Evolution and Trends in SME Finance Policies since the Global Financial Crisis

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This document contains a report on the evolution and trends in SME finance policies since the global financial crisis, based on work undertaken by the OECD Working Party on SMEs and Entrepreneurship.

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1. Introduction

1. This report focuses on the major changes in the SME finance environment since the financial crisis, along with the principal policy and regulatory responses. It first analyses the most important counter-cyclical instruments used in the immediate aftermath of the crisis, such as credit guarantees and direct lending. It then moves to the policy approaches that gained traction in the early recovery years and remained in the policy mix in most jurisdictions in later years. Initiatives related to equity and asset-based finance, digitalisation of financial services, tackling payment delays, and strengthening the financial acumen of entrepreneurs and business managers are analysed, drawing from policy cases from OECD reports and from the exercise undertaken to develop G20/OECD Effective Approaches for Implementing the G20/OECD High-Level Principles on SME Financing (Koreen, Laboul and Smaini, 2018[1]).

2. Finally, the report provides a concise overview of recent policy developments to ease SMEs' access to finance as a response to the economic crisis caused by the COVID-19 pandemic, in which SMEs have been affected disproportionately. Many of them are under significant cash flow pressure due to declines in revenues and limited cash reserves, and are at risk of bankruptcy. As in the period following the financial crisis, governments across the world have taken decisive action to cushion the blow for SMEs in need of finance. The immediate, short-term policy focus was on providing liquidity support to businesses that face short-term cash-flow shortages. Other types of support, such as equity finance and funding for start-ups, have been incorporated in subsequent measures.[1] The paper draws relevant parallels between economic crisis brought on by COVID-19 and the crisis of 2007-08.

3. This report has been prepared in the context of the G20 Saudi Presidency to inform policy discussions taking place in the framework of the International Financial Architecture Working Group (IFAWG) on promoting the development of domestic capital markets to support growth and enhance financial resilience. The key messages and policy issues in the report will be presented for the consideration of G20 members at the upcoming meeting of the IFAWG on 24 June 2020. The analysis of the related challenges that SMEs faced during the crisis of 2007-08 and the current COVID-19 crisis can contribute to inform the efforts of G20 countries in implementing the most effective measures to provide the targeted liquidity and funding support to SMEs, in line with the G20 Finance Ministers and Central Bank Governors' Action Plan endorsed on 15April 2020.

2. Overview

4. In the aftermath of the global financial crisis of 2007-08, countries around the world took decisive action to counter the impact of the recession on a broad segment of the SME population. These measures were accompanied by financial reforms to strengthen banks' resilience, such as the Basel III framework, which introduced new minimal capital requirements and designed new rules for liquidity management. The crisis had a strong immediate impact, especially among high-income countries. Data for a group of 48 countries, covered in the OECD annual report on *Financing SMEs and Entrepreneurs*: *An OECD Scoreboard*[1] shows that bankruptcies grew strongly year-on-year from 2007, peaking at a 22.14% median growth in 2009. Only in 2012 did the median growth in bankruptcies start decreasing again.

5. Small businesses were hit particularly hard by the recession, with the share of SMEs in total business lending flows falling to 19.7% in 2009, against 25.6% in 2007 (in median terms). In Italy and South Africa, the outstanding stock of SME loans declined by 6% and 20% respectively between 2008 and 2012. In Portugal, new lending in 2012, adjusted for inflation, stood at just 42% of 2007 volumes. In the United States, the Small Business Lending Index (SBLI), which measures the volume of new loans normalised to the base year of 2005, fell from 118.7 in 2007 to 73.7 in 2009. That same year, non-performing loans reached their highest mark for both SMEs and total business loans in the United States.

6. Venture capital investments also fell significantly in the aftermath of the crisis, reaching their lowest levels in 2011 at 0.025% of GDP (median value), against 0.043% of GDP in 2007 among participating countries (OECD, 2019[2]).

7. Recovery came at a slow pace in many advanced economies. Pre-crisis levels of output have not yet been reached in a majority of high-income countries and investment levels are, on average, only at 75% of pre-crisis levels (Chen, Mrkaic and Nabar, 2019[3]).

8. Low-income countries tended to be less impacted by the global financial crisis. This is because often their financial systems may be less integrated in the global financial markets, and less complex.

9. Some middle income countries, however, faced a credit crunch in the aftermath of the financial crisis (World Bank, 2019[4]). As the global banking system deleveraged and capital flows were often redirected to "safe havens," a number of emerging markets faced capital shortages and a sharp devaluation in their national currency. In addition, many emerging economies were hit through shrinking remittances, declines in exports, low commodity prices and other second-round effects. In South Africa, for instance, the financial crisis tipped the country into a recession in 2008, for the first time in 19 years, with profound consequences on SMEs in need of finance (Rena and Msoni, 2014[5]).

10. Policy responses to the crisis were significant and across a range of areas. National governments undertook strong action particularly regarding SME access to finance, which remains a policy priority to foster economic growth and well-being. In the 2009-12 period, many governments set up or expanded direct lending and guarantee schemes, as well as

[1] OECD (2020), Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard, OECD Publishing, Paris, https://doi.org/10.1787/061fe03d-en.

credit mediation and other measures to ease SME access to credit, as a response to the drastic reduction in lending activities in the private financial sector.

11. While these measures largely remained in place in later years, the emphasis of policies as a whole shifted as the recovery took hold. Generally, equity instruments gained more attention as the crisis subsided, and credit measures (credit guarantees, direct loans) were increasingly targeted to specific subgroups of the SME population (innovative firms, women entrepreneurs, start-ups, etc.). This marked a shifting focus, from cyclical issues to more longstanding structural issues in SME access to finance.

12. Policy developments are increasingly shaped by megatrends such as globalisation, digitalisation and ageing. Digitalisation in particular offers new opportunities, but also challenges, both for policy makers and for SMEs seeking finance. Fintech, defined as technology-enabled innovation in financial services, is becoming more and more important in easing SMEs' access to finance. It is also ensuring financial inclusion for some segments of the SME population that are traditionally unserved or underserved by financial institutions and markets (OECD, 2019[6]).

13. Using technologies such as digital ID verification, distributed ledger technologies (DLT), big data and marketplace lending, new suppliers are offering an array of innovative services with the potential to revolutionise SME finance markets. Mobile banking, (international) mobile payments and the use of alternative data for credit risk assessment can significantly reduce information asymmetries and transaction costs, tackling structural barriers SMEs face when accessing finance. Fintech will likely become a more central feature in the range of SME financing options in the coming years.

14. Generally, incumbents in the financial sector are adopting techniques and instruments introduced by Fintech, blended models are emerging, and "Big tech firms" (such as Amazon or Alibaba) are entering the financial services realm (OECD, 2019[6]).

15. Table 1 summarises general trends in SME finance policy and describes development in terms of the types of policies introduced to support debt and equity, target beneficiaries, and relevant regulatory measures and approaches.

Table 1. Overview of the evolution in SME finance policies

Characteristic	Aftermath of the crisis	Recent years
Target beneficiaries	Broad SME population	Subgroups of the SME population: innovative firms, start-ups, lagging regions, women
Support for debt financing	Strong increase in credit guarantee volumes Direct lending Credit mediation	More focus on the delivery and eligibility criteria of support measures Creation of SME banks
Support for equity financing	Equity instruments were kept largely in place	Tax incentives Establishment of funds/funds of funds SME bank activities
Regulatory measures	Emphasis on financial stability Supply-side regulation (bank capital requirements)	Regulation of Fintech industry Emergence of regulatory sandboxes

Source: OECD, *Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard*.

3. Policy action in the aftermath of the global financial crisis (2008-2012)

16. The global financial crisis was one of the most severe crises to hit the global economy since the Great Depression. The underlying banking crisis resulted in a sovereign debt crisis and a recession across many countries, which prompted governments to take strong action.

17. As a result of the financial meltdown of 2008, 91 economies worth two-thirds of the global GDP in purchasing-power-parity faced a decline in output the following year (Chen, Mrkaic and Nabar, 2019[3]). GDP contracted 0.1% globally and 3.3% in advanced economies in 2009 (IMF, 2019[7]). In G20 economies as a whole, GDP growth turned negative in Q4 2008, and reached a low point of 2.4% in Q1 2009[2]. Moreover, the crisis gave rise to a "credit crunch", whereby credit became scarce and credit standards tightened significantly, making access to bank finance for SMEs more difficult (OECD, 2012[8]).

18. In 2008-09, loan rejection rates increased significantly in many countries, while application rates often decreased. The share of SME loans among all business loans dipped well below the SME contribution to national income and employment (OECD, 2012[8]). Meanwhile, insolvencies increased and SMEs' ability to self-finance shrank significantly.

3.1. Support to stimulate debt financing increased significantly in the immediate aftermath of the financial crisis

19. As early as 2008, policy makers turned to different tools in order to counter the effects of the recession (OECD, 2010[9]). This included primarily the creation and expansion of existing credit guarantee schemes (CGSs) and direct lending programmes. These policy instruments grew in importance immediately post-crisis, both in terms of the number of schemes in operation and in terms of guaranteed volumes of schemes already in place. The coverage rates of guarantees also increased. Guaranteed volumes continued to grow at moderate rates after 2009, sometimes evolving into more targeted programmes after 2012.

20. In the immediate years after the crisis, many measures were not targeted to a specific sector or firm segment, but concerned the bulk of the SME population, or even the business population at large.

21. For example, the United Kingdom launched the Enterprise Finance Guarantee (EFG) in 2009, replacing the Small Firm Loan Guarantee Scheme (SFLG), in operation since 1981. The new scheme enlarged the number of eligible firms and increased the upper limit of loans four-fold (to GBP 1 million – USD 1.24 million).[3] The upper limit of the turnover for beneficiaries increased from GBP 5.6 million (USD 6.97 million) to GBP 25 million (USD 31.12 million) and later to GBP 41 million (USD 51.04 million) to address the needs of larger SMEs that were facing increasing difficulties in obtaining finance. The number of loans that were granted under the scheme doubled between the first and the second quarter of 2009, from 1 202 to 2 339 (BBB, 2019[10]).

22. In OECD countries, there was a three-fold increase in the share of guaranteed loans in the total loan stock between the start of the crisis and 2010. Guarantees typically had the specific aim to support counter-cyclical lending to viable SMEs that were facing difficulties accessing credit because of the post-crisis environment, but would be able to secure lending

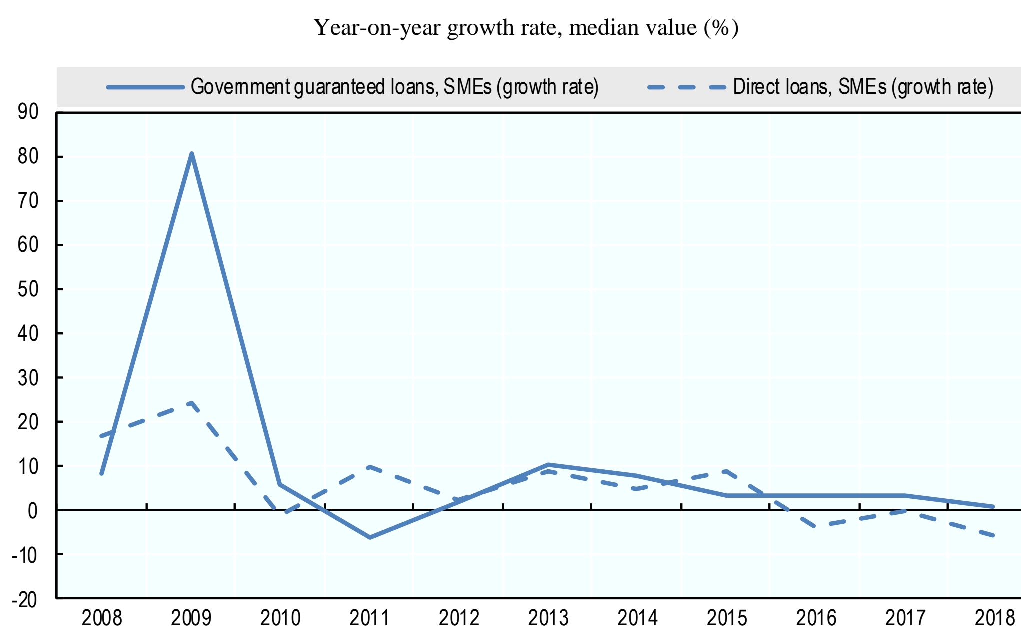
from banks under normal circumstances (Cusmano, 2013[11]). The increase thus sought to satisfy an increased demand for government guarantees.

23. In addition, several countries increased the coverage rates of their guarantees. In France, for instance, Bpifrance, the public development bank, raised its coverage rate to 90% (OECD, 2020[12]). In a few cases, the coverage rate reached 100%. Korea, for example, implemented an "Intensive Rescue Plan" via its credit guarantee fund (KODIT) in 2009. The Plan increased the coverage ratio to 100% and substantially reduced the screening of borrowers (Cusmano, 2013[11]). In Spain, members of CESGAR, the confederation of mutual guarantee societies, Spain also increased the coverage rate to 100%. At the end of October 2008, the Japanese government introduced a new guarantee program, called the Emergency Credit Guarantee Program (ECGP), which covered loans for the full value under specific conditions (OECD, 2020[12]).

24. Mexico is an example of a country that redesigned its credit guarantee programme for SMEs to encourage a wider take-up. The *Nacional Financiera SNC* (NAFIN), Mexico's development bank with a focus on SMEs, adjusted its eligibility criteria, premiums, repayment period and modalities in 2008, contributing to a strong expansion of guaranteed loans ((NAFIM, 2009[13]).

Figure 1. Trends in guaranteed loans and direct government loans for SMEs after the crisis

Year-on-year growth rate, median value (%)



Source: OECD, Financing SMEs and Entrepreneurs: An OECD Scoreboard, 2012-2020.

25. In European countries such as Belgium, France, Germany and Spain, various forms of credit mediation were introduced, with many SMEs eligible to benefit (Cusmano, 2013[11]). Credit mediation schemes were planned to be phased out within a few years but sometimes remained in place, evolving into a longer-term initiative to support SMEs in these countries (Wehinger, 2014[14]). In Germany, the programme was discontinued in 2011, as initially planned. Ireland created a Credit Review Office in 2010, and Spain and the United Kingdom implemented similar facilities in 2011 and 2012 respectively. The

British facility is an independent credit review system that oversees the process of appeal to credit rejection in the largest UK banks.

26. Egypt encouraged banks to lend to SMEs by exempting deposits from the required reserve ratio (i.e. the fraction of deposits that regulators require a bank to hold in reserves) equal to the amount of loans provided to SME clients (Egypt, Ministry of Finance, 2009[15]).

27. Indonesia established its credit guarantee scheme, Kredit Usaha Rakyat, in 2007. Under this scheme, SMEs could access investment and working capital loans at concessional rates. The credit guarantee scheme expanded significantly in its first years, in terms of the number of participating banks and the coverage. In Thailand, the government approved a portfolio guarantee scheme in 2009 to give SMEs in need of finance more breathing room. The Small Business Credit Guarantee Corporation (SBCG) partially guarantees commercial banks' SME loan portfolios. The credit guarantee limit is set at THB 40 billion (USD 1.29 billion) for a period of five years. The fee, at 1.75%, lies substantially below the market rate and is waived for the first year (Tambunan, 2018[16]).

28. A large number of Brazilian firms experienced a credit crunch in the aftermath of the financial crisis, which plunged the economy in a recession in 2009. In response, the government expanded credit through earmarked loans and credit concessions by state-owned banks. Earmarked loans and loans through government-owned banks stood at 48% of GDP at the end of 2012, compared to 34% in September 2008 (Bonomo, Brito and Martins, 2014[17]).

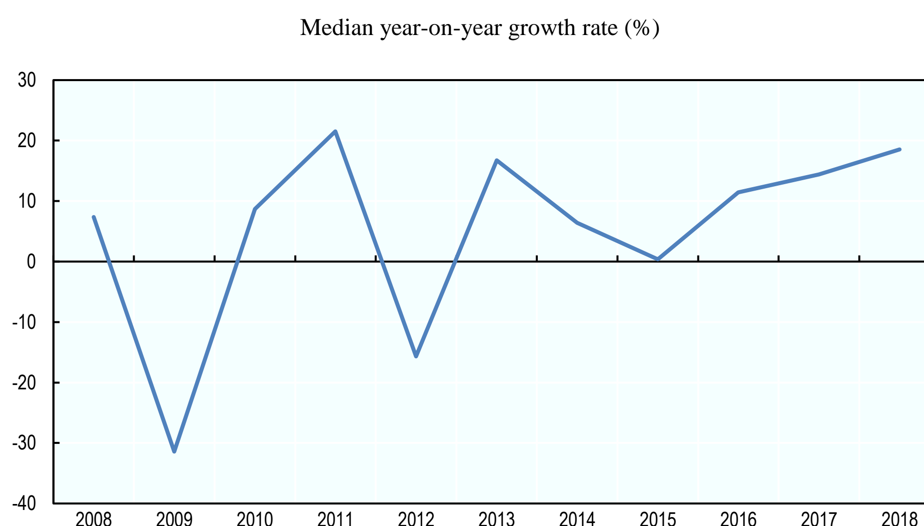
3.2. Equity financing also suffered in the crisis aftermath, but was not the main focus of policy attention in the early post-crisis years

29. In the aftermath of the financial crisis, credit tightening in the financial sector made SMEs' dependence on bank finance increasingly problematic. What is more, alternatives to traditional debt finance, such as venture capital, growth capital and angel investing were affected even more severely by the financial crisis, thus penalising innovative SMEs in need of finance.

30. Figure 2 illustrates the strong decline in growth and venture capital volumes between 2008 and 2010 (OECD, 2015[18]). In 2014, venture capital investment volumes were still below pre-crisis level in most countries under study, often by a wide margin (OECD, 2015[18]). The pro-cyclical nature of private equity instruments is clearly visible in the median year-on-year growth rate, with two strong dips in 2009 and 2012, corresponding to two periods of recession in most countries under study.

Figure 2. Growth capital and venture capital, 2008-18

Median year-on-year growth rate (%)



Note: Data is year-on-year change of current USD volumes, at the exception of Chile, Colombia, China, Indonesia, Malaysia, Mexico, Turkey and Ukraine for which the indicator captures variations of volumes in current local currencies.
Source: OECD Entrepreneurship at a Glance; based on the Entrepreneurship Finance Database, and data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2020 when the information was not otherwise provided.

31. During this period, a number of governments maintained or created new equity support measures, although their focus continued to be on supporting SME access to debt. Sweden, for instance, created a public equity fund in 2009 (*Almi Invest*) and France launched the *Fonds d'investissement stratégique* in 2010. The Netherlands expanded its Growth Facility (GFAC), which offered banks, private equity enterprises and other financiers a 50% guarantee on newly issued equity or mezzanine loans. Canada, Chile, Denmark, Finland, Italy, New Zealand and the United Kingdom also provided assistance to equity financing throughout the crisis years (OECD, 2012[19]).

32. In emerging economies, equity markets for SMEs have historically been small and fragmented. While some emerging markets, such as the Russian Federation, had well-established equity support programmes in place, the majority of initiatives are recent, as is the case in China and Turkey, for instance. Malaysia set up tax incentives for equity investors as early as 2009 and overhauled them in 2014 (OECD, 2020[12]).

3.3. Initial regulatory actions focused on financial sector stability

33. The regulatory environment for SME financing faced major changes in the aftermath of the financial crisis. In the period immediately following the crisis, reforms focused on financial stability through supply-side regulation.

34. The Basel III framework was a central element of the policy response to the global financial crisis. Regulators identified and addressed shortcomings in the pre-crisis framework with the aim to bring more resilience to the banking system and to contain systemic vulnerabilities. A risk based capital ratio, liquidity coverage ratio, leverage ratio and additional macro-prudential requirements for systemically important banks were gradually introduced after the crisis. In light of these changes, the overdependence of SMEs

on bank finance made reforms an important issue for SME finance policy makers in the post-crisis years (OECD, 2012[20]).

35. Initiatives to reduce the likelihood and magnitude of future financial panics were also taken at the national level. For example, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act on 21 July 2010. This Act is considered the largest legislative change to the financial sector since the 1930s in the country (Gyunn, Polk and Wardwell, 2010[21]).

36. Furthermore, in addition to international reforms, many countries took measures to tighten bank supervision and regulation, and to tackle the rapid expansion of non-performing loans. In Spain, for example, this included the creation of FROB (Fund for the Orderly Restructuring of the Banking Sector), which managed the restructuring process of credit institutions in financial distress, the recapitalisation of banks, resulting in some cases in partial or total nationalisation and the creation of asset protection schemes. The country also took measures to strengthen safeguards to minimise the probability and severity of future financial crises. Notable measures included new capital requirements, requirements to improve credit transaction management policies and to reduce non-performance and increased liquidity risk assessment systems. Additional information requirements were put in place on restructured and refinanced loans, non-performing loans (NPLs), asset quality across different parts of loan portfolios, concentration by sector of portfolios, etc.

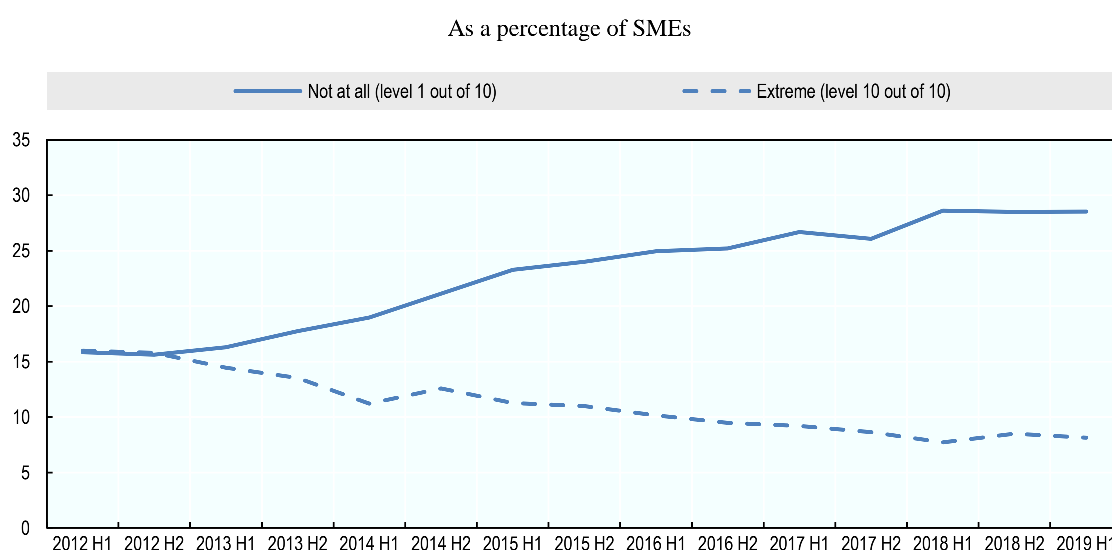
37. In Italy, following the recapitalisation of certain banks, supervisory controls were strengthened and new rules concerning bank loans to SMEs introduced. This included the obligation to set aside reserves proportional to credit granted to SMEs, as a direct effort to tackle non-performing loans.

4. Evolution of SME finance policies during the recovery period (2012 onwards)

38. SME financing has recovered at different paces in different countries, reflecting a number of factors in the domestic and global economy. Despite these cross-country differences, a visible shift in policies can be identified starting in 2012. As the crisis waned and recovery began to take hold, access to finance became a less pressing issue for many SMEs. In Europe, SMEs reporting access to finance as an extremely pressing problem steadily decreased from the first half of 2012 onwards (Figure 3).

Figure 3. European SMEs that perceive access to finance as a pressing problem

As a percentage of SMEs



Source: (European Central Bank, 2019[23]).

39. In economies like New Zealand, South Africa and the United States, the stock of outstanding business loans started increasing again in 2012-13 following decreases or stagnations in the aftermath of the crisis. In Japan, the percentage of small businesses perceiving conditions as accommodative versus severe turned slightly positive in 2011 and the rise in the percentage of small firms with positive attitudes gained pace between the last quarter of 2012 and 2016 (Bank of Japan, 2019[22]).

40. Furthermore, during this period several emerging market economies saw very strong growth in SME lending, far outpacing that of high-income countries. For example, in Turkey the outstanding stock of SME loans, corrected for inflation, expanded by 58% between 2012 and 1015. In Malaysia and Peru, the percentage growth amounted to 43% and 37% respectively (OECD, 2020[12]). These improvements took place against the backdrop of a longer-term process of financial deepening, enabling an increasing number of small businesses (as well as households) to have better access to formal financial products and services. Data from the IMF confirm that financial systems in emerging markets have deepened substantially over the last decade, albeit with considerable variation across countries (IMF, 2015[24]).

41. In this context, SME financing remained a prominent policy priority in many countries in order to stimulate economic growth and well-being. In addition, international instances such as the G20 and the G7, as well as regional groupings such as Asia-Pacific Economic Cooperation (APEC), the European Union (EU) and the Association of Southeast Asian Nations (ASEAN), made SME finance a political priority in the years following the crisis.

42. In fact, the OECD developed the SME financing Scoreboard in part as a response to the crisis. Its first edition was published in 2012 following a pilot phase, in order to increase the evidence base and provide a tool to monitor the state of SME financing. In 2015, the G20 and the OECD developed the G20/OECD High-Level Principles on SME Financing (see Box 1). The G20 Global Partnership on Financial Inclusion (GPFI) also developed the G20 Action Plan on SME Financing.[4] That same year, ASEAN included Access to Finance as a main goal in its Strategic Action Plan for SME development 2016-25, launched in November (ASEAN, 2015[26]).

Box 1. G20/OECD High-Level Principles on SME Financing

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

Source: (OECD, 2015[27]).

43. Despite marked improvements in SME access to finance since 2012, most policy instruments introduced during the crisis have largely been kept in place. Nonetheless, they have undergone transformation in their design, and in some instances, have been redirected to tackle structural problems concerning specific segments of the SME population.

4.1. Instruments to support SME lending were increasingly targeted to specific segments

44. Broadly, the trend towards segmentation can first be discerned in 2011, with the emergence of programmes that were more tailored to specific SME segments (OECD, 2013[28]). One objective of these changes was to ensure additionality, so that government support would reach firms that would not be able to access financing otherwise, and hence not to crowd out private sector initiatives.

45. Evidence indicates that some segments of the SME population face more difficulties to access appropriate sources of finance. These include fast-growing, innovative firms, micro-enterprises, start-ups, young SMEs, businesses located in remote and/or rural areas and women-owned enterprises (OECD, 2018[29]). With counter-cyclical policies becoming less relevant, the structural obstacles faced by these firms secured a place at the top of the policy agenda.

46. The rising number of countries that designed loan and guarantee programmes for start-ups is one example of this trend. An annual OECD study on SME financing reveals that 2 countries out of 11 reported that this policy was in place in 2012, against 21 countries out of 46 in 2018 (OECD, 2020[12]).[5] Moreover, in 2017, around two-thirds of the countries surveyed for the implementation of the G20/OECD Principles were targeting either young entrepreneurs, SMEs located in remote areas or women entrepreneurs with specific policies (Koreen, Laboul and Smaini, 2018[1]).

47. Credit guarantee schemes were also increasingly tailored to disadvantaged segments of the SME population, such as innovative start-ups, women entrepreneurs, and SMEs in underserved regions. Several conditions need to be fulfilled in order to make CGSs accessible to disadvantaged or underserved entrepreneurs (OECD/European Commission, 2014[30]). These may include increasing the coverage ratio, making sure that the guarantee period is below five years, subsidising the price of the guarantee product, and offering non-financial support (OECD/European Commission, 2014[30]).

48. Turkey is a good example of this segmentation, with grants and loan guarantees applied with preferential rates to SMEs led by women entrepreneurs and combined with non-financial support. A recent partnership between the European Bank for Reconstruction and Development (EBRD) and the Turkish guarantee fund (KGF) unlocked EUR 300 million (USD 336 million) to support women's entrepreneurship (Rosca, 2018[31]). Korea represents another example, with certain policies aimed at innovative firms. KIBO (Korea Technology Finance Corporation), which offers guarantee products that are tailored for start-ups and innovative firms, was an early adopter of this strategy (OECD, 2013[28]).

49. It is important to note that the number of beneficiaries of loan guarantees continued to increase, if more slowly, after 2012. The role of guarantees thus shifted from a primarily counter-cyclical one to a tool to overcome market failures in a more stable economic context. Most programmes were maintained after the crisis. Segmentation and financial regulation also played a role in the continued demand for loan guarantees.

50. Other efforts to target innovative SMEs in need of finance focus on providing support to enable them to collateralise their intangible assets. Indeed, these firms often possess little tangible collateral, and financial institutions are often reluctant to provide credit to them for this reason. Governments have recognised the importance of enabling fast-growing, intangible asset-rich firms to access appropriate sources of financing, and that market failures for these types of SMEs are at play.

51. A steadily increasing number of countries, particularly in Asia, have set up special schemes to address the challenges associated with collateralising intangible assets. Initiatives range from funds established by development banks, as well as the combination of subsidies and guarantees to encourage private sector engagement. Additional efforts to overcome the problems of valuation and high transaction costs are also being deployed (Brassell and Boschmans, 2018[32]).

52. In Japan, for example, recent efforts have focused on influencing lender behaviour by providing subsidised intellectual property (IP) evaluation reports to regional banks and credit unions. China is the most active market for state-backed IP financing, having first experimented with bank lending against intangible assets in 2006. It has a wide range of policy measures in support of IP. In Korea, the government has provided a range of support to knowledge-based SMEs in recent years. The Korea Development Bank (KDB) operates a "Techno Banking" initiative providing loans for purchasing, commercialising and collateralising IP. KODIT, the Korea Credit Guarantee Fund, offers underwriting of up to 95% of an IP valuation for lending or securitisation, while the valuation activity is subsidised by the Korean Intellectual Property Office (KIPO), and the valuation work itself is done by others such as the Korea Invention Promotion Association (KIPA) (Brassell and Boschmans, 2018[32]).

53. With the specialisation of programmes, governments gained increased awareness of the need to produce disaggregated data in order to strengthen the evidence base. Indeed, disaggregated data collection remains a challenge to support evidence-based policies in support of these targeted approaches (Alliance for Financial Inclusion, 2017[33]). Box 2 provides an overview of some of the issues and policy initiatives to leverage data for better policy targeting.

Box 2. The role of data for policy targeting

An increasing number of countries are reporting improvements and new initiatives in granular data to grasp the heterogeneity of SMEs. Nonetheless, much remains to be done in this area. The United Kingdom's British Business Bank developed a typology to support better targeting for its initiatives. It clusters SMEs based on attitudes and needs according to data from a UK demand-side survey. The characteristics taken into account to cluster SMEs include the need for and the use of finance, as well as SMEs' openness to external information about finance and how they obtain it. With these categories, rather than focusing on the nature of "average" SMEs, policy makers and practitioners target SMEs with similar characteristics, especially separating those groups with high ambition and growth mind-sets from the others (OECD, 2019[34])

Gender-disaggregation of data on SMEs has also been recognised as essential for fostering women's entrepreneurship, and most countries are behind on the collection and analysis of such data. Gender-disaggregated data started being produced by the Chilean financial sector regulator (SBIF - Superintendencia de Bancos e Instituciones Financieras de Chile) in a gradually expanded process that started in 2001. Supply-side data feeds into the annual report "Gender and the Financial System" and the information, made available for over a decade, has supported the creation of programmes targeting women as a distinct segment by Chilean financial institutions.

BancoEstado has put in place its *Crece Mujer Emprendedora* program, derived from the SBIF data set. The programme targets women entrepreneurs through access to capital,

education and networking. The Chilean Financial Cooperative Sector started producing gender-disaggregated data for their operations and the Chilean Banking Association publishes research notes on women's banking trends aiming at highlighting growth opportunities such as increasing women's participation in credit markets and higher repayment rates (Data2X et al., 2016[24]). The OECD is also working to enhance the collection of more disaggregated SME finance data along a number of dimensions.

4.2. Equity financing became a key focus of SME financing support policies

54. Government support for private equity markets continued following the immediate post-crisis years and often played a pivotal role in the development of these markets. In Europe, public funding bodies were found to support first-time investment funds more often than private investors, and their participation in venture capital (VC) funds generates positive signalling effect on private investors (Kraemer-Eis, Signore and Prencipe, 2016[35]).

55. The importance of first movers in the development of active VC environments is recognised and the experience of various countries shows that public support can play an important role as an initiator for a viable VC industry (Kraemer-Eis, Signore and Prencipe, 2016[35]).

56. In addition, VC markets in 2018 had often not recovered to pre-crisis levels. There are economic benefits of public support for equity instruments, hand in hand with market-led developments, as well as the potential for public investments in these markets to generate financial returns. For these reasons, instruments to stimulate equity markets for SMEs have increasingly attracted policy attention. Initiatives to stimulate private equity gained momentum following the growing recognition that overreliance on debt calls for a diversification of financing instruments (OECD: SME Ministerial Conference, 2018[36]).

57. Germany is increasingly focusing its SME finance support towards start-ups and growth companies. In October 2018, KfW, Germany's state-owned development bank, announced a doubling of the annual amount of co-investments in venture capital funds by 2020. At the end of 2018, KfW also established its Venture Tech Growth Financing scheme, under which venture capital loans to innovative fast-growing tech companies would be made available. INVEST, a grant programme run by the Federal Ministry for Economic Affairs and Energy, was further developed in 2017 to support private investors who want to acquire a stake in young and innovative companies. Under this programme, investors in innovative start-ups receive an acquisition grant worth 20% of the sum invested. In addition, many states in Germany have boosted their support for early-stage equity finance in recent years (OECD, 2020[12]).

58. In 2019, 40 out of 46 countries tracked by the OECD Scoreboard reported having policies in support of private equity financing for SMEs in place and 27 had specific programmes related to business angel investment. Policies have mainly consisted of supply-side measures (direct public investments, co-investment between the private and public sector, tax incentives and government support to networks and associations) (OECD, 2015[18]). For example, Argentina set up a tax incentive in 2017 whereby taxpayers can deduct 75% of venture capital investments made in qualifying companies. The tax deductibility applies if the investment is maintained for at least two years and can rise to 85% for investments in less developed regions of the country (Deloitte.com).

59. The creation of funds-of-funds also became more common. Funds-of-funds are pooled funds that invest in smaller VC funds instead of investing directly into firms. This helps bridging the gap between larger investors (including institutional investors) and firms in need of private equity. Funds-of-funds also offer an opportunity to diversify and mitigate risk for investors. While it is difficult to evaluate the success of these measures in general, it is clear that public actors play an important role in private equity markets in many economies, alongside private players. The European Investment Fund (EIF), for instance, is advising, sponsoring or managing numerous equity Funds-of-Funds throughout the European Union, Turkey and the Western Balkans.

4.2.1. Attention to venture and growth capital support policies grew as recovery began to take hold

60. As part of their initiatives to stimulate innovative start-ups and high-potential SMEs, many governments included equity finance support measures related to this group of SMEs from 2012, and many public investment vehicles and co-funding schemes were created.

61. In 2013, Canada announced the Venture Capital Action Plan, in which it pledged to invest CAD 400 million over the following 7 to 10 years to reinvigorate the VC sector. The Italian Fund for Sustainable Growth launched its first call for proposals that year, with 60% of its total volume of EUR 300 million (USD 336 million) directed to investments in SMEs (OECD, 2015[37]).

62. In Chile, the Early-Stage Fund (*Fondo Etapas Tempranas*) is in place since 2013. This fund-of-funds supports new investment funds that provide high-growth SMEs with equity financing. In 2013, the Netherlands, in cooperation with the EIF, introduced a fund of funds for later stage venture capital investments as a new policy measure in support of SME equity finance. It included a demand-side element: together with banks, the government also promoted the diffusion of information to SMEs with regard to these types of instruments (OECD, 2017[38]).

63. In the United Kingdom, various policy initiatives as well as direct government investments made through the British Business Bank (BBB) since the crisis have had a clear effect on the diversification of supply (UK Finance, 2018[39]). In 2015, China announced the establishment of a national SME development fund supported by a CNY 15 billion (USD 2.1 billion) grant from the central government's budget and CNY 45 billion (USD 6.35 billion) of private capital from a (private public partnership) model. The national SME development fund focuses on VC/PE investments to grow seed and early-stage SMEs in the key industries spelled out by the "Made in China 2025" plan and other promising, innovative industries (OECD, 2020[12]).

64. In Malaysia, the government is one of the main contributors to invested funds in the industry, with the publicly funded Malaysia Venture Capital Management Bhd (MAVCAP) playing a key role. The Malaysia Venture Capital and Private Equity Development Council (MVCDC) acts as a one-stop agency to coordinate the strategy to develop the industry. It is also a platform on which policy makers, practitioners and other stakeholders can meet and discuss issues of relevance to the industry. The government also updated and strengthened its tax incentives for VC investors in 2014 (Institute for Capital Market Research, 2018[40]).

4.2.2. Policy support for business angel investments also expanded

65. Business angels (BAs) are financially independent, high net worth individuals who invest their private money in start-ups or seed companies, in return for ownership (OECD, 2015[18]). BAs, who are often entrepreneurs or former entrepreneurs, are known to be more involved in the firms that they finance, and often add value by getting involved in management and strategy themselves. While BA activity has existed for centuries, the sector has been receiving strong recognition and is increasingly structured by associations and networks. This is particularly the case in Europe, where awareness of this instrument was traditionally less widespread than in the United States, for example.

66. The activity slowed down significantly as a result of the recession, although not as dramatically as VC activity (OECD, 2015[18]). Like venture capital, business angel activity is increasingly supported by policy makers, who recognise its complementarity with venture capital in early-stage finance for high-growth and innovative firms. Policy attention generally increased a few years after the financial crisis, as the BA market recovered only slowly, and there was mounting evidence of a shortage of early-stage investment capital.

67. Tax incentives to boost innovation and the creation of fast-growing SMEs are commonly targeted to business angel investors. In Turkey, business angel investors are able to deduct up to 75% of capital invested in SMEs from the annual tax base since 2013. In December of that same year, Sweden introduced a tax break for private business angel investors, totalling SEK 800 million (USD 85 million) annually of tax relief (OECD, 2015[37]). Malaysia also provides a tax relief for angel investors. The relief is contingent on approval and endorsement of the investment by the Ministry of Finance. Investee companies need to receive accreditation by the Malaysian Business Angel Network in order to be eligible (https://mban.com.my/).

68. Progressively, more varied supply-side policies in favour of BAs have mainly taken the form of co-investment via dedicated funds (this is the case in the Netherlands and in the United Kingdom, for instance), alongside with tax exemption schemes like in Italy and Japan – see Box 3 (OECD, 2015[18]). In August 2014, the Austrian Government established its "aws Equity Finder", a contact platform which facilitates matchmaking between start-ups and SMEs and providers of risk capital, business angels, crowdfunding or other alternative financiers. (OECD, 2016[41])

69. Another important trend since the crisis is the strong formalisation of the BA sector, with the setting up of networks, associations and syndicates, sometimes with public support. Gaps in the evidence base remain to be filled, and survey tools as well as statistical instruments are expected to develop in the years to come.

Box 3. Fostering business angel activity through tax schemes: Italy and Japan

Tax incentives are part of the supply-side instruments that can be mobilised to encourage business angel activity. The objective of tax incentives is both to increase the number of active business angels and to encourage BAs to invest larger amounts. Italy put such a measure in place in 2008, in the form of a tax relief system. Capital gains on the sale of a start-up's undertakings are exempt from taxes, provided that certain conditions are met. Amongst other things, shares must be held for more than three years and the gains must be reinvested into another start-up within the next two years (OECD, 2014[42]).

Japan was a precursor in this field, with a similar business angel tax scheme being introduced as early as 1997 and being updated in later years to include an income exemption system. Under certain conditions, business angels can deduct a certain amount of money from their taxes, proportionate to the BA investments carried out in that year (OECD, 2015[18]). In addition, capital losses on BA investments can be carried forward for three years (European Commission, PwC and IHS, 2015[43]). The Japanese system is also one of the only tax incentive schemes to offer loss relief on such a favourable basis.

4.3. Governments sought to consolidate their SME financing efforts and increase efficiency through dedicated national financial institutions

70. Public financial institutions (PFIs) are a common policy tool to address failures in the financial market and supply financial services to underserved groups. They have long existed in many OECD and non-OECD countries, often pre-dating the crisis, but they attracted increasing attention for the role they played in its aftermath. In many countries, PFIs increased the scale and scope of their activities.

71. PFIs may engage in first-tier lending, i.e. lending directly to end-consumers, in this case SMEs and entrepreneurs. This includes commercial public banks, often with an explicit mandate to provide funding to SMEs. PFIs can also act as second-tier lenders, providing funding to banks and other financial institutions, which then is lend on by these organisations to businesses. Some PFIs combine first-tier and second-tier funding mechanisms, and may be active in other areas than debt products (direct loans, trade finance, guarantees), such as equity operations, hybrid instruments and grants.

72. PFIs also typically provide indirect support related to financial infrastructure (reverse factoring, market liquidity provision, insurance for exports, PPP arrangements, loan securitisation) and non-financial infrastructure, like consulting services.

73. In the early years of recovery, many governments restructured the PFIs providing these services. In the case of France, Portugal and the United Kingdom, centralised institutions were set up to coordinate and provide all these direct and indirect support facilities for small businesses.

74. France created a public development bank (Bpifrance) at the start of 2013 through the fusion of several public operators (OSEO, CDC Entreprises, Fonds stratégique d'investissement). Bpifrance offers businesses a local financing service supported by an extended portfolio of financial instruments and consultation options. It provides guarantees, co-financing, direct loans, and manages, on behalf of public authorities government support for innovation and services. It also guarantees venture capital funds.

On the equity side, Bpifrance manages several investment funds, including funds-of-funds, mostly targeting SMEs needs (OECD, 2017[44]).

75. The British Business Bank became operationally independent in late 2014 with the aim to improve the structure of finance markets to the benefit of SMEs by increasing competition and diversity of supply (OECD, 2017[45]). Portugal's public development bank was created in October 2014 to complement the existing credit institutions. It focuses especially on SMEs and provide credit lines (through other banks), risk-sharing, guarantees, as well as capital to business angel and venture capital funds (Instituição Financeira de Desenvolvimento, 2019[46]).

76. In Russia, the Bank for Development was first established in 1999 and later became the Russian Bank for Small and Medium Enterprises Support as a subsidiary of Vnesheconombank, a state development corporation, in 2008. It provides low interest rate financing for innovation and modernisation as well as leasing for start-ups and microfinance.

77. Other public development banks and PFIs that have been in existence for a longer time are increasingly focussing their attention on addressing SME finance gaps. BNDES in Brazil is a case in point. One of the largest development banks in the world, the organisation is increasingly providing credit to SMEs and designing specific products for SME clients. This includes the BNDES card, a credit card that comes with a pre-approved credit line (up to BRL 2 million – USD 0.37 million) and an interest rate subsidy (1.3% per month in early 2019). In 2019, SMEs accounted for 49% of all credit supplied by BNDES, up from 31% in 2016 and an even lower share in the first half of the 2000s (OECD, 2020[47]).

78. The Small industrial Development Bank of India (SIDBI), while established in 1990, is becoming an ever more important actor is SME development in India. Its asset portfolio doubled between 2017 and 2019 and the institution is expanding its range of activities in recent years to include micro-finance facilities, venture capital support, an exchange of outstanding receivables, credit ratings for SMEs, and various non-financial business development services (https://www.sidbi.in/en/annualreports).

79. Business development banks have also gathered through the Montreal Group, a global forum for development financial institutions created in 2012 and coordinated by the Business Development Bank of Canada. In 2019, the Group had eight member institutions from Brazil, Canada, China, Finland, France, Mexico, Morocco and Saudi Arabia (The Montreal Group, 2019[48]). The Group acts as a network for the exchange of knowledge and best policy practices for SMEs.

4.4. Reform implementation and refining regulation became a focus to make the financial system more robust

80. While the Basel III set of measures, developed by the Basel Committee on Banking Supervision, was agreed relatively swiftly at the international level in response to the financial crisis of 2007-09, its adoption and implementation required more time. To illustrate, the Net Stable Funding Ratio (NSFR) was introduced to ensure that banks would maintain a stable funding profile in relation to their on- and off-balance sheet activities. Proposals were published in 2009, and included in the December 2010 Basel III agreement. In 2014, a revision to the standard was issued, and the NSFR became a minimum standard on 1 January 2018 (https://www.bis.org/fsi/fsisummaries/nsfr.htm).

81. Similarly, the Dodd-Frank Act, enacted in 2010 in the Unites States, provides a general framework with many key issues to be resolved by implementing regulations (Gyunn, Polk and Wardwell, 2010[21]).

82. One policy response of note in this period was the introduction of the SME Supporting Factor Article by European legislators in 2014, with the aim to mitigate possible negative effects of the more stringent regulation on SME lending. The Capital Requirements Regulation (CRR) allowed a capital reduction factor for exposures to SMEs at a discount factor of 0.7619 with the aim to provide stimulus for bank-firms to lend to SMEs (see Box 4). Across jurisdictions, non-regulatory measures were also put in place as counter-cyclical measures for SME financing.

Box 4. Capital requirements and SME financing: the case of the "Supporting factor"

Rising capital requirements in the wake of the crisis sparked fears that banks would be less willing to lend to SMEs. This is why the transposition of Basel III standards into EU law in 2014 saw the introduction of the "Supporting Factor" (SF) – a reduction of capital requirements associated with SME loans by 23.81%. The aim of this measure is to compensate for the loss in credit availability for SMEs, and to provide an incentive for banks to lend to eligible SMEs.

The authors of a recent study find that the SF has been effective in supporting bank lending to SMEs, with increasing strength over time. Comparing a group of firms that were affected by the reform with a group of similar non-affected firms, the authors find that the SF had a significant effect on lending to SMEs. This analysis suggests that capital requirements impact banks' decisions to lend to SMEs.

In addition, the study also indicates that capital requirements for SME lending do not properly reflect their risk, especially at the portfolio level. In particular, SME exposures are either very weakly correlated or even negatively correlated with exposures for large firms. This means that banks with a diversified portfolio including both SME and large business loans are more resilient to economic cycles.

Source: (Dietsch et al., 2019[49]).

83. Nine years after the initial Basel III package was agreed upon, an evaluation of the effects of reforms on SME financing find that only limited and transitory negative effects on SME financing occurred in general, despite some differentiation across jurisdictions. Nonetheless, risk-based capital requirements may have temporarily affected growth and tightened the conditions of SME lending in some jurisdictions when considering the most exposed banks (the least capitalised). In addition, financial institutions have appeared to be more conservative in their decisions to grant credit, redirecting activities towards less risky segments (FSB, 2019[50]). This is in line with the observation that, in some jurisdictions, there has been an increase in demand for credit guarantees in recent years because of banks' stricter capital and reporting requirements (OECD, 2020[12]).

It is noteworthy that anecdotal evidence from this evaluation suggests that macroeconomic conditions and factors other than financial regulation are the most important drivers of SME financing trends. In the aftermath of the crisis, public policies put in place and the positive financial conditions such as the low interest rate environment were important confounding factors that might have mitigated some of the negative effects of financial reforms (FSB, 2019[50]).

5. Recent and emerging policy developments

84. The focus of SME finance policies has evolved in recent years. Among other areas, Fintech and digital tools for SME finance, non-financial support targeting the financial acumen of entrepreneurs and payment delays are three major themes on policy makers' agenda. The present section illustrates these key trends.

5.1. There is an increasing policy focus on Fintech developments and digital tools for SME financing

85. By bringing about new digital tools for SME financing and new approaches to credit risk assessment, digitalisation creates both new opportunities and new challenges for SME financing. Governments have responded to these developments primarily through regulatory measures, which are discussed below.

86. Credit instruments are increasingly being affected by digital transformations. New opportunities for data collection have led to new developments in data analytics for financial services. One of the applications of these methods is credit scoring, i.e. the statistical analysis of creditworthiness, on which the decision to grant credit is often based.

87. While the methods for credit scoring form part of the oldest applications of analytics, they have recently been transformed, not so much by an upheaval of the statistical methods, but by the diversification of data sources (Óskarsdóttir et al., 2019[51]). Most notably, there is a strong interest on the part of financial institutions in broadening their evidence base for credit risk assessment by using so-called "alternative data sources", i.e. non-credit data (transactional data, behavioural data, social media data) (ICCR, 2018[52]). Use of this data has raised legal and regulatory issues in certain jurisdictions, in particular linked to data protection.

88. As recognised by the Financial Stability Board (FSB), the returns from enhanced quality and accessibility of information to financial system participants and regulators could be substantial (FSB, 2017[53]). Better credit scoring mechanisms lead to a reduction of information asymmetries and should lower default rates for firms (OECD: SME Ministerial Conference, 2018[36]). Both of these issues affect SMEs disproportionately. Nonetheless, it is difficult to assess these new models based on big data in the absence of a full credit cycle, and fears of pro-cyclicality and volatility as a result of new analytics are relatively widespread (FSB, 2017[53]).

89. Meanwhile, several countries have been involved in setting up and expanding information infrastructures for credit risk assessment, such as credit registries and credit bureaus (OECD: SME Ministerial Conference, 2018[36]) (GPFI, 2017[54]). This includes the Credit Risk Database established in Japan in 2001, for example, and the euro-Secured Notes Initiative established in France in 2014 (OECD, 2017[38]).

90. The growth of Fintech instruments has resulted in a growth in the access to, and convenience of, financial services, whether for households or for SMEs (FSB, 2017[53]). This is particularly the case in emerging markets, where instruments such as mobile payment have greatly facilitated daily payment needs for firms (FSB, 2017[53]). In line with the discussion above, Fintech has also contributed to decrease transaction costs for lenders wishing to reach out to underserved segments of the SME population, such as firms in rural and remote areas, micro-enterprises and informal ventures (OECD: SME Ministerial

Conference, 2018[36]), all of which are more common in emerging markets. This trend fits well within the G20/OECD High Level Principles, which comprises financial inclusion, including for informal firms (Koreen, Laboul and Smaini, 2018[1]).

91. The digitalisation of financial services has also facilitated cross-border investments, although this remains incomplete in the face of regulatory discrepancies. The Financial Stability Board (FSB) has questioned the "cross-jurisdictional compatibility of national legal frameworks" (FSB, 2017[53]). More fundamentally, digitalisation prompts the question of the relevant level for regulation (see section 5.4), as cross-border transactions often exist in legal grey zones (FSB, 2017[53]). Finally, policy makers are realising that as access to finance increases, so does the importance of financial literacy (FSB, 2017[53]): non-financial support is increasingly included in instruments that target SMEs and entrepreneurs.

5.2. SME finance policy support increasingly includes demand-side measures

92. There is increasing recognition that both supply- and demand-side factors contribute to SME uptake of non-bank finance instruments. There is also growing evidence that financial support is most effective when it is provided alongside non-financial support, which includes mentoring, counselling, consulting, or general financial education (OECD, 2017[38]). This is because SMEs sometimes face not only a financing gap but also a skills gap (OECD, 2019[6]). Tackling this skills gap has moved up policy makers' agendas. As a consequence, demand-side policies which combine financial and non-financial support and enhance the financial acumen of business owners and entrepreneurs have proliferated in recent years (Boschmans and Pissareva, 2018[55]).

5.2.1. Non-financial support has emerged as a complementary finance policy tool

93. The G20/OECD High-Level Principles on SME Financing called for the enhancement of SMEs financial skills and strategic vision, as part of the eleven policy priorities approved by G20 Finance Ministers in 2015 (Koreen, Laboul and Smaini, 2018[1]). A study commissioned by Canada's Business Development Bank in 2013 showed that consulting services, notably focusing on financial literacy, significantly enhanced business performance, as measured by the growth in sales, employment, productivity and profits, as well as the firms' survival rates (Boschmans and Pissareva, 2018[55]).

94. In 2018, twenty-seven out of 46 countries under study reported that they had a non-financial support tool in place as part of their policy range for SME finance (OECD, 2018[57]). They vary greatly in their design, but a few categories can be drawn from the myriad of policy examples:

- Advisory support as part of the institutional mission of public financial services providers (e.g. Austria, Brazil, Colombia, Georgia, Israel, Malaysia, Sweden);
- Multiple advisory facilities, mainly through partnerships with the private and non-profit sector (e.g. Australia and New Zealand);
- Finance-specific Public Advisory Facilities (e.g. Finland, the Netherlands);
- Specific programmes combining debt finance products and advisory services (e.g. Belgium – Flanders region and the Czech Republic);
- Web-based advisory services (e.g. Belgium – Walloon region and France);

- Coaching and mentoring provided together with loan guarantees by guarantee institutions (e.g. Austria, Belgium and Finland).

95. In addition, an increasing number of countries is providing a comprehensive set of measures, both financial and non-financial, to support innovative start-ups. In 2012, Italy introduced its "Start-up Act," a holistic policy framework for innovative start-ups. This Act combines financial instruments such as a tax relief for equity investors in companies benefiting from the scheme and easy access to the SME Guarantee Fund, with non-financial support measures, including a fast-track procedure for incorporation, and assistance and advice to internationalise. Preliminary findings show that the policy has a positive impact on enrolled firms in terms of revenue, value added and assets (OECD, 2018[58]).

96. Other countries around the world have adopted similar approaches, including India in 2016, Tunisia in 2018, the Philippines in 2019 and Senegal in 2020.

5.2.2. Non-financial support is also provided as part of business accelerators and incubators

97. There has been a proliferation of public-private business support provided through accelerators and incubators, in both high-income countries and emerging markets (Roberts and Kempner, 2017[59]). Business accelerators are often associated with venture capital funds in the United States and stem from mixed public and private investments in Europe, models which have been replicated around the world. Incubators and accelerators typically provide both financial and non-financial support to start-ups and SMEs with high growth potential. Their target populations, business models, and service portfolios differ greatly (see Table 2).

98. Incubators tend to provide more comprehensive but less specialised training and mentoring, while accelerators often provide targeted support with management skills and strategy. One common denominator is the opportunity for business owners and entrepreneurs to benefit from a local network. Different initiatives have arisen at different levels, whether local or national. Generally, there has been a trend for incubators and accelerators to target more specific populations like women, youth, migrant, or senior entrepreneurs and business owners (European Commission / OECD, 2019[60]).

Table 2. Differences and similarities between business accelerators and business incubators

	Business incubators	Business accelerators
Objective	Support business creation and development	Accelerate business growth
Service portfolio	Training: Entrepreneurship skills Mentoring: Focus on business model and initial business plan Networking: Other entrepreneurs and actors in the broader entrepreneurial eco-system Access to finance: Grants or seed capital Other: Managerial support (e.g. accounting), access to specialised equipment	Seminars: Management skills Mentoring: Intense, with a focus on growth strategy Networking: Other entrepreneurs and actors in the broader entrepreneurial eco-system Access to finance: Debt or equity
Service provision	On-demand	Mandatory and provided in a structured programme
Length of support	Often up to 3 or 4 years, or more	Usually 3 or 6 months
Business model	Mostly non-profit, with operating costs being largely covered by the rental fees collected	Mostly for-profit, associated with private venture capitalist funds (in the US) or a mix of private and public investors (in Europe)

Source: (OECD / European Commission, 2019[61]), adapted from other sources.

99. Brazil is extremely active in terms of business incubators, with 369 in place in 2016. While they provide infrastructure and financial benefits to the participants, emphasis is placed on non-financial business development services such as mentoring and counselling. Assistance from the National Programme for Supporting Business Incubators and Technology Parks was instrumental for the development of a relatively dense incubator system. A key feature of the programme is grant support to stakeholders such as public bodies, universities and non-profit organisations active in incubators. An initiative to reinforce the training and professional development of incubator management and staff and a national monitoring and evaluation system enabled the industry to professionalise (OECD, 2018[62]).

100. Saudi Arabia is another example of a country that is encouraging accelerators and incubators in more recent years. Under the "National Transformation programmes 2018," which aims to make the economy less dependent on natural resources, the government has launched a network of incubators, accelerators and workspaces to be an umbrella for businesses in the Kingdom, which provides training programmes for its members and periodic evaluation of incubator performance levels (https://vision2030.gov.sa/).

101. The Government of Indonesia has also set up a Roadmap for Incubator Development, 2014-2029, to improve the performance of incubators and increase their number from around 75 in 2014 to 732 in 2029, spread across the country. The Roadmap also envisions the development of quality standards and the certification of business incubators active in the country, along with their managers (OECD, 2018[62]).

5.2.3. Countries have increasingly developed strategies to boost financial education among entrepreneurs and small business owners

102. An increasing number of countries, close to 60 in 2015, have adopted a national strategy for financial education with a nationally co-ordinated approach. Many of the approaches prioritise specific groups and SMEs are among the main target audiences for these strategies globally (OECD/INFE, 2015[56]).[6] Box 5 illustrates the Portuguese model.

Box 5. Promoting financial literacy in Portugal

Since 2016, Portugal has set up its "Core Competencies for Financial Training" that provides guidelines to all actors in financial education for business in the country. The initiative aims at harmonising programmes and promoting good practices. It was submitted to public consultation and was later fine-tuned during a series of pilot training actions.

The document is the result of a joint effort between the financial sector supervisors, the Agency for Competitiveness and Innovation (IAPMEI) and the Agency for Tourism (TP). It is part of the "Portuguese National Action Plan for Financial Education," a broader government scheme for financial literacy. It was set up in 2011 and revised in 2016 and involves a large group of stakeholders including ministries, financial sector and consumer associations, trade unions, business associations and universities.

The ambition of the Portuguese action plan is not only to boost financial knowledge among business owners and managers, but also to restore confidence and trust between the business community and the financial sector, which was considerably damaged by the financial crisis.

In 2017, the cooperation protocol members delivered a series of courses in order to form a pool of trainers in the country. Participants were part of business associations, universities and polytechnic institutes. Out of the 34 participants, 10 were certified as trainers in the pool, coordinated by IAPMEI and TP.

In 2018, the pool of trainers began its activities, delivering 24 sessions to entrepreneurs and managers. These training sessions were held in different parts of Portugal, mainly in the premises of local business associations, town councils and business, tourism and hotel schools. They were attended by a total 382 trainees.

In addition to regular courses, IAPMEI and TP will maintain an annual conference to raise awareness of the importance of financial education in the management of SMEs.

Source: Written correspondence with CMVM.

103. Another example is India, which is increasingly aiming to address gaps in financial skills and acumen, both for the general population, and for entrepreneurs and business owners more specifically. The Reserve Bank of India provides guidance and material to banks and other actors involved in SME financing to enable them to raise financial capabilities of SME clients. In addition, the Reserve Bank of India organises the financial literacy week every year to raise awareness about the issues at hand.

5.3. Governments are taking action to tackle payment delays

104. Evidence shows that late or non-payments (whether B2B or government-to-business) are detrimental to the growth and even survival of enterprises. This is especially the case for small businesses, which often lack cash-flow management capacities and have limited options to smooth their cash flows. Moreover, SMEs suffer from a negotiation power asymmetry in B2B transactions, which may push them to agree to poor payment terms, especially when the survival of their business depends on securing the contract. In the United Kingdom, the Federation of Small Businesses (FSB) estimates that reducing or ending late payments could reduce the total number of business failures by up to 50 000 per year (FSB, 2016[63]).

105. The EU, for its part, has estimated that one in four bankruptcies in the EU is due to late payments. As of 2019, the EU estimated that 6 out of 10 firms in B2B transactions are still being paid later than was agreed in the contract, with SMEs reporting an even higher rate. This has prompted a number of policy responses in different jurisdictions, with initiatives multiplying around the world in recent years.

106. As early as 2011, the EU passed the Late Payment Directive. The directive, which was transposed in national law by several Member States between 2012 and 2014, states that payments must be settled in under 60 days for B2B transactions and 30 days (exceptionally, 60 days) for government-to-business payments. The directive also provides automatic entitlement for interest and financial compensation. It enables member states to make conditions stricter (e.g. reduce the maximum payment time).

107. An evaluation of the directive published in 2015 showed that most firms were aware of the legislation concerning payment, and were also aware of the rights conferred to them. Nonetheless, this awareness is lower among SMEs, and usage of the provisions remains low, with 60% of firms reporting that they never claimed interests or compensation following a payment delay. Evidence on the effect of the directive on payment delays

remains mixed (DG GROW et al., 2015[64]), even though the legislation put the issue of payment delays in the spotlight. A resolution adopted by the European Parliament in January 2019 called for a better enforcement of the legislation and a diversification of tools to tackle late payment.

108. Chile introduced the Bill of Timely Payment in June 2018 to encourage the timely payment of invoices. The bill seeks to limit payment terms to 30 days and agreed-upon terms to 60 days. For public procurements, payments to suppliers must be made within 30 calendar days following receipt of an invoice or the respective tax instrument issued, and terms of up to 60 calendar days may be established for a respective auction or public procurement instrument.

109. In 2017, the Ministry of Finance of Saudi Arabia pledged to pay all payments from government bodies to the private sector within a time frame of 60 days. The Ministry also launched an electronic platform to allow private sector contractors to check on the status of payments.

110. In Australia, public entities are required to pay invoices for contracts worth up to AUD 1 million within 20 calendar days since July 2019, compared to the previous policy and industry norm of 30 days. Furthermore, to increase transparency and accountability in complying with the new policy, the government is requiring large businesses to pay small businesses on time by developing an annual reporting framework on payment performance.

111. New Zealand puts digitalisation at the centre of its efforts to tackle payment delays. The New Zealand Business Number (NZBN) initiative (first introduced in 2013 for registered companies) makes a globally unique identifier available to all New Zealand businesses, including unincorporated entities. Having a single identifier will make it faster to interact with other businesses and government agencies, as these entities will not have to update their information multiple times and all their primary business data will be kept online.

112. The government will also encourage the wider adoption of e-Invoicing among businesses in New Zealand through the NZBN. All invoices will be instantly sent to customers through their financial management systems, and manual errors will be minimised. In March 2019, New Zealand joined the Pan-European Public Procurement Online (PEPPOL) framework, and e-Invoicing is expected to be available by the end of 2019. The government also plans to introduce measures to prohibit "unconscionable" payment conduct in B2B transactions and extend the existing consumer protections (under the Fair Trading Act) against unfair contract terms to protect business contracts under NZD 25 000 (USD 16 055).

5.4. Regulation of online alternative finance for SMEs is emerging across the globe

113. Alternative finance instruments such as factoring, leasing and online alternative finance have shown sustained growth in recent years, often supported by the development of Fintech. In parallel with these evolutions, recent digitalisation dynamics are presenting new opportunities and challenges for SME finance (OECD, 2019[6]). Fintech, defined by the Financial Stability Board (FSB) as "[t]echnology-enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on the provision of financial services" (FSB, 2017[53]), spans a wide range of financial services, including debt and equity instruments.

114. Developments include online challenger banks, Fintech credit marketplaces, the digital transformation of private equity instruments, the diversification of potential borrowers and the possibilities offered by new data analytics and distributed ledger technologies.

115. Online alternative finance activity has been increasingly included in SME finance policy initiatives. Fintech presents potential for enhancing SME access to finance, offering more convenient and accessible services, more effective credit risk assessments and lower transaction costs. These instruments can be a unique opportunity for projects that are too small, too risky, or have a social purpose (OECD: SME Ministerial Conference, 2018[36]), and their strong expansion in particular in the early 2010s has prompted regulators to intervene.

116. Even though the share of firms that turn to online alternative finance remains relatively low in most markets, they have reached critical mass in others, most notably China, the United Kingdom and the United States. Moreover, recent operational failures highlight the challenges for regulators seeking to ensure adequate consumer and investor protection (Claessens et al., 2018[65]). The underlying question is whether intermediation platforms should have to conform to existing financial services regulation, or whether tailored regulation should be promoted.

117. In the context of the exercise to identify Effective Approaches for Implementing the G20/OECD High Level Principles for SME Financing, a large majority of countries reported supporting the development of Fintech solutions as a way of increasing SME access to finance (27 out of 38). Regulatory initiatives comprised 19 out of these 27 measures. In addition, platforms to inform and connect SMEs to Fintech companies, workshops and the creation of Fintech association were also mentioned (Koreen, Laboul and Smaini, 2018[1]).

118. Regulatory efforts have focused on this new industry seek to ensure consumer and investor protection, while at the same time taking care not to stifle innovation. For credit Fintech firms, since 2015, a number of countries have created specific regulation and licencing schemes. Brazil, China and Mexico are among the latest adopters. In other jurisdictions such as Germany and the United States, Fintech firms work jointly with a commercial bank to provide the loans channelled by the platform. In Brazil, many firms also work under this partnership models, even after regulation was in place allowing them to issue loans from their own balance sheets.

119. Regulatory sandboxes are a frequently adopted policy response to uncertainty related to innovative financial service providers. As part of these instruments, firms can test services and business models under the financial regulator's oversight and in a controlled environment (see Box 6).

Box 6. Regulatory frameworks for Fintech: sandboxing and other measures

Many government programmes aim to support and regulate Fintech at the implementation stage, when ideas are tested on the market (OECD, 2018[66]). Sandboxing offers a regulatory perimeter for innovative business ideas to be tested in a controlled environment. The rationale behind such an approach is to allow for more flexibility and experimentation for innovative (and typically small-scale) financial activities. Certain conditions areimposed on the businesses in order to ensure consumer protection, and consumer

feedback (concerning both the business idea and its regulation) is an essential component of this kind of framework.

Apart from the establishment of a regulatory sandbox, flexible regulation may take the form of reduced licencing requirements, like in the Netherlands and the United Kingdom (OECD, 2018[66]). In return, businesses which benefit from these schemes are sometimes obliged to remain under a certain number of customers or certain sales figures, like in Australia (OECD, 2018[66]). Under certain conditions, a business idea that has failed may also be exempt from certain legal requirements. Often, conditions regarding consumer protection are relatively strict, including the designation of a dedicated point of contact or advisor within the business, with whom regulators can remain in dialogue throughout the process.

Source: (Global Financial Innovation Network and Financial Conduct Authority, 2019[67])

120. In addition, other jurisdictions have overhauled their regulatory and supervisory framework to enable digitalisation to take place in the financial sector. Indonesia's Financial Services Authority, for instance, provided guidelines and regulation in 2016, 2018 and 2019 to permit banks to digitalise their products and procedures. These changes streamline, expedite and reduce costs of credit applications for small businesses. One change introduced in 2019 made it possible, for example, for banks to engage third party service providers such as Fintech companies to conduct their face-to-face on-boarding verification.[7]

121. The Global Financial Innovation Network (GFIN) is a network of regulators committed to supporting financial innovation and protecting the interests of consumers. It was formally launched in January 2019 and comprises an international group of 11 coordinating authorities, 20 members and 7 observers among national and subnational authorities as well as international organisations and fora (see Table 3) (Global Financial Innovation Network, 2019[68]).

122. Beyond aiming to offer a platform for sharing different experiences and approaches, GFIN provides a more efficient way for innovative firms to interact with regulators. A cross-border pilot for firms wishing to test innovative products, services or business models across multiple jurisdictions is in place and 8 firms among 44 applicants were selected. This first cohort will pilot their services in Australia, Bahrain, Bermuda, Canada (British Columbia, Ontario and Québec), Hong Kong (China), Hungary, Kazakhstan (Astana), Lithuania, Singapore, United Arab Emirates (Abu Dhabi, Dubai), United Kingdom, Guernsey and Jersey (Global Financial Innovation Network and Financial Conduct Authority, 2019[67]).

Table 3. Global Financial Innovation Network (GFIN) members

Financial authorities' sandboxes and international fora, as of June 2019

Jurisdiction	Organisation
Australia	Australian Securities & Investments Commission (ASIC)
Bahrain	Central Bank of Bahrain (CBB)
Bermuda	Bermuda Monetary Authority (BMA)
Brazil	Securities and Exchange Commission of Brazil (CVM)
Canada (Alberta)	Alberta Securities Commission (ASC)
Canada (British Columbia)	British Columbia Securities Commission (BCSC)
Canada (Ontario)	Ontario Securities Commission (OSC)
Canada (Québec)	Autorité des marchés financiers (AMF)
China	Qianhai Financial Authority
Chinese Taipei	Financial Supervisory Commission
Curaçao and Sint Maarten	Centrale Bank van Curaçao and Sint Maarten
Hong Kong, China	Hong Kong Monetary Authority (HKMA)
Hong Kong, China	Hong Kong Securities and Futures Commission (HKSFC)
Hong Kong, China	Hong Kong Insurance Authority (IA)
Hungary	Magyar Nemzeti Bank (Central Bank of Hungary)
Israel	Israel Securities Authority (ISA)
Israel	Capital Market, Insurance, and Savings Authority (CMISA)
Kazakhstan	Astana Financial Services Authority (AFSA)
Kenya	Capital Markets Authority (CMA, Kenya)
Lithuania	Bank of Lithuania (BL)
Luxembourg	Commission de Surveillance du Secteur Financier (CSSF)
Mauritius	Financial Services Commission Mauritius (FSC)
Qatar	Qatar Development Bank
Singapore	Monetary Authority of Singapore (MAS)
South Africa	South African Reserve Bank (SARB)
Swaziland (Eswatini)	Central Bank of Eswatini
United Arab Emirates	Dubai Financial Services Authority (DFSA)
United Arab Emirates	Abu Dhabi Global Market (ADGM)
United Kingdom	Financial Conduct Authority (FCA)
British Crown: Guernsey	Guernsey Financial Services Commission (GFSC)
British Crown: Isle of Man	Isle of Man Financial Services Authority (IOMFSA)
British Crown: Jersey	Jersey Financial Services Commission (JFSC)
United States	Consumer Financial Protection Bureau (CFPB)
IO and fora	Financial Sector Deepening Africa (FSD Africa)
IO and fora	European Bank for Reconstruction and Development (EBRD)
IO and fora	Consultative Group to Assist the Poor (CGAP)
IO and fora	International Monetary Fund (IMF)
IO and fora	World Bank Group

Source: (Global Financial Innovation Network and Financial Conduct Authority, 2019[67])

6. Policy responses to the COVID-19 crisis

6.1. An overview of policy responses to the COVID-19 crisis[8]

123. SMEs are at the centre of the economic crisis brought on by the COVID-19 pandemic and containment measures. The COVID-19 crisis has hit SMEs hard, with government-enforced lockdowns seizing up national and international supply chains, prompting a slump in customer demand, and stemming the flow of finance to these crucial businesses. The severity of the impact on SMEs is underlined by estimates that over 50% of SMEs will not survive the next few months without government intervention, which would in turn have a strong impact on national economies and global growth prospects.

124. Recent OECD data show that SMEs account for over 50% of employment in the business economy across OECD countries. In emerging and developing countries, formal SMEs contribute to more than one third of GDP and account respectively for 34% and 52% of formal employment (OECD SME Ministerial Conference, 2018). However, in the sectors most affected by the crisis (e.g. wholesale and retail trade, air transport, accommodation and food services, real estate, professional services, and other personal services) the share of SMEs in employment is 75% on average across OECD countries, and nearly 90% in countries such as Italy and Greece.

125. Some parallels with the financial crisis notwithstanding, there are some fundamental differences. In 2008, the crisis emanated from the financial sector with second-round effects on SMEs. The current crisis has impacted SMEs more directly. In addition, the current crisis is even more global in nature with a more pronounced impact in emerging markets (which often escaped recession in the aftermath of the 2007-08 financial crisis).

126. In light of the impact of the crisis on SMEs, G20 Finance Ministers and Central Bank Governors committed to acting collectively to protect and support workers and small and medium-sized businesses through a set of guiding principles outlined in the G20 Action Plan. In particular, G20 countries committed to supplying targeted liquidity and funding support to small and medium-sized enterprises to minimise the economic and social damage from the pandemic and maintain the conditions for a strong economic recovery. The focus of public policies is clearly on supporting SME liquidity, which has often been impacted heavily by the COVID-19 crisis and ensuing containment measures. In particular, there has been a proliferation of initiatives since March 2020 that aim to preserve viable SMEs facing acute cash flow issues.

127. Based on an analysis of public measures undertaken across 60 countries,[9] these initiatives can be classified as follows:

- **Measures related to working time shortening, temporary lay-off and sick leave, some targeted directly at SMEs**. Germany, for example, expanded access to short-term work arrangements (*Kurzarbeit*) in order to avert a sharp rise in unemployment. In practice, firms can apply for the funds when just 10% of their workers are affected by a work stoppage, compared to one-third previously. The provision of wage and income support for employees temporarily laid off, or for companies to safeguard employment. In many cases, countries have introduced measures in this area specifically focused on the self-employed. Canada introduced

emergency support benefit for self-employed who do not qualify for employment insurance;

- **Measures for the deferral of tax, social security payments, debt payments and rent and utility payments**. In the United Kingdom, for instance, small businesses can waive their business tax rates entirely for 2020. In some cases, tax relief or a moratorium on debt repayments have been implemented. In Italy, following the model experienced at the time of the 2007-08 financial crisis, the government backed an agreement between the Italian Banking Association and various business associations to put in place a large-scale moratorium on debt repayments. Also, some countries are taking measures regarding procedures for public procurement and late payments;
- **The introduction, extension or simplification of the provision of loan guarantees, to enable commercial banks to expand lending to SMEs**. In Singapore for example, the government's risk-share as part of the Enterprise Financing Scheme's Working Capital Loan was increased to 80% and the maximum loan amount was doubled to SGD 600 000 (USD 430 400) per annum;
- **The expansion of direct lending to SMEs through public institutions**. India, for example, provided INR 3 trillion of collateral free loans to MSMEs with a tenure of four year with no payments due for one year. The government also allocates INR 20 trillion (USD 262.41 billion) for subordinate debt aimed at helping currently stressed MSMEs;
- **The provision of grants and subsidies to SMEs and other companies to bridge the drop in revenues**. Poland, for instance, provides zero-interest loans to struggling SMEs, which would be disbursed in the form of grants if beneficiaries do not lay off personnel;
- **Structural policies to help SMEs adopt new working methods and digital technologies and to find new markets and sales channels to continue operations under the prevailing containment measures**. These policies aim to address urgent short-term challenges, such as the introduction of teleworking, but also contribute to strengthening the resilience of SMEs in a more structural way and support their further growth. In Korea, for example, the emergency support programme included incentives for brick-and-mortar shops to open their business online;
- **Specific schemes to monitor the impact of the crisis on SMEs and enhance the governance of SME related policy responses**. Monitoring the impacts enables governments to design well adapted policies and make adjustments to support schemes as needed. In Austria, the Ministry of Economy and Digitalisation set up a task force to monitor the impact of the pandemic and related containment measures, on all firms active in the country. Governance efforts often centre on coordination, including at regional and local government levels. In France for example, regional task forces bringing together public development banks and other key stakeholders have been established to improve multi-level governance.

128. It should be noted that governments often adopted several of the above measures simultaneously. For example, the government of Argentina announced direct loans at concessional conditions, expanded its credit programme for SMEs to cover employee wages, extended the maturity dates of SME debts, postponed or reduced social security

contributions and payroll taxes under certain conditions, and reinforced its public guarantee scheme.

129. Saudi Arabia has also substantially increased its suite of financial support measures to combat the recession. In March 2020, its government announced a stimulus package, including SAR 50 billion (USD 13.3 billion) for SMEs (with further stimulus measures under consideration). Under this programme, SAR 30 billion (USD 8 billion) will be allocated for banks and financing companies to delay loan payments due from SMEs for six months. The package will provide SAR 13.2 billion (USD 3.5 billion) to SMEs through bank loans to allow them to continue operations and support growth. SMEs will also get relief from finance costs through a SAR 6 billion (USD 1.6 billion) loan guarantee programme.

6.2. Key features of the policy response

130. In order to address acute liquidity challenges facing SMEs as a result from confinement measures, public support – often on a massive scale – needed to be disbursed in a very short period of time. A striking feature of the response to the COVID-19 crisis is indeed the speed at which policy makers acted to expand current programmes and/or set up new schemes.

131. The procedures to apply for government support, check eligibility and process applications have generally been made as simple as possible to save time. This was a leading principle of the French "PGE" public guaranteed loans scheme. In part because of the simplicity of the application process, the French Government was able to provide support to around 420 000 companies within two months of its existence. The Swiss approach represents another good example. The application process for its "bridging credit facilities" (a direct loan scheme) is fully online and as user-friendly as possible. As a result, loans can be provided in 30 minutes, and this contributed to very strong growth in uptake in the first weeks after the programme was introduced.

132. Governments have often also relied heavily on banks and other established financial institutions as a partner to offer support to SMEs. This collaboration leverages the wide network these institutions have and the large number of SMEs that have pre-existing bank relations in many countries. This is perceived as essential to ensure widespread outreach. In the United States, for instance, the Small Business Administration (SBA) partners with approved financial intermediaries across the country to provide public support.

133. As the public health crisis became a severe economic crisis, the immediate public response came in the form of lending and debt instruments. Guarantee programmes, direct lending schemes and similar measures were the main instruments to provide liquidity to SMEs in distress. But very quickly, other instruments such as equity and start-up support were added to the policy response to complement these measures in countries such as France, Germany and the United Kingdom. In Italy, as part of the "Recovery decree-law," approved by the Council of the Ministers on 13 May 2020, fiscal incentives for equity investors have been introduced, as well as equity investment and convertible loans for business with a turnover above EUR 50 million (USD 56 billion) by the Italian national investment bank (*Cassa Depositi e Prestiti*).

134. Finally, relief measures in the context of the COVID-19 outbreak tend to be broad-based, open to SMEs in different economic sectors and have relatively few conditions attached to them. This is again reminiscent of the period right after the financial crisis.

6.3. Policy approaches over the medium-term

135. It is still too early to tell how and when the economy will recover and to assess the impact of the broad policy packages in place. However, this section outlines some policy issues for consideration.[10]

136. ***First, accountability remains crucial***. Even when policies need to be in place in short order and with easy access, it is essential to closely monitor the impact of the pandemic and the response measures on SMEs, and change course if necessary. Implementing effective monitoring mechanisms provides governments with the information they need to develop forward looking and flexible policy responses.

137. This is especially important given that designing large-scale initiatives in a very short period, with few conditions attached, in a markedly uncertain economic climate has presented policy makers with considerable implementation challenges. There are risks that the public support may not flow to the right beneficiaries. In addition, governments need to be vigilant to avoid fraud and misappropriation of funds, and support should be able to be reduced as appropriate.

138. Furthermore, some segments of the SME population, such as very small, young or mid-sized companies, may be left out. In particular, it is proving challenging to provide relief to the self-employed, start-ups and informal ventures.

139. ***Second, in many countries policies have been modified over time to keep up with the evolving need of the beneficiaries and to make improvements to the design and implementation***. For instance, the approach in the United Kingdom could be described as “act now, refine later.” When the “Business Interruption Loan Scheme,” introduced in March did not have sufficient uptake, especially for very small and large SMEs, the government introduced a new scheme (the so-called Bounce Back Loans) tailored to these needs, the implementation of which has in turn been improved over time.

140. ***Third, while debt instruments are crucial to keep viable SMEs in business, there are growing concerns about their extensive use, especially for companies that were already heavily indebted***. While these support measures provide breathing room for affected SMEs, they also risk turning the liquidity crisis into a solvency crisis. Similar to developments a few years after the financial crisis, other financing instruments should be explored, including to strengthen SME equity. ***Governments should consider leveraging new tools, such as those provided by Fintech, and mobilising alternative finance providers to implement SME finance support***.

141. ***Fourth, given that SMEs are hit disproportionately by the crisis and are essential for recovery, including SMEs in government consultations to discuss the next step plans is critical for ensuring that their perspective is taken into account***.

142. ***Fifth, many emerging and high-income economies alike may run into fiscal policy challenges if current measures are kept in place over a long period***. Strains on public finances may hamper governments’ abilities to continue supporting SMEs while the recession lasts. As confinement measures are gradually being lifted and economic activity picks up, governments may need to consider which relief measures to keep and which ones to phase out. In addition, tightening eligibility criteria for certain programmes may be warranted, for example by targeting specific segments of the SME population that continue to be particularly affected. Directing funding towards specific uses can also help direct support in ways that supports the broader SME policy agenda. The period after the financial crisis may hold lessons on how to move forward in these respects.

143. ***Finally, policies appear to be gradually shifting from the liquidity relief to structural measures that enhance SME resilience and competitiveness.*** This can be a core part of the strategy towards phasing out of emergency measures and moving towards recovery. Relevant initiatives pertain to support teleworking and using online sales channels, but also policies for innovation, digitalisation and training, through which governments can bolster SME recovery and improve their resilience for the future. For example, Japan started offering subsidies to support teleworking in SMEs, including encouraging firms to adopt IT solutions and develop e-commerce sales channels in March 2020. As another example, Australia is offering support for small business to retain their apprentices and trainees. Eligible employers can apply for a wage subsidy of 50% of the apprentice's or trainee's wage for up to 9 months from 1 January 2020 to 30 September 2020. Where a small business is not able to retain an apprentice, the subsidy will be available to a new employer that employs that apprentice.

144. Likewise, there are mounting concerns about declining start-up rates as a consequence of the adverse economic climate. This development could imperil countries' recovery and negatively impact business dynamism and innovation over the long term. As an emerging phenomenon, policy makers across the globe are strengthening their start-up and entrepreneurship policies in an effort to reverse or at least slow down the downward trend in firm creations. For example, France and Germany included the establishment of a start-up fund of EUR 4 billion (USD 4.5 billion) and EUR 2 billion (USD 2.2 billion) (with additional resources from public venture capital investors) respectively as part of their policy responses.

7. Conclusions

145. The decade following the global financial crisis saw pronounced changes in the policy landscape for SME and entrepreneurship finance. Direct lending activities and credit guarantee schemes were often expanded and broadened in the immediate post-crisis period. The aim was to counter the cyclical impact of the crisis and mitigate potential unintended consequences of tighter bank regulation. As credit conditions eased, these policies were largely maintained and often targeted more explicitly to certain segments of the SME population. SME access to finance became recognised as a continuing policy priority in many countries, as illustrated by the G20/OECD High-Level Principles on SME Financing and the G20 Action Plan on SME Financing, welcomed by G20 Leaders in November 2015.

146. In more recent years, the focus in many jurisdictions shifted to addressing SME overdependence on traditional bank debt, in order to enhance SME access to the financial instruments most suited to their needs at different stages of their business cycle, and to increase SME resilience in the face of potential future downturns. Programmes to support private equity became a common SME finance policy approach.

147. Immediate post-crisis financial regulation focused on reforming the banking sector in order to contain systemic risk. The widespread adoption of Fintech and online alternative finance instruments in the second half of the decade prompted regulators to change their focus. Tools also evolved from general macro-prudential measures to new regulatory measures such as sandboxing and relaxing licensing schemes.

148. While many governments have taken action in recent years to harness the potential of financial innovation, further initiatives can be expected, and the next decade may well witness a profound transformation in how many SMEs access finance.

149. The crisis brought on by the COVID-19 pandemic has the potential to be more severe and long-lasting than the financial crisis of 2007-08. Differences notwithstanding, early evidence suggests similarities in the broad policy approach in the immediate crisis response. The experience from financial crisis may offer guidance for policies makers to help SMEs emerge more resilient from the current crisis.

150. When left unaddressed, significant liquidity issues can turn into a corporate solvency crisis. While the short-term provision of liquidity was necessary to support businesses in financial distress, G20 members can harness the benefits of their coordination and implement the G20/OECD High-Level Principles on SME Financing to bridge the liquidity gap for SMEs and drive economic recovery from the crisis induced by the COVID-19 pandemic.

151. They may also wish to consider whether it is timely to undertake a review of the G20/OECD Principles to determine whether an update would be relevant in light of recent developments in the financial and policy landscapes documented in this report. These include, among others, Fintech developments and related regulatory aspects, as well as the unprecedented fall-out of the COVID-19 crisis.

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7.1. Notes

[1] More information about the impact of the pandemic on SMEs, as well as on relevant public measures, can be found here: http://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/

[2] OECD, National Accounts: GDP by Expenditure: Constant Prices: Gross Domestic Product - Total for G20.

[3] Exchange rates are sourced from Morningstar at 19 June 2020 throughout the document.

[4] The G20 Investment and Infrastructure Working Group (IIWG) and the G20 Global Partnership for Financial Inclusion (GPFI) SME finance Sub-group coordinated efforts related to the promotion of SME financing and compiled a set of priority actions, endorsed by G20 leaders in 2015. The actions encompassed priority reforms in financial market infrastructures as well as a continued knowledge agenda that covered data gaps on SME finance data, innovation in SME finance policies and long-term finance instruments for SMEs (GPFI, 2015[82]).

[5] This data refers to the number of countries in the Scoreboard that declared policies under various categories throughout the Scoreboard editions. The list of countries is presented in the Trends Chapters in each edition. Categories varied slightly over time. The complete list includes: (i) Government loan guarantees; (ii) Special guarantees and loans for start-ups; (iii) Government export guarantees, trade credit; (iv) Government co-financing/Pension fund co-finance; (v) Direct lending to SMEs; (vi) Subsidised interest rates; (vii) Venture capital, equity funding, business angels; (viii) Business angel co-investment (added in 2019); (ix) SME Banks; (x) Business advice, consultancy; (xi) Tax exemptions, deferments; (xii) Credit mediation/Review/Code of Conduct; (xiii) Bank targets for SME lending, negative. Interest rates for Central Bank deposits; (xiv) CB funding to banks dependent on net lending rate.

[6] See “The missing entrepreneurs” for more information: https://www.oecd-ilibrary.org/industry-and-services/the-missing-entrepreneurs-2019_3ed84801-en. This is a biannual report on how public policies at national, regional and local levels can support job creation, economic growth and social inclusion by overcoming obstacles to business start-ups and self-employment by people from disadvantaged or under-represented groups in entrepreneurship.

[7] https://www.lexology.com/library/detail.aspx?g=4bd64f7e-5270-4f54-992e-9f7b6bced509

[8] This section draws from: http://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/

[9] https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses

[10] The latest Economic Outlook of June 2020 can be found here: https://www.oecd.org/economic-outlook/