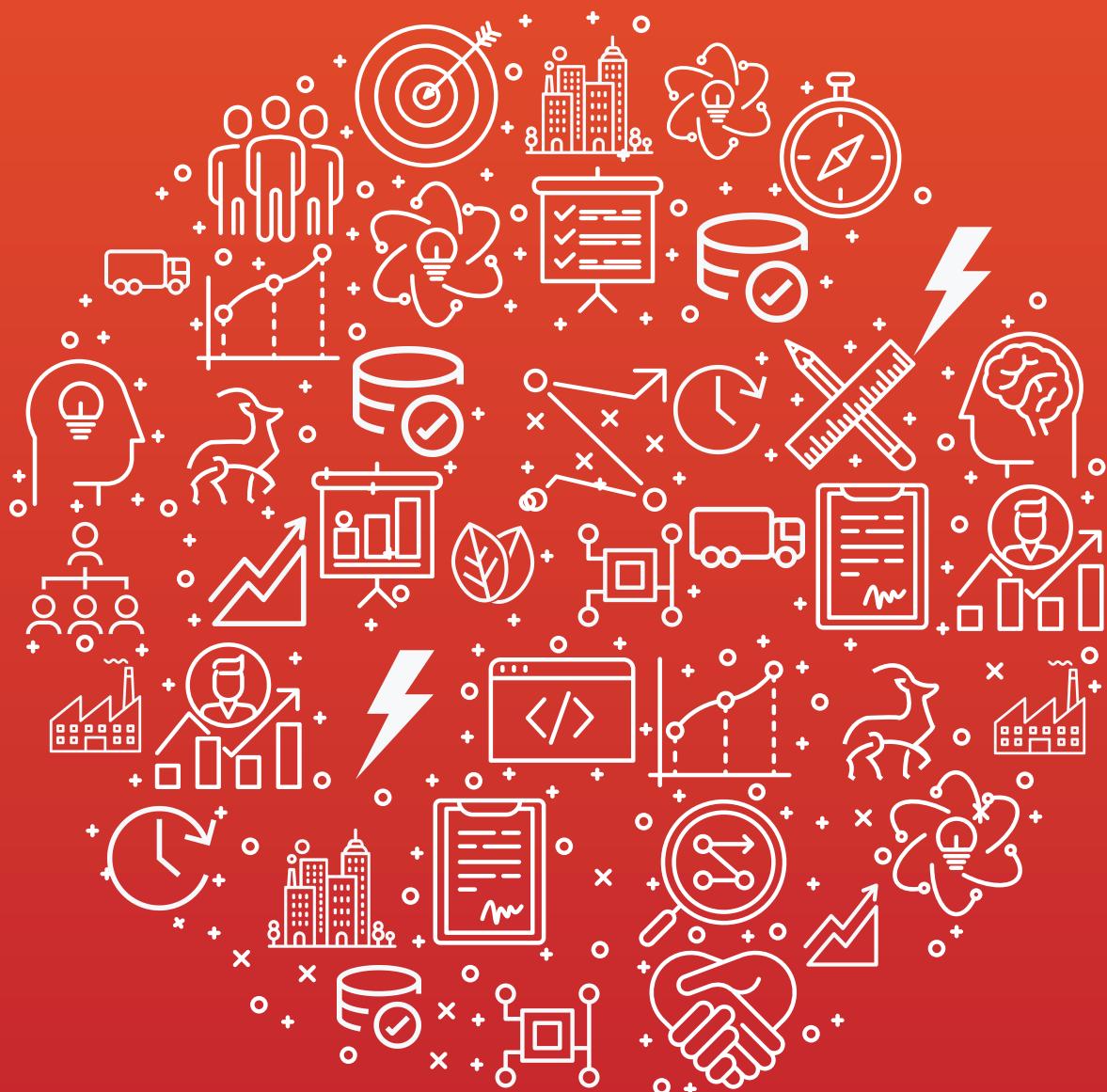


Policy Highlights

# OECD SME AND ENTREPRENEURSHIP OUTLOOK 2021



## ABOUT THE OECD

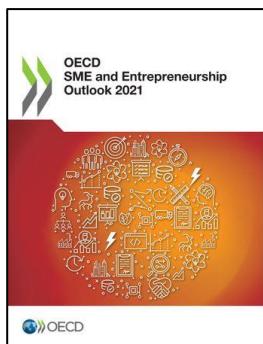
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**The full book is accessible at:**  
**OECD SME and Entrepreneurship Outlook 2021**  
**OECD Publishing, Paris,**  
<https://doi.org/10.1787/97a5bbfe-en>

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# Policy highlights

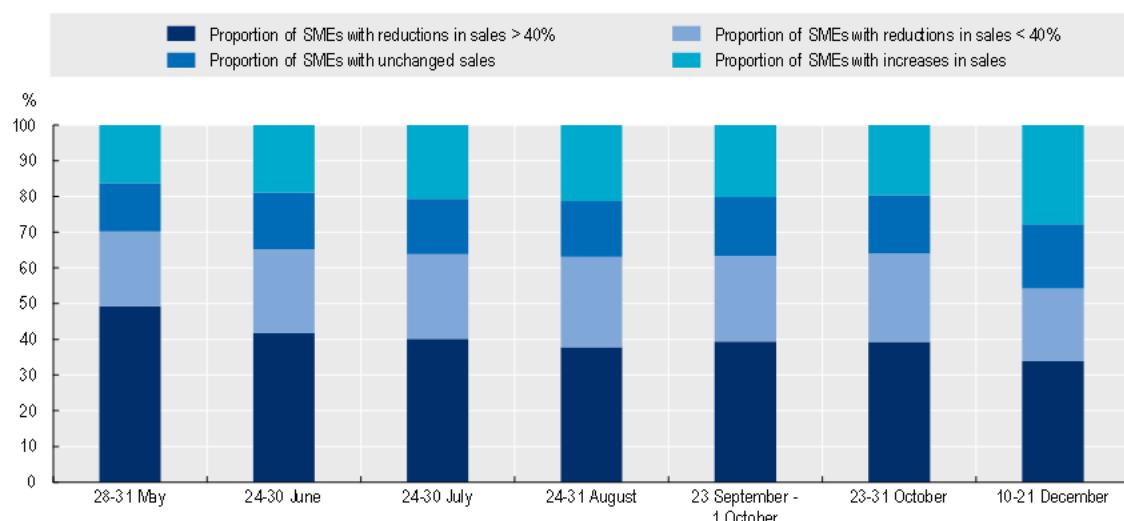
**Economic prospects are brightening**, with global output expected to rise by 5.8% this year. The improved picture owes a lot to the success of vaccination campaigns, but also to the unprecedented economic support and stimulus measures put in place by governments across the world to support workers and businesses. The 2021 OECD SME and Entrepreneurship Outlook reviews the impact of the crisis on SMEs and entrepreneurs, support measures put in place, as well as prospects and policies going forward.

## SMEs and entrepreneurs were at the centre of the economic turmoil

Small businesses were overrepresented in sectors that were most vulnerable to social distancing and associated trading restrictions. In these sectors, SMEs account, on average, for 75% of total employment across OECD countries, and nearly 90% in Greece and Italy. As a result, they were hit especially hard: between May and December 2020, even among firms with some form of digital presence, 55-70% saw sales fall, with two thirds of these experiencing a fall of more than 40% (Figure 1) (Facebook/OECD/World Bank, 2020<sup>[1]</sup>).

**Figure 1. SME sales were hit hard in 2020**

Share of SMEs with a Facebook page reporting unchanged sales, increases or decreases in sales in the month prior to the survey, as compared to the same month a year before



Note: The proportions of SMEs reporting unchanged sales, increase or decrease in sales are first computed for each country individually and then averaged across OECD countries in the sample. Survey dates are indicated on the horizontal axis.

Source: OECD calculations based on Facebook-OECD-World Bank (2020<sup>[1]</sup>), *Future of Business Survey* (May-December 2020).

Small businesses proved more vulnerable than larger firms in other ways, too. SMEs typically hold lower levels of cash reserves to bridge long periods of low –or no- activity. In the United States, for instance, half of SMEs operate with less than 27 days of cash reserves (JP Morgan and Chase Co., 2020<sup>[2]</sup>). And despite the significant increase in uptake of digital tools seen during the crisis (see also below), many SMEs were still unable to pivot to alternative business models.

## **Governments around the world put in place rapid, extensive, and effective support...**

**Public support helped millions of SMEs worldwide.** Government measures primarily targeted the short-term liquidity shortages of SMEs, through wage subsidies, payment deferrals, and loans and loan guarantees. In most OECD countries, between 20-40% of SMEs (with a Facebook page) received government support in one form or another in 2020. In addition, Central Banks relaxed monetary conditions. Temporary changes to insolvency procedures have also been implemented in many countries (OECD, 2021<sup>[3]</sup>; 2021<sup>[4]</sup>).

Support was able to reach many of the most vulnerable firms. SMEs in the food and accommodation sector (hotels, cafes and restaurants), for example, were around 20 percentage points more likely to receive support than SMEs in the information and communication technologies (ICT) sector. Other things being equal, SMEs with reductions in sales beyond 40% were also around 15 percentage points more likely to benefit from support than SMEs with the same or higher sales than a year before.

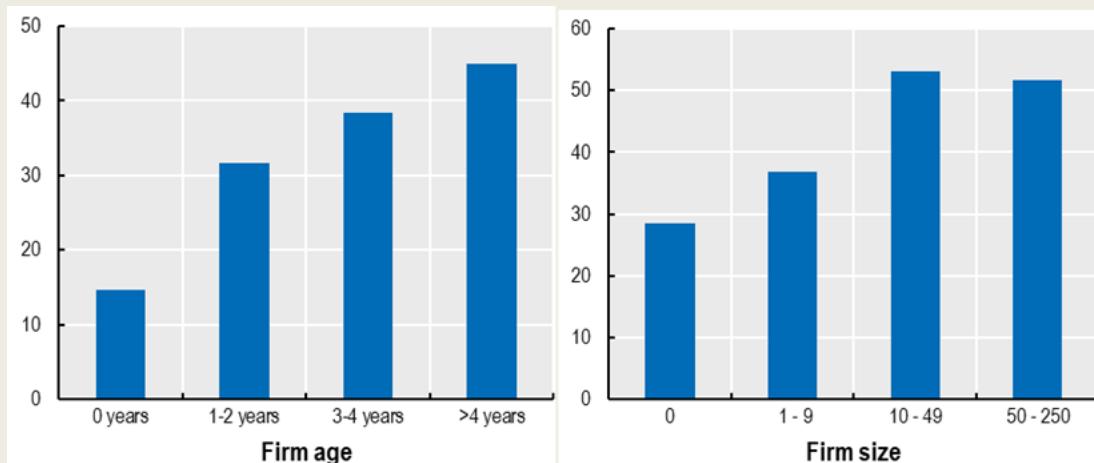
The response was effective in preventing a spike in bankruptcies, even if there were gaps in support for some firms (see box). Studies show that the business failure rates would have tripled and that 30% of firms would have run out of liquidity after three months in the absence of government interventions in 2020 (Gourinchas, Penciakova and Kalemli-Ozcan, 2020<sup>[5]</sup>) (Demmou et al., 2021<sup>[6]</sup>). Instead, firm bankruptcies were actually lower in 2020 and early 2021 than in 2019 in almost all countries for which data is available.

**Younger and smaller SMEs** were less likely to receive government support (Figure.2). Across 32 OECD countries, 33% of one- and two-year old SMEs in 2020 received government support, compared to 39% of three- to four-year old SMEs, and 45% of SMEs with at least five years of activity. Newly created firms were even less likely to receive support. Only 15% of SMEs that started operating in 2020 were supported. Among SMEs with 1-9 employees and the self-employed, 38% and 29% received support, compared to more than half of other SMEs.



## Figure 2. Younger and smaller SMEs were less likely to receive government support

Share of SMEs with a Facebook page receiving government support by age group (left) and size group (right) (%), 2020



Note: The sample includes observations from 32 OECD countries in December 2020

Source: OECD calculations, based on Facebook-OECD-World Bank (2020[1]), *Future of Business Survey* (December 2020).

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## ... and SMEs and entrepreneurs have also been proactive, adapting business models and moving to use digital tools.

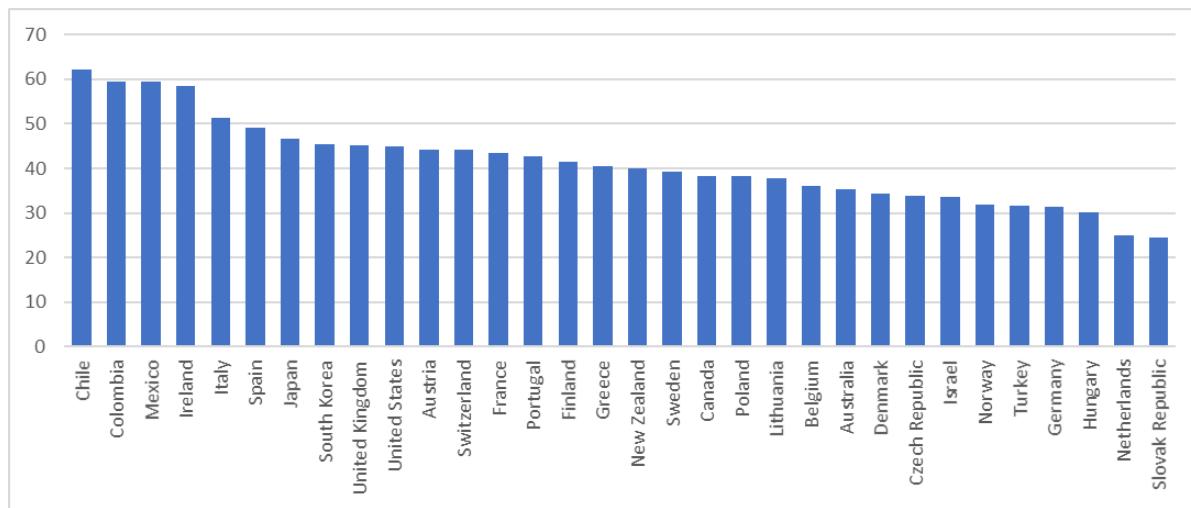
Despite the many challenges, many SMEs and entrepreneurs have adapted quickly, moving operations online to remain in business. In most countries **between 30% and 50% of SMEs increased their use of digital technologies during the crisis** (Figure 3). Firms have adopted smart working solutions and online sales platforms to connect with workers, suppliers and customers. These digital tools were effective in helping protect SME revenues, and are likely to last: among SMEs that increased digital use during the pandemic, about two thirds of self-employed, micro firms and small firms and three-quarters of medium-sized firms declared these changes to be permanent

(Facebook/OECD/World Bank, 2020[1]).



### Figure 3. The crisis has accelerated SME digital uptake

Share of SMEs with a Facebook page that increased the use of digital technologies in 2020



Source: OECD calculations based on Facebook-OECD-World Bank (2020<sup>[1]</sup>), Future of Business Survey (December 2020).

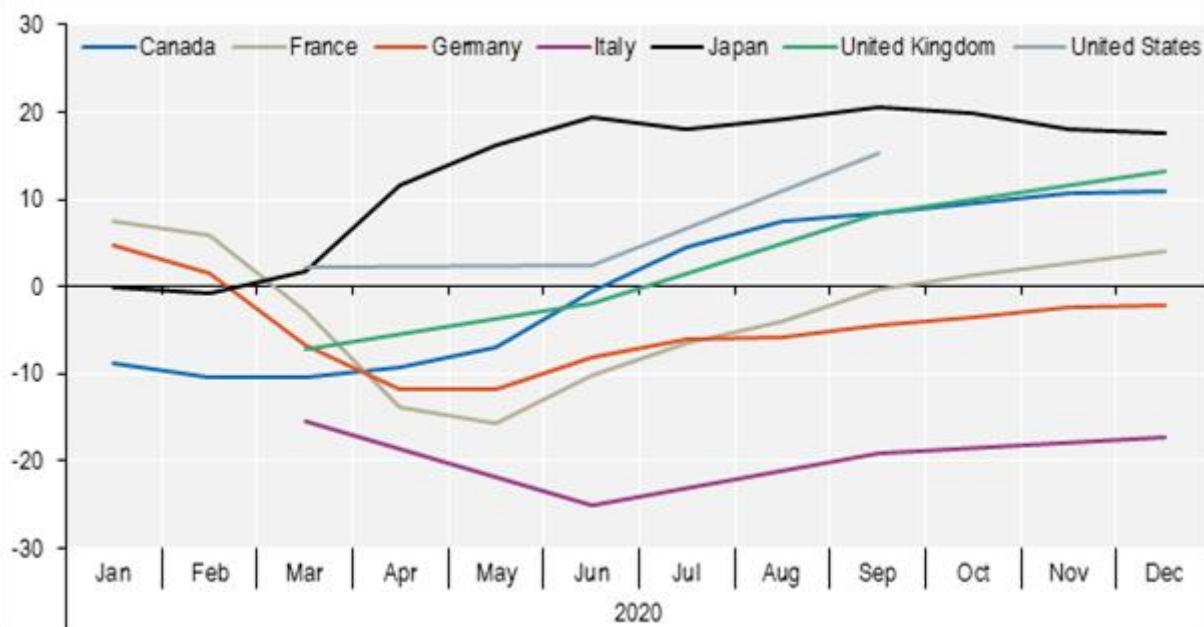
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The crisis also brought many examples of **entrepreneurship and small business creativity**, often as a direct response to urgent societal needs, e.g. medical devices, disinfectants, or liquidity solutions (OECD, 2020<sup>[7]</sup>; 2020<sup>[8]</sup>). What is more, **business creations in most countries have rebounded strongly** after an initial dip at the outset of the pandemic, supported by a venture capital market that has reached historic highs. In Japan and the United Kingdom, for example, overall business creations in 2020 were 15-20% higher than in 2019 (Figure 4). **Social innovation** initiatives have also thrived, complementing government action (ILO, 2020<sup>[9]</sup>; OECD, 2020<sup>[10]</sup>), and the social economy in many cases helped soften the effects of the pandemic (OECD, 2020<sup>[10]</sup>).



#### Figure 4. In most countries, firm creations rebounded from mid-2020 onwards

Cumulative firm creations from the beginning of 2020 to the referred period, percentage difference from the same cumulative period in 2019



Source: Statistics Canada, INSEE (France), Destatis (Germany), Italian Chambers of Commerce, Japan's Ministry of Health, Labour and Welfare, United Kingdom (UK) Office for National Statistics, United States (US) Bureau of Labor Statistics. These data are collected by the OECD to derive Timely Indicators of Entrepreneurship.

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#### But new challenges lie in wait for policymakers...

Despite the success in vaccine rollouts in many countries, there remains considerable uncertainty, especially given the emergence of new variants. Moreover, disrupted activities may take time to recover, especially in some sectors where consumer trust needs to be rebuilt (e.g. culture and tourism). Against this backdrop, governments must proceed cautiously when **unwinding support measures to avoid triggering a wave of bankruptcies**.

This is complicated by the fact that government support has often been provided in the form of repayable loans or payment deferrals that risk becoming an **unsustainable burden for many SMEs**. To address these risks, many governments are looking at ways of restructuring existing SME debt, as well as ensuring that government-backed loans include flexible repayment conditions. Countries are also increasingly using non-debt support, such as equity and quasi-equity schemes to avoid adding to the debt burden (OECD, 2020<sup>[11]</sup>; 2021<sup>[4]</sup>). Banks themselves have also taken initiatives through debt repayment moratoria and flexible and tailored arrangements.

Diverse forms of private finance need to remain accessible to SMEs. Prior to the crisis, interest rates were historically low, lending conditions favourable, and alternative sources of funding, such as equity funding and asset-based finance, were becoming more widespread (OECD, 2020<sup>[12]</sup>). During the crisis, bank finance and venture capital remained affordable but alternative sources of finance suffered. **Backsliding on the diversification of SME financing** would reverse a positive trend towards addressing the funding needs of more diverse segments of the business population that often struggle to tap into traditional financing; many of whom are highly innovative.

The pandemic also exposed **many businesses, that are dependent –directly or indirectly on global value chains (GVCs)**, to global shortages of products and inputs, as well as customers. Although, merchandise trade and professional services have recovered quickly from the crisis, demonstrating intrinsic resilience in GVCs, these disruptions revealed vulnerabilities to external shocks and have raised questions around strengthening resilience of GVCs, particularly in strategically important sectors. Disruptions at the height of the crisis may have longer term effects, as it may be difficult for many smaller firms to re-build connections, once former partners have set up substitute suppliers, customers and contracts. Many governments are looking to support SMEs on this front through efforts to reduce trade-costs, intensify export guarantees and export support measures; support international business linkages; and reinforce aftercare and facilitation services to retain and attract FDI that provide vehicles for SME integration into GVCs. (EU/OECD, 2021<sup>[13]</sup>).

### **...as well as the pressing need to address longer term structural issues**

Many longer-term structural issues remain, too. Though SMEs have rapidly increased their uptake of digital technologies, significant **gaps remain** between firms, and, for many, the transition is not yet complete. In addition, the accelerated digital transition of SMEs has revealed their **exposure to digital security risks** (OECD, 2021<sup>[14]</sup>). The COVID-19 crisis has made more businesses reliant on digital technology and created opportunities for malicious actors to intensify cyber-attacks.

**The crisis has exacerbated existing inequalities**, with businesses owned by female, minority and younger entrepreneurs proving to be more vulnerable during the pandemic. Their businesses tend to be concentrated in the most affected sectors, are on average smaller and younger, have fewer financial assets and more limited access to diversified finance, being typically self-funded, or funded by friends and family (OECD, 2020<sup>[15]</sup>).

Looking ahead, **many SMEs have also yet to embrace the green transition**, held back by a lack of information, incentives, and access to finance. There are opportunities for more rapid progress here, as governments make the green transition a priority for their recovery packages and funds engaged in sustainable investment continue to grow rapidly worldwide (OECD, 2020<sup>[11]</sup>).

During the last 12 months, many OECD governments have placed digitalisation, reskilling and greening amongst the key priorities for their economic recovery plans, aiming to turn the crisis into an opportunity to generate more sustainable, resilient and inclusive growth going forward.



## Seven pillars to help SMEs and entrepreneurs build a strong recovery

1. Ensure that emergency support is retained where trading restrictions remain in place, in particular for vulnerable segments of the SME population, including younger and smaller firms and women and minority entrepreneurs, and plan ahead for the phased withdrawal when circumstances allow.
  - In particular, identify measures to support viable, but indebted SMEs to restructure debt, including by introducing flexibility in the repayment of emergency support. Develop and deploy non-debt support instruments, including equity and quasi-equity schemes, to avoid adding to the debt burden.
2. Reboot start-up policies to enhance the potential of innovative new ventures for recovery, including measures to promote second chance entrepreneurship after the pandemic.
3. Look to capitalise on the rapid digital adoption by providing advice and support to SMEs to extend and embed the transition, including by helping them to upskill, raise their digital security profile and connect with digital service providers.
4. Support SMEs to re-establish competitive positions in GVCs, and scale-up their capacity to absorb knowledge and innovation spillovers from multinationals. Support places to become magnets for attracting and retaining international investments within more resilient value chains.
5. Ensure that recovery and stimulus packages include a strong focus on greening SMEs and entrepreneurship – including measures to move towards net zero emissions.
6. Improve multi-level governance and coordination across levels of government to develop stronger place-based SME and entrepreneurship and industrial policies, including through smarter regulation, strategic public procurement, and improved business development services.
7. Develop the evidence base on SMEs and entrepreneurship, the conditions of their success, and good policy practices for leveraging their recovery potential, including through better monitoring and evaluation practices, new data sources and new forms of research cooperation.

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