



Impact of the Crisis on Local Business: SMEs Financing and Responses

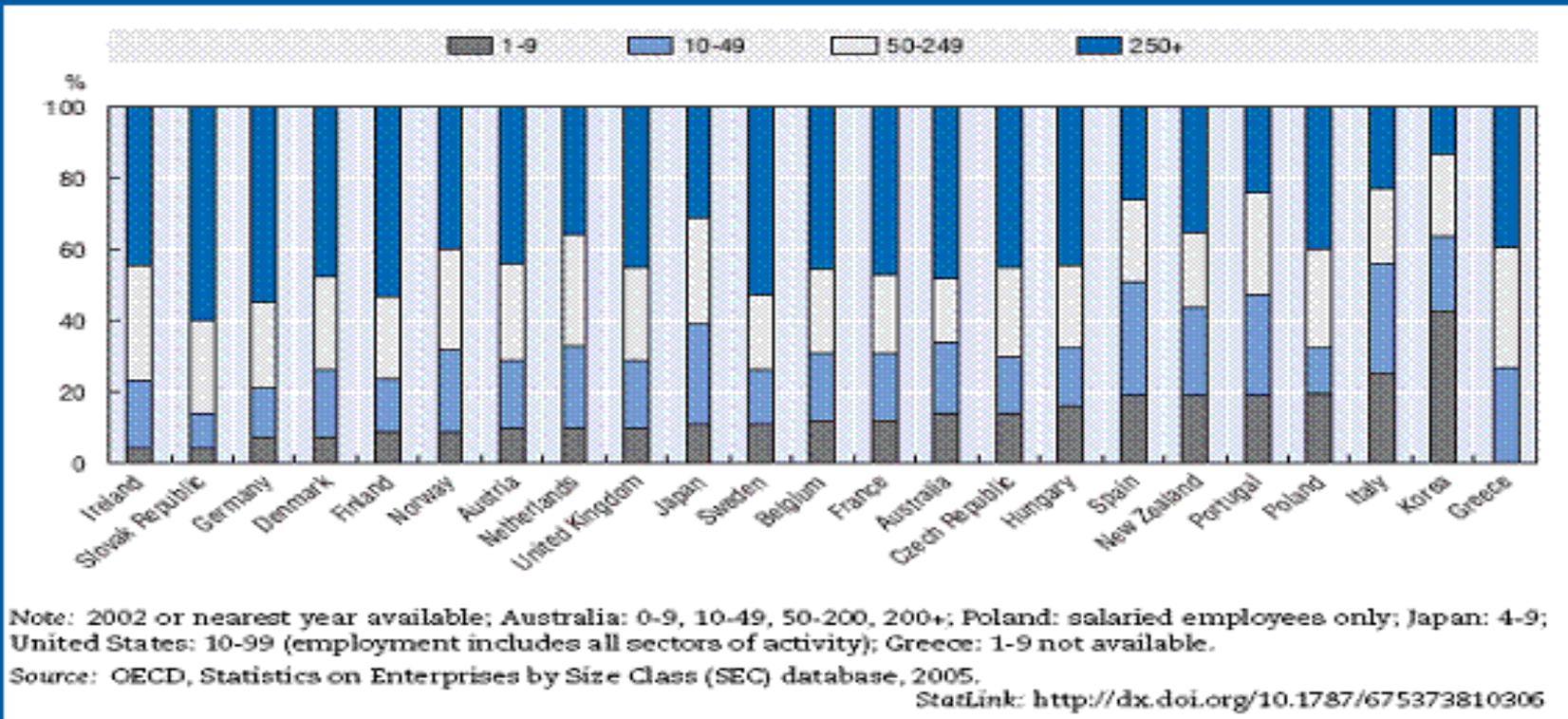
OECD Trento Centre
Capacity Building Seminar 'Routes
out of the Crisis'
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SMEs Key to Employment

SMEs (>250 employees) in EU-25: 23 million; 66% employment; 99.9% tourism enterprises (France).

Distribution of employment in the manufacturing sector, by firm size



OECD Turin Round Table

- Centre for Entrepreneurship, SMEs and Local Development – Intesa Sanpaolo
- Turin 26-27 March 2009

- Impact of the Global Crisis on SME and Entrepreneurship Financing and policy Responses
- Essential role of SMEs for the economic recovery

Double Shock for SMEs

- SMEs facing clear downturn, if not a slump, in demand for products and services;
- Also facing sharp increases in payment delays;



Rapidly declining working capital, increase in insolvencies and bankruptcies: rapid deterioration at end of 2008, worsening first quarter 2009

Cash Flow Vicious Circle

- SMEs reduction of credit demand for investment;
- Banks tightening credit conditions;
- Venture capital stagnating or declining;
- Reduction of exit opportunities and fundraising activities.

Governments Response

1. Supporting sales, cash flows and working capital through tax-related measures (e.g. cutting, deferring taxes), shortening payment delays to SMEs and export facilitation;
2. Enhancing SMEs access to liquidity – credit through bank recapitalisation, creation and expansion of loan and credit guarantee schemes, mediating bank lending to SMEs;
3. Helping SMEs maintain their investments levels and response to an increase in demand in the future, through investment grants and credits, R&D financing.

Policy Implications

- Increase monitoring on SME and entrepreneurship banking, more balanced use of ‘relationship banking’;
- Improving SME and entrepreneurs' information of financing programmes and options;
- Facilitating dialogue and consultation between governments, SMEs and financial institutions;
- Improving knowledge of the situation of SME and entrepreneur's financing;
- **Improving SME and entrepreneurs' competencies (e.g. financial knowledge, business strategy, technology strategy, R&D, marketing).**

Training/Skills Development- a critical activity in economic downturn

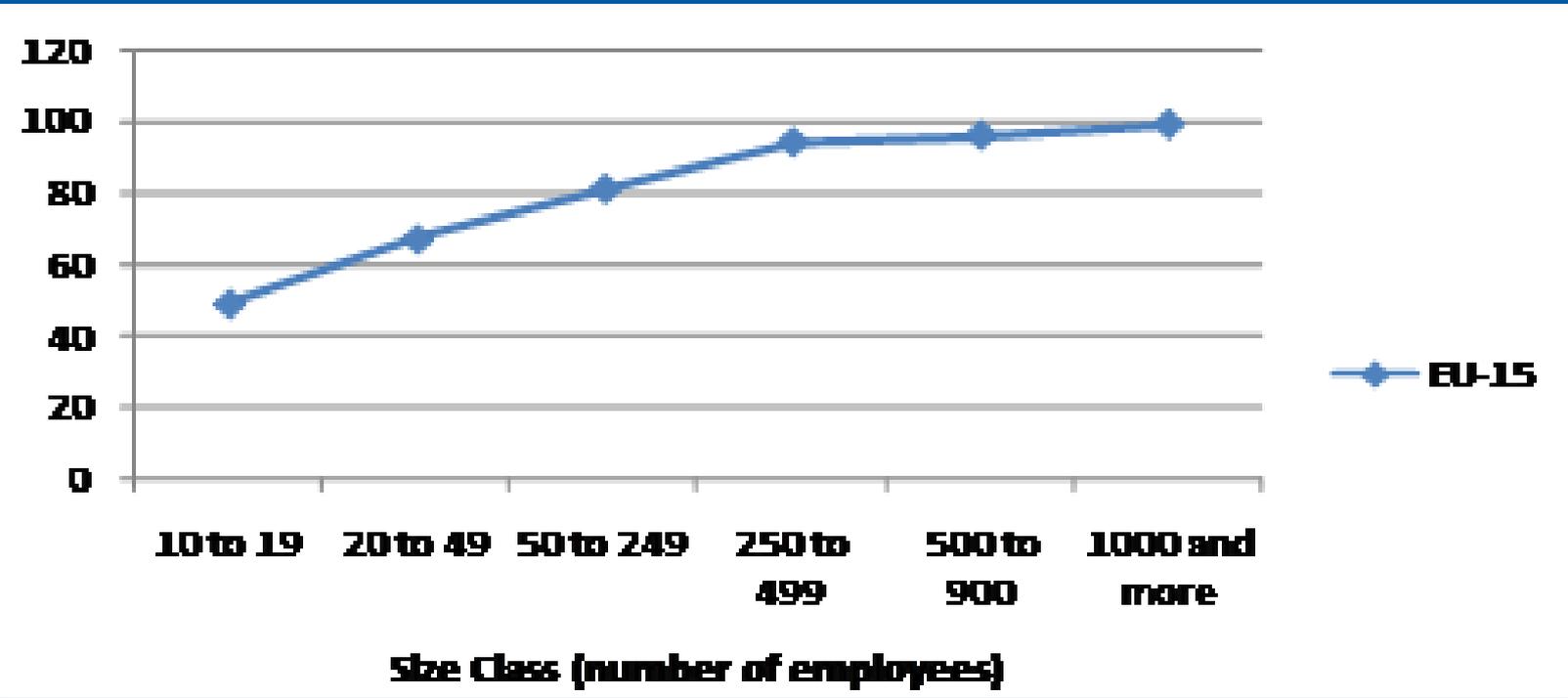
By increasing:

- employability;
- active behaviour;
- earnings;
- employment security;
- and minimising lay-off. (OECD, 2008).

Size of the Firm Matters

SMEs participate up to 50% less in training activities than large firms

EU training enterprises (% of all enterprises)

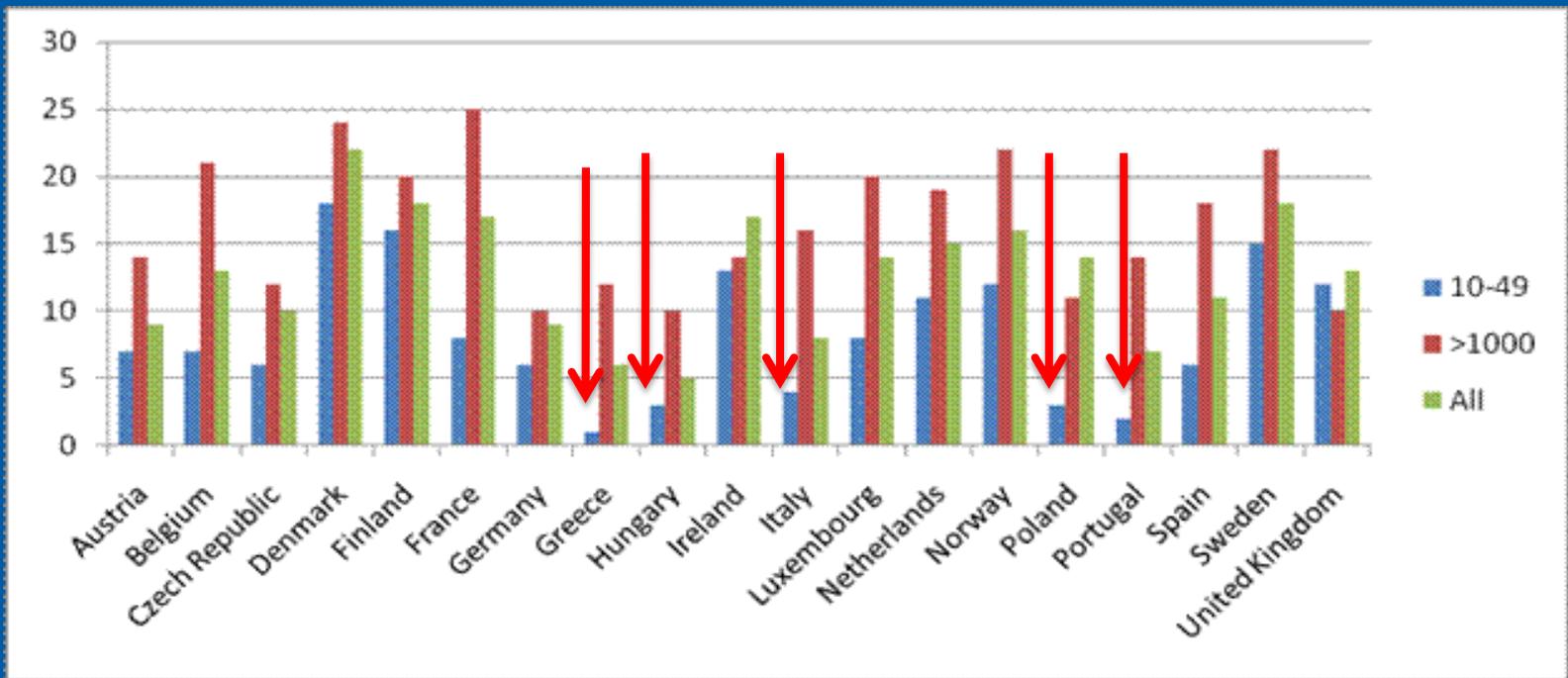


Source: Compiled from CVTS2 New Cronos, Eurostat

Inequalities are Significant

Significant country differences in access

Number of hours per employee participation in training by firm size

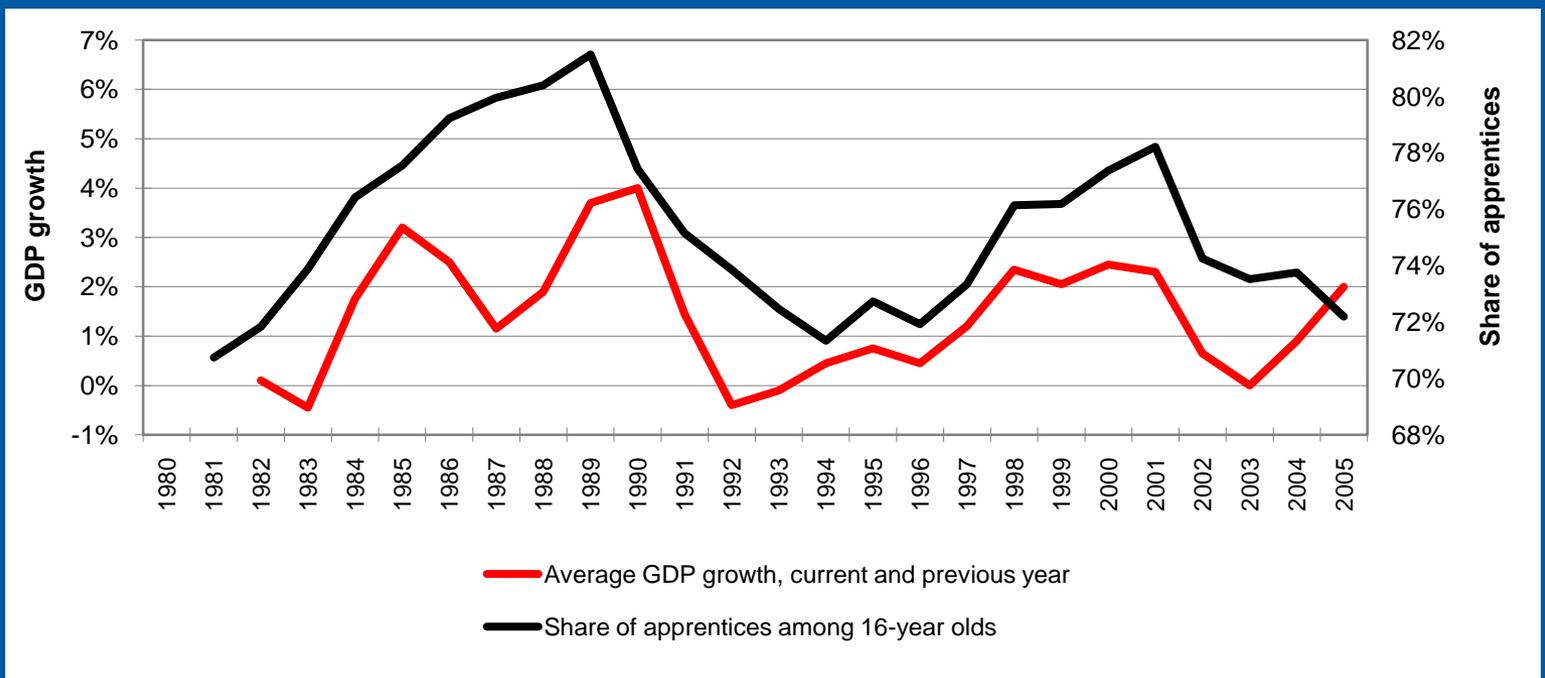


Source: compiled from CVTS2, New Cronos, Eurostat

Plus → Systematic access gap: younger, better educated, high-skill occupations have greater access.

Workforce Development is Economic Development

Economic development and apprenticeship enrolments in Switzerland



“The effect of economic downswings on apprenticeships and initial workplace training: a review of the evidence” by G. Brunello, University of Padua, forthcoming

SMEs on the Road to Recovery

- Fostering SMEs as key to economic recovery;
- Promoting training and skills development as strategic investment to get out of the crisis in better shape;
- Finding ways to overcome the barriers of the size of the firm: significant less participation in training by SMEs – exacerbated by the crisis;
- Focusing on human capital and optimizing value networks and chains as competitive advantages to be fully exploited by local businesses;
- Unlocking the research potential in small local businesses + enabling and diffusive (emergent) technologies.