SMEs are key for more inclusive growth

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Last update: 28 January 2020



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The role played by small and medium-sized enterprises (SMEs) in our economies and societies is very significant. In most cases crucial. In OECD countries, SMEs represent approximately 99% of all firms. They provide the main source of employment, accounting for about 60% of jobs in the manufacturing sector and 75% in services, and generating between 50% and 60% of value added on average. In emerging economies, SMEs contribute up to 45% of total employment and 33% of GDP.

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A healthy SME sector is a vital ingredient for inclusive growth, creating jobs across regions and sectors, including for the low-skilled. SMEs provide opportunities for skills development and help support their employees' access to healthcare and social services. SME's are also a powerful tool against the curse of informality.

However, the SME picture is mixed and challenging. Across the OECD, the level of productivity in micro enterprises is about half that of larger SMEs, which is lower than that of larger companies. The productivity gap has also widened since the global crisis, particularly in the manufacturing sector, exacerbating income and social inequalities.

SMEs are also disproportionately affected by regulatory uncertainty, complexity and inconsistency. Regulatory and tax compliance generate costs, sometimes excessive costs, which leads to informality. Thus, small businesses looking to expand or move into higher value added activities may feel that it's not worth their while. This then generates a "low productivity/high-informality trap".

Many SMEs also struggle to access finance. Our 2018 OECD Scoreboard on Financing SMEs and Entrepreneurs reports that in the UK in 2016 new lending to SMEs fell by -4.1% year-on-year. In the Netherlands, the drop was -17.1%. Latin America is facing similar challenges. According to last year's OECD Latin American Economic Outlook, SMEs in the region receive only 12% of total credit, while SMEs in OECD countries receive 25% of total credit. In fact, one third of small businesses in Latin America identify access to finance as a serious restriction.

At a time when the global economy is still underperforming, enabling SMEs to innovate and scale up is essential to boost aggregate productivity and foster more inclusive and sustainable growth. However, this will depend to a large extent on the ability of SMEs to ride the wave of digitalisation.

Too many SMEs are missing the opportunities of digitalisation and globalisation. If you are not riding the digital wave, sooner or later you are going to get stranded, probably without a paddle. Digitalisation is "globalisation on steroids". It's driving rapid change on an unprecedented global scale. This revolution brings great opportunities for SMEs. Digital technologies facilitate the emergence of "born global" small firms and offer new opportunities for established SMEs to scale up, enhance productivity and become global players.

However, digitalisation also brings great challenges. Many SMEs are struggling to convert the potential of digital into better access to markets and stronger productivity. In OECD countries, only 20% of SMEs are engaged in e commerce sales, compared to 40% of larger enterprises. To enable SMEs to catch up,

investments in skills, organisational change, process innovation, new systems and business models are needed to spur the adoption and effective use of digital technologies.

Global value chains are also bringing new opportunities for SMEs to participate in the global economy. However, participation remains uneven across the SME population. Across OECD countries, on average 15% of micro-enterprises engage in international trade, compared to 60% of small enterprises and 80% of medium-sized enterprises. SMEs are also more affected by trade restrictions than large firms. For instance, for the cross-border export of services, an average level of trade restrictiveness means an additional 12% tariff for SMEs, relative to large firms.

The OECD is working to help governments support SMEs to overcome these challenges, harness the digital revolution and make small businesses become big players in the global economy. The idea of producing an OECD Strategy for SMEs is under discussion. We should have one. In fact, we should have developed one a long time ago. So, let's catch up and become the cathedral of SMEs, the "go to" place for SME policies.

This editorial is adapted from remarks by OECD Secretary-General Angel Gurría on opening the 2018 OECD SME Ministerial Conference in Mexico City, Mexico, 22 February 2018

Read the full 1300 word version here: https://oe.cd/2kZ

Presentation of the 2018 OECD SME Finance Scoreboard: http://www.oecd.org/industry/launch-of-oecd-sme-finance-scoreboard-mexico-2018.htm

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