TACKLING CORONAVIRUS (COVID-19)
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SME FINANCE TRENDS AND THE PUBLIC POLICY RESPONSES TO COVID-19

AECM 2020 General Assembly

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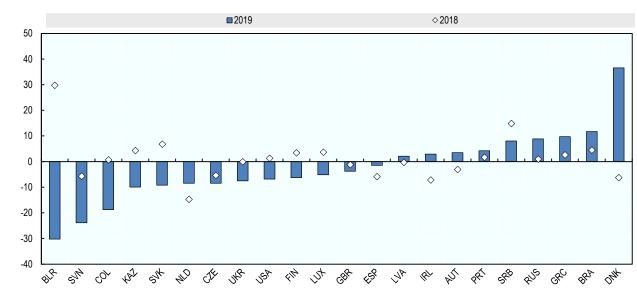




SME finance conditons were broadly favourable in 2019, but lending remained weak

- Interest rates declined in 22 out of 39 countries
- Relatively loose credit standards documented by survey data
- SME NPLs were relatively low in the runup to the crisis
- New lending flows remained weak

New lending flows to SMEs, year on year changes, as a percentage



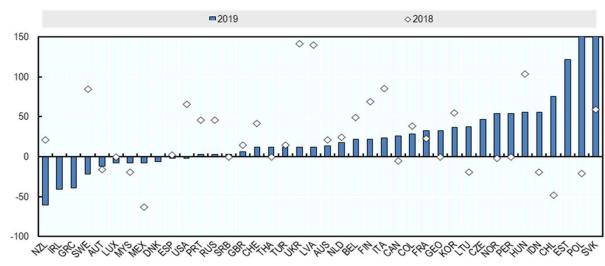
Source: Data compiled from Scoreboard country profiles

... while SME uptake of non-bank financing instruments continued to grow

- Leasing, hire purchases and factoring activities all increased
- Online alternative finance likely increased (comprehensive data forthcoming)
- Venture Capital Investments expanded in 29 out of 40 countries

Growth in Venture capital investments, 2018-19

Year to year change as a percentage (%)



Source: Data compiled from Scoreboard country profiles



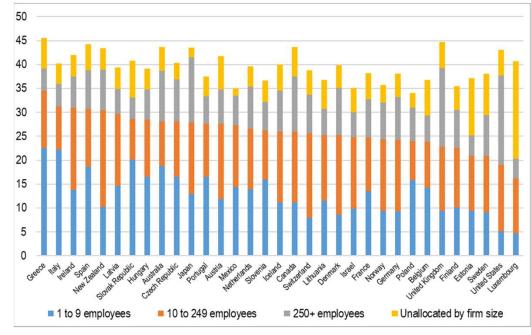
SMEs have been at the center of the Covid-19

pandemic

- SMEs represent close to 75% of all jobs in the most affected sectors, compared to 60% in the total business economy
- Across the world, 40+ business surveys show that over 50% of SMEs experienced a strong drop in revenue and were at risk of being put out of business in less than three months
- Insolvencies expected to rise significantly by 17% in 2020 and 16% in 2021

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Share of total employment in the most adversely affected sectors by firm size (%)



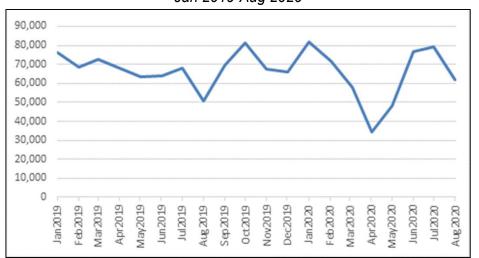
Source: OECD Annual National Accounts and Structural Business Statistics databases, OECD calculations, 15 April 2020

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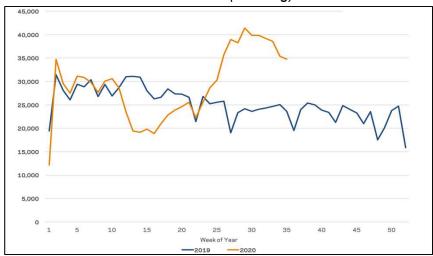
Note: Employment data from 2017 and 2018.

Start up rates were hard hit – but a tentative recovery is underway in some countries

Monthly creation of new businesses in France
Jan 2019-Aug 2020



Weekly Business applications in the United States 2019 – 2020 (Jan-Aug)

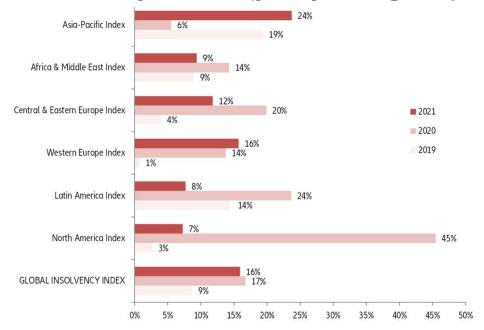


Source: INSEE https://www.insee.fr/fr/statistiques/4631321#consulter and US Census Bureau's Business Formation Statistics: https://eig.org/news/weekly-update-covid-19-business-formation

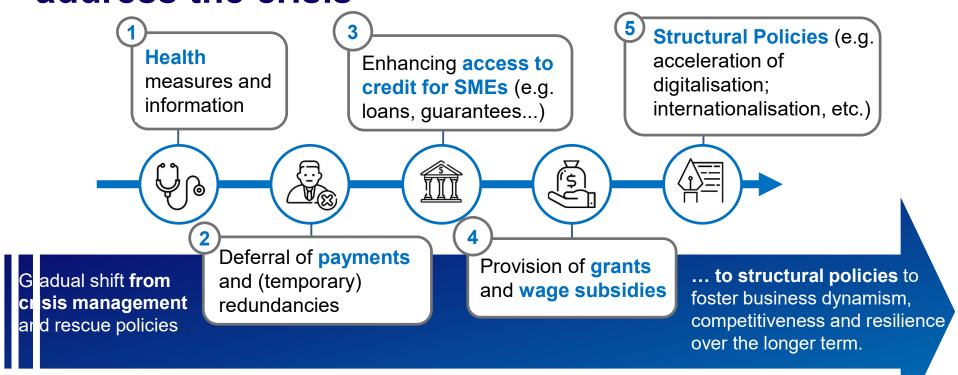
Strong drop in business creation/ application rates between March and May 2020, followed by recovery over the summer, although uncertainty remains

Bankruptcies are expected to rise substantially in the second half of 2020 and in 2021

Regional Insolvency indices (yearly change in percentage)

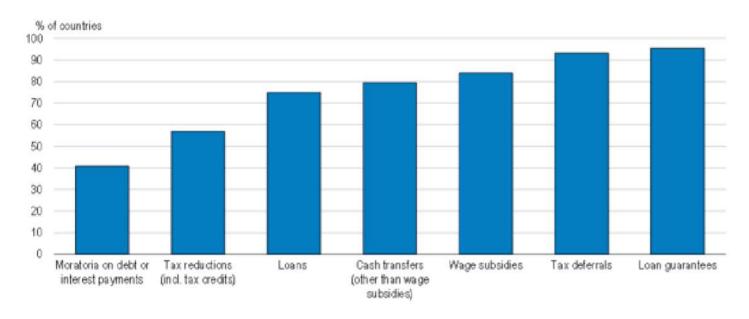


In most countries, measures were sequenced to address the crisis



Wide array of policy measures, but similar instruments

Frequency of business support measures during the initial phase of the COVID-19 crisis

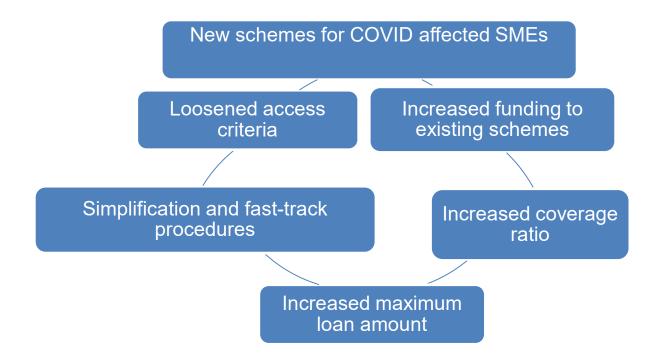


Note: Non-OECD countries include Brazil, China, India, Indonesia and South Africa.

Source: OECD COVID-19 Policy Tracker (2020) https://www.oecd.org/coronavirus/country-policy-tracker/, and national sources.

Common trends but diverse product features

Loan guarantee schemes



Lending to firms held up in Q1 and Q2, but other types of finance are cause for concern

Trends in lending vs. ...



Euro zone

Increase in demand for loans & no significant tightening of credit standards



United Kingdom

Steep increase in demand for credit in Q2 2020



North America

 Increase of the demand for corporate loans and an increase in credit requirements



Expected increase in demand of corporate credit in Q3



Japan

Increased corporate lending, especially for SMEs

...alternative financing instruments

- Early stage equity finance:
 Decline in seed and angel investments in US/ China, expected contraction in Euro zone
- Trade finance: likely to be strongly affected given the pronounced decline in both supply and demand of international trade
- Leasing and hire purchases: loan delinquencies are likely to rise, which is expected to lead to fewer activities

COVID-related financial support instruments would benefit from greater diversification

Loan guarantees

- New schemes (e.g. Denmark, Israel, Japan)
- Boost in funding (e.g. <u>Australia</u>, Austria, <u>Poland, Spain,</u> US, UK)
- Higher public risk (e.g. Germany Singapore, 100% in Switzerland and US)
- Easier access (e.g. France, Switzerland,)

Direct loans

- New schemes (Australia, Canada, Czech Republic, India)
- Higher funding (Brazil, Japan)

Equity

- Strengthened public VC funds (Germany)
- Economic stabilization fund to ringfence strategic activities (Germany)
- Financing bridges for start-(France)
- Convertible loans (UK)

Grants

- For SMEs affected by the lockdown (Korea, Netherlands, Poland)
- Wage subsidies

 (Australia, Canada,
 Chile, Germany,
 Ireland, New Zealand,
 Norway)
- Digitalisation:

 (Austria, France,
 Germany, Korea,

 Spain)

Note: Countries underlined introduced new measures in the third guarter of 2020





Going forward, it is critical to connect short-term and long-term responses



Access: How to ensure a **fast-track access** to support for SMEs and the self-employed, while ensuring **accountability**? How can instruments reach all **viable SMEs**?



Sustainability: How can **alternative financing mechanisms** and channels be leveraged to avoid over-indebtedness of SMEs? How can equity and growth capital be mobilised?



Business dynamism: Support for innovative entrepreneurship, second chance entrepreneurship and creation of start-ups (e.g. fostering conducive regulatory frameworks)



Moving towards structural responses: How to move **from crisis management to structural policies** that can enhance SME resilience and competitiveness over the longer term? For example, digitalization, reskilling, new markets and GVCs





Don't miss our other latest policy responses to the COVID-19 crisis

- SME Policy Responses (6th edition, 15 July)
- Culture shocked: COVID-19 and the cultural and creative sectors (7 September)
- Social economy and the COVID-19 crisis: current and future roles (30 July)
- <u>Cities policy responses</u> (3rd edition, 7 July)
- o <u>Tourism Policy Responses</u> (4th edition, 2 June. Also available in <u>French</u> and Italian.
- The territorial impact of COVID-19: managing the crisis across levels of government)
 (2nd edition, 16 June)
- o <u>Implications of Coronavirus crisis for Rural Development</u> (16 June)
- Capacity for remote working can affect lockdown costs differently across places (2 June) Also available in <u>French</u> & <u>German</u>
- From pandemic to recovery: Local employment and economic development (27 April)
- <u>Italian regional SME policy responses</u> (22 April)



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