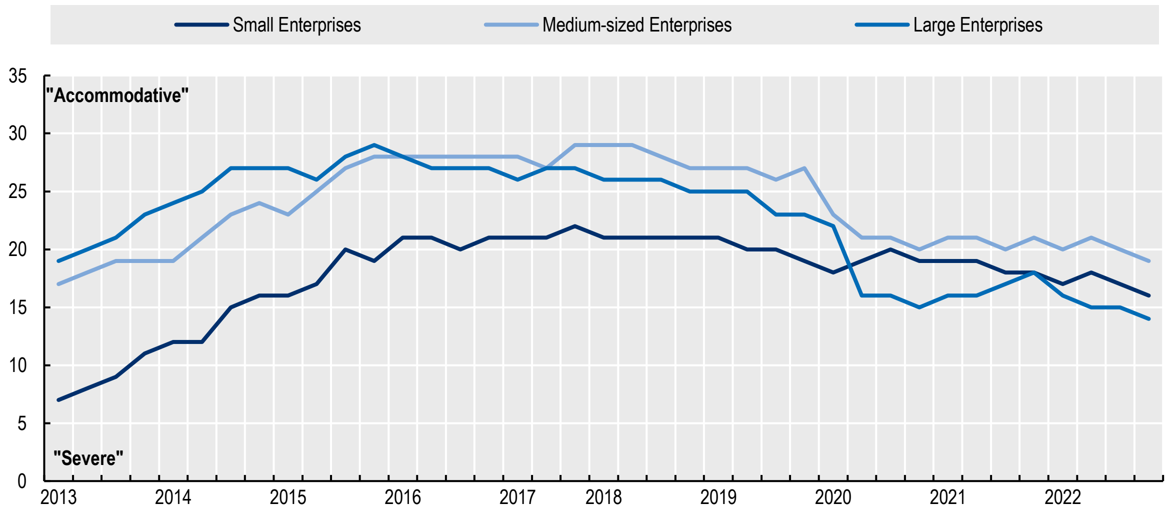
The Small Business Lending Survey, conducted quarterly, captures the perception of commercial banks of their small business lending activities in the United States. Survey responses collected at the end of 2021 point to a decline in SME loan balances as a result of the expiration of the PPP and an increase in PPP loan forgiveness in Q4 compared to Q3. Most banks indicated tightening credit standards through premiums charged on riskier loans and high use and levels of interest rate floors. Interest rates for SME loans tightened in 2021, particularly for outstanding loans, which can be attributed to a normalization of rates following the end of the PPP. Banks also reported an increase in the credit quality, with particular improvements in the debt-to-income levels and liquidity positions of borrowers (Federal Reserve Bank of Kansas City, 2022[34]). In the first three quarters of 2022, SME lending activity declined sharply compared to the same period in 2021, potentially explained by the high baseline due to the PPP. In Q3 2022 new SME lending declined 22% y-o-y, explained by a weaker demand (respondents reported the weakest loan demand since the inception of the survey) and tightening of SME interest rates (variable term loans increased 112 basis points, and variable rate lines of credit rose by 128 basis points), following the increase of the benchmark overnight interest rate of the Federal Reserve in that quarter. Respondents also reported diminishing credit quality, citing deterioration of debt-to-income ratios and liquidity positions of borrowers as the main reasons (Federal Reserve Bank of Kansas City, 2022[39]) (Federal Reserve Bank of KansasCity, 2022[33]).

Japan

The Bank of Japan's Tankan survey reports business confidence on a quarterly basis. Figure 19 shows that in the last quarter of 2020 and in the first two quarters of 2021, lending attitudes towards the three firm size classes diverged. Lending conditions for large enterprises tightened, while they loosened for small companies. Lending attitudes towards medium-sized firms remained the most accommodative compared to the other two groups. The accommodative attitude towards SMEs is explained in part by the significant deployment of credit guarantees and interest-free loans, which mostly target this group of companies. In particular, loan guarantees rose to over 7% of GDP in Japan in 2021, which is exceptionally high by international standards (OECD, 2021[40]). These trends continued in the first half of 2022, especially in the second quarter, possibly because the Bank of Japan extended the COVID-19 support measures for SMEs until March 2022 (IMF, 2022[41]). In the second half of 2022, however, lending conditions started to tighten for all firm sizes, potentially explained by an adjustment after a period with interest-free loans and an increase in the leverage of SMEs. At the end of 2021, 80% of SMEs had amounts of debt exceeding that of cash and deposits, with half of them having their debt increase after the pandemic (Bank of Japan, 2022[22]).

Figure 19. Lending attitudes in Japan

Diffusion Index, in percentage points



Note: Diffusion index of "Accommodative" minus "Severe", percentage points.
Source: Bank of Japan, 2022

Asset-based finance

In 2021, asset-based finance[8] showed a strong recovery after being hard hit in 2020. This marked a positive step towards the resumption of the diversification of SME financing instruments and sources, an emerging trend prior to the pandemic. Although the recovery in leasing and hire purchases was less vigorous compared to factoring, in 2022 leasing continued to gradually recover. Going forward, if tightened lending conditions persist, uptake of asset-based finance can be expected to continue to grow.

Leasing and hire purchases

Information on the trend in leasing and hire purchases stems from the individual country Scoreboards and from Leaseurope, a sector organization. After being hard hit in 2020, leasing and hire purchases activities experienced a partial recovery, with some countries displaying high growth rates. For example, growth was particularly pronounced in Estonia (+35%), Poland (+35%) and the United Kingdom (+25%). In the case of the United Kingdom, this reflects greater volumes of leasing finance in a smaller number of firms. According to the British Business Bank Finance Survey, in 2021 the share of SMEs demanding leasing and hire purchases dropped to 5% (from 7% in 2020 and 19% in 2019) (British Business Bank, 2022[13]).

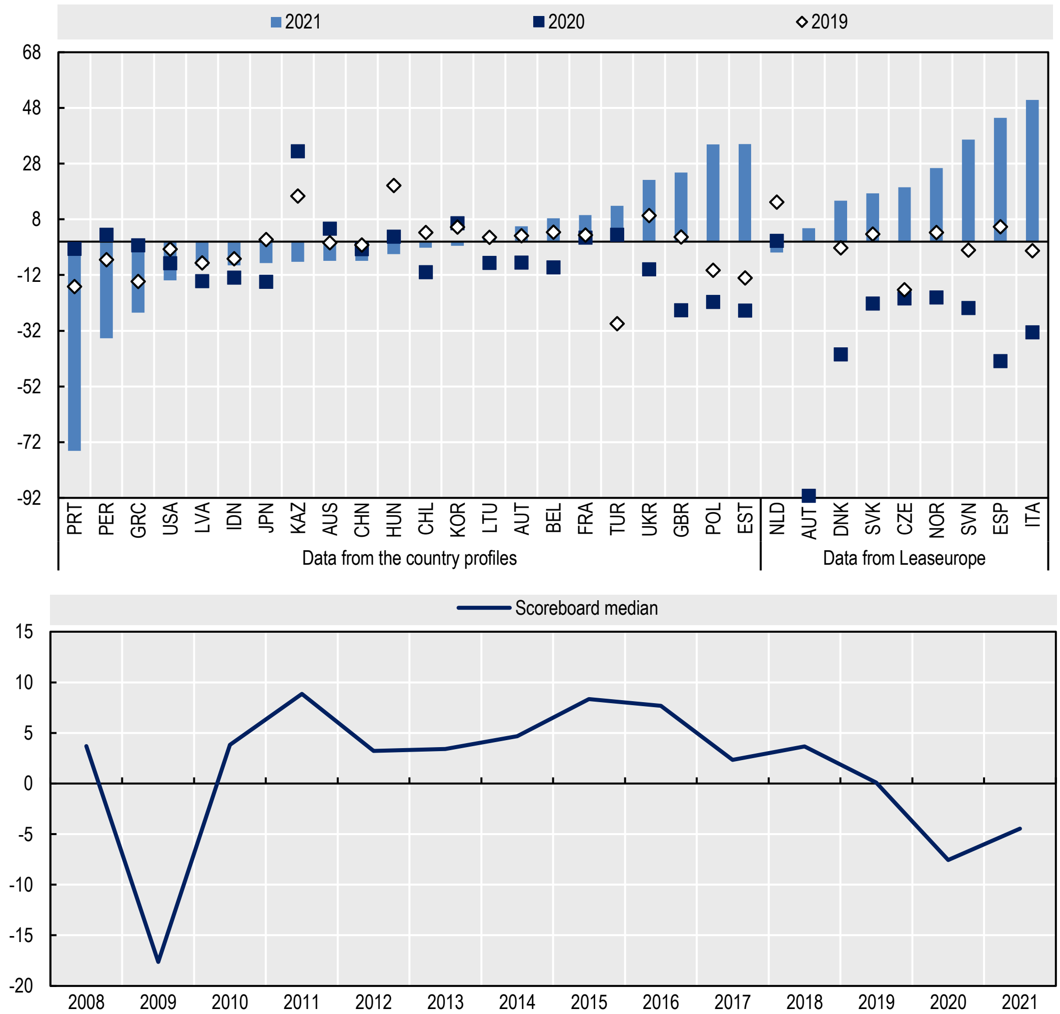
Data from Leaseurope show a positive trend in 2021, with 9 out of 10 countries showing positive growth in this indicator (the only exception is the Netherlands). Given that these 9 same countries registered record drops in 2020, the 2021 growth indicates a recovery from the pandemic. Austria, which had registered a stark decline in 2020 (-91%), began to recover in 2021 (+5%). The highest increases in leasing activities were registered in Italy (+51%), Spain (+44%) and the Slovak Republic (+37%). Generally speaking, an increase in leasing activity suggests increased business investment. However, the median value of the leasing growth rate for the Scoreboard countries was still negative in 2021 (-4.46% compared to -7.7% in 2020), suggesting that recovery in 2021 was only partial.

In the first three quarters of 2022, demand side survey data in European countries show that in net terms the demand for leasing and hire purchases increased (ECB, 2022[35]), and a stronger recovery of this instrument can be expected going forward.

[8] Asset-based finance comprises all forms of finance that are based on the value of specific assets, rather than on the cash flow/creditworthiness or debt capacity of firms and represents a well-established 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 countries under study. In the case of leasing and hire purchases, the owner of an asset provides the right to use the asset (like motor vehicles, equipment or real estate) for a specified period 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.

Figure 20. Leasing and hire purchases by country and Scoreboard median

Year-on-year growth, as a percentage



Note: When several associations existed for one country, figures were summed, and growth rates were recalculated. Data are adjusted for inflation using the OECD GDP deflator. Data from non-OECD countries are adjusted for inflation using the deflator from the World Bank World Development Indicators.
Source: Data compiled from individual country Scoreboards and from the LeasEurope Annual Survey 2021.

Factoring

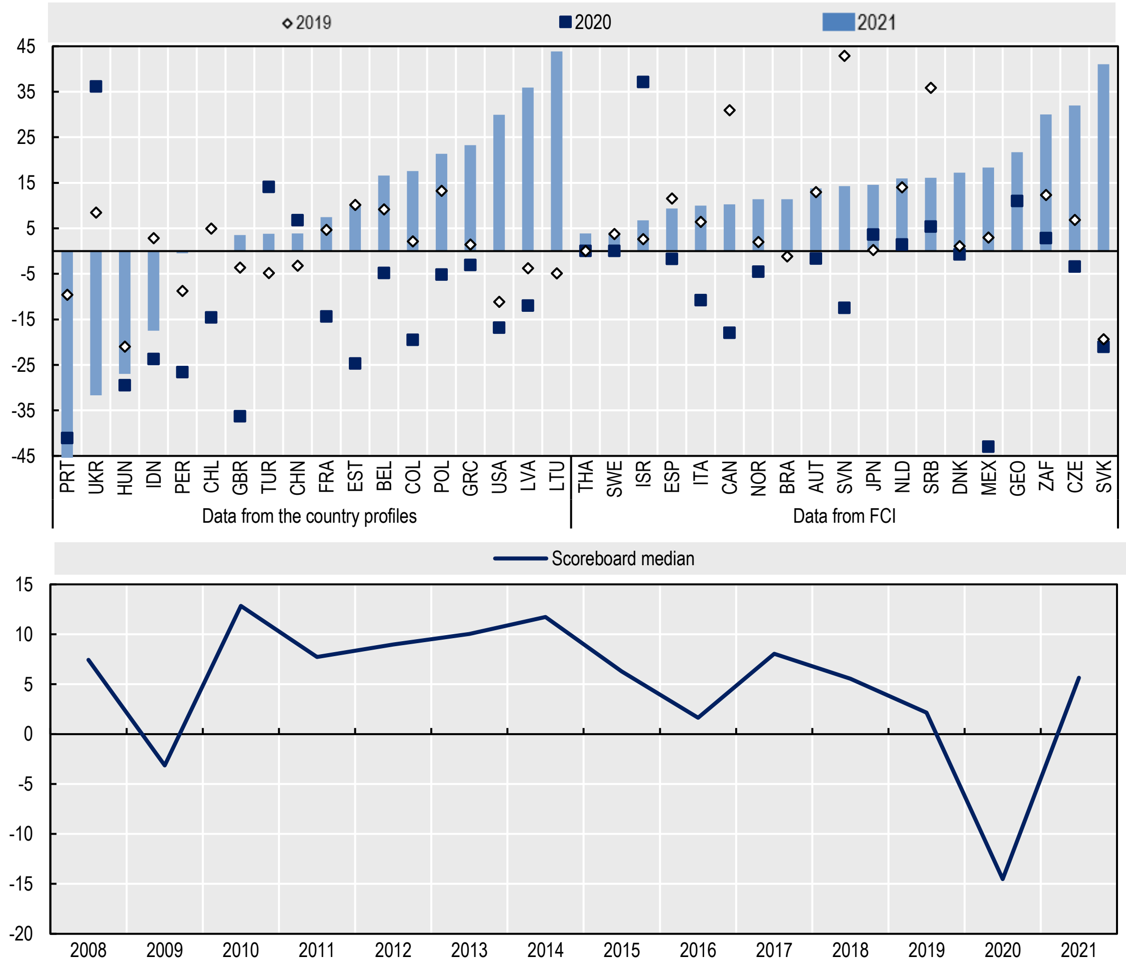
Data from national sources complemented by information from Factors Chain International shows a marked recovery in factoring activities in 2021, after a sharp decline experienced in 2020. The Scoreboard median growth rate was 6% in 2021, up from -14.5% in 2020. This negative performance in 2020 reflected the large reduction in economic output and trade as a result of COVID-19-related restrictions (FCI, 2021[42]). As economies re-opened, consumer demand increased and trade resumed in 2021, factoring volumes registered double-digit growth in 2021, with positive prospects also foreseen in 2022 (FCI, 2022[43]).

Data from the individual country Scoreboards show that in 2021, 12 out of 18 countries registered growth in factoring activities (following on from significant drops in the previous year). Strong recovery was registered in Lithuania (+44%), the Slovak Republic (+41%), Latvia (+36%), Czech Republic (+32%), South

Africa (30%), and the United States (+30%). On the other hand, a stark decline was registered in Portugal (-81%), followed by Ukraine (-32%) and Hungary (-27%). This represents a continuation of the previous trend, with the exception of Ukraine.

Figure 21. Factoring growth rates by country and Scoreboard median

Year-on-year growth, as a percentage



Note: All data are adjusted for inflation using the OECD GDP deflator. Data for non-OECD countries were extracted from the World Development Indicators from the World Bank.
Source: Data compiled from individual country Scoreboards, and from Factors Chain International (2022).

Equity instruments

Venture capital activities grew strongly in 2021, registering the highest growth ever recorded in Scoreboard history. This development can be explained by significant activity in the healthcare and financial services sector and a jump in the uptake of digital technologies. In 2022, however, this positive trend showed another reversal, in part due to rising interest rates, which have led some large-scale investors to shift to fixed-return asset classes. As a result, in 2022 some large VC markets showed a sharp decline in both number of deals and values invested. The outlook for 2023 is uncertain and will depend on the evolution of macroeconomic conditions and their influence on investors.

Venture capital

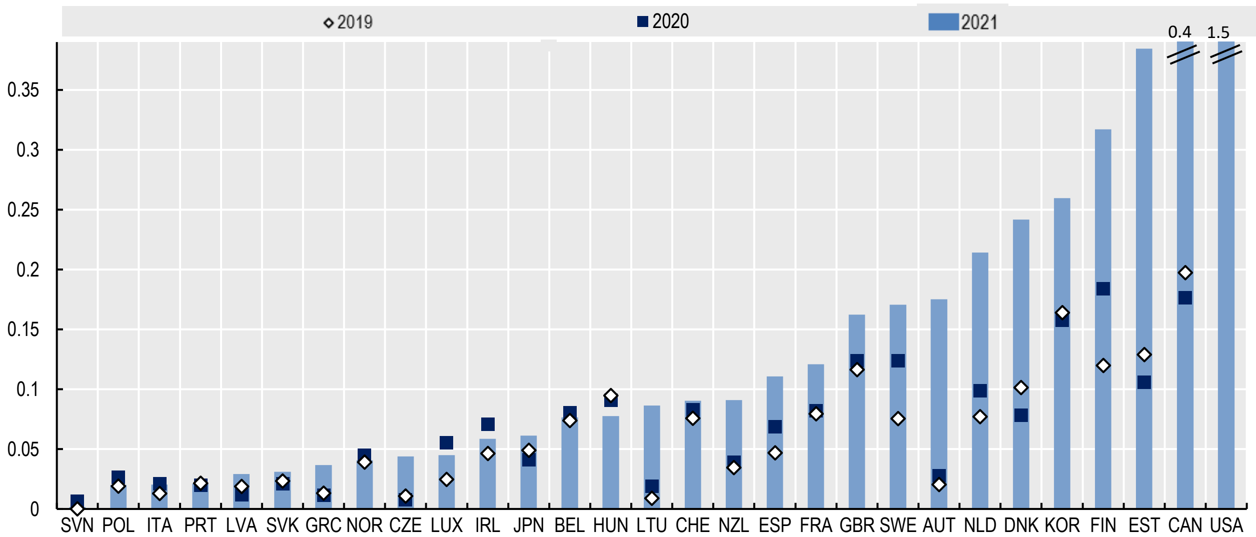
Venture Capital investments recovered strongly in 2021, with almost all economies registering a significant rise in VC activity. This sharp increase is unprecedented in Scoreboard history, with the median rising 58.6% in 2021 (versus a growth of 4.18% experienced in 2020). This record growth in VC can be explained by several factors: a drastic increase in consumer demand, a jump in the uptake of digital technologies, and significant activity in the healthcare sector and financial services sector. In fact, the latter registered higher year-on-year growth of venture investment than any other sector (Crunchbase, 2022[44]).

This follows a more mixed performance in 2020, when in half of the countries that provided data for this indicator VC declined, while in the other half, particularly in regions with large market share such as the United States and the European Union, VC investment was resilient and grew strongly despite the COVID-19 crisis. In 2021, VC in these economies continued to grow, the United States, for example, grew 98% amounting USD 267 billion VC investments in 2021, equivalent to 1.5% as a percent of GDP (up from 0.8%), a volume unprecedented in Scoreboard history.

Countries with the highest volumes as a percent of GDP across the board also experienced remarkable growth in VC investment between 2020 and 2021 (Figure 22). In addition to the United States, the strong growth in VC was registered in Estonia (0.27 p.p.), Canada (0.26 p.p.), Denmark (0.24 p.p.), Austria (0.14 p.p.), Finland (0.13 p.p.), the Netherlands (0.11 p.p.) and Korea (0.10 p.p.) Nevertheless, it is important to keep in mind that data on VC investments are highly volatile, especially in smaller economies with relatively underdeveloped VC markets, where a large single deal can impact overall volumes considerably.

Figure 22. Venture capital volumes by country

Volumes as a percent of GDP



Note: Data from the United States do not enter the graph due to the scale used, in the US VC investments as a percent GDP was 0.7% in 2019, 0.8% in 2020 and 1.5% in 2021. As the volumes are expressed as a share of GDP, precaution on the interpretation of the graph is needed considering the impact of the COVID-19 crisis on GDP.
Source: OECD Entrepreneurship Finance Database

More generally, the growth in VC investment volumes is a long-term trend which has spanned the last decade. This trend has been ascribed to low interest-rates and other expansionary monetary policies (e.g. quantitative easing), which have increased liquidity in capital markets while increasing appetite for riskier investments, as well as to the entry of large-scale investors such as pension funds and sovereign funds into the VC asset class. This last factor, besides increasing investment volumes, has also shifted the balance of investments towards less risky late-stage investments, thus reducing the share of total VC volumes dedicated to seed and early-stage projects.

These long-term trends are confirmed by national venture capital associations, which have reported how the increase in the amount of VC investment has been remarkable in late stages and consolidated companies, but less strong in the seed and early stages. In fact, in 2021 close to two-thirds of investments went to companies in series C or later worldwide. Similarly, globally, the number of investments did not increase at the same rate as the volumes raised, indicating a higher concentration of capital in already established portfolio companies (Factset, 2022[45]).

Going forward, rising interest rates might be expected to redirect large-scale investors, such as pension funds and sovereign funds, back into fixed-return asset classes (e.g. bonds), thus reducing liquidity in the VC industry. In the United States, for example, 2022 closed with a decline of 14% in the number of VC deals and a decline of 30% in terms of deal value (National Venture Capital Association, 2023[46]). In the 2022 EIF Venture Capital survey, European VC fund managers indicated higher risk aversion from large-scale investors, with some of them leaving the market. This, coupled with rising inflation and interest rates, are the main challenges for VC fundraising in 2022 (EIF, 2022[47]). As such, 54% of VC backed companies reported securing equity finance as an important problem, with another 23% finding it a survival-threatening problem in 2022. Expectations for the fundraising environment for the next year are more negative, with 1 in 4 VCs expect investments to decrease over 2023. Similarly, valuations of VC backed companies have been affected, with almost half of VC managers reporting a decline in current valuations of portfolio companies, marking a record-low level since 2020 (EIF, 2022[47]).

Online alternative finance

In 2021, online alternative finance platforms saw continued and accelerated growth, following the positive trend seen in 2020 thanks to the accelerated use of digital platforms during COVID-19, and their use by governments to disburse support. In 2022, however, digital platforms had less traction and investments declined, gradually returning to the levels of funding seen before the pandemic. The outlook for 2023 is uncertain. On one hand, tightening macroeconomic conditions may spur the uptake of online alternative finance as SMEs face tighter lending terms from traditional lenders. However, online platforms will also need to access funding to scale solutions to SMEs, which may be a challenge in the short to medium term.

During the COVID-19 pandemic, SMEs made strong use of online alternative finance[9], both through debt and capital raising channels, to meet their funding needs. This resulted in significant changes in the volumes of transactions compared to the period prior to the pandemic. Evidence from the Cambridge Centre for Alternative Finance indicates that in 2020 digital lending platforms raised USD 51.6 billion for SMEs, versus USD 32.8 billion in 2019. The regions with most SMEs benefitting from loans transacted through digital lending platforms were the Asia Pacific (38%), North America (34%) and Latin America

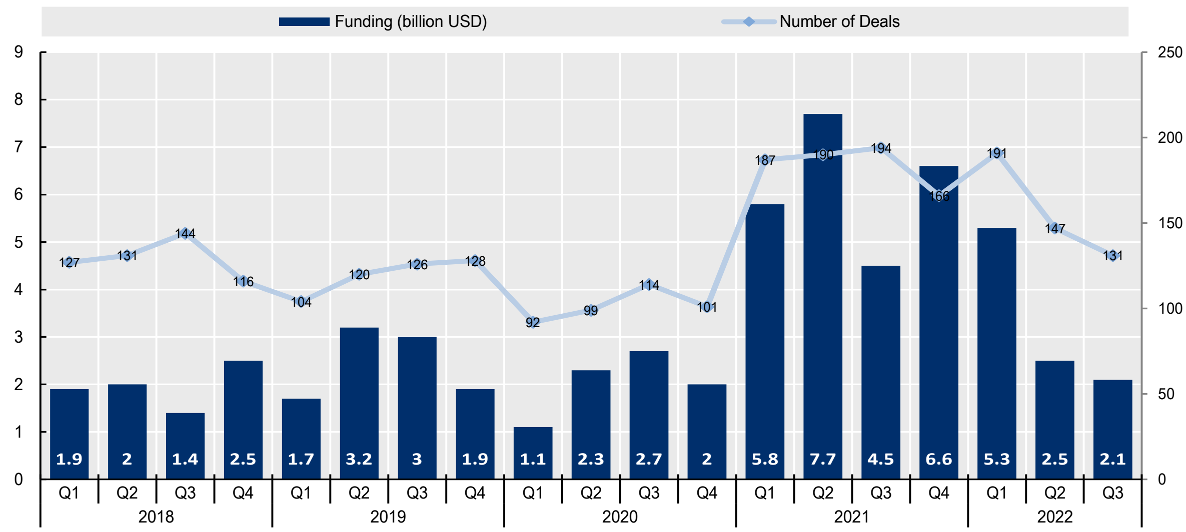
[9] Online alternative finance is a means of soliciting funds from the public for a project or firm through an intermediate platform. The online alternative finance ecosystem comprises debt, equity and non-investment models. Debt-based models cover P2P / marketplace lending, and include both secured and unsecured loans, bonds and debtor notes. Equity-based models, including equity-based crowdfunding, relate to activities where businesses raise capital by issuing unlisted shares or securities. Non-investment-based models are models in which firms raise capital, but they are not obliged to provide a monetary return. They include reward-based and donation-based crowdfunding (Cambridge Centre for Alternative Finance, 2022[48]).

(11%). Looking at the volumes of SME-based lending, the United States, the United Kingdom and Brazil were the top three markets, contributing to over-three-quarters of total SME values in 2020. Italy and France were the highest contributors of SME volumes in Europe. In the Asia Pacific, Indonesia, Japan and Singapore were the economies that reported the highest growth in SME values in the region.

The significant increase in digital lending volumes allocated to SMEs was driven mainly by the use of online platforms in government schemes to support SMEs. For example, in Indonesia, the government and state-owned banks collaborated with P2P lenders to channel loans to SMEs as part of the COVID-19 Recovery Scheme. Other examples include the use of platforms in the SBA's Paycheck Protection Program in the United States, the Coronavirus Business Interruption Loan Scheme in the United Kingdom, and the Coronavirus Small and Medium Enterprises Guarantee Scheme in Australia (Cambridge Centre for Alternative Finance, 2022[48]). In fact, the use of digital lending platforms resulted in a record year in 2021, both in terms of deals and funding received, with the funding in 2021 more than doubling compared to 2020 (Figure 23)[10]. In 2022, however, digital platforms had less traction and investments declined, gradually returning to levels seen before the pandemic (CBInsights, 2022[49]).

Figure 23. Global Investments allocated in digital lending platforms, 2018-2022

Billion USD (left axis), number of deals (right axis)



Source: State of Fintech, (CBInsights, 2022[49])

Looking at equity models, SME access to capital through platforms also increased significantly during the pandemic. In 2020, SMEs mobilised USD 2.65 billion through digital capital raising platforms, compared to USD 1.86 billion in 2019. The highest growth in capital allocated to SMEs was reported from platforms in Europe and the United Kingdom, contributing to 51% of total SME funding raised. By type of platform, equity-based crowdfunding was the most used channel by SMEs, constituting 65% (USD 1.73 billion) of the total SME funding raised through equity platforms in 2020. This was particularly the case in the United Kingdom, where almost all volumes to SMEs originated from equity-based crowdfunding. In Asia Pacific countries, these platforms were the main channel used by SMEs for finance in 2020, with USD 339 million transacted volumes, driven mainly by Singapore (Cambridge Centre for Alternative Finance, 2022[48]).

[10] This performance can be linked with the performance of venture capital, which generally registered a record high in activities in 2021, both in terms of deals and funding transacted.

On the other hand, non-investment models reported a decline of 39% in the funding allocated to SMEs between 2019 and 2020, which was driven by a decrease in SME fundraising through reward-based crowdfunding platforms (experienced mainly in France, Portugal, and Spain). Conversely, donation-based crowdfunding platforms doubled the volumes allocated to SMEs, with Brazil being the largest contributor (Cambridge Centre for Alternative Finance, 2022[48]).

Payment delays, bankruptcies, and non-performing loans

Enterprise distress indicators were broadly positive for SMEs in 2021. Payment delays declined in 2021, after having increased in 2020 as a result of the COVID-19 crisis. Bankruptcies began to increase in some countries after a historic decline, although in other countries, bankruptcies continue to decline, as the drop in the Scoreboard median indicates. Data on NPLs show a downward trend for both SME loans and large business loans.

In 2022, these indicators began to shift. For example, more SMEs reported being affected by late payments, with negative effects on their growth. In the short and medium term, banks expect an increase in NPLs, in part as a result of deteriorating SME liquidity positions and lower repayment capacity. Bankruptcies are also expected to increase at a more rapid pace in 2023.

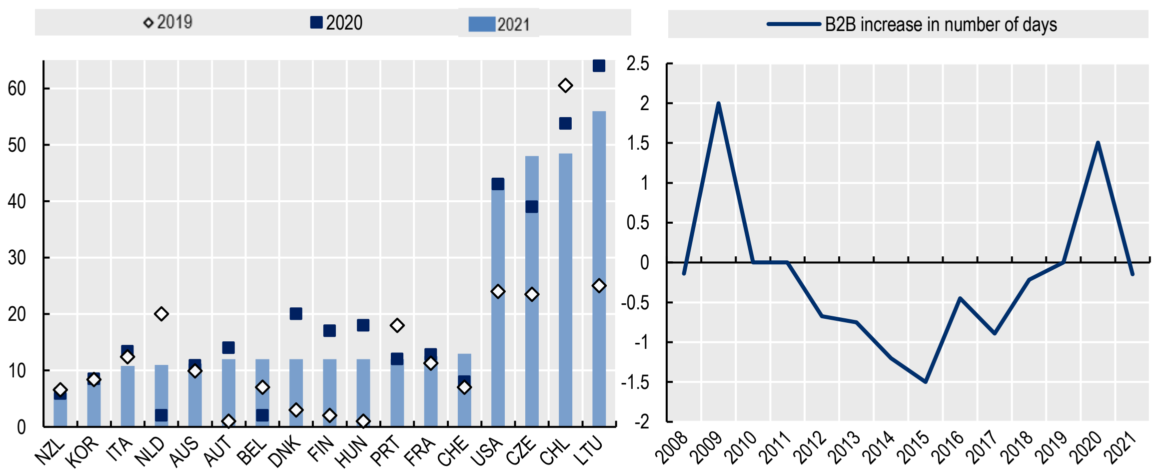
Payment delays

Payment delays registered a decline in 2021, with a median value for all Scoreboard countries of 12 days in 2021, compared to 14 days in 2020. Looking at the behaviour by country, this indicator declined in eight countries, increased in 7 countries and 2 countries remained constant. This contrasts with the figures in 2020, when 12 countries increased the number of days of delayed payment, and only 5 declined in this indicator.

In 2021, the strongest declines in payment delays were registered in Lithuania (albeit from a higher base) and Denmark, both declining eight days compared to 2020. Chile, Hungary and Finland also registered declines of 5 to 6 days. On the other hand, the countries that registered the highest increase were Belgium (+10 days), the Czech Republic (+9 days) and the Netherlands (+9 days).

Figure 24. Payment delays by country and evolution

Number of days (left panel), median value growth in number of days (right panel)



Source: Data compiled from the individual country Scoreboards.

In 2022, however, inflation and rising prices negatively affected payments, with consequences in firm growth. In fact, four in ten companies in Europe reported that late payments diminished their growth, and 26% indicated this is threatening their survival[11] (Intrum Justicia, 2022[50]). In response, several governments have taken further action in this area. For instance, the European Commission 2023 work programme included changing the late business payment rules among the strategies of economic relief to SMEs, and launching the revision of payment rules among member states in January 2023 (European Commission, 2022[51]) (European Commission, 2023[52]). Similarly, in the UK the "Prompt Payment and Cash Review" aims to investigate payment practices to help SMEs (BEIS, 2022[53]).

Bankruptcies

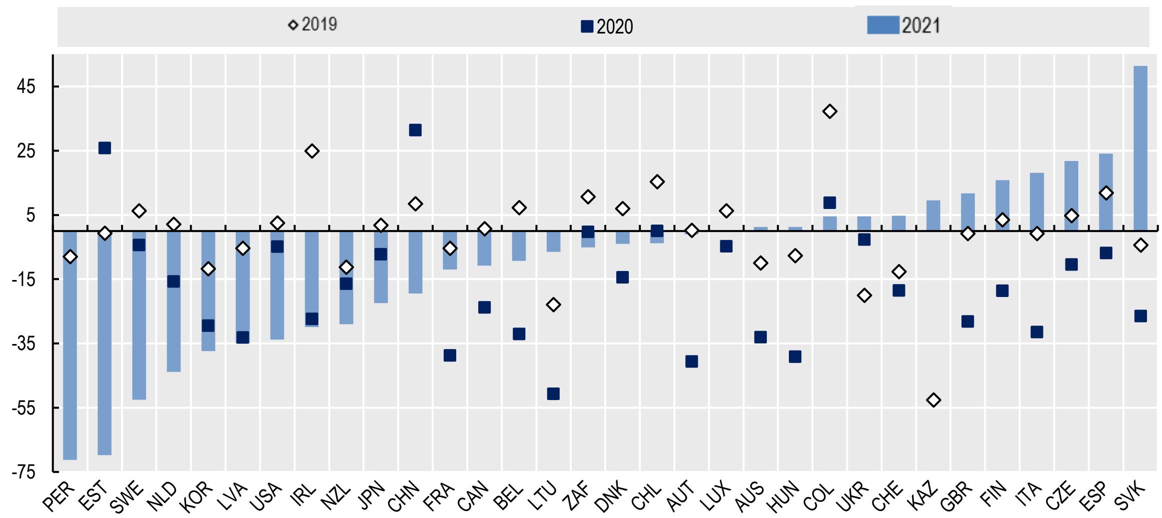
In 2020, bankruptcies declined in most Scoreboard countries, as a result of unprecedented financial support provided to SMEs, as well as changes in bankruptcy procedures and requirements that allowed insolvent SMEs more time to recover (OECD, 2022[14]) In 2021, the number of bankruptcies started to increase in some countries after registering record lows in 2020. In 2021, 12 out of 32 countries for which data are available registered an increase in bankruptcy rates, while in 2020 only 5 out of 32 countries saw their bankruptcies increase despite the crisis. In 2021, the highest increases in bankruptcies were registered in the Slovak Republic (+51%), Spain (+24%) the Czech Republic (+22%), and Italy (+18%), where financing support schemes have been phased out and court activities and procedures resumed. However, in the case of Italy and Spain, while bankruptcies are on the rise, firm closures remain low compared to the average pre-pandemic levels. As documented in the 2022 Scoreboard, in 2020 the COVID-19 related measures, which included changes in bankruptcy procedures, moratoria to file for bankruptcy, pauses in court activity and unprecedented financial support provided to SMEs, contributed to a sharp and sometimes historic decline in bankruptcies in many countries.

In 2021, despite the increase in bankruptcies in some countries, the Scoreboard median declined by 10%, with 20 out of 32 economies registering declines in bankruptcies. This can be explained by a significant rebound in consumer demand, which fed business activity in 2021. The countries that saw the largest decline in bankruptcies were Peru (-71%), Estonia (-70%), Sweden (-52%) and the Netherlands (-44%).

[11] According to the European Commission, late payments are a factor in a quarter of SME bankruptcies (European Commission, 2023[52]).

Figure 25. SME bankruptcies, growth rate

As a percentage



Source: Data compiled from the individual country Scoreboards.

In 2023, bankruptcies are expected to increase, in part due to high levels of inflation, high energy prices and supply chain disruptions. In France, bankruptcies for small companies increased by 86% and medium companies by 67% between November 2021 and November 2022 (Banque de France, 2022[54]). In the United Kingdom, the Creditors' Voluntary Liquidation (CVL), typically used by small businesses, grew 30% between Q3 2021 and Q3 2022[12] (The UK Insolvency Service, 2022[55]). Survey data from the United Kingdom indicates that persistent high energy prices, rising costs of raw materials and supply chain disruptions are contributing factors of the high insolvency rate (Office of National Statistics, 2022[56]). In the United States, the small business bankruptcy filings known as subchapter V, registered a marked increase in Q1, and continued to increase through Q3 2022; in fact, in September 2022, small business bankruptcies had the highest y-o-y increase compared to other firm sizes (Scaringlaw, 2022[57]). However, in the case of the United States, the large-scale increase was also attributed to a reduction of the debt limit that businesses could file under subchapter V (Reuters, 2022[58]).

Non-performing loans (NPLs)

NPLs are overall more prevalent among SMEs than in the general business population. However, the long-term trend shows that since the 2008 crisis, NPLs have declined both for all companies and for SMEs. The decline in the share of NPLs in both groups of companies is more marked in 2021, with the median value of SME NPLs passing from 4.6% in 2020 to 3.3% in 2021, and the median in all companies passing from 2.8% in 2020 to 1.9% in 2021.

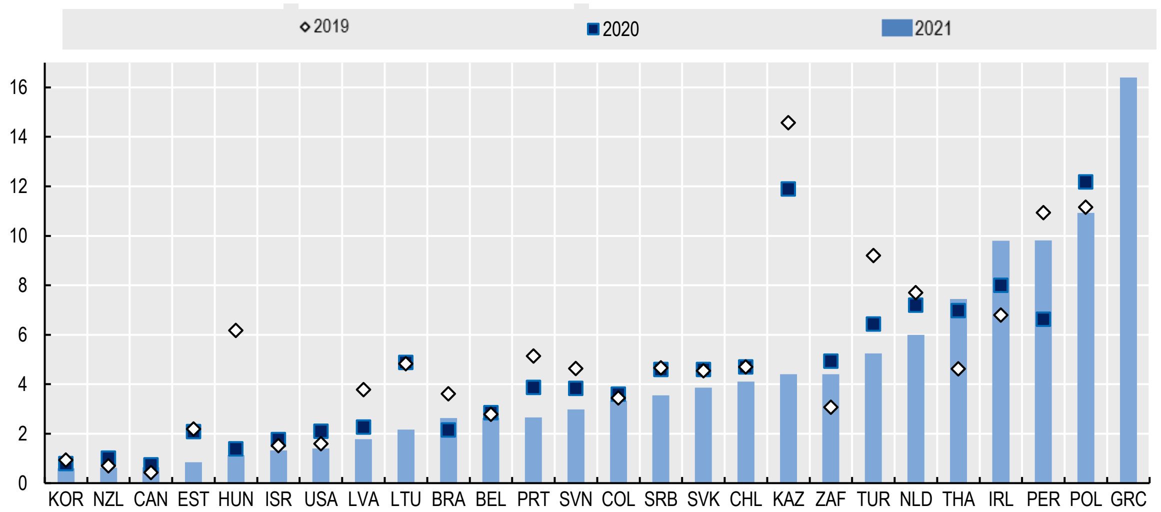
Looking at the growth rates of SME non-performing loans by country between 2020 and 2021, the negative trend is clear. From the 27 countries that provided data for this indicator, 23 show a decline. Although the decline is slight in most of the countries (most of them declined less than 1.20 p.p.), there are some countries that registered marked declines, such as Greece (-12 p.p.), Kazakhstan (-7.5 p.p.), and Lithuania (-3 p.p.). The decline in Greece is a continuation of the trend registered between 2019 and 2020. Under

[12] In Q2 2022, the number of CVLs remained close to the highest quarterly level since the start of the series in 1960 (The UK Insolvency Service, 2022[55]).

the “Hercules” asset-protection scheme (introduced in 2019 and extended in 2021), NPLs are moved from banks’ balance sheets and sold to private investors with a guarantee from the state (OECD, 2022[14]). In Kazakhstan the decline can be explained by tightening banking regulation, which caused some banks with high NPLs in their portfolio to be liquidated in Q1 2021 (Kapital.kz, 2022[59]). More generally, the recent decline in NPLs across the Scoreboard countries is also linked to the pervasive nature of government-supported loans during the COVID-19 crisis, as these loans often came with generous conditions, such as very low interest rates and favourable repayment terms.

Figure 26. NPL rates for SMEs, 2020-21

As a percentage of all SME loans



Note: Due to the graph scale, data from 2019 and 2020 for Greece on NPL rates is not visible. NPLs in Greece stood at 36% in 2019, 28% in 2020 and 16.4% in 2021.
Source: Data compiled from the individual country Scoreboards.

In 2023, non-performing loans are expected to rise. Default volumes on leveraged loans and high-yield bonds in the United States in June 2022 were already three times higher than in mid-2021 (FitchRatings, 2022[12]). Survey data in Europe show that 6% of firms encountered difficulties in running their businesses and service their debts in the last six months (ECB, 2022[35]).

Evolution of government policy responses

The policy landscape to support SME finance changed significantly since 2020 with the COVID-19 crisis. In 2020, governments acted swiftly to support SMEs, as they were the most vulnerable corporate segment within the business population. Measures to maintain liquidity (deferrals of payments, wage subsidy schemes and debt moratoria) were rapidly put in place. Countercyclical measures such as credit guarantees and direct loans were also a crucial part in the policy mix. In 2021, however, as most economies began to recover and consumer demand rebounded, the policy mix gradually changed. In 2022, as economies faced a new set of adverse shocks from the war in Ukraine, financial support was increasingly targeted to support distressed firms, but also to achieve more structural policy goals such as the climate agenda. For example, credit guarantees were extended in many countries, but were increasingly targeted to specific sectors in distress or contingent on the achievement of environmental objectives. This evolution led to a natural decline in guarantee activity from the unprecedented performance in 2020. Similarly, direct government loans showed positive but weak growth compared to 2020. Debt restructuring schemes, as well as policies that facilitate the growth of digital alternative finance, are also increasingly being used to support SMEs.

Furthermore, in 2022, some governments implemented new measures to address increasing payment delays, along with financial support to help SMEs weather the energy crisis. Other ongoing measures have sought to address the rise in non-performing loans by increasing SME repayment capacity, as well as to enhance regulatory transparency in the financial sector.

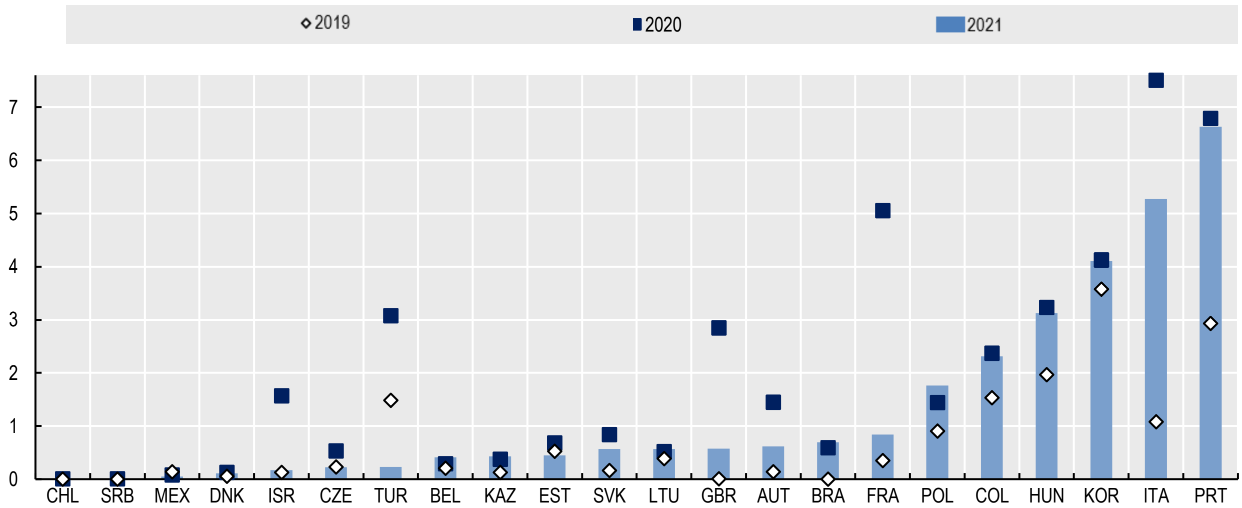
Credit guarantees continue to be an important instrument to support SMEs, and are increasingly targeted to reach specific sectors and objectives

As indicated in the 2022 Scoreboard, in the first half of 2021 a number of credit guarantee schemes were maintained as a tool to foster the flow of credit. Thanks to their risk-mitigating mechanism, this type of support proved valuable in 2020 to reach a wide range of SMEs in distress. Given their effectiveness in channelling public support to hard-to-reach firms or firms with inherent riskier profiles, many schemes were extended in 2021, but they were also increasingly targeted using specific eligibility criteria. This meant that compared to 2020, the amount of support that they provided declined.

The Scoreboard median of government guaranteed loans, for instance, declined (-16%) compared to the annual increase of 115% in 2020. Figure 27 shows that in 2020, 21 out of 22 countries increased the volumes of government guaranteed loans, while in 2021, 17 out of the 22 countries registered a decline, and only 5 countries continue to increase, albeit in a lower magnitude compared to 2020. Nonetheless, in the case of Italy and Portugal levels are 4 p.p. above pre-pandemic levels and 1.15 p.p. in Hungary. These developments are also in line with information of Guarantee Associations. In Europe, for example, the volume of outstanding guarantees tripled in 2020, and in 2021 it declined by 6% (AECM, 2022[60]). Other countries however, like France and the United Kingdom showed large declines in 2021 compared to 2020 and are almost back to pre-pandemic levels (Figure 27).

Figure 27. Government guaranteed loan volumes by country

As a percent of GDP

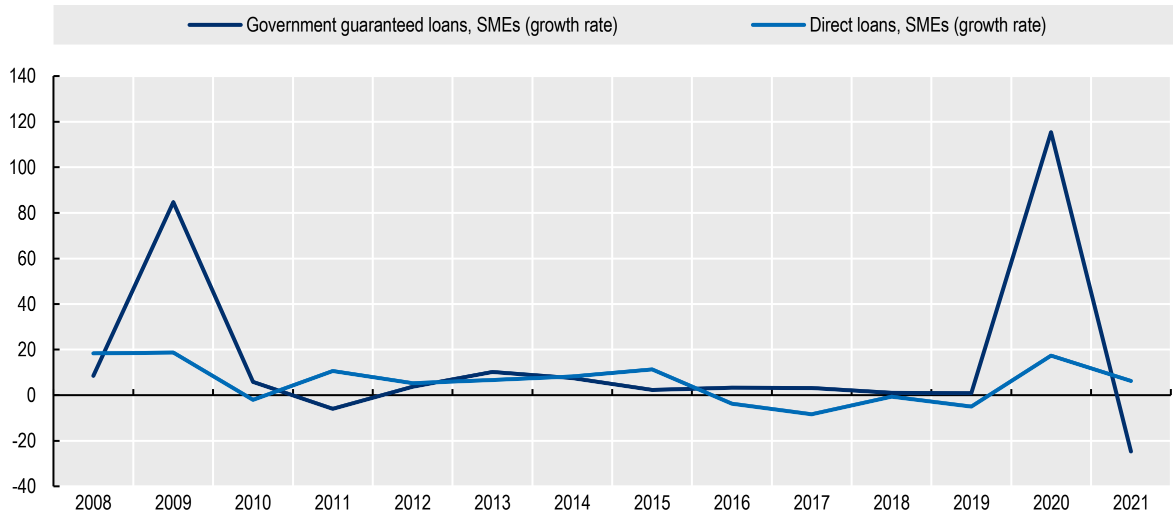


Source: Data compiled from the individual country Scoreboards.

A more targeted use of favourable conditions offered by public credit guarantees in 2021 is in line with the counter-cyclical nature of this policy tool. In 2021, as a number of countries started to recover from the effects of the COVID-19 pandemic, with consumer demand rebounding, and corporate liquidity positions improving in 2021, the activity of credit guarantees followed a pattern similar to the one seen in the years after the great financial crisis (GFC). Figure 28 shows a sharp increase of government credit guarantees in the 2008 GFC, followed by a decline in 2010 and then a relatively stable low-scale growth for 9 years, until the outbreak of the COVID-19 pandemic in 2020. (OECD, 2020[61]).

Figure 28. Trends in guaranteed loans for SMEs between 2008 and 2021

Year-on-year growth, Scoreboard median, as a percentage



Source: Data compiled from the individual country Scoreboards.

In terms of targeting, two key areas were a focus in 2021: the first relates to supporting companies operating in sectors that continue to be in distress (e.g. hospitality, cultural, and tourism), and second, companies whose business models are inherently riskier and that aim to contribute in achieving climate objectives.

Countries that have implemented criteria to help companies in sectors in distress as a result of the COVID-19 crisis include Argentina, Denmark, Finland, France, Hungary, Italy, Iceland, Norway and the Slovak Republic, South Korea, Sweden and the United Kingdom. Some of these countries required proof of viability prior to the crisis in order to ensure optimal allocation of resources, while at the same time offering generous coverage of guarantee or amount of support (OECD, 2022[14]). In the United Kingdom, the Recovery Loan Scheme (RLS), launched in April 2021, which included an 80% government-backed guarantee, targets only viable firms in distress, explaining the decline in 2021 (the guarantee subsequently changed to 70% in January 2022). The RLS requires the business to not be in collective insolvency proceedings, and to show it would be viable if not for the pandemic. In addition, the SME needs to have a borrower proposal considered viable by the lender (British Business Bank, 2022[13]).

The second target of credit guarantees focused on environmental objectives, in line with the importance of the environmental agenda and the goal of reaching net zero by 2050 as an overarching objective in many recovery packages. Although some of these credit guarantee schemes (so-called green credit guarantees) existed prior to the COVID-19 crisis, the number increased during the recovery, as an important mechanism to mobilise sustainable and green finance for SMEs. Countries that have implemented such guarantees include Bulgaria, Italy, Mexico, the Slovak Republic, South Korea and Sweden, among others.

Some of these guarantees follow the criteria of broader regulation that categorises economic activities according to climate objectives, for example the green taxonomies (such as Sweden), while others look to strengthen green practices in particular sectors (Bulgaria, Mexico, South Korea) (OECD, 2022[62]).

In 2022, other sectors have become more vulnerable in the context of the energy crisis such as textile, paper products, chemicals, steelmaking, and cement. As a result, SMEs in these sectors are becoming the focus of public support, including credit guarantees. For example, in Spain, under the National Response Plan launched in March 2022, the government approved EUR 10 billion in new credit guarantees with a grace period of 12 months to ensure companies have enough liquidity to compensate for rising prices of gas and electricity. In Italy, as of Q3 2022, companies will have access to loans with low interest rates and guarantees by the government at no cost (OECD, forthcoming[63]). In Ireland, in October 2022, the government pass legislation to unlock EUR 1.2 billion in low-cost loans to SMEs and mid-caps helping them to overcome input costs under the Ukraine Credit Guarantee Scheme (Bank of Ireland, 2022[64]).

The use of direct government loans continued in 2021 and 2022

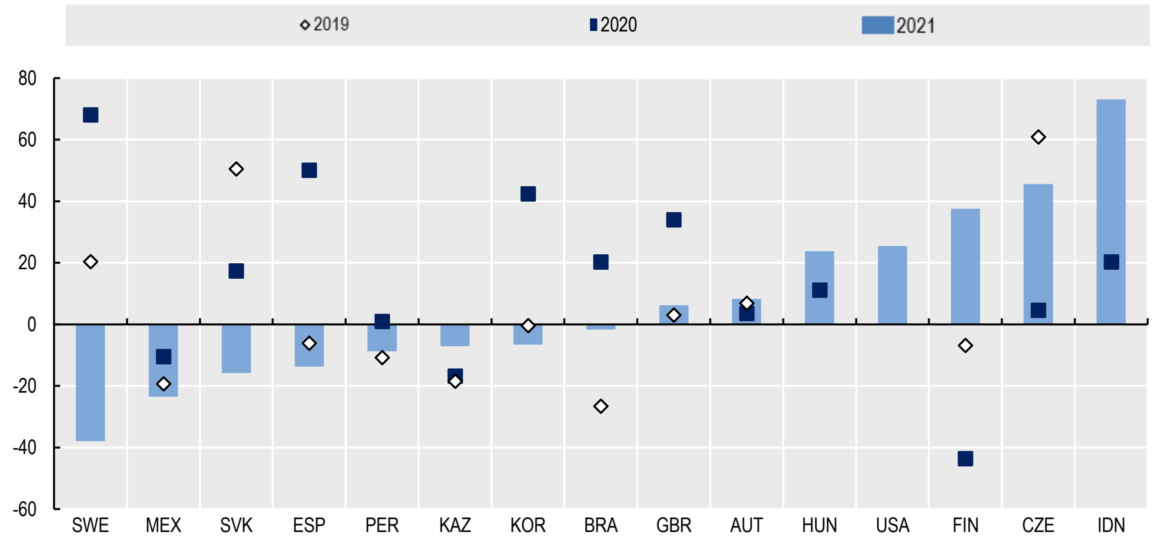
In 2021, the growth in direct government loans was positive (+6%) although weaker compared to 2020 (+17%). Unlike credit guarantees, the use of this policy tool does not generally show a sharp increase in times of crisis; however, growth does tend to be positive in times of crisis (Figure 28). Looking by country in 2021, almost half of the countries (8 out of 14) that provided data for this indicator registered a decline, including those countries which registered high growth in this indicator the previous year (e.g. Sweden, Spain, and the Slovak Republic).

In other countries, support through direct loans was pursued or even intensified in 2021. In Indonesia the Kredit Usaha Rakyat (KUR) programme was revised in 2021, increasing the amount of government loans to SMEs. Loan ceilings increased for micro companies without requesting additional collateral, and different interest rate subsidies were implemented according to the type of beneficiary (OECD, 2022[14]). In some cases, the continuation of this support is however targeted; for example in Australia, the SME Recovery Loan Scheme, launched in May 2021 and extended until the first half of 2022, is only open to companies that passed the Decline in Turnover Test. The aim of the test is to evaluate viability prior to the COVID-19 crisis and ensure that beneficiary companies had a decline in turnover caused solely by the pandemic (Australian Government - The Treasury, 2022[65]).

On the other hand, there are countries that registered a decline in direct lending schemes both in 2020 and in 2021 (e.g. Kazakhstan, Mexico and Peru), which might be explained by limited fiscal space and the deployment of other types of support with a smaller impact on the national budget, such as deferral measures, debt moratoria and credit guarantees.

Figure 29. Direct government loans, growth rate by country

As a percentage



Source: Data compiled from the individual country Scoreboards.

Looking ahead, in a context of high inflation and rising energy prices, direct loans to SMEs can be expected to continue to grow. In a number of countries, loan schemes have been implemented recently to help SMEs overcome the increased costs of energy. For example, Germany's public development bank (KfW) has put in place a loan programme to offer short-term liquidity to, among others, companies in energy-intensive sectors (i.e. minimum 3% of energy costs as a share of their turnover in 2021). Under the programme, companies can benefit from loans of up to EUR 100 million per company and 80% of government-backed guarantee (OECD, forthcoming[63]). In July 2022 the Hungarian government implemented the Széchenyi Energy Card, which provided short-term loans at favourable interest rates to businesses affected by the energy crisis. In January 2023 the policy was renewed to Széchenyi Card MAX+ and included broader support for SMEs to expand their capacity, implement plans for energy and resource efficiency, and use renewable energy sources. Support is provided in the form of debt through loans of up to 500 million HUF, with favourable repayment terms including a grace period of maximum 2 years and a 5% annual net transaction interest rate.

Policies to assist SMEs in managing their debt are on the rise

Since the start of the pandemic, governments deployed large-scale support mainly in the form of debt finance to ease SME liquidity constraints. Evidence on loan repayments show that a portion of SMEs were able to repay their loans fully or partially in 2021. In France 15% of loans contracted through the Public Credit Guarantee have been fully repaid (Bpifrance, 2022[66]). In the United Kingdom, as of Q3 2021, 4% of Bounce Back Loan Scheme and Coronavirus Business interruption Loan Scheme, and 6% of the total loan value had already been repaid in full (British Business Bank, 2022[13]).

However, many SMEs continue to be highly leveraged, with rising energy bills and prices of raw materials exacerbating the situation. This is particularly acute for companies that have used a large portion of the loans they requested and haven't been able to recover to meet their debt obligations[13].

As such, a number of countries are providing support to SMEs to manage or restructure their debts in light of the rise in prices of energy and raw materials. In France, after an agreement between the Ministry of Economy, the Central Bank and the French Banking Federation, most vulnerable companies that have benefit from state-backed guaranteed loans lower than EUR 50,000 will have access to mediation schemes to extend the repayment from 6 to 10 years as well as a 18 month deferral period (October, 2022[67]). In Germany, temporary simplifications in insolvency law were adopted and will apply until 31 December 2023. In particular, over-indebted companies do not have to file for insolvency if the continuation of the company is sufficiently secured for at least four months. In addition, the deadline for filing for insolvency due to over-indebtedness was increased from six to eight weeks, in order to give companies more time for restructuring efforts. In Japan, the SME Restructuring Guidelines became effective in April 2022, they are based in out-of-court workout framework and includes specific flexibilities for SMEs, such as fewer requirements for restructuring plans and subsidies for expert costs (Centre for Commercial Law in Asia, 2022[68]).

In parallel, in response to an expected increase in NPLs, some regulators are working towards creating standardization and more transparency in the requirements of sales and transfers of NPLs. For example, in December 2022, the European Banking Authority introduced the Implementing Technical Standards (ITS) which defined the information requirements that credit institutions selling NPLs have to provide to prospective buyers. This would reduce information asymmetries by enabling a common data standard and cross-country comparison among EU members (European Banking Authority, 2022[69]).

Digital alternative finance is emerging as a solution for SME finance in the face of tighter lending conditions

Digital alternative finance is increasingly emerging as a solution for many SMEs as they face tighter lending terms and conditions from traditional lenders. This is particularly the case in countries where rising interest rates and risk aversion from traditional banks can hinder SME access to traditional banking. In Chile, Fintech are increasingly involved in the development of SMEs, helping them bridge liquidity shortages by providing easier access to finance. In 2021, 71% of Fintech in Chile offered solutions to underbanked SMEs (Finnovista, 2021[70]). In Colombia, evidence shows that Fintech are increasing their offer for SME lending, and as of 2022 the sector experienced the largest number of Fintech companies emerging in Latin America (APEC, 2022[71]). In Indonesia, in 2020, at least 54% of borrowers of P2P pending were SMEs, helping SMEs qualify for bigger bank loans in a later stage (Suryanto, Rusdin and Dai, 2020[72]).

As such, a number of countries have implemented policies to facilitate Fintech growth. In Chile, the Fintech Bill submitted to congress in September 2021 aims for proportional regulation for crowdfunding platforms that provide loans and capital to SMEs. In addition, the benefits will include "minibonds" as self-registration debt instruments that SMEs can issue in the capital market (Garrigues, 2022[73]). In Colombia, in late 2020, the national financial regulator put forward the creation of the Regulatory Sandbox and the amendments to the financial system regulatory framework to accommodate new technological trends in payments (Fintech Colombia, 2021[74]). Furthermore, in April 2022, the government launched the "Financing for All" bill, with the objective to speed and ease SME access to small loans. The law also promotes digital alternative sources to analyse credit profiles and also makes more flexible the licences of financial and

[13] Survey data from France show SMEs indicating a clear deterioration in their cash flow over Q3 2022 and expect further deterioration, 78% of state guarantee beneficiaries indicated that they would amortize their loan over several years, and 7% will be unable to repay (Bpifrance, 2022[66]). Similarly, in the United Kingdom, as of the first half of 2022, 7% of SMEs expressed concern about being able to repay finance over the next 12 months (BVA BDRC, 2022[80]) and insolvencies increased by 13% between April and June 2022, the highest quarterly figure since the start of the data series in 1960 (UK Government Insolvency Service, 2022[81]).

capital actors so SME can access capital market finance through crowdfunding (Portafolio, 2022[75]). In Indonesia, the Digital Finance Innovation Road Map launched by the Financial Service Authority (OJK), complements the regulatory sandbox, and allows testing of upcoming regulations on a wide range of loan products to SMEs (OJK, 2020[76]). These developments are in line with the 2022 Updated High-Level Principles on SME Financing, which include a dedicated principle on the importance of leveraging the role of Fintech for SME financing, as it can help to advance diversification, reach underserved market segments and regions, and increase competition among providers of financial services (OECD, 2022[77]). The G20 Global Partnership for Financial Inclusion (GPFI) has also developed important work to advance in this area, including the Implementation Framework for the G20 High Level Principles on Digital Financial Inclusion, the G20 Database on digital financial products and services for MSMEs, and the Regulatory Toolkit for MSMEs Access to Digital Financial Services (GPFI, 2022[78]).

Looking ahead, continued efforts are needed to increase the resilience of SMEs and SME financing in the face of new challenges

In 2020 and 2021, SME finance policy developments were mainly shaped by the COVID-19 pandemic. Going forward, the policy landscape needs to respond both to structural issues and to a set of new challenges negatively impacting the trajectory of SMEs' recovery, and in some cases threatening their survival. High inflation and energy prices, and the phasing out of some public support in the context of already fragile liquidity positions, are hampering SMEs' capacity to invest. In addition to continued targeted support, strengthening the resilience of SME financing will help SMEs be better prepared for future shocks, while easing the burden of support by governments. Efforts to foster continued diversification of financing instruments, sources and channels will be particularly important in this regard.

Alternative finance sources and instruments, including through digital channels, can make an important contribution to ensuring SME access to finance at affordable conditions, at a moment when many SMEs are over-indebted and there is large market uncertainty. Likewise, greater access to and uptake of sustainable finance by SMEs can enable them to undertake the investments needed to accelerate their transition to net zero (OECD, 2022[62]). The 2022 Updated G20/OECD High-Level Principles on SME Financing provide important guidance in this regard (OECD, 2022[77]).

In the context of continued volatile and uncertain conditions, this Scoreboard will continue to monitor developments in the SME financing and policy landscape, to support governments in developing financing policies that can ensure SMEs and entrepreneurs become more resilient and contribute to an inclusive and sustainable recovery.

Annex A. Methodological advances and recommendations for data improvements

There have been important methodological and structural improvements in recent editions of this report. Since June 2016, the Scoreboard data are available on the OECD.Stat website. Data on core indicators can be consulted, downloaded and put to further use, thereby addressing a longstanding demand to improve access to the data, and exposure of the publication to a wider audience. Furthermore, more detailed information regarding the sources and definitions of core indicators have been provided for participating countries, which is included both in OECD.Stat and in the country profiles that are published every two years. In addition, more information is provided on the uptake of financial instruments other than straight debt, and further endeavours will be undertaken in this area for future editions of the publication.

What's more, the Scoreboard has recently started to collect disaggregated data on SME and entrepreneurship finance and financing conditions, with this 2023 Scoreboard Highlights, being the first edition to present the first early findings. These efforts, apart from being in line with the 2022 Updated High-Level Principles on SME Financing, is a crucial improvement for the Scoreboard, considering the significant heterogeneity of the SME population and the impact that these underlying characteristics have on access to finance and financing conditions. Based on the results of a survey among country experts four dimensions are being explored to be included in future editions of the publication: sector of operation, firm size, gender of principal owner and geographical location. On the latter two dimensions data collection and related analysis has started, and efforts to improve country and time coverage are continuously being pursued. In particular, more efforts are needed on the collection of gender disaggregated data, as few countries appear to be collecting this information, and which policy relevance is enormous considering the well documented barriers of women SME owners to access finance. In this context, the OECD is also collaborating with other international initiatives which seeks to strengthen information on access to finance by women-owned businesses.

The collection of the two other dimensions (i.e. sector of operation and firm size) is foreseen to be incorporated in the near future. Overall, the incorporation of these dimensions will provide a better understanding of SME and entrepreneurship finance trends, would significantly continue to strengthen the usefulness of the Scoreboard, contribute to a better understanding of the heterogeneity of SME segments, enrich the evidence base and support policy efforts focused on SME and entrepreneurship financing.

Finally, efforts are ongoing to increase the coverage of participating countries including in regions that today are partially covered, and to harmonise the data from already participating countries.

A summary of recommendations to further improve data collection and reporting of core indicators are outlined in Box A.1. Actions in these areas can enable countries to progress in the harmonisation of definitions and facilitate inter-temporal and cross-country analysis of trends in SME and entrepreneurship finance.

Box A.1. Recommendations for improving the reporting of core indicators

1. ***Improve reporting of SME loan variables by:***

- Systematically separating reporting of financial information for non-employer and employer-firms;
- Providing both stock and flow data for SME loans;
- Detailing the loan composition, indicating the different underlying products (e.g. overdrafts / lines of credit / leases / business mortgages or credit cards / securitised loans), and disclose such elements in the loan definition.

2. ***Fill gaps in available data and work towards more comprehensive information for other core indicators in the Scoreboard, including:***

- Offer more comprehensive information on government programmes that ease SME access to finance:
  - In the context of build back better and greening packages, provide information on new or expanded government schemes, including information on eligibility criteria and duration, and if possible, amount of total funding allocated to those schemes. Provide the same information for the specific countries experiencing high energy costs and launching financing schemes for SMEs.
  - Specify the figures that can be attributed to recovery packages (e.g. new government guarantee schemes, new lines of direct lending) or schemes that have specific policy objectives (e.g. green transition) in the reporting of Scoreboard indicators.
- Provide data on non-performing loans for SMEs and for large firms, the latter to be used as a benchmark;
- Provide more comprehensive data on venture capital investments, including trends by stage and sector;
- Compile SME-specific information on the uptake and use of asset-based finance (versus other beneficiaries);
- Collect information on SME loan fees, in addition to interest applied on the loans;
- Detail the definition of collateral and improve reporting, using demand-side surveys to compensate for lack of supply-side data;
- Advance efforts to collect more disaggregated data on the Scoreboard core indicators, notably by gender of principal owner and geographical location.
  - On the collection of gender-disaggregated data, provide figures distinguishing between firms that are primarily owned (not managed) by women (e.g. 51% owned by women), firms primarily owned by men, and "dual-owned".
  - On the collection of subnational level data, provide figures at the TL2 level.

3. ***Work to improve data collection on additional non-bank financing instruments, such as online alternative finance, as well as to provide more comprehensive data on alternative sources of equity financing, including business angel investments, with a view to incorporating this information in the set of core indicators in the future.***

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