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“Whole of government approach” needed to help SMEs amid financial crisis

Governments need to take account of the needs and potential of small and medium-sized enterprises in their efforts to overcome the global economic crisis, in particular with measures to target innovation-led growth, according to participants in a round table on financing for SMEs organised in Turin, Italy, with the help of the OECD.

“Massive injections of public funds are being made and we need to ensure there is value for money,” OECD Deputy Secretary-General Pier Carlo Padoan told participants. “Measures targeting innovation-led growth need to be part of the long-term response to the crisis. We also need to re-establish trust and bring private funds back into the financial system. Viable SMEs should not be destroyed by the credit crunch.”

Hosted by Intesa Sanpaolo, Italy’s largest bank, under the auspices of the OECD Working Party on SMEs and Entrepreneurship (WPSMEE), the Round Table on the Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses brought together participants from 37 countries/economies on 26-27 March to discuss possible new solutions to financing problems facing SMEs.

Access to financing has always been a major challenge for the creation, survival and growth of small and medium-sized enterprises (SMEs), particularly those that are innovative, and the problem has been exacerbated by the global economic crisis. The round-table discussions will be used by the WPSMEE as a basis for input into the OECD’s Strategic Response to the Financial and Economic Crisis, which will feed into the processes launched by the G20, as well as the G8.

Emphasising the need for closer links between finance and business at local level, Enrico Salza, President of Intesa Sanpaolo, said finance must not lose its fundamental link to the real economy. “The more global finance becomes, the more it becomes necessary to have a strong link with the main economic agents at the local level,” Mr. Salza said. “It is vital to restore and maintain a close banking relationship at the local level.”

Participants took note of the following measures being implemented by governments:

- The most widely used measure has been the extension of SME loans and loan guarantees. Additional measures, such as the creation of “credit mediators”; the monitoring of SME lending by banks through timely reporting and the establishment of a code of conduct for SME lending by banks are also being implemented by governments. Another policy response which attracted interest is pre-fund agreements directly between governments and SMEs which then can be taken to banks to obtain guaranteed loans.
- To deal with cash flow problems, countries reported a number of temporary tax measures they had undertaken such as tax cuts and deferrals, for instance social contributions deferral by SMEs.
- SMEs in supply chains are particularly vulnerable and some governments are guaranteeing their accounts receivable. In a number of countries fiscal stimulus packages allocate a percentage of government procurement to SMEs. To alleviate cash flow problems some governments are paying their SME suppliers within 30 days or less. The European Commission is revising the directive on payment delays in view of improving the payment behaviour.
- Some governments are stimulating the provision of private risk capital through co-investment.
- Some governments are also reducing or eliminating taxes on capital gains for investment in SMEs by venture capital funds.

- The specific financing needs of micro-enterprises (less than 10 employees) which predominate the SME sector were considered. In traditional activities, small firms often require modest financing to conduct their business. This could be provided through micro-finance in countries which do not already have such schemes.

For more information, please consult www.oecd.org/cfe/sme/globalcrisis