OECD Work on SMEs and Entrepreneurship

WTO Informal Working Group on SMEs, 28 June 2019

Miriam Koreen
Senior Counsellor on SMEs
Centre for Entrepreneurship, SMEs, Regions and Cities (CFE)
The Working Party on SMEs and Entrepreneurship (WPSMEE)

Participants:

- OECD member countries + partners
- International Organisations (EU, EIB, EIF, WB, IFC, EBRD, others)
- Representatives of small business (UEAPME, BIAC) and financial institutions

Aims to increase awareness among policymakers about the need for a level playing field for SMEs

- Financing
- Innovation
- Regulation
- Internationalisation

Assists countries in the design, implementation and assessment of policies
Overview of the WPSMEE programme

- **SME and Entrepreneurship Outlook**: benchmark of SME structure and performance, business dynamism, business framework conditions and targeted policies
- **SME Financing**: Scoreboard, G20/OECD High-level Principles, Alternative financing instruments (trade finance, intangible assets)
- **Country-level analysis**: Reviews of SME and Entrepreneurship Issues and Policies, Support for the design of national SME Strategies, HEInnovate
- **Thematic work**:  
  - Enhancing SME digitalisation and promoting SME innovation  
  - Fostering SME internationalisation and participation in GVCs  
  - Strengthening SME productivity  
  - Enabling SME to scale up  
  - Business transfer as an engine for SME growth  
  - Missing Entrepreneurs, local entrepreneurship ecosystems  
  - Monitoring and evaluation of SME and entrepreneurship Programmes  
  - An OECD Strategy for SMEs

**KEY MILESTONES FOR 2019-20**

- **OECD Strategy for SMEs**
- **Digital for SMEs Women Entrepreneurship (WE) Initiative**
INSIGHTS FROM THE

OECD SME AND ENTREPRENEURSHIP OUTLOOK:
PERFORMANCE, BUSINESS CONDITIONS AND POLICIES
A comprehensive framework to assess SME-specific challenges

SME Performance

Business environment
- Institutional and regulatory framework
- Market conditions
- Infrastructure

Strategic resources
- Access to finance
- Access to skills
- Access to innovation assets

SMEs and Entrepreneurship policy governance
Business dynamism is picking up

Enterprise creations are back to pre-crisis levels

Firm creation is back to pre-crisis levels in many countries

- doubling over the last 15 years in France and the UK.

With Self-employment growing strongly too
New SMEs have been driving employment growth ……but mainly in low wage/productivity sectors

… especially in the service sector

Employment growth by sector and size class, Contributions and percentage change between 2010 and 2016

Between 2010 and 2016, close to 90% of all new jobs in France were created in activities with below average wages, close to two-thirds in Germany and the United Kingdom, and over three-quarters in the United States.
Trade can help reduce wage gaps, and indirect trade matters too.

Manufacturing wage gaps and SME trade, 2014

Log trend

Direct and indirect exporting activity of SMEs in OECD countries
As a percentage of gross exports, 2014

Notes: Current prices, US Dollars - converted using period average exchange rate.
SME wage gaps are measured as the difference between average salaries per employee in large firms and SMEs as a ratio of average salaries in SMEs. Export propensity of SMEs is measured as the share of exports by SMEs divided by the share of output by SMEs.
But trade tensions and the global economic slowdown could dampen the SME business outlook

- **GVCs have lost momentum** with FDI at its lowest levels since 2013 (-35% in from Q3 2017 to Q2 2018).

- **Digitalisation** can help (e.g. platforms, lower border costs) but also raises **uncertainty** (e.g. reconfiguring GVCs, reshoring?)

- The **concentration of FDI on digital assets** is likely to reinforce the importance of MNE-SME linkages for tech upgrading.

Source: OECD SMEE Outlook 2019 based on OECD International Direct Investment Statistics.
There will be no digital revolution without SMEs!

- SMEs struggle **keeping pace** with the digital transformation.
- SMEs are less proactive in **protecting their data** and not as prepared to face **cybersecurity** threats.
- SMEs struggle **combining different modes of innovation** that are needed to go digital.

Policy responses in a nutshell…

<table>
<thead>
<tr>
<th>Going global</th>
<th>Getting institutions right</th>
<th>Innovation diffusion</th>
<th>Upskilling</th>
</tr>
</thead>
<tbody>
<tr>
<td>- High-level export strategies, new industrial policy</td>
<td>- Levelling the playing field: Product markets, procurement</td>
<td>- High-level strategies, e.g. on smart specialization, entrepreneurship, or innovation</td>
<td>- Broader reform efforts, e.g. of the VET system</td>
</tr>
<tr>
<td>- Reforming export support system to facilitate SME access</td>
<td>- Pro-growth reforms: “one-in, one-out” types of rules, public consultation, flexible regulation</td>
<td>- Financial support for tech adoption and innovation uptake, e.g. digital vouchers, innovation loans</td>
<td>- Financial support for reducing training costs, collective training facilities, local employer associations</td>
</tr>
<tr>
<td>- Export guarantees, incl. for specific SME profiles (first-time exporters, women, start-ups), strengthening linkages to MNEs and FDI</td>
<td>- Digitalisation of public services: One stop shops, including for licenses or tax compliance</td>
<td>- Scaling-up networks: clusters, accelerators/incubators</td>
<td>- Strengthening management skills</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Developing entrepreneurial skills and mindsets, e.g. for women, or older/low-skilled workers</td>
</tr>
</tbody>
</table>
INSIGHTS FROM THE

FINANCING SMES AND ENTREPRENEURS 2019: AN OECD SCOREBOARD
Core indicators of the OECD Scoreboard

<table>
<thead>
<tr>
<th>DEBT</th>
<th>OTHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Outstanding business loans, total and SMEs</td>
<td>7. Interest rates, SMEs and large firms</td>
</tr>
<tr>
<td>2. New business lending, total and SMEs</td>
<td>8. Collateral, SMEs</td>
</tr>
<tr>
<td>3. SME short-term and long-term loans (stock or flow)</td>
<td>9. SME loan applications</td>
</tr>
<tr>
<td>4. Government loan guarantees, SMEs</td>
<td>10. Rejection rate, SMEs</td>
</tr>
<tr>
<td>5. Government guaranteed loans, SMEs</td>
<td>11. Utilisation rate</td>
</tr>
<tr>
<td>6. Direct government loans, SMEs</td>
<td></td>
</tr>
<tr>
<td><strong>ALTERNATIVE</strong></td>
<td><strong>OTHER</strong></td>
</tr>
<tr>
<td>12. Venture and growth capital investments</td>
<td>15. Non-performing loans, total and SMEs</td>
</tr>
<tr>
<td>14. Factoring and invoice discounting</td>
<td>17. Bankruptcies, SMEs</td>
</tr>
</tbody>
</table>

Additional insights: demand-side information, capital market financing, online alternative financing, government initiatives…
Access to finance remains an issue but has improved in many countries

- **SMEs have restored their margins** (internal financing capacity)

- **Bank credit has become cheaper**: historically low interest rates, easing credit conditions, more robust banking system.

- **Alternative sources of funding on the rise**: VC markets and new asset-based funding (e.g. leasing).

- **Fintech** (e.g. ICOs, crowdfunding etc.). Online markets x2 to x3

*Note: Definitions differ across countries. Detailed information on sources and definitions is available in the full country profiles. Source: Data compiled from the individual country profiles of Financing SMEs and Entrepreneurs 2019.*
Volumes of non-bank finance instruments have been rising

→ **Factoring** volumes in 2017 were up by 3.3%, as in previous years

→ **Private debt** is on the rise globally (+10%), and especially in Europe (+27%)

→ **VC investments** were up in 26 out of 39 countries in 2017, in line with the 2016 trend

→ 2017 **SME listings** on stock exchanges expanded by 16.7% in terms of market capitalisation, after a drop in 2016

→ **Business angel investments** rose in Europe (+9%) and in the United States (+12.6%)

→ **SME online alternative financing** has been doubling annually since 2015

www.oecd.org/cfe/sme
### SME finance policies have evolved in recent years....

<table>
<thead>
<tr>
<th>Targeting of SME support</th>
<th>Aftermath of crisis</th>
<th>Recent years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Broad SME population</td>
<td>• Innovative firms, start-ups, lagging regions, women entrepreneurs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Creation of SME banks</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Support for debt financing</th>
<th>Aftermath of crisis</th>
<th>Recent years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Strong increase in credit guarantee volumes</td>
<td>• More focus on the delivery and eligibility criteria of support measures</td>
</tr>
<tr>
<td></td>
<td>• Direct lending</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Credit mediation</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Support for equity financing</th>
<th>Aftermath of crisis</th>
<th>Recent years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Existing equity instruments broadly kept in place</td>
<td>• Tax incentives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Establishment of funds/funds of funds</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regulatory measures</th>
<th>Aftermath of crisis</th>
<th>Recent years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Emphasis on financial stability</td>
<td>• Regulation of Fintech industry</td>
</tr>
<tr>
<td></td>
<td>• Supply-side regulation (bank capital requirements)</td>
<td>• Emergence of regulatory sandboxes</td>
</tr>
</tbody>
</table>
Thank you!

OECD SME and Entrepreneurship Outlook 2019

Financing SMEs and Entrepreneurs 2019

Strengthening SMEs and Entrepreneurship for Productivity and Inclusive Growth

The role of managerial skills, workforce skills and business linkages in enhancing SME productivity

Access our reports at http://www.oecd.org/cfe/smes/

Contact: Miriam.Koreen@oecd.org