The OECD provides governments with the analytical basis to develop economic policies that are both effective and economically efficient for smaller companies. This work includes economic performance reviews, data collection, projections, as well as policy analysis in different areas of interest to small and medium-sized enterprises (SMEs). It also serves as an important repository of SME policy responses during the Covid-19 crisis. Such work is critical considering that across the OECD SMEs account for over 95% of all businesses, two-thirds of employment and about half of the total value added.

**The impact of Covid-19 on SMEs in a nutshell**

- On the supply side, many companies experience a reduction in the supply of labour, as their employees may have fallen ill or need to look after children or other dependents while schools are closed and movement of people is restricted.
- On the demand side, a strong and sudden loss of demand and thus revenue severely affects SMEs ability to operate, and/or causes liquidity shortages.
- With SMEs overrepresented in those sectors most affected by the crisis and often facing greater difficulties than larger firms in accessing external finance, insolvency issues are of particular concern.
- The situation is exacerbated by often small liquidity buffers of SMEs, with a June 2020 study finding that one third of SMEs in the United States feared to be out of business without additional support within one month, and up to 50% within three months (Census Bureau).
- Business insolvencies could severely affect financial markets, reduce confidence and constrain credit, further hampering the recovery. It would not only have major negative effects in the labour market as the majority of all jobs are in SMEs as highlighted above, but also have adverse repercussions in terms of innovations.


**The Covid-19 pandemic calls for urgent action to undertake structural measures**

In order to successfully emerge from the crisis, it will be critical that major issues impacting the small business sector are brought to government’s attention. The realization of effective public-private partnerships will equally be key. Our members have a significant opportunity to share their expertise with OECD leadership and governments. Businesses themselves can use OECD tools to identify the structural and regulatory barriers to small business growth, and help shape national governments’ responses. The right policy action can significantly enhance SME resilience and competitiveness, by improving framework conditions, including through:

- **Assess insolvency frameworks** – Quality-based and transparent insolvency frameworks are critical to resolve distressed assets, so that business activity can continue or assets can be redeployed to more productive uses. The time is opportune to assess frameworks and adapt them if necessary.
- **Measures aimed at fostering SME digitalization** – While SMEs across the OECD and beyond differ in size, expertise and sector requirements, and may thus need targeted policy interventions, digital tools help to boost productivity, which is important to come out of this crisis and raise resilience.
- **Upskilling of SMEs** – The crisis may widen the gap between demand and supply of relevant skills in the labour market, requiring concerted policy action to ease skills mismatches, including reskilling, upskilling and job matching.
• **SME integration in global value chains** – SME internationalization can be increased through: i) providing companies with timely market information to build global networks and diversify suppliers; ii) supporting SMEs in identifying, evaluating and managing risks by sharing information on potential concentration and bottlenecks in supply chains; iii) supporting trade finance globally.

• **Reducing red tape** – it is critical to ensure that regulatory burdens do not carry disproportionate costs to SMEs while aiming to reduce administrative burdens and red tape where possible to facilitate access to support programs and help small companies throughout the recovery phase.

• **Policies to stimulate consumer spending** – including measures such as tax reliefs or vouchers.

**OECD work on SMEs and Entrepreneurship**

The Working Party on SMEs and Entrepreneurship (WPSMEE) is responsible for the OECD work in this regard as it provides some of the important inputs, including policy analysis, policy indicators and statistics, evaluation of policies and best practices, as well as recommendations, needed by member countries to develop policies that:

i) Foster SMEs and entrepreneurship, including high-growth enterprises;
ii) Address the particular challenges SMEs face in obtaining finance for their growth and development and in participating in global markets;
iii) Facilitate sustainable growth, competitiveness, and the creation of skilled jobs;
iv) Help their SMEs to meet the challenges of globalisation.

Under WPSMEE Programme of Work for 2021-22, 37 OECD Member countries, many partner countries and stakeholders develop and co-ordinate activities against the backdrop of an acceleration or evolution in megatrends and the legacies of the financial crisis, and with the additional challenge of the Covid-19 impact and related uncertainty. The Working Party aims to reinforce the knowledge infrastructure on SMEs and entrepreneurship in a more granular approach, primarily focusing on:

• Innovation and diffusion of advanced technologies throughout the economy;
• Value creation and distribution during structural change: skills, productivity, employment growth and inequality;
• Globalisation in the digital era: multinationals and SMEs in Global Value Chains;
• Societal changes and challenges: gender, ageing and the green transformation;
• Structural change and new industrial strategies: challenges and synergies.

![Figure 1 - OECD iLibrary search for “productivity”/“innovation”/“digital” AND “SME”](image)

There is a significant number of OECD studies on the topic, and that number has been rising since the OECD’s first Ministerial Conference on SMEs in Bologna in 2000, which focused on SMEs and competitiveness, innovation, e-commerce and trade and constituted the start of the Bologna process.
Key trends moving forward

- SMEs are the backbone of our economy and as such key in our efforts towards a more circular economy and green growth model. Their nature as innovators (Figure 2) and small size however provides unique challenges on the path towards closing loops in the circular flow and improving resource. Taken together, their adoption of sustainable practices can have a significant impact on the economy and the environment, driving green transformation. To enable green growth, clear and coherent regulation and enabling market conditions for green products and services are needed, as well as facilitated access to funding at adequate terms. In order to foster local and national environments supportive of green enterprises, policy dialogue will be critical.

![Figure 2 - SMEs are the primary source of innovation.](source)

Note: Based on national innovation surveys that cover firms with 10 employees or more, SMEs account on average for over 90% of the innovative firms (as broadly defined in the Oslo Manual (OECD/Eurostat, 2005[4]) and incur between 20% and 60% of business expenditures on product or process innovation (EU data, 2016). Source: Eurostat (2019[8]), Eurostat Community Innovation Survey (CIS-2016)

- The Covid-19 outbreak has provided both opportunities and stressed the need for SMEs to go digital. Many small businesses were ill prepared for the sudden and radical transformation induced by the crisis and are still struggling to adapt. Gaps in digital capacity and infrastructure, which already hampered SMEs digital transformation prior to the pandemic outbreak, remain. At the same time, the new market and business conditions present a significant opportunity for speeding up SME digitalisation, with surveys worldwide showing that up to 70% of SMEs have intensified their use of digital technologies due to the Covid-19 crisis. In order to address the digital gap between smaller and larger companies, continued policy action that supports SME digitalization remains vital.

How business can contribute

- The Business at OECD Committee on SMEs and Entrepreneurship provides expert support and input to engage with the OECD on SME and entrepreneurship activities, including on SME finance, digitalization of SMEs, SME internationalization, youth entrepreneurship, administrative and regulatory hurdles, employment policies and targeted SME support in the context of Covid-19.

- Through our open dialogue with the OECD Working Party on SMEs and Entrepreneurship and related Fora, we will stay actively engaged throughout 2021 and beyond in shaping OECD analysis on the above core themes. SMEs and Entrepreneurship has been identified as one of our top 10 policy priority areas for 2021 at our Annual Planning Meeting in December 2020.

- We ensure continuity in the B20 process by actively participating in all B20 taskforces, which frequently involves work on SMEs and entrepreneurship as an overarching theme. We also draft positions which are influential in shaping the B20 agenda across different themes, and by facilitating meetings with the OECD leadership and governments, such as during our Annual Joint Sessions.

- Business at OECD membership involves the opportunity to regularly liaise with OECD officials and government stakeholders, as well as the leading business and employers organizations in the corresponding OECD member and observer countries and sectoral supra-national business organizations that engage regularly in our policy work. This also includes a number of SMEs who engage through Business at OECD and its member associations at OECD meetings.
Contact

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Established in 1962, Business at OECD stands for policies that enable businesses of all sizes to contribute to growth, economic development, and societal prosperity. Through Business at OECD, national businesses and employers’ federations representing over 7 million companies provide and receive expertise via our participation with the OECD and governments promoting competitive economies and better business.