Secured lending for SMEs
Making effective use of registries and intangibles - A case study approach

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Introduction

The OECD Committee on SMEs and Entrepreneurship brings together policy makers and stakeholders

Global forum for policy analysis and dialogue

- SME and entrepreneurship financing
- Scale up
- SME greening
- SME digitalisation
- SME and entrepreneurial skills
- SMEs and GVCs

Country-level analysis and tailored support

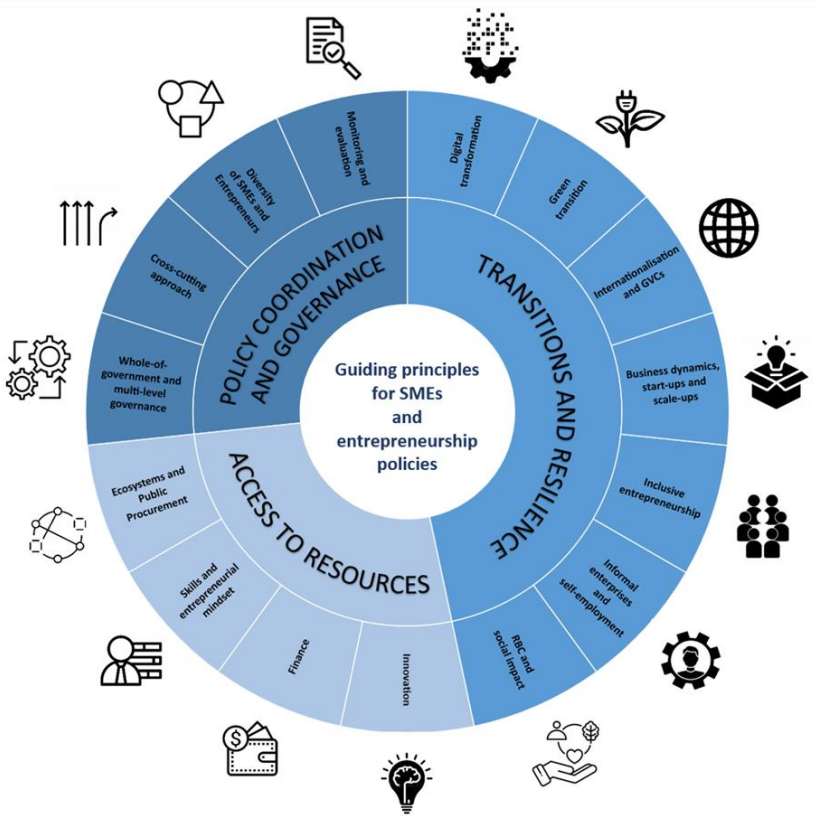
Monitoring and evaluation

OECD Recommendation on SME and Entrepreneurship Pc

A coherent and strategic approach to SME and entrepreneurship policies >> encompassing a mix of targeted and horizontal policy dimensions and placing emphasis on effective governance mechanisms

15 Guiding Principles structured around 3 pillars:

1. **Policy coordination and governance**
2. **Transitions and resilience**
3. **Access to resources**



Work on SME&E financing supports evidence-based policy making

Financing SMEs and Entrepreneurs

Data collection

Thematic work

High level guidance/ instruments

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

- High-level policy guidance, addressed to G20, OECD and other countries
- Voluntary and non-binding; can be adapted to national circumstances
- Included in the Compendium of Standards of the Financial Stability Board (FSB)
- Focus on the need to strengthen the conditions for access to both bank and non-bank finance, data collection and policy benchmarking

1. Improve the evidence base for SME finance
2. Improve transparency in SME finance markets
3. Design sound financial regulations
4. Promote financial inclusion
5. Enhance financial skills and strategic vision
6. Strengthen access to traditional bank financing
7. Enable alternative sources of finance
8. Leverage the role of Fintech to reduce barriers for SMEs
9. Strengthen sustainable finance for SMEs
10. Strengthen the resilience of SME finance in times of crisis
11. Encourage timely payments in business transactions
12. Ensure additionality and cost-effectiveness in SME finance programmes
13. Promote risk sharing between public and private sector in SME finance programmes
14. Monitor and evaluate SME finance programmes

https://www.oecd.org/cfe/smes/2022-Update-OECD-G20-HLP-on-SME-Financing.pdf

Secured lending for SMEs

Scope of the study

Points of reference

- Case studies of selected international approaches enabling SMEs to secure financing, through:
  - Provision of collateral registries for movable assets
  - Collateralisation of intangible assets in lending
- Builds on previous work:
  - G20/OECD High Level Principles on SME financing
  - 2016-2020 research into the role of security in lending by OECD, UN, World Bank *et al*
  - 2019 OECD study: *Fostering the use of intangibles to strengthen SME access to finance (pictured)*

Summary of findings

For collateral registries and enabling legal frameworks

- Collateral plays an important role globally in enabling SME access to finance via bank lending
  - Up to 7% improvement in SME access to finance, up to 3% reduction in interest rates charged, and longer loan maturities
- These lending activities are in turn reliant on effective registries and sound legal approaches
  - UNCITRAL Model Law (2016) provides a usable framework that incorporates much good practice, forms the basis of recent reforms
- Progress is clear, but the picture remains mixed
  - Registration systems, including in developing economies, increasingly support good practice (perfection and notice mechanisms) and accommodate digital data submission and retrieval
  - However, they are dependent on legal systems that vary in their effectiveness (common vs civil law traditions handle security interests in different ways)
  - Commercial practice is continually evolving, and has developed its own solutions (e.g. specialist registries for interests in vehicles)

Policy examples

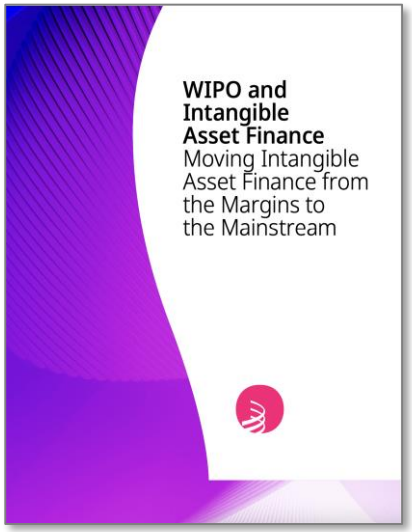
For collateral registries and enabling legal frameworks

- The enabling framework of the UNCITRAL model law, which draws on US Article 9 principles, is now either adopted or mirrored in at least eight countries
- IFC, park of World Bank, has supported many countries in secured lending reforms and registry establishment, and has tracked some of the benefits
  - In Slovakia, movable asset reforms increased private sector credit by 10% within 5 years
  - In India, time to recover collateral dropped from 10 years to 9 months after the Securitization Act established a viable enforcement regime
  - In Albania a new law and accompanying collateral registry led to a 5% fall in lending interest rates
- However, the path is not always smooth
  - Vietnam has had a Civil Code to facilitate secured transactions since 1995 and a registry since 2001
  - However, the registration system had to become web-based in 2012 before it was widely usable
  - It took until 2015 for legal reforms to become fit for purpose - and amendments continue

Summary of findings

For intangible asset utilisation

- Global intangibles account for a large proportion of corporate value and investment (estimated value reached USD 74 trillion in 2021)
- Underutilised as an asset class for lending
  - EPO/EUIPO research indicates firms with IP are 60%+ more likely to grow
  - BBB/UKIPO research shows firms with IP have 40% lower propensity to default on a loan, and 50% lower losses given default
- Key challenges relate to high transaction costs and lack of lender confidence in recoverable value in liquidation
  - Lack of visibility in company accounts may exacerbate the issue
  - These elevated costs cannot currently be offset by capital relief
- A growing focus for public sector policy responses
  - Private sector insurance also playing a growing role, with several brokers now offering ‘collateral protection insurance’, initially focusing on US market
  - New initiative from UN agency WIPO since report publication



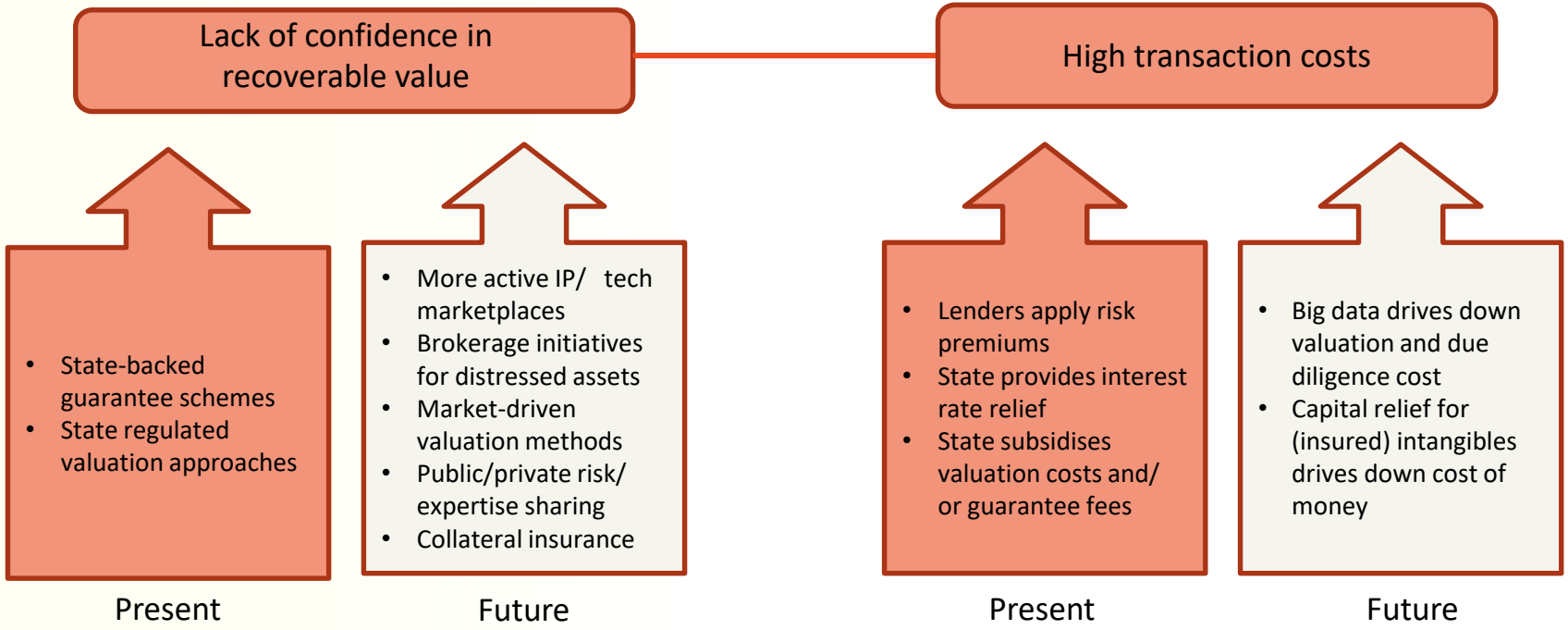
Policy examples

Use of intangibles as security for lending

- China has grown lending to over RMB 150bn per annum by implementing many initiatives at regional and even local levels
  - Measures mainly aimed at mitigating credit risks for lenders and lowering transaction costs for borrowers
  - However, still rare to find intangibles taken as sole security for a loan
- Korea now facilitates intangibles-backed lending as well as specialist technology finance
  - Legally regulates valuers, subsidises valuation costs, and has recently initiated a Recovery Fund that will buy distressed IP assets
  - Has a separate Invention Promotion Agency which offers patent rating tools to lenders
- Canada's Development Bank has created a specialist team to support scalable IP-rich companies with debt and (sometimes) equity
  - Entered the market by bringing in an existing private sector team
- Japan, Singapore, Malaysia have all employed different tactics in the past
  - Japan's long-term focus has been on education and on subsidized valuation reports for regional banks
  - Malaysia trained valuers, established standards and set up a dedicated fund for creative and digital businesses
  - Singapore set up a dedicated guarantee scheme for commercial lenders, with conditional borrower subsidies

Use of intangibles as collateral

Ways to tackle the two main challenges



Thank you

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