

Evidence and Statistics on the Scale-up Gap

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Background

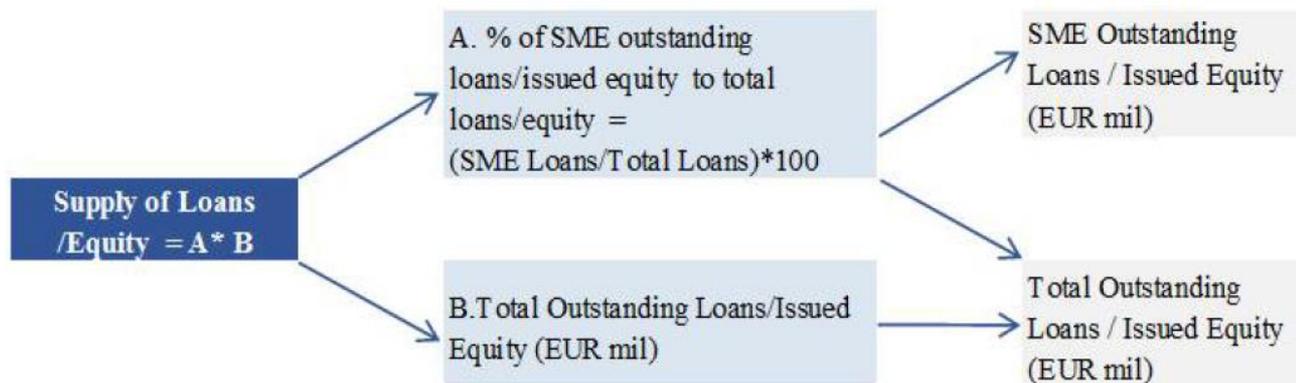
- Large literature on alternative sources of finance to bridge financing gap for SMEs and high-growth firms
- Policymakers have suggested alternatives to loan finance for SMEs:
 - COSME, Horizon 2020, ESIF and EsSI aim to increase lending and risk capital
 - EFSI supports risk capital for SMEs and mid-size firms
 - SMEs may receive favorable EIB loans via a selected commercial bank or other intermediaries

Where to Start: Estimating the SME Financing Gap

- Research countries: France, Germany, The Netherlands, Poland and Romania
- Current literature:
 - Mainly focused on the supply side
 - Most of the attention is on the supply of bank loans
 - There is no relative comparison where the data in US is available and equity supply is much larger
 - Greater need for broader empirical research on estimating the scale-up supply, demand, and gap for financing

Estimating the SME Financing Supply

- We use data on outstanding loans and issued equity



European Investment Bank: *Private Sector Financing and the role of Risk-bearing Instruments (2014)*

Sources: OECD; IMF; EVCA; DB Research, DNB, GfK, CSO of Poland, ECB, Ministry of Public Finance Romania.

Estimating the SME Financing Demand

- **We use multiple data sets and different methods**

Loan Demand:

Method 1 obtained loans.

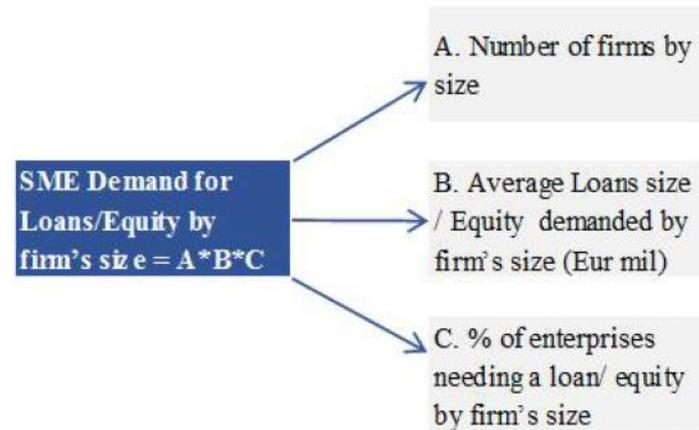
Method 2 obtained and desired loans.

Method 3 obtained and rejected loans.

Equity Demand:

Method 1 EVCA data

Method 2 proxy of loan demand



European Investment Bank: *Private Sector Financing and the role of Risk-bearing Instruments* (2014)

Sources: EC data, ECB SAFE Survey

SME Loan Demand in France in 2013

- Range of 13.65% to 15.44%

	Method #1	Method #2			Excess Demand #1	Method #3	Excess Demand #2
SME Loan Demand							
A. % of SME needing a loan							
Micro	68.21%	68.21%				68.21%	
Small	71.41%	71.41%				71.41%	
Medium	76.62%	76.62%				76.62%	
	<i>Applied and Obtained a Loan</i>	<i>Applied and Obtained a Loan</i>			<i>Applied and Obtained (with excess demand)</i>	<i>Applied and Got Rejected for a Loan</i>	
		100% of a loan	more than 75% (12% excess demand)	up to 75% (50% excess demand)			
Weights within groups for Method#1, Method#2							
Micro		81.39%	8.88%	9.73%		69.66%	30.34%
Small		91.01%	3.96%	5.03%		78.46%	21.54%
Medium		90.73%	7.45%	1.82%		88.90%	11.10%
				<i>Weighted average loan demanded</i>		<i>Weighted average loan demanded</i>	
B. Average loan demanded (€ mil)							
Micro	0.15	0.16	0.10	0.22	0.16	0.16	0.19
Small	0.32	0.32	0.56	0.19	0.33	0.33	0.40
Medium	0.58	0.59	2.10	0.32	0.69	0.69	0.88
C. Number of SMEs							
Micro	2,439,919	2,439,919				2,439,919	
Small	136,364	136,364				136,364	
Medium	21,740	21,740				21,740	
D. SME Loan Demand=A*B*C (€ mil)							
Micro	247,545	264,948				281,061	
Small	31,265	31,806			Diff. between Method #1 and Method #2	33,403	Diff. between Method #1 and Method #3
Medium	9,676	11,544				11,887	
Total SME loan demand (€ mil)	288,486	308,298			(19,811)	326,350	(37,864)
SME loan demand as % of GDP	13.65%	14.59%			0.94%	15.44%	1.79%

SME Equity Demand in France in 2013

- Range of 2.26% to 3.09%

<i>SME Equity Demand</i>		
A. % of SME needing equity		
Micro	25.39%	25.39%
Small	28.97%	28.97%
Medium	27.23%	27.23%
B. Average equity demanded (€ mil)		
	<i>EVCA data</i>	<i>ECB data</i>
Micro		0.05
Small	1.44	0.20
Medium		1.50
C. Number of SMEs		
Micro	2,439,919	2,439,919
Small	136,364	136,364
Medium	21,740	21,740
D. SME Equity Demand=A*B*C (€ mil)		
Micro		30,972
Small	56,884	7,901
Medium	8,523	8,878
Total SME equity demand (€ mil)	65,408	47,751
SME equity demand as % of GDP	3.09%	2.26%

Total SME Financing Supply in France in 2013

- 10.31 of GDP (loan 10.28% and equity 0.03%)

<i>SME Loan Supply</i>	<i>Source #1 ECB data</i>	<i>Source #2 IMF data</i>
A. SME loan supply		
SME Loan Supply (€ mil)	217,257	
SME Loan Supply as % of GDP	10.28%	
B. Total outstanding loans		
Total outstanding loans (€ mil)	812,854	837,341
Total outstanding loans as % of GDP	38.46%	39.62%
C. % of SME outstanding loans to total outstanding loans	26.73%	25.95%
<i>SME Equity Supply</i>	<i>EVCA data</i>	
A. SME equity supply		
SME Equity Supply (€ mil)	680	
SME Equity Supply as % of GDP	0.03%	
B. Total venture capital issued		
Total venture capital issued (€ mil)	8,079	
Total venture capital issued as % of GDP	0.38%	
C. % of SME issued equity to venture funds	8.41%	
<i>Total SME Financing Supply</i>		
Total SME fin. Supply		
Total SME fin. Supply (€ mil)	217,937	
Total SME fin. Supply as % of GDP	10.31%	

Total SME Financing Gap in France in 2013

- Range of 5.60% to 8.22% of GDP

	Loans			Equity		Total		
<i>SME Loan Supply</i>								
SME Loan Supply (€ mil)	217,257					217,937		
SME Loan Supply as % of GDP	10.28%					10.31%		
<i>SME Equity Supply</i>								
SME Equity Supply (€ mil)				680				
SME Equity Supply as % of GDP				0.03%				
	<i>Method#1</i>	<i>Method#2</i>	<i>Method#3</i>			<i>Method #1</i>	<i>Method#2</i>	<i>Method#3</i>
<i>SME Loan Demand</i>								
SME Loan Demand (€ mil)	288,486	308,298	326,350			353,894	373,705	391,758
SME Loan Demand as % of GDP	13.65%	14.59%	15.44%			16.74%	17.68%	18.53%
<i>SME Equity Demand</i>								
				<i>EVCA data</i>	<i>ECB data</i>	<i>* Equity Demand using ECB data</i>		
SME Equity Demand (€ mil)				65,408	47,751	336,237	356,049	374,102
SME Equity Demand as % of GDP				3.09%	2.26%	15.91%	16.84%	17.70%
	<i>Method#1</i>	<i>Method#2</i>	<i>Method#3</i>	<i>Equity Gap</i>		<i>Total Fin Gap</i>		
<i>SME Loan Gap</i>								
Total SME fin. Gap (€ mil)	71,229	91,041	109,093			135,957	155,769	173,821
SME fin. Gap as % of GDP	3.37%	4.31%	5.16%			6.43%	7.37%	8.22%
<i>SME Equity Gap</i>								
				<i>EVCA data</i>	<i>ECB data</i>	<i>* Equity Demand using ECB data</i>		
Total SME fin. Gap (€ mil)				64,728	47,072	118,301	138,112	156,165
SME fin. Gap as % of GDP				3.06%	2.23%	5.60%	6.53%	7.39%
GDP (€ mil)	2,113,687			2,113,687		2,113,687		

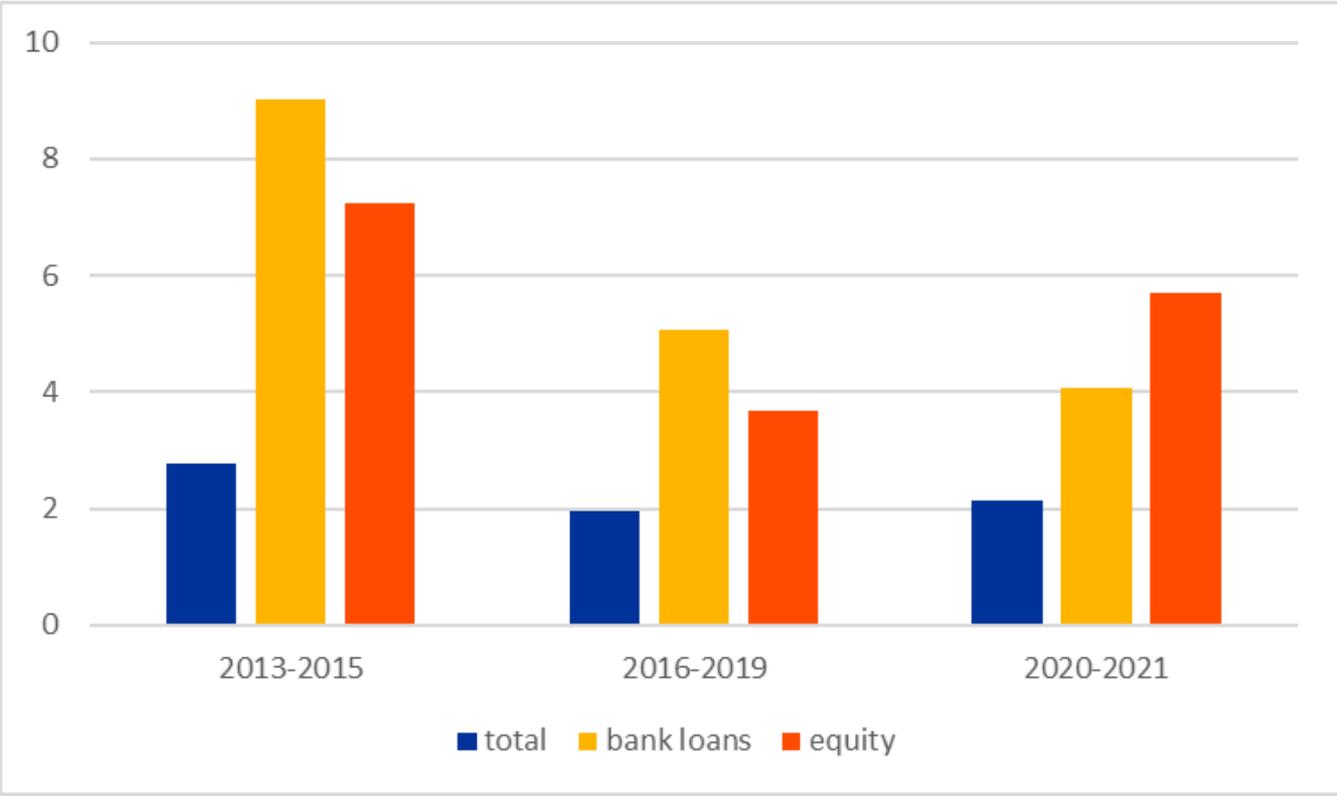
Debt and equity financing gap in research countries

- Three to five times larger than US

Table 1.1 –Spread of the Financing Gap (as % of GDP) in 2013

	France	Germany	Netherlands	Poland	Romania	US
Loan Gap	3.37%	2.70%	6.01%	5.01%	1.35%	1.12%
	to	to	to	to	to	to
	5.16%	6.04%	16.34%	14.73%	4.02%	2.25%
Equity Gap	3.06%	2.07%	0.70%	0.44%	4.83%	0.96%
	to	to	to	to	to	to
	5.09%	3.18%	3.95%	3.49%	13.05%	1.52%
Financing Gap	6.43%	4.77%	6.71%	5.45%	6.18%	2.30%
	to	to	to	to	to	to
	10.25%	9.22%	20.30%	18.22%	17.07%	3.72%

Financing Gap as Perceived by Innovative Young SMEs in EA



Source: ECB/EC SAFE.

Notes: Net percentages of SMEs (250 employees), young (less than 10 years old) and innovative in the euro area.

Conclusion

- Estimating financing gap for young and innovative firms:
- SAFE ECB Survey is providing evidence on the demand for loans and equity among young and innovative firms
- Use of public data on outstanding loans and issued equity to estimate supply
- Use of multiple data sets and different methods used to estimate demand