OECD SME and Entrepreneurship Outlook 2021

OECD

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Preface

As we aim to optimise the strength of the economic recovery from the COVID-19 crisis, the attention of governments worldwide is turning towards small and medium-sized enterprises (SMEs) and entrepreneurs, and how best to help maximise their contribution to stronger, sustainable, cleaner, more inclusive growth.

A little more than a year ago, SMEs and entrepreneurs found themselves in unchartered waters. Confronted with health restrictions that triggered an unprecedented recession, and with many having only limited liquidity, most had to rely on government support to survive. Thanks to that support combined with SMEs' remarkable resilience, the worst has been averted. The feared wave of bankruptcies has not materialised, at least not yet. Jobs, assets and viable firms have been preserved. In addition, following an initial collapse at the height of containment measures, firm creation is on the rise in most countries, driven by innovative and entrepreneurial ventures responding to new needs and opportunities presented by the pandemic. Over 50% of SMEs, for example, have increased their use of digital tools during the pandemic. New opportunities for the integration of SMEs within global value chains have also emerged.

However, despite these positive signals, challenges remain. Many support mechanisms involved more debt. There is a risk that a rapid unwinding of support could precipitate a wave of bankruptcies which would jeopardise the recovery. Whilst there will be a need to begin to repair public finances again, withdrawal policies need to ensure that structurally viable SMEs and entrepreneurs are able to continue to thrive. Similarly, there is a need to address pre-existing challenges that the crisis has exacerbated. Government support has been less effective at reaching smaller and younger firms, the self-employed, women and minority entrepreneurs. Despite the reduction in some digital gaps, the self-employed and micro firms still lag in the digital transition. Moreover, it is still unclear how resilient the increase in entrepreneurial activity will prove to be, or whether it has rather been driven by rising unemployment.

Fortunately, governments around the world recognise these challenges. A number of recovery packages are designed to transform the crisis into an opportunity, driving a forward-looking agenda to help drive stronger, sustainable growth, offering opportunities to all. Due to their collective scale, adaptability, and innate entrepreneurialism, SMEs and entrepreneurs are a central ingredient of this transition. Through their local roots, SMEs and entrepreneurs are also able to anchor the recovery specifically to their territories.

The *SME and Entrepreneurship Outlook 2021* takes a deep-dive into these challenges and opportunities to inform policy makers about the transformations at play that can help drive the recovery to build back better. The report presents new data and evidence on the state of entrepreneurship, as well as the vulnerabilities, resilience and growth potential of SMEs.

Along with the creation of a new OECD Committee on SMEs and Entrepreneurship, an OECD Strategy for SMEs and Entrepreneurship, and a dedicated knowledge infrastructure, the SME and Entrepreneurship Outlook is a cornerstone of the OECD's capacity to monitor SME and Entrepreneurship business conditions and performance. Reaching beyond analysis, the Outlook provides sound, tangible policy recommendations to allow governments to best leverage their heterogeneous populations of SMEs and entrepreneurs.

Mathias Cormann

OECD Secretary-General

Foreword

Small and medium-sized enterprises (SMEs) and entrepreneurs have been at the epicentre of the COVID-19 pandemic. In those sectors most exposed to containment measures, SMEs were disproportionally represented, and, in turn, disproportionally impacted. With limited cash reserves to survive lockdowns and drops in sales, the crisis represented an existential risk to millions of SMEs and entrepreneurs. The unprecedented speed and scale of government support has however avoided that risk turning into a reality.

The 2021 version of the OECD SME and Entrepreneurship Outlook looks back at the measures taken over the last year and the approaches used by SMEs and entrepreneurs to survive - and indeed in many cases thrive. Drawing on lessons learnt, the report then looks forward to consider the longer-term effects of the crisis and how countries can create the conditions of a greener, more sustainable and inclusive recovery. Building on and expanding the proven methodology of the first edition, the report harnesses a wealth of data and policy analysis from across the OECD, thus forming a unique, multi-dimensional monitoring tool for policy makers.

Chapter 1 of the Outlook focuses on the short-term impact of the crisis. Using the most recent macroeconomic and business statistics, as well as new results from the Facebook-OECD-World Bank Future of Business Survey, that was conducted on a monthly basis during the height of the crisis, it looks at how emergency support measures were taken up by SMEs and entrepreneurs within and across countries, and assesses their impact on business performance.

Part I, which draws on the new OECD SME&E data lake - a unique knowledge infrastructure to support policy analysis-, explores topics of relevance for future policy making through three thematic chapters. It starts by discussing the immediate concerns around SME indebtedness and the need to avoid this turning into a debt crisis. It then looks at risks and opportunities presented by possible reconfigurations of global value chains that might occur through industrial transitions, in particular driven by a greater emphasis on resilience. Finally, it analyses the surge in SME digitalisation, innovation and entrepreneurship during the crisis and the avenues available and policies needed to continue the momentum.

Part II is composed of 38 individual country profiles providing insights on national SME performance and entrepreneurial trends, and assessing the factors of vulnerability and resilience of the SME sector in each country. Country profiles also present national SME and entrepreneurship policy frameworks and recent policy initiatives to sustain SME liquidity and support the recovery.

This report was developed by the Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), as part of the Programme of Work and Budget of the OECD Committee on SMEs and Entrepreneurship (CSMEE) and the OECD Statistics and Data Directorate (SDD). A first draft was discussed on 6-7 April 2021 (CFE/SME(2021)4/PART1 and CFE/SME(2021)4/PART2) and the final report was approved by written procedure on 31 May and 16 June 2021 (for the profiles) (CFE/SME(2021)4/PART1/FINAL, CFE/SME(2021)4/PART2/FINAL and CFE/SME(2021)4/PART3).

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Sandrine Kergroach (Head of the SME and Entrepreneurship Performance, Policies and Mainstreaming Unit, CFE) and Pierre-Alain Pionnier (Acting Head of the Trade and Productivity Statistics Division, SDD) coordinated the production of the 2021 edition. Céline Kauffmann and Lucia Cusmano, Head and Deputy Head of the CFE SME and Entrepreneurship Division supervised the project.

Chapter 1, “SME and entrepreneurship performance in times of COVID-19”, was prepared by Pierre-Alain Pionnier with input from Gueram Sargsyan (SDD).

Part I on “SME & Entrepreneurship policies for a fair and sustainable recovery”, including Chapter 2 (SME indebtedness), Chapter 3 (globalisation) and Chapter 4 (innovation and entrepreneurship), was prepared by Sandrine Kergroach (CFE).

Part II is made of country profiles and was designed by Sandrine Kergroach and produced jointly with Bruno De Menna (CFE) and Gueram Sargsyan (SDD). Thanks to Lora Pissareva (CFE) for input on policy recovery packages.

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Acronyms and abbreviations

Acronyms

5G	Fifth generation of mobile networks
AI	Artificial intelligence
AMNE	Analytical multinational database
B2B	Business-to-business
B2C	Business-to-consumer
CoR	OECD-European Committee of the Regions
COVID-19	Coronavirus disease 2019
CRM	Customer relationship management
EC	European Commission
ESG	Environmental, social and governance
EU	European Union
FA	Foreign affiliate
FDI	Foreign direct investment
Fintech	Financial Technology
FOBS	Future of Business Survey
G2B	Government to business
GAFAM	Google, Apple, Facebook, Amazon, Microsoft
GDP	Gross domestic product
GEM	Global Entrepreneurship Monitor
GVC	Global value chain
ICIO	Inter-Country Input-Output matrix
ICT	Information and communication technology
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification
ISO	International Standard for Country Codes
IT	Information technology

LFS	Labour force statistics
MNE	Multinational enterprise
MSME	Micro, small- and medium-sized enterprises
OI	Open innovation
PPP	Purchasing power parity
R&D	Research and Development
RBC	Responsible business conduct
RRF	Recovery and Resilience Facility
RTA	Revealed technological advantage
SARS	Severe acute respiratory syndrome
SDBS	Structural and Demographic Business Statistics database
SMBs	Small and medium-sized businesses
SME	Small and medium-sized enterprise
SME&E	Small and medium-sized enterprises and entrepreneurship
TEC	Trade by Enterprise Characteristics
TEI	Timely Entrepreneurship Indicators
TiVA	Trade in Value Added database
VC	Venture capital
WB	World Bank
WHO	World Health Organisation

Abbreviations

Table 1. Country abbreviations and national currency (ISO codes)

ARG	Argentina	Argentine peso	ARS
AUS	Australia	Australian dollar	AUD
AUT	Austria	Euro	EUR
BEL	Belgium	Euro	EUR
BRA	Brazil	Brazilian real	BRL
CAN	Canada	Canadian dollar	CAD
CHE	Switzerland	Franc	CHF
CHL	Chile	Chilean peso	CLP
CHN	People's Republic of China	Yuan renminbi	CNY
CIR	Costa Rica	Colón	CRC
COL	Colombia	Colombian peso	COP
CZE	Czech Republic	Koruna	CZK
DEU	Germany	Euro	EUR
DNK	Denmark	Krone	DKK
ESP	Spain	Euro	EUR
EST	Estonia	Estonian kroon	EEK
EU	European Union	Euro	EUR

FIN	Finland	Euro	EUR
FRA	France	Euro	EUR
GBR	United Kingdom	British pound	GBP
GRC	Greece	Euro	EUR
HUN	Hungary	Forint	HUF
IDN	Indonesia	Rupiah	IDR
IRL	Ireland	Euro	EUR
ISL	Iceland	Króna	ISK
ISR	Israel	New Israeli sheqel	ILS
ITA	Italy	Euro	EUR
JPN	Japan	Yen	JPY
KOR	Korea	Won	KRW
LTU	Lithuania	Lithuanian litas	LTL
LUX	Luxembourg	Euro	EUR
LVA	Latvia	Latvian lat	LVL
MEX	Mexico	Mexican peso	MXN
NLD	Netherlands	Euro	EUR
NOR	Norway	Krone	NOK
NZL	New Zealand	New Zealand dollar	NZD
POL	Poland	Zloty	PLN
PRT	Portugal	Euro	EUR
ROU	Romania	Romanian leu	RON
RUS	Russian Federation	New Russian ruble	RUB
SVK	Slovak Republic	Koruna	SKK
SVN	Slovenia	Euro	EUR
SWE	Sweden	Krona	SEK
TUR	Turkey	Turkish lira	TRY
USA	United States	United States dollar	USD
ZAF	South Africa	South African rand	ZAR

Country groupings

BRIICS — Brazil, Russian Federation, India, Indonesia, People's Republic of China, South Africa.

EU27 — European Union (Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden).

G20 — Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union.

OECD — Total OECD 38 (Australia, Austria, Belgium, Canada, Chile, Colombia, Costa Rica, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States).

Country notes

Israel

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Executive summary

Restrictions to mobility, trade and activities taken to contain the COVID-19 pandemic triggered the most severe global recession in the post-war period. All firms and sectors were, directly or indirectly, affected, but small and medium-sized enterprises (SMEs) were hit particularly hard. Overrepresented in the most exposed sectors (e.g. food and accommodation services), they often had to close operations. Among those that were able to continue operations, many saw significant falls in revenue and faced severe liquidity shortages as a result. According to the Facebook/ OECD/ World Bank Future of Business Survey, among SMEs that remained open from May to December 2020, between 55-70% saw sales fall, with two thirds experiencing falls of more than 40%.

Government responses were quick, strong and effective in cushioning the first blow. The size of emergency packages has been unprecedented, typically mixing subsidies, deferrals of payments, loans and loan guarantees to help SMEs and entrepreneurs remain afloat. In most OECD countries, between 20%-40% of SMEs received government support in one form or another in 2020. Firms in the most impacted sectors and those with significant declines in turnover have benefitted the most, including through changes to insolvency procedures, which, together with financial support, have helped, so far, to avoid a wave of bankruptcies.

But SMEs have also been helping themselves, through adaptations to their business models and in particular through greater uptake of digital tools. In the face of containment measures, SMEs selling online did significantly better than their offline peers, with 50% of SMEs increasing digital up-take during the pandemic, thus helping to accelerate the digital transition.

With containment measures easing in many countries, and vaccination rates increasing, many SMEs and entrepreneurs are moving beyond merely surviving to thriving. After an initial drop, start-ups have recovered, with firm creations in many countries at or above pre-crisis levels, supported by a venture capital market that has reached historic highs. Social innovation initiatives have also blossomed, not just to address socio-economic challenges created by the crisis, but through market oriented social enterprises capitalising on their longstanding comparative advantages to respond to societal trends towards local, inclusive and sustainable business and consumption models.

While it is too early to say if these recent innovations and business dynamics will lead to higher productivity, growth and job creation, many of these changes are poised to last given the investments made. Among SMEs that increased their use of digital tools during the pandemic, about two thirds of self-employed and small firms, and over 75% of medium-sized firms declared the changes to be permanent.

However, pre-existing risks and vulnerabilities remain, and new ones have emerged. In spite of its large scale, government support has been less effective at reaching the self-employed, smaller and younger firms, and women and minority entrepreneurs, thus widening pre-existing inequalities. There are also significant cross-country differences in the proportion of SMEs receiving government support, reflecting institutional settings, effectiveness of delivery mechanisms and fiscal capacity. At the end of 2020, the majority of SMEs were still in need of support.

There are also concerns about SME indebtedness and their capacity to promote the recovery if support measures are unwound rapidly, with potentially long-lasting effects on the economy that would follow a potential wave of bankruptcies. Governments will need to ensure timely debt restructurings for viable firms, and the implementation of efficient liquidation procedures to ensure that resources are not misallocated to structurally unviable businesses. In this context, countries are increasingly using non-debt support mechanisms to alleviate SME debt in the long term, as well as government-backed loans with flexible repayment conditions.

The pace of the recovery will also depend on SMEs' ability to access appropriate and diversified sources of financing. In this context, emerging global trends in sustainable finance, with the aim of incorporating environmental, social and governance (ESG) considerations in investment plans, are fast becoming mainstream. This raises new opportunities for SMEs able to demonstrate ESG performance, especially to investors, but also challenges for those firms not able to do so.

The pandemic, and in its wake a greater appreciation of resilience, may also result in a reconfiguration of international supply chains and investments. Even if not directly exporting, many SMEs are affected by changes in GVCs through their buyer-supplier networks. As a result of lockdowns that affected supply or demand upstream or downstream in their value chains, many small businesses suffered product shortages and price volatility. Those value chains where inputs were difficult to substitute were hit particularly hard, making specialisation (previously an asset for many SMEs that had successfully integrated GVCs pre-crisis) a source of vulnerability. Building resilience requires some diversification in sourcing and production locations, a strategy that is harder to adopt for smaller firms. This may also involve divestments by MNEs from some locations, but expansions in others, creating both risks and opportunities for SMEs. In some countries and regions, the crisis has also re-ignited debates about industrial sovereignty, with some now developing reshoring strategies, built around resilience of strategic SMEs and industries.

Whilst the accelerated uptake of digital tools by SMEs is welcome and will help to close long-standing productivity gaps, its pace has also left many small firms vulnerable to cyber-attacks. Moreover, many continue to lag behind in the digital transformation, especially the self-employed and micro-firms (with around 60% citing adaptation costs as a barrier). In addition, gaps have widened further between SMEs in digitally-intensive sectors and those in low-digital sectors. Solutions and policies to address investment gaps and technological locks-in, as well as efforts to improve SME digital skills, data culture and digital security are all essential to fully leverage the transformative potential of digital tools for all firms.

As part of their recovery packages, governments have placed a high priority on digitalising, reskilling and greening economies. Many are proactively strengthening the scope for e-commerce and e-government services, supporting teleworking and digital security in SMEs, and acting as facilitators in connecting SMEs with innovation and knowledge networks and digital solutions providers. In addition, in many countries, support to start-ups and scale ups has been extended, not only to help overcome liquidity constraints, but also to access innovation and growth capital. Governments are also using the crisis as an opportunity to accelerate the transition towards a greener and circular economy, with massive plans for the greening of SME activities, sometimes twinned with the digital agenda.

Within these strategies, there is also a much greater appreciation of the efficacy of SME and entrepreneurship recovery packages that have an explicit territorial (sub-national) dimension. Not only to account for the local nature and influence of SMEs and entrepreneurs, or to design and deliver public services in closer connection with their user bases, but also because of the high potential to capitalise on place-based policies with effective governance mechanisms to avoid inefficiencies in public action.

1 SME and entrepreneurship performance in times of COVID-19

The restrictions imposed to contain the COVID-19 pandemic triggered the most severe global recession in the post-war period. The majority of small and medium-sized enterprises (SMEs) either had to close operations or faced significant falls in revenue. Even though the adoption of digital technologies is more difficult for smaller firms, online sales helped to contain reductions in revenue for a number of SMEs. In addition, policy responses were quick and strong overall and they largely contributed to avoid a wave of bankruptcies so far. SMEs in the sectors most impacted by lockdown measures and those with significant reductions in sales disproportionately benefitted from government support within countries. Nevertheless, there have been difficulties in reaching the self-employed, smaller and younger firms, and women and minority entrepreneurs. There are also significant cross-country differences in the proportion of SMEs receiving government support, in part reflecting institutional settings, effectiveness of delivery mechanisms and fiscal capacity. At the end of 2020, a large proportion of SMEs continued to express the need for additional support in the future, especially in countries with strict containment measures in place. Looking ahead, as the economic situation progressively normalises and support measures are unwound, governments will need to ensure that debt does not endanger viable firms, and that resources are reallocated from non-viable businesses.

One year amidst a global pandemic and a historical economic crisis

The COVID-19 pandemic forced governments to take unprecedented action to limit the propagation of the disease and, in turn, triggered the most severe post-war recession in OECD countries. Some economic sectors and regions were disproportionately exposed to the lockdown measures put in place to contain the pandemic. At the time of writing, prospects for a path out of the crisis have improved but remain uncertain.

When the COVID-19 crisis hit, the financial situation of small- and medium-sized enterprises (SMEs) was generally favourable. Long-term interest rates were very low by historical standards and monetary policy was becoming more accommodative to account for relatively weak economic activity. Credit conditions had improved for SMEs with credit rejection rates at low levels and loan portfolios progressively shifting to longer-term maturities. Nevertheless, a large proportion of SMEs remained largely dependent on internal funds and bank credit to support their activities and growth, making them especially vulnerable to economic downturns. In addition, there are signs that the alternative sources of finance for SMEs that had started to develop after the 2008-09 financial crisis are being strongly impacted by the current crisis, with the risk of backsliding on recent progress.

In spite of the major economic shock triggered by the pandemic, the available statistics (up to the beginning of 2021) do not indicate a major increase in overall bankruptcies so far. This is largely related to government support measures, including temporary regulations on insolvency. While this may have avoided massive firm closure and surge in unemployment, there are risks of debt build-ups among SMEs that may lead to significant increases in bankruptcies as support measures are unwound, with potentially long-lasting effects on the economy. Governments will need to implement policies to address this issue. These policies include timely debt restructuring for viable firms and the implementation of efficient liquidation procedures to ensure that resources are reallocated from non-viable businesses.

Start-up creations fell sharply at the height of the crisis but have since made up lost ground in most countries, which also provides scope for optimism. Nevertheless, it remains uncertain at this stage how many of these are driven by opportunity or necessity as a response to rising unemployment.

There is a growing body of evidence that the self-employed, women and minority entrepreneurs have been disproportionately affected during the crisis, with higher risks of unemployment and income loss than other categories. This reflects challenges around access to finance, the economic sectors where they operate and increasing household responsibilities for women.

Concerning the situation of SMEs, the available evidence, including the Facebook-OECD-World Bank survey, shows that smaller firms have been more likely to close operations during the crisis than larger firms. Moreover, SMEs in the sectors most affected by lockdown measures (e.g. food and accommodation, transportation and other services) have been disproportionately impacted, with higher closure rates and a larger proportion of firms with reductions in sales.

Digitalisation and online sales have provided a panacea for a number of SMEs but again there are challenges, especially for smaller firms, where the internal capacities to adapt and embrace digital tools are more limited than they are for larger firms.

Policy responses were quick and strong overall and the Facebook-OECD-World Bank survey shows that SMEs in the sectors most impacted by lockdown measures and those with significant reductions in sales have disproportionately benefitted from government support within countries. Nevertheless, there have been difficulties in reaching smaller and younger firms. This resonates with the growing evidence that, in some countries, government support policies have not been effective enough at protecting some categories of self-employed workers and entrepreneurs. For example, workers with a recent self-employment status, part-time entrepreneurs and those with mixed-income sources may not be eligible for income support in some countries.

In addition to uneven access to government support across firms belonging to the same country, there are also significant differences across countries in the proportion of SMEs receiving government support, in part reflecting institutional settings, effectiveness of delivery mechanisms and the fiscal space available to countries to help SMEs. In practice, the available evidence does not show any clear relationship across countries between the size of the economic shock and the share of SMEs receiving government support in 2020. Moreover, SMEs continue to struggle during the recovery phase. Across the 32 OECD countries covered by the Facebook-OECD-World Bank survey in December 2020, a large proportion of SMEs expressed the need for additional support in the future, especially in countries with strict containment measures in place. Given that *ex ante* simulations indicate a significant role of financial support measures to contain the increase in bankruptcies during the crisis, there is a risk that countries with a lower proportion of SMEs receiving financial support and large economic shocks will see a higher number of SMEs going bankrupt, reinforcing the need for a careful consideration of new policies to avert a wave of bankruptcies of intrinsically viable firms.

This first chapter of the *OECD SME and Entrepreneurship Outlook* report focuses on the short-term impact of the COVID-19 crisis on SMEs and entrepreneurs. It also looks at how emergency support policies have been taken up by SMEs and entrepreneurs within and across countries. For doing so, it builds on the most recent macroeconomic data, OECD timely indicators of entrepreneurship, OECD structural and demographic business statistics and new results from the Facebook-OECD-World Bank Future of Business Survey. By comparison, the next chapters will analyse the longer-term impact of the crisis, the risks and opportunities building up for SMEs and entrepreneurs, and the policy needs for the future.

Assessing risks and vulnerabilities during the COVID-19 crisis

The COVID-19 shock has been unprecedented

The COVID-19 crisis is the most severe and abrupt global recession since the end of the Second World War. Physical distancing, lockdowns and restrictive measures put in place worldwide to contain the pandemic have resulted in unprecedented shocks to business conditions and operations in OECD and non-OECD countries. This recession is deeper and more sudden than the 2008-09 financial crisis (Figure 1.1). Gross domestic product (GDP) contracted significantly across all major OECD economies in the first two quarters of 2020 and by 21% in the United Kingdom (UK).

Across countries, the more stringent the lockdown measures, the greater the initial decline in economic growth (Figure 1.2). Faced with a significant health crisis, many governments reacted with a variety of social distancing (lockdown) measures to contain the spread of the virus, which also considerably reduced economic activity.[1]

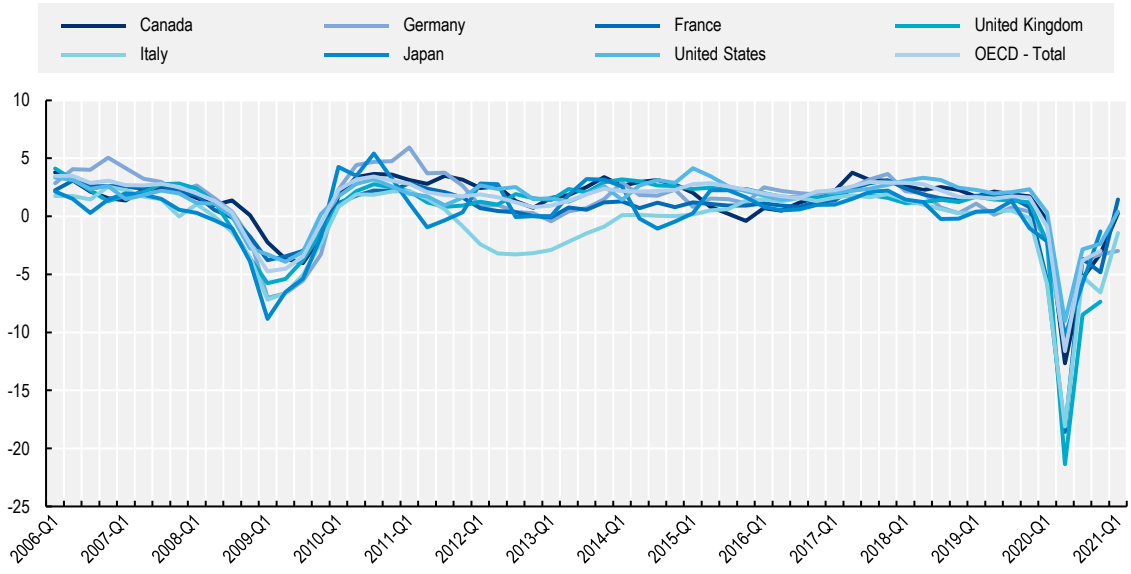
As restrictions to economic activities eased over the summer, GDP rebounded but remained below pre-crisis levels. While overall GDP in the OECD area in the second quarter (Q2) of 2020 was 11.6% below its 2019 Q2 level, the gap reduced to 3.8% in the third quarter of 2020 but, with outbreaks of new variants appearing in recent months, the pace of recovery slowed and, in the fourth quarter of 2020, the level of GDP remained 3.4% below its level a year earlier.[2]

At the time of writing, prospects for a path out of the crisis continue to improve, as shown by recent upward revisions in economic forecasts, but they remain uncertain and unequal across countries (Table 1.1). The brighter outlook is mainly related to the gradual deployment of effective vaccines, macroeconomic policy support, especially in the United States (US), and signs that economies are coping better with measures to contain the virus. Global economic activity has now returned to its pre-pandemic level but, at the end of 2022, it would still remain weaker than expected before the pandemic. There is also marked variation in the impact of the crisis and the pace of recovery across countries. The risks of new virus outbreaks, with

the appearance of variants in different places, and the challenges in deploying vaccines on such a scale continue to weigh down on the recovery.

Figure 1.1. The COVID-19 outbreak triggered the most severe recession in decades

Year-on-year GDP growth rates (%), G7 countries and OECD total (2006 Q1-2021 Q1)



Source: OECD National Accounts database.

StatLink https://doi.org/10.1787/888934249566

Figure 1.2. The economic shock has hit as hard as lockdown measures were stringent

GDP growth rate (%) and average stringency of lockdown measures in 2020 Q2 (Index 0 to 100, 100 = strictest), OECD countries

Source: OECD National Accounts database; Oxford COVID-19 Government Response Tracker.

StatLink https://doi.org/10.1787/888934249585

Table 1.1. A significant but uneven global recovery ahead

Real GDP growth,[1] as a percentage

	Average 2013-19	2019	2020	2021	2022	2020 Q4	2021 Q4	2022 Q4
World[2]	3.3	2.7	-3.5	5.8	4.4	-0.9	4.4	3.4
G20[2]	3.5	2.8	-3.1	6.3	4.7	-0.4	5.0	3.4
OECD[2]	2.2	1.6	-4.8	5.3	3.8	-2.9	5.1	2.4
United States	2.5	2.2	-3.5	6.9	3.6	-2.4	7.4	1.5
Euro area	1.8	1.3	-6.7	4.3	4.4	-4.7	46	2.9
Japan	0.8	0.0	-4.7	2.6	2.0	-1.0	1.4	1.2
Non-OECD[2]	4.3	3.7	-2.3	6.2	4.9	0.9	3.8	4.2
China	6.8	6.0	2.3	8.5	5.8	5.7	5.9	5.2
India[3]	6.8	4.0	-7.7	9.9	8.2			
Brazil	-0.3	1.4	-4.1	3.7	2.5			
Unemployment rate[4]	6.5	5.4	7.1	6.5	6.0	6.9	6.4	5.7
Inflation[1,5]	1.7	1.9	1.5	2.7	2.4	1.4	3.1	2.4
Fiscal balance[6]	-3.2	-3.1	-10.8	-10.1	-6.0			
World real trade growth[1]	3.4	1.3	-8.5	8.2	5.8	-4.7	6.4	4.8

Note: 1. Percentage changes (the last three columns show the change over a year earlier); 2. Moving nominal GDP weights, using purchasing power parities; 3. Fiscal year; 4. Percentage of labour force; 5. Private consumption deflator; 6. Percentage of GDP.
Source: OECD (2021[1]), OECD Economic Outlook, Volume 2021 Issue 1: Preliminary

Some sectors and regions with disproportionate representation of small- and medium-sized enterprises (SMEs) were largely exposed to COVID-19 restrictions

Although all firms and economic sectors were either directly or indirectly affected by lockdown measures put in place by governments, some sectors with disproportionate representation of SMEs were most severely affected, at least initially.

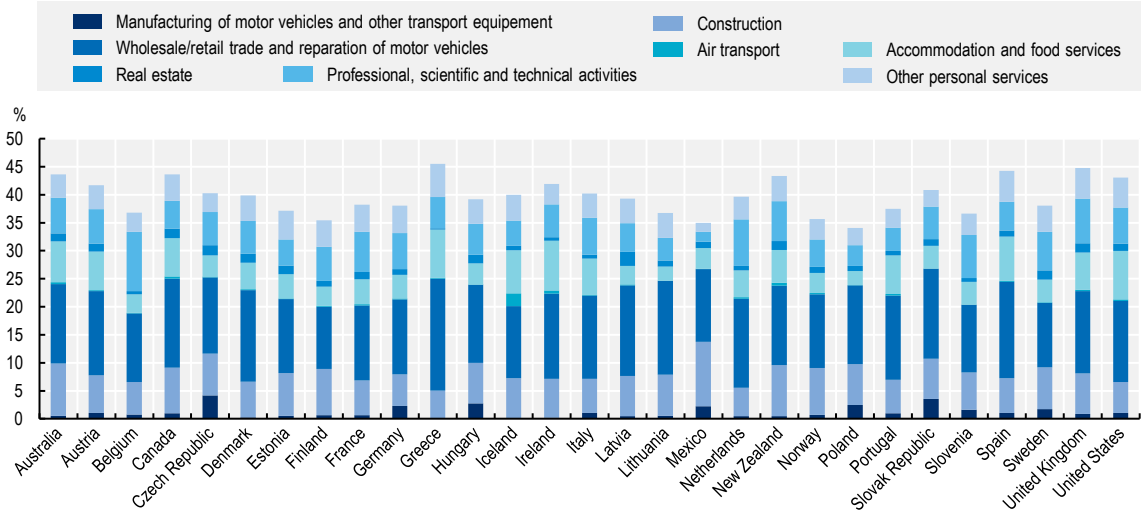
The tourism sector has been particularly affected. International tourism is estimated to have fallen by around 80% in 2020 (OECD, 2020[2]). Whilst domestic tourism has fared comparatively better, it remains significantly below pre-COVID levels. Spain and the UK, for example, are estimating a 45%-50% decrease in domestic tourism in 2020 as compared to 2019. Cultural activities, with closures of museums, theatres and cinemas have also been hard-hit. No meaningful recovery in international tourism flows is foreseen until well into 2021, with recovery to pre-crisis levels not expected before 2023 (OECD, 2020[2]).

Looking beyond the tourism sector, the economic sectors most directly affected by lockdown measures, at least initially, include transport manufacturing, construction, wholesale and retail trade, air transport, accommodation and food services, real estate, professional services and other personal services (e.g. hairdressing) (OECD, 2020[3]). These sectors alone represent 40% of total employment on average across OECD countries (Figure 1.3).

SMEs account for the bulk of employment in the most affected sectors: 75% on average across OECD countries and nearly 90% in Greece and Italy (Figure 1.4). Microenterprises with less than 10 employees, probably the most at risk of cash shortages, account for around 30% of employment in these sectors and up to 60% in Greece and Italy.[3]

Figure 1.3. The sectors most affected by lockdowns account for 40% of total employment

Employment in the sectors most adversely affected by lockdown measures, as a % of total employment in the economy



Note: Economic sectors are defined using the ISIC rev.4 classification: manufacturing of motor vehicles and other transport equipment (29-30); construction (41-43); wholesale/retail trade and repair of motor vehicles (45-47); air transport (51); accommodation and food service activities (55-56); real estate activities (68); professional, scientific and technical activities (69-75); arts, entertainment and recreation (90-93); and other service activities (94-96). The latter two are grouped together as other personal services in this Figure.
Source: OECD Annual National Accounts and Structural Business Statistics databases.

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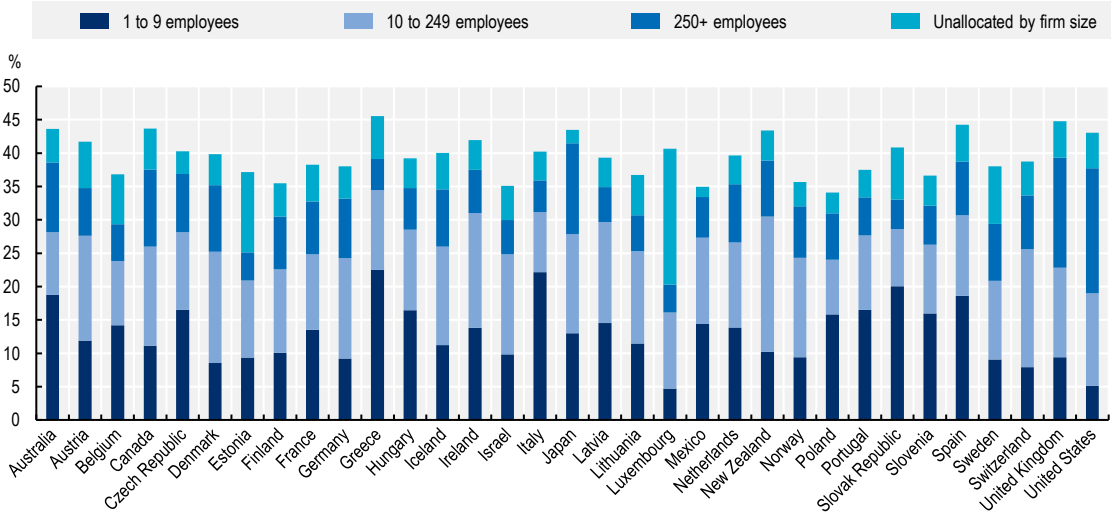
Figure 1.4. SMEs account for the bulk of employment in the most affected sectors

Share of total employment in the economy located in the most adversely affected sectors, broken down by firm size



Note: Economic sectors are defined using the ISIC rev.4 classification: manufacturing of motor vehicles and other transport equipment (29-30); construction (41-43); wholesale/retail trade and repair of motor vehicles (45-47); air transport (51); accommodation and food service activities (55-56); real estate activities (68); professional, scientific and technical activities (69-75); arts, entertainment and recreation (90-93); and other service activities (94-96). The latter two are grouped together as other personal services in this Figure.
Source: OECD Annual National Accounts database, OECD calculations

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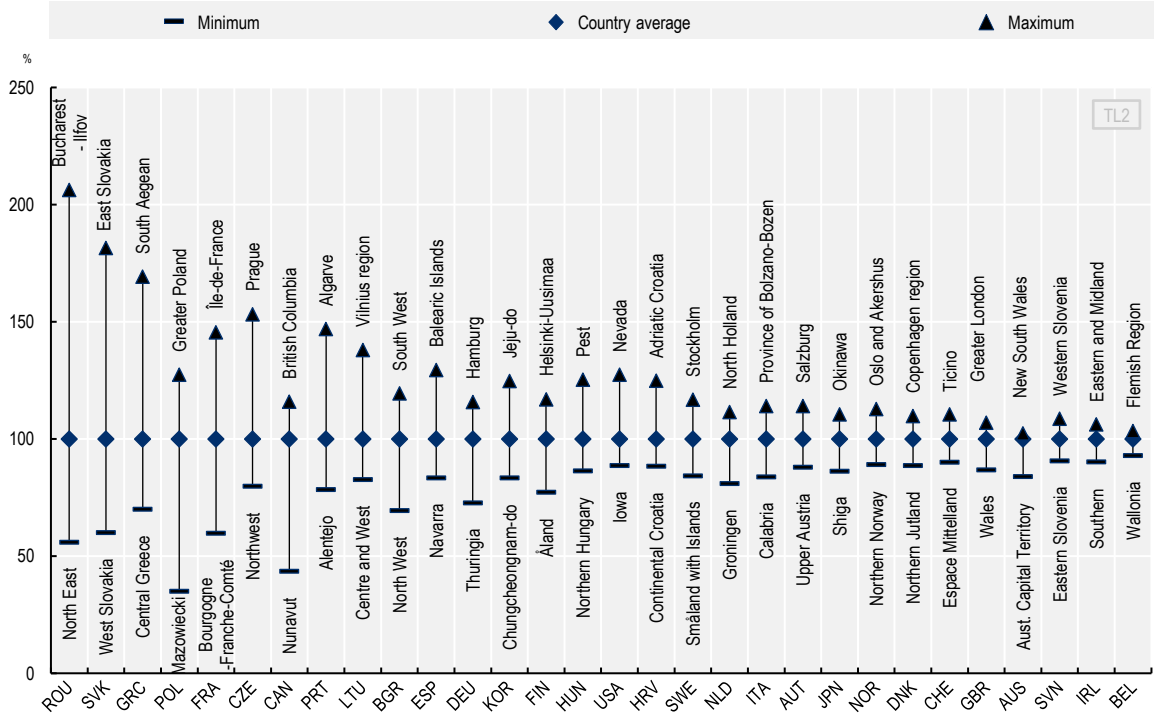
There is significant heterogeneity across regions within countries in the share of total regional employment that these sectors represent (Figure 1.5). For example, regions such as the South Aegean region in Greece and the Algarve region in Portugal have a higher share of employment in the accommodation and food services sector and so, in turn, a higher vulnerability to the COVID-19 shock and the implied restrictions. In such regions, the declines in tourism also spilled over, through demand effects, to other activities in the local economy (OECD, 2020[4]).

Figure 1.5. Impacts in some regions were particularly severe

Regional disparities in the share of total regional employment in the sectors most affected by lockdown measures (country average = 100)



Note: The same economic sectors are considered as in Figures 1.3 and 1.4. For Spain, the Figure excludes Ceuta and Melilla. For France, the Figure excludes Corsica, French Guiana and Mayotte, due to data availability constraints.
Source: For EU countries: Eurostat regional structural business statistics. For Australia, Canada, Japan, Korea, Switzerland and the US: OECD estimates based on employment data from the Australian Bureau of Statistics, Statistics Canada, the Statistics Bureau of Japan, the Korean Statistical Information Service, the Federal Statistical Office of Switzerland and the US Census Bureau, respectively.

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The crisis has slowed recent improvements in access to finance, especially for SMEs

Prior to the COVID-19 crisis, the financial situation was generally favourable for SMEs. Long-term interest rates were very low by historical standards and monetary policy was becoming more accommodative to account for relatively weak economic activity. Credit conditions had improved for SMEs with credit rejection rates at low levels and loan portfolios progressively shifting to longer-term maturities.

Moreover, since the 2008-09 financial crisis, there has been an increase in alternative sources of financing for SMEs, beyond traditional bank financing,[4] including through private debt, allowing firms to issue debt through specialised loan funds and online financing through web platforms. Moreover, digital tools have facilitated the emergence of new online banks, some of which specialise in providing services to self-employed workers and small business owners. Beyond debt issuance, asset-based finance has also become an alternative source of funding for a growing number of SMEs. For example, recent years have seen the development of financial techniques such as leasing and hire purchases, and factoring, which allow SMEs to monetise some of their assets to raise funds in the short term. In addition, venture capital investments for SMEs were rising, in part thanks to the government facilitating the development of equity finance for SMEs. These include direct investments by public investment banks and the introduction of lighter regulation and listing requirements to facilitate the access of SMEs to junior stock markets.

Alongside these positive trends, it is important to note that a third of all SMEs in the European Union continue to rely solely on internally generated sources of revenue for their day-to-day operations and investments (Moritz, Block and Heinz, 2017[5]), in part explaining sluggish loan growth in recent years, despite favourable credit conditions. In addition, financing patterns continue to differ substantially between smaller and larger SMEs, particularly in Europe, with the former making more use of self-financing options, short-term credit and fewer state subsidies and asset-based financing (Masiak et al., 2019[6]). Furthermore, there are signs that equity, trade finance and alternative financing are being strongly impacted by the current crisis, with the risk of backsliding on recent progress. Looking forward, it will be important to ensure that progress on financial diversification is not permanently reversed.[5]

At this stage, smaller firms continue to be more financially constrained than larger firms.[6] Raising funds from external investors usually requires tangible assets as collateral in order to alleviate asymmetries of information between lenders and borrowers (Almeida and Campello, 2007[7]), which is typically more challenging for smaller firms. Compounding this is the fact that small business owners and managers often have more limited financial skills and knowledge and awareness of potential funding options and alternatives than counterparts in larger firms. As a result, SMEs are more dependent than larger firms on their internal financial resources and cash flow, both to invest and to cover their recurrent costs such as the compensation of their employees.

These challenges make SMEs more vulnerable to economic downturns and drops in revenues than larger firms. This vulnerability is even more pronounced for micro firms that can only rely on bank financing or a limited number of alternative sources of finance. Moreover, many potentially high-growth (e.g. technology-based) SMEs face challenges in using their mainly intangible capital as collateral. North, Baldock and Ullah (2015[8]) for example show that access to finance for British technology-based SMEs is even more difficult during periods of low or volatile growth.

Economic recessions exacerbate the structural financing difficulties that SMEs face during normal times. Moreover, these temporary shocks can have long-lasting effects, with slower recoveries in credit conditions for SMEs since the end of the 2008-09 financial crisis in those countries most severely affected (OECD, 2019[9]).

While credit conditions in the current crisis have deteriorated less than during the global financial crisis (in part reflecting significant government intervention, see below), the evidence from the 2008-09 crisis highlights the significant risks faced by SMEs during the current recession. Analysing a panel of British SMEs during the financial crisis, Cowling, Liu and Ledger (2020[10]) found that businesses with stagnating

growth or declining revenue tended to increase their demand for credit compared to larger and older firms that could access capital. Indeed, many smaller firms were completely cut off from financing sources for several months, heightening the risks of closure.

Emerging evidence on the economic impact of the crisis on entrepreneurship and SMEs

Start-up rates fell sharply at the height of the crisis but have since made up lost ground

New and young firms are key for job creation. On average across OECD countries, they employ around 20% of the total workforce and create almost half of new jobs. As vectors of innovation, they also contribute significantly to long-term productivity and economic growth. During recessions, however, reductions in firm creations may amplify economic contractions, reduce the speed of recovery and potentially leave long-lasting scars on the economy (OECD, 2021[11]).

Initially, the crisis had an almost immediate negative impact on business creations in most OECD countries (Figure 1.6) in line with lockdown measures, with significant falls in business creations appearing in the second or third quarter of 2020 (compared to the same period of 2019).[7] Among countries for which data are available, only Japan, Sweden and the United States (US) went against this trend. In addition, in most countries, business creations rebounded, with only South European countries (Italy, Portugal and Spain) and Poland (see country profile) recording an overall reduction in firm creations in 2020 as a whole compared to 2019.

Aggregate statistics however mask uneven trends across sectors (OECD, 2021[11]). In the hotels and restaurants, real estate and arts and entertainment sectors, for example, significant declines were seen in nearly all countries, not surprisingly reflecting the implementation of lockdown measures, which hit these activities particularly hard. By contrast, the manufacturing and construction sectors saw faster recoveries in a number of countries.

Despite the positive indications of a recovery in start-ups, some care is needed in interpretation at this early stage. It is still uncertain whether the resilience of entrepreneurship is opportunity- or necessity-driven and the large increase in unemployment in many OECD economies reinforces the need for caution here. That being said, the boom in the start-up funding market that took place at the end of 2020 in some countries (such as Israel) provides some cause for optimism (OECD, 2021[12]).

Government support has avoided a wave of bankruptcies so far

Small- and medium-sized enterprises (SMEs) have incurred severe liquidity shortages as revenues plummeted in the face of lockdowns, and at a much faster rate than operating expenses. Banerjee et al. (2020[13]) estimate that operating expenses (which are often fixed) typically fall by only 6% for a 10% drop in revenue. Exacerbating this is the fact that smaller firms typically have very limited cash reserves, often covering two to three weeks of outflows. Data from the US, for example, show that 86% of small businesses would need to take action to supplement funding or cut expenses when faced with a two-month revenue loss (Federal Reserve Bank of New York, 2020[14]).

Government support has been critical to SMEs and entrepreneurs facing liquidity crises. Indeed, a number of countries introduced temporary measures to limit bankruptcies. For example, France limited the obligations to file for bankruptcy if firms started defaulting after 12 March 2020 and this measure remained in place until 24 August 2020. In Germany, firms' obligations to file for insolvency have been suspended since 1 March 2020. In Italy, a moratorium on bankruptcies was in force from 9 March until 30 June 2020.

The impact of these measures can be seen in bankruptcy statistics which were at lower levels in 2020 and early 2021 (compared to 2019) in all countries where data are available (Figure 1.7).

This is confirmed by several studies relying on large samples of firms in different economic sectors, which conclude that a significant proportion of firms would have faced liquidity shortfalls in the first months of the crisis in the absence of policy interventions.

For example, an *ex-ante* calibration exercise based on firm-level data from 17 (mostly European) OECD countries indicates that the business failure rate would have jumped from 4.5% to 12.1% in the absence of government interventions in 2020 (Gourinchas, Penciakova and Kalemli-Ozcan, 2020[15]).

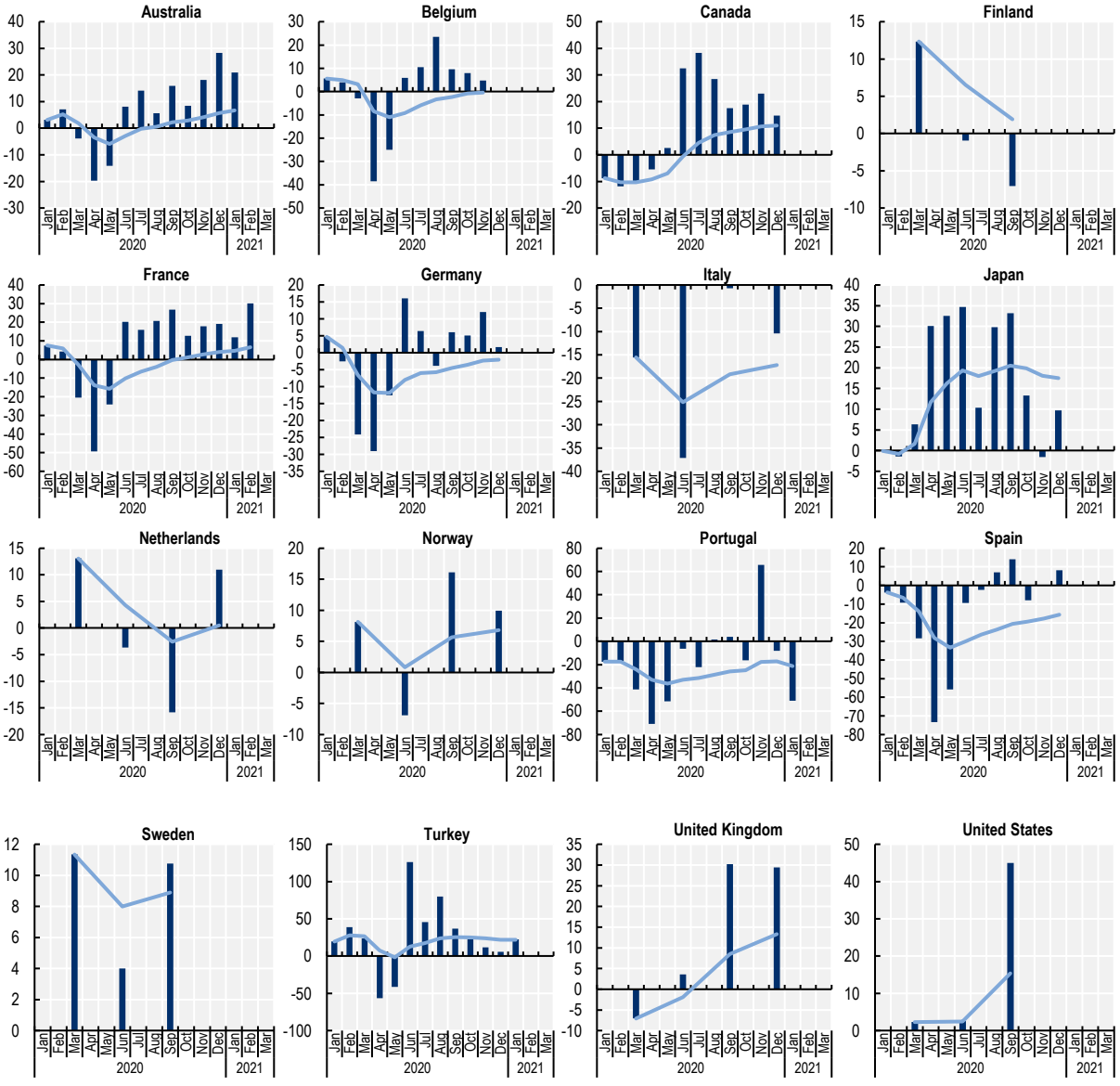
As another example, Demmou et al. (2021[16]) show that, in the absence of policy interventions, (e.g. deferrals of taxes, financial support for debt repayment or temporary support to wage payments) 18% of firms in their sample of 14 European countries would have run out of liquidity after one month and 30% after three months.

Similarly, the French National Productivity Council (2021[17]) provides a comparison of the economic factors influencing the probability of firms going bankrupt before and during the COVID-19 crisis. Here again, it turns out that measures put in place by the French government to support firms have largely muted the effect of sectoral economic shocks on bankruptcies.

Some caution is however needed in interpreting Figure 1.7, as the statistical compilation of bankruptcy statistics is itself likely to have been partly affected by lockdown measures. In France for example, the Central Bank, which compiles the data based on decisions by commercial courts, noted that that lockdown measures had affected the functioning of the courts and, as such, delayed the recording of bankruptcies. Therefore, the available statistics for the second quarter of 2020 are likely to underestimate the actual number of bankruptcies in France (Banque de France, 2020[18]). The same holds true for the UK (Insolvency Service, 2020[19]) and quite probably for most other countries.

A further note of caution concerning interpretation is also needed here. There is a risk that the financial support provided by governments may have simply delayed the wave of bankruptcies, especially in countries where financial support has increased the level of indebtedness of firms and so governments will need to implement policies to address this and indeed possible contagion effects to the wider economy. These policies include timely debt restructuring for viable firms and the implementation of efficient liquidation procedures to ensure that resources are reallocated from non-viable businesses (Demmou et al., 2021[20]). Note that Chapter 2 in the present report includes further discussion on the risk of firm over-indebtedness.

Figure 1.6. Business creations in 2020 and 2021 vs. 2019



Note: For each month or quarter (depending on data availability), the blue bars indicate the percentage difference in business creations in 2020 and 2021, as compared to the same month or quarter in 2019. The blue lines indicate the cumulated business creations from the beginning of 2020 to the current period, as a percentage difference with business creations over the same period in 2019.

Source: The Australia Securities and Investment Commission, Statistics Belgium, Statistics Canada, Statistics Finland, INSEE (France), DESTATIS (Germany), Italian Chambers of Commerce, Japan's Ministry of Health, Labour and Welfare, Statistics Netherlands, Statistics Norway, Statistics Portugal, INE (Spain), Statistics Sweden, the Union of Chambers and Commodity Exchanges (Turkey), the United Kingdom (UK) Office for National Statistics, the US Bureau of Labor Statistics. These data are collected by the OECD to derive Timely Indicators of Entrepreneurship.

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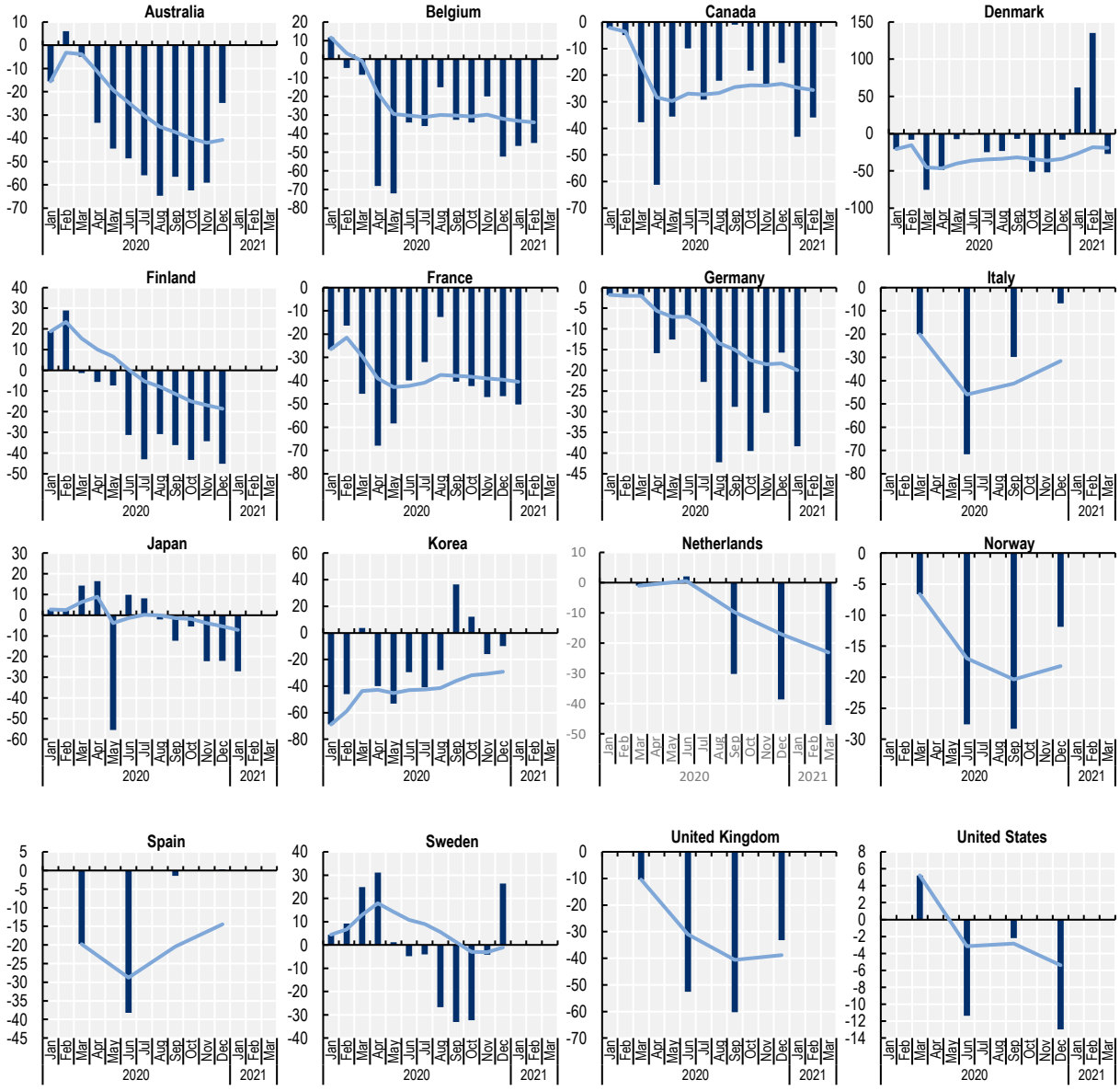
Figure 1.7. Bankruptcies in 2020 and 2021 vs. 2019



Note: For each month or quarter (depending on data availability), the blue bars indicate the percentage difference in bankruptcies in 2020 and 2021, as compared to the same month or quarter in 2019. The blue lines indicate the cumulated bankruptcies from the beginning of 2020 to the current period, as a percentage difference with bankruptcies over the same period in 2019.

Except for very few countries, the available official statistics on bankruptcies do not include a breakdown by firm size. Moreover, they do not allow tracking the large number of SMEs that have stopped their operations during the crisis without going bankrupt, nor tracking the fall in activity of those remaining open.

Source: The Australia Securities and Investment Commission, Statistics Belgium, Industry Canada, Statistics Denmark, Statistics Finland, Banque de France, DESTATIS (Germany), CERVED (Italy), Teikoku Data Bank (Japan), Tradingeconomics.com (Korea), Statistics Netherlands, Statistics Norway, INE (Spain), Statistics Sweden, the UK Insolvency Service, the US Courts. These data are collected by the OECD to derive Timely Indicators of Entrepreneurship.

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Young firms, self-employed and entrepreneurs were confronted with specific challenges during the crisis

Some innovative young firms have reacted fast to the pandemic, thus demonstrating the flexibility of entrepreneurs. These firms have been critical in the digital transition including through remote working, with many entrepreneurs capitalising on opportunities in e-education and e-health, or by developing innovations in medical goods and services.[8]

However, the crisis has raised major challenges for start-ups that were created just before the crisis. Multiple surveys confirm that these young firms were heavily impacted. More than 40% of new ventures fell into the "red zone" (with only three months or less of cash to sustain operations) (World Economic Forum, 2020[21]). Almost 3 in 4 start-ups surveyed saw their revenues decline and liquidity positions challenged and 41% needed to raise capital in the next three months in order to survive (Startup Genome, 2020[22]).

There is a growing body of evidence revealing that the effects of the COVID-19 pandemic on the self-employed and entrepreneurs have been disproportionately negative. This negative impact has been more substantial than in larger firms and on employees overall. For example, an international survey by Eurofound (2020[23]) found that the likelihood of becoming unemployed during the pandemic was higher among the self-employed (13%) than for employees (8%) and the self-employed with employees (2.3%). However, a significant share of the self-employed with employees (5.9%) shed labour to become solo self-employed. Furthermore, more than half of the self-employed reported that their working hours had declined (53% for solo and 51% for those with employees) compared with 27% of employees. This is consistent with country-level studies across OECD countries, including, for example, in Australia (Biddle et al., 2020[24]), Canada (Beland, Fakorede and Mikola, 2020[25]; 2020[26]), Germany (Kritikos, Graeber and Seebauer, 2020[27]; Graeber, Kritikos and Seebauer, 2021[28]), the UK (Blundell, Machin and Ventura, 2020[29]; ONS, 2021[30]) and the US (Fairlie, 2020[31]). Among the self-employed and entrepreneurs, the impact of COVID-19 has been uneven. It appears that solo self-employed and unincorporated enterprises have contracted the greatest, which may be a result of their choice to do so or it may have been forced upon them because of financial problems.

There is also evidence from across OECD countries that subgroups of entrepreneurs such as women and minorities have been hit harder, in part reflecting challenges around access to finance, the economic sectors where they typically operate and increasing household responsibilities for women during the crisis.

The number of female business owners in the US fell by 10% between February and June 2020 whereas the number of male business owners declined by only 7% (Fairlie, 2021[32]). Similarly, evidence from Germany shows that female entrepreneurs were more likely to experience an income loss more than 30% higher than male entrepreneurs (Graeber, Kritikos and Seebauer, 2021[28]). There is also evidence from Canada (Beland, Fakorede and Mikola, 2020[25]) and the UK (Blundell, Machin and Ventura, 2020[29]) that female entrepreneurs, on average, experienced a drop in hours worked about 1.5 times greater than male entrepreneurs. Many of these gender gaps can be explained by differences in the sectors that male and female entrepreneurs work in. Further, women were more likely to take on more household and care responsibilities during the pandemic (OECD, 2020[33]), which limits their time for running a business.

During the first phase of the COVID-19 crisis (February-April 2020), whilst the total number of active business owners declined by 22%, the number of African-American, Latino and Asian business owners declined by 41%, 32%, and 26%, respectively (Fairlie, 2020[31]). Similar patterns were seen during the 2008-09 financial crisis in the US. In 2011, 60% of white-owned businesses that existed in 2002 were still in operation, versus 49% of black-owned businesses. The corresponding figures for male- and female-owned businesses were 61% and 55%, respectively (Liu and Parilla, 2020[34]).

Among SMEs, the crisis had a disproportionate impact on the activity of smaller firms and those operating in the sectors most affected by lockdown measures

Smaller firms, and those operating in the sectors most affected by lockdown measures, were more likely to close

Bartik et al. (2020[35]) were among the first to set up a specific survey to assess the financial situation of small businesses in the US and their need for policy support.[9] Their sample included US-based firms that were surveyed from 26 March until 2 April 2020. At the time of the survey, close to 45% of all small businesses in the US had closed at least temporarily, compared to 36% of firms with between 20 and 99 employees (with less than 499 employees) in the US had closed at least temporarily, but only 36% of those with between 20 and 99 employees, and 26% of those with between 100 and 499 employees. The survey also confirmed concerns around the financial fragility of small businesses, showing that 25% of them had cash on hand totaling less than one month of expenses and half for between one and two months of expenses.

From May to October 2020, in response to the need for data on the impact of the crisis, Facebook, the OECD and the World Bank rolled out a monthly Internet survey to track the situation of small businesses. This monthly survey was followed by an additional wave fielded in December 2020 (Box 1.1).

Box 1.1. The joint Facebook-OECD-World Bank Future of Business Survey

The Future of Business Survey (FOBS) is a collaboration between Facebook, the OECD and the World Bank to survey businesses on Facebook on a recurring schedule and assess their challenges, opportunities and needs around the world. This collaboration began in 2016. The goal of the FOBS is to complement traditional business survey data with near real-time information on the perspectives of online small and medium-sized businesses (SMBs)[10] in more than 100 countries.

In March 2020, at the request of the OECD supported by the World Bank, Facebook adapted its standard bi-annual approach to run six monthly waves of the FOBS in order to provide timely information on the impact of COVID-19 on small businesses and their adaptation to the pandemic. Monthly surveys were conducted from the end of May until the end of October 2020, with an additional wave fielded at the end of December 2020. The different waves cover 78 to 109 countries, including 23 to 32 OECD countries. The December wave has the largest number of countries covered, both within and beyond the OECD area.

The target population of the survey are Facebook page administrators that are business owners and managers. Over 80 million businesses are estimated to be represented in this sampling frame. Since a Facebook page is a near prerequisite for a business to engage in advertising or generating content for Facebook audiences, the set of page administrators is very likely to contain almost all businesses on the platform.

In order to increase the quality of responses, the analysis of responses to the FOBS in this chapter is restricted to self-identified owners and managers SMEs (i.e. firms with less than 250 employees). Indeed, owners or managers of smaller enterprises are more likely to have knowledge of business plans, finances and history.

In order to account for non-responses and ensure that respondents are ultimately representative of the population of Facebook page administrators in each country, Facebook uses an econometric model to predict the probability of response to the survey and compute weights to analyse survey responses.

On average across OECD countries, the number of owners and managers of SMEs responding to the survey is around 500 per country.

The econometric analysis presented in this chapter systematically controls for economic sector, firm size and country, in order to account for potential differences in the representativeness of firms in the Facebook sample and the population of active SMEs.

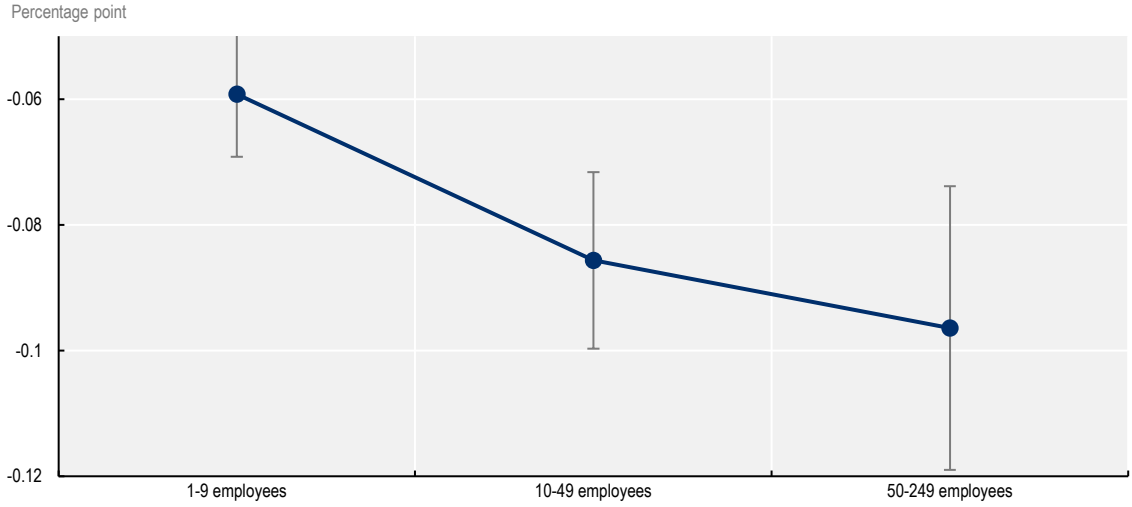
Source: Facebook Data for Good (n.d.[36]), *2020 Global State of Small Business*, https://dataforgood.fb.com/global-state-of-smb/; Scheider, J.W. (n.d.[37]), *Future of Business Survey Methodology Note*, https://dataforgood.fb.com/wp-content/uploads/2020/11/Future-of-Business-Survey-Methodology-Note.pdf.

Overall, econometric analysis conducted across all survey waves between May and December 2020 shows that the smaller the firms, the more likely they were to close operations. Other things being equal, SMEs with no employees were around 10 percentage points more likely to be closed than SMEs with 50 to 249 employees (Figure 1.8). This evidence is consistent with that reported by Bartik et al. (2020[35]) for the US at the start of the pandemic.

Similarly, SMEs in the sectors most exposed to lockdown measures were more likely to be closed. For example, and other things being equal, SMEs in the hotel, café and restaurant sectors were around 8 percentage points more likely to be closed than SMEs in the information and communication technology (ICT) sector. SMEs in the transportation and other services[11] sectors were also significantly more likely to be closed than SMEs belonging to the ICT sector (Figure 1.9).

Figure 1.8. The smaller the SMEs, the more likely they were to close operations

Marginal effect of firm size on the probability of SMEs to close operations (May-December 2020)



Note: Controlling for economic sector, country, time and country x time fixed effects, SMEs with 50 to 249 employees are on average around 10 percentage points less likely to close operations than SMEs with no employees (reference category in the econometric analysis). 95% confidence intervals are reported in the Figure. The sample covers SMEs with a Facebook page and observations from May to December 2020 in up to 32 OECD countries.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (May-December 2020).

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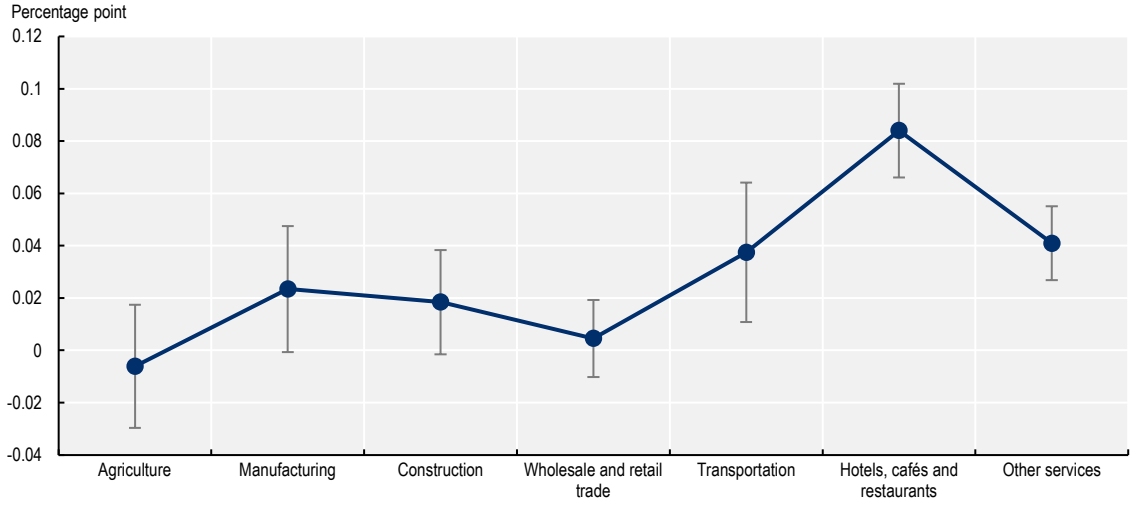
Figure 1.9. The higher the exposure to lockdown measures, the higher the probability of closure

Marginal effect of the economic sector on the probability of SMEs to close operations (May-December 2020)



Note: Controlling for firm size, country, time and country x time fixed effects, SMEs belonging to the hotel, café and restaurant sector are around 8 percentage points more likely to close operations than SMEs belonging to the ICT sector (reference category in the econometric analysis). 95% confidence intervals are reported in the Figure. The sample covers SMEs with a Facebook page and observations from May to December 2020 in up to 32 OECD countries.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (May-December 2020).

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A significant share of SMEs remaining open recorded major reductions in sales

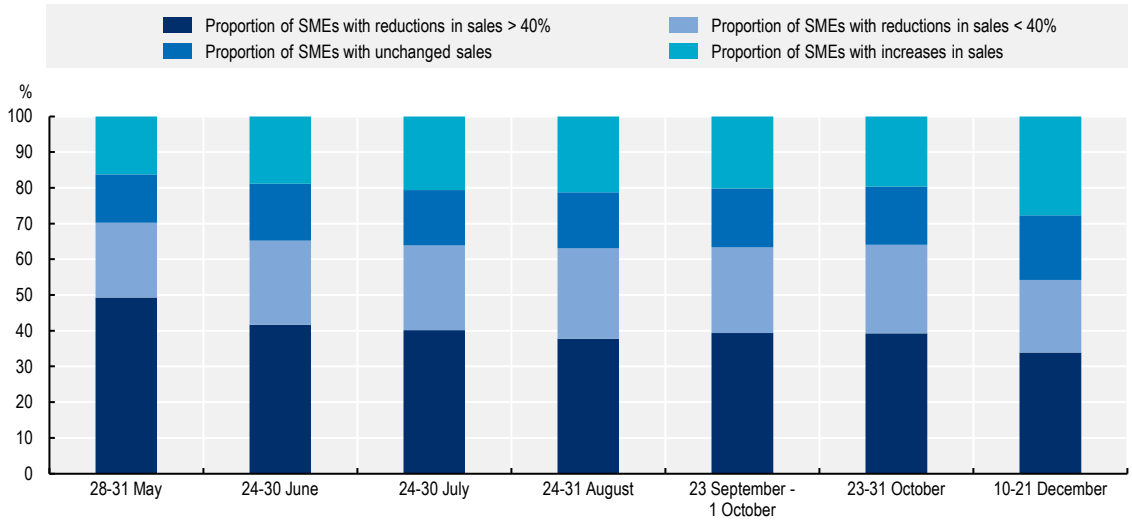
The drop in revenue for SMEs was precipitous during the first wave of the pandemic and revenues remained depressed in most countries afterwards. The monitoring by the OECD of 125 SME surveys carried out across 31 countries since February 2020 shows that a majority of SMEs experienced a serious drop in revenues/sales (OECD, 2020[39]).

Findings from the survey conducted by Facebook, the OECD and the World Bank are consistent with these results. At each date when the survey was conducted, 55%-70% of SMEs reported lower sales than in the same period a year before, with two-thirds reporting reductions in sales above 40% (Figure 1.10). Moreover, despite the easing of lockdown measures in many countries over the period, the improvement in the position of SMEs was marginal.

Reduced revenues remain a challenge for many SMEs a year after the start of the pandemic, not least due to continued and further tightening of restrictions in many countries. For example, a study published by the Spanish SME organisation CEPYME in February 2021 warned that a new national lockdown would lead to a loss in revenue of EUR 1.8 billion per week for Spanish companies, 60% of which would be incurred by SMEs.[12] Fortunately, the example of New Zealand suggests there are some reasons for optimism and signs of resilience among viable SMEs, strengthening the rationale for support measures. In New Zealand, where containment measures have been lifted earlier than elsewhere, small business' revenues grew from July 2020 onwards, with the exception of the hospitality sector (Steeman, 2020[40]).

Figure 1.10. SME sales were hard-hit over 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, increases or decreases in sales are first computed for each country individually and then averaged across OECD countries in the sample. Survey dates are indicated on the x-axis.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (May-December 2020).

StatLink https://doi.org/10.1787/888934249737

SMEs in the sectors most affected by lockdown measures were hit hardest but those selling online did better

In the same way that SMEs operating in the sectors most exposed to lockdown measures were more likely to close, those remaining open in these sectors were more likely to face lower sales. As illustrated by Figure 1.11, on average across OECD countries and other things being equal, SMEs in the hotel, café and restaurant sector were around 15 percentage points more likely to face a decrease in sales in 2020 than SMEs in the ICT sector and 25 percentage points more likely than SMEs in the agriculture sector.

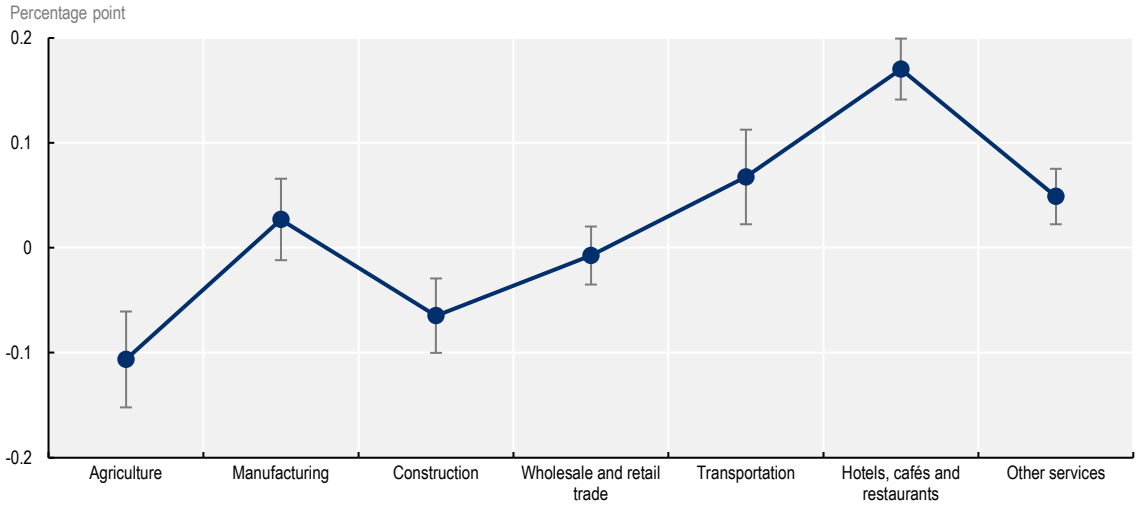
However, SMEs selling online, even in sectors hit hard, did significantly better than their counterparts not selling through digital channels. Other things being equal, SMEs selling a large share (more than 75%) of their products online were nearly 15 percentage points less likely to record a drop in sales than SMEs with limited (less than 25%) online sales (Figure 1.12).

These findings regarding the mitigating potential of digital sales are consistent with SME testimonies that have been gathered through the OECD Digital for SMEs Global Initiative (OECD, 2020[41]). For example:

- Wix (Israel), a software company providing cloud-based web development services, saw a rapid increase in SMEs developing websites with e-commerce capabilities throughout the pandemic. SMEs that previously did not have an online presence now relied more heavily, or solely, on digital sales. For example, Browniegod (UK), a food production and delivery business, and ReWax & Rewine (USA), an events and entertainment firm, launched their first website in response to the pandemic.
- Jeongyookgak (Korea), an online directly to consumer (D2C) fresh grocery marketplace, increased its “at home” delivery during the pandemic and leveraged online platforms in order to hire new riders.

Figure 1.11. The higher the exposure to lockdown measures, the higher the probability of reduced sales

Marginal effect of the economic sector on the probability of SMEs to face reductions in sales (May-October 2020)



Note: Controlling for firm size, the share of online sales, country, time and country x time fixed effects, SMEs belonging to the hotel, café and restaurant sector were around 15 percentage points more likely to face reductions in sales than SMEs belonging to the ICT sector (reference category in the econometric analysis). 95% confidence intervals are reported in the Figure. The sample covers SMEs with a Facebook page and observations from May to October 2020 in up to 26 OECD countries.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (May-October 2020).

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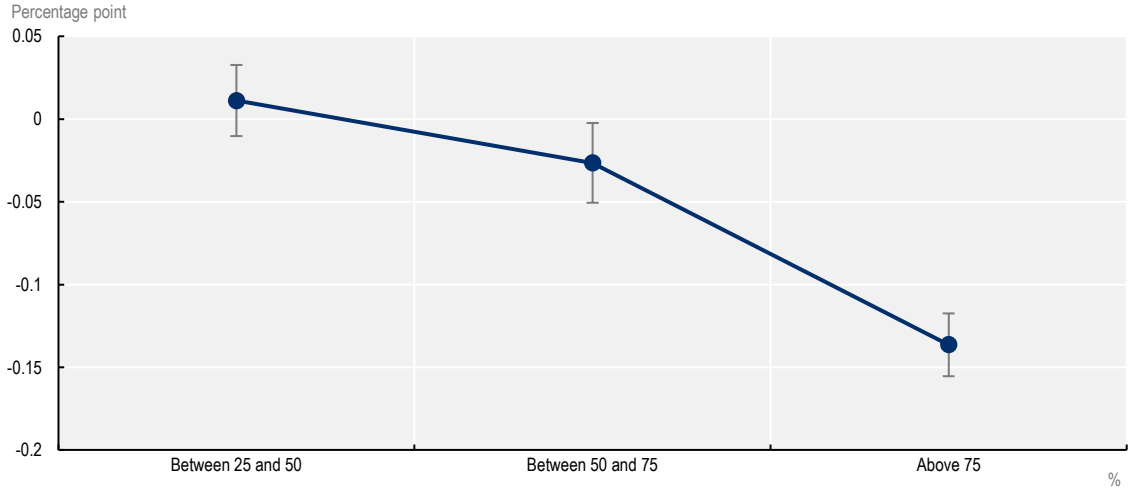
- HolyBelly (France), a restaurant and café, transformed its business model in response to the COVID-19 restrictions by creating its own website with click and collect capabilities, as well as leveraging the local food delivery platforms to continue operations throughout the lockdown.
- Five Way Cellars (Australia), a wine and liquor retailer, was able to continue operations throughout the COVID-19 pandemic by increasing its online presence and launching an e-store. After restrictions in Australia eased, the focus still remains on the e-store to reach new customers in untapped markets.
- Quantum (Greece), a firm providing accounting services to SMEs, supporting them in digitalising bookkeeping, budget management or tax compliance operations and proposing audit services, saw a sharp increase in demand for its services during the crisis. One of Quantum's clients, a family-run florist that risked closure after the first lockdown was able to transform its business model by increasing its online presence.
- Rose Bikes (Germany), a bicycle retail store and manufacturer, developed a streamlined e-commerce store that connects its offline and online retail channels. During the COVID-19 crisis, Rose Bikes was able to rely on its e-commerce capabilities to connect with suppliers as well as new and existing customers.

The development of internal capacities to sell products online, as well as the surge in online platform activity, is likely to have longer-lasting effects, accelerating the pace of SME digitalisation and in turn increases the resilience of SMEs and market shares (OECD, 2021[42]). Indeed, online platforms offer simple pathways to digitalisation for firms, while providing services to their users (e.g. advanced low-cost logistics and payment services, tailored advertising, better communication between buyers and suppliers, and dispute resolutions) that can be especially beneficial to SMEs.

Figure 1.12. SMEs selling online fared better

Marginal effect of the share of online sales on the probability of SMEs to face reductions in sales (May-October 2020)



Note: Contrary to the previous waves of the survey, the December 2020 wave did not include a question allowing to track the share of online sales made by responding firms.
Controlling for firm size, economic sector, country, time and country x time fixed effects, SMEs selling at least 75% of their products on line were nearly 15 percentage points less likely to record a drop in sales than SMEs with less than 25% of online sales (reference category in the econometric analysis). 95% confidence intervals are reported in the figure. The sample covers SMEs with a Facebook page and observations from May to October 2020 in up to 26 OECD countries.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (May-October 2020).

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However, the ability of SMEs to capitalise on digitalisation is not uniformly spread and many firms need time to develop the required infrastructure and increase their digital presence. The COVID-19 crisis seems to have accelerated the digital uptake of SMEs but more widely for larger SMEs than for smaller ones. Smaller firms are still often restrained by the cost of purchasing digital technologies and a lack of awareness and adequate skills. They can certainly benefit from government support, as well as from targeted initiatives from the private sector during the digital transition period (see Pisu, von Rüden and Hwang (forthcoming[43]) and Chapter 4 in this report).

Policy responses were quick and strong overall, but with differences across countries and difficulties in reaching younger and smaller firms, self-employed workers and entrepreneurs

Governments worldwide have reacted quickly and strongly by deploying massive support to firms. While the first concern was public health, a wide array of measures have been introduced to mitigate the economic impact of the outbreak, and support has generally expanded and intensified over the year. Central Banks have also alleviated monetary conditions in order to enable commercial banks to provide more loans to SMEs, and direct lending has been provided through public institutions.

The OECD has collected a wide range of information on the policy responses put in place by governments to support SMEs (OECD, 2021[12]). The most widely offered instruments are deferrals of payments, loan guarantees and direct lending to SMEs, and wage subsidies. This is in line with findings from the World Bank SME Support Measures dashboard, which shows that out of 1 600 SME policy instruments

used worldwide, 594 relate to debt finance (loans and guarantees), 358 to employment support and 314 to tax deferral.[13]

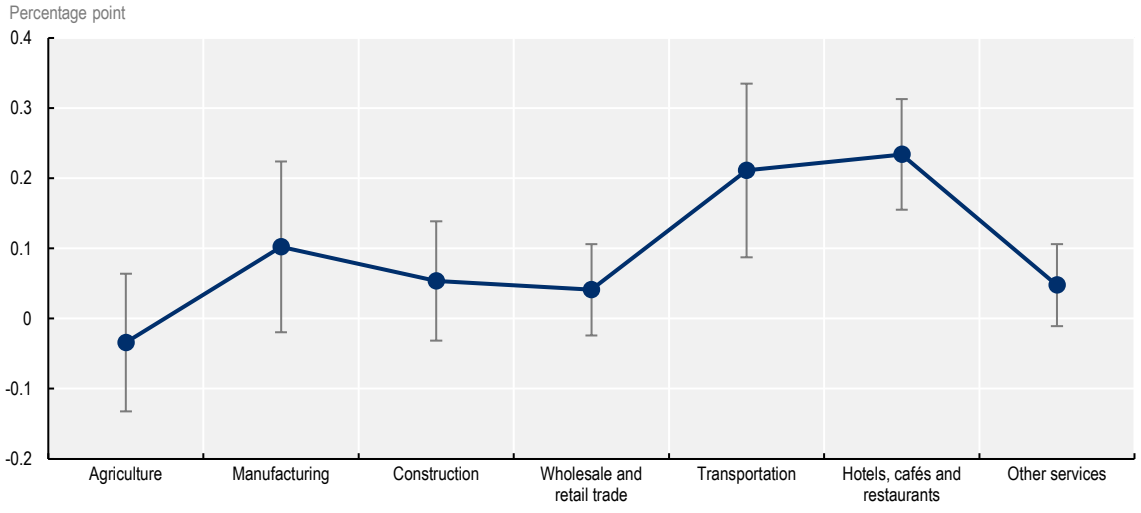
Within countries, SMEs in the sectors most affected by lockdown measures and those with larger declines in sales benefitted most from government support throughout 2020

The survey conducted by Facebook, the OECD and the World Bank provides powerful insights on how SMEs (with a Facebook page) *actually* benefitted from government support measures. The survey distinguishes three types of government support measures: financial support in the form of credit and deferral of payments (e.g. on taxes or rents), financial support in the form of non-repayable grants and subsidies, and non-financial support in the form of information, technical assistance or advisory services.

The econometric analysis of the survey shows that, within countries, SMEs in the sectors most exposed to lockdown measures and those with larger decreases in sales were more likely to receive government support throughout 2020. For example, Figure 1.13 shows that – other things being equal – SMEs in the food and accommodation sector (hotels, cafés and restaurants) were around 20 percentage points more likely to receive government support than SMEs in the ICT sector. Moreover, Figure 1.14 shows that SMEs with major reductions in sales (beyond 40%) were around 15 percentage points more likely to benefit from government support than SMEs with the same or higher sales than a year before.[14]

Figure 1.13. SMEs in the sectors most affected by lockdown measures were more likely to receive government support

Marginal effect of the economic sector on the probability of SMEs to receive government support since the start of the COVID-19 crisis



Note: Controlling for firm size, evolution of sales and country fixed effects, SMEs belonging to the hotel, café and restaurant sector were around 20 percentage points more likely to receive government support since the beginning of the crisis than SMEs belonging to the ICT sector (reference category in the econometric analysis). 95% confidence intervals are reported in the Figure. The sample covers SMEs with a Facebook page and observations in 32 OECD countries in December 2020.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020).

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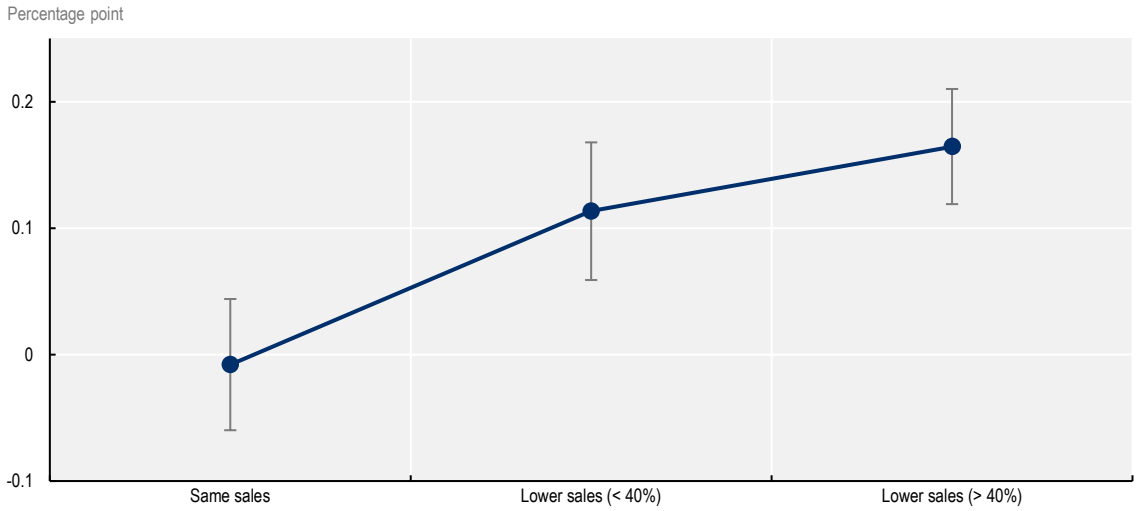
Figure 1.14. SMEs facing (large) reductions in sales were more likely to receive government support

Marginal effect of the evolution of sales on the probability of SMEs to receive government support since the start of the COVID-19 crisis



Note: Controlling for firm size, economic sector and country fixed effects, SMEs recording a major drop in sales (> 40%) were around 15 percentage points more likely to receive government support since the beginning of the crisis than SMEs recording higher sales (reference category in the econometric analysis). 95% confidence intervals are reported in the Figure. The sample covers SMEs with a Facebook page and observations in 32 OECD countries in December 2020.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020).

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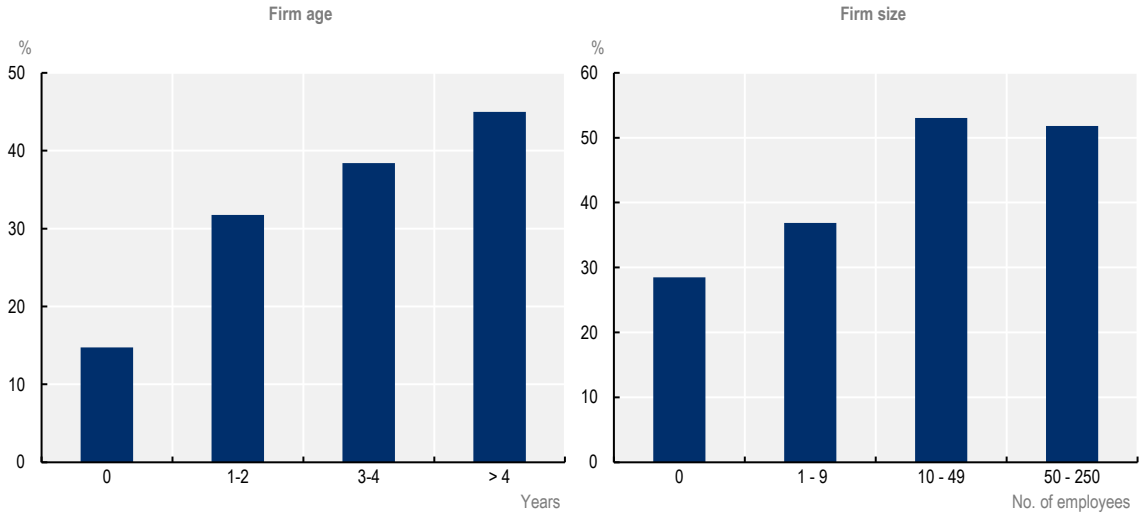
Younger and smaller SMEs were less likely to receive government support

Overall, younger and smaller SMEs were less likely to receive government support. Across 32 OECD countries, 33% of SMEs that were one to two years old in 2020 received government support, compared to 39% of those three to four years old and 45% of SMEs with at least five years of activity (Figure 1.15). 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 58% of other SMEs.

There is some intersection between the two groups (younger firms are also smaller) but both age and firm size affect the likelihood of support independently of each other. Indeed, an econometric analysis shows that, controlling for firm size, country and economic sector, the probability of receiving government support increases with firm age. For example, Figure 1.16 shows that – other things being equal – SMEs aged four years or more were around 25 percentage points more likely to receive government support than firms created in 2020. Considering the probabilities of receiving government support in the form of credit and deferral of payments or in the form of grants and subsidies separately, they both increase with firm age but more strongly so for grants and subsidies.

Figure 1.15. Younger and smaller SMEs were less likely to receive government support

Share of SMEs receiving government support by age group (left panel) and size group (right panel)

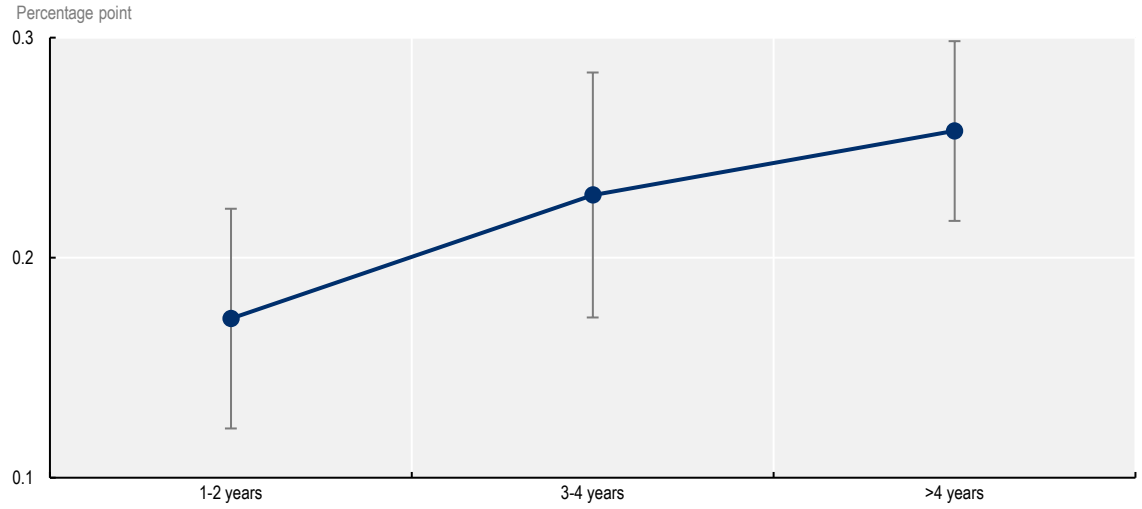


Note: The sample covers SMEs with a Facebook page and observations in 32 OECD countries in December 2020.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020).

StatLink https://doi.org/10.1787/888934249832

Figure 1.16. Younger firms were less likely to receive government support

Marginal effect of firm age on the probability of SMEs to receive government support since the start of the COVID-19 crisis



Note: Controlling for firm size, economic sector and country fixed effects, SMEs aged 4 years or more were around 25 percentage points more likely to receive government support since the start if the COVID-19 crisis than SMEs created in 2020 (reference category in the econometric analysis). 95% confidence intervals are reported in the Figure. The sample covers SMEs with a Facebook page and observations in 32 OECD countries in December 2020.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020).

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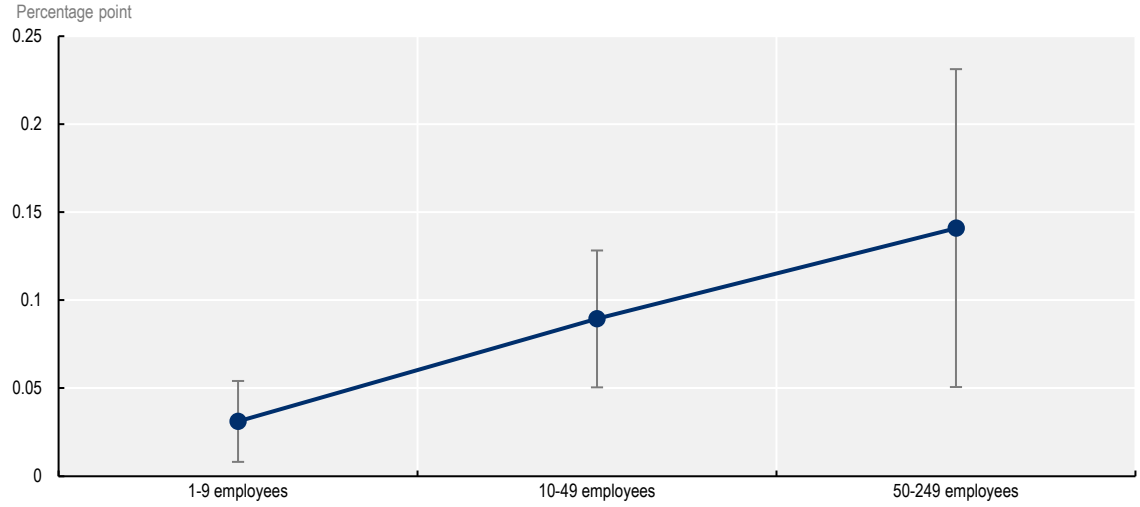
The econometric analysis also shows that, controlling for firm age, country and economic sector, the probability of receiving government support in the form of credit and deferral of payments increases with firm size. For example, Figure 1.17 shows that – other things being equal – SMEs with 50 employees or more were around 15 percentage points more likely to receive this kind of support than SMEs with no employees. This could be explained by practical difficulties in accessing credit support (e.g. administrative procedures) and by the informational advantage of larger firms over smaller ones. Similar findings regarding the increased likelihood of receiving public support for larger firms have also been drawn by Cirera et al. (2021[44]). Nevertheless, the Facebook-OECD-World Bank survey does not show such an effect of firm size on the probability to receive grants and subsidies (Facebook/OECD/World Bank, 2020[38]).

Figure 1.17. Smaller firms were less likely to receive government support in the form of credit and deferral of payments

Marginal effect of firm size on the probability of SMEs to receive government support in the form of credit or deferral of payments since the start of the COVID-19 crisis



Note: Controlling for firm age, economic sector and country fixed effects, SMEs with more than 50 employees are around 15 percentage points more likely to receive government support in the form of credit or deferral of payments since the start of the COVID-19 crisis than SMEs with no employees (reference category in the econometric analysis). 95% confidence intervals are reported in the figure. The sample covers SMEs with a Facebook page and observations in 32 OECD countries in December 2020.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020).

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The finding that smaller and younger SMEs were less likely to receive government support resonates with criticisms that public support offered did not adequately match up to the scale of challenges faced by the self-employed and entrepreneurs in some countries (Juergensen, Guimón and Narula, 2020[45]; Moreira and Hick, 2021[46]).

First, there were gaps in support for certain types of self-employed. For example, as many as 2 million people in the UK did not meet the criteria for furlough or self-employment income support because of their company director status or as they were new to self-employment (IPSE, 2021[47]).

A second strand of criticism is associated with the administration of the initiatives and eligibility conditions for support (Cribb, Delestre and Johnson, 2021[48]). The amount of support for the self-employed and entrepreneurs in the form of income or business grants and subsidies are mainly contingent on previous tax returns and in some countries (e.g. the UK) means-tested based on savings and profit levels. If self-employment was not a main source of income, this may also disqualify an applicant from receiving income support, which affected part-time entrepreneurs and those with mixed-income sources. There were also challenges for governments processing applications, further adding to the time it took to receive payments (Adams-Prassl et al., 2020[49]).

A third area of weakness relates to a gap in the provision of support for start-ups, innovation and firms to adjust their business models. Although governments initially focused on protecting and saving existing economic capacity, less attention has been paid to maintaining a pipeline of business start-ups and innovation in existing firms. Certainly, the risks of starting an enterprise rise during times of crisis. Yet for firms in their start-up phase, there are also challenges. New firms require bridging loans and equity but this has diminished during the COVID-19 pandemic because of a lack of client-financier interaction (Brown, Rocha and Cowling, 2020[50]). Incumbents also require support to innovate, reorientate their activities and digitalise their operations and interface with suppliers and customers. Yet lessons from earlier recessions suggest that smaller enterprises in particular experience greater reductions in spending on research and development (Roper and Turner, 2020[51]).

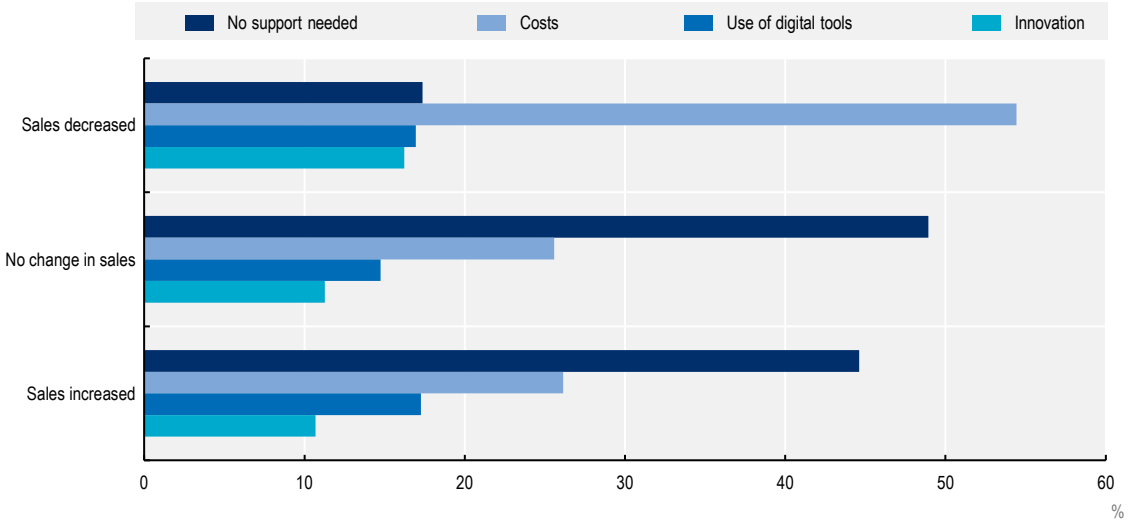
At the end of 2020, the majority of SMEs were still in need of support

Governments had to face a difficult trade-off between supporting the largest number of firms in need and avoiding wasteful use of resources in helping firms that were not negatively affected by the crisis. This inevitably led to some SMEs not receiving support even if they were severely hit by the crisis. The Facebook-OECD-World Bank survey allows estimating the percentage of SMEs “missed” by support measures, i.e. SMEs that did not receive support but experienced a large drop in sales in 2020 compared to 2019 (interpreted as a proxy of being in need). Overall, 17% of SMEs were “missed” based on this approach. The share is not significantly different for SMEs of different age or size.

Around 70% of SMEs responding to the Facebook-OECD-World Bank survey in December 2020 expressed the need for more support in the future, with little variation across SMEs of different age or size. This indicates that future interventions should target evenly SMEs of all ages and sizes – including new and micro businesses – in order to reach all firms that expect additional support. Nevertheless, there are large differences in the share of SMEs expecting future support depending on their exposure to the negative economic shock (Figure 1.18). More than 80% of the SMEs that experienced a large drop in sales in 2020 need some form of support, compared to 52% and 56% among SMEs that did not have a drop in sales or had an increase, respectively. SMEs with a large drop in sales are also significantly more likely to need support to cope with their costs in the future, relative to other types of interventions such as innovations, training or use of digital tools. This indicates that, for a large share of SMEs, the main priority for the start of 2021, is to guarantee the financial viability of their business, rather than adapting to the “new normal” business environment emerging from the crisis.

Figure 1.18. SMEs that experienced a large drop in sales are more likely to need future help to cover costs

Share of SMEs stating that they need future support by a change in sales 2020 vs. 2019 and type of support needed



Note: Bars can sum to more/less than 100% since SMEs can mention more than one type of support needed. The need for future support is based on answers by SMEs in December 2020. For readability, we focus on those types of future support most often named by firms (costs, use of digital tools and innovation). Three other types of future support could be mentioned by firms but are not shown here: "training", "reconnecting supply chains" and "something not listed". Change in sales is based on the change in sales between November 2019 and November 2020, thus implying that firms created in 2020 are excluded.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020).

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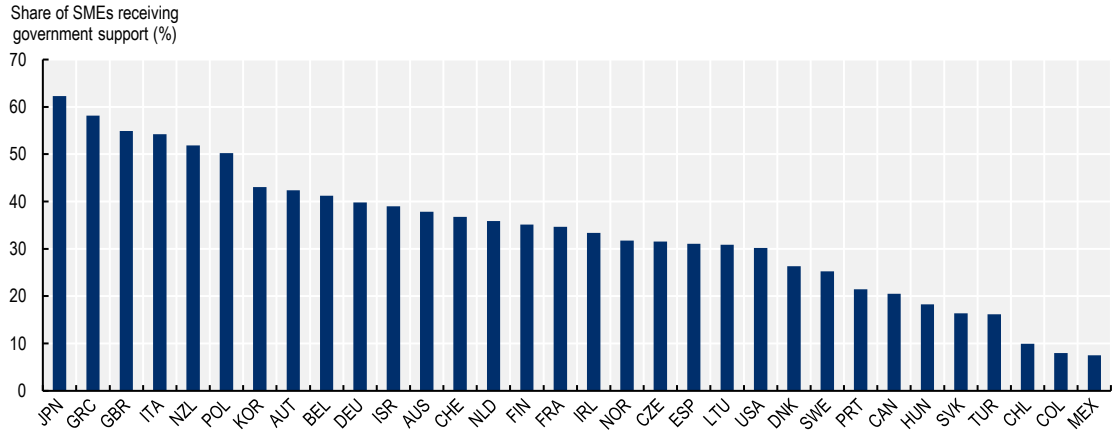
The proportion of SMEs that benefitted from government support in 2020 varied significantly across countries

There is large variation across OECD countries in the amount of financial assistance to the private sector provided by governments, with direct fiscal spending ranging from 0.6% of gross domestic product (GDP) in Mexico and 1.2% in Turkey to 14.7% in the US and 18.6% in New Zealand.[15] On top of that, some countries also funded large credit guarantee schemes, such as Italy (in which the maximum amount of the scheme can reach 35% of GDP), Germany (up to 25% of GDP) or the UK (up to 16% of GDP).

The proportion of SMEs actually benefitting from financial or non-financial government support in the Facebook-OECD-World Bank survey reflects these differences in fiscal expenditures across countries. For example, 52% of SMEs (with a Facebook page) responding to the survey benefitted from at least one support measure since the start of the crisis in New Zealand, versus only 8% in Colombia and 7% in Mexico (Figure 1.19). Countries that were able to mobilise more resources had a larger share of firms benefitting from government support (Figure 1.20). An increase in direct fiscal spending of 5% of GDP (e.g. equivalent to the difference between Belgium and the UK) is associated with an increase in the share of firms receiving support by eight percentage points.[16] The estimates for credit guarantees point to a weaker effect: an increase of 5% of GDP in funding credit guarantees is linked to an increase of three percentage points in the share of SMEs receiving support.

Figure 1.19. Proportion of SMEs with a Facebook page receiving financial or non-financial government support since the start of the COVID-19 pandemic



Note: Three types of government support are considered here: financial support in the form of credit and deferral of payments (e.g. on taxes or rents), financial support in the form of non-repayable grants and subsidies, and non-financial support in the form of information, technical assistance or advisory services.
62% of SMEs with a Facebook page in Japan have received financial or non-financial government support since the start of the COVID-19 pandemic.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020).

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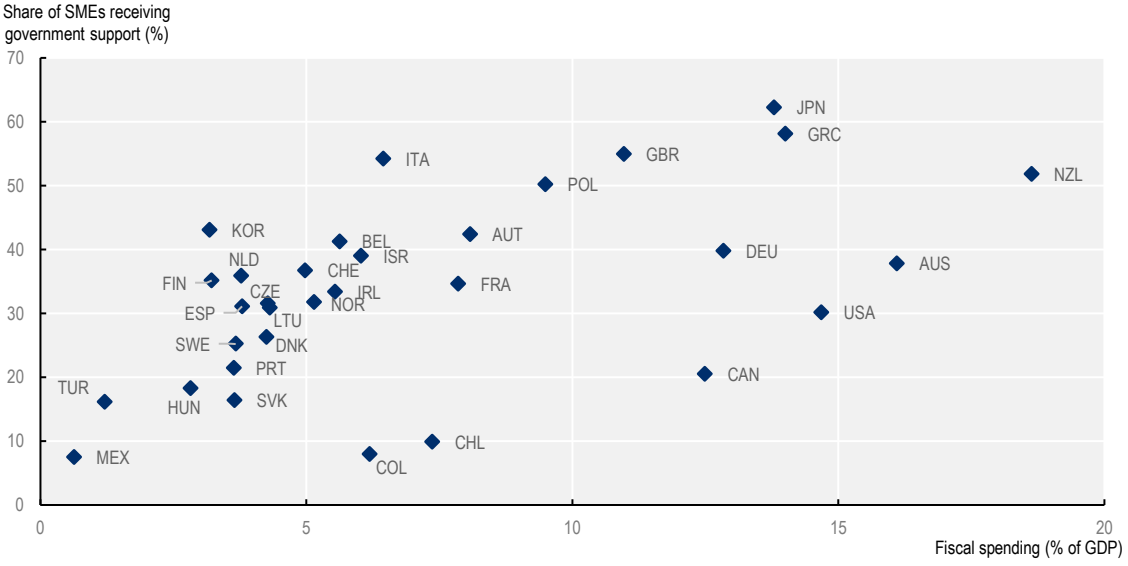
Figure 1.20. In countries with larger fiscal expenditures, a higher share of SMEs are supported

Share of SMEs that received government support vs. fiscal spending in response measures as a proportion of GDP



Note: Fiscal spending as a share of GDP is based on 2020 GDP from the January 2021 Version of the International Monetary Fund (IMF) World Economic Outlook. Fiscal spending is total direct fiscal spending adding "above the line" spending (e.g. wage subsidies, hiring bonuses, direct payments to households, public investment) and "below the line" spending (e.g. equity injections, asset purchases, loans, debt assumptions). The share of SMEs receiving support is based on the Facebook-OECD-World Bank survey.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020) and IMF (2021[52]), *Database of Fiscal Policy Responses to COVID-19*, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19 (accessed on 22 April 2021).

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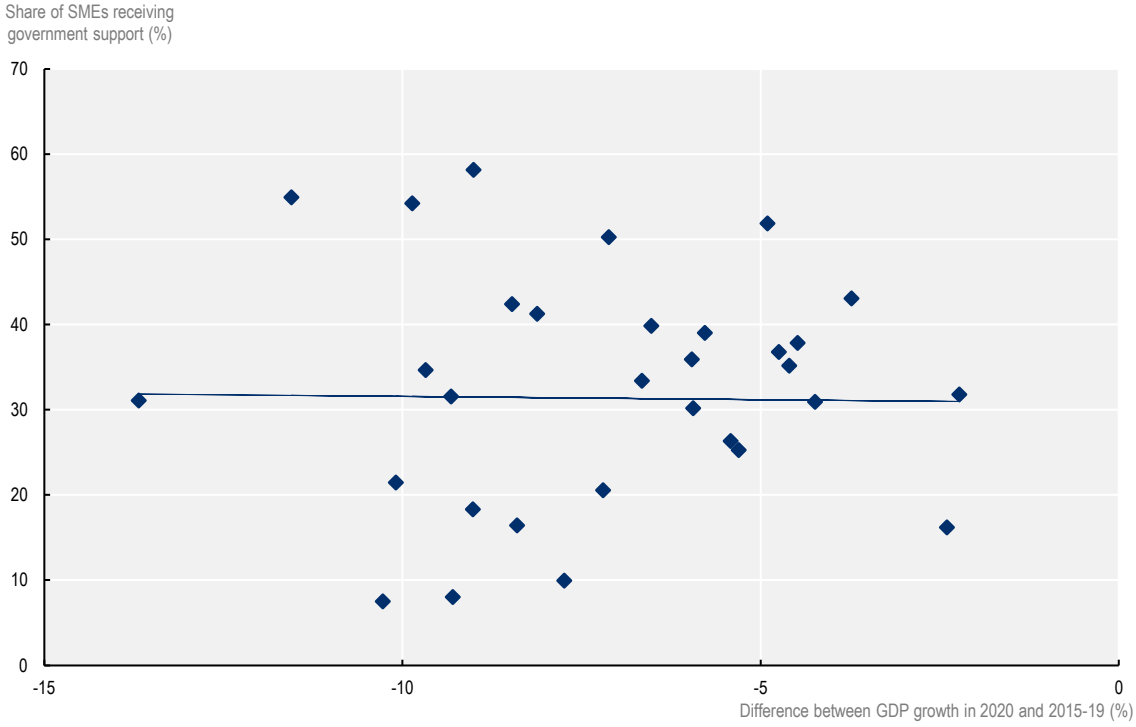
In practice, the share of SMEs receiving government support in a country does not show any relationship with the size of the 2020 economic shock in this country (Figure 1.21). This suggests that institutional factors and fiscal space have played a role in the decision of governments to provide support to SMEs. Given that *ex ante* simulations indicate a large effect of financial support measures to contain the increase in bankruptcies (see above), there is a risk that countries, where a lower proportion of SMEs receive financial support, will see a higher number of SMEs going bankrupt, especially in those countries where the economic impact has been large and the support to SMEs limited.[17]

Figure 1.21. Across countries, the proportion of SMEs receiving government support is not related to the size of the economic shock

(Absence of) relationship between the proportion of SMEs with a Facebook page receiving government support and the size of the 2020 economic shock



Note: Each dot in the Figure corresponds to an OECD country. The horizontal axis shows the difference between the GDP growth rate in 2020 and the average GDP growth rate over 2015-19 in this country. Removing the average GDP growth rate over the past five years simply aims at controlling for the trend growth rate, thus making countries more comparable. The vertical axis shows the proportion of SMEs with a Facebook page in this country receiving financial or non-financial government support since the start of the COVID-19 pandemic.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020).

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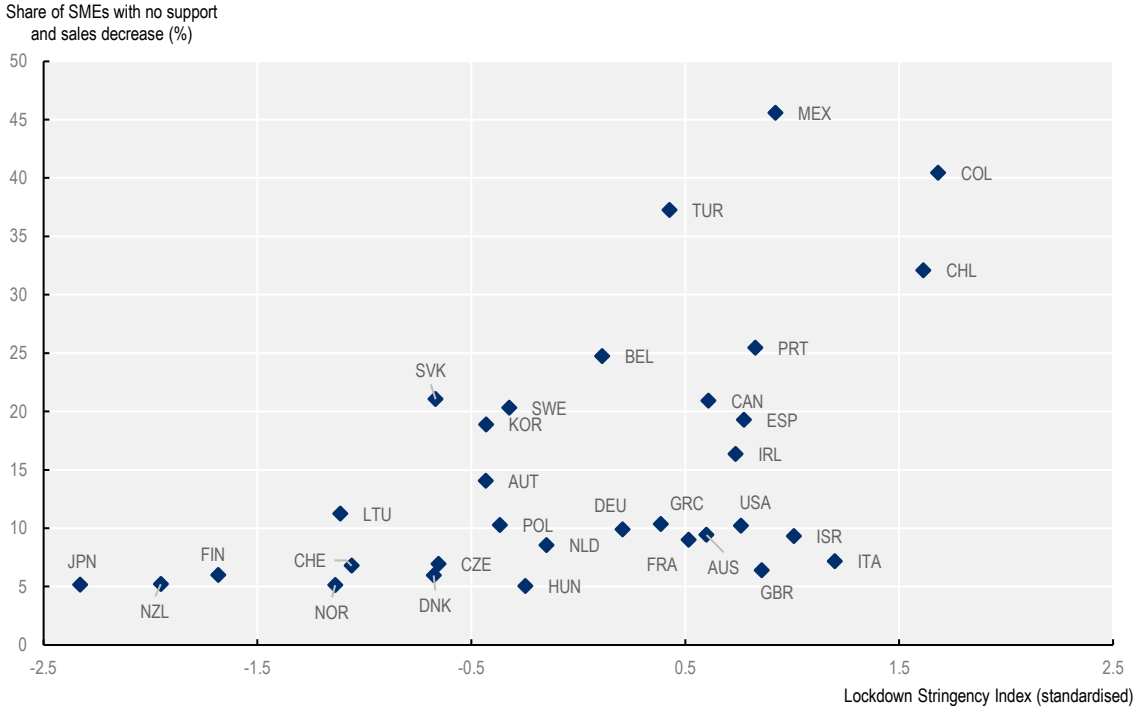
The Facebook-OECD-World Bank survey shows that the share of SMEs that were "missed" by government support in 2020 (defined as SMEs that reported a 40% or more drop in sales and did not receive support) ranges from 2% and 6% in Hungary and New Zealand to 41% and 47% in Columbia and Mexico. Countries with more stringent containment measures were also those with a higher share of SMEs missed by support (Figure 1.22). [18]

Figure 1.22. Countries with more stringent containment measures had a higher share of SMEs in need that were left unsupported

Share of SMEs reporting a 40% or more drop in sales and no support received vs. stringency of national containment measures



Note: The share of SMEs in need of support is proxied by the share of SMEs reporting a 40% or more drop in sales between November 2019 and November 2020 and no support received. The Lockdown Stringency Index refers to 2020 as a whole. It has been standardised by removing the mean and dividing by the standard deviation across countries.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020) and the Oxford COVID-19 Government Response Tracker.

StatLink https://doi.org/10.1787/888934249965

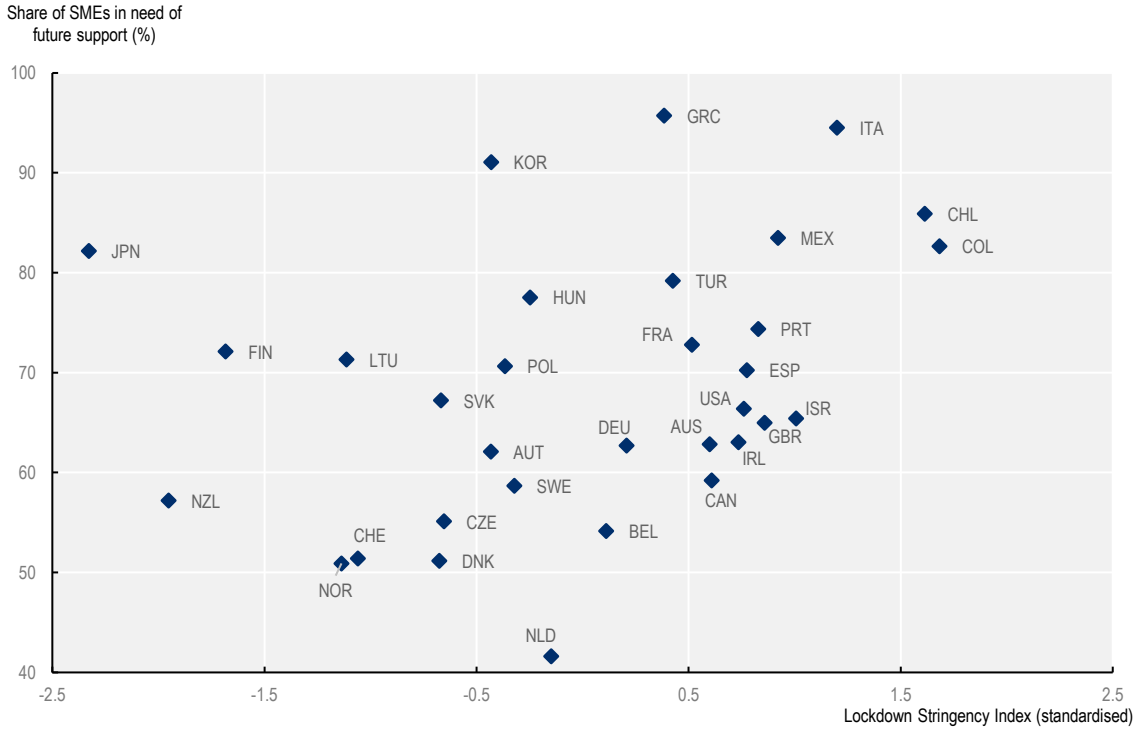
Across countries, the share of "missed" SMEs decreases with the amount of fiscal expenditures. On average, an increase in direct spending by 5% of GDP is linked to a decrease by five percentage points in the share of "missed" SMEs, whereas an increase in the amount of credit guarantees only has a very small effect.[19] For instance, in the UK, direct spending was equivalent to 11% of GDP and 9% of SMEs were missed by the support, according to the survey. In France and Austria, instead, direct spending was equal to 8% of GDP, and 17% and 14% of SMEs were "missed", respectively.

SMEs continue to struggle during the pandemic and the recovery phase: across the 32 OECD countries in the sample, 42% to 96% of the surveyed SMEs in December 2020 expressed the need for additional support in the future. Those operating in countries with more stringent containment measures are more likely to need further government support (Figure 1.23).[20] For instance, in New Zealand, a country with relatively lenient containment measures, 58% of SMEs expect future support. This compares to 85% of SMEs needing future support in Chile, for which the stringency index is twice as high as in New Zealand, indicating stricter containment measures. This reflects the fact that SMEs covered by the Facebook-OECD-World Bank survey are predominantly active in the non-tradeable sectors and often provide "face-to-face" services. If the services they provide are non-essential, their business is more vulnerable as economies

enter lockdowns or similar containment measures are enforced. This also applies to countries that were able to implement bold fiscal interventions already, since the amount of fiscal spending shows no significant association with the share of firms needing support in the future.[21]

Figure 1.23. In countries with more stringent containment measures, a higher proportion of SMEs ask for additional support in the future

Share of SMEs in need of future support as of December 2020 vs. stringency of national containment measures



Note: SMEs that need future support are all SMEs that state in December 2020 that they will need some type of (additional) support in the future. The Lockdown Stringency Index refers to 2020 as a whole. It has been standardised by removing the mean and dividing by the standard deviation across countries.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020) and the Oxford COVID-19 Government Response Tracker.

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Looking ahead, more research will be needed to fully evaluate the efficiency of government support measures to SMEs

Table 1.2 shows that the SMEs surveyed by Facebook, the OECD and the World Bank received government support in very different forms across countries. Greece, Italy and Poland are the three OECD countries where SMEs were most likely to receive government support in the form of credit and deferral of payments. Japan, New Zealand and the UK are those where they were the most likely to receive government support in the form of grants and other subsidies. Ireland, Korea and Norway are those where they were the most likely to receive government support in the form of information, technical assistance or advisory services. Some care is needed in the interpretation of course, as Table 1.2 does not show the extent of support received by each company in monetary terms. Obviously, the amount received is likely to play a key role in explaining SME outcomes during the crisis. For example, some governments (e.g. in Australia, Chile, Germany, Greece, Ireland, Japan and New Zealand) provided fixed amounts of grants to

SMEs, whereas some others (e.g. in Austria, Denmark, France and Sweden) provided grants based on the share of revenue lost.

Table 1.2. Proportion of SMEs with a Facebook page receiving financial or non-financial government support since the start of the COVID-19 pandemic – Breakdown by type of support

Country	Government support (of at least one type) (%)	Credit or deferral of payments (%)	Grants or other subsidies (%)	Information, technical assistance or advisory services (%)
AUS	38	7	34	3
AUT	42	13	36	2
BEL	41	14	33	4
CAN	21	6	15	2
CHE	37	19	18	2
CHL	10	4	4	3
COL	8	3	5	1
CZE	32	9	24	2
DEU	40	7	35	3
DNK	26	9	24	2
ESP	31	14	22	3
FIN	35	9	30	3
FRA	35	10	28	2
GBR	55	15	45	6
GRC	58	28	34	2
HUN	18	9	11	2
IRL	33	10	23	10
ISR	39	4	37	1
ITA	54	25	38	0
JPN	62	13	56	3
KOR	43	15	36	12
LTU	31	10	24	2
MEX	7	5	2	1
NLD	36	8	23	6
NOR	32	1	19	13
NZL	52	10	45	7
POL	50	25	35	3
PRT	21	7	14	2
SVK	16	1	16	0
SWE	25	9	19	2
TUR	16	12	3	2
USA	30	8	24	2

Note: The first column reports the proportion of SMEs with a Facebook page receiving at least one type of government support. The next three columns provide a breakdown by type of support. Note that the figures given in the first column are lower or equal to the sum of the figures in the next three columns because SMEs may receive different types of government support in a given year.
Source: OECD calculations based on Facebook-OECD-World Bank (2020[38]), *Future of Business Survey* (December 2020).

While not an evaluation of the efficiency of government support *stricto sensu*, the OECD (OECD, 2021[12]) identifies some key lessons learned from a year of support measures in response to the crisis. It stresses that some characteristics of support measures such as their timing and ease of access are key determinants of their efficiency. It also underlines the variety of policy objectives against which different support measures will need to be evaluated, such as reaching firms in need of support, saving viable firms, saving jobs or encouraging the reorganisation of firms (e.g. their investment in digital tools). Further research will necessitate data sources including a wide array of firm characteristics to build convincing control groups, a complete description of the support received by firms and a rich set of variables to assess their outcomes along different dimensions.

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Notes

[1] Figure 1.2 should not be used to infer what the economic outcome of a country would have been with less stringent lockdown measures. Building such a counterfactual would require an assessment of how the health situation in the country would have developed if other policies had been implemented.

[2] At the time of writing, quarterly national accounts are not yet available for the first quarter of 2021 in all OECD countries.

[3] Note that these ratios are calculated on the sectors for which allocation of employment by firm size is possible. In other words, they correspond to the relative size of the blue bars over the sum of the blue, orange and grey bars in Figure 1.4.

[4] A complete review of SME financing conditions and of the alternative sources of finance becoming available in the years before the COVID-19 crisis is available in *Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard* (OECD, 2020[55]).

[5] See the special COVID-19 edition of the OECD Scoreboard on Financing SMEs and Entrepreneurs (OECD, 2020[54]) and Chapter 2 in the present report.

[6] For a recent survey on financial constraints and SMEs, see Bakhtiari et al. (2020[60]).

[7] Since bankruptcies fell at the same time (see below), net business creations could remain positive over the period in spite of the fall in gross business creations.

[8] See https://sifted.eu/articles/startup-initiatives-coronavirus/ for a list of examples in Europe.

[9] In line with the US definition of small businesses, the authors consider firms with less than 500 employees, which goes slightly beyond the OECD definition of SMEs (less than 250 employees). See Box 1.1 in OECD (2019[53]).

[10] Even though the target population of the survey are small and medium-sized businesses (SMBs) which, according to the US definition, are firms with less than 500 employees, the analysis presented in this chapter focuses on firms with less than 250 employees, i.e. small and medium-sized enterprises (SMEs) according to the OECD definition.

[11] In particular, "other services" include: real estate activities; arts, entertainment and recreation activities; and personal services (e.g. repair of household goods, washing of textiles, hairdressing).

[12] See https://www.reuters.com/article/health-coronavirus-spain-economy-idUSL8N2K73FU.

[13] See https://dataviz.worldbank.org/views/SME-COVID19/Overview?%3Aembed=y&%3AisGuestRedirectFromVizportal=y&%3Adisplay_count=n&%3AshowAppBanner=false&%3Aorigin=viz_share_link&%3AshowVizHome=n&fbclid=IwAR0vfwIVUpPgT9qn7w9473B7hyi8mVlB4PZVkosOLRJCQR6NgS1ZJPeR5qM.

[14] Note that these marginal effects are derived from the same (Logit) regression controlling for firm size, economic sector, evolution of sales and country fixed effects. Therefore, they cumulate. For example, SMEs with larger declines in sales in the food and accommodation sector were more likely to receive government support than other SMEs in the same sector.

[15] Data on volume of fiscal support measures in response to the COVID-19 pandemic comes from the International Monetary Fund (2021[59]). Direct fiscal spending includes both "above the lines" measures – such as wage subsidies, direct payments to groups of individuals or payroll tax relief – and "below the line" measures – such as equity injections or debt assumptions.

[16] These results are obtained with an econometric analysis that controls for the extent of different types of fiscal support as well as firm age, firm size, sector and lockdown stringency.

[17] This will need to be carefully monitored when additional bankruptcy statistics, broken down by firm size, become available.

[18] Data for lockdown stringency are sourced from the Oxford COVID-19 Government Response Tracker (OxCGRT). The indicator adds up measures of different indicators for the stringency of lockdown (among

others school closures, workplace closures, cancellation of public events, restrictions on gatherings) and then rescales the index to 0-100.

[19] These results are obtained with econometric analysis that controls for the extent of different types of fiscal support as well as firm age, firm size, sector and lockdown stringency.

[20] Econometric analysis confirms that the positive relationship is statistically significant and robust to the inclusion of a wide set of control variables.

[21] These results are obtained with econometric analysis that controls for the extent of different types of fiscal support as well as firm age, firm size, economic sector and the share of firms in the country that already received support and lockdown stringency.

Part I SME and entrepreneurship policies for a fair and sustainable recovery

Introduction

One year amidst a global pandemic and a historical economic crisis

The COVID-19 pandemic has resulted in an extreme economic shock. In order to contain the pandemic, governments worldwide put in place lockdowns and restrictive measures, imposing physical distancing, limiting mobility and contacts, and ultimately closing frontiers and activities in the sectors most exposed to contagion. Gross domestic product (GDP) contracted by more than 10% in OECD countries over the first two quarters of 2020 (OECD, 2020[1]). Output picked up sharply in the third quarter, as containment measures were progressively relaxed but remained below pre-pandemic levels at the time of drafting. On a positive note, the rebound has been faster than expected. Global GDP growth is projected to be 5.8% in 2021 and 4.4% in 2022, with global output expected to rise by nearly 6% this year, an impressive surge after the 3.5% contraction in 2020 (OECD, 2021[2]).

Small- and medium-sized enterprises (SMEs) have been at the epicentre. As shown in Chapter 1, SMEs are disproportionately represented in the industries and services significantly impacted by lockdowns (OECD, 2020[3]), which compounded pre-existing vulnerabilities from limited cash reserves. In the United States, for instance, half of SMEs operate with less than 27 days of cash reserves (JP Morgan and Chase Co., 2020[4]). Falls in turnover as a result of lockdowns have been severe. According to the Facebook/OECD/World Bank survey, among SMEs that succeeded in remaining open from May to December last year, between 50%-70% saw sales fall and 33%-50% saw falls of more than 40% (Facebook/OECD/World Bank, 2020[5]) (Chapter 1). Exacerbating these challenges has been the more limited ability of smaller firms to adopt new digital practices (OECD, 2021[6]).

The impact on entrepreneurship and business dynamics has been less striking but this may only have been postponed. Whilst some innovative young firms have reacted fast and flexibly to the pandemic (OECD, 2020[7]), this has not been universally the case, with start-up rates declining significantly in some sectors such hotels and restaurants, real estate and arts and entertainment in most countries. Moreover, the crisis has exacerbated major challenges to start-ups that existed prior to COVID-19 (OECD, 2021[8]). In addition, whilst start-rates in general picked up strongly in the second half of 2020 in nearly all countries (where data are available), it is still uncertain whether this reflects opportunity- or necessity-driven entrepreneurship, on the back of rising unemployment. And whilst there has been no significant increase in bankruptcies over the period (Chapter 1), there are risks that these could begin to rise if government support mechanism and regulations are unwound too quickly – especially given rising debt levels. Indeed, in some countries, there are already signs that more firms are exiting their market (OECD, 2021[9]).

Policy responses were quick, strong and effective in cushioning the blow. Governments worldwide have reacted by deploying massive support. Wage subsidies, deferrals of payments and loan guarantees have been the most popular measures put in place. Central banks have eased monetary conditions to enable more loans to SMEs. Temporary changes to insolvency procedures have also been effective in reducing bankruptcies (OECD, 2021[10]; 2021[8]).

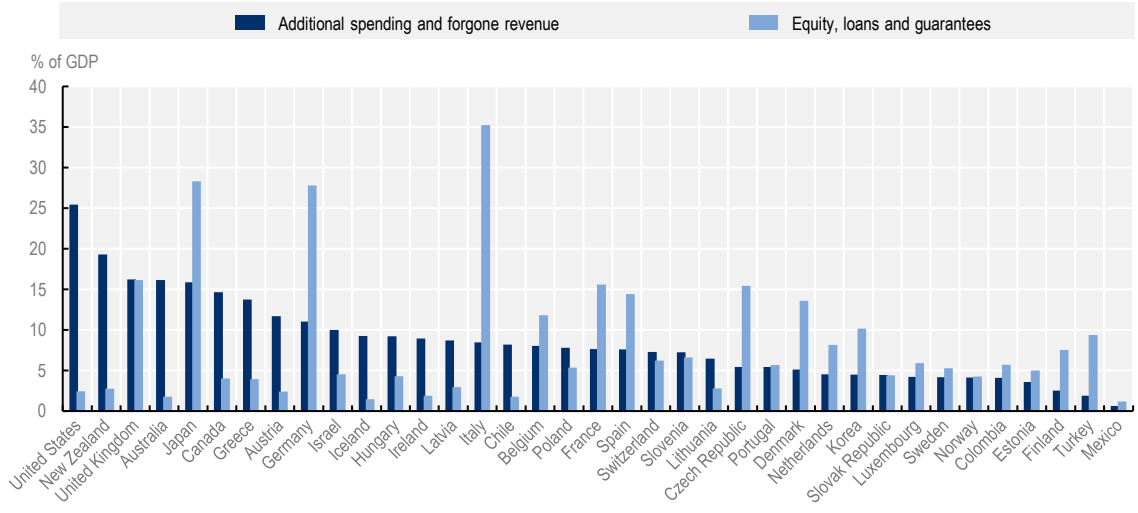
Public support helped millions of SMEs worldwide. In most OECD countries, between 20%-40% of SMEs (with a Facebook page) received government support in one form or another in 2020 (Facebook/OECD/World Bank, 2020[5]) (see also Box 1.1 in Chapter 1). The size of the emergency

packages is unprecedented, albeit with large cross-country differences. The International Monetary Fund estimates that from January 2020 to March 2021, governments have provided additional spending and foregone revenues in response to COVID-19 for about 8.48% of GDP and supported liquidity through equity, loans and guarantees for about 8.28% of GDP (Figure 24) (IMF, 2021[11]). Public policies have helped sustain the short-term liquidity of SMEs and the self-employed (Chapter 1).

Many countries and regions have adopted differentiated territorial approaches to manage the crisis (OECD, 2020[12]). The impact of the crisis has not been felt equally within countries, in part reflecting the differing concentration of activities within regions, with regions dependents on tourism for example, significantly affected (Chapter 1). Subnational governments have therefore also played a critical role in the SME policy response, as a complement to national measures. According to an OECD-European Committee of the Regions (CoR) survey conducted in June 2020 (OECD, 2020[13]), 30% of EU subnational governments were providing large direct support to businesses and the self-employed (e.g. through subsidy schemes, or regional funds for capital risks) and 28% provided large technical assistance and support services to local actors. In Austria, for example, all nine *Bundesländer* set up aid packages for SMEs to complement and expand measures taken by the federal government.

Figure 24. Governments have provided large support packages in response to COVID-19

As a percentage of 2020 GDP



Note: The IMF database summarises key fiscal measures governments have announced or taken in response to the COVID-19 pandemic as of 17 March 2021. It includes COVID-19 related measures since January 2020 and covers measures for implementation in 2020, 2021 and beyond. The database differentiates fiscal support according to their different implications for public finances in the near term and beyond. It focuses on government discretionary measures that supplement existing automatic stabilisers. Estimates are preliminary as governments are taking additional measures or finalising the details of individual measures.
Source: Based on IMF (2021[11]), *Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic (April 2021)*, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19 and IMF (n.d.[14]), *Policy Tracker*, https://www.imf.org/COVID19policytracker (accessed 09 May 2021).

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Inequalities have increased, weakening the foundations of recovery. Despite the multiple buffers governments put in place, the shockwave has hit some firms, places and people particularly hard. These are those that: i) were more dependent on the most affected economic sectors, such as tourism or retail trade; ii) were more deeply integrated into international trade and exchanges prior to COVID-19; iii) have faced more stringent or longer lockdowns and containment measures; iv) had more limited cash reserves

and lesser access to finance; v) could not get government support; and vi) informal SMEs (whose informality complicates access to finance and public support) (OECD, 2020[12]; 2020[15]; 2021[8]). This has also exacerbated existing entrepreneurial gender, minority-group and age disparities. Businesses owned by female, minority and younger entrepreneurs 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 sources of finance, being typically self-funded, or funded by friends and family (OECD, 2020[16]). The pandemic also disrupted young people's access to education and employment opportunities, which could have longer-term consequences for future entrepreneurship (OECD, 2020[17]).

The outlook remains uncertain. Despite progress in roll-outs of effective vaccines in many countries, there remains considerable uncertainty, especially given risks of variants of concern that may require new vaccines. Disrupted activities may take time to recover, especially in some sectors such as cultural activities, where human capital may have been lost forever (to new jobs) and networks broken. Many viable businesses could have disappeared and many more may still do so, if government support is withdrawn abruptly.

Structural policies are beginning to be mobilised for recovery, and the number of countries setting up such policies has increased (OECD, 2020[18]; 2021[8]). From June 2020 onwards, many countries launched broader recovery packages aimed at building back better. These packages vary by country in size and content. While they aim to address urgent short-term challenges, they also include a longer-term perspective, with a focus on teleworking and digitalisation, reskilling, start-ups and new markets. Sustainability is often at the core, emphasising the transition to clean energy, resource efficiency and greener consumption.

Three particular themes emerge from the crisis as critical for a fair and sustainable recovery. They are the focus of the three chapters that form the core of Part I:

1. **The rising risk of SME indebtedness and its impact on SME resilience and their future productive investments**. Whilst the level of SME indebtedness varies across countries, there is growing concerns worldwide about a growing risk of SME default and the more limited scope for SMEs to drive the recovery through investment (OECD, 2021[8]). This raises more broadly the question of ensuring SMEs can access appropriate and diversified sources of financing. Chapter 2 chapter explores this issue.
2. **Possible relocalisation and return to industrial policies, the core role of local SMEs and the impact on their access to strategic resources and market**. The economic crisis may result in a reconfiguration of international trade and investments (Rodrik, 2020[19]). In this context, many reshoring strategies have been developed at the national or territorial level, as a way of reducing dependence on third countries or as a means of preserving sovereignty in strategic areas and supporting local employment (Charbit and Gatignol, 2021[20]). However, the rationale for deglobalisation – or "slowbalisation" (Irwin, 2020[21]) – overlooks the multiple dynamics at play in globalisation and the potential for local SMEs to benefit from positive spill-overs in global value chains (GVCs) or by operating with multinationals and at some close distance from them. Chapter 4 explores this issue.
3. **The effect of the crisis on digitalisation, innovation, business dynamics and entrepreneurship**. During the crisis, there has been mounting evidence and examples of SMEs integrating new digitally-enhanced practices and tools in their operations (OECD, 2021[6]), small businesses developing creative solutions or social innovation initiatives (OECD, 2020[22]). However, the process of economic change often implies the need for firms not just to adapt but also for some to exit. As past OECD research has shown, the scars from a large recession are likely to be smaller in countries where entrepreneurial conditions are supportive and business dynamics favours the reallocation of capital and labour to the most efficient firms (OECD, 2021[2]). Chapter 5 explores this issue.

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2 SME indebtedness and future financing for productive investment

Since the start of the COVID-19 pandemic, public support has helped millions of SMEs worldwide to bridge long periods of depressed revenues and severe liquidity shortage. Whilst the level of SME indebtedness varies across countries, there are growing concerns about an emerging risk of SME default, and the possible impact on SME resilience and future productive investments. This raises more broadly the question of ensuring SMEs can access appropriate and diversified sources of financing in the longer term. Chapter 2 explores the issue of SME indebtedness and funding needs vis-à-vis recent changes in SME finance. It also discusses emerging trends in sustainable finance worldwide that raise new opportunities for SMEs, which are able to improve their environmental, social and governance performance and demonstrate it to investors.

Highlights

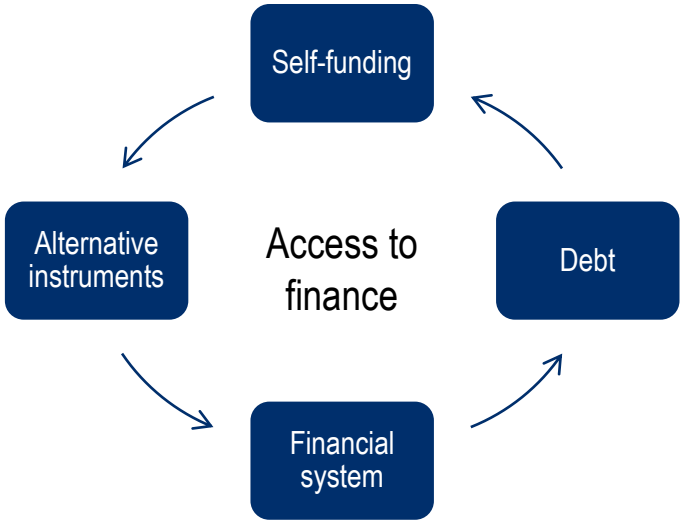
Concerns about small- and medium-sized enterprise (SME) indebtedness and future financing capacity will need to be addressed in order to promote recovery

- **Many SMEs have taken on more debt**. Although two or three times more SMEs worldwide have benefitted from non-repayable forms of support than repayable ones (Facebook/OECD/World Bank, 2020[1]), government support has been often in the form of repayable support, which may increase SME debts and, in turn, **increase default risk**.
- **Before the crisis, SME and entrepreneurship (SME&E) financing conditions were broadly favourable**. Generally, more favourable economic conditions meant that many SMEs were able to self-fund through own profits and revenues. In addition, access to bank lending was easier due to historically low interest rates and alternative sources, including equity funding and asset-based finance, which had become more widespread (OECD, 2020[2]).
- **In the wake of the crisis, bank finance has remained affordable and venture capital, after an initial drop, has recorded historical highs**. The venture capital (VC) industry has shown exceptional resilience, benefitting from business opportunities brought by the pandemic.
- **Other alternative sources of financing have been more strongly impacted**. Declines are observed in leasing and factoring transactions, as well as in online and trade finance.
- In addition, lower production, wages and profits could lead to increased default rates by consumers and businesses, which could weaken loss absorption capacities of banks (OECD, 2021[3]) and, in turn, restrict access to finance for SME&Es. **Tighter credit constraints may slow the recovery**, as SME&Es' ability to invest is curtailed.
- **To address SME&E indebtedness risk, government-backed loans often have flexible repayment conditions and countries are increasingly using non-debt support**, such as equity and quasi-equity schemes (OECD, 2020[4]; 2021[5]). Banks themselves have also taken initiatives through debt repayment moratoria and flexible and tailored arrangements.
- **Emerging trends in sustainable finance worldwide are also poised to provide new funding flows**. Funds engaged in sustainable investment have grown rapidly and incorporating environmental, social and governance (ESG) considerations in investment plans is fast becoming mainstream, raising new opportunities for SMEs, which are able to improve their ESG performance and demonstrate it to investors (OECD, 2020[4]).
- **Moreover, high uncertainty is encouraging precautionary savings** (Christensen, Maravalle and Rawdanowicz, 2020[6]), **that could serve as a buffer and help restart the economy**, although it remains unclear how widespread this has been for SMEs per se and to what extent these could be reassigned to productive investments when economic uncertainties dissipate.

Introduction

Accessing appropriate sources of finance across all stages of their life cycle is critical for SMEs to start, innovate and grow (OECD, 2019[7]; 2020[8]). Conversely, financing constraints can weigh on their investment, business and innovation capacity, and negatively impact their productivity. Addressing the financing issue of SMEs is of particular importance in the way out of the crisis, to ensure they can engage the transformations needed, such as for instance digitalising or greening their processes and products or services.

Figure 2.1. 6+1 pillars of SME&E performance – Pillar 4: Access to finance



Source: OECD (2019[7]), *OECD SME and Entrepreneurship Outlook 2019*, https://dx.doi.org/10.1787/34907e9c-en.

SMEs combine different forms of funding, both internal (profits and revenues) and external (bank credit, asset-based finance, equity funding, etc.) to support their activities and growth (Figure 2.1). Internal profits and revenues remain their primary source of funding. Bank credit is their primary source of external funding but funding options also differ across firms, e.g. alternative debt for SMEs with lower risk of default but limited return on investment, or equity instruments for innovative ventures with high growth potential and higher return on investment but at higher risk (OECD, 2020[8]).

Typically, SMEs face internal and external barriers in accessing finance, due to a lack of collateral to be provided as guarantees, or insufficient financial skills of owners and managers, e.g. about funding options and alternatives. External market barriers arise from information asymmetries between financial institutions and SMEs, and relatively higher costs for funding institutions to serve SMEs. For some segments of the business population, especially new firms, start-ups and innovative ventures with high growth potential, the above challenges are typically more pronounced (higher uncertainty, more intangible – and difficult to collateralise – assets). The same stand for groups underrepresented in entrepreneurship, such as women, youth, seniors and migrants (OECD/EU, 2017[9]).

Prior to the COVID-19 crisis, SME&E financing conditions were broadly favourable

Prior to the COVID-19 crisis, SME&E financing conditions had eased (OECD, 2019[10]; 2020[2]). After the financial shock of 2008-09, SMEs had restored their profit margins (OECD, 2019[7]). The increasing

demand for long-term loans, as opposed to short-term loans, signalled an increased capacity of SMEs to finance liquidity needs with internal resources and was supported by a low interest rate environment and improvements in the investment climate (OECD, 2019[10]).

SMEs and entrepreneurs were able to access lending, along with a broader range of financing instruments. Lending had largely recovered, with interest rates at historical lows, making it easier for small businesses to access credit. Alternative sources, including equity funding and asset-based finance, had become more widespread, offering diverse options to different profiles of firms and investors. The VC market was expanding rapidly in a majority of OECD countries (OECD, 2018[11]; 2020[2]). The online alternative finance market, comprising peer-to-peer lending activities, equity crowdfunding and invoice trading, has grown considerably in many countries, although from low bases (OECD, 2020[8]).

Nevertheless, SMEs continue to remain heavily dependent on self-funding, often based on internally generated revenues. One-third of all SMEs of EU28 countries reported not using any source of external financing at all, instead of relying on internally generated revenues for their growth or ultimately renouncing to grow at all (OECD, 2019[7]). Increasing profit margins could in part explain the sluggish growth in SME loans (OECD, 2019[7]; 2020[8]).

In the run-up to the pandemic, SME lending was on a sluggish growth path, as SMEs turned to internal finance or alternative instruments for financing their needs (OECD, 2020[2]). The rapid expansion of equity markets was still uneven, only serving a small share of the SME population, as signalled by an increase in the average deal tickets, high concentration of VC investments in the information and communication technology (ICT) sector, and high geographical concentration of investments in China and the United States (US) (OECD, 2017[12]). Online finance was also highly concentrated in China, the United Kingdom (UK) and the US, albeit markets also developing fast in many countries (OECD, 2020[8]).

In a climate of general economic slowdown, SME balance sheets have also become less favourable, the rebound in SME profits starting to level off as from 2019 (OECD, 2019[7]).

The crisis has raised concerns about SME&E financing but risks may not materialise

Bank finance instruments have remained relatively affordable and available during the COVID-19 crisis thus far. In contrast to the 2008-09 global financial crisis, banks are generally better capitalised and resilient, allowing to keep credit flowing. Preliminary evidence suggests that bank lending held up in the first half of 2020 in many areas of the world (OECD, 2020[2]). In some cases, volumes even increased to meet rising demand from small businesses in order to compensate for revenue shortfalls.

VC, after an initial drop, rebounded to historical highs, 2020 being an exceptional year. The pandemic created opportunities, especially for technology companies, to propose solutions that could respond to the shifting needs of businesses, the workforce and customers (TrueBridge, 2021[13]). In the first quarter of 2021, global venture investments reached USD 125 billion, a 94% year-on-year increase (Crunchbase, 2021[14]). In the US, investments remained robust over 2020. The activity was bolstered by strong demand for innovation and digital acceleration amidst the pandemic and regulatory improvements (Wall Street Journal, 2021[15]). In Europe, a survey conducted in October 2020 of VC fund managers and business angels investing in the area, highlighted general optimism regarding the state of business and expectations for the next 12 months (EIF, 2021[16]). Most of them reported that the COVID-19 crisis had a low impact on their investment strategy. Some VC market observers anticipate no shortage of capital for 2021, making start-up endeavours never easier to finance (MIT, 2021[17]; Wall Street Journal, 2021[15]). However, while the VC industry has been resilient, uncertainty led to a concentration of capital within well-established firms, i.e. increased total investments but fewer deals and greater deal ticket. Venture firms focused on

supporting their portfolio companies through the emerging pandemic rather than seeking new investment opportunities (Crunchbase, 2021[14]).

Other alternative sources of SME&E finance have suffered more. Declines have been observed in leasing and hire purchases and factoring transactions. Provisions by lessors rose significantly in the first half of 2020, as more lessees were unable to repay their leasing, leading to a significant fall in the operating income of lessors. In addition, the volumes of new leasing businesses declined severely in the second quarter of the year (Leaseurope, 2020[18]), altogether questioning the future profitability of the sector. In Europe, factoring volumes declined by around 6% in the first half of 2020, reflecting decreased client turnover, but the market is expected to rebound as economic growth picks up (FCI, 2020[19]). Sharp drops also occurred in online financial transactions as the sector faces a crisis of this magnitude for the first time.

Online alternative finance could face long-lasting impacts, with consolidation in the sector (OECD, 2020[2]). Smaller players with weaker capital buffers are expected to leave the sector, leading to a more concentrated market, potentially reducing online finance supply for many smaller businesses and limiting progress in financial inclusion. At the same time, the crisis also presents an opportunity for the industry, especially over the longer term. The current circumstances have increased the demand for alternative finance. The ongoing trend of increasing collaboration between financial technology (fintech) companies, banks and other established financial institutions will also likely be strengthened given the growing importance for financial incumbents to provide online services (IMF, 2020[20]).

Trade finance instruments have come under increasing pressure, with a possible drop in demand. As both domestic and international supply chains are under strain, the scope to rely more on inter-firm lending is severely reduced (OECD, 2020[2]). However, as the current crisis may push actors to adopt more digital tools, banks may reduce their traditional reliance on paper-based processes and the inherent back-office staffing costs (ICC, 2020[21]). This development, if it materialises, would likely enable more SMEs to adopt trade finance instruments (OECD, 2021[22]).

At the same time, there is some concern that the breakdown of supply chains may affect trade finance[1] (ICC, 2020[21]), in particular since instruments tend to be highly vulnerable to economic downturns (OECD, 2020[23]; 2021[22]).

Backsliding on the diversification of SME financing instruments would reverse a positive trend towards achieving a better balance between bank lending and other financing instruments for SMEs, in line with the G20/OECD High-Level Principles on SME Financing (2015[24]) and towards serving the financing needs of a broader SME population.

Going forward, the resilience of the banking and financing sector will be critical. Lower production, lower wages and lower profits could lead to increased default rates by consumers and businesses, which in turn could contribute to increasing debt, defaults on mortgages and downward pressure on real estate prices. Taken together, depressed economic conditions and rising non-performing loans could weaken the loss absorption capacities of banks (OECD, 2021[3]). The contagion could spread further to energy and financial markets. For instance, as output slowed down in 2020, oil prices already reached their lowest levels in years and commodity prices dropped. Risk aversion has increased in financial markets, with the US 10-year interest rate falling to a record low and equity prices declining sharply.

Concerns about SME indebtedness will need to be addressed in order to promote the recovery

The sudden and steep drop in sales has exacerbated SME cash flow issues and reduced their profit prospects. The COVID-19 crisis has highlighted SME difficulties in mobilising liquidity and accessing short-term financing solutions and it may also undermine their investment prospects.

Many SMEs have compensated for declining revenues by taking on more debt, often with this enhanced government support. Most preliminary data indicate an increase in loan volumes in the first half of 2020, following an uptick in SME demand (OECD, 2020[2]).

The SME indebtedness risk varies significantly across countries. Few internationally harmonised data are available on the actual uptake of public support by the SME sector. The Facebook/OECD/World Bank survey (2020[1]) partially fills in this evidence gap. The survey focuses on firms with a Facebook page, signalling former – even basic – forms of digitalisation. Results show that SMEs have not been able to access financing schemes in the same way across countries.[2] In Greece, Italy and Poland, more than 25% of SMEs (with a Facebook page) have received public support in repayable forms, such as credit or deferral of payments since the beginning of the pandemic. They are therefore more likely to have to repay than in Norway or the Slovak Republic, where they are less than 1% in this case.

While public policies have helped alleviate liquidity constraints, they have also contributed to increasing the risks of SME indebtedness. Public support to SME financing has taken a variety of forms, including repayable and non-repayable ones (Box 2.1). The most common programmes by governments appear to have been debt-related programmes, i.e. loans and loan guarantees. But grant schemes have also been set up in various countries from the first wave of the pandemic and they have become more widely used by governments and more generous in the second half of the year (OECD, 2021[5]). They have also been the most used policy instruments to support research and development (R&D) and innovation by SMEs during the crisis (EC/OECD, 2021[25]). Such schemes show, however, great variety in design (Box 2.1), which could have an impact on the likelihood of some SME populations or entrepreneurs to have accessed non-repayable support.

Box 2.1. Repayable and non-repayable public support during the pandemic

Debt-generating measures

The most common programmes by governments during the pandemic appears to have been debt-related programmes, i.e. loans and loan guarantees. Many governments have introduced or extended incentives for commercial banks to lend to SMEs. Adjustments in loan guarantee schemes have included increased guaranteeing capacity, an increased proportion of a loan that can be covered by guarantee, reduced processing and guarantee fees, fast-track procedures and reduced documentation requirements, the extension of repayment periods, the extension of eligibility criteria (EBRD, 2020[26]). The OECD survey on COVID-19 government financing support programmes for businesses indicates that, in December 2020, public support in OECD countries remained focused on providing loans and loan guarantees, with the total size of programmes differing significantly from several millions of USD to more than USD 500 billion in some cases (OECD, 2020[27]).

Deferral of payment have allowed SMEs to alleviate liquidity pressures but repayments will need to be made. A relatively large number of countries introduced deferrals on corporate and income tax payments (90%), while a smaller share also included the deferral of value added tax (24%) and social security and pension contributions (21%) (EBRD, 2020[26]).

In addition, loan guarantees have been accompanied by direct lending by public institutions. A large number of governments have introduced new public lending facilities, expanding existing schemes, easing the procedures for access or lowering interest rates (OECD, 2021[5]). Canada has introduced a Business Credit Availability Programme, which provides more than CAD10 billion of additional support to businesses experiencing cash flow issues. As part of its USD 2 trillion stimulus package, the US has opened a USD 367 billion no-interest loan scheme for SMEs with fewer than 500 employees, to cover

employee salaries, rental costs and other expenses. Japan expanded the amount of its special no-interest loans offered to SMEs with no collateral.

Grants and subsidies

Grant schemes have also been set up in various countries from the first wave of the pandemic, and they became more widely used by governments and more generous in the second half of the year (OECD, 2021[5]). Such schemes show great variety in design, in terms of the population or sectors targeted, in terms of the eligibility criteria and ultimately in terms of the absolute support or face amount of the support provided (Table 2.1). For example, some grant schemes provide a fixed amount to beneficiaries (e.g. Australia, Chile, Germany, Greece, Ireland, Japan, New Zealand), while others provide support based on the share of revenue lost (e.g. Austria, Denmark, France, Sweden). Some schemes initially target hard-hit sectors and increase gradually the coverage to other sectors and sizes of companies (e.g. Netherlands). Given the broader uptake of these schemes by SMEs, it would be interesting to understand in a more systematic way how these differences in design could have affected the resilience and survival of different types of firms.

Source: EBRD (2020[26]), "State credit guarantee schemes: Supporting SME access to finance amid the Covid-19 crisis"; OECD (2020[27]), "COVID-19 Government Financing Support Programmes for Businesses", http://www.oecd.org/finance/COVID-19-Government-Financing-Support-Programmes-for-Businesses.pdf; OECD (2021[5]), "One year of SME and entrepreneurship policy responses to COVID-19: Lessons learned to "build back better"", https://www.oecd.org/coronavirus/policy-responses/one-year-of-sme-and-entrepreneurship-policy-responses-to-covid-19-lessons-learned-to-build-back-better-9a230220/#blocknotes-d7e2460.

SME survey data actually show that non-repayable forms of support may have been more popular among SMEs than repayable ones (Facebook/OECD/World Bank, 2020[1]). SMEs have been able to combine different forms of support since the beginning of the pandemic (Chapter 1). In countries where they have had greater access to public credit, they also tend to have received more grants or subsidies. Two to three times more SMEs worldwide appear to have benefitted from non-repayable forms of support than repayable ones. In particular, 56% of SMEs (with a Facebook page) in Japan have received grants and subsidies, as compared to 13% of them that got credit and deferrals of payment. Likewise, 45% of SMEs in New Zealand and the UK have received non-repayable support, for 10% and 15% of them respectively getting repayable support.

While bankruptcy may be a greater risk for smaller firms (Chapter 1), the risk of indebtedness is likely to be higher among larger SMEs. The empirical analysis conducted in Chapter 1 shows a size effect on the likelihood of SMEs to get credits but no effect on their uptake of grants. In other words, the largest SMEs have accessed extra credits more often than smaller ones and could be more at risk of loan default in the future.

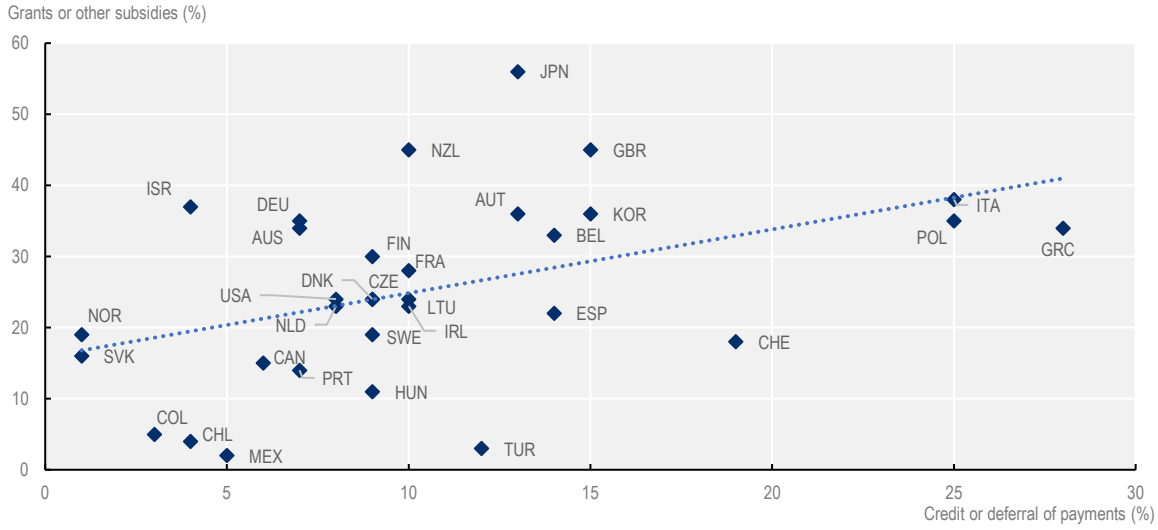
To address the risk of SME over-indebtedness, government-backed loans often have flexible repayment conditions to help SMEs and entrepreneurs avoid default during the crisis. Banks themselves have also taken a number of initiatives to support SMEs, namely through debt repayment moratoria (sometimes backed by governments, sometimes on banks' initiative), delayed payments and flexible and tailored arrangements.

As part of longer-term solutions, governments are increasingly using non-debt support, such as grants, equity and quasi-equity schemes and hybrid instruments (see also Box 2.1). During the renewed lockdown and containment measures in the autumn of 2020, these grant schemes became more widely used and were made more generous, reflecting the increasingly challenging financial situation of SMEs, especially in hard-hit sectors, and increasing recognition of the importance of avoiding SME over-indebtedness. In addition, some countries used grants as a proactive means to support recovery. Ireland, for instance, introduced a new grant scheme in August 2020 that aimed to allow SMEs to restart and reopen. In July

2020, Israel announced a grant scheme for small businesses whereby SMEs can get a ILS-1 000 grant to acquire a fibre optic Internet connection[3] (OECD, 2021[5]).

Figure 2.2. SMEs have combined different forms of financial support, debt or not debt-based, but with a large preference for non-repayable measures

Share of SMEs with a Facebook page receiving public financial support since the start of the COVID-19 pandemic, by type of support



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

StatLink https://doi.org/10.1787/888934250022

Likewise, some governments are providing convertible loans, which allow a loan to be converted to equity if a borrower is unable to repay it. This type of instrument is beneficial for borrower SMEs as well as for lending banks. SMEs are able to have liquidity at zero interest, companies' growth potential is not impacted and banks have the opportunity to recoup the capital in the medium and long terms. The Future Fund in the UK has set up convertible loans from GBP 250 000 for SMEs. To be eligible, SMEs need to meet some conditions such as a minimum of GBP 250 000 previously raised in equity investment (British Business Bank, 2020) (OECD, 2020[2]).

The use of equity instruments has several advantages over debt instruments and offers better prospects for SMEs to invest and grow once the recovery sets in. In particular, the use of equity over debt reduces the leverage ratio, which in turn increases the credit rating and lowers the costs of borrowing and the probability of default. In addition, equity instruments lend themselves to co-investments from the private sector, thereby enabling more funds to be channelled towards SMEs (OECD, 2020). Nonetheless, equity instruments often have limited take-up (with the exception of high-potential start-ups and mid-sized firms), since SME owners are often reluctant to weaken their ownership and give investors voting rights. Barriers also arise from a lack of familiarity with equity instruments or high transaction costs.

High uncertainty is encouraging precautionary savings that could also serve as a buffer and help restart the economy, provided the business environment becomes favourable to risk-taking. When customers were asked to stay home and shops and businesses to close doors, final demand collapsed. Losses of income suffered by entrepreneurs and workers prompted firms and people to reduce consumer spending and pile savings. Firms' preference went to holding cash to raise buffers and avoid liquidity shortfalls. A February 2021 survey of French micro, small- and medium-sized enterprises (MSMEs) highlights that cash

flow has improved over the past three months and liquidities position has never been perceived more positively since May 2018 when the first MSME survey was launched (BPI France, 2021[28]). The share of MSMEs that have mobilised their government-backed loan (*prêt garanti par l'Etat*, PGE) has remained limited (23%), claims being essentially motivated by the creation of precautionary liquidities.[4] By the same token, bank deposits of non-financial corporations have increased rapidly in Japan, the US and many European countries, far above the average growth rates observed over the past five years (Christensen, Maravalle and Rawdanowicz, 2020[6]). Deposits of households have increased as well but to a smaller extent. In contrast, during the global financial crisis, corporate deposits declined with the credit crunch and households' deposits increased at a smaller rate. It remains however unclear if precautionary savings were more the fact of larger corporations than SMEs and to what extent these liquidity reserves could be reassigned in due time to productive investments.

Looking ahead, there is a growing trend towards sustainable finance worldwide, including through recovery packages

Funds flowing into sustainable investment have grown, with over USD 30 trillion of assets worldwide incorporating some level of environmental, social and governance (ESG) consideration (OECD, 2020[48]). In fact, ESG investing is becoming increasingly mainstream, as financial institutions seek to green their products, portfolios and businesses, including SMEs and entrepreneurs, shifting their business models to align with the green transition. This growth has been spurred by shifts in demand from across the finance ecosystem, driven both by the pursuit of traditional financial value and by the pursuit of non-financial, values-driven outcomes.

SME&Es, however, face a number of challenges to accessing sustainable finance. On the demand side, barriers include a lack of awareness of financial opportunities, the need for more affordable and long-term patient capital, a lack of investor readiness and difficulties in meeting reporting requirements and externalities that may be positive for society, with private returns being less than socially optimal. Supply-side barriers include information asymmetries between financial institutions and SMEs, a limited range of sustainable financing products, insufficient diversity of financial institutions with an appetite for sustainable investments and the "niche" nature of green markets, which result in the incompatibility of investors' and entrepreneurs' ideals and objectives (OECD, 2013[17]). SMEs and entrepreneurs need to be enabled to access this financing in order to play their part in the environmental transition.

Table 2.1. Anti-COVID grant schemes show great variety in design across countries and regions

Features of grant schemes implemented in response to COVID-19 crisis at the national or subnational level, selected examples

Country	Level	Amount of the grant	Target group	Start date	Objective of grant	Description
Australia	National	Up to AUD 21 000 grant	Small businesses (fewer than 20 employees)	Jul 20	Employee retention	Grant for supporting apprentices and trainees.
		Up to AUD 21 000 grant	Medium-sized businesses	Jul 20	Employee retention	Medium-sized enterprises are eligible for wages paid from 1 July 2020 to 31 March 2021.
		AUD 10 000 to AUD 50 000 grant	Business with an annual turnover of up to AUS 50 million	Jul 20-Oct 20	Employee retention	Payment equal to 100% of salaries and wages taxes.
		Voucher	Small businesses	Jul 20	Structural support	Access financial advice, better understand the financial implications of the pandemic and support measures and enhance viability.
	Subnational	Up to AUD 10 000 adaptation grants	Small businesses in the Queensland regions		Structural support	Cover financial, legal, marketing, communication activities or buy specialised digital equipment or software.
	Subnational	Up to AUD 2 000 grant	Small businesses in the Perth and Peel regions	Apr 21	Immediate liquidity support	Compensate for revenue losses and cover costs due to lockdown and business closures, such as loss of perishable goods.
Austria	National	70% of fixed costs	Medium-sized and big companies that suffered a turnover decline of at least 30% compared to the same period of 2019 between 16 September 2020 and 30 June 2021	Nov 20	Immediate liquidity support	Cover fixed costs expenses.
		90% of fixed costs up to EUR 10 million per undertaking	Micro and small companies that suffered a turnover decline of at least 30% compared to the same period of 2019 between 16 September 2020 and 30 June 2021	Nov 20	Immediate liquidity support	Cover fixed costs expenses.

Country	Level	Amount of the grant	Target group	Start date	Objective of grant	Description
Belgium	National	80% of eligible R&D costs	All firms, all sectors	Mar 20	Structural support	Covers industrial research and experimental development projects. Total amount of the scheme is EUR 4 million.
		Initial EUR 4 000 grant and further EUR 160 per day after 5 April 2020	Small businesses affected by a complete closure in the first wave of the pandemic and operating in catering, accommodation, tourism, retail trade and leisure	Apr 20	Immediate liquidity support	Compensate for revenue losses.
	Subnational	Up to EUR 15 000 per company over a period of 3 months	Small businesses and self-employed in Flemish region, with 60% of reduction in turnover	Aug 20-Sep 20	Immediate liquidity support	Compensate for revenue losses.
	Subnational	EUR 6 250 to EUR 45 000 for (1) EUR 6 250 to EUR 62 500 for (2) EUR 75 000 to EUR 125 000 for (3)	Small businesses and self-employed in Brussels in sectors that were most affected: (1) businesses (or suppliers) in the hospitality, events, culture, sports and tourism sectors (2) tourist accommodations (3) nightlife	Mar 21	Immediate liquidity support	Compensate for revenue losses. The government-funded the programme with a total amount of EUR 111 million.
Canada	National	Subsidy of up to 75% for wages for up to 3 months and CAD 2 000 per worker for a maximum period of four months	Small businesses	Mar 20	Employee retention	Through the Canada Emergency Response Benefit, SMEs can maintain employment.
	National	Up to CAD 5 000	Small businesses	Oct 20	Immediate liquidity support	Canada United Small Business Relief Fund with CAD 12 million aim to compensate for revenue losses of compensate.
	Subnational	Up to CAD 5 000	Small businesses in South Ontario	Nov 20	Immediate liquidity support	Compensate for revenue losses.
	Subnational	CAD 10 000 will be made available per SME – on top of previous grants totalling no more than CAD 20 000 – for a new maximum of CAD 30 000	Small businesses in Alberta	Feb 21	Immediate liquidity support	Compensate for revenue losses.
	Subnational	Up to CAD 30 000 per month and up to CAD 60 000 from April to September 2021	Small businesses in Yukon	Feb 21	Immediate liquidity support	Yukon Business Relief Programme aims to cover specific fixed costs.

Country	Level	Amount of the grant	Target group	Start date	Objective of grant	Description
Chile	National	Reactivate Program – Up to CLP 4 million per company	Companies with annual sales of up to CLP 733 900 000	Oct 20	Immediate liquidity support	Cover working capital and fixed assets. The cost of the programme is USD 6 million.
		Reimpulsa Program – Up to CLP 4 million per company	Companies with annual sales of up to CLP 3 million		Immediate liquidity support	Cover working capital or costs for capacity building. The cost of the programme is USD 3.6 million.
	Subnational	Solidarity Fund	Local main street microenterprises		Immediate liquidity support	Compensate for revenue losses. The solidarity fund will have USD 100 million and be channelled through municipalities.
Czech Republic	National		Self-employed and small limited liability companies affected by COVID-19	Feb 21	Immediate liquidity support	Compensate for revenue losses. Total amount of the scheme is EUR 1.2 billion.
Denmark	National	Up to 75% of salaries and no more than DKK 23 000 per month and per employee	Start-ups		Employee retention	Compensate start-ups to retain employees.
	National	90% of revenue losses	Self-employed with an expected revenue decline of more than 30%	Ended 31 Jan 2021	Immediate liquidity support	Compensate for revenue losses.
	National	90% of revenue losses	Businesses with less than 10 employees and average revenue above DKK 15 000 per month in a prior period. The owner's personal income has to be less than DKK 0.8 million in 2020 to be eligible for the scheme.	Ended 31 Jan 2021	Immediate liquidity support	Compensate for revenue losses.
	National	90% of revenue losses	Small businesses with an expected revenue decline of at least 30%	Ended 31 Jan 2021	Immediate liquidity support	Compensate for revenue losses.
	National	25%-80% of a company's fixed costs with a maximum compensation per company of DKK 60 million	Medium and large businesses with an expected revenue decline of at least 30%	Ended 31 Jan 2021	Immediate liquidity support	Compensate for revenue losses.
France	National	EUR 1 500 monthly compensation	Small companies and self-employed with a turnover of less than EUR 1 million and a drop in revenues of more than 70%	Mar 20	Immediate liquidity support	Compensate for revenue losses.

Country	Level	Amount of the grant	Target group	Start date	Objective of grant	Description
	National	10% of 2019 turnover, or EUR 10 000 per company	Hospitality businesses (including restaurants, bars, nightclubs) and sports facilities, with turnover less than EUR 1 million and a drop of turnover of 50% or more	Ended 31 Dec 20	Immediate liquidity support	Compensate for revenue losses.
	National	EUR 10 000 per company	SMEs and freelancers	Oct 20	Immediate liquidity support	Compensate for revenue losses.
Germany	National	Up to EUR 9 000 per company over a period of 3 months	One-person businesses or microenterprises (up to five employees)	May 20	Immediate liquidity support	Total amount of the programme is up to EUR 50 billion.
	National	Up to EUR 15 000 per company over a period of 3 months	Business of maximum ten employees	May 20	Immediate liquidity support	Total amount of the programme is up to EUR 50 billion.
	National	EUR 4 000 voucher	Small businesses	Apr 20	Structural support	Cover consultancy services to help them find solutions to cope with the crisis.
	National	75% of average weekly turnover in Nov-Dec 2019	Small business and self-employed, for each week of closures	Nov 20-Dec 20	Immediate liquidity support	Compensate for revenue losses.
	National	"Restart aid" lump-sum of up to EUR 5 000 (flat rate)	Self-employed	Dec 20	Immediate liquidity support	Part of Bridging Aid III. Cover operating costs.
	National	Up to 40% of eligible costs (1) Up to 60% of eligible costs (2) Up to 90% of eligible costs (3) Eligible costs are limited to EUR 20 000 per month	Small businesses, with at least a 30% drop in turnover (1), a 50%-70% drop in turnover (2), or more than 70% drop in turnover (3)	Nov 20-Jun 21	Immediate liquidity support and structural support	Bridging Aid III scheme. Cover fixed costs including rents, leases, financing costs, costs for trainees and property taxes, as well as costs for conversion and renovation work to implement a hygiene concept and costs for the digitalisation of businesses.
	National	Up to EUR 7 500 for self-employed Up to EUR 30 000 for a multi-person corporation	Start-ups and self-employed (already self-employed before 1 May 2020)	Jan-Jun 21	Immediate liquidity support	Restart help scheme. Not cumulative with Bridging Aid III.
	National	Equity grant of 100% of eligible costs	Small businesses with more than 70% drop in turnover	Jan-Jun 21	Immediate liquidity support	Compensate for revenue losses. In addition to Bridging Aid III support.
Ireland	National	Voucher	Small businesses		Structural support	Cover consultancy services for immediate finance reviews, as well as for innovating, diversifying markets and supply chains.

Country	Level	Amount of the grant	Target group	Start date	Objective of grant	Description
	National	EUR 2 500 Digital Trading Online Voucher	Microenterprises	Jun 20	Structural support	Covers online training to entrepreneurs. The total amount of the scheme was initially funded with EUR 3.3 million and was extended in June by EUR 14 million.
	National	EUR 4 000 to 25 000	Small businesses	Aug 20	Immediate liquidity support	Sustaining Enterprise Fund launched for SMEs to reopen and adapt to the restrictions and support recovery.
	National	Up to EUR 8 000	Wholesalers, caterers and event suppliers that are down 75% or more in turnover	Feb 21	Immediate liquidity support	Covid-19 Business Aid Scheme (CBAS) aim to support businesses that have been unable to access government funding until now.
	National	Up to EUR 800 000, with EUR 200 000 or 50% in non-repayable grants	Manufacturing and internationally traded services companies	Feb 21	Immediate liquidity support	Sustaining Enterprise Fund will count with EUR 90 million of funding.
	Subnational	EUR 2 500 and EUR 10 000 vouchers	Small businesses		Structural support	Vouchers for innovation, productivity and business continuity preparedness.
Japan	National	JPN 2 million per company	Companies with less than JPN 1 billion in capital seeing declines of 50% or more in year-on-year monthly revenue	Apr 20	Immediate liquidity support	Compensate for revenue losses.
	National	JPN 1 million per individual	Sole proprietors, including freelancers	Apr 20	Immediate liquidity support	Compensate for revenue losses.
Netherlands	National	EUR 4 000 (Mar 20) - Increased to 70% of fixed costs for companies with 100% turnover loss (Dec 20) - Increased to 85% for Q1 and Q2 2021, with ceiling raised from EUR 90 000 to EUR 330 000	SMEs in highly affected sectors. In April, the coverage was extended to other sectors more indirectly affected. In December, a further extension benefit transportation, and suppliers to the hospitality and events sectors. In January, the scheme also includes large companies.	Mar/Apr 2020 (extension in Dec 2020 and Jan 2021)	Immediate liquidity support	Compensation of fixed costs. The total support package amount was EUR 3.9 billion.
	National	Non-reimbursable income support for three months	Self-employed with income fall	Apr 2020 (extension in Jan 21)	Immediate liquidity support/Structural support	Compensate for revenue losses. In January 2021, the support was extended and provided additional services regarding (re)training.
	National	EUR 750 – increased to EUR 1 500	Micro and in-person companies (hairdressers, pedicures)	Jan 21	Immediate liquidity support	Compensate for revenue losses.

Country	Level	Amount of the grant	Target group	Start date	Objective of grant	Description
New Zealand	National	NZD 5 000 voucher	Firms of up to 100 employees	Jul 20	Immediate liquidity support/Structural support	Covers human resources, health and well-being, business continuity, cash flow and financial management, strategy and digital capability. The total amount of the scheme was NZD 16 million in March and an extra NZD 40 million was provided in July.
Sweden	National	75% of staff costs, up to SEK 26 030 per person/per month	All companies that suffer from temporary and serious financial difficulties	Ended 31 Dec 2020	Employee retention	Compensate for a significant part of the costs for retaining employees.
Switzerland	National	Compensation for short-time working	All enterprises		Employee retention	Extension and simplification of short-time working compensation.
	National	Emergency grants	Enterprises in the culture sector and sport organisations		Liquidity support	Emergency funding for culture (CHF 280 million) and sports organisations (CHF 350 million of which maximum CHF 115 million for grants, the rest for loans).
	National	Compensation for reduced exports	Exporting firms		Structural support	Compensation for reduced exports promotion activities of CHF 7.1 million.
	National/ Subnational	Hardship payments (can be used by the cantons for grants or guarantees and loans, but 90% of payments are grants	All enterprises		Liquidity support	Total amount of CHF 10 billion (confederation: CHF 8.2 billion, and cantons: 1.8 billion). The cantons are responsible for implementation.
Turkey	National	TRY 6 million per company	Firms that produce disinfectants, medical masks and other production material for health workers	Mar 20	Immediate liquidity support	Incentive production of medical supplies.
United Kingdom	National	Up to GBP 25 000 per company	Small businesses in hospitality, retail and leisure, with a rateable value between GBP 15 000 and GBP 51 000		Immediate liquidity support	Compensate for revenue losses.
	National	Based on the rateable value of the property and can be extended to cover each additional 14-day period of closure	Small businesses that provide in-person customer service on-premise and that had to close as a consequence of the COVID-19 restrictions	Nov 20	Immediate liquidity support	Compensate for revenue losses.

Country	Level	Amount of the grant	Target group	Start date	Objective of grant	Description
	National	Based on the rateable value of the property on the first full day of local restrictions	Businesses that are not covered by other grant schemes. Excluding businesses in the administration or insolvent.	Nov 20	Immediate liquidity support	Compensate for revenue losses.
	National	80% of 3 months' average trading profits, paid out in a single instalment and capped at GBP 7 500	Self-employed	Feb 21	Income support	Compensate for revenue losses.
	Subnational	GBP 18 000 per company	All businesses	Mar 21	Immediate liquidity support	Compensate for revenue losses. GBP 5 billion are earmarked to fund the restart grant programme in England. GBP 794 million is available for similar grants in Northern Ireland, Scotland and Wales.
United States	National	45% of gross earned revenue, up to USD 10 million per grant	Business in the recreation sector with up to 50 full-time employees	Dec 20	Immediate liquidity support	Compensate for revenue losses. USD 2 billion is reserved for eligible applications.

Source: OECD based on country information in OECD (2021[29]) and national documentation.

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Notes

[1] Trade finance products typically include intra-firm financing, inter-firm financing or more dedicated tools such as letters of credit, advance payment guarantees, performance bonds and export credit insurance or guarantees (OECD, 2020[23]).

[2] The OECD survey on COVID-19 government financing support programmes for businesses that has been conducted with the jurisdictions in charge of administrating the same programmes also stresses wide variances in programme usage and access across countries and between programmes within countries. Respondents estimate that programmes were used more than expected, largely because of a demand from SMEs that were unable to access other financing channels.

[3] See https://www.calcalistech.com/ctech/articles/0,7340,L-3838519,00.html.

[4] 59% of the companies that obtained the PGE loan would use the maximum term to repay it, i.e. 6 years, 9% expect to pay it back in full as early as 2021 and 8% of MSME managers fear a non-repayment of the PGE, a proportion that is increasing regularly. More than half of executives report an increase in their company’s debt levels during the crisis. This increase was more than 50% for 15% of them.

3 Globalisation versus relocalisation: The core role of SMEs in rising place-based industrial policies

The COVID-19 crisis may result in a reconfiguration of international trade and investments. In a context of strong disruptions in global value chains (GVCs), reshoring strategies have been developed at the national or territorial level, as a way of reducing dependence on third countries or as a means of preserving sovereignty in strategic areas and supporting local employment. However, the rationale for de-globalisation overlooks the multiple dynamics at play in globalisation and the potential for local SMEs to access strategic resources and markets through internationalisation, or to benefit from positive spillovers in GVCs or by operating with multinationals, or at some close distance from them. The third chapter explores the scope and forms of a restructuring of GVCs, and discusses the core role of SMEs in place-based approaches to new industrial and internationalisation policies.

Highlights

Potential reconfigurations in global value chains (GVCs) provide opportunities for reinforced small- and medium-sized enterprise (SME) integration in international markets and networks

- **The expansion of GVCs had already slowed down prior to COVID-19**, in part reflecting trade tensions and policy uncertainty (OECD, 2018[1]; 2020[2]) but also the erosion of comparative advantages around labour, driven by technological advancements in digitalisation, robotics and automation (De Backer and Flaig, 2017[3]). Changes in consumer preferences for more responsible and sustainable business conduct, and locally made products (OECD, 2020) have also played a role in this slowdown. The pandemic has accelerated these trends.
- **By disrupting supply chains, the pandemic has revealed vulnerabilities and raised concerns about resilience**. Lockdowns imposed across the globe illustrated risks in value chains, particularly highly fragmented and longer chains. Compared to larger firms, some SMEs have been particularly exposed as their ability to find new intermediate suppliers or to diversify and integrate value chains less exposed to lockdowns is typically more limited.
- **The shockwave has been harder in value chains where inputs were difficult to substitute**, hence making specialisation (one of the key competitive advantages of SMEs) a source of vulnerability. **Supply chain disruptions also led to global product shortages**, generating fierce competition, with smaller firms with lower negotiating power at a disadvantage. In addition, in industries relying on extensive networks of small suppliers and service providers (e.g. automotive or aerospace sectors), the impact on demand has been severe.
- **COVID-19 and "resilience" have reignited the debate about industrial sovereignty**. Some countries are now developing reshoring strategies at the national or territorial level, as a way of reducing dependence in strategic areas but also as instruments to support local employment (Charbit and Gatignol, 2021[4]). Many governments are now rethinking industrial policies with resilience in mind and looking to protect strategic SMEs and industries, e.g. from predatory practices, takeovers or distortions in competition, etc.
- **Many governments are aiming to reinforce the positioning of their SMEs in GVCs**, by: keeping trade channels open and reducing costs in trading; intensifying export guarantees and export support measures for SMEs; reinforcing SME international business linkages; and reinforcing aftercare and facilitation services to retain and attract foreign direct investment (FDI). Agencies and institutions involved in export and investment promotion are also transforming their operations, to better support their users during COVID-19 (EU/OECD, 2021[5]).
- **Potential restructuring of GVCs can take many forms that are difficult to anticipate**. Building resilience requires some degree of supplier redundancy, possibly a diversification in sourcing and production locations. This diversification may involve divestments from some locations but expansions in others, which presents both challenges and opportunities for SMEs.
- **Even temporary restructuring in GVCs may have longer-term impacts**. Whilst GVCs that have been temporarily disturbed may see a return to the network dynamics that preceded the crisis, there is no guarantee that this will happen, as it may be difficult for many SMEs to rebuild connections that are critical to source assets (OECD, 2019[6]).
- **At the same time, there are limits to GVC restructuring**. Cross-country and cross-region heterogeneity in endowment and capacity remain and so too does **the economic rationale for interconnectedness**. Simulations suggest that the economic case for reshoring GVCs (and indeed the reshoring case for resilience) is weak (OECD, 2021[7]; Cadestin et al., 2019[8]).

Introduction

SMEs are less often engaged in international activities but those that are show greater performance. SMEs remain predominantly local actors embedded in nearby markets and ecosystems. Domestic markets are the prime space where they do business. Across the OECD, SMEs account for 39% of export value-added and 46% of import value-added. This country average , however, hides large cross-country disparities: in Mexico or France, SMEs represent respectively 5%-8% and 17%-25% of export-import value-added, as compared to 69%-75% and 73%-75% in Estonia and Latvia (OECD, 2021[9]). The relatively low contribution of SMEs to overall exports reflects their lower contribution to industry, in particular to mining and manufacturing where economies of scale play an important role.

The fragmentation of production worldwide along GVCs create new market conditions (Box 3.1), enabling greater specialisation and for smaller actors to enter international markets where they can benefit from knowledge and technology spill-overs and raise their innovation capacity. Evidence suggests that looking only at direct exports by SMEs under-represents the actual engagement of small firms in a country's exports. Alternately, when the role of SMEs as suppliers of inputs to larger direct exporters is taken into account, their importance as exporters increases considerably (OECD, 2019[6]). This is particularly true in sectors where GVCs play a critical role in sourcing and supporting production, e.g. transport equipment. This indirect mode of internationalisation provides SMEs access to new sources of growth without incurring trade-related costs.

Box 3.1. Market conditions, SME performance and strategies

Market conditions are critical for SMEs and entrepreneurs to do business and to recover after the radical disruptions the pandemic brought in supply chains, international trade and investments, and domestic demand. Market conditions determine the optimal size of firms, whether businesses invest, innovate, scale up or down and create jobs, or whether entrepreneurs enter or exit the market. Firms can adapt to market conditions through a range of strategies but smaller ones have typically more limited options than larger ones that benefit from (size-enhanced) economies of scale. Smaller firms mainly rely on product differentiation (e.g. product innovation), network effects (e.g. standardisation, inter-firm co-operation or the use of digital platforms) and agglomeration effects (spatial concentration) for competing. Market conditions are set at the national, international, regional or local levels.

Source: OECD (2019[6]), *OECD SME and Entrepreneurship Outlook 2019*, https://dx.doi.org/10.1787/34907e9c-en.

SMEs, including non-exporters, can benefit from cheaper or more sophisticated imported products and services, or the technology embodied in imported capital products (López González, 2016[10]; López González and Jouanjean, 2017[11]). Firms that use more imports are in fact more productive and better able to face the costs of exporting (Bas and Strauss-Kahn, 2015[12]; 2014[13]). Closer global integration has implications for firms that operate in local markets as well, through increased competition, which can have disruptive effects on local economies and requires enhancing market knowledge and the competitiveness of small businesses.

International investments can also have positive spill-overs on domestic SMEs through various diffusion channels (Crespo, Fontoura and Proenca, 2009[14]; Keller and Yeaple, 2009[15]; Criscuolo and Timmis, 2017[16]; Lejarraga et al., 2016[17]; OECD, 2019[18]; 2020[19]; OECD/UNIDO, 2019[20]). These channels include value chain linkages when SMEs serve as local suppliers or buyers, strategic partnerships with foreign investors, the mobility of foreign firm employees to local SMEs, or competition and imitation effects. The magnitude of FDI spill-overs depends on the FDI qualities that the country attracts, the absorptive

capacity of local SMEs and some structural factors such as local economic geography and the regulatory and institutional framework. A greenfield investment, for example, is likely to involve the implementation of new technology in the host country and be accompanied by a direct transfer of knowledge and technology from the parent firm to the new affiliate (Farole and Winkler, 2014[21]). Benefits in terms of productivity incur to local SMEs (in the same region), especially if the FDI is made in a different sector (Lembcke and Wildnerova, 2020[22]). This points to the existence of agglomeration economies and knowledge spill-overs that easily cross sectoral boundaries.

Overall, the benefits from GVC participation depend on the sector, the position of the SME within global production networks and the nature of inter-firm linkages, i.e. the mode of governance of the GVC which is typically dictated by the multinational leading the chain (Gereffi, Humphrey and Sturgeon, 2005[23]). Firms and industries positioned at the centre of complex production networks have access to a greater variety of foreign inputs and potentially a broader range of technologies, compared to those at the periphery. Smaller firms display faster productivity growth in those sectors that have become more central to global production, from those on the periphery, and also in sectors with stronger linkages to more productive foreign buyers/suppliers (Criscuolo and Timmis, 2018[24]).

- In sectors where quality (e.g. pharmaceuticals) and a commercial presence (e.g. marketing, advertising, financial services) are important, the establishment of a subsidiary will allow multinationals (MNEs) to secure high levels of quality in production and direct access to clients in the domestic market.
- In industries of standardised and simple products for which little formal co-operation between GVC participants is required (e.g. agricultural commodities), arm's length market transactions are MNE preferred strategies (UNCTAD, 2013[25]; Gereffi and Fernandez-Stark, 2016[26]). MNEs do not exert any influence in the supply chain and suppliers, many of them SMEs, learn from the demands placed upon them and from market feedback.
- In knowledge-intensive sectors (e.g. information technology [IT] hardware, automotive industry), contractual partnerships seem to matter the most (Andrenelli et al., 2019[27]). MNEs exert some influence over their partners, through contract agreements, or more implicitly via their bargaining power (UNCTAD, 2011[28]). In the car industry, on average, around three-quarters of all first-tier suppliers in a manufacturer's global production chain operate through contractual partnerships, of which over three-quarters are with foreign-owned enterprises (Lejarraga et al., 2016[17]).

Prior to COVID-19, the expansion of GVCs and the global fragmentation of production have already slowed down

Prior to COVID-19, market conditions for SMEs and entrepreneurs had improved with a stronger growth outlook since the 2008-09 crisis. Improved digital infrastructure and reduced transaction costs in trading across borders had helped SMEs access international markets. The digital platforms have contributed to SMEs sourcing and selling abroad more easily, by connecting them to suppliers and customers and creating network effects for their users (OECD, 2021[29]). Explicit barriers to trade and investments have been reduced as well, making it easier for smaller actors to operate on a global scale.

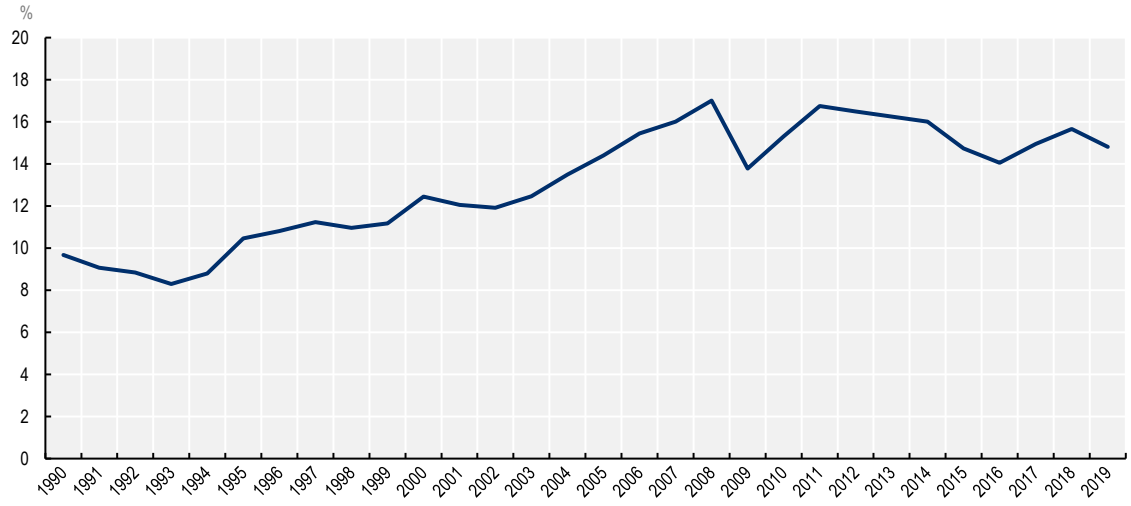
But there were signs that the growth expansion had peaked. Economic growth had slowed and confidence and investments were at risk (OECD, 2018[30]; 2018[31]; 2019[6]). GVCs had lost momentum, due to trade tensions and a slowdown in FDI (OECD, 2018[1]). The sourcing decisions of firms were affected by higher trade costs and rising policy uncertainty.

There was evidence of a decline in the global fragmentation of production since 2011 (Figure 3.1). For each dollar of output in the world, there has been less trade in intermediate goods and services, highlighting that firms were reducing their use of foreign inputs. Indicators measuring the length of value chains confirm

that GVCs have become shorter, but only the international part of value chains (Miroudot and Nordström, 2019[32]).

Figure 3.1. GVCs had already lost momentum prior to COVID-19

Global import intensity of production, 1990-2019



Note: This indicator takes into account all trade flows of intermediates inputs used in any stage of the value chain and expresses their overall value as a share of the final output. Calculated for the world, it measures the overall level of fragmentation of production.
Source: OECD TiVA database 2016, OECD TiVA 2018, OECD Economic Outlooks, Comtrade, IMF.

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FDI was below historical records, despite improvements in 2019. Global FDI flows at USD 1 426 billion in 2019 increased by 12% in the year but remained below levels recorded between 2010 and 2017 when COVID-19 hit (OECD, 2020[2]). The rebound in 2019 was partly due to a return to positive outward FDI flows from the Netherlands and from the United States (US). However, against this more positive background, FDI equity inflows dropped by 37% in the OECD area, their lowest level since 2005, continuing a downward trend that started in 2016. Equity capital[1] is of particular interest because it is often associated with new investments, such as greenfield and/or mergers and acquisitions.

A number of trends were at play that already questioned the rationale for maintaining long value chains (De Backer and Flaig, 2017[3]). New business models require more responsiveness to end-user demand and greater proximity to the market (OECD, 2019[6]). Digitalisation and the servicification of manufacturing (i.e. the fact that manufacturing firms increasingly use and produce services that they combine with the goods they sell) allow firms to rely less on offshoring (OECD, 2020[33]). 3D printing can for instance reduce the cost rationale for offshoring as parts are printed locally. The use of big data increases MNE capacity to optimise local presence and wider use of on-demand contracting workers has facilitated reshoring by reducing the need for staff physical presence. Greater attention is also given to protecting data and innovation assets and locating them in jurisdictions where the rule of law prevails and laws are enforced.

Concerns have arisen about supply chain resilience and the traceability of products along (too?) long value chains. In fact, companies were already rethinking their supply chains in response to demands by consumers for more sustainable and inclusive production methods, as well as locally made products and services (OECD, 2020). Effects on the small- and medium-sized enterprise and entrepreneurship (SME&E) sector may be two-fold. For those SME&Es that are already integrated into long GVCs that are going

through a reshuffling, this may mean a loss of market outcomes and lesser opportunities to benefit from knowledge and technology spill-overs from the value chains or trade finance. For local SME&Es that could engage in new supply chain relationships or strategic partnership with MNEs, or that could supply some domestically-based segments of the value chain, it may mean in turn greater market outcomes and opportunities for spill-overs and financing. It may also be possible that some SME&Es lose the position in one segment of a GVC but be able to reposition themselves in another one.

The COVID-19 crisis has deeply disrupted GVCs with differentiated impacts across firms, industries and places

Stringent restrictions to the movement of people and goods have disrupted international and regional supply chains. Pandemic outbreaks can produce strains in supply chains, as transportation systems and the chains themselves are disrupted, which could create domino effects that ripple back and forward to upstream producers and downstream clients, causing a crisis of supply and demand, especially in highly integrated sectors (OECD, 2021[7]; 2020[33]; US Congressional Budget Office, 2006[34]). However, as compared to similar episodes in the past**,** such as the severe acute respiratory syndrome (SARS) outbreak in 2003, the global economy has become more interconnected, favouring chain reactions along supply chains (Box 3.2).

Box 3.2. Chains reactions along supply chains: The case of China

The COVID-19 health crisis, which began in China, has triggered a series of chain reactions as it spread to Asia, Europe and the rest of the world, provoking major disruptions in supply chains.

China plays a far greater role in global output, trade, tourism and commodity markets than a decade ago (OECD, 2020[35]). The country is now a key world producer of intermediate goods, particularly in computers, electronics, pharmaceuticals and transport equipment, and a primary source of demand for many commodities, such as oil and copper, as well as for high-end user products, such as luxury goods or cars (CNN, 2020[36]). In addition, Chinese tourists worldwide account for around one-tenth of all cross-border visitors and one-quarter or more of all visitors in Japan, Korea and some smaller Asian economies (OECD, 2020[35]).

Containment efforts in China involved quarantines and widespread restrictions on labour mobility and travel, resulting in unplanned delays in restarting factories after the Lunar New Year holiday and sharp cutbacks in many service sector activities. Output contractions in China have been felt around the world, through disrupted supply chains. Depressed demand in China has affected local and international markets as well.

In the automotive industry, Chinese automotive sales declined in the first months of 2020, the production of automotive parts from China-based suppliers dropped and a number of world automobile producers (General Motors, Renault, Toyota, Volkswagen) suspended production while others closed their Chinese plants (CNN, 2020[37]; 2020[38]; Reuters, 2020[39]; The Guardian, 2020[40]).

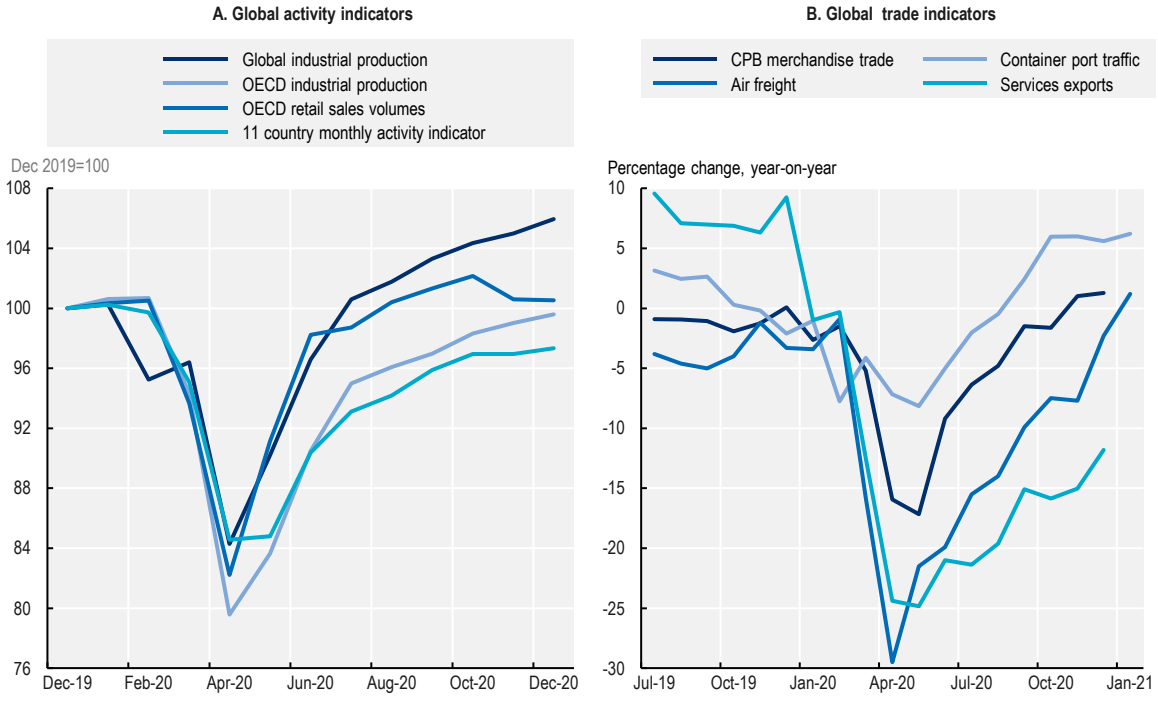
In the retail trade industry, global brands that count on the Chinese market for a sizeable share of their sales have been braced for a significant hit.

In the healthcare industry, while the global demand for face masks skyrockets, disrupted supplies of pharmaceuticals, medical equipment and biotechnological devices threaten growth prospects (The Guardian, 2020[40]; Forbes, 2020[41]).

Source: OECD (2020[35]), *OECD Economic Outlook, Interim Report March 2020*, https://dx.doi.org/10.1787/7969896b-en; Reuters (2020[39]), "Bosch CEO warns coronavirus could hit global auto supply chains", https://www.reuters.com/article/us-china-health-bosch-virus-idUSKBN1ZS10H (accessed on 10 March 2020); The Guardian (2020[40]), "How coronavirus is affecting the global economy", https://www.theguardian.com/world/2020/feb/05/coronavirus-global-economy (accessed on 11 March 2020); Forbes (2020[41]), "Impact of the coronavirus on business", https://www.forbes.com/sites/sarwantsingh/2020/03/02/impact-of-the-coronavirus-on-business/#7dd853624414 (accessed on 10 March 2020); CNN (2020[36]), "The coronavirus is already hurting the world economy. Here's why it could get really scary", https://edition.cnn.com/2020/02/08/business/coronavirus-global-economy/index.html (accessed on 3 October 2020); CNN (2020[37]), "China's car sales plunged 18% in January. The coronavirus could make things even worse", https://edition.cnn.com/2020/02/13/business/china-car-industry-coronavirus/index.html (accessed on 10 March 2020); CNN (2020[38]), "You can't make a car with 99% of the parts. Coronavirus could wreck the global auto industry", https://edition.cnn.com/2020/02/09/business/china-coronavirus-global-auto-industry-impact/index.html (accessed on 10 March 2020).

Global trade collapsed in the first half of 2020 and rebounded in the second half of the year. Global industrial production has continued to strengthen in recent months and global merchandise trade has now surpassed pre-pandemic levels (Figure 3.2), helped by the strong demand for IT equipment (e.g. teleworking-related goods) and medical supplies (e.g. masks and personal protective equipment) (OECD, 2021[42]). The recovery in industrial production in China has also boosted demand for raw materials in commodity-exporting economies, particularly metals (OECD, 2020[43]). Cross-border services trade (e.g. tourism) remains weak.

Figure 3.2. Global trade and activity are slowly recovering



Note: The retail sales measure uses monthly household consumption for the US and the monthly synthetic consumption indicator for Japan. The 11-country activity indicator uses gross domestic product (GDP) or economy-wide output data for Argentina, Brazil, Canada, Chile, Colombia, Finland, Japan, Korea, Mexico, Norway, Sweden and the United Kingdom (UK). Data in Panel B are PPP-weighted aggregates.
Source: OECD (2021[42]), *OECD Economic Outlook, Interim Report March 2021*, https://doi.org/10.1787/34bfd999-en. Based on OECD Economic Outlook 109 database; CPB Netherlands Bureau for Economic Policy Analysis, Institute of Shipping Economics and Logistics (ISL), Leibniz-Institut für Wirtschaftsforschung (RWI), International Air Transport Association (IATA) and OECD calculations.

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FDI flows receded sharply but the drop may have slowed. According to OECD official statistics, global FDI flows decreased by 38% in 2020 as compared to 2019. The COVID-19 pandemic accelerated a steady decline and contributed to sinking global FDI flows to their lowest levels in absolute terms since 2005 and, in relative terms to GDP, their lowest levels since 1999 (Figure 3.3) (OECD, 2021[44]). Yet, the drop may have slowed down. The rebound of cross-border mergers and acquisitions activity, which started in the second half of the year and continued through the first quarter of 2021 in advanced economies, could boost FDI total flows in 2021, unless new and large divestments persist in 2021. In addition, recent data on FDI transactions signal a global drop in announced greenfield investments that is affecting emerging markets and developing economies disproportionately, as the decline in capital expenditures affects manufacturing and extractive activities primarily. On the contrary, the largest boost in greenfield investment was observed in biotechnology and communications, where capital expenditures nearly doubled since 2019.

Figure 3.3. International investments by multinationals have plummeted

Global FDI flows, Q1 2016-Q4 2020

Source: OECD (2021[44]), *FDI in Figures, April 2021*, http://www.oecd.org/investment/investment-policy/FDI-in-Figures-October-2020.pdf. Based on OECD International Direct Investment Statistics Database.

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Market and supply chains disruptions have a severe but unequal impact across firms. SMEs often have a more limited number of suppliers. In some cases, this may have sheltered them from the shock. At the beginning of the outbreak in China, this appeared to be the case with German SMEs operating more in regional supply chains and therefore less affected by developments in Asia. In other cases, SMEs may have relied heavily on a few suppliers, which were located in COVID-19 clusters or in places under strict and long lockdowns, which could have contributed to further increase their vulnerability. The propagation is also stronger in value chains where inputs are specific and difficult to substitute (OECD, 2020[33]), hence where specialisation (one of the key competitive advantages of SMEs) can become a source of vulnerability.

Supply chain disruptions led to global shortages of products, especially in highly integrated sectors. Since the mid-2000s, the centrality of China as the main manufacturing hub in several sectors has grown significantly, both as a source and as a destination (Box 3.3). In the computers and electronics manufacturing industry, the network has shifted from Korea and the US towards China. The German and US motor vehicle industries remain two of the most central manufacturing hubs globally. In the service sector, France, Germany, the UK and the US are key hubs. The US, in particular, is the most central provider of business services, i.e. financial and insurance services, legal and accounting services, wholesale and retail trade, and research and development (R&D).

The market of semiconductors and its small suppliers have been under stress over the year. The semiconductor value chain is complex and global in scope (OECD, 2019[45]). The production is one of the most R&D-intensive and spans across different companies around the world achieving a number of specialised tasks. The largest semiconductor vendors are predominantly based in Japan, Korea, the US and Europe but many outsource capital-intensive manufacturing and assembly-testing activities to specialised firms located elsewhere (e.g. in China, Chinese Taipei and Singapore). Although the industry is generally characterised by large economies of scale and significant market concentration, smaller companies are able to specialise upstream in high-value segments for the computer-assisted design of semiconductors.

Fierce competition for missing parts could evict smaller actors. The shortfall of semiconductors has driven the prices of a range of high-tech applications up (e.g. mobile phones, computers, or video game consoles) and increasing intermediary costs in a range of downstream industries, such as IT and security infrastructure, electronic appliances, automotive or aerospace. Automotive manufacturers are expected to lose billions of dollars this year due to the global shortage of semiconductor chips and fierce competition for critical parts (Reuters, 2021[46]; 2020[47]; 2021[48]).

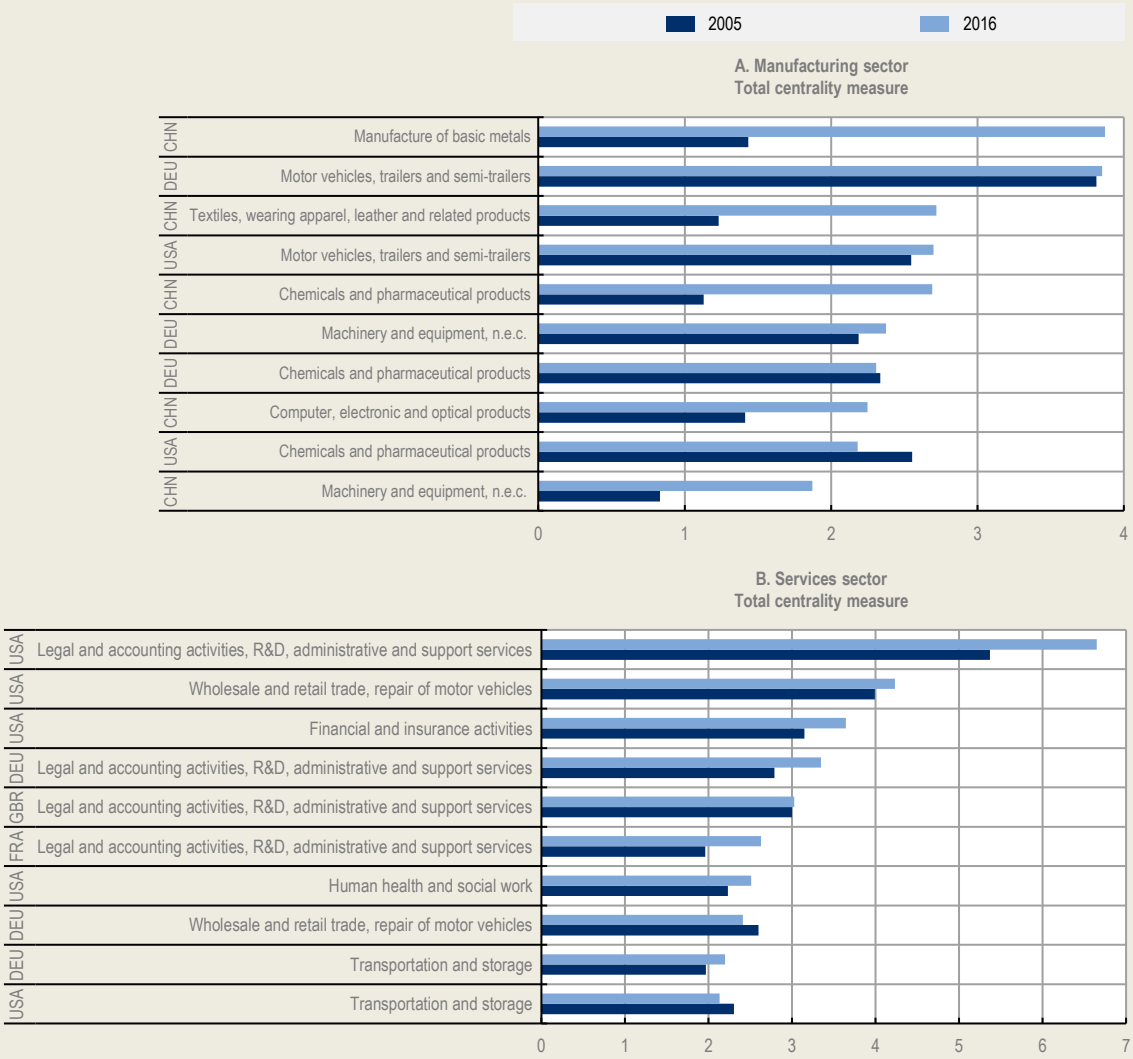
In addition to difficulties in sourcing intermediaries, the automotive and aerospace sectors have faced mounting difficulties in finding market outcomes, with the risk of giants dragging down their ecosystems of suppliers with them. The length of the GVC increases the vulnerability of the chain, as it induces a higher risk of chain reactions and increases the risk of default among a larger community of intermediary suppliers (Figure 3.1). The automotive and aerospace sectors typically operate with longer value chains.

- According to the International Organization of Motor Vehicle Manufacturers (OICA), the number of car sales/registration for the first 9 months of 2020 was more than 20% down compared to 2019, with, however, good prospects of recovery (OICA, 2020[49]). The giants of the automotive industry suffered historical losses for 2020 (L'Usine Nouvelle, 2021[50]). In early 2020, the abrupt stop of production rippled through the industry, effectively closing down the entire supply chain (Klein, Høj and Machlica, 2021[51]). The lifting of restrictions at a different speed across sectors and countries have resulted in input shortages in the sector's complex value chains. At the same time, a demand shock markedly reduced production across all assemblers. Persisting low demand, especially in times that are more favourable for precautionary savings than durable goods purchase and repeated outbreaks could lead subcontractors to stop activities due to insolvency or bankruptcy.
- Travel bans worldwide and a decline in global traffic and transportation have prompted international carriers to suspend flights and freights (Reuters, 2020[52]), in turn affecting aircraft demand. Many global airlines are under stress, some recording massive losses for 2020 (for example over EUR 7 billion losses for Air France-KLM) (Euronews, 2021[53]), some having folded, even at early times in the pandemic (for example UK-based FlyBe) (BBC, 2020[54]). In addition, due to lower aircraft utilisation, the sale of aftermarket parts and services could also remain below-trend, especially if airlines delay discretionary maintenance or upgrades to reduce costs (Deloitte, 2021[55]).

Box 3.3. The centrality of GVCs

Some countries and industries are very central in GVC networks when they are highly connected with other major hubs (OECD, 2021[7]). Conversely, they are peripheral when they reveal weaker trade linkages. The three largest actors, China, Germany and the US dominate GVC exchanges, in both manufacturing and services sectors.

Figure 3.4. Top ten most central hubs in GVCs



Note: Total centrality is computed as an average of forward and backward centrality. Forward centrality captures the importance of a country – or a sector – as a seller of value-added in intermediates for the production of exports of a specific partner. Backward centrality measures the importance of a country – or a sector – as a buyer of value-added in intermediates for the production of its own exports. The manufacturing sector excludes construction while the service sector excludes electricity, gas and water supply services.

Source: OECD (2021[7]), "Global value chains: Efficiency and risks in the context of COVID-19", https://doi.org/10.1787/67c75fdc-en. OECD calculations based on OECD (2018[56]), *Inter-Country Input-Output (ICIO) Database*, http://www.oecd.org/sti/ind/inter-country-input-output-tables.htm.

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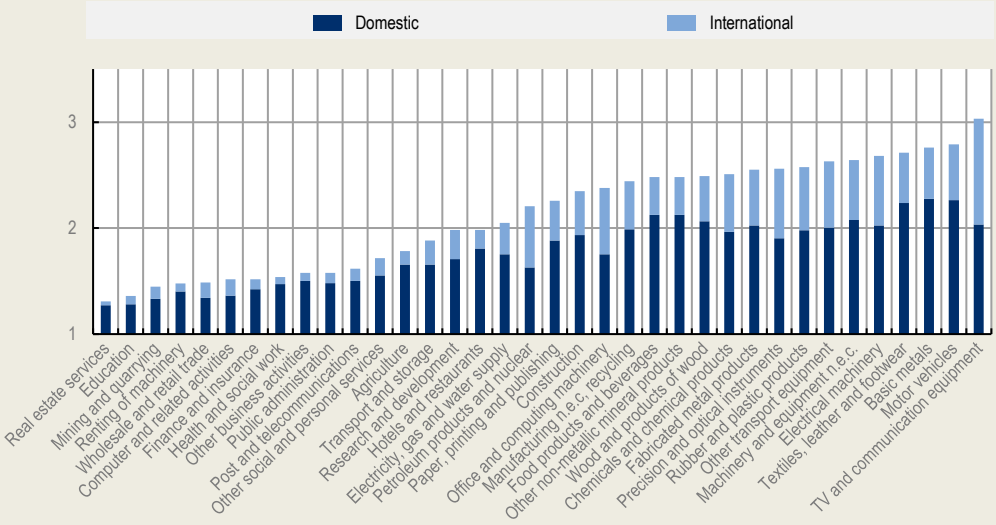
Box 3.4. The length of GVCs

The length of GVCs is highly variable across sectors. It can be measured as per the number of intermediate inputs used to produce a final good or service (Figure 3.5). Some industries show a higher degree of fragmentation, such as television and communication equipment, motor vehicles, basic metals, textiles, leather and footwear and electrical machinery. Services have on average shorter value chains but some such as construction, hotels and restaurants, R&D or transport and storage are also found with relatively long value chains.

Figure 3.5. Large variations in the length of GVCs across sectors

Number of intermediate inputs used to produce a final good or service, by sector, 2008



Note: The index of the number of production stages is proposed by Fally (2012[57]) and calculated using an inter-country inter-industry framework, The minimum value of the index is 1 when no intermediate inputs are used to produce a final good or service. Its value increases when inputs from the same industry or other industries are used. The Inter-Country Input-Output (ICIO) matrix provides the values of all inputs used by one industry in a given country. The ICIO model links internationally input-output tables from 58 countries and accounts for more than 95% of world output. See De Backer and Miroudot for more details on methodology.

Source: De Backer, K. and S. Miroudot (2013[58]), "Mapping Global Value Chains", http://dx.doi.org/10.1787/5k3v1trgnbr4-en. Authors' calculations based on the OECD ICIO model, May 2013 release.

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Market disruptions have also altered agglomeration and network dynamics, which are key for SMEs to achieve external economies of scale. Spatial concentration may have turned into a weakness, at least temporarily. The regional and local impact of the crisis has been highly asymmetric within countries (OECD, 2020[59]) and it appears to depend on the region's exposure to tradeable sectors and GVCs. The crisis has temporarily turned these sources of productivity into sources of vulnerabilities (Tsvetkova et al., 2020[60]). Network dynamics are also been disturbed, without any certainty about if or when they could be restored. SMEs tend to be particularly dependent on business networks, sometimes with larger operators (e.g. MNEs) to source technologies, business services and knowledge assets that are critical to their performance (OECD, 2019[6]). Over the longer term, it may be difficult for many of them to rebuild connections once they are disrupted and former partners have set up new alliances and contracts.

The crisis may prompt multinationals to engage in massive divestment plans to prepare for the post-crisis world. Divestments are frequent corporate strategies. Firms routinely invest and expand their operations, as well as downsize and sell their business activities at home and abroad. In fact, about one in five foreign affiliates is divested every five years (Borga and Sztajerowska, 2021[61]). Divestment enables MNEs to optimise their business portfolios by shifting resources from less productive to more productive activities. A recent survey of large multinationals[2] shows that a majority of them intends to pursue or accelerate divestment plans as a result of the crisis, as they consider having held on to assets for too long (EY, 2020[62]). Companies will reshape their portfolio which includes refocusing on core businesses and investing in new technologies that can support their future business models.

The restructuring of GVCs could take many forms that are difficult to anticipate. Some firms may rethink the spread of their activities and shorten the distance between suppliers and clients. Others may seek to diversify their supplier and partner networks in order to boost their resilience and reduce exposure to location-specific shocks. This diversification may involve divestments from some locations but expansions in others. MNEs may also make more intense use of e-solutions to dematerialise and automate processes and to reduce reliance on unmovable assets and long-term contracts (OECD, 2021[44]). Finally, while it remains difficult to seize the full impact of ethical consumerism (e.g. localism, sustainable products) on future GVCs, it is likely that consumers will look more favourably to companies that have sought to take a responsible business conduct (RBC) approach and adopt a corporate social purpose, also altering the investment priorities of MNEs.

All this may mean less FDI and cross-border trade in the long run but could also lead to market consolidation, for instance in the e-commerce and digital space. There were already signs of market concentration, in particular but not only in digitally dependent sectors (Furman and Orszag, 2015[63]; Grullon, Larkin and Michaely, 2017[64]), suggesting a reallocation of business activity, assets and profits towards “superstar” firms (Autor et al., 2017[65]). Similarly, the global and massive shift of business operations and sales online since the beginning of the pandemic have reinforced the market power of large digital platforms (OECD, 2021[29]). Altogether, this may tighten competition conditions for smaller players.

Building resilience requires some degree of supplier redundancy and extensive networks, possibly a diversification of location, which could be out of the reach of small businesses. After the Great East Japan Earthquake, firms with extensive networks of suppliers made a faster recovery (Todo, Nakajima and Matous, 2015[66]). Because of their complex supply networks, these firms were initially more affected but these networks became their advantage in the recovery phase. In the wake of the disaster, manufacturers have actually diversified their suppliers and moved away from the “keiretsu” model of long-term relationships with first-tier suppliers (Matous and Todo, 2017[67]). Similarly, foreign-owned affiliates, including SME investors, show often greater resilience during crises thanks to their linkages with and access to the financial resources of their parent companies (Alfaro and Chen, 2012[68]; Desai, Fritz Foley and Forbes, 2008[69]). In addition, delayed reinvestments of earnings of foreign firms often materialise after crisis peaks (OECD, 2020[70]).

Against this backdrop, SMEs are likely to be at a disadvantage. SMEs, including affiliates of foreign MNEs, are typically less well prepared to adjust their operations and move towards the automation of some occupations. Those SMEs participating in GVCs can be even more vulnerable as they often endure most of the difficulties of large MNEs and are exposed to the supply chain management decisions made by MNEs that lead GVCs (OECD, 2020[71]). It may be difficult for many to shift if MNE internationalisation priorities shift.

COVID-19 has reignited the debate about supply chain risks and industrial sovereignty

The crisis has illustrated the vulnerabilities of industries and places to disruptions in GVCs, calling for policy action to search for new sources of growth and resilience. The policy discussion around supply chain resilience and industrial sovereignty starts from the viewpoint that there is a need to rethink GVCs to make them more resilient, for example by diversifying the supplier base or by reshoring some strategic activities. Some observers assert that renationalising GVCs could insulate countries from the economic consequences of the pandemic (OECD, 2020[33]).

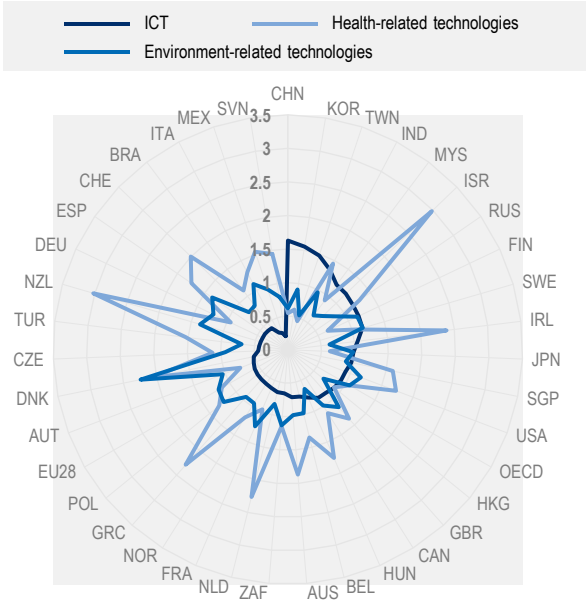
At the same time, there are some limits to the way GVCs could effectively be restructured. The terms and conditions of GVC integration are defined by structural factors, such as industrial structure and specialisation, technological advantages, skills composition, the absorptive capacity of domestic SMEs and their ability to build arm-length relationships with MNEs, the performance of national and regional innovation systems, etc., with a strong legacy of past economic and policy choices. These structural factors are overall difficult to reverse or alter in the short term. For instance, technology lock-ins can raise barriers to extensive industrial reshuffling. Looking at patent data and revealed technological advantages in three technological areas, i.e. information and communication technology (ICT), health- and environment-related technologies, it appears clear that not all countries have the same technological assets and capacity (Figure 3.6) (OECD, 2017[72]). China and Korea show a clear technological advantage in ICT, while Ireland, Israel and New Zealand lead patenting in the health field, and Denmark has an edge on green tech. In addition, frontier R&D increasingly requires large investments and the accumulation of knowledge, technology and data, in proportions that often exceed the capacity of a single country and *a fortiori* a single region. This heterogeneity in endowment and capacity, as well as inertia in technological and industrial patterns, are major impediments to a radical transformation of GVCs. This also means that there is no one-size-fits-all approach to managing supply chain risk.

In addition, there is still a strong economic rationale to maintain GVCs and economies' interconnectedness. Recent analytical work indicates that the contraction of GDP would have been worse with renationalised GVCs, as government lockdowns also affect the supply of domestic inputs (Bonadio et al., 2020[73]). A counterfactual scenario based on the OECD's global trade model shed light on the consequences of relocalisation on economic efficiency and stability (OECD, 2021[7]). In this scenario, countries are less exposed to foreign shocks but they are also less efficient (lower levels of economic activity and lower incomes) and less able to cushion shocks through trade, the latter effects being stronger than the former. Modelling results suggest therefore that the economic case for reshoring GVCs is indeed weak.

MNE affiliates generate important indirect effects, depending on how strongly integrated they are into domestic economies. The assertion that foreign affiliates operate in an isolated manner in host countries and source all intermediate goods and services from within their MNE network does not seem to be supported by the data (Cadestin et al., 2019[8]). Instead, foreign affiliates contract and co-operate increasingly with domestic suppliers, including SMEs. The evidence prior to the COVID-19 pandemic demonstrates the importance of foreign affiliates in domestic value chains, not only as customers for locally produced inputs, tradeable as well as non-tradeable, but also as suppliers of final and intermediate products sold and used within the domestic economy. A simulation of "*what if* international investment were no longer present in the global economy", resulting in the removal of all foreign affiliates across all industries and countries, suggests that world GDP would decrease by 20.5%, i.e. one-fifth of world GDP (Figure 3.7 based on 2014 data). At the industry level, manufacturing sectors would be the most affected (-40%), especially those highly integrated into GVCs, but services would not be spared (over -30%), including knowledge-intensive services such as computer and information services, or finance and insurance. The same stands for smaller countries or highly integrated countries such as Ireland, Luxembourg or East European countries. In comparison, large countries such as Japan or the US would incur fewer substantial losses.

Figure 3.6. Not all countries have the same assets and capacity to reverse old industrial patterns

Revealed technology advantage in ICT, health- and environment-related technologies, index based on country's relative share in world patents, 2012-15

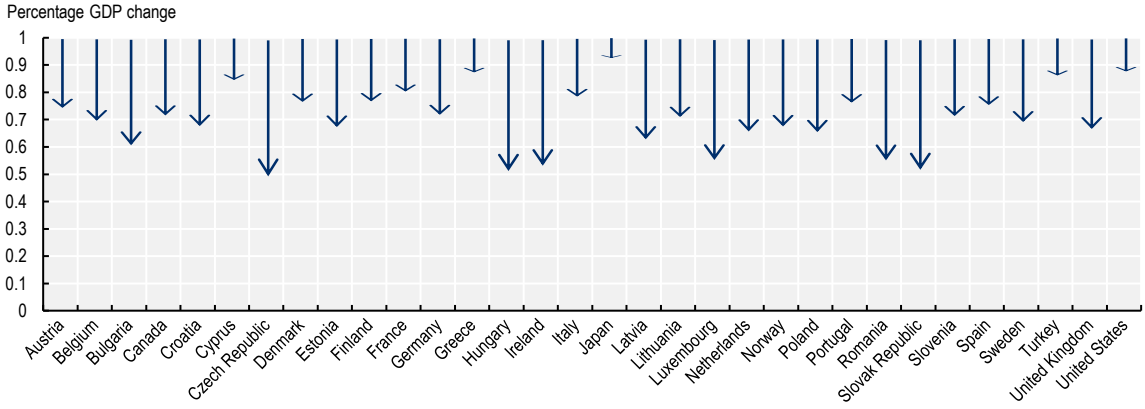


Note: The revealed technological advantage (RTA) index is calculated as the share of patents of an economy in a particular technology area relative to the share of total patents belonging to the economy. When the index is above 1, the country has an RTA in the field. Data refer to IP5 families, by filing date, according to the inventors' residence using fractional counts. IP5 patent families are patents filed in at least two offices worldwide, including one of the five largest IP offices: the European Patent Office, the Japan Patent Office, the Korean Intellectual Property Office, the US Patent and Trademark Office and the National Intellectual Property Administration of People's Republic of China. Only economies with more than 250 patent families in the periods considered are included.

Source: OECD based on OECD (2017[72]), *OECD Science, Technology and Industry Scoreboard 2017: The Digital Transformation*, https://doi.org/10.1787/9789264268821-en, OECD (2017[74]), *OECD Science, Technology and Innovation Scoreboard*, https://www.oecd.org/innovation/scoreboard.htm and OECD (2017[75]), *STI Micro-data Lab: Intellectual Property Database*, http://oe.cd/ipstats.

StatLink https://doi.org/10.1787/888934250136

Figure 3.7. A world without foreign affiliates: How much would countries lose?



Source: Cadestin, C. et al. (2019[8]), "Multinational enterprises in domestic value chains", https://doi.org/10.1787/9abfa931-en. OECD calculations based on the OECD (2018[76]), *OECD Analytical AMNE Database*, oe.cd/amne.

StatLink https://doi.org/10.1787/888934250155

Strong integration of MNEs in domestic value chains could secure future investments and local SMEs are not just poised to benefit but act as strategic magnets. A strong MNE presence could make the host economy more vulnerable in case of disinvestment. However, it is likely that *ceteris paribus* foreign affiliates may be less likely to leave because of their strong customer and/or supplier relationships (Cadestin et al., 2019[8]). The domestic SMEs have therefore a key role to play in building the business networks that could help attract and maintain international investments locally.

It is against this background that the policy debate about new industrial policies is taking place (Box 3.5). Whereas industrial policies have long been the policy "that should not be named", developments in both the policy theory and practice over the past decade suggest that it is possible to find a theoretical rationale for a government role in the area (Warwick, 2013[77]). There is now a growing consensus that the risks associated with selective industrial policy ("picking winners") and the influence of vested interests could be minimised (OECD, 2016[78]).

Box 3.5. The rise of new industrial policies and the central role of SMEs

A regain of interest in industrial and manufacturing policies followed the 2008-09 crisis, as policymakers aimed to find new sources of growth, address the structural productivity slowdown and the growing competition in GVC segments of higher value-added, and seize the potential of emerging technologies to drive the next production revolution (OECD, 2016[78]; 2017[79]).

New industrial policies are articulated around the following axis of policy action:

- **Reinforcing business linkages** through cluster policies and place-based approaches involving local SMEs.
- **Attracting foreign MNEs and strengthening the role of domestic SMEs in GVCs** through a range of investment promotion policies, SME policies, innovation policies and regional development policies, aiming to enable FDI spill-overs to domestic SMEs and to attract and retain MNEs.
- **Encouraging technology development at the upstream stage** as opposed to the downstream stage, focusing on generic technologies with the view to not impeding competition and infringing state aid rules (European Union [EU], World Trade Organization).
- **Encouraging entrepreneurship** through access to appropriate sources of finance and the development of supportive local entrepreneurial ecosystems.
- **Improving framework conditions** through the enforcement of competition rules, trade openness, the protection of data and intellectual property rights, or the training and retraining of workers.
- **Optimising the policy mix for innovation** by better combining supply-side (innovation creation) and demand-side (innovation diffusion) measures. Demand-side initiatives, such as public procurement, standards or lead market initiatives, are considered effective mechanisms to create a market in areas where it is needed to meet environmental and societal challenges.

Governments are taking steps to reinforce their industrial profile and the positioning of their SMEs in GVCs, through full-fledged industrial policies or a panache of related initiatives (Box 3.5). While the regain of governments' interest in industrial policies is not new, the current crisis may accelerate the development of policy agenda in the area. For instance:

- The European Commission (EC) revised its industrial strategy in March 2020 with a view to addressing the twin challenges of the green and digital transformations (EC, 2020[80]). The new European Industrial Strategy highlights the importance of research and innovation in providing the

technological foundation to transform and strengthen industrial value chains, helping to turn sustainability and digital challenges into business opportunities. Common industrial technology roadmaps are a key tool to achieve this objective. The European Skills Agenda pursues a shift in upskilling (improving existing skills) and reskilling (training in new skills) of the industrial workforce. In addition, many of the future programmes, such as Horizon Europe (R&D and innovation), the Digital Europe Programme (digitalisation) and InvestEU (strategic investments and financing), will help step up the competitiveness of the EU industry.

- With the view of developing the automotive industry and increasing the competitive production and R&D-based exports in the electronics sector, Turkey has opened its R&D and Innovation and Product & Development Programme to SMEs for the first time. Applications are still ongoing at the time of drafting.

The following analysis focuses on FDI and export policies, competition policies and public procurement (Pillar 2 of the analytical framework of SME&E performance). Country examples are drawn from extensive monitoring of country policy responses to COVID-19 (OECD, 2021[81]) or otherwise stated.

Governments provide support to SMEs to find (alternative) markets abroad and diversify integration patterns in GVCs (Box 4.6):

- Countries, OECD and non-OECD members alike, have intensified export guarantees and support measures for SMEs, including extra financial support, market intelligence services or match-making assistance, etc.
- Some countries aim to reinforce the international business linkages of SMEs, also involving MNEs.
- Others are reinforcing aftercare and facilitation services to retain FDI (see also Table 3.1).
- Some governments are implementing measures to maintain trade channels open and reduce costs in trading abroad, such as by reducing customs duties or streamlining custom procedures.

Box 3.6. Trends in FDI and export policies in a time of COVID-19: Some country examples

Finding (alternative) markets abroad and diversifying integration patterns in GVCs

- **Flanders** (Belgium) has opened up existing financial instruments for SMEs – such as the SME growth subsidy – to help them find alternative markets, particularly where supply chains are impacted (Flanders Innovation & Entrepreneursip Agency, 2020[82]).
- **Denmark** (EKF Export Credit Agency) launched two initiatives in March 2020 to assist Danish exporters, by providing them liquidities and by extending the reinsurance capacity of private trade credit insurance companies in order to cover both large companies and SMEs (EKF, 2020[83]).
- **Indonesia** aims to boost SME exports through virtual business match-making events.
- **Italy**'s export credit agency (SACE) has announced a EUR 4 billion package to support export activity and help SMEs address cash flow needs and diversify export markets. In addition, the Italian agency for the promotion of business internationalisation (ICE) has cancelled the costs already incurred by companies for participation in fairs and events, also proposing alternative visibility solutions.
- **Korea** will extend the maturity of trade insurance and guarantees within a ceiling of KRW 30 trillion. Also, emergency liquidity worth KRW 5 trillion is made available to local companies in order to expand overseas activities.
- **Slovenia** offers aid for internationalisation and measures to diversify export and import markets.

- In **South Africa**, the Business Growth or Resilience Facility aims to enable continued participation of micro, small- and medium-sized enterprises (MSMEs) in supply value chains, in particular those that manufacture (locally) or supply various products that are in demand, emanating from the current shortages due to the COVID-19 pandemic.
- In **Spain**, the government approved an extension of the insurance coverage of the export insurance programme with an additional budget of EUR 2 billion (USD 2.4 billion) in March 2020.
- **Switzerland** offers compensation for reduced exports promotion activities of CHF 4.5 million.

Reinforcing the international business linkages of SMEs, involving MNEs

- **China** is encouraging large enterprises to co-operate with SMEs, by increasing their support in supply chains, in the form of loan recovery, raw material supply and project outsourcing.
- **New Zealand** extended its NZTE Regional Business Partner network to include SMEs since June 2020 as part of the Trade Recovery Strategy. This mainly includes advice on how to navigate the policy landscape and access public support, as well as market intelligence to help SMEs diversify export and import markets (New Zealand Foreign Affairs and Trade, 2020[84]).

Reinforcing aftercare and facilitation services to retain FDI

- **Finland** (Business Finland) has refocused activities towards aftercare services instead of attracting new clients in FDI (EU/OECD, 2021[5]).
- **Lithuania** (Invest Lithuania) has shifted activities to focus on its engagement with existing customers, conducting a pulse-check survey to understand how companies respond to the COVID-19 crisis, providing information about government programmes and available financial support (with translation into English and a dedicated webpage) as well as support with ongoing investments (EU/OECD, 2021[5]).

Maintaining trade channels open and reducing costs in trading abroad

- **Argentina** abolished the obligation of paying export taxes for MSMEs in August 2020.
- **Australia** committed AUD 241.9 million (USD 183.8 million) to the Australian International Freight Assistance Mechanism to support international freight routes and flights, to maintain over 90 000 tonnes of exports to 65 international destinations between April and October (Australian Government, 2020[85]).

Source: Flanders Innovation & Entrepreneursip Agency (2020[82]), *SME Growth Subsidy*, https://www.vlaio.be/nl/media/549; EKF (2020[83]), "EKF to help Danish exporters impacted by coronavirus (COVID-19)", https://www.ekf.dk/en/about-ekf/ekf-s-organisation/news/2020/ekf-to-help-danish-exporters-impacted-by-coronavirus-covid-19; New Zealand Foreign Affairs and Trade (2020[84]), *New Zealand's COVID-19 Trade Recovery Strategy*; EU/OECD (2021[5]), *EU/OECD Survey on Policies Enabling FDI Spillovers to Domestic SMEs;* Australian Government (2020[85]), *International Freight Assistance Mechanism*, https://www.austrade.gov.au/news/news/international-freight-assistance-mechanism.

Others have initiated action for reshoring strategic activities. Reshoring policies are territorial attractiveness policies targeting either national companies that have offshored part or all of their production or foreign companies with an interest in locating their activities in the territory as well as existing local companies aiming to support import substitution (Charbit and Gatignol, 2021[4]).

- **Japan** has earmarked JPN 10.2 trillion (1.9% of GDP) for the reshoring of factories, among others objectives.
- **Korea** has earmarked KRW 1.5 trillion (USD 1.4 billion) in that view. Government agencies are tasked to identify product segments of strategic importance and support is made available to SMEs

and start-ups in order to encourage them to produce these products and bring their production facilities back to Korea (Korea JoonAng Daily, 2020[86]).

Agencies and institutions involved in export and international investment promotion are also transforming their own operations. Preliminary findings from an EU/OECD survey on policies enabling FDI diffusion to SMEs show that, often, national institutions and agencies had to change objectives and rearrange workstreams, instruments and budgets due to COVID-19 (Table 3.1). To note, some digitalise their activities, e.g. by organising site visits, meetings or events online, adopting customer relationship management system and marketing automation tools (Lithuania) or launching online platforms for sharing information (Bulgaria).

Governments aim to protect their strategic SMEs and industries, for example from predatory practices, takeovers or distortions in competition etc. (Box 3.7).

Box 3.7. Policy initiatives to protect strategic assets and firms: Some country examples

- **Germany** has set up an Economy Stabilisation Fund (*Wirtschaftsstabilisierungsfonds*), aiming to ring-fence businesses seen as of critical importance for the German economy. The fund comprises a EUR 600 billion support package, of which EUR 100 billion are earmarked for direct equity participation in businesses of strategic importance for the German economy (including critical SMEs).
- **India,** as part of its INR 20 trillion (USD 266 billion) support package for SMEs and microenterprises, is now excluding global tenders from government procurement of up to INR 2 billion in order to protect firms from foreign competition.
- **Italy** announced it intends to strengthen and extend its takeover shield for SMEs. The scope of application of the "Golden Power" Law, i.e. the capacity of the Italian government to prohibit or impose restrictions or conditions on foreign investments in industries that are deemed strategic for the country, is extended to sectors such as energy, transport, water and health, or food safety.
- **Poland** aims to prevent hostile takeovers of Polish companies by foreign enterprises from outside of the EU. Transactions will be audited by the Office for Competition and Consumer Protection (UOKiK).
- The **EC** provided guidelines in March 2020 to protect European strategic assets and technologies and ensure a strong EU-wide approach to foreign investment screening in a time of economic vulnerability. The aim is to preserve EU companies and critical assets, notably in areas such as health, medical research, biotechnology and infrastructures that are essential for security and public order, without undermining the EU's openness to foreign investment.

Public procurement has become more than ever an instrument to provide SMEs with market prospects and direct funding.

- In **Belgium**, the Federal Plan for Social and Economic Protection includes public procurement measures that aim at supporting SMEs by not imposing late penalties to contracting SMEs affected by the COVID-19 crisis and speeding up payment periods (Belgium.be, 2020[87]).
- In the **Slovak Republic**, the Public Procurement Office issued the first guidance to support the participation of SMEs in tenders and guide contracting authorities on how to prepare conditions to achieve it (OECD, 2020[88]).
- **Israel** has also put in place similar measures, encouraging local authorities to buy from local SMEs (KPMG, 2020[89]).

Table 3.1. National institutions had to rearrange workstreams, instruments and budgets

Adjustments in national institutions' policy mix and arrangements in response to COVID-19, selected countries, national-level institutions for investment promotion, SME policies and innovation policies

		Changes in objectives	Shift in policy workstreams	Change in target groups	Changes in budget	Changes in the timeframe	Examples of changes
Portugal	AICEP Portugal Global – Trade and Investment Agency	X	X	X	X	X	Taskforces to respond to firms' requests in the sectors most affected or where supply opportunities emerged (agrifood, logistics, health, construction and construction materials); webinars to clarify the impact of the COVID-19 pandemic in countries; a service with easy access to short web meetings.
	Agency for Competitiveness and Innovation	X	X	X	X	X	Information and support to SMEs via the web, mail and phone; adjustment to payments and refunds; new support measures.
	National Innovation Agency		X				New funding scheme for new solutions related to the COVID-19 crisis (INNOV 4 COVID); calls for targeted funding with adjustments in existing instruments.
	Agency for Cohesion and Development		X				Reorientation of EU funds and reprogramming of Portugal 2020 Operational Programmes; rethinking of policy mix options for the 2021-27 Cohesion Policy to take into account the Next Generation EU (Recovery and Resilience Facility and REACT-EU).
Lithuania	Invest Lithuania	X		X	X	X	Shift towards aftercare and facilitation services: engagement with existing customers, pulse-check survey to understand companies' responses, information about government programmes and available support (translation into English, dedicated webpage), support with ongoing investments. Digital transformation of services: site visits and meetings on line, participating in online events, new customer relationship management (CRM) system and marketing automation tools, and planning to expand digital activities.
	Enterprise Lithuania	X	X	X	X		Three major additional projects as fast response to crisis: "Business against COVID" (to enable local personal protective equipment (PPE) manufacturing and supply to healthcare institutions), "No quarantine on the Internet" (fast and smooth local SME's shift to e-commerce) and "1824" (single point of contact for businesses regarding government

		Changes in objectives	Shift in policy workstreams	Change in target groups	Changes in budget	Changes in the timeframe	Examples of changes
							support tools, provided by different agencies). Preparing a longer-perspective SME support policy proposals programme for the Ministry of Economy and Innovation.
	Agency for Science, Technology and Innovation		X	X	X		Funding programme for tourism innovations (launched in June 2020) to promote tourism services, information sharing about tourism services and the training of employees (325 projects funded with a total of EUR 7 million). Survey of firms' intentions to invest in research development and innovation (RDI) activities. Extra focus on ideas and initiatives for making society and the economy more sustainable, resilient and better prepared for the green and digital transitions.
	Lithuanian Business Support Agency	X			X	X	Additional funding of EUR 170 million for increased funding for SMEs in existing instruments (in the areas of business digitalisation, R&D, design) and introduced new instruments. The evaluation of applications was implemented faster without losing the quality of applications.
Ireland	Enterprise Ireland		X		X		Provision of COVID support – COVID Products Scheme; COVID online retail scheme; COVID Business Financial Planning Grant; Sustaining Enterprise Fund; Lean Business Continuity Voucher.
Finland	Business Finland	X		X	X	X	Shift towards aftercare instead of attracting new FDI clients; digitalised virtual meetings with FDI clients. Increased funding in the context of COVID-19 through two new funding services targeted at SMEs and midcaps operating in Finland. The funding was aimed at companies to explore new business opportunities in emergency conditions. Two main criteria were set for financing: i) the company's business has suffered from a disruption situation; and ii) the company uses the funding allocated for new development activities.
	TESI		X		X		Two new COVID-19 funding initiatives: stabilisation programme for SMEs (with annual sales revenues at least EUR 10 million) as a convertible loan and Venture Bridge programme for early-stage growth companies, also as a convertible loan.
Bulgaria	Invest Bulgaria Agency	X					
	Bulgarian Small and Medium Enterprises	X			X		Launch of an online electronic platform to provide inform SMEs (reports, access to financing, training), government to business (G2B)

		Changes in objectives	Shift in policy workstreams	Change in target groups	Changes in budget	Changes in the timeframe	Examples of changes
	Promotion Agency						events and provide training to SMEs to help them overcome the crisis.
	Ministry of Regional Development and Public Works – Strategic Planning and Programs for Regional Development Directorate			X	X		Reallocation of funds under the Operational Programme "Regions in Growth" (OPRG) 2014-20 to strengthen the capacity of the health system to deal with the crisis ("Regional health infrastructure" EUR 40 million). The funds were used for the purchase of the necessary medical consumables and equipment for hospitals. Annex to the Memorandum with the Fund Manager of the Financial Instruments in Bulgaria to allow the financial instruments under OPRG to be used for operational capital loans and not only for investment.

Note: Changes in objectives include, for example, focus on emergency planning and crisis recovery, and enhanced focus on FDI retention instead of attraction. Changes in policy workstreams include, for example, new initiatives put in place and a shift in sectoral and value chain focus of existing programmes (e.g. towards sectors that were most affected or where more supply opportunities emerged). Changes in target groups include, for example, new or enhanced emphasis on SMEs and businesses in the most affected sectors. Changes in budget include, for example, reallocation of funds to new priorities and increases/cuts in the annual budget. Changes in the timeframe of implementation include, for example, extended deadlines for specific policy initiatives.
Source: Based on preliminary institutions' responses to EU/OECD (2021[5]), *EU/OECD Survey on Policies Enabling FDI Spillovers to Domestic SMEs*.

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Notes

[1] Financial flows consist of three components: equity capital, reinvestment of earnings and intracompany debt.

[2] 354 companies with a market capitalisation greater than USD 1 billon located in Europe and North America from the life sciences, consumer and industrials sectors.

4 COVID-19 crisis: A fast-track path towards more innovation and entrepreneurship?

COVID-19 has accelerated the digital transition and favoured some forms of innovation and entrepreneurship. There has been mounting evidence and examples of SMEs integrating new digital practices and tools in their operations, or small businesses developing creative solutions or social innovation initiatives. While many changes are poised to last given the investments made, it is too early to say if this may lead to higher productivity, growth and job creation. However, this acceleration has revealed the exposure of SMEs and entrepreneurs to a number of risks, including digital security risks, market concentration, or persisting gaps and inequalities in the transformation. Chapter 5 explores the effect of the crisis on digitalisation, innovation and entrepreneurship, and how governments aim to keep momentum and build back better.

Highlights

Some forms of innovation and entrepreneurship have blossomed during the turmoil and this momentum should be converted into a broader engine for the recovery

- **COVID-19 has accelerated the digital transition**. Prior to COVID-19, smaller firms were still lagging in the digital transition and were less likely to engage in innovation activities (OECD, 2019[1]), with small- and medium-sized enterprises (SMEs) typically limiting digitalisation to basic functions (OECD, 2021[2]). During the pandemic, many firms moved operations online to remain in business, with online platforms playing an instrumental role in connecting users to markets, suppliers or resources (OECD, 2021[2]), which has mitigated the economic impact of the crisis on SMEs (Facebook/OECD/World Bank, 2020[3]).
- **Social innovation initiatives have blossomed**, with social economy organisations and social enterprises helping to soften the effects of the pandemic (OECD, 2020[4]).
- **Many changes are poised to last given the investments made**. Among SMEs that increased digital use during the pandemic, about two-thirds of the self-employed, micro firms and small firms and 78% of medium-sized firms declared these changes to be permanent (Facebook/OECD/World Bank, 2020[3]).
- **However, the COVID-19 shock has also increased concerns about potential market power abuse**. Amidst the crisis, GAFAM (Google, Apple, Facebook, Amazon, Microsoft) recorded exceptional results for 2020. Multinationals with a strong digital presence saw their stock market returns surge (OECD, forthcoming[5]).
- **The accelerated transition has also revealed small- and medium-sized enterprise and entrepreneurship (SME&E) exposure to digital security risks**, with malicious actors intensifying cyberattacks on unprepared SMEs (OECD, 2021[2]).
- **In addition, SME&E digital gaps remain**, in terms of awareness, skills needed, solutions to bridge investment gaps, technological lock-ins, weak data culture, etc. (OECD, 2021[2]).
- **Governments have placed a high priority on digitalising, reskilling and greening to build back better**. From June 2020 onwards, recovery packages increasingly aimed at supporting sustainable recovery, with a greater emphasis in many countries on transforming the crisis into an opportunity to transition towards a greener and circular economy.
- **Countries have been proactive in the digital transformation of SMEs** (OECD, 2021[2]), strengthening the scope for e-commerce and e-government services, or supporting teleworking (OECD, 2020[6]) and digital security in SMEs. Governments have implemented SME-targeted financial support and technical assistance, often in the form of place-based initiatives, or served as facilitators in connecting SMEs with knowledge networks and digital solutions providers. Where SMEs were able to access multiple forms of support during the crisis, they were also able to digitalise faster (Facebook/OECD/World Bank, 2020[3]).
- **Support to start-ups and scale-ups has been extended**, not only to help overcome liquidity constraints but also to access innovation and growth capital.
- **It is too early to say if these innovations may lead to higher productivity, business growth and job creation**. The 2008-09 crisis left long-lasting scars for many start-ups in smaller, low productivity sectors, constraining capacities to innovate and scale up. However, specificities of the current crisis may have favoured some forms of innovations more than others, which may make today's start-ups more resilient, especially in the post-COVID economy.
- **There is strong potential to capitalise on stronger place-based SME&E policies** with effective governance mechanisms in order to avoid inefficiencies in public action. For instance, procurement practices are an area where cross-jurisdiction co-operation and harmonisation are especially relevant to support SME recovery.

Introduction

Innovation and entrepreneurship are two complementary dynamics that can lead to increased productivity and job creation, and lay the foundations of the recovery. They are also increasingly valued for their wider social benefits, as means to address pressing environmental and societal challenges. The creative destruction process that supports innovation endeavours is of particular importance in times of recession and recovery, as it allows a reallocation of assets and resources to the more productive (efficient) firms, which in turn will be able to grow and create the jobs of the recovery (Box 4.1).

Box 4.1. Innovation and entrepreneurship: Two drivers of value and job creation

By innovating, the firm seeks new opportunities and competitive advantage, and aims to generate more profits, through increased sales, greater brand awareness, a new customer base or higher market shares (i.e. product innovation) or through greater cost efficiency and improved productivity (i.e. business process innovation) (Crépon, Duguet and Mairesse, 1998[7]). By innovating, the firm could also undertake a transformational process and scale up its future capacity to grow.

Schumpeter (1934[8]) described the disruption of existing economic activities brought by these innovations and the subsequent reorganisation of markets through firm entry and exit as "creative destruction". Business creation, in particular, contributes to economic efficiency through competition (OECD, 2018[9]; 2017[10]).

Entrepreneurship is not synonymous with SMEs or start-up but reflects instead the human action behind innovation (OECD, 2010[11]). Entrepreneurial activity is conducted in pursuit of the generation of value, through the creation or expansion of economic activity, or by identifying and exploiting new products, processes or markets. Entrepreneurs are at the core of the process as opportunity identifier, risk-taker, breakthrough innovator or disruptor (Ahmad and Seymour, 2008[12]).

If entrepreneurship is therefore fundamental to the innovation process, innovation is also an engine in entrepreneurship, firm creation and business dynamics.

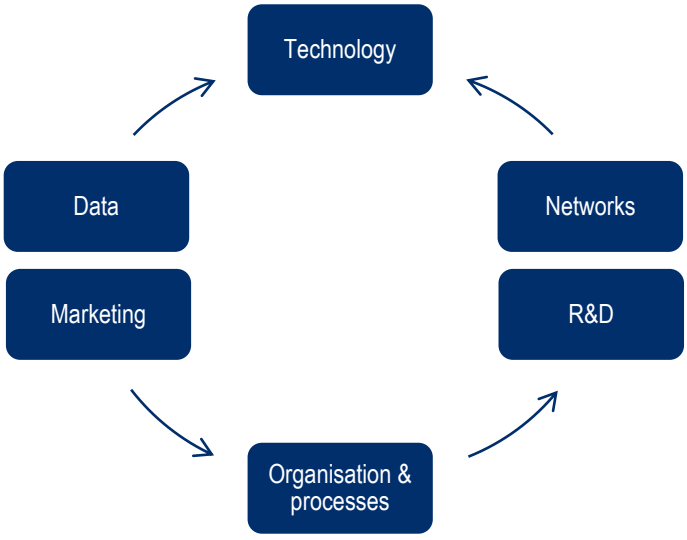
Source: Crépon, B., E. Duguet and J. Mairesse (1998[7]), "Research, innovation and productivity: An econometric analysis at the firm level", https://doi.org/10.3386/w6696; Schumpeter, J. (1934[8]), *The Theory of Economic Development*, Harvard Economic Studies, Cambridge, MA; Ahmad, N. and R. Seymour (2008[12]), "Defining Entrepreneurial Activity: Definitions Supporting Frameworks for Data Collection", https://doi.org/10.1787/243164686763; OECD (2018[9]), *OECD Science, Technology and Innovation Outlook 2018: Adapting to Technological and Societal Disruption*, https://dx.doi.org/10.1787/sti_in_outlook-2018-en; OECD (2017[10]), *Business Dynamics and Productivity*, https://doi.org/10.1787/9789264269231-en; OECD (2010[11]), *SMEs, Entrepreneurship and Innovation*, http://dx.doi.org/10.1787/9789264080355-en.

Innovation results from a process of accumulation through which firms increase their stock of knowledge-based capital (OECD, 2019[1]). Firms create, acquire and recombine innovation assets, such as technology, firm-specific skills and know-how, data and brands, organisational settings and processes, and business models and networks, for innovating.

Possibly even more important in times of crisis, SMEs are primary sources of innovation and play a key role in shifting innovation models. SMEs adapt supply to different contexts or user needs, and respond to new or niche demand. Smaller firms due to higher risk acceptance, greater flexibility or more agile and adaptive organisational culture, have also a competitive edge in bringing new ideas into the market. Typically, SMEs are comparatively less at difficulty in performing specific types of non-technological innovation.

Nonetheless, SME contribution to innovation remains subdued as compared to the large population of firms they account for. SMEs struggle to combine different innovation modes that would require a larger portfolio of innovation assets (OECD, 2019[1]). Access to innovation assets is critical for firms of all sizes but the challenge is particularly acute for SMEs that confront specific barriers in finding and using the technology, data, information and networks that would enable them to participate in and benefit from innovation activities. SMEs are also more dependent on external sources of knowledge, albeit less well-integrated into knowledge networks (OECD, 2013[13]).

Figure 4.1. 6+1 pillars of SME&E performance – Pillar 6: Access to innovation assets



Source: OECD (2019[1]), *OECD SME and Entrepreneurship Outlook 2019*, https://dx.doi.org/10.1787/34907e9c-en.

SMEs and entrepreneurship performance in relation to innovation is in fact defined by a complex set of business conditions (see OECD (2019[1])), as well as the quality of local entrepreneurship ecosystems (OECD, 2021[14]; 2019[15]).

Prior to COVID-19, digitalisation and open innovation provided SMEs with new opportunities that were still to materialise

SMEs adapt to market conditions through a range of strategies, with limited options to generate economies of scale due to their size but greater potential for competing through product differentiation and network and agglomeration effects (spatial concentration).

Digitalisation is a major driver of competitiveness, albeit not the only one. It enables SMEs to scale up their internal capacity and achieve economies of scale without mass. Digitalisation has helped reduce communication and transaction costs, by providing better and quicker access to information, and connecting SME staff, suppliers and networks (OECD, 2021[2]). It supports SMEs in integrating global markets, as it reduces the costs associated with transport and border operations and makes services tradeable. It facilitates access to resources, including finance (e.g. peer-to-peer lending), training and recruitment channels, as well as government services. It supports innovation and greater access to innovation assets (e.g. data or technology), as well as the potential for SMEs to generate their own data and analyse their operations in new ways (e.g. data analytics and predictive capacity). Digital platforms, such as social networks or e-commerce marketplaces, etc., have served for optimising certain operations at very low cost (e.g. business intelligence and data analytics services).

Digitalisation enables greater product differentiation and for SMEs to benefit from the rise of new business models and practices (OECD, 2019[1]). Information and communication technology (ICT) has been a major disruptor of business practices and contributed to changing consumer behaviours and expectations by enabling the rise of a more sophisticated demand and by shortening innovation cycles and time to market. In this changing landscape, SMEs have new opportunities to position and compete on niche markets, and to take advantage of the closer proximity to demand that new consumption models require.

Digitalisation, in particular online platforms, allows SMEs to capitalise on large network effects. Network effect arises as the number of users of the platforms increases, increasing the benefits for all users to operate on the same platform (OECD, 2021[2]). The larger the user base, the more likely SMEs are to find a match (e.g. with service providers, suppliers, clients), which in turn can reduce transaction costs and information asymmetry. Digital platforms have been transforming a wide range of SME business functions, from advertising and marketing (e-commerce), to service delivery, financing, HR and administration (payments), R&D and design, etc.

The shift towards more incremental, non-technological and open innovation models has also brought new opportunities for smaller-scale actors and non-R&D performers (OECD, 2009[16]; 2015[17]). Business innovation is no longer confined to corporate R&D labs but increasingly results from collaborative efforts between business partners that interact, exchange knowledge and information and share standards and infrastructure. This shift towards an "open innovation" (OI) paradigm has considerably reduced the investments needed to access innovation assets, making the innovation endeavour more accessible to SMEs (OECD, 2010[11]). Business linkages act as channels for SMEs to access technology, skills or for fostering data exchange and knowledge spill-overs (OECD, 2018[18]).

Prior to the COVID-19 pandemic, OI initiatives were sprouting worldwide, cities turning into hubs for data-driven innovation and testbeds for experimentation and prototyping (OECD, 2017[19]). Large firms were taking an active part in the OI transformation by developing strategic partnerships with smaller actors, deploying specialised accelerators where start-ups and individuals could access office infrastructure and a supportive business environment, or by setting up innovation labs with a view to encouraging "out-of-the-box" thinking and new collaborations (OECD, 2019[1]). Business accelerators tend to address some of the main challenges high-growth firms can face (e.g. managerial competencies, professional networks, equity finance). Innovation labs, often installed outside the sponsors' premises and close to high-technology clusters, provide state-of-the-art research facilities and community spaces for SMEs to test and participate in interdisciplinary teamwork.

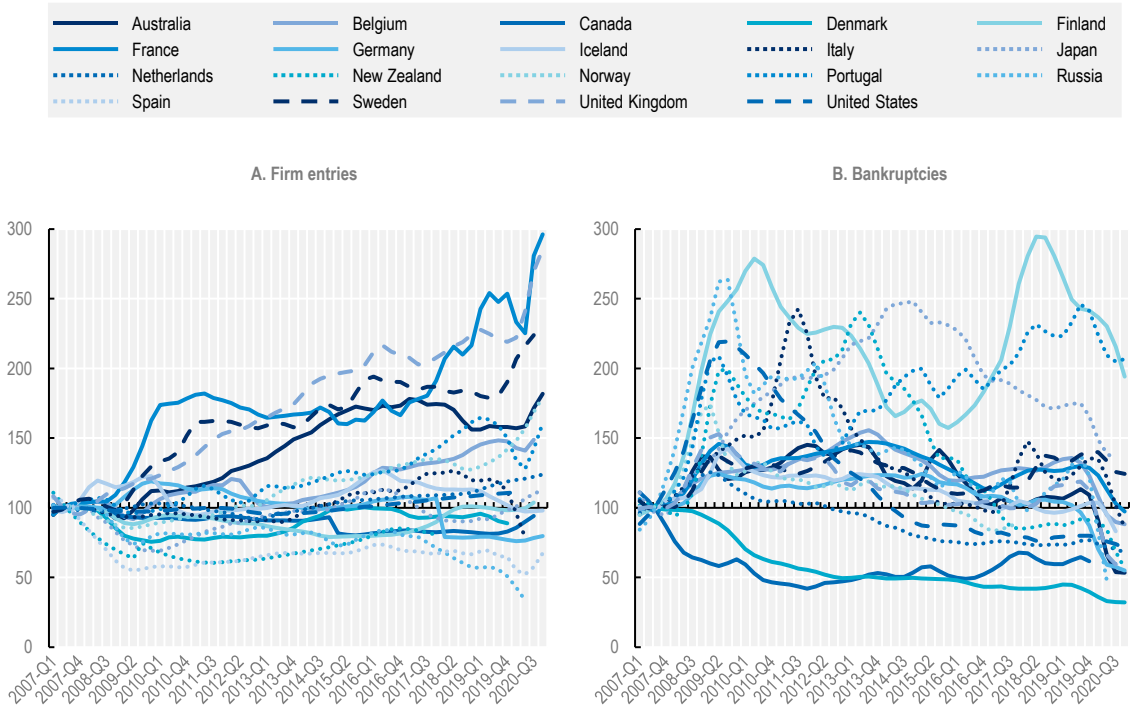
Recovering from the shock of 2008-09, business dynamics were more supportive of innovation endeavours. Enterprise creations were back to pre-crisis levels in volume and new entries of SMEs have been an important driver of employment growth between 2010 and 2016 in most countries, especially in the services sectors (OECD, 2019[1]). Enterprise birth rates, i.e. the ratio of enterprise creations over the total stock of enterprises, were also rising in many countries. In parallel, the number of bankruptcies has retroceded in almost all countries since 2010 (Figure 4.2).[1] However, trends over the decade show large cross-country differences emerging. France, Sweden and the United Kingdom (UK) are leading the start-up wave, with a population of new firms almost three times bigger in 2020 than in 2007. On the other hand, firm creation in Germany, Japan and the Russian Federation remains below 2007 levels (Figure 4.2, Panel A).

But the 2008-09 crisis has left scars, firms being born smaller and in low productive sectors. Birth rates remained below pre-crisis rates in many countries, signalling that firms were born smaller (smaller average size of entries (OECD, 2017[20])) and the potential of job creation was not fully achieved. In addition, smaller sizes constrain the capacity of these firms to innovate, digitalise and gain productivity. Size limitations have compounded in lower productivity capacity. Between 2010 and 2016, in many economies, most new firm entries took place in sectors with below-average productivity levels: for instance, accommodation and food services in Greece, Ireland and the UK; the construction sector in Italy and Norway; and wholesale and

retail trade in most countries (OECD, 2019[1]). Lower-productivity jobs have resulted in lower-paid jobs, weighing down on material well-being. Lower-productivity jobs and firms have also resulted in lower business absorptive and innovative capacities.

Figure 4.2. Firm creation has restarted, bankruptcies have retroceded, with some countries at stall

Trends in firm entries and bankruptcies, index 2007=100, quarterly trends, 2010-20



Note: Although bankruptcies are only one form of firm exits, data for the former are often used as proxies of the latter, as they offer more timely information and better country coverage. National statistical offices usually publish data on enterprise deaths a couple of years after the year when the enterprise effectively closed business. This delay is necessary to ensure that cessation is not reversed by the reactivation of the enterprise. According to the Eurostat/OECD Manual on Business Demography Statistics, an enterprise death occurs only if the unit has been inactive for at least two years (Lunati, Meyer zu Schlochtern and Sargsyan, 2010[21]; OECD/Eurostat, 2007[22]).
Source: OECD based on OECD (2021[23]), *Timely Indicators of Entrepreneurship (dataset)*, http://stats.oecd.org/Index.aspx?DataSetCode=TIMELY_BDS_ISIC4.

StatLink https://doi.org/10.1787/888934250174

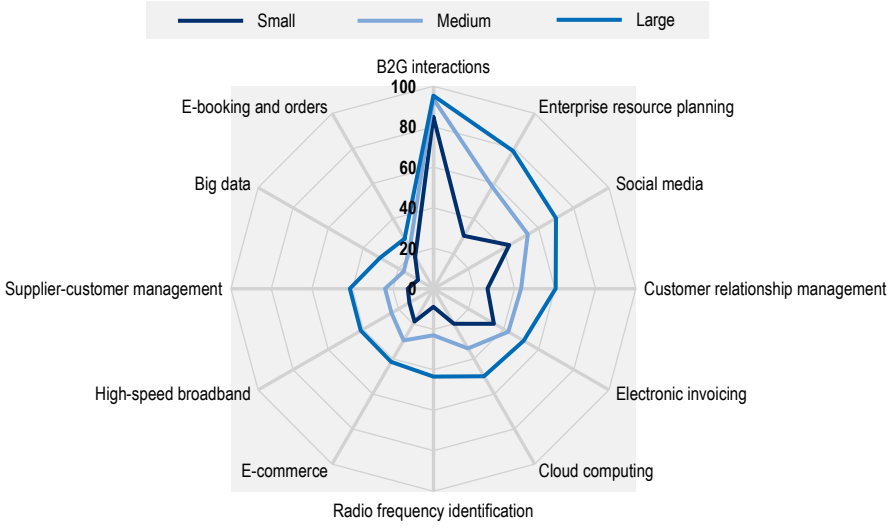
There were also signs of market concentration, with potentially detrimental effects on the business environment of small and young firms. Market concentration and competition can actually exert important (and non-linear) effects on innovation and entrepreneurship. Past OECD empirical analysis indicates an increasing industry concentration in a number of OECD economies and in many industries since the early 2000s and the significant role of intangible investment in this increase (Bajgar, Criscuolo and Timmis, 2020[24]). Intangibles may have disproportionately benefitted large firms, which are better placed to invest in them and leverage them in greater sales. In particular but not only, in digitally dependent sectors, trends in mark-ups suggest a reallocation of business activity, assets and profits towards “superstar” firms (Autor et al., 2017[25]), contributing to reduce the fluidity and dynamism of the economy (see Furman and Orszag (2015[26]), Grullon, Larkin and Michaely (2017[27]) and OECD (2018[28]) for a more comprehensive overview). For instance, in the digital advertising markets, certain acquisitions, as well as certain forms of

conduct, have led to greater market consolidation and vertical integration, the perspectives of economies of scale and scope, network effects and access to data pushing towards more consolidation (OECD, 2020[29]). By contrast, in agri-food chains, although downstream segments are typically more concentrated than farm-level production, empirical studies have not found evidence of systematic and large competition problems (Deconinck, 2021[30]). Some past country-level studies are also less conclusive on the existence of market concentration dynamics (Honjo, Doi and Kudo, 2014[31]; Valetti et al., 2017[32]).

Prior to the COVID-19 crisis, small firms were still lagging in the digital transition (OECD, 2021[2]). The gap in SME diffusion rates as compared to large firms is a recurrent feature across all technologies for which data are available (Figure 4.3). Small firms remain less digitalised than medium-sized firms, and medium-sized firms less than large firms. An SME gap in adoption increases when technologies become more sophisticated or mass matters for implementation. For instance, for enterprise resource planning software that enables greater integration of corporate data flows and operations, a critical size is required to deal with the complexity and significant amount of resources needed. In addition, the SME digital gap is reflected through surveys of ICT use by businesses that do not cover micro firms, i.e. about 90% of the business population in OECD countries, which is likely to underestimate the scale of the issue.

Figure 4.3. SMEs lag in digital adoption, in all technology areas

Diffusion rate, median OECD, based on country average percentages of enterprises using technology, 2015-18



Note: Values represent the median of diffusion rates in countries for which data are available. Country diffusion rates are average rates calculated over the period 2015-18. This approach helps avoid distortions in time or a single year but may tend to underestimate the diffusion rates of technologies that are diffusing quicker.
Source: OECD (2021[2]), *The Digital Transformation of SMEs*, https://doi.org/10.1787/bdb9256a-en. Based on OECD (2021[33]), *OECD ICT Access and Usage by Businesses (dataset)*, http://stats.oecd.org/Index.aspx?DataSetCode=ICT_BUS (accessed on 30 Avril 2021).

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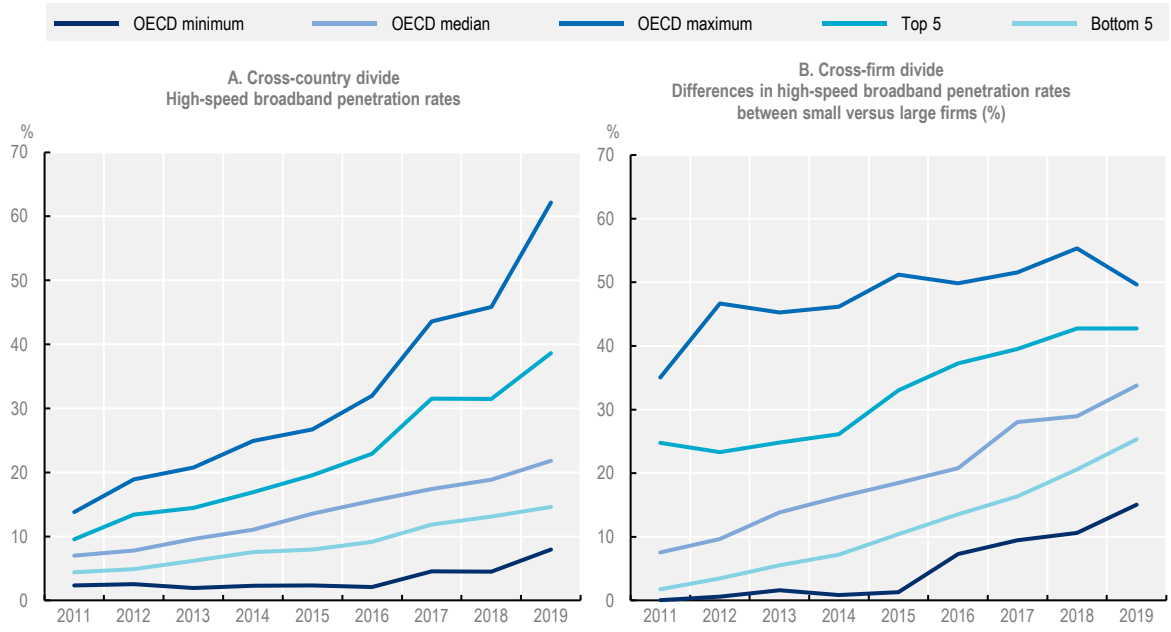
The gap in SME connectivity, albeit a prerequisite for their digital transformation, has increased worldwide. High-speed Internet infrastructure is needed to enable digital connectivity and to facilitate data transfer. Penetration rates of high-speed broadband have been increasing in all OECD countries since 2011 but much faster in already leading countries (i.e. top five countries) and much faster among large firms (Figure 4.4). Cross-firm divides (i.e. the difference between penetration rates among small firms and penetration rates among large firms) have enlarged more in lagging countries. These gaps have left some

firms – and places – with limited scope to adapt their business models and maintain operations during extended periods of social distancing, exacerbating existing inequalities.

Figure 4.4. Gaps in connectivity have increased and progress has stalled for small firms

Penetration rate (cross-country divides) and difference in penetration rates between small and large firms (cross-firm divides), 2011-19



Note: High-speed broadband connection is defined for a download speed of at least 100 Mbit/s. Cross-country divides are country penetration rates, expressed as the percentage of enterprises with high-speed broadband connection in the country. Cross-firm divides are differences in penetration rates between small and large firms in the country. Data only cover enterprises with ten or more employees. Small firms employ 10-49 persons and large firms 250 and more persons.
Source: OECD (2021[34]), *Policy Highlights - The Digital Transformation of SMEs*, https://www.oecd.org/industry/smes/PH-SME-Digitalisation-final.pdf. Based on OECD (2021[33]), *OECD ICT Access and Usage by Businesses (dataset)*, http://stats.oecd.org/Index.aspx?DataSetCode=ICT_BUS (accessed on 30 Avril 2021).

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Among those that go digital, SMEs tend to limit transformation to basic functions, primarily general administration and marketing operations. Business surveys on ICT use show that the digital gap is smaller between SMEs and large firms in their online interactions with the government, in electronic invoicing or in using social media or selling online (OECD, 2021[2]). There are however significant differences across sectors in terms of intensity and patterns of digitalisation. In knowledge-intensive sectors, such as information and communication services, adoption rates are far higher: the OECD country median share of employees having access to devices with online connection is around 90%, compared to 50% across all sectors (OECD/Eurostat, 2020[35]). In fact, the adoption of a few key technologies in each sector is critical. In the accommodation and food services sector, high-speed broadband connection, having a website and using cloud computing (CC) to store files are the main technologies associated with higher value-added and larger digital gaps. In the wholesale sector, significant gaps exist in e-sales, CC to host databases and the training of ICT specialists, while in retail trade, e-sales and CC to manage customer relationships are the key areas of the digital divide. In the construction sector, these are having a website, the training of ICT specialists and equipping employees with connected and portable devices.

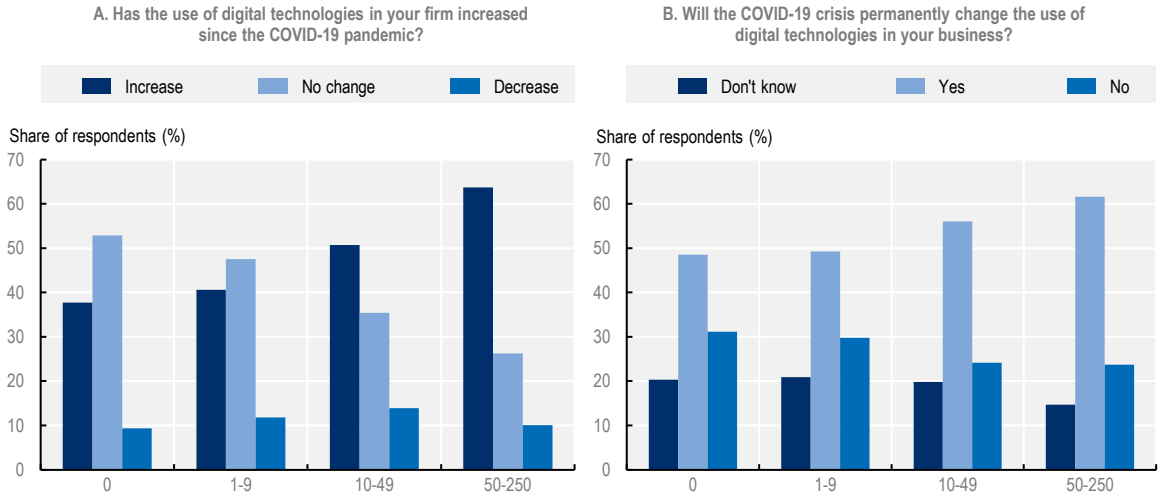
SMEs also tend to rely heavily on external sources and providers of digital solutions, external systems, support and advice (OECD, 2021[2]). This is partly to compensate for weak internal capacities but also on cost grounds. Digital platforms serve for optimising certain business functions. For managing digital security risks, SMEs tend to rely on external consultants or the security-by-design features of the products and services they use. They also source artificial intelligence (AI) solutions from knowledge markets and leapfrog to new AI systems with CC-based software as a service.

The COVID-19 crisis gave a big push to SME digitalisation and to (some forms of) innovation and entrepreneurship

The COVID-19 crisis has heightened the importance of SME digitalisation and served as an accelerator of digital innovation. Firms have moved operations on line to remain in business during lockdowns and overcome disruptions in supply chains, with online platforms playing an instrumental role in connecting users to new markets, suppliers or resources. Smart working solutions have bloomed with a view to tackling the almost total disappearance of face-to-face and onsite business activities. In professional and consulting services, where onsite visits could be an essential part of the job, the effects of social distancing have been sizeable. Early evidence from business surveys conducted worldwide in the course of 2020 point to an estimate of up to 70% of SMEs having intensified their use of digital technologies due to the COVID-19 pandemic (OECD, 2021[36]).

Figure 4.5. The crisis sped up SME digital uptake, especially among medium-sized firms, and changes are poised to last

Percentage of businesses reporting (Panel A) or foreseeing (Panel B) changes in the use of digital technologies, by number of employees



Note: Panel A: Share of respondents answering the question: "How has this businesses' use of digital technologies or platforms changed since the start of the COVID-19 pandemic?". Panel B: "Do you think the COVID-19 crisis is going to change the use of digital technologies permanently for this business?". The sample includes weighted data for OECD countries, with up to 250 employees. Only answers from respondents who were either owners or managers were taken into account. Respondents who skipped the questions (not applicable) were dropped.
Source: OECD calculations based on Facebook/OECD/World Bank (2020[3]), *Future of Business Survey* (December).

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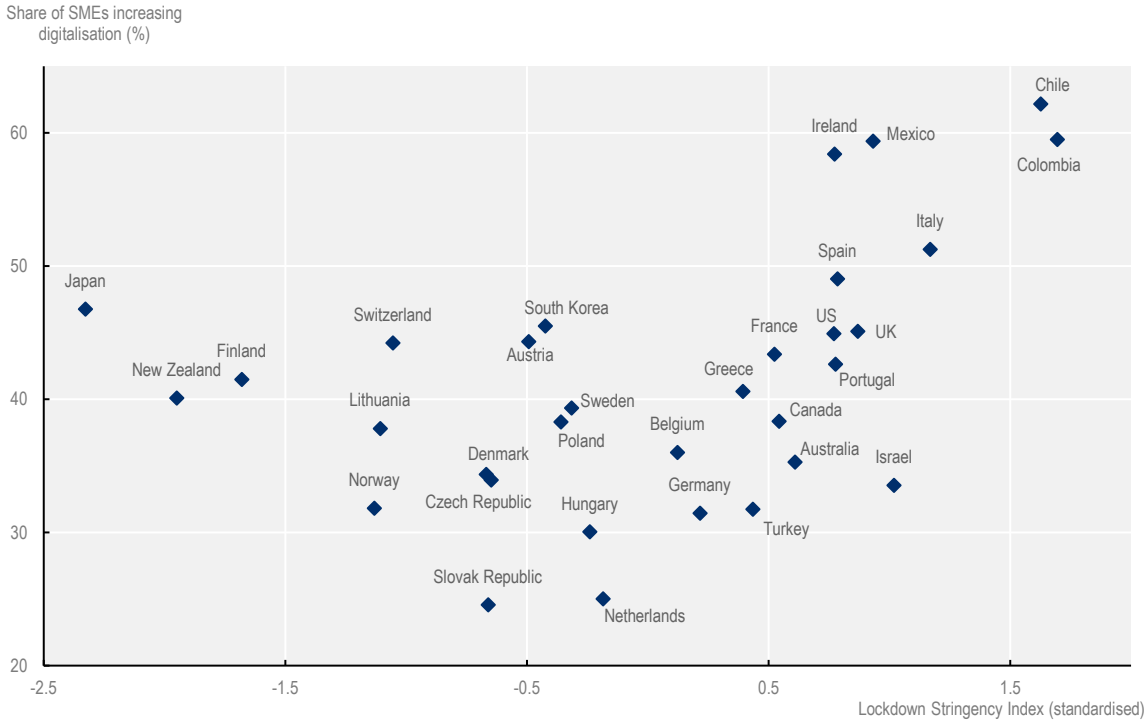
The crisis has accelerated SME digital uptake, especially among medium-sized firms. According to the new data of the Facebook/OECD/World Bank survey, 64% of medium-sized firms (50-250 employees) that were interviewed at the end of 2020 on their use of digital technologies or platforms reported having increased use since the beginning of the pandemic (Facebook/OECD/World Bank, 2020[3]). This value is higher than the shares for the self-employed (38%), micro firms (41%) or small firms (51%). Of particular concern, it appears that 53% of the self-employed and 48% of small firms did not take the digital wave at all, despite having already a digital presence. The same survey also confirms the importance of e-commerce during the crisis: SMEs making more than 75% of their sales on line were 15 percentage point more likely to maintain their income than SMEs making less than 25% of their sales online (Facebook/OECD/World Bank, 2020[37]) (Chapter 1).

The share of SMEs increasing their use of digital technologies was greater in countries with more stringent containment and social distancing measures. The stronger the measures, the stronger the pressure on SMEs to adopt new means of doing business (Figure 4.6). Chile and Columbia, which experienced very stringent lockdowns, saw around 60% of their SMEs increasing digital uptake in the period, significantly more than in countries with comparably softer lockdowns, such as Norway or the Slovak Republic, where only 32% and 25% of SMEs increased digitalisation respectively.

Figure 4.6. Where containment measures were more stringent, more SMEs went digital

Share of SMEs that increased digitalisation in 2020 (%) vs. the stringency of containment measures (index)



Note: The share of SMEs increasing digitalisation is the share of SMEs in a country that stated it did increase its use of digital technologies since the start of the COVID-19 crisis. The Lockdown Stringency Index is a standardised version (by country) of a Stringency Index, which is an aggregate indicator of the strength of different lockdown measures.
Source: OECD calculations based on Facebook/OECD/World Bank (2020[3]), *Future of Business Survey* (December) and data from the Oxford COVID-19 Government Response Tracker. Hale, T. et al. (2021[38]), "A global panel database of pandemic policies (Oxford COVID-19 Government Response Tracker)", http://dx.doi.org/10.1038/s41562-021-01079-8.

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Examples of SMEs going digital to deliver in the turmoil or adapting business models and work practices with new software, applications or cloud usage, are spread across countries and sectors including e-commerce, the leisure and entertainment industry, e-banking and mobile payment, e-learning and manufacturing, etc. (OECD, 2020[39]; 2021[2]). The OECD SME databank that gathers business cases of SME digital transformation provides examples of the resilience of digital and non-digital SMEs during the COVID-19 crisis (OECD, 2020[39]) (Box 4.2).

Box 4.2. SMEs going digital: Some business cases

The OECD SME databank that gathers business cases of SME digital transformation provides examples of the resilience of digital and non-digital SMEs during the COVID-19 crisis.

- *Circus Bakery* (France) launched a retail website 24 hours after the closure of its sole shop. Its website offers delivery and "click & collect" services, enabling the bakery to continue operating during the crisis.
- *Natoora* (UK), a wholesaler of fresh produce, has radically changed its business model from business-to-business (B2B) to business-to-consumer (B2C), because it could no longer sustain activities as a wholesaler to restaurants and businesses, many of which had to shut down due to containment restrictions. Using a newly launched website, the company has delivered its product to households and individual customers.
- *SkyTing Yoga* (United States) is a New York-based yoga studio. Earlier in 2020, the studio launched its digital platform, SkyTing TV, as a complementary service. This has become its main source of revenue along with a new offering in which the firm streams classes via Instagram for a donation using the payment platform Venmo.
- *Okoloco GmbH* (Germany) is a "one-stop-shop" for questions related to heating systems, implemented in Lower Saxony. Services include price comparison, installation, maintenance and repair. In response to the pandemic, the firm changed its business model to ensure that the entire client service can be delivered virtually. By digitising essential steps in the installation or maintenance of home heating systems, Okoloco GmbH has continued to grow throughout the pandemic despite lockdown regulations.
- *We Are Amsterdam* (the Netherlands) is a tourism SME that offers historical and cultural tours of the city of Amsterdam. In response to the local confinement regulations, particularly the travel restrictions halting international tourism, We Are Amsterdam introduced new digital elements to its offer. Throughout the pandemic, the firm ran virtual tours via videoconferencing platforms such as Zoom and launched an application for customers to explore and learn about Amsterdam interactively on their smartphones.
- *Relevance* (Monaco) is a digital marketing agency that adapted to the COVID-19 regulations by introducing a policy of teleworking for all employees. It adopted digital tools such as Slack (workplace messaging platform) and Monday.com (workflow management software) to assist in teleworking. Relevance was able to continue operations and produce output at a pre-COVID rate. After COVID-19 restrictions have eased, the company will continue offering partial teleworking as an option for its employees.

Source: OECD (2020[39]), *OECD Digital for SMEs Initiative (D4SME)*, http://www.oecd.org/going-digital/sme (accessed on 27 March 2020).

Costs have been the major impediment to digital uptake by SMEs during the crisis. The analysis of the Facebook/OECD/World Bank survey shows that all SMEs, irrespective of their size, name costs as the most important barrier to digitalisation (Facebook/OECD/World Bank, 2020[3]). Costs are especially an issue for the self-employed (61% see them as a barrier) and micro firms (59%) but less so for small enterprises (44%). Costs become an important barrier again for a majority of medium-sized firms (59%), possibly signalling a non-linear increase in the costs related to integration and organisational changes beyond a certain firm size.

Other barriers to digitalisation include a skills and awareness gap or integration challenges. For the self-employed and micro firms, all of these barriers, i.e. lack of awareness of tools, the difficulty of integration, and lack of skills, are similarly important and named by 20% to 30% of firms. For SMEs, the difficulty of integration is the second most important barrier after costs (named by 41% and 43% of respondents respectively). While the lack of awareness plays only a minor role for medium-sized firms (13%), it remains constraining for small firms (32%).

Accessing government and multiple forms of support has been associated with greater digital uptake during the crisis. SMEs that received government support are, on average, eight percentage points more likely to increase their levels of digitalisation than SMEs that did not receive support. The effect was 3 times as large for SMEs that received multiple types of support (18 percentage points more likely to increase digitalisation) as SMEs receiving financial support alone (6 percentage points more likely to increase digitalisation).[2] Despite the importance of cost barriers, results, therefore, highlight the relevance of combining financial and non-financial support (e.g. training) for overcoming barriers to adoption and suggest that policy mixes for digital uptake by SMEs requires a holistic and polymorph approach.

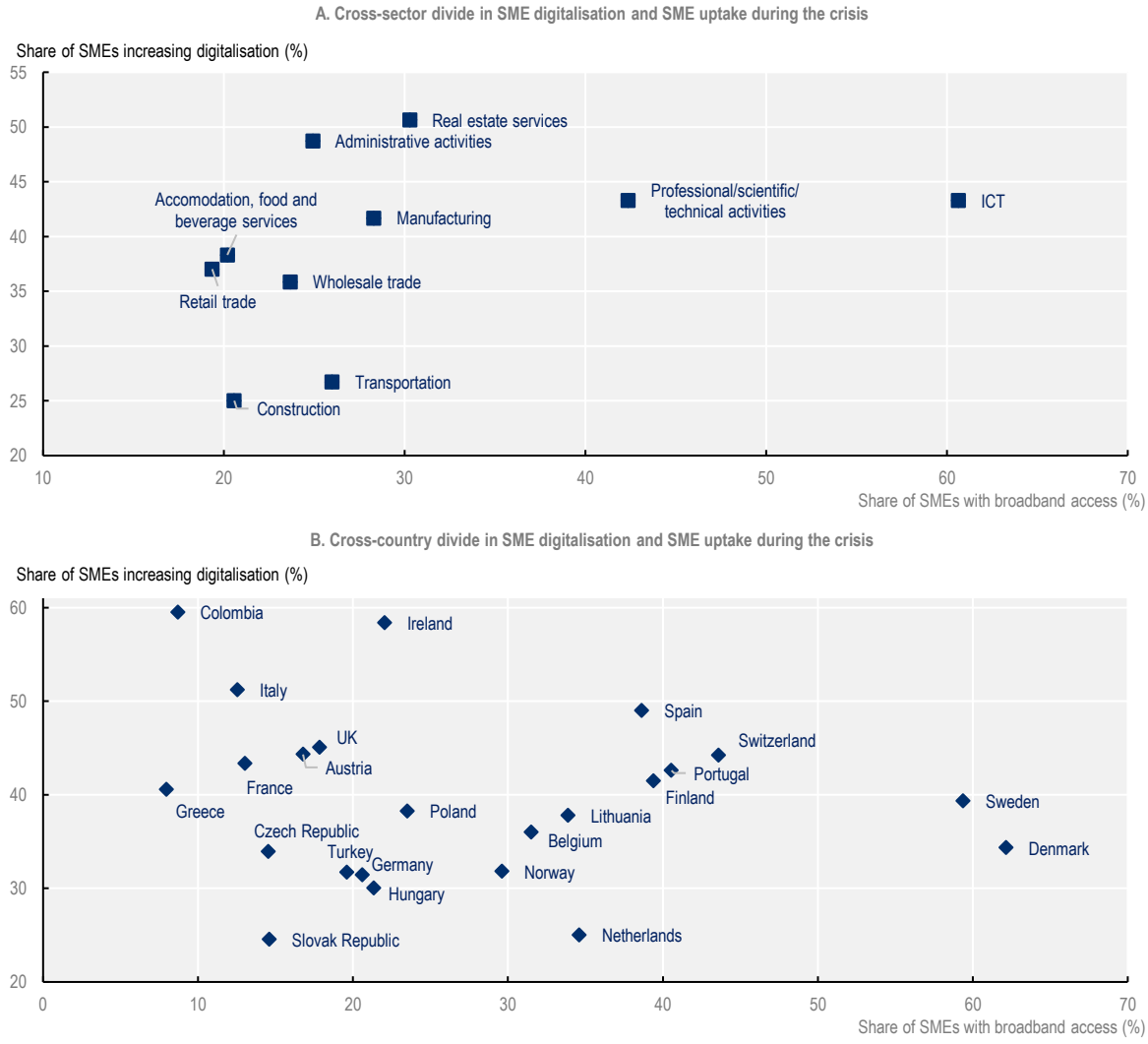
The crisis has further widened the digital gap between SMEs across sectors. SMEs in sectors where digitalisation was already well advanced before the crisis, as measured by the share of SMEs in the sector with a high-speed broadband connection in 2019,[3] show a substantially higher share of SMEs that report having increased their use of digital tools during the COVID-19 pandemic (Figure 4.7, Panel A).[4] This is the case in the ICT sector. Conversely, SMEs in low-digital sectors, such as construction or transportation services, have experienced a lower degree of transformation during the crisis.

The crisis has however contributed to narrow the SME digital divide across countries. Digital uptake by SMEs has been higher in some countries with initially lower broadband penetration rates (Figure 4.7, Panel B). Colombia, Ireland or Italy entered the crisis with a lower share of SMEs connected to high-speed broadband and showed a very fast SME digital uptake during the crisis. Conversely, in countries starting at similar levels of broadband penetration rates such as the Czech Republic, Hungary, the Slovak Republic or Turkey, fewer SMEs have undergone a digital transformation. Likewise, several countries with higher initial levels of connectivity – such as Portugal, Spain or Switzerland – have also experienced a faster digital transition among SMEs.

Public interventions have been determinant in speeding up SME transformation and narrowing the digital gap. Overall, those countries where SMEs managed to narrow the initial digital gap with their peers in other countries have provided a higher amount of fiscal support (in proportion to gross domestic product [GDP]) in emergency response measures as they were going through stricter containment conditions.

During lockdowns, businesses and people increasingly turned to online platforms to pursue economic activities. Based on a dataset of about 1 400 online platforms active in OECD and G20 countries, a recent OECD study shows that the use of online platforms increased by about 20% in the first half of 2020 in areas requiring little or no physical proximity for product and service delivery (OECD, 2021[40]). This is the case in mobile payments, marketplaces to consumers, professional services and restaurant delivery. On the contrary, in areas requiring physical proximity (such as accommodation, restaurant bookings and transport), platform activity declined markedly, by around 90%.

Figure 4.7. The crisis may have enlarged cross-sector divides but reduced cross-country divides in SME digitalisation



Note: The share of SMEs increasing digitalisation is the share of SMEs in a sector/country that stated that it increased its use of digital technologies since the start of the COVID-19 crisis. The share of SMEs with broadband access is the share of SMEs in a specific sector/country with broadband access of at least 100 Mbit/s download speed. The choice of a high-speed broadband connection as an indicator of overall digitalisation is based on a prior statistical analysis of the digital uptake by SMEs that shows broadband access as the primary explanatory variable of digital gaps across countries and sectors (OECD, 2021[2]).

Source: OECD calculations based on Facebook/OECD/World Bank (2020[3]), *Future of Business Survey* (December 2020) and OECD (2021[33]), *OECD ICT Access and Usage by Businesses (dataset)*, http://stats.oecd.org/Index.aspx?DataSetCode=ICT_BUS (accessed on 30 Avril 2021).

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SMEs increased their use of platforms during the crisis, especially for selling and notably if they were already active on platforms before. The Facebook/OECD/World Bank survey shows that 39% of firms that used platforms before the crisis increased use during the crisis, as compared to only 5% that reported having started during the crisis (Facebook/OECD/World Bank, 2020[37]). Primary purposes of use include communication (67%), advertising (61%) and sales (48%). However, SMEs selling on platforms have a

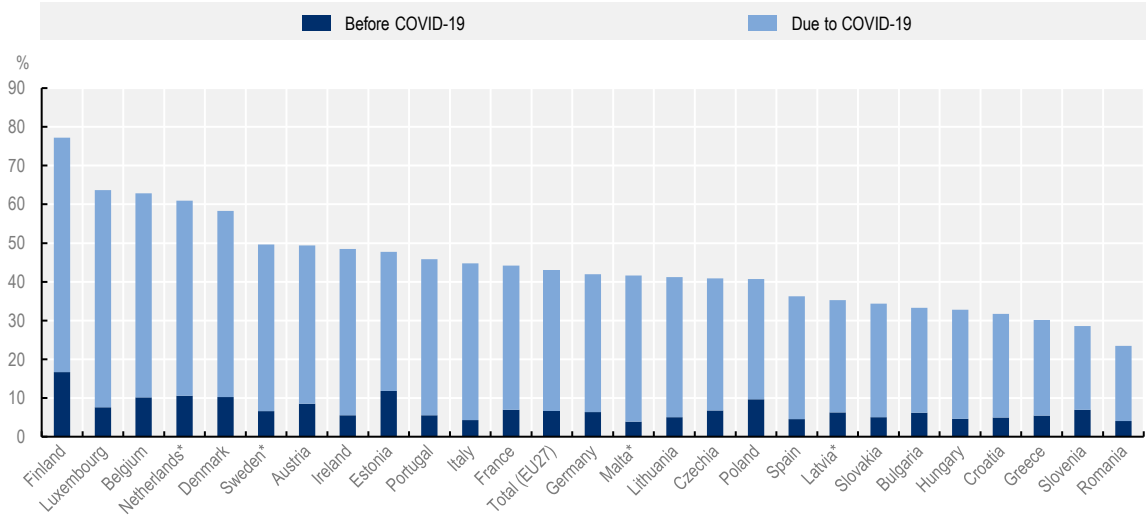
higher probability of increased platform use during the pandemic and are more likely to report a positive impact not only on sales but also on costs.

The smallest SMEs, however, face barriers on platforms. Platforms help smaller firms unlock the benefits of network effects, e.g. by leveraging a large user base to increase outreach and reduce transaction costs and information asymmetry, or by accessing the digital services proposed by the platform at very low costs (OECD, 2021[2]). However, the fees charged by the platform still seem to be a binding constraint to further adoption, especially for smaller firms. About 30% of the self-employed and micro firms report fees as a challenge to expanding platform use, as compared to 26% of small and 23% of medium-sized firms.

Levels of telework have skyrocketed during the pandemic (Figure 4.8) (OECD, 2021[2]). Survey data from the European Foundation for the Improvement of Living and Working Conditions show a striking increase in the share of respondents who started working from home because of the pandemic. In addition, the intensity of teleworking adoption varies significantly across people, places and industries. The lower-educated, the oldest rural areas and small towns, frontline sectors such as health, transport and agriculture, and sectors with a large share of place-dependent employment such as commerce and hospitality were less likely to work from home (Eurofound, 2020[41]).

Figure 4.8. Levels of telework have skyrocketed

Share of respondents who started to work from home before the pandemic and because of it, as compared to the share of respondents who worked from home several times a month before



Note: The data show the share of EU27 respondents answering "yes" when asked "Have you started to work from home as a result of the COVID-19 situation?" and the share of respondents answering "several times a month" when asked "How frequently did you work from home before the outbreak of COVID-19?". * : Lower reliability.
Source: Eurofound (2020[42]), "Living, working and COVID-19 dataset, Dublin", http://eurofound.link/covid19data.

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A collective impulse has been given to SMEs to go digital faster. Initiatives in support of SME digitalisation have sprung up worldwide and across all sectors, starting with the private sector, SMEs and start-up themselves, as well as business associations (OECD, 2020[39]). Players in the digital industry have also deployed services, support schemes and assistance for SMEs to remain in business (Box 4.3). Some of them have focused on providing free access to "learning platforms" for SMEs willing to expand their online presence, transition towards remote working or enhance digital security. These "learning platforms" include

blogs, videos, fora as well as specific training (usually tailored to the level of experience and understanding of the entrepreneur). Most of these services only require the SME to register, although they also involve using the proprietary technology and commercial tools of the industry actor that is offering its support.

Box 4.3. A collective impulse to help SMEs go digital

Initiatives in support of SME digitalisation have sprung up worldwide and across all sectors, starting with the private sector, SMEs and start-up themselves, as well as business associations. For instance:

- *Digital Team Austria* is a private initiative of companies of the technology industry that have committed themselves to offer services to SMEs free of charge for at least three months.
- *European DIGITAL SME Alliance*, Europe's largest association of digital small firms and entrepreneurs, launched a campaign in order to showcase innovative digital solutions to mitigate the COVID-19 crisis. In addition, the alliance launched a platform that allowed traditional or non-technological SMEs to have access to a catalogue of digital solutions that could assist in their recovery or response to the crisis. These solutions were diverse, from smart working or video conferencing tools to 3D printing, e-learning and AI-modelling technologies. The platform was designed to promote SMEs supplying digital services and solutions in the ecosystem, competing with larger technology firms.
- As part of Australia's *Small Business Digital Champions* project, 15 Australian industry associations received AUD 50 000 each over a period of 2 years to establish a digital advisory service in response to the COVID-19 pandemic. These industry associations promoted the benefits of going digital to their association membership. This included advice on technology trends and adoption, digital training, online content development and planning, and coaching and support. As well as sector-specific digital advice, the sector associations offered general business advice to support small firms throughout the pandemic.

Some actors of the digital industry have focused on providing free access to "learning platforms" for SMEs willing to expand their online presence, kickstart or strengthen their e-commerce operations and attract new customers, transition towards remote working or enhance digital security. For instance:

- *Wix*, an Israeli software company providing cloud-based web development services, built the Online Volunteer Call Center system in co-operation with the Israeli Ministry of Finance and Welfare. The call centre is a web application proposing a volunteer interface, an online call centre and report monitoring. It aims to help the government answer the needs of citizens, including entrepreneurs and small business owners, throughout the COVID-19 crisis. The Online Volunteer Call Center can be integrated into all types of government systems worldwide and is offered without cost.
- *Amazon*'s country-tailored services, such as Quickstart Online in Germany and Accelera in Italy, aim to support those willing to engage in e-commerce in large European Union (EU) countries.
- *Facebook*'s Business Resource Hub brings together several Facebook initiatives in support of small businesses.

The crisis also brought examples of entrepreneurship and small business creativity in coping with the crisis, often as a direct response to urgent societal needs, e.g. medical devices, disinfectants, liquidity solutions (OECD, 2020[39]; 2020[43]) (Box 4.4).

Box 4.4. Small business creativity in times of COVID-19: Some business cases

Some small businesses have also been proactive in developing solutions, often digital-based and in response to urgent crisis needs.

- *Baltics 3D* (Latvia) is a start-up specialised in 3D printing that developed a model for printing integral masks for healthcare professionals. The start-up built a decentralised supply chain across the country, involving local manufacturers, e.g. in the metallurgical industry, or advertising agencies, that were located in cities hosting the largest hospitals of the country and that had the ability to develop the necessary parts. The 3D printing model and the supply chain made it possible to deliver rapidly masks to health professionals across the country.
- *Ariniti* (Belgium) is a health technology start-up that used AI to create Healthbots and provide people potentially infected with COVID-19 with advice or recommendations depending on their symptoms. This self-assessment tool was created in co-operation with Microsoft. Throughout the pandemic, Healthbots were developed further, to streamline the onboarding process of patients in hospitals.
- *ThePowerHouse GmbH* (Portugal) is a textile SME that responded to the COVID-19 crisis by digitising cutting patterns for face masks. ThePowerHouse posted these patterns on line under the creative commons license in order to allow anyone to create their own face masks. ThePowerHouse developed specific software to enable designers to turn their artworks into a digital pattern and be printed on textile.
- *VaccineGuard* is a software developed by *Guardtime* (Estonia), a digital platform that shares vaccination certificates secured on the blockchain. VaccineGuard was established to assist the World Health Organization (WHO) and the Estonian government in carrying out an effective vaccination programme and track the individual's vaccination status while considering personal privacy.

Source: OECD (2020[39]), *OECD Digital for SMEs Initiative (D4SME)*, http://www.oecd.org/going-digital/sme (accessed on 27 March 2020).

Social economy, social enterprises and social innovation initiatives have blossomed. Social enterprises prioritise their social impact over profit and contribute to improving the welfare and well-being of individuals and communities. They are major actors behind social innovation, albeit not the only ones (Box 4.5). According to the Social Enterprise: Market Trends Report (2017), nearly 9% of the UK small business population are social enterprises (SEUK, 2020[44]). There are an estimated 471 000 UK social enterprises overall, made up of 99 000 social enterprises with employees and 371 000 social enterprises with no employees. Social enterprises employ roughly 1.44 million people, the majority of these are employees, the remainder are working owners and partners. Twenty-two percent of the UK small business population (or 1.21 million enterprises) are identified as socially-oriented SMEs, i.e. SMEs that have social and environmental goals but do not use surplus/profit chiefly to further these goals.

Box 4.5. Social entrepreneurship, social enterprises and social innovation

Social entrepreneurship is often defined as the process through which specific types of actors, "social entrepreneurs", create and develop organisations that may be either social enterprises or other types of organisations (Defourny and Nyssens, 2008[45]; Mair and Marti, 2006[46]). Social entrepreneurship includes a broad set of initiatives with a social impact, ranging from for-profit to non-profit organisations

(Huybrechts and Nicholls, 2012[47]; OECD, 2010[11]). Social enterprises are only a subset of this field in which commercial models are used as the vehicle to achieve social objectives (Nicholls, 2006[48]; Thompson, 2008[49])

Social enterprises are identified as "any private activity conducted in the public interest, organised with an entrepreneurial strategy, but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment" (OECD, 2010[50]). More recent OECD analysis underlines that social enterprises are characterised by a more pronounced entrepreneurial approach, their source of income coming primarily from commercial activities, rather than grants and donations (OECD, 2018[51]).

Social enterprises prioritise their social impact over profit. For example, in Europe, social enterprises are very often associated with a "different way" of doing business ("*entreprendre autrement*"), whereas in the United States, they usually refer to non-profit organisations that develop "earned income strategies" to generate revenue to finance their social mission. They are active in a broad range of sectors: integration of the unemployed or excluded populations, care, education, community development, environment and energy, social housing, etc.

They can have various legal forms, such as an association, co-operative, foundation, mutual society or company. Some countries have adopted legal frameworks and regulations (e.g. Belgium, France, Italy, Spain) to recognise social enterprises, allowing them to take different legal forms or statuses/qualifications (e.g. *Société d'impact social* in Luxemburg; ESUS Agreement in France; Social Enterprise Mark in the UK; *Gütesiegel für Soziale Unternehmen* in Austria). In Austria, the Social Entrepreneurship Network Austria (SENA) issues a certificate for its members to attest that they are a social enterprise according to a set of criteria, which are co-ordinated with those of Germany and at the EU level. Other countries have decided not to adopt specific legislation (e.g. the Netherlands, Sweden) and have instead implemented strategies and action plans to identify and promote social enterprise development.

Beyond national regulations, social enterprises share a number of common features which include *inter alia* autonomy and independence from the public sector, limited profit distribution, an explicit aim to benefit the community, decision-making power not based on capital ownership, a broad or distributed democratic governance structure and multi-stakeholder participation, etc.

Social innovation is about designing and implementing new solutions that imply conceptual, process, product or organisational change which ultimately improve the welfare and well-being of individuals and communities (OECD, 2000[52]). Although social entrepreneurs often adopt socially innovative approaches, they do not have a monopoly on social innovation. Social innovations can also be developed in the public, non-profit or traditional business sectors (OECD, 2010[11]; 2019[1]).

Source: Defourny, J. and M. Nyssens (2008[45]), "Social enterprise in Europe: recent trends and developments", https://doi.org/10.1108/17508610810922703; Mair, J. and I. Marti (2006[46]), "Social entrepreneurship research: a source of explanation, prediction, and delight", https://doi.org/10.1016/j.jwb.2005.09.002; Huybrechts, B. and A. Nicholls (2012[47]), "Social entrepreneurship: Definitions, drivers and challenges", https://doi.org/10.1007/978-3-8349-7093-0_2; OECD (2010[11]), "SMEs, Entrepreneurship and Innovation", https://doi.org/10.1787/9789264080355-en; Nicholls, A. (2006[48]), Nicholls, A. (2006), *Social Entrepreneurship: New Models of Sustainable Social Change*, Oxford University Press; Thompson, J.L. (2008[49]), "Social enterprise and social entrepreneurship: Where have we reached? A summary of issues and discussion points", https://doi.org/10.1108/17508610810902039; OECD (2010[50]), "Social Entrepreneurship and Social Innovation", https://doi.org/10.1787/9789264080355-50-en; OECD (2018[51]), *Job Creation and Local Economic Development 2018: Preparing for the Future of Work*, https://doi.org/10.1787/9789264305342-en; OECD (2019[1]), *OECD SME and Entrepreneurship Outlook 2019*, https://dx.doi.org/10.1787/34907e9c-en; OECD (2000[52]), "OECD LEED Forum on Social Innovations", https://www.oecd.org/regional/leed/social-innovation.htm#:~:text=In%202000%2C%20the%20OECD%20LEED,set%20of%20socially%20innovative%20initiatives.

Social economy organisations and social enterprises have turned into important actors in mitigating the effects of the pandemic. They have not only supported governments by addressing sanitary issues but have provided innovative solutions to complement government action. They are also serving as a trusted partner for a better allocation of resources in the provision of the goods and services needed (Box 4.6) (ILO, 2020[53]; OECD, 2020[4]).

Box 4.6. Social economy and innovation in times of COVID-19: Some business examples

- *Good Wash Company (Wales, UK*), a social enterprise specialised in manufacturing soap and luxury beauty products, has been using its profits to set up projects in order to reduce inequalities and improve animal welfare. Since the offset of the crisis, the company has been working with volunteers to deliver good wash packages to the workers of the Welsh National Health Service, handing over 3 000 packages in their first week. The company is also providing products to food bank drop-offs and local charities.
- *Masques-Coronavirus.Brussels* (Brussels-Capital Region, Belgium) is one example of a social economy initiative that brought rapid solutions to the shortage of personnel protective equipment. EcoRes, an innovation lab specialised in the circular economy, co-ordinated the project to establish a collaborative and decentralised production line of masks. Students from a professional fashion design school designed the mask pattern and conducted a tutorial on the design. Travie, a work integration social enterprise that employs people with disabilities, pre-cut and prepared mask kits. Urbiketo delivered the kits. A network of volunteering citizens sewed the masks according to quality standards. More than 2 000 people were involved in the production of 240 000 reusable masks for frontline caregivers in one and half month.

Source: OECD (2020[4]), "Social economy and the COVID-19 crisis: Current and future roles", http://www.oecd.org/coronavirus/policy-responses/social-economy-and-the-covid-19-crisis-current-and-future-roles-f904b89f/ (accessed on 12 March 2021).

If the COVID-19 shock has accelerated the development and uptake of digital solutions and platforms, it has also raised concerns about market concentration and the risks of abuse of market power. Amidst the crisis, GAFAM recorded exceptional results for 2020. Google consolidates its global leadership on online advertising, increasing profits by 50% over the second half of the year. Despite a drop in tourism advertising revenues, the company grew its revenues from CC services and its YouTube platform (La Tribune, 2021[54]). Apple has passed the threshold of USD 2 000 billion of market capitalisation, the results of the company benefitting from the uptake of teleworking during the pandemic, which largely compensated the losses due to the closure of its shops (Reuters, 2021[55]). Amazon has doubled its profits over the last trimester of 2020 only, as "brick and mortar" shops were closed or circumvented by customers. In addition to the boom in e-sales, Amazon owes its historical performance to a fast increase in the uptake of Amazon Web services (Amazon, 2021[56]). Microsoft saw a big surge in the use of Microsoft Teams at the beginning of the pandemic, which has maintained over the following months (The Verge, 2021[57]). In October 2020, Microsoft reported 115 million daily users, i.e. a more than 50% increase as compared to 6 months before.

More broadly, multinationals with a strong digital presence saw their stock market returns surge during the turmoil (OECD, forthcoming[5]). As an example, the big commercial brands of the retail trade have been able to shift part of their sales and turnover towards their own website as their physical stores closed (La Tribune, 2021[58]).

Some changes of the digital transformation are poised to last given the irreversible investments made and demonstrated gains. Among those that have increased use of digital technologies and platforms during the pandemic, the self-employed (63%), micro firms (64%) and small firms (69%) alike declared these

changes to be permanent (Figure 4.5). Seventy-eight percent of medium-sized firms (up to 100 employees) also anticipate the transformation to be permanent. Similarly, 78% of employees interviewed in July 2020 indicate an inclination for working from home at least occasionally if there were no COVID-19 restrictions, with a preference for a frequency of several times a week (Eurofound, 2020[41]). As e-commerce (e.g. social media, e-sales) is an entry point for firms to step in the digital journey (OECD, 2021[2]), the crisis may have helped millions of SMEs gain years in the transformation process.

Figure 4.9. Stock market returns surged for firms with a strong digital presence

Stock market return index

Note: Stock market indices allocate each one of the 500 companies within the OECD ADIMA on Multinational Enterprises to high or low digitalisation based on the cumulative page rank of the websites identified as belonging to the company within the ADIMA Digital Register. Data are controlled for the economic sector determined by the Refinitiv Business Classification (TRBC). The most digitalised 50% of market capitalisation is classified within the "high digitalisation" index.
Source: OECD (forthcoming[5]), "Spurring growth and closing gaps through digitalization in a post-COVID world: Policies to LIFT all boats", Economics Department, OECD Publishing, Paris. OECD calculations based on OECD (OECD, 2020[59]), *Measuring Multinational Enterprises*, https://www.oecd.org/sdd/its/measuring-multinational-enterprises.htm.

StatLink https://doi.org/10.1787/888934250307

However, this accelerated digitalisation has also revealed risks and vulnerabilities for the SME and entrepreneur population. In particular, the COVID-19 crisis has been an opportunity for malicious actors to intensify cyberattacks, taking advantage of a greater reliance on digital technology and communication infrastructure and SME vulnerabilities. Operators of telecommunications and broadband services have experienced as much as a 60% increase in Internet traffic compared to before the COVID-19 crisis (OECD, 2020[60]). SMEs were not well prepared to face sophisticated attacks, with poorer digital security risk management practices and a lack of awareness of the risks and losses incurred (OECD, 2021[2]).

In addition, former barriers to SME digitalisation remain, in terms of awareness, the skills needed (for both managers and workers), solutions to bridge the investment gap, legal uncertainty, technological lock-ins, weak data culture and data management practices, reputational risks in case of dispute, etc. (OECD, 2021[2]). For instance, the increased reliance on ICT infrastructure has stressed the need to bridge the digital connectivity gap faster and extend high-speed and quality broadband to all places, firms and people. Looking forward, abyssal inequalities may arise between those that have a digital profile and those that have not, undermining the prospects of a fair and sustainable recovery.

It is too early to say if these innovation activities may lead to higher productivity, business growth and job creation. It is also too early to say whether the change in business practices will be sustained over time and what their impacts in terms of economic and societal benefits will be. It is also too early to assess the negative impact of the crisis on innovation investments. For instance, Lithuania has initiated research on how the COVID-19 crisis would affect corporate investments in research and development (R&D) and innovation (EU/OECD, 2021[61]). Forty percent of companies are planning to reduce their investment in research, development and innovation (RDI) and 56% to maintain them at the same levels. Only 3% of respondents are planning an increase, which reflects a negative tendency as compared to 2019 when 17% had increased them. However, it is very likely that the very specificities of the crisis may have favoured some forms of innovation more than others. Backing on this momentum will be important for the recovery phase, as well as shifting creativity away from immediate crisis solutions towards more future-oriented problem-solving.

Digitalising, reskilling and greening to build back better

Governments have been proactive in helping their SMEs transition towards the digital space, either expanding or accelerating the implementation of existing programmes or implementing new ones (OECD, 2021[2]). From e-government services to incentives for digital uptake, reskilling, reinforcing the digital security and infrastructure, better connecting SMEs with innovation networks and digital solutions providers, governments have put in place a large range of action, also targeting the entry points to the SME digitalisation, i.e. e-commerce, use of social media and interaction with the government. The following country examples are drawn from OECD (2021[62]), (2021[2]), (2021[63]) and (2020[64]) in their respective fields, or otherwise stated.

E-government services have been strengthened to improve and speed public services delivery. Digital instruments, such as government portals, have been used to improve transparency, provide information and access, and ease the interaction with SMEs (OECD, 2021[2]). Innovation in public services, fostered by the crisis, represents an important opportunity to build stronger regional resilience, as the digital transformation of public administration encourages the transformation of SMEs and these innovations enhance a region's ICT and technological environment (OECD, 2020[65]).

Several countries have introduced broad measures to support SMEs in moving operations online. Policy makers have offered SME-targeted financial support and technical assistance in conducting technology and problem-solving diagnosis or implementing e-business solutions, often in the form of small-scale and place-based initiatives (OECD, 2021[2]). In some cases, financial and technical support is supplemented with training and guidance on the skillset and organisational changes that are required to support technological change. In some cases, initiatives are implemented in co-operation with the business sector. In some cases, policy action is designed at the sectoral level (Box 4.7).

Box 4.7. Encouraging digital uptake by SMEs: Some country examples

- **Australia** announced in September 2020 a package of AUD 800 million to remove outdated regulatory barriers, boost the capability of small businesses and back the uptake of technology across the economy. The measures include spending AUD 29 million on the rollout of 5G high-speed Internet and AUD 28.5 million to promote open banking, where customers can shop around for financial services with their own data. It also includes AUD 6.9 million to test the use of blockchain to cut compliance costs.
- SME.DIGITAL is an initiative of the **Austrian** Federal Ministry for Digital and Economic Affairs that aims to support SMEs in their digital transformation. Since September 2017, more than

15 000 consulting and implementation projects have already been supported. The programme consists of two modules. The first provides consulting services regarding the focus topics business models & processes, e-commerce and online marketing, IT and cybersecurity as well as digital administration. The second funds the implementation of the concepts developed with consultants within the first module, providing grants of up to 30% of the investment costs for new tangible and intangible goods.

- In November 2020, **France** earmarked EUR 100 million to support small business in building up online operations. In addition, the government platform FranceNum, launched in 2018 to connect SMEs willing to digitalise with a network of specialised consultants, became a platform for live information on support initiatives from national and local governments, and the private sector. To increase its reach, a daily radio show discusses upcoming digital trends.
- **Slovenia** supports SMEs through the Digitalisation and Digital Transformation Programme, which provides vouchers of up to EUR 10 000 for strategy formation, digital marketing development, enhancing digital competencies or digital security development. The digital transformation one-stop-shop (DIH Slovenia) also provides guidance on digitalisation processes and staff training.
- In **Austria**, all nine *Bundesländer* set up aid packages for SMEs that complement and expand the measures taken by the federal government. These include the coverage of infrastructure costs to switch to telework (Styria's new Telearbeit!Offensive support programme) and the digitalisation of SMEs (e.g. digital.tirol).
- **New Zealand** announced the Tourism Recovery Fund, an NZD 400 million initiative to support the recovery of the tourism industry, with targeted support for SMEs to facilitate their digitalisation. This scheme extends the provision under existing initiatives, by providing access to specialist advice and training.
- In **Turkey**, the Small and Medium Enterprises Development Organisation KOSGEB has focused the KOBİGEL/SME Development Support Programme for the 2021 call on the digitalisation of SMEs in the manufacturing industry. Projects aim to help SMEs in the sector adapt their production and business processes with digital technologies, such as data mining, CC, the Internet of Things, AI, etc. USD 38 million were provided to SMEs.

A special focus has been given to promoting e-commerce and helping SMEs sell on line (Box 4.8).

Box 4.8. Enabling SMEs to sell on line: Some country examples

- **Austria** launched the SME.E-Commerce initiative to drive the digitalisation of SMEs towards online trade. In 2021, the programme will provide EUR 10 million to support the implementation of specific e-commerce projects *(*grants amount to 20% of the project costs).
- **Canada** initiated the Go Digital Canada Initiative in co-operation with Shopify to help small business sales grow online, through free training courses and the use of digital marketing channels.
- **Ireland** implemented the digital Trading Online Voucher scheme for a total of EUR 3.3 million (USD 4 million). Microenterprises can get a EUR 2 500 voucher for online training.
- **Malaysia** launched the e-commerce campaign jointly with 20 e-commerce platforms to provide e-commerce onboarding training facilities, as well as sales support services to SMEs.
- **New Zealand** created a "revive & thrive" tool accessible from its business.govt.nz platform to give businesses access to tailored support and information on how to do commerce digitally.

This resource provides case studies and information on the different options for e-commerce, attracting online customers, customer engagement and improving customer experience. There is also a self-assessment tool for businesses to track and monitor their ability to use online platforms effectively.

Special policy attention has aimed to enable teleworking. Typically, national governments took framework measures to enable work from home (OECD, 2020[6]). Options ranged from introducing brand new or adapting pre-existing regulations, to issuing guidelines or other quasi-legal tools. Several national governments set up online platforms to make digital services offered by large IT providers accessible to all. Regional and local governments, in turn, focused on building the capacities to increase teleworking uptake. Several of them prioritised offering information and training services. Others started drawing long-term plans for a broader diffusion of teleworking on a permanent basis. Lastly, various governments, mostly regional, designed financial support schemes to foster uptake by SMEs, typically by subsidising investments in digital tools and skills (Box 4.9).

Box 4.9. Enabling teleworking and smart working in SMEs: Some country examples

- **Argentina** introduced a finance line of USD 8.6 million (ARS 532 million) for SMEs to use specifically on teleworking.
- **Chile** changed the Labour Code regulating teleworking in order to address regulatory barriers and give flexibility to both employers and employees to adopt or stop teleworking. It also gives employees the right to "total disconnection" of 12 hours within a 24-hour window.
- **New Zealand** launched in December 2020 a government-funded Digital Boost skills training and support initiative, in partnership with the private sector, to support thousands of small businesses in realising the benefits of using digital tools and technologies in their business.

Massive reskilling is needed. Existing measures for the training and skills development of SMEs have been expanded or new ones have been launched. Measures to retain employees and competencies, or rehire them, have been deployed as well (Box 4.10).

Box 4.10. Helping SMEs reskill or retain competencies: Some country examples

- **Australia** adjusted its national My Skills programme that subsidises upskilling, reskilling and vocational training. The support includes up to AUD 5 000 (USD 3 750) for hiring a new apprentice, up to AUD 1 500 (USD 1 125) reimbursement for equipment and services including online training when businesses hire new apprentices, or travel accommodation allowance associated with hiring an apprentice from rural or regional South Australia. Furthermore, in October 2020, the government provided an additional AUD 1.2 billion (USD 900 million) to create 100 000 new apprenticeships and traineeships, with a 50% wage subsidy for businesses that employ graduates.
- **Austria** started a qualification offensive to strengthen companies in their digitalisation and innovation agendas. The aim is to systematically develop and expand the competencies of companies and of their employees in the areas of research, technology, development, innovation and digitalisation. In addition, the programme supports knowledge transfer and the co-operation between science and industry.

- **Germany** has designed the programme Digital Now – Investment Funding for SMEs, running until 2023, to provide financial grants and encourage SMEs to invest more in digital technologies and in the upskilling of their employees. Applying SMEs must present a digitalisation plan to invest in either software/hardware or employee training.
- **Singapore** is subsidising absentee payroll for employees taking training (up to 90% of their hourly basic salary) through the Skills Future Singapore initiative. This initiative especially targets the food service and retail sectors.
- **Turkey** gives strategic importance to spread the entrepreneurial culture and ecosystem and provides entrepreneurship training. To address rising demand, since 2019, KOSGEB has established a platform called E-Academy that gives access to free online training. Beneficiaries can also access the Entrepreneurship Support Programme, with preferential treatment for women, youth and handicapped entrepreneurs. Additional activities are carried out to ensure the visibility of the programme through KOSGEB directorates and raise the awareness of women and youth.
- The **UK** introduced the Kickstart Scheme in September 2020, a hiring subsidy to incentivise businesses to hire young workers (from 16 to 24 years old). The scheme covers 100% of the national minimum wage for 25 hours per week for 6 months, and additional funding is provided for their training.
- **British Columbia, Canada**, has developed StrongerBC, an economic recovery plan that introduces new supports for businesses to reopen, adapt, hire, rehire and grow. Support includes *inter alia* a new Small and Medium Sized Business Recovery Grant and a 15% Increased Employment Incentive tax credit

Initiatives have aimed to reinforce digital security in SMEs and improve the digital infrastructure (Box 4.11).

Box 4.11. Reinforcing digital security and infrastructure: Some country examples

- **Australia**'s Cyber Security Strategy includes policy instruments that specifically target SMEs as a vulnerable group. The Australian Cyber Security Centre (ACSC)'s strategy for SMEs features simplified technical terminology to enable smaller firms to understand digital security threats. It focuses on software solutions, skills and pragmatic procedures. It offers tailored tool kits (e.g. to assess digital security maturity levels) and grants for SMEs to spend on private-sector cyber security firms. In addition, the ACSC strategy for SMEs works with other actors in the ecosystem, matchmaking between digital security providers and SMEs. There is a local dimension to the strategy through regional hubs that act as intermediaries and offer face-to-face consultation (OECD, 2020[39]).
- The **UK**'s Digital Access Programme CyberSafe Foundation aims to equip 1 500 SMEs with knowledge and skills to identify and defend themselves from COVID-19-instigated cyber threats. In addition, the UK Centre for the Protection of National Infrastructure has developed a series of security awareness campaigns, designed to provide organisations and SMEs with a complete range of materials.
- The **European Commission** (EC) has deployed EUR 1.6 million (USD 1.9 million) for open calls to finance experiments in cyber-physical systems to incentivise the creation of further innovative tools for SMEs.

Source: OECD (2020[39]), *OECD Digital for SMEs Initiative (D4SME)*, http://www.oecd.org/going-digital/sme (accessed on 27 March 2020).

Governments serve as facilitators in connecting SMEs with innovation and knowledge networks and digital solutions providers, sometimes with a sectoral approach. SMEs tend to rely on external systems and external sources of digital solutions, support and advice for digitalising their operations, and compensate for weak internal capacities but also on cost grounds (OECD, 2021[2]). However, a key challenge for many of them is to identify and connect to appropriate knowledge partners and networks at the local, national and global levels. Barriers include problems inherent to the interactions between SMEs and the actors of the digital industry, lack of networking facilities, asymmetric information (e.g. when potential users may not be aware of the digital technologies and innovations available, or the benefits they could bring them), etc. Governments intervene to address these system failures (Box 4.12).

Box 4.12. Connecting SMEs with innovation networks and digital solution providers: Some country examples

- At the **EU** level, the Digital Innovation Hub Network allows the digital hubs active in the 27 member states to share best practices on how to support the digital transformation of SMEs and improve their resilience. Key areas of interest include delivery and payment solutions, digital business protection and digital collaboration support for SMEs.
- **Italy** launched an initiative called Digital Solidarity, which includes the creation of an online portal where SMEs and the self-employed can register to access free digital services provided by large private-sector companies in fields such as teleworking, video conferencing, access to mobile data and CC (OECD, 2020[6]).
- In **France**, the Région Grand Est has set up a platform called "A Stronger Grand Est" (*Plus Forts Grand Est*) in order to connect around 50 innovative companies and communities, companies, associations, healthcare establishments, etc. within the region to identify innovative products and services that could help overcome the crisis and rebound.
- **Turkey** has established the Technology Development Centers (TEKMER) with the support of KOSGEB, in order to foster co-operation between actors within the entrepreneurship ecosystem and promote a co-operative working culture and joint R&D. The TEKMER structure mainly serves micro-scale SMEs by providing them with professional services (coaching, consultancy, mentoring) and access to machinery and equipment services.
- The four **Nordic countries** have set up Digital Tourism Norden, a collaboration on innovation and marketing for tourism. The focus is on the digitalisation of tourism SMEs, with industry partners working together to build a Nordic digital community and also a Digital Toolbox and rollout platform that can provide diagnostics and resources to support in-firm digitalisation. The initiative is expected to expand to engage local universities to develop the joint toolbox and platform further.

Source: OECD (2020[6]), "Exploring policy options on teleworking: Steering local economic and employment development in the time of remote work", https://doi.org/10.1787/5738b561-en.

Support to start-ups and scale-ups has been extended, essentially to help start-ups overcome their liquidity constraints but also to access innovation and growth capital (Box 4.13).

Box 4.13. Shielding start-up and scale-ups: Some country examples

- **France** launched an emergency plan to support start-ups for EUR 4 billion, to strengthen bridge finance between 2 fundraising rounds, support the availability of venture capital, provide an accelerated refund of corporate tax credits and accelerated payment of the *Programme des Investissements d'Avenir* (PIA) innovation grants already allocated, and allocate innovation support from Bpifrance, including direct equity investments.
- **Germany** has deployed the Start-up Liquidity Programme 2020, with additional funding for public venture capital investors (both individual funds and funds of funds) and a Future Fund (*Zukunftsfonds*) for a total of up to EUR 10 billion aimed at start-ups that get additional liquidity to support their way out of the crisis.
- **Turkey** proposes grants and refundable support for start-ups to promote RDI in the field of product design or software activities. A product development module has been added to the 2021 call for projects. The SME Technology Support Programme also aims to support investments in the production and commercialisation of high- and medium-high-technological products.
- The **UK** has created a support package for innovative firms (Future Fund) that will provide high-growth UK-based companies with between GBP 125 000 and GBP 5 million and matching funding from private investors. In addition, targeted support is channelled to the most R&D-intensive SMEs in the form of grants and loans.
- In **Austria**, the AplusB programme plays an important role as a co-operation and inspiration partner in the national university landscape. The programme identifies and develops technology projects within start-ups, many of which receive seed or pre-seed funding support. At the local level, Upper Austria, for example, has developed a start-up support package which provides a deferral of active start-up loans and special consulting services via the Tech2b Inkubator, which is one of the six regional incubators of the AplusB programme that supports technology start-ups with high growth potential.

The COVID-19 crisis is an opportunity to transition towards a greener and circular economy. Governments have deployed massive plans for the greening of SME activities, sometimes twinned with the digital agenda. From June onwards, recovery packages increasingly aimed to support sustainable recovery and build back better (OECD, 2021[66]). Although they vary by country in size and content, in many cases, they include a strong investment focus on sustainability (Box 4.14).

Box 4.14. Greening SME activities: Some country examples

- **Colombia** unveiled the *Compromiso por el Futuro de Colombia* in July 2020, a more than COP 100 billion (USD 29 million) recovery plan that includes the development of clean and sustainable technologies and sectors as 1 of its 5 pillars (Presidencia de la República de Colombia, 2020[67]). The plan aims to strengthen the entrepreneurial ecosystem by simplifying the regulatory framework. Other measures include new credit lines, access to public procurement and reduced taxes. Investments will be channelled through non-traditional actors such as microfinance establishments, financial technology (fintech) and credit co-operatives.
- **Germany** was the first country to implement a long-term plan that goes beyond the immediate coronavirus recovery. In June 2020, the government released "Fighting Corona, securing prosperity, strengthening sustainability", a document that outlines the strategy of the

government to put the economic recovery on a more sustainable footing. One objective is to reduce the cost of electricity for SMEs to an estimated EUR 11 billion (USD 13.3 billion). The plan has an SME and entrepreneurship component to incentivise corporate investments, internationalisation and innovation activities, such as an expansion of the tax allowance for research (ETTG, 2020[68]).

- **Italy** will allocate EUR 196 billion to its recovery plan, including EUR 74.3 billion to green initiatives.
- **Korea** outlined its plans for a New Deal, which includes both a Digital New Deal and a Green New Deal, in July 2020.
- **Spain** announced in October 2020 a EUR 72 billion recovery plan – a roadmap for modernisation – aimed at the creation of 800 000 jobs between 2021 and 2023, to be financed by the New Generation EU Fund (see below); 37% of funds would go to the green transition, 32% to digitalisation. As part of the package, 2.5 million SMEs will receive training in digitalisation.
- The **EC** has issued its Recovery and Resilience Facility (RRF) with EUR 672.5 billion earmarked in loans and grants to provide member states with large-scale financial support for preparing a sustainable recovery. At the time of drafting, member states are in the process of developing their recovery and resilience plans that set out a coherent package of reforms and public investment projects (see Part II of this report of country profiles). To benefit from the support of the facility, these reforms and investments should be implemented by 2026. The RRF is a central piece of the Next Generation EU fund, aiming to deliver 2% of additional GDP by 2024 and create 2 million jobs, *inter alia* by accelerating the green and digital transition (EC, 2021[69]).

Source: Presidencia de la República de Colombia (2020[67]), "Nace el nuevo Compromiso por el Futuro de Colombia", https://id.presidencia.gov.co/Paginas/prensa/2020/Nace-el-nuevo-Compromiso-por-el-Futuro-de-Colombia-200807.aspx; ETTG (2020[68]), "Germany's post-crisis recovery plan: some stimulus for the climate", https://ettg.eu/2020/06/19/germanys-post-crisis-recovery-plan-some-stimulus-for-the-climate; EC (2021[69]), *The Recovery and Resilience Facility*, https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en (accessed 11 May 2021).

Going forward, national SME and entrepreneurship recovery packages need to integrate an explicit territorial dimension, with effective governance mechanisms. Subnational governments need to be involved in the design and implementation of such strategies early on. Multi-level co-ordination bodies, ones that bring together national and subnational government representatives, can help co-ordinate policy responses in order to avoid overlaps and misplaced incentives in public action. In Italy, for example, simplification measures were introduced by 14 regions to streamline administrative and regulatory procedures for SMEs. These include deferring application deadlines for public funding programmes, reporting on investment plans subject to public incentives and simplifying public procurement (OECD, 2020[70]). Co-operation among levels of government and across municipalities helps generate agreement on joint solutions and enhances the acceptance of measures at all levels. It also helps minimise fragmented or disjointed recovery responses and competition for resources (OECD, 2020[70]). Procurement practices are an area where cross-jurisdiction co-operation is especially relevant. Subnational governments account for almost 50% of public procurement in the OECD, 62% in federal countries and 38% in unitary countries (OECD, 2018[71]). Inter-regional or inter-municipal collaboration in procurement, especially in emergency situations, will be important to harmonise and accelerate procurement practices at the subnational level and support SME recovery.

The territorial impact of the pandemic can also give SMEs and entrepreneurs the opportunity to contribute to a stronger regional innovation environment. The COVID-19 crisis might reinforce existing SME and entrepreneurship vulnerabilities (e.g. liquidity shortages or lack of labour supply) that affect regional

economies and innovation capacity, particularly where SMEs and entrepreneurs form a significant percentage of the enterprise fabric. At the same time, the crisis offers opportunities for regions to accelerate innovation in the private and public sectors. For example, it can represent an important opportunity to embrace digitalisation and enhance the ICT and technology environments, particularly among regions in industrial transition (OECD, 2019). In addition, innovation in public services fostered by the crisis, including those supporting the transition toward a greener and circular economy, represents another important and symbiotic link between subnational government action and the SME environment. Improved accessibility to services, in physical and digital terms, for instance, can contribute to the resilience of a region's firms and citizen well-being while also offering business development opportunities. Piedmont, Italy, is an example of a region that is currently redesigning its innovation support to cushion the challenges and advance the opportunities arising from the COVID-19 crisis.

Annex 4.A. Overview of national structural policies by country

	New markets	Teleworking/ digitalisation	Innovation	Training and redeployment	Start-ups	Sustainability measures
Argentina	X	X	X	X		
Australia		X		X		X
Austria	X	X	X	X	X	X
Belgium	X				X	
Brazil	X					
Canada	X	X		X	X	X
Chile	X	X				
China	X	X	X	X	X	
Colombia		X	X			
Costa Rica	X			X		
Czech Republic	X		X		X	
Denmark			X	X	X	
Egypt	X	X	X	X	X	
Estonia		X				
Finland		X	X			X
France	X	X	X	X	X	X
Germany		X	X	X	X	X
Greece		X		X	X	X
Hungary	X	X				
India					X	
Indonesia		X		X		
Ireland	X	X	X	X	X	
Israel	X	X	X			
Italy	X	X	X		X	X
Japan	X	X	X	X	X	X
Korea	X	X	X	X		X
Latvia	X	X	X			
Lithuania						
Luxembourg					X	
Malaysia		X	X	X	X	
Mexico				X		
Netherlands				X	X	
New Zealand	X	X		X		
Norway			X	X	X	X
Poland		X	X			
Portugal	X			X	X	

	New markets	Teleworking/ digitalisation	Innovation	Training and redeployment	Start-ups	Sustainability measures
Romania						
Russian Federation						
Saudi Arabia		X				
Singapore		X	X	X		
Slovak Republic						
Slovenia	X	X				X
South Africa	X					
Spain		X	X	X	X	X
Sweden						
Switzerland	X		X		X	
Thailand			X	X	X	
Turkey	X	X	X	X	X	
United Kingdom	X	X	X	X	X	X
United States			X	X		

Note: Based on monitoring carried out from February 2020 to February 2021 on the effects of the crisis on SME&E and policy responses.
Source: (OECD, 2021[66]), , "One year of SME and entrepreneurship policy responses to COVID-19: Lessons learned to "build back better"", https://www.oecd.org/coronavirus/policy-responses/one-year-of-sme-and-entrepreneurship-policy-responses-to-covid-19-lessons-learned-to-build-back-better-9a230220/#blocknotes-d7e2460.

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Notes

[1] Declines in bankruptcy numbers may not necessarily be a signal that business dynamics are improving if they reflect the survival of low-efficient incumbent firms (“zombie” firms). Similarly, increases in firm creation may not be a signal of improving entrepreneurship performance if incentives are push factors such as fiscal tightening and lower levels of social security payments, rather than pull factors, e.g. business opportunities.

[2] This is based on an econometric specification controlling, in addition to the different types of government support, for firm age, firm size, sector and country.

[3] High-speed broadband connections have a download speed of at least 100 Mbit/s.

[4] If former digitalisation has been an enabling factor at the sector level, it is worth noting that the analysis is conducted on a sample for firms that had already adopted some basic forms of digitalisation prior to the crisis (firms with a Facebook page). Sectoral rates of adoption during the crisis for the entire firm population could be therefore lower.

Part II Country profiles and methodology

5 Methodology of the country profile

The SME&E Outlook country profiles 2021 benchmark the 38 OECD member countries along: i) the COVID-19 impact on business dynamics, national policy frameworks in place and the short-term and structural policy responses provided by governments; ii) Factors of SME&E structural vulnerability, including the size of the SME and self-employed population, and exposure to lockdowns and disruptions in global value chains; and iii) Sources of SME&E resilience, including digital uptake, access to liquidity support, availability of skills on the labour market, and the entrepreneurship regulatory framework. This chapter presents the methodology, definitions and sources used in the country profiles. It builds on the most recent work and comparable data available at the time of drafting, however, because of cross-country differences in data collection and gaps, interpretation should be done with caution.

Part II of the SME and Entrepreneurship (SME&E) Outlook 2021 is made of standardised country profiles that explore the factors of vulnerability and sources of resilience of the SME sector and entrepreneurship in the country, and give a spotlight on the government's responses to "build back better". Part II covers the 38 OECD member countries. The profiles are available in the print publication and online.

The SMEEO country profiles build on work carried out across the OECD and beyond. Measurement and indicators have been selected on the basis of their SME&E policy relevance, international comparability, and the most extensive country coverage. Primary data sources are presented in more details in the Annex Table 1. Policy information was drawn from recent OECD and non-OECD work on monitoring the impact of COVID-19 more broadly. In some cases, information was complemented with national documentation.

A data infrastructure was built and integrated into the OECD corporate data management system to gather, store and harmonise information. After consolidation, the OECD SME&E 'Data Lake' is aimed to support future SME- and entrepreneurship-related policy analysis and to evolve as needs evolve.

COVID-19 impact on the SME&E sector

The ***first section*** presents a comparative overview of the stringency of government measures since the beginning of the pandemic and the impact on business dynamics, i.e. firm entries and firm exits over the year.

Stringency of government measures

The stringency of government measures is gauged by the *Oxford Government Stringency Index* (Hale et al., 2021[1]), a composite measure based on nine indicators including school closures, workplace closures, closure of public transport or travel bans. This composite measure is a simple additive score of the nine indicators measured on an ordinal scale, rescaled to vary from 0 to 100 (100 = strictest). The index is shown as the response level of the strictest sub-region where policies vary at the subnational level. Country values are provided from January 2020 to April 2021.

Firm creation and firm exits/bankruptcies

Business dynamics are measured by two indicators: i) *firm entries* as the number of new enterprises created between January 2020 and March 2021, expressed in year-on-year difference (%) and cumulative year-on-year difference (%); and ii) *firm exits* as the number of enterprises exiting between January 2020 and March 2021, expressed in year-on-year difference (%) and cumulative year-on-year difference (%). In case data on firm exits are not available at the country level, variations in the number of bankruptcies are used instead. All data are drawn from the OECD Timely Indicators of Entrepreneurship database (OECD, 2021[2]).

Policy framework and policy spotlight

A brief description of the national SME&E policy framework is provided for each country. Information is drawn from the stocktake of existing SME policy frameworks in OECD countries conducted as part of the OECD Strategy for SMEs. Three types of SME&E policy frameworks are proposed: i) countries with specific SME&E strategies; ii) countries with (multi)annual action plans or other dedicated documents on SME&E policies; and iii) countries where SME&E policies are part of wider strategies and policy frameworks.

A snapshot on the major liquidity support measures and structural policy initiatives implemented in each country to build back better is also discussed. Aligned with the points under discussion in Chapter 2, 3, and 4, this policy spotlight relies on the monitoring of SME policy responses to COVID-19 that was

conducted between February 2020 and February 2021 by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (OECD, 2021[3]). The monitoring of structural policies and recovery plans draws on publicly available information and feedback from the OECD Committee on SMEs and Entrepreneurship.

Factors of SME&E structural vulnerability

The ***second section*** benchmarks each country vis-à-vis OECD along four dimensions that are identified as factors of vulnerability during the pandemic: i) the relative size of the micro- and SME (MSME) sector and the population of self-employed; ii) the country's economic exposure to lockdowns and business disruptions; iii) the country's and domestic SMEs' exposure to international trade and global value chain (GVC); and iv) the prevalence of informality, although this factor will be considered on a case-by-case basis since it is less prominent in more advanced economies.

Size of the MSME sector

Micro-firms, SMEs and self-employed have been severely hit during the crisis (Chapter 1). They were more likely to close business or experience severe drops in sales due to lockdowns or disruptions in supply chains. The size of the MSME sector is expressed as a percentage of total employment and total value added, and compare to the OECD total. The year of reference is 2018 (or latest year available). Data come from the OECD Structural and Demographic Business Statistics database (OECD, 2021[4]). The share of the self-employed in total employment is presented from 2005 to 2019 and is drawn from the OECD Annual Labour Force Statistics (OECD, 2020[5]).

Economic exposure to lockdowns and business disruptions

Economic sectors where social distancing is more difficult to implement or where activities are highly related to international mobility and trade have been the most affected by COVID-19 containment measures (OECD, 2020[6]). The "Statistical Insights: Small, Medium and Vulnerable" note identifies these sectors. Their contribution to total economy is expressed as a share of total employment in 2018 (or latest year available), which signals the degree of a country's exposure to the business shock.

In addition, two indicators complement this perspective on economic exposure, by shedding light on some regional and sectoral aspects. The country profile looks at the region (TL2 level) with the highest share of jobs at risk due to COVID-19, drawing on the "OECD Regional Outlook 2021" (OECD, 2021[7]) and the "Job Creation and Local Economic Development 2020: Rebuilding Better" reports (OECD, 2020[8]). The year of reference is 2017 (or latest year available). This section also looks at the direct contribution of tourism as a share of total employment in 2019 (or latest year available) based on the OECD Tourism Statistics database (OECD, 2021[9]).

Exposure to international trade and GVCs

Firms, places and people that were more engaged in international trade and long GVCs were also more vulnerable (Chapter 3).

A country's exposure to trade and GVCs is estimated by the share of SMEs in export and import trade value, and the share of SMEs in export and import trade value of long GVCs. Long GVCs are defined as the top 10 longest value chains based on the OECD Inter-Country Input-Output (ICIO) model (OECD, 2018[10]) (De Backer and Miroudot, 2013[11]), and using the International Standard Industrial Classification of All Economic Activities Revision 4 (ISIC Rev.4) at two digits: i.e. manufacturing of textiles (13), manufacturing of wearing appeal (14), manufacturing of leather and related products (15), manufacturing of rubber and plastics products (22), manufacturing of basic metals (24), manufacturing of computers,

electronics, and optical equipment (26), manufacturing of electrical equipment (27), manufacturing of other machinery and equipment (28), manufacturing of motor vehicles, trailers and semi-trailers (29), and manufacturing of other transport equipment (30). Data are for 2015 (or latest year available), and drawn from the OECD Trade by Enterprise Characteristics database (OECD, 2021[12]).

In addition, the country profile looks at the economic impact of foreign affiliates (FAs) through their local sourcing or supplying activities. The share of FAs sourcing domestically and the share of FA output used domestically are for 2016 and calculations are based on the OECD Analytical AMNE Database on the Activity of Multinational Enterprises (OECD, 2017[13]).

For countries where data on FA activities (AMNE data) and the share of SMEs in export and import trade value (TEC data) are not available, structural vulnerabilities are benchmarked using Trade in Value Added (TiVA) database. More specifically, countries are compared based on i) the intensity of their backward linkages in GVCs (proxied by the import content of exports, i.e. foreign value added embodied in gross exports as a percentage of total gross exports), ii) the intensity of their forward linkages in GVCs (proxied by domestic value added embodied in foreign exports as a percentage of total gross exports), iii) their reliance on foreign final demand (proxied by the share of domestic value added embodied in foreign final demand), and iv) the importance of intermediate imports for international competitiveness (proxied by the share of re-exported intermediate imports in total intermediate imports). The year of reference is 2016.

Sources of SME&E resilience

The ***third section*** looks at the sources of resilience of SMEs, namely i) their digital readiness, ii) their cash reserves, and/or access possibly given to government liquidity support; iii) the existence of supportive entrepreneurship framework conditions in the country; and iv) the availability and optimal use of innovation skills in the labour market.

Digital readiness

The COVID-19 crisis gave a big push to SME digitalisation and those that were already operating online or have been able to adapt products and processes to the digital world on short notice have been more likely to sustain activities and revenues amidst the turmoil (OECD, 2021[14]) (Chapter 1). Digital readiness is proxied by the uptake of some digital technologies by small enterprises (1-9 employees) prior to COVID-19. Digital uptake is indeed consistently lower in smaller firms across countries, and diffusion gaps are relatively constant across firm size classes (OECD, 2021[14]). The benchmark is made on the population the most likely to be lagging in the digital transition.

The digital technologies considered are i) high-speed broadband, i.e. percentage of small businesses with a broadband download speed at least 100 Mbit/s; ii) social media, i.e. percentage of small businesses that are using social media; iii) e-commerce, i.e. percentage of small businesses receiving orders over computer networks; and iv) cloud computing, i.e. percentage of small businesses purchasing cloud computing services. These four technologies have been selected for their particular role in the digital transformation of SMEs (OECD, 2021[14]). High-speed broadband connection is a prerequisite for (large) data transfer, just-in-time communication, and the use of other digital technologies. Uneven access to high-speed broadband is also one main factor associated with digital gaps across firms and sectors, and sectoral value added. Social media and e-sales are the primary forms of digitalisation for SMEs, as firms tend to digitalise marketing functions first. Cloud computing serves as a platform technology and helps SMEs enhance IT capacity and access digital solutions at low costs.

Indicators on digital adoption are retrieved from the OECD ICT Access and Usage by Businesses database (OECD, 2021[15]). They are presented on a stylised adoption curve that features increasing potential benefits in adoption for earlier adopters (16% of the total population) and an early majority of adopters

(34%), and decreasing gains for the late majority (34%) and laggards in adoption (16%). This adoption curve illustrates Rogers' innovation diffusion theory that suggests a threshold beyond which there are decreasing returns on innovation adoption (in terms of market shares) (Rogers, 1962[16]). Depending on the indicators, the years of reference are 2019 or 2020 (or latest year available).

Cash reserves and government's liquidity support

Liquidity shortages have been a major issue for SMEs during the COVID-19 crisis, most of them having only a couple of months of income in cash reserves to pay charges and salaries as revenues collapsed. SME cash reserves are proxied by profit margin, i.e. gross operating surplus of firms with 1-249 employees in industry (except construction) as a percentage of their production. Data refer to 2018 (or latest year available) and are drawn from the OECD Structural and Demographic Business Statistics database (OECD, 2021[4]).

SMEs that have been able to access government support during the year have been more likely to maintain operations and not close business (Chapter 1). SME access to liquidity support in the country is proxied by the share of SMEs that received i) government support (broad category); ii) government support in the form of grants or subsidies; iii) government support in the form of credit or deferral of payments; iv) non-financial government support (e.g. information, technical assistance or advisory services). Data are drawn from business responses to the "Future of Business Survey" December 2020, which collects feedback from 18 million SMEs with a Facebook page operating in OECD countries and beyond (Facebook, OECD and World Bank, 2020[17]).

Entrepreneurship regulatory framework

Administrative and regulatory framework conditions are critical for entrepreneurship, especially in the phase of recovery when business dynamics will support an optimal reallocation of resources towards the most efficient firms (OECD, 2019[18]). Framework conditions for entrepreneurship are proxied by a number of indicators that measure i) the simplification and evaluation of regulations (composite index from 1 -the most complex- to 6 -the simplest-), ii) administrative burdens on start-ups (composite index from 1-the less burdensome- to 6 -the most burdensome), the cost of starting a business (% of income per capita), the strength of insolvency framework (composite index from 1 – the weakest- to 16 - the strongest-) and the cost of resolving insolvency (% of estate). The two first indicators are drawn from the OECD Product Market Regulation database (OECD, 2021[19])); the last four are drawn from the World Bank Doing Business 2020 report (World Bank, 2020[20])). The years of reference are respectively 2018 and 2019.

All indicators are presented in the form of benchmarking indices and reported on a common scale from 0 to 200 (0 being the lowest OECD value, 100 the median value, and 200 the highest) to make them comparable. The same methodology was used in the SME&E Outlook 2019 (OECD, 2019[18]).

Given Xc,t the value for country *c* at time *t* and $Xmin,t$ the OECD minimum, $Xmed,t$ the OECD median and $Xmax,t$ the OECD maximum at time *t,* the country index of benchmark Ic,t is calculated as followed:

If $Xc,t > Xmed,t$ then

$$Ic,t = 100 + (Xc,t - Xmed,t)/(Xmax,t - Xmed,t) * 100$$

If $Xc,t < Xmed,t$ then

$$Ic,t = 100 - (Xc,t - Xmed,t)/(Xmin,t - Xmed,t) * 100$$

Therefore, the benchmark charts highlight the position and dispersion of the top five (High) and bottom five (Low) OECD values. The country's relative position is marked with a dot. However, when data are not available, the dot, i.e. the country's position in the ranking, does not figure on the graph.

In some cases, the country benchmark was reversed for the indicators that are considered as measures of potential barriers to SME performance. This is the case for administrative burdens, the cost of starting a business, and the cost of resolving insolvency.

Innovation skills

The availability and use of innovation skills have been critical for the resilience of SMEs as they intend to adapt to new business conditions. They will be as critical for the recovery going forward. Innovation skills in a country are gauged through two set of indicators.

First, the perceived capabilities of the adult population to start a business, i.e. percentage of 18-64 population who believe they have the required skills and knowledge to start a business. Data refer to 2019 and are drawn from the Global Entrepreneurship Monitor (GEM) Adult Population Survey (Global Entrepreneurship Monitor, 2021[21]).

Second, the existence of shortage or surplus of some innovation skills in the country based on the composite indices of the OECD Skills for Jobs database (OECD, 2018[22]). Positive values indicate skill shortage while negative values point to skill surplus. The larger the absolute value, the larger the imbalance. Results are presented on a scale that ranges between -1 and +1. The maximum value reflects the strongest shortage observed across OECD (31) countries and skills dimensions. Skills imbalances reflect diverging growth in demand and supply of a skill. A shortage emerges if the labour supply for that skill does not increase or does not increase as fast as the demand for it, since typically it takes time for the education and training system to adjust to demand and produce the ditto skills. A country with sluggish demand for certain skills could therefore experience less imbalances for such skills because the pace of demand increase is more similar to that of supply increase. Data refer to 2015.

Innovation skills that are considered in the benchmarking include: i) computer and electronics skills, i.e. knowledge of circuit boards, processors, chips, electronic equipment, and computer hardware and software, including applications and programming; ii) adaptability/flexibility skills; iii) complex problem solving skills, i.e. developed capacities used to solve novel, ill-defined problems in complex, real-world settings, and iv) practical intelligence for innovation that is considered as personal characteristics that can affect how well someone performs a job (i.e. workstyle).

All indicators are presented as benchmarking indices as for the entrepreneurship framework conditions (see above), along the same methodology used in the SME&E Outlook 2019 (OECD, 2019[18]). Skills shortages and surplus are treated the same way (turned into absolute values), in order to highlight imbalances in the labour market. The country benchmark was reversed to reflect potential barriers to SME performance.

Caveats and caution in interpretation

The SME&E Outlook 2021 country profiles build on the most recent work and data available at the time of drafting. However due to differences in data collection calendars and processes, benchmarking data may not refer to the same year across all indicators. The cutting-off date for the indicators on SME&E and business conditions is 16 April 2021.

Some areas of interest may be unevenly covered by statistics as data in primary sources are not always available for all countries. Some alternative indicators could be proposed. Please refer to sources and methods.

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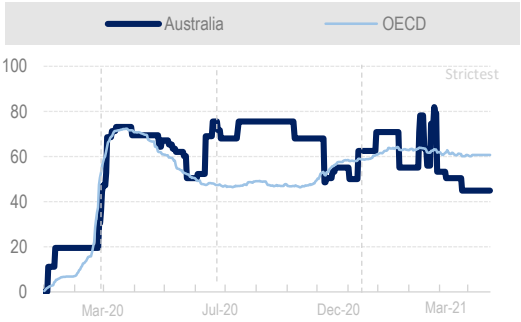
6 Country Profiles

The OECD SME and Entrepreneurship Outlook 2021 places a special focus on the impact of the COVID-19 crisis on SMEs and entrepreneurship (SME&E), and how governments responded through crisis and recovery policies. It brings together a new series of standardised country profiles to provide a national perspective on the state of the SME and entrepreneurship sector, as well as to benchmark their vulnerabilities and potential of resilience in the context of a post-COVID-19 recovery.

Australia

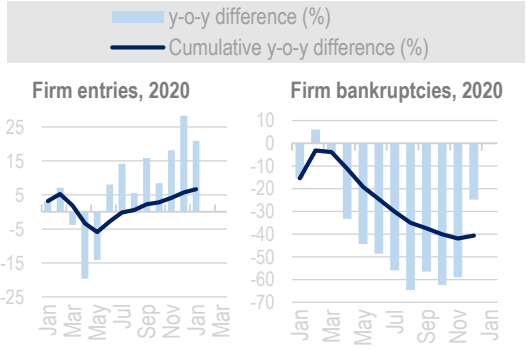
Figure 6.1. COVID-19 impact on business dynamics and policy responses in Australia

Stringency of government measures



Australia imposed strict restrictions as compared to OECD peers, during the second half of 2020 and early 2021.

Business dynamics



The number of firm entries rebounded rapidly in the second half of 2020 to reach a net increase of more than 17% in January 2021 as compared to a year earlier. Bankruptcies were significantly lower throughout 2020 than in 2019.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidities include: a ***AUD 17.6 billion federal economic stimulus package*** to keep Australians in jobs and SMEs in business; the ***JobKeeper Wage Subsidy*** targeted towards employers significantly impacted by COVID-19 ; and ***AUD 6.7 billion cash flow assistance*** for eligible SMEs.

Structural measures have also been implemented:

- ***Support for business investment,*** including AUD 700 million to increase the instant asset write off threshold and a AUD 3.2 billion back business investment ;

- ***AUD 1.3 billion support*** for small businesses and jobs of around 120 000 **apprentices and trainees** ;

- ***AUD 1 billion assistance for severely-affected regions*** to support sectors, regions and communities disproportionately affected by the pandemic (e.g. tourism, agriculture, education) ;

- ***Stimulus payments to households to support demand-driven growth***, including AUD 4.8 billion to provide a one-off AUD 750 stimulus payment to pensioners, social security, veteran and other income support recipients ;

- Tax cuts and measures for ***SME digital adoption*** as part of the 2021-22 federal budget.

National SME and entrepreneurship policy framework

SME&E policies in Australia are defined **as part of a multi-annual Action Plan** and are a joint federal-regional responsibility.

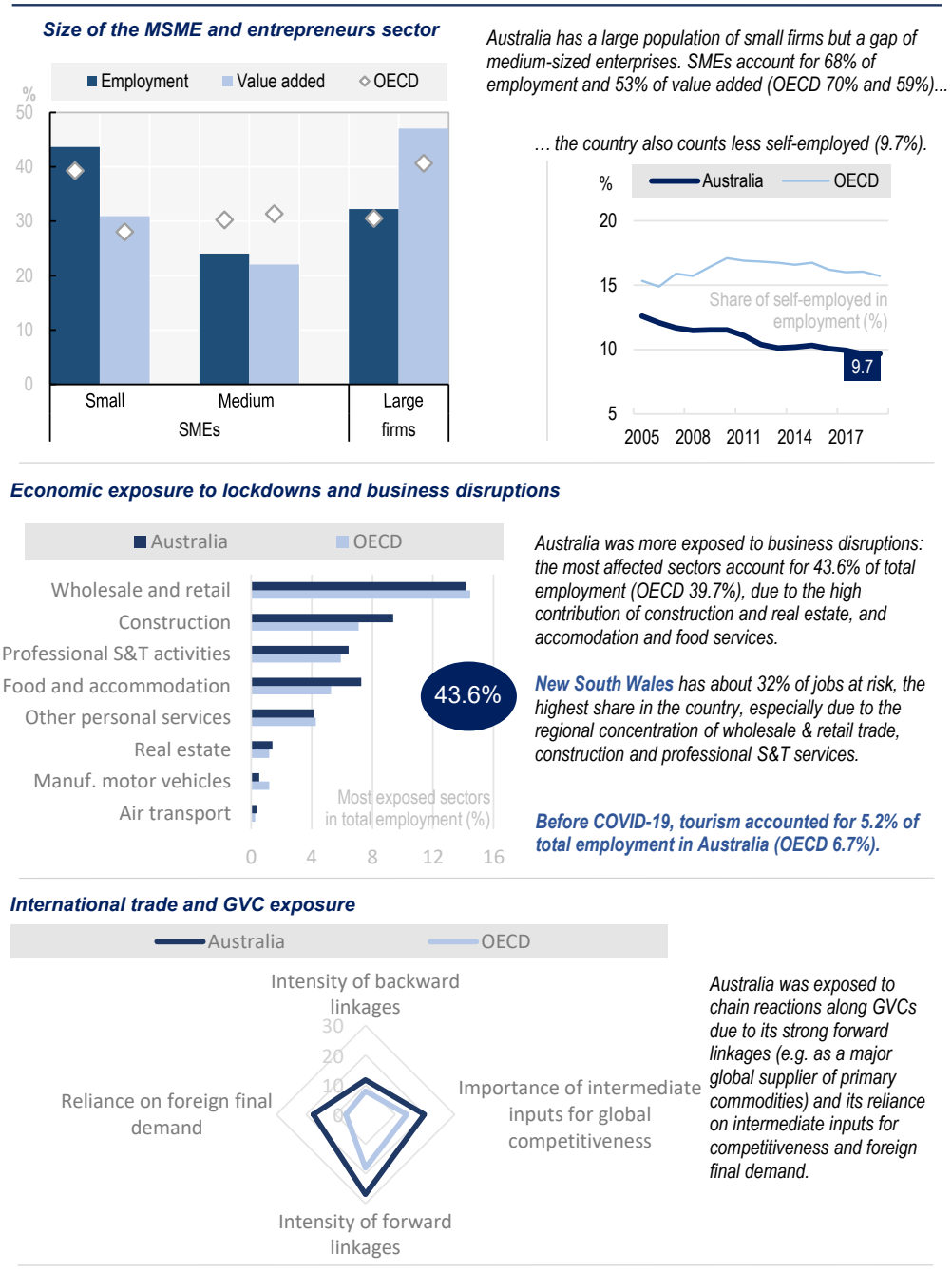
At the federal level, the Ministry responsible for SMEs moved to Treasury in 2021, to ensure that small business interests are considered holistically and reflected through dedicated support in the federal budget.

Regional SME Strategies often predate national SME Strategies and include hands-on support measures for small business as, for instance, the "**New South Wales Small Business Strategy**" (2017). Since 2016, the **Australian Small Business and Family Enterprise Ombudsman** serves as an advocate for SMEs and plays a central role in designing SME friendly federal laws.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250326

Figure 6.2. Factors of SME&E structural vulnerability in Australia



Source: Size of the MSME sector (2016): OECD SMEE Outlook 2019; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2016): OECD TiVA database 2018 (see country-specific references and definitions).

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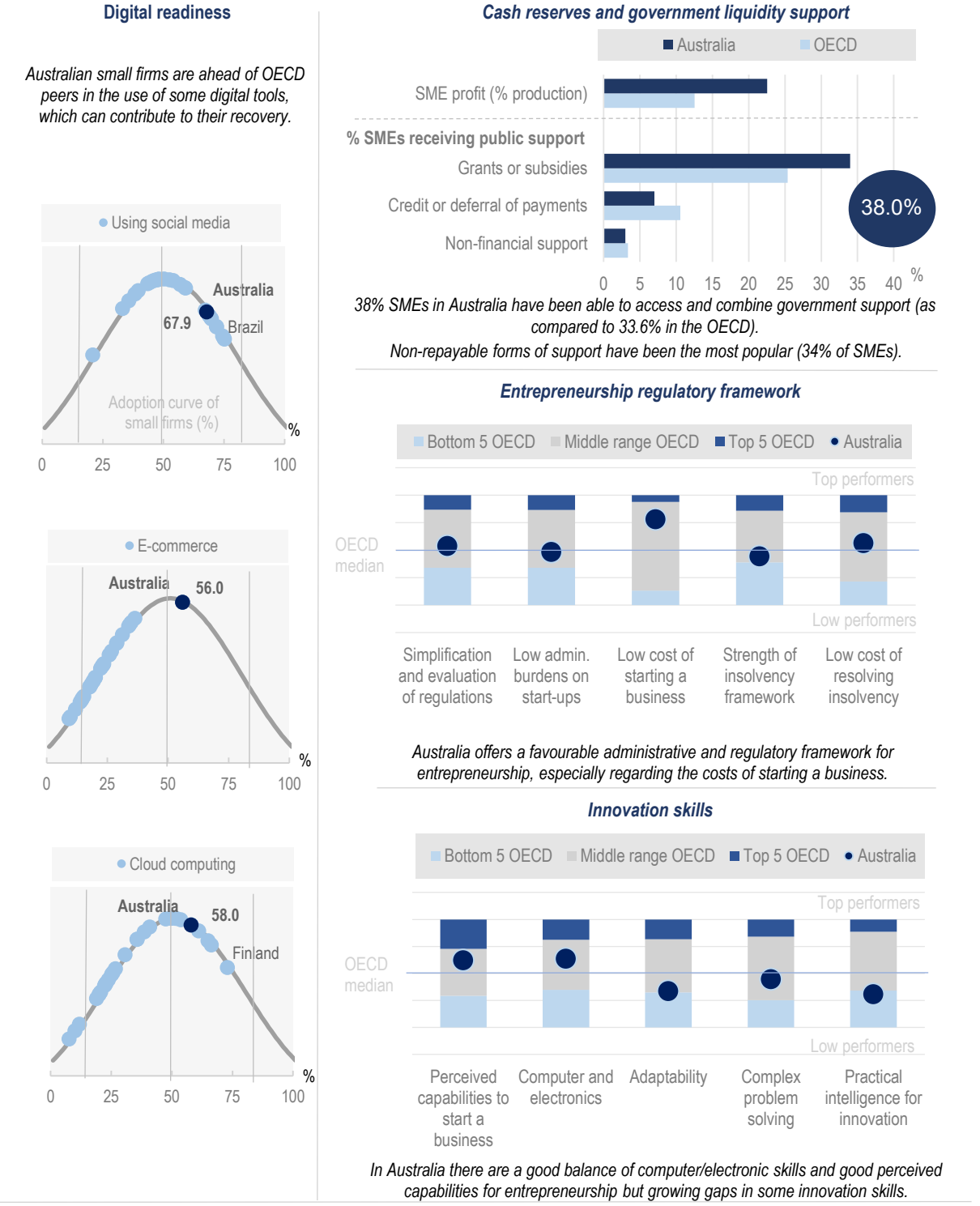
Figure 6.3. Sources of SME&E resilience in Australia



Source: Broadband (2020), social media (2019), e-commerce (2019), cloud computing (2018): OECD ICT Usage by Businesses database 2021; SME profit (2010): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

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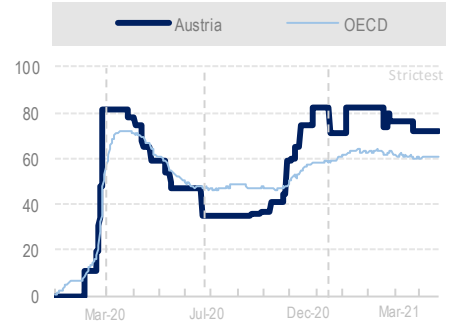
Austria

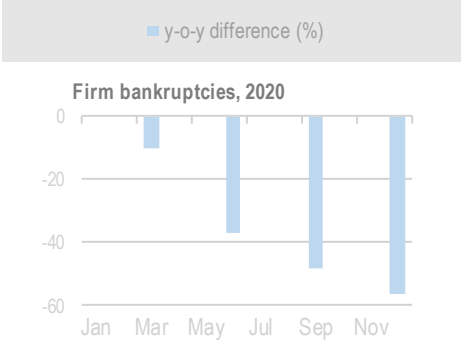
Figure 6.4. COVID-19 impact on business dynamics and policy responses in Austria

Stringency of government measures



Austria has been experiencing tight restrictions since the third quarter of 2020.

Business dynamics



The decrease in bankruptcies has accelerated over 2020, as compared to the previous year.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include: EUR 10 billion in personal and corporte income ***tax deferrals***; EUR 5.4 billion in ***loan guarantees*** for SMEs (from 80% up to 100%); EUR 2 billion ***Federal Hardship Fund*** for micro-entrepreneurs and freelancers to cover living costs through grants; EUR 12 billion ***Corona Worktime Reduction*** to reduce working hours and pay.

Measures at state level complement federal support.

Structural measures have also been implemented:

- Austrian Recovery and Resilience Plan 2020-26 with a package of measures related to the green and digital transition, a focus on SME digitalisation, and smart, sustainable and inclusive growth.

- ***EUR 5 billion Investment bonus*** for corporate investments in ecologization, digitalisation, and health/life sciences.

- ***AplusB programme*** to support technology start-ups with high growth potential.

- To support ***SME digitalisation: SME.DIGITAL*** that provides consulting services and grants for up to 30% of the investment costs; the ***SME.E-Commerce*** initiative that supports SME online trade through grants (up to 20% costs), and a ***qualification offensive*** to develop competencies in companies and support knowledge transfer and cooperation between science and industry.

National SME and entrepreneurship policy framework

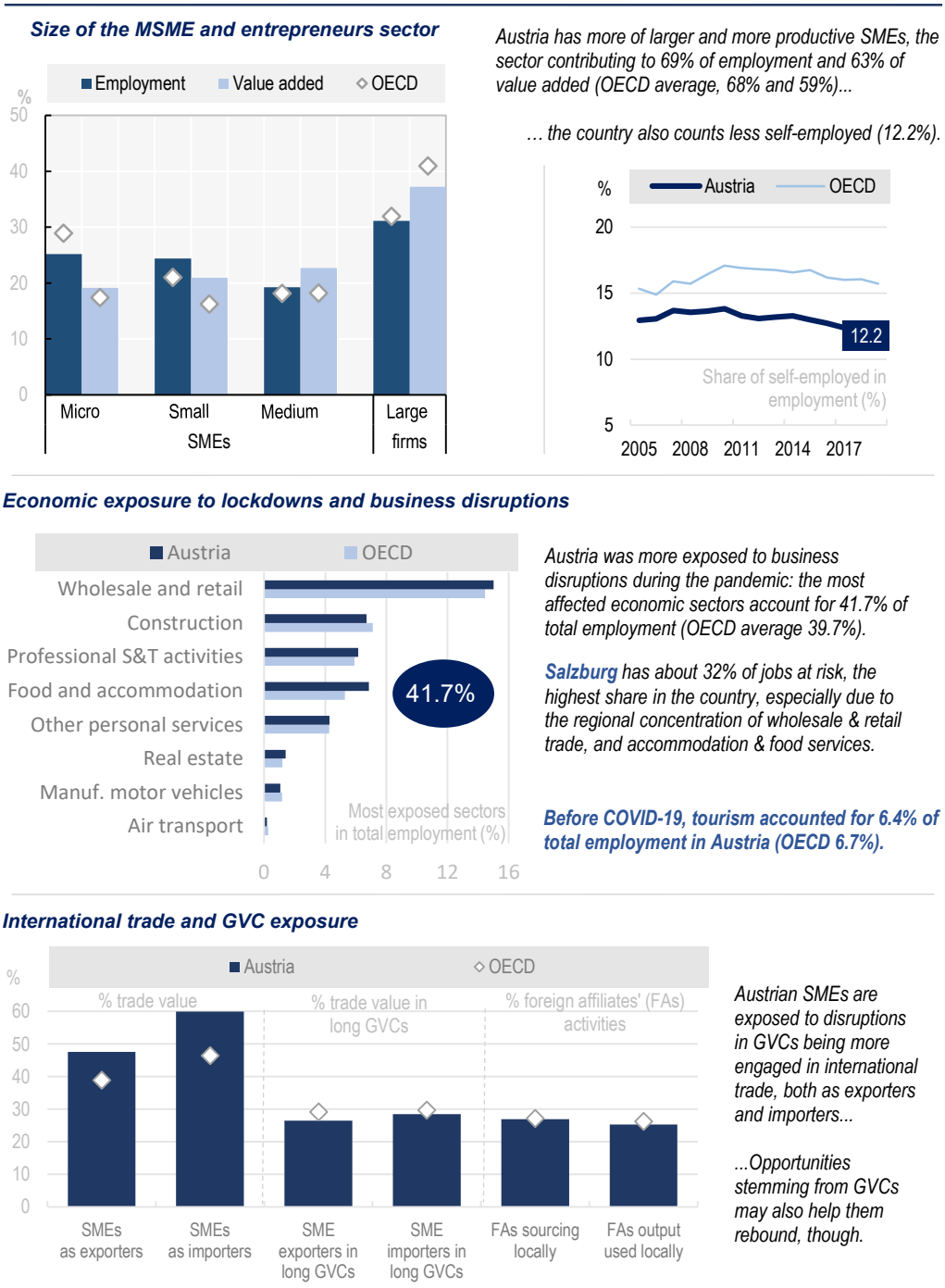
Since 2019, the Austrian national SME policy is outlined in the **annual report "KMU im Fokus" (Report on the situation and development of small and medium-sized enterprises in Austria)**, authored by the Federal Ministry for Digital and Economic Affairs. The report replaces the previous *Mittelstandsbericht* and is discussed annually in parliament, i.e. it also fulfils a monitoring function, notably with regard to the implementation of new EU SME Strategy structure and methodology.

Overall, the policy document contains almost 40 initiatives, mostly focused on measures to cushion the economic impact of COVID-19, as well as broad measures to stimulate the economy, but also targeted ones on entrepreneurship, SME access to finance, skills and innovation. Priority areas of SME policy in Austria are amongst others digitalisation of SMEs, "training and skills" and "smart regulation".

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250383

Figure 6.5. Factors of SME&E structural vulnerability in Austria



Source: Size of the MSME sector (2016): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

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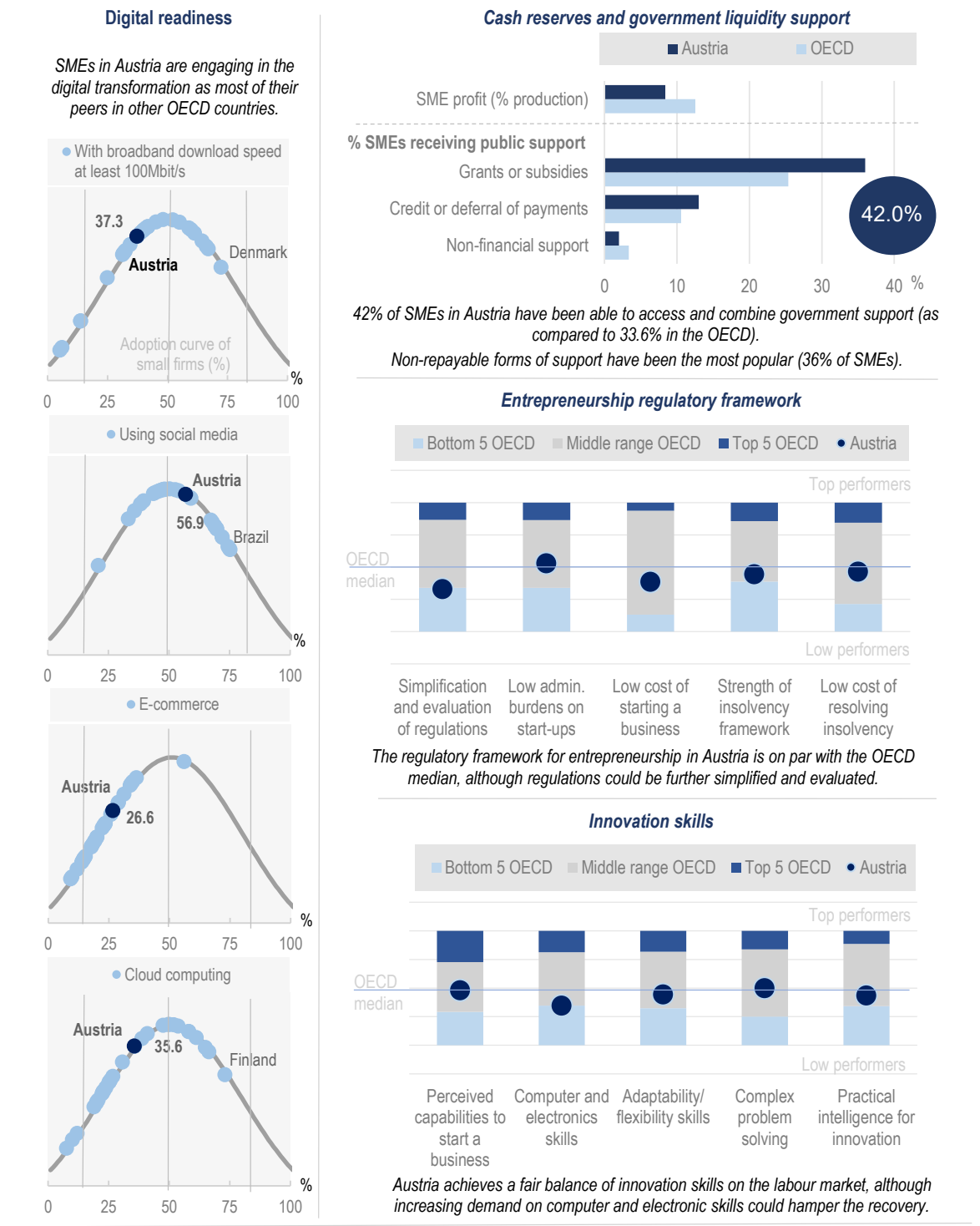
Figure 6.6. Sources of SME&E resilience in Austria



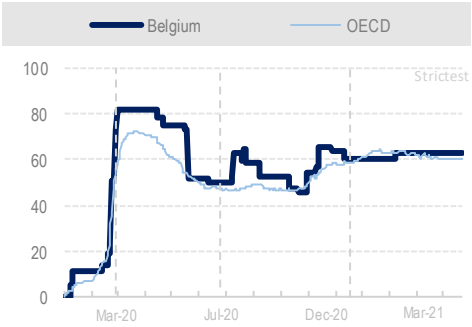
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2016): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2018 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250421

Belgium

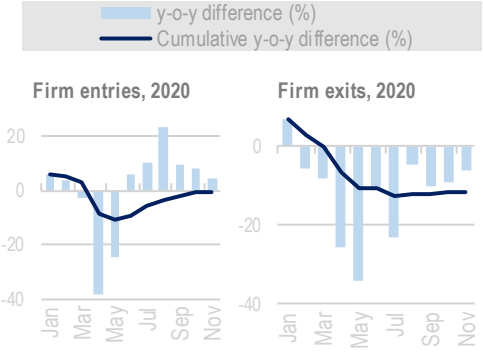
Figure 6.7. COVID-19 impact on business dynamics and policy responses in Belgium

Stringency of government measures



Belgium experienced three periods of stringent restrictions over the year as compared to OECD peers.

Business dynamics



From March to May, firm entries fell considerably in Belgium as compared to 2019, before rising again in the second half of 2020. Firm exits were also lower in 2020 than in 2019.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include:
- ***At Federal level***: credit payment deferrals, Guaranteed Credit program, bridging right for self-employed, the Temporary Unemployment Scheme, and 'income replacement measures ;
- ***In Brussels Capital***: tax credit to lenders who grant loans to SMEs in Brussels ;
- ***In Wallonia***: a EUR 233 million extraordinary solidarity fund to SMEs and self-employed.

Structural measures have also been taken:

- ***In Flanders***, ***EUR 250 million package for start-ups, scale-ups and viable SMEs*** through subordinated loans ;

- ***The Federal Plan for Social and Economic Protection*** with public procurement measures to avoid penalties for contracting SMEs facing a delay in the execution of public tenders;

- ***Flanders*** expanded the ***SME Growth Subsidy*** for recruiting strategic employees or acquiring knowledge and consolidating a growth trajectory.

- ***National Recovery and Resilience Plan***: to increase the cyber resilience of independents and SMEs, and create training hubs to enable SMEs respond to technological change, such as digitalisation and the energy transition.

National SME and entrepreneurship policy framework

SME&E policies in Belgium are defined **as part of wider strategies and policy frameworks** and are a a joint federal-regional responsibility.

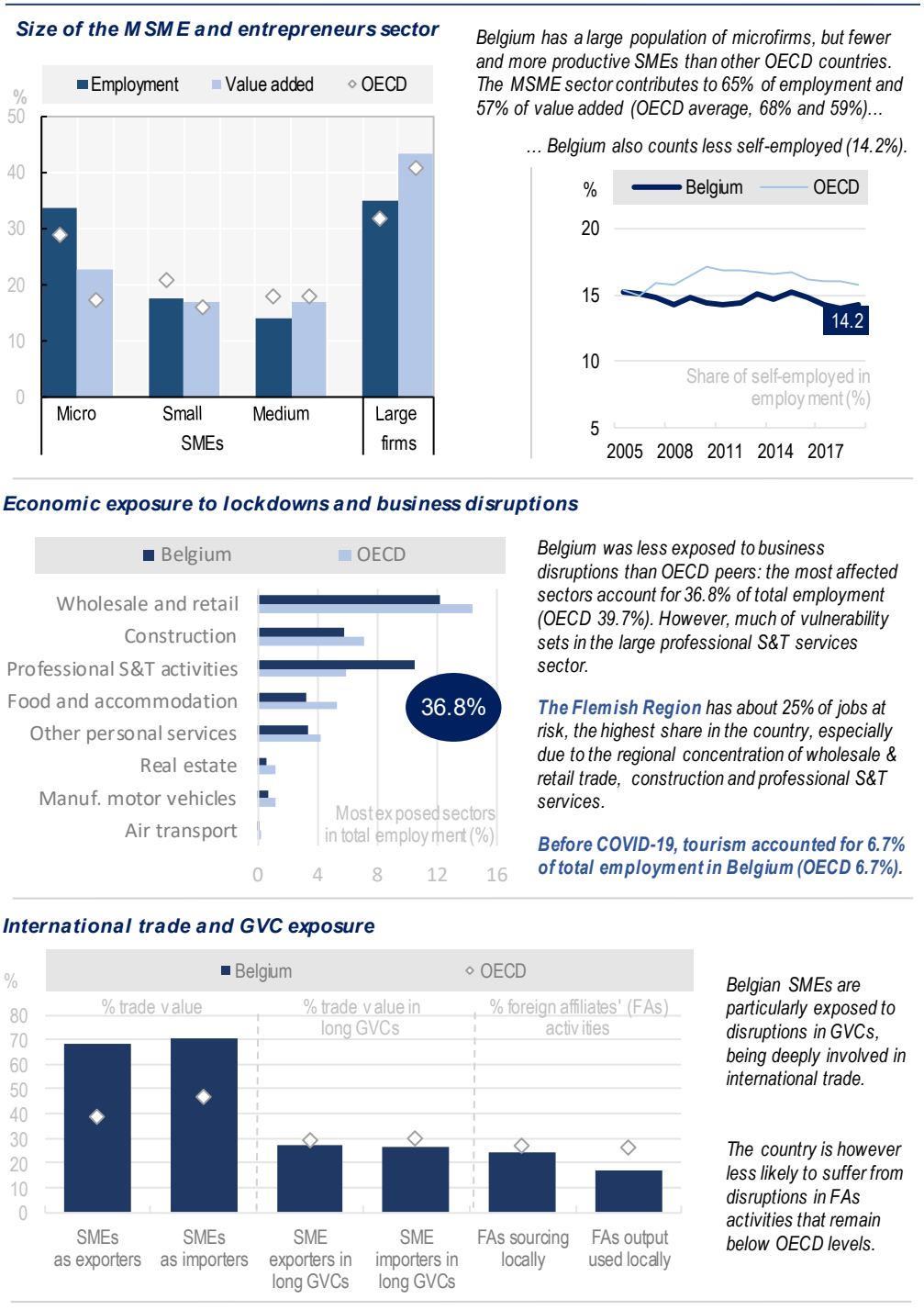
While there is no SME policy document at Federal level, the **Minister of SMEs, Self-employed and Middle Classes** undertakes various actions of relevance to SMEs, for instance regarding public procurement, the promotion of entrepreneurship and internationalisation, including through the data and analysis, SME consultation and international coordination by its SME Observatory.

Regions have developed specific SME strategies which include hands-on support measures for small business as, for instance, the **Brussels Region "SME Strategy"** (2016) or the **Wallonia "SME Strategy"** (2016).

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250459

Figure 6.8. Factors of SME&E structural vulnerability in Belgium



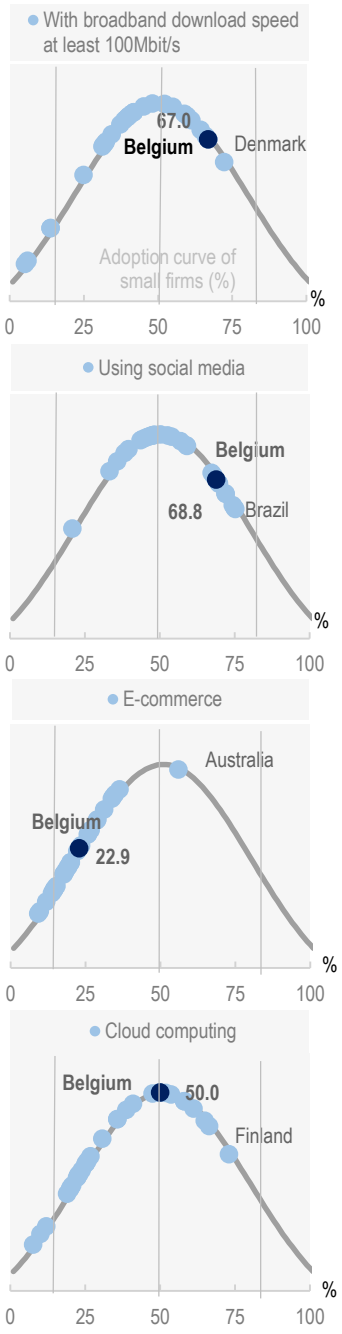
Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250478

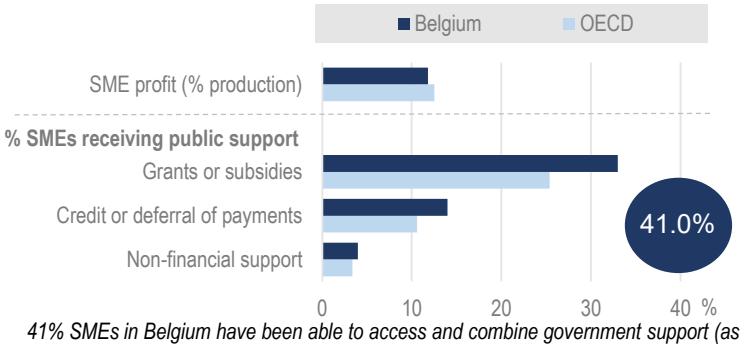
Figure 6.9. Sources of SME&E resilience in Belgium

Digital readiness

In Belgium, small firms are rather ahead of their OECD peers in digitalisation. This is a significant asset for a post-COVID recovery.



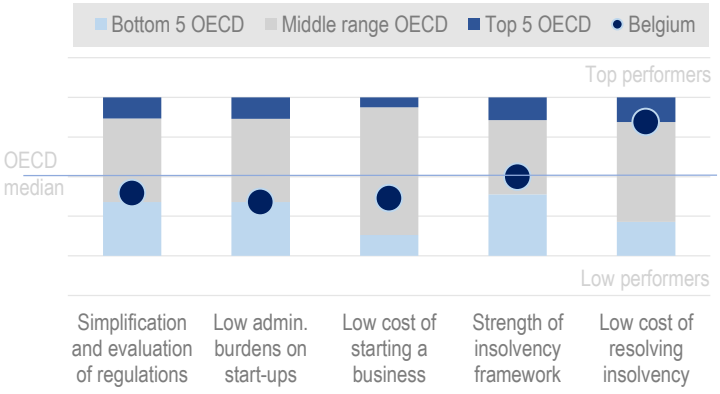
Cash reserves and government liquidity support



41% SMEs in Belgium have been able to access and combine government support (as compared to 33.6% in the OECD).

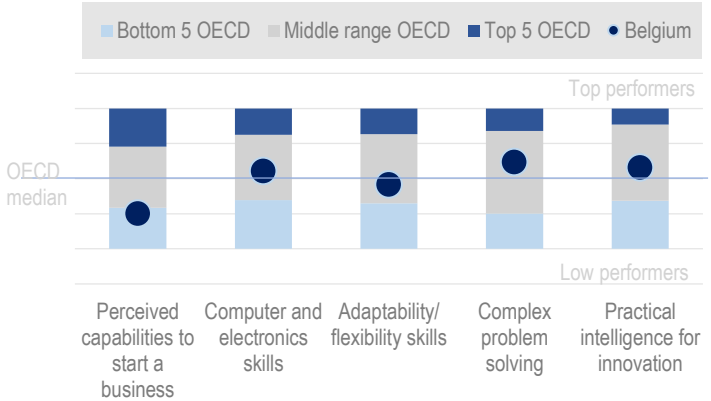
Non-repayable forms of support have been the most popular (33% of SMEs).

Entrepreneurship regulatory framework



In Belgium, there is room for easing administrative procedures for start-ups and reducing costs of starting a business.

Innovation skills



There is a good balance of innovation skills on the Belgian labour market, with some room to improve perceived entrepreneurial capabilities.

Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2016): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2015 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

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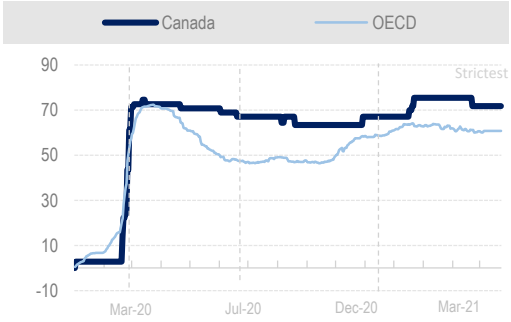
Canada

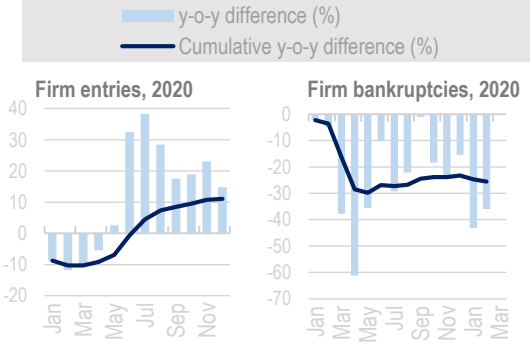
Figure 6.10. COVID-19 impact on business dynamics and policy responses in Canada

Stringency of government measures



From the start of the pandemic, Canada has adopted and maintained very strict sanitary restrictions.

Business dynamics



After an initial decline, firm creation rebounded from June 2020 onwards, with overall more firms created in 2020 than in 2019. The number of bankruptcies also dropped drastically as compared to the previous year.

Policy spotlight

Key measures to support SMEs and entrepreneurs through the COVID-19 crisis include:

Recovery Plan for Jobs, Growth, and Resilience where Budget 2021 supports firms, particularly SMEs, in innovating and investing in technology so that they grow and take advantage of the new opportunities.

Work-Sharing Program to support employers and workers affected by COVID-19 (extended to September 26, 2021).

CAD 27 billion Emergency Aid for workers and businesses, CAD 55 billion tax deferrals.

CAD 100 billion Post-Pandemic Economy Kick-Starting to help provinces and territories improve COVID-19 infection control in long-term care facilities, and to provide vulnerable industries (i.e., tourism, travel and arts) with business loans.

Go Digital Canada Initiative to help small business sales grow online, including free training courses and use of digital marketing channels.

Support Services for SMEs through digital platforms. Logistic service providers also launched SME support (e.g. Fintech companies).

National SME and entrepreneurship policy framework

SME&E policies in Canada are defined **as part of wider strategies and policy frameworks**.

The Federal Ministry of **Innovation, Science and Economic Development (ISED)** has three objectives with regards to SMEs: setting an efficient and competitive market place; strengthening the economy through science and technology, knowledge and innovation ; and building competitive business.

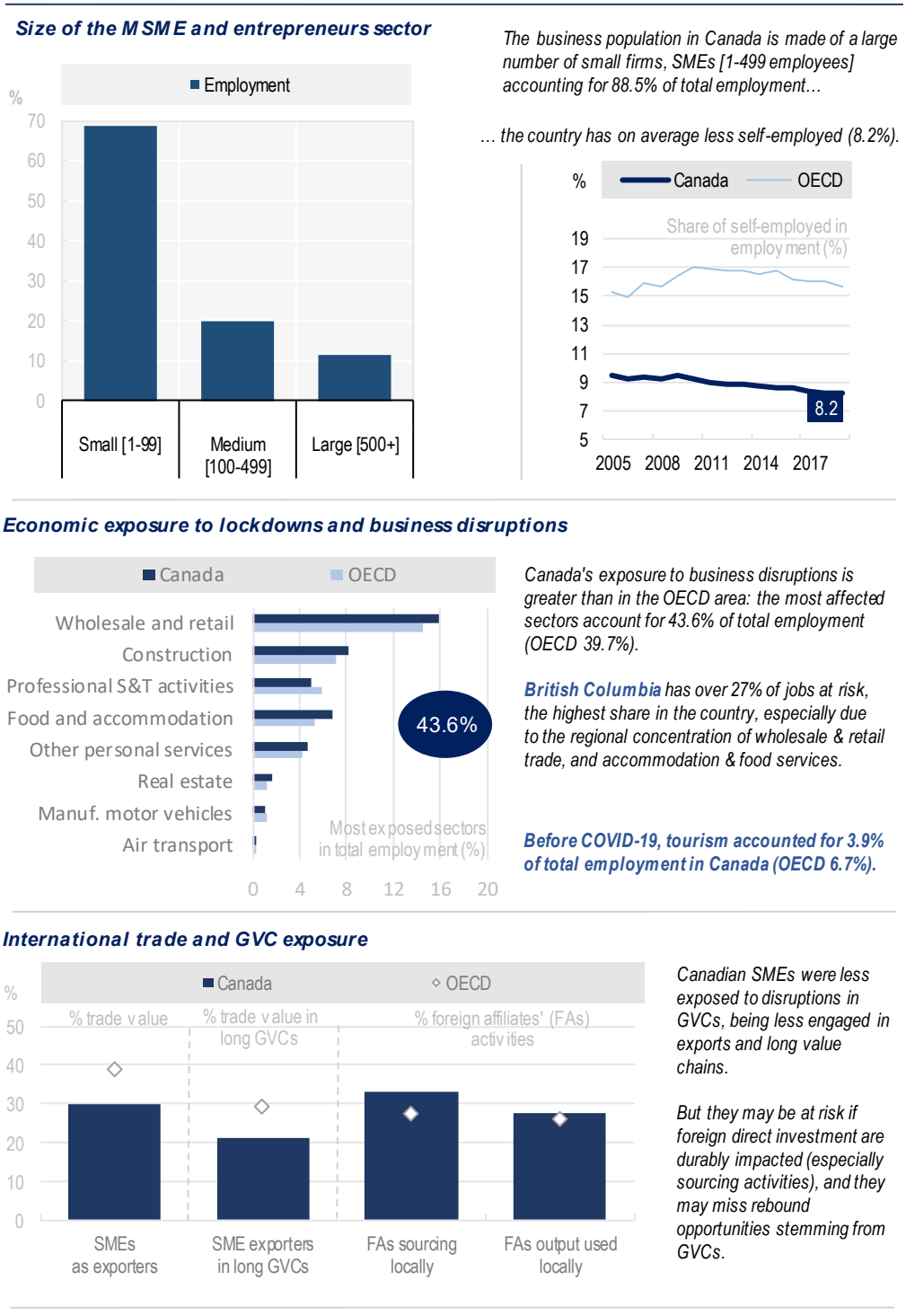
ISED's Small Business Policy Branch chairs the **Interdepartmental SME Working Group**, which shares information across government that relates to small business policy and provides functional guidance.

SME policy intervention takes place at state level through regional development agencies, as for instance the **Ontario "Business Growth Initiative"** (2016).

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250497

Figure 6.11. Factors of SME&E structural vulnerability in Canada



Source: Size of the MSME sector (2019): national sources; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2018): OECD Regional Outlook 2021; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

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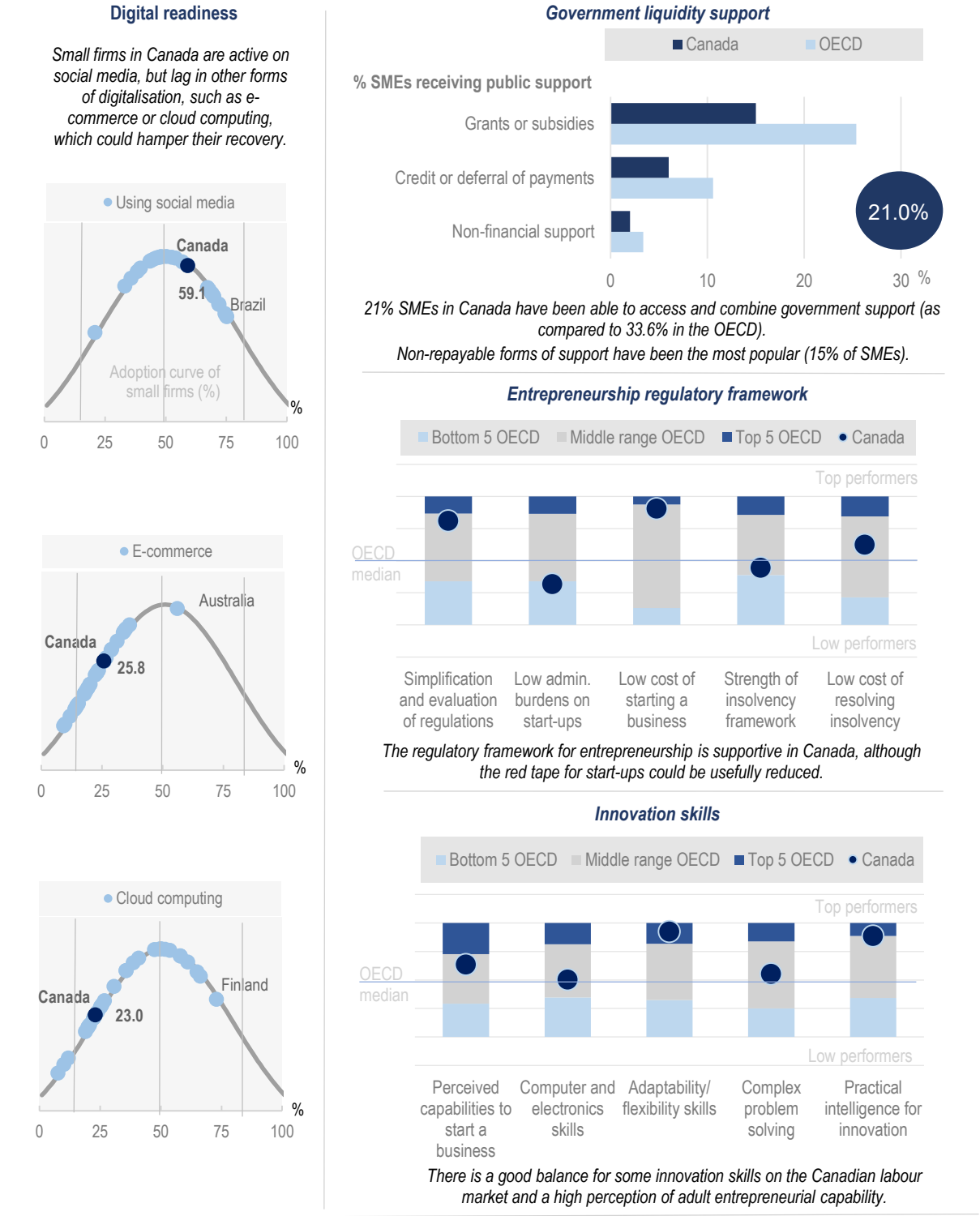
Figure 6.12. Sources of SME&E resilience in Canada



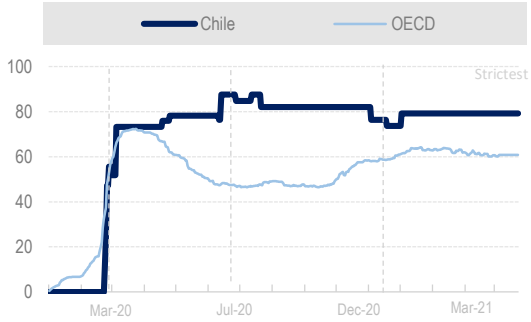
Source: Broadband (2020), social media (2019), e-commerce (2019), cloud computing (2019): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250535

Chile

Figure 6.13. COVID-19 impact on business dynamics and policy responses in Chile

Stringency of government measures



Chile has introduced very strict containment measures since the start of the pandemic.

Business dynamics

1 827 companies filed for liquidation (bankruptcy) under the national insolvency law in 2020. This figure is 11% higher than in 2019, when the social crisis also led to an increase in the closure of firms.

Policy spotlight

Key measures recently implemented include *a **USD 12 billion Fiscal Stimulus Package***, which aims to encourage investment, an infrastructure development, and a ***special plan to simplify bureaucratic procedures***, ***and promote and accelerate innovation and investment***. Both give a marked focus to the reactivation of micro- SMEs through tax measures, subsidies and other financing solutions, and capacity building.

Structural measures also include:

- *"**Reactivate Plan**"*, with USD 4 200 grants to SMEs that have been affected by the pandemic. The government also incentivises SMEs to digitalise;

- ***Digitize Your SME Programme*** to create awareness, deliver training, and foster the adoption of digital tools by SME&E ; including the ***SMEs Online Scheme*** that allows access to e-commerce, social networks, payment methods, and digital marketing;

- ***Amendment of the Labour Code*** to encourage teleworking facilities for SMEs and reduce regulatory barriers in this area;

- ***Compra Agil Programme*** to facilitate the participation of SMEs in public procurement, while the State pays all pending invoices to date.

National SME and entrepreneurship policy framework

SME&E policies in Chile are defined **as part of a multi-annual Action Plan**.

Chile is staffed with a dedicated Undersecretary of Economy and Smaller Companies within the Ministry of Economy, Development and Tourism. The Ministry's **Division of Smaller Companies (DEMT)** is responsible for formulating, articulating and implementing policies in support of small businesses as well as to promote the creation of new businesses. It also coordinates with different public and private entities.

The COVID-19 pandemic has led to a more integrated approach of SME support. The **MSME Guidelines** - "Guía Mypyme" (2020) include measures across eight Ministries, covering a wide array of laws and regulations of importance to SMEs, such as finance, digitalisation, labour, skills, procurement, and health.

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

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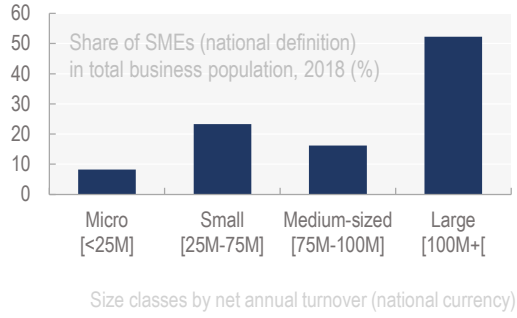
Figure 6.14. Factors of SME&E structural vulnerability in Chile

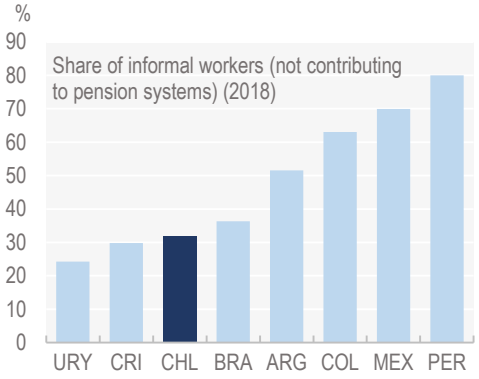
Size of the MSME and entrepreneurs sector



Based on national data, SMEs in Chile account for 47.7% of total business population. The share of micro and small firms is especially low in an international context.

The country however counts more self-employed than other OECD countries (27.2%).

Economic exposure to lockdowns and business disruptions



Chile has gone through the deepest recession since the monetary crisis of 1982, employment rates reaching an historical low.

The high prevalence of informality has increased vulnerability.

Employment in the wholesale & retail trade, and transport services, and in the construction industry have been strongly impacted.

Before COVID-19, tourism accounted for 6.4% of total employment in Chile (OECD 6.7%).

International trade and GVC exposure

Chile is highly dependent on international trade, both as importer and exporter (backward and forward linkages). The country relies heavily on intermediate inputs for its global competitiveness and on foreign demand for market prospects.

By September 2020, trade was already showing signs of recovery, with ten of Chile's sixteen regions experiencing a rise in export shipments.

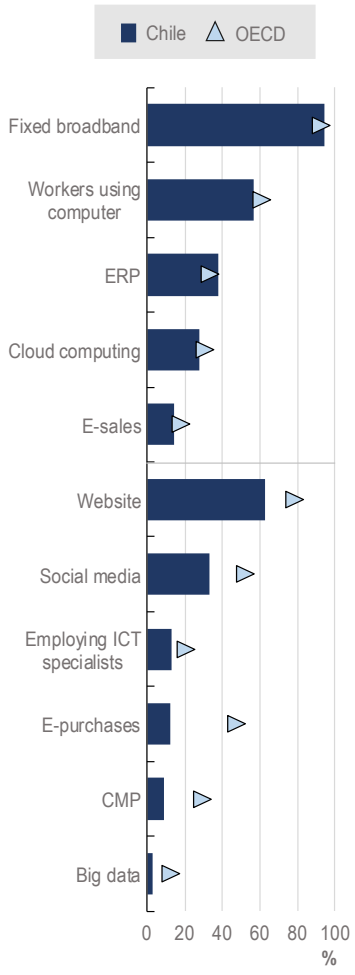
Source: Size of the MSME sector (2019): national sources; Share of self-employed (2005-19): OECD LFS database 2020 and ILOSTAT database 2020; Informal workers: OECD Economic Survey of Colombia 2020 (OECD, 2020); Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2016): OECD TiVA database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250573

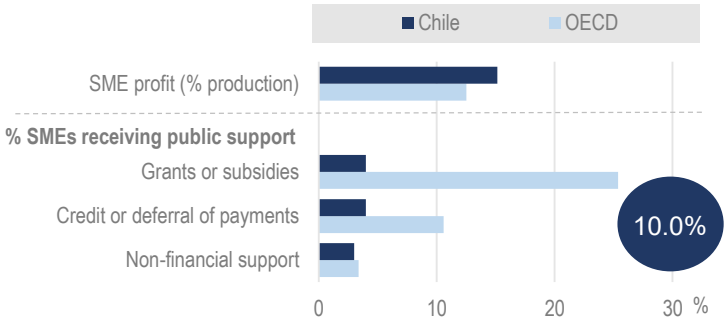
Figure 6.15. Sources of SME&E resilience in Chile

Digital readiness

National data show that small firms in Chile are engaging in the digital transition, but may lag in some aspects of the transformation, as compared to OECD peers.



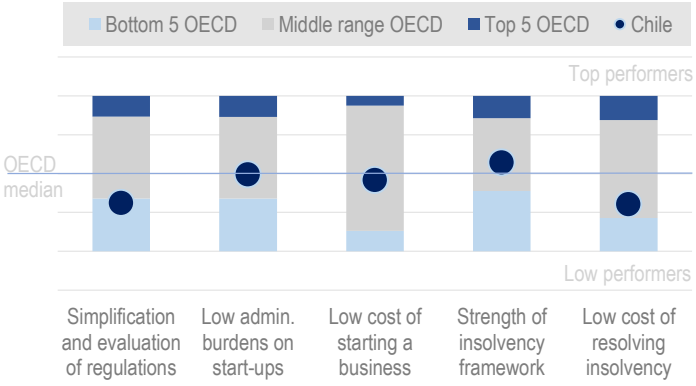
Cash reserves and government liquidity support



10% of SMEs in Chile have been able to access and combine government support (as compared to 33.6% in the OECD).

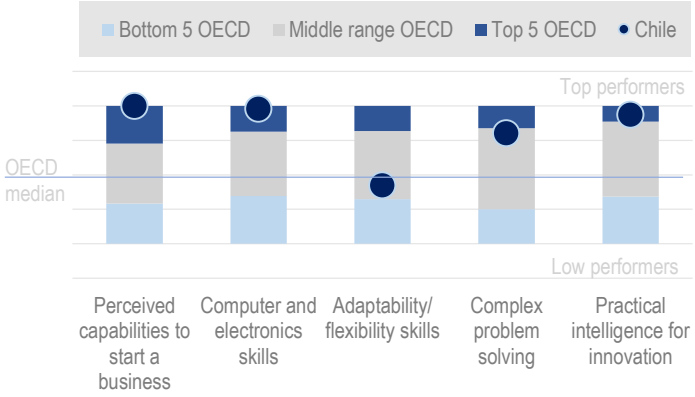
Repayable and non-repayable forms of support have been equallly popular.

Entrepreneurship regulatory framework



The regulatory framework for entrepreneurship in Chile is on par with OECD practices, with room for simplifying regulations or reducing the costs of resolving insolvency.

Innovation skills



There is a good balance between demand and supply of innovation skills in Chile, due to still low demand, but there are also rising gaps for adaptability/flexibility skills.

Source: ICT use: OECD Economic Survey of Chile (OECD, 2020); SME profit (2016): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

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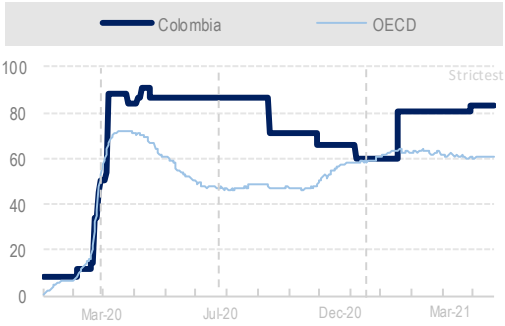
Colombia

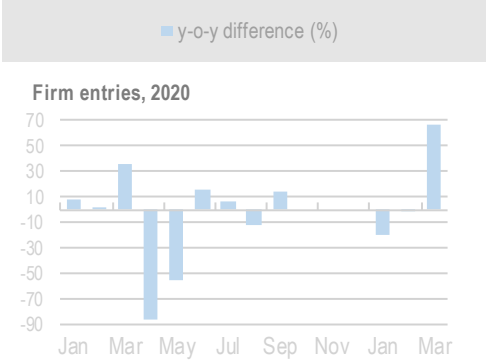
Figure 6.16. COVID-19 impact on business dynamics and policy responses in Colombia

Stringency of government measures



Colombia has introduced strict containment measures since the start of the pandemic.

Business dynamics



According to the Confederación Colombiana de Cámaras de Comercio, firm entries rose from 53 197 in 2019 Q4 to 65 363 in the same period of 2020, representing a total increase of 23%.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include: ***USD 806 million Formal Employment Support Program (PAEF)*** to subsidise wage and receipts; ***USD 379 million in special credit lines*** with low interest rates and grace periods; and the ***National Guarantees Fund*** to cover MSME working capital and payroll costs.

Structural measures have also been implemented:

- ***USD 29 million Stimulus and Recovery Plan*** to develop cleantech and sustainable sectors, and strengthen the entrepreneurial ecosystem by improving the regulatory framework for SMEs and promoting new channels of finance ;
- ***National Policy on Entrepreneurship*** (2020), a five-year plan to foster productivity and competitiveness, through reskilling, diversified finance, tech development, marketing etc. ;
- ***Entrepreneurship Law 2020*** to establish a regulatory framework for start-ups and growth via a regionally-tailored approach ;
- ***National intellectual property policy*** (underway) to consolidate the generation and use of knowledge.
- ***Recovery policy*** (2021) to reduce the regulatory burden, scale up the ***Fábricas de Productividad***, expand the ***Compra Lo Nuestro*** Programme for the digitalisation of microenterprises and the connection of suppliers and buyers in Colombia, and develop quality standards to operate on global markets.

National SME and entrepreneurship policy framework

SME&E policies in Colombia are defined **as part of wider strategies and policy frameworks**.

Colombia supports SMEs through the "**Política Nacional de Emprendimiento**" (2020-24) which acknowledges the specific characteristics and needs of entrepreneurs, depending on the nature of their business: subsistence, consolidation, or wealth creation. It focuses on skills development, access and sophistication of financing mechanisms, strengthening and marketing strategies, technological development and innovation and strengthening of institutional architecture to guarantee a public supply of consistent support instruments.

Colombia has also set up **Regional SME Councils** (Consejos Superiores de Micro Empresa/Consejos Pequeñas y Medianas Empresas) in each region, bringing together national and regional governments, SMEs, SME associations and Chambers of Commerce. The Councils play an important role in policy delivery.

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250611

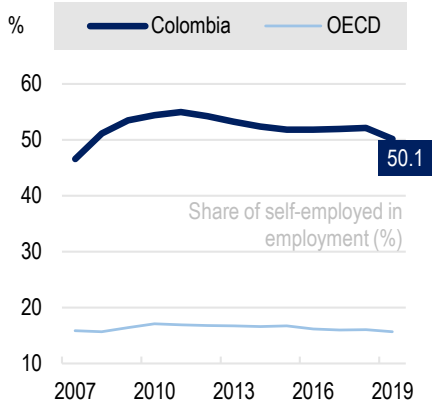
Figure 6.17. Factors of SME&E structural vulnerability in Colombia

Size of the MSME and entrepreneurs sector

Colombia has a very large population of very low productive SMEs.

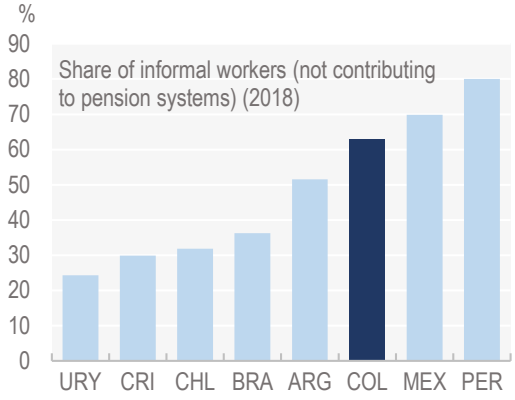
According to the National Statistics Department, SMEs account for about 67% of employment and 28% of GDP (2017), much below the average numbers observed in OECD countries.

Many enterprises are family-run businesses, which are typically limited in their managerial capacity and corporate governance.



In Colombia, the self-employed account for half of employment (OECD average 15.7%).

Economic exposure to lockdowns and business disruptions

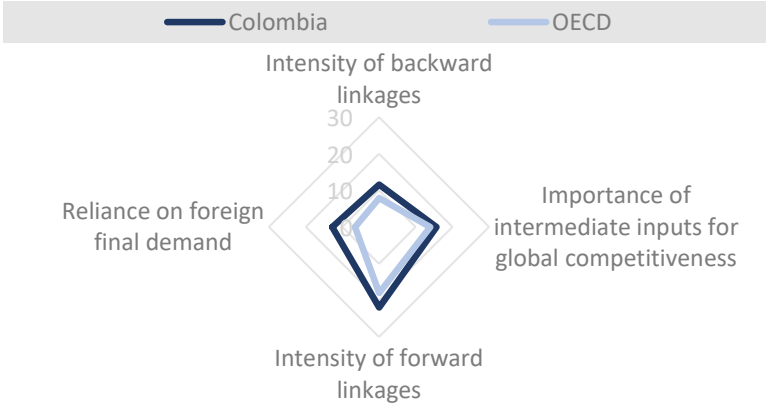


The high prevalence of informality has increased vulnerability.

Sectors that continue to be subdued include entertainment, recreation, retail, transport and accommodation.

Before COVID-19, tourism accounted for 3.7% of total employment in Colombia (OECD 6.7%).

International trade and GVC exposure



Colombia was exposed to chain reactions along GVCs as exporter and importer (backward and forward linkages).

The country relies also heavily on foreign final demand for market prospects.

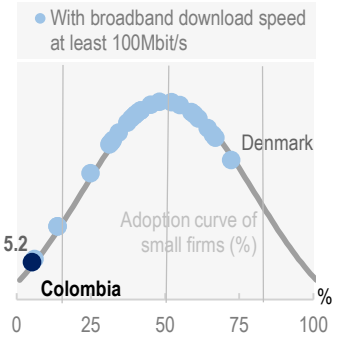
Source: Size of the MSME sector (2017): OECD Financing SME & Entrepreneurship Scoreboard 2020 based on national sources; Share of self-employed (2005-19): OECD LFS database 2020; Informal workers (2018): OECD Economic Survey of Colombia 2020 (OECD, 2020); Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2016): OECD TiVA database 2018 (see country-specific references and definitions).

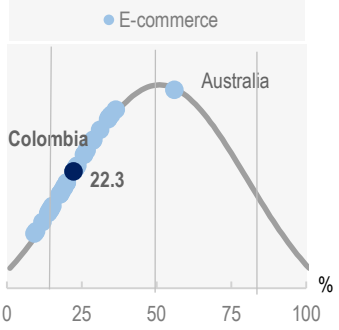
StatLink https://doi.org/10.1787/888934250630

Figure 6.18. Sources of SME&E resilience in Colombia

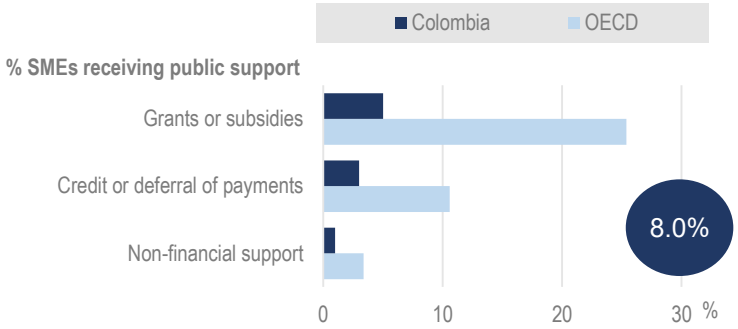
Digital readiness

Small firms in Colombia engage in e-commerce and uptake is fairly close to the OECD average, but they still face difficulties in connecting to high-speed broadband, which could slow their recovery.





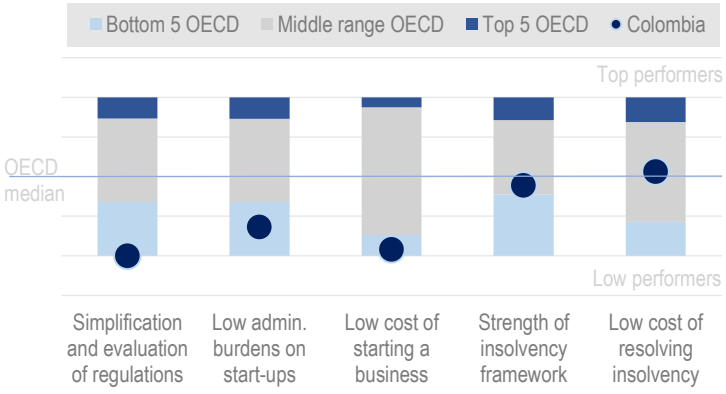
Government liquidity support



8% of SMEs in Colombia have been able to access and combine government support (as compared to 33.6% in the OECD).

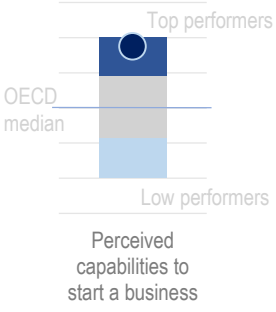
Non-repayable forms of support have been the most popular (5% of SMEs).

Entrepreneurship regulatory framework



There is room to improve the famework conditions for entrepreneurship in Colombia, especially for start-ups or by simplifying regulations.

Innovation skills



Adult population in Colombia has a very high perception of its entrepreneurial capabilities, both as compared to OECD and Latin American countries

However many Colombians lack basic skills, including those needed to take part in the digital transition. Many young Colombians continue to leave school without the skills necessary for the future.

In addition, the mismatch between the supply and demand of skills is widespread. Colombian companies report skills shortage and a lack of experience in middle-level functions.

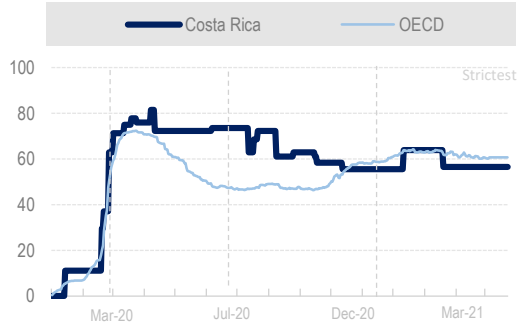
Source: Broadband (2018), e-commerce (2018): OECD ICT Usage by Businesses database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019): GEM 2019 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250649

Costa Rica

Figure 6.19. COVID-19 impact on business dynamics and policy responses in Costa Rica

Stringency of government measures



Costa Rica has maintained relatively high levels of restrictions since the start of the pandemic.

Business dynamics

In January 2021, an estimated 30 000 micro-enterprises had closed in Costa Rica, while almost 15 000 self-employed had lost their source of income. Most of these micro-enterprises were in the informal sector, which has been heavily affected by the pandemic.

However the recovery in employment in the country has been largely driven by the informal sector. Between 2020 Q1 and Q2, 346 000 informal jobs disappeared. In 2020 Q4, 188 000 jobs were recovered.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include: **USD 34 million in SME Support** from the Ministry for Economy, Industry and Commerce (MEIC), channelled through the Development Fund for Micro, Small and Medium Enterprises of Banco Popular, and ***Working Capital Credits for MSMEs*** aimed at guaranteeing business continuity and job protection.

Structural measures have also been implemented:

- ***USD 5.6 million in Business Development Services*** to provide consultancy services to selected SMEs that export or intend to export, to help them recover from the crisis. It includes grants, support to export promotion, contact with international buyers and links to Global Value Chains, and consultancy to adapt or re-orient the business model ;

- ***Digital SME program*** to boost SME digital transformation by developing appropriate skills and conditions for the adoption of new technologies ;

- ***Digital Check-Up Platform*** which allows companies to conduct a diagnosis of their digital maturity in 8 areas, and offers recommendations according to the level of maturity in each area.

National SME and entrepreneurship policy framework

SME&E policies in Costa Rica are defined **as part of specific SMEs strategies**.

In 2020, the Ministry of Economy, Industry and Commerce (MEIC) launched the **"Política Nacional de Empresariedad 2030 (PNE-2030)"** which includes strategic policy objectives, actions and governance mechanisms with regard to SME and entrepreneurship, supporting the wider National Development Plan.

The **Mixed Advisory Council on SMEs** (Consejo Asesor Mixto de la PYME) ensures horizontal coordination between Ministries and agencies, as well as representatives from the private sector. The Council also plays a role in evaluation and monitoring the impact of SME support programmes.

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

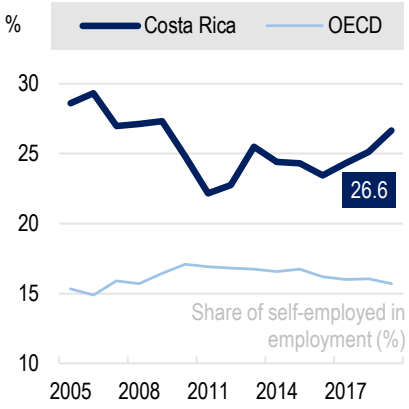
StatLink https://doi.org/10.1787/888934250668

Figure 6.20. Factors of SME&E structural vulnerability in Costa Rica

Size of the MSME and entrepreneurs sector

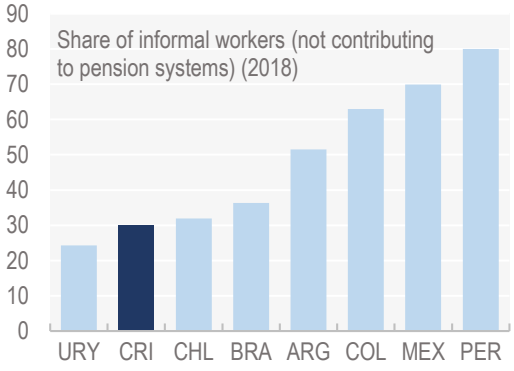
*Costa Rica has a large population of SMEs that account for **99.3% of all enterprises**, 84% are micro firms, 12.7% small enterprises and 2.7% medium-sized enterprises.*

2017 national data point to SMEs accounting for 33% of total employment, a low share as compared to the numbers observed in the OECD area.



Costa Rica counts 26.6% of self-employed (OECD average 15.7%).

Economic exposure to lockdowns and business disruptions



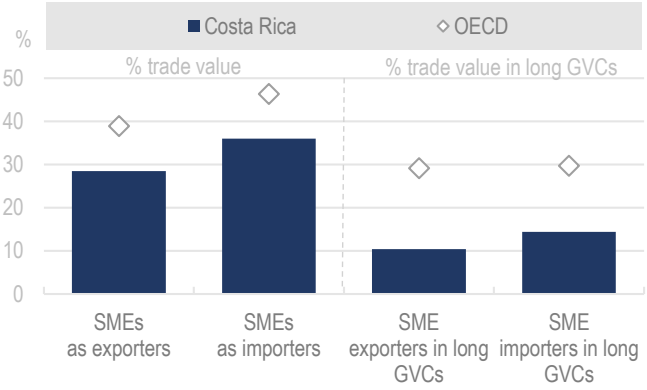
In Costa Rica, economic activity has contracted by around 5% in 2020, before rebounding in 2021 (+1.5%).

Non-agricultural SMEs are mainly active in services (43%) and commerce (41%), and are unevenly distributed across the country (74% located centrally).

The country was also made vulnerable due to the importance of informality.

Before COVID-19, tourism accounted for 6.6% of total employment in Costa Rica (OECD 6.7%).

International trade and GVC exposure



Costa Rica is a very open economy, foreign trade representing 66% of its GDP. However SMEs are little engaged in cross-borders operations.

They may miss the opportunities stemming from GVCs to rebound.

Source: Size of the MSME sector (2017): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020 and ILO ILOSTAT database 2020; Informal workers (2018): OECD Economic Outlook Costa Rica (OECD, 2020); Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2013): OECD TEC database 2021 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250687

Figure 6.21. Sources of SME&E resilience in Costa Rica

Digital readiness

*In the last decade, Costa Rica has made **advances in digital connectivity**.*

Internet users represented more than 74% of the population in 2018, with further increases in the previous year.

The same year, mobile and fixed broadband subscriptions stood at 100.9 and 16.6 per 100 inhabitants respectively, figures above the Latin America and the Caribbean averages (73.5 and 13.9).

*However **Costa Rica lags behind in different aspects of the digital transformation**, both in comparison with OECD countries and other emerging economies. There is for instance room to improve e-government.*

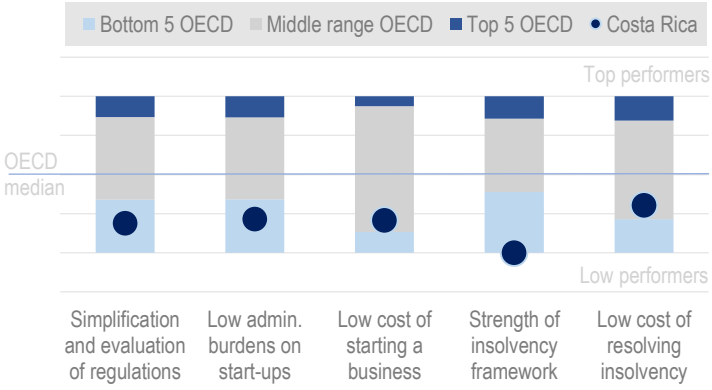
Cash reserves and government liquidity support

Between 1 March 2020 and 30 April 2021, a total of USD 477 million was granted in credit to SMEs across the country (134 203 credits allocated).

The two most used sources of credits are the "Centros de Referencia y Defensoría Social Migratoria (CREDES)" and the "Fondo Nacional para el Desarrollo (FONADE)".

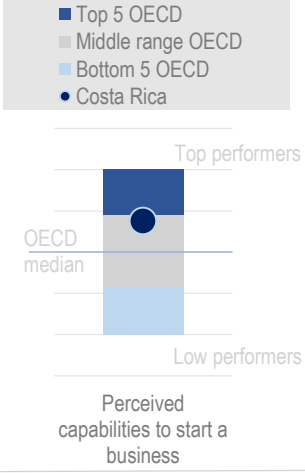
Micro and small enterprises benefited most from these credits, both in terms of amounts and volumes. In addition, the agri-commodity, service and trade sectors were the main beneficiaries.

Entrepreneurship regulatory framework



Regulations are burdensome in Costa Rica and the administrative framework is not favourable to business creation and entrepreneurship.

Innovation skills



Adult population has a good perception of its entrepreneurial capabilities in Costa Rica (2014 data).

There are however persistant skills shortages and mismatches between demand and supply in the country. Employers face difficulties in filling vacancies, particularly in technical and scientific fields.

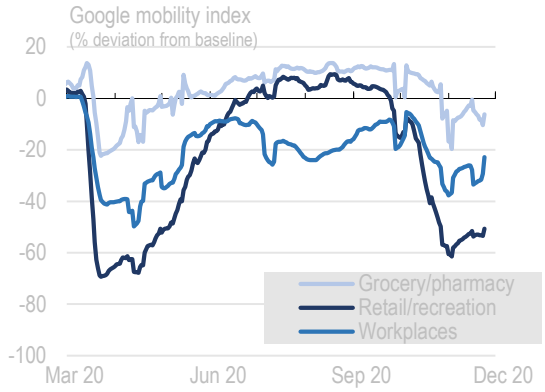
Source: Business ICT use: OECD Latin American Economic Outlook 2020 (OECD, 2020); Liquidity support: OECD dedicated report on Costa Rica's public finances (OECD, 2020), country-specific references and definitions; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019): GEM 2014 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250706

Czech Republic

Figure 6.22. COVID-19 impact on business dynamics and policy responses in Czech Republic

Stringency of government measures



If the Czech Republic was one of the more successful countries in containing the pandemic during the first wave, it was hit hard in the second wave.

Business dynamics

Despite the high number of bankruptcies filed in September and October 2020, in October the number of declared corporate bankruptcies was the third-lowest since 2008. Compared to September 2020, it decreased by a third.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include: ***CZK 5 billion COVID-19 Loan Programme*** for SMEs in the form of soft loans with zero interest rate, and ***EUR 1.2 billion Compensation Bonus*** for the periods when SMEs have been prevented, completely or partially, from doing business.

Structural measures have also been implemented:

- CZK 200 million Czech Rise Up Programme to support innovative companies, including start-ups.

- CZK 300 million COVID-19 Technology Programme to support SMEs' acquisition of new technological equipment and facilities, which is directly linked to fight the spread of the virus.

- National Recovery Plan focusing on 6 pillars: i) digital transformation, ii) physical infrastructure and green transition, iii) education and labour market, iv) institutions, regulation and business support in response to COVID-19, v) research, development and innovation, and vi) population health and resilience. A specific focus is placed on **SME digitalisation, support of innovative start-ups and alternative finance**.

National SME and entrepreneurship policy framework

SME&E policies in Czech Republic are defined **as part of specific SMEs strategies**.

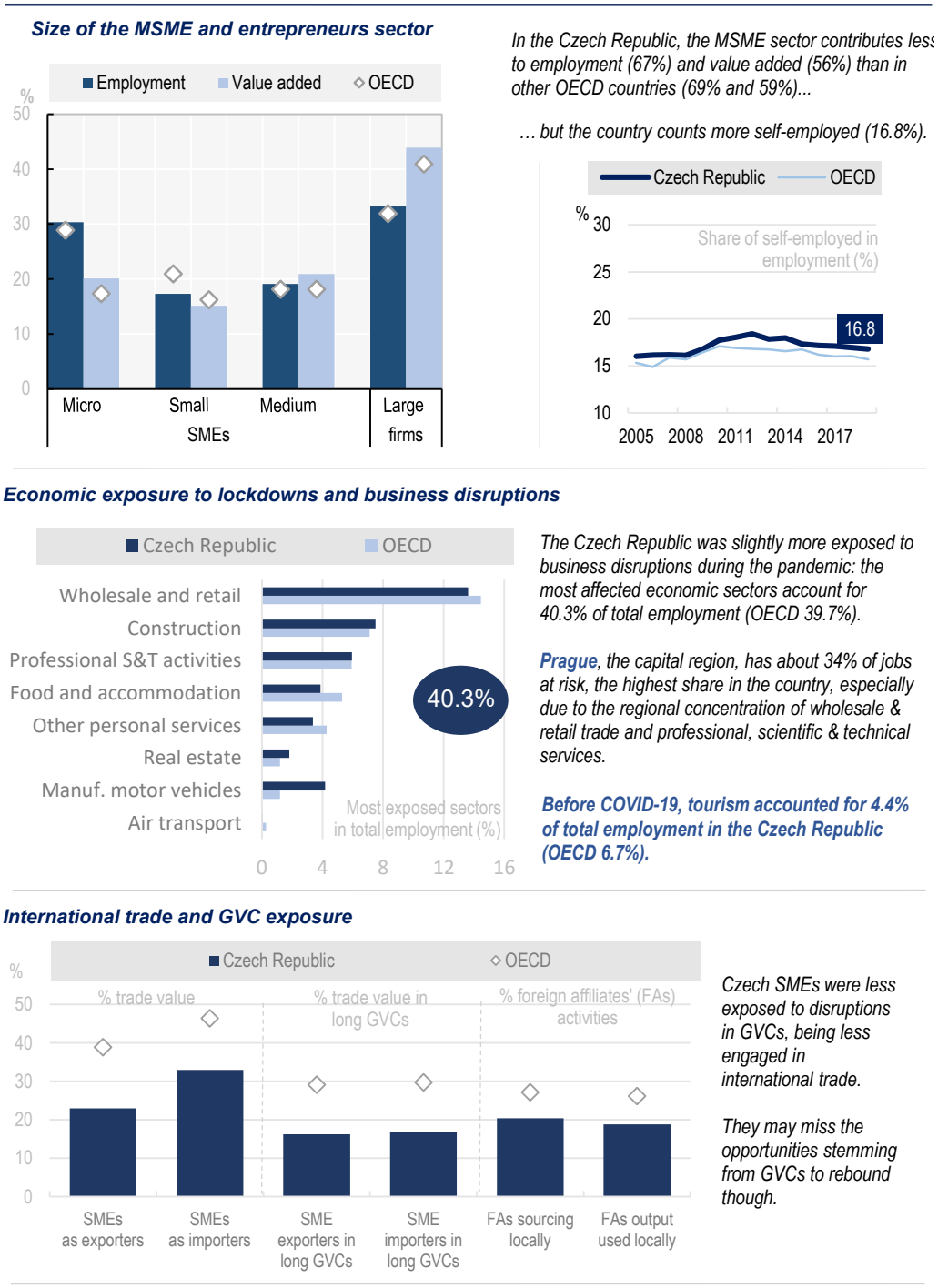
The Czech national SME policy framework is outlined in the "**SME Support Strategy 2021-27**" which seeks to support the productivity and competitiveness of Czech SMEs, as well as their innovation and internationalisation. The Strategy was developed by the **Ministry of Industry and Trade** in cooperation with other Ministries, regional and local authorities. It also benefited from a consultation with Czech SMEs as well as from cooperation with The World Bank and the European Commission.

The Czech SME Support Strategy is also the **delivery plan for the EU Small Business Act and Cohesion funding**.

Source: Google Community Mobility Report (mobility index, 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250725

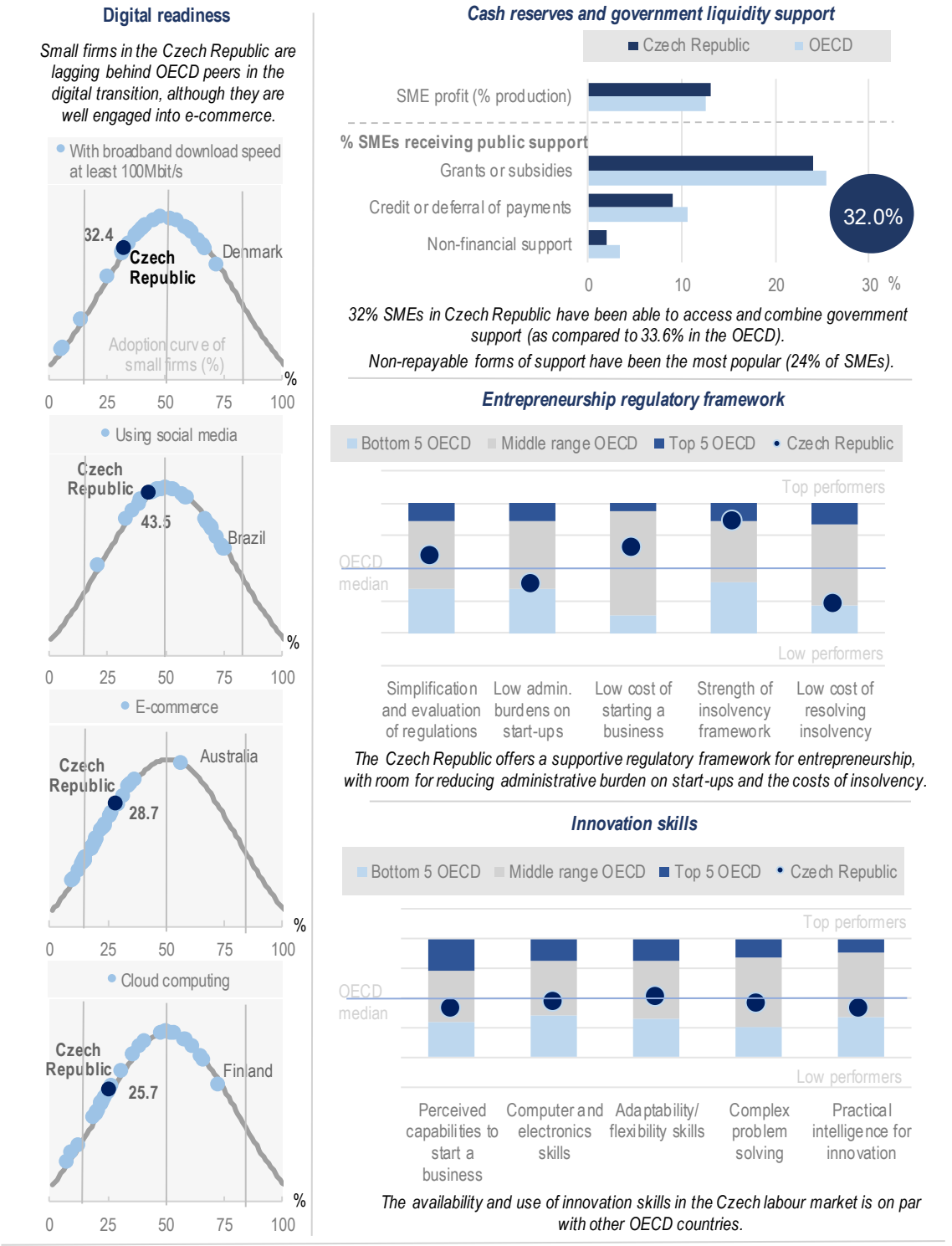
Figure 6.23. Factors of SME&E structural vulnerability in Czech Republic



Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250744

Figure 6.24. Sources of SME&E resilience in Czech Republic



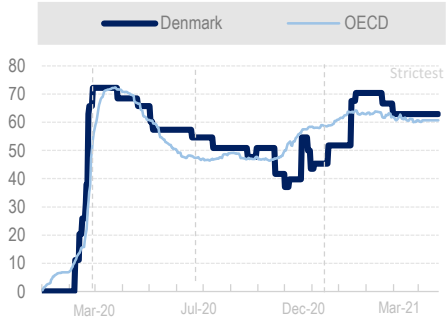
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2013 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250763

Denmark

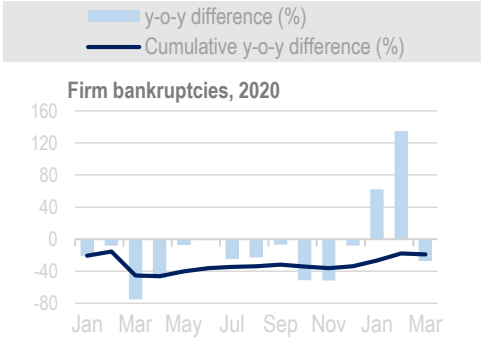
Figure 6.25. COVID-19 impact on business dynamics and policy responses in Denmark

Stringency of government measures



There were episodes of stringent restrictions in Denmark,

Business dynamics



A wave of bankruptcies hit Denmark in early 2021, whereas the number of business closures had remained below 2019 levels over the previous year.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include:

- ***DKK 38 billion in national support schemes*** to provide salary and fixed costs compensation for businesses, as well as targeted support for self-employed and freelancers;

- ***Credit facility*** through VAT and income tax payment deferral (EUR 5.4 billion are targeted to SMEs);

- ***Loan guarantees*** (70% of the loans) to SMEs who have seen a drop in profits by more than 30%.

Structural measures have also been implemented:

- ***DKK 1.25 billion Liquidity Guarantee*** in new loans to SMEs with export activities, and additional funds to the Danish Export Credit Fund (EKF) to increase access to export credit for SMEs.

- ***Denmark's Recovery and Resilience Plan*** with measures to support SMEs in overcoming barriers to invest in, and use, new and advanced technology and e-commerce solutions, as well as to promote connectivity by means of high speed internet access in rural areas.

National SME and entrepreneurship policy framework

SME&E policies in Denmark are defined **as part of wider strategies and policy frameworks**.

The **"Statement on Business Promotion" (2021)** presents an overview of state initiatives regarding business promotion, including the green transition, innovation and entrepreneurship, non-profit and cultural businesses, global marketing and international framework and partnership instruments.

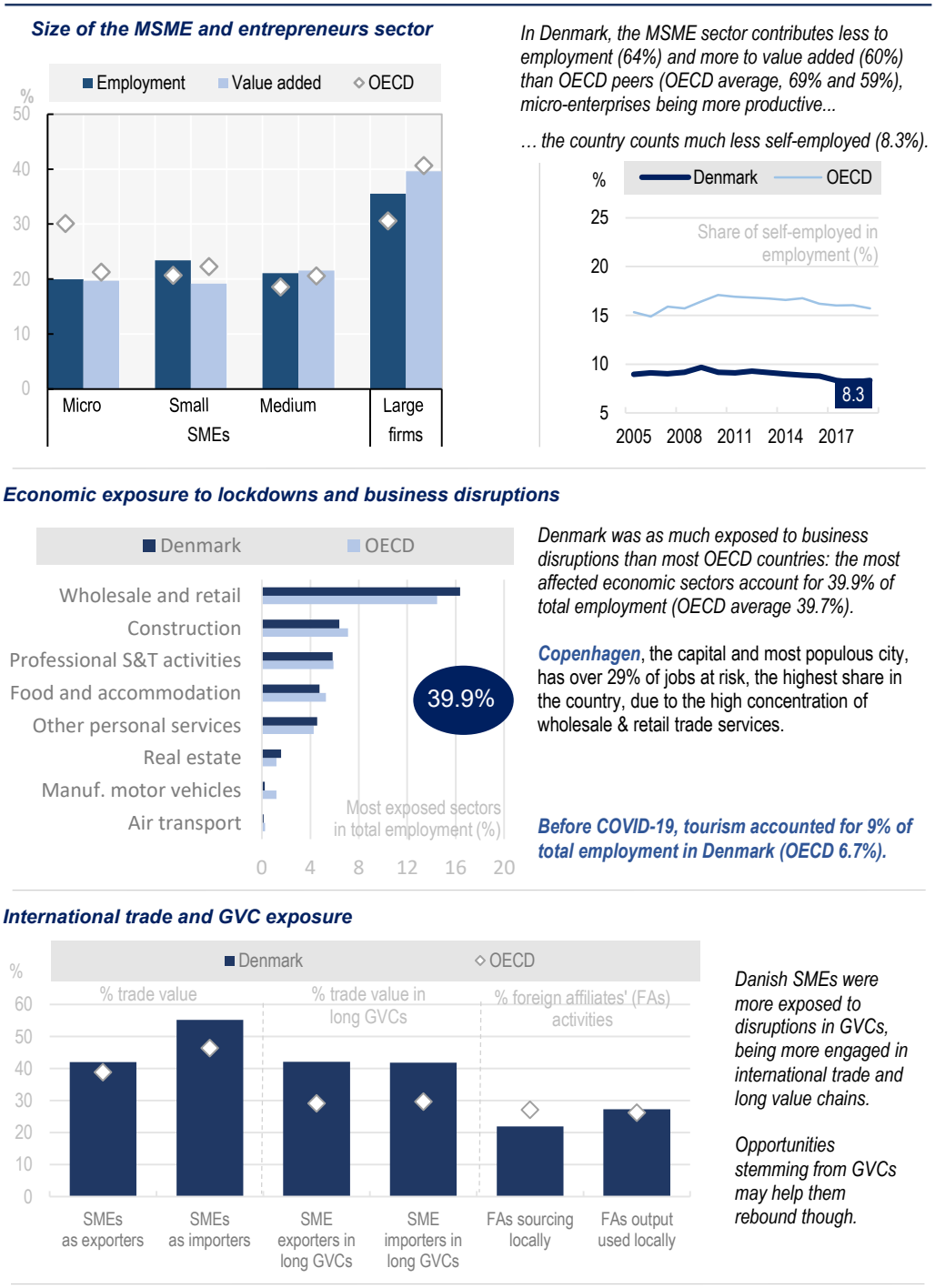
A **Danish Board on Business Development** has been appointed for regional and local initiatives. Its **Business Promotion Strategy 2020-23** targets SMEs and focuses on green transition, circular economy, innovation, entrepreneurship, digitalisation-automation, internationalisation, work and social inclusion.

A new **Partnership on Digitalisation** will provide input on policy measures related to new digital technologies, such as the future of digital businesses, workplaces, innovation and the public sector.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250782

Figure 6.26. Factors of SME&E structural vulnerability in Denmark



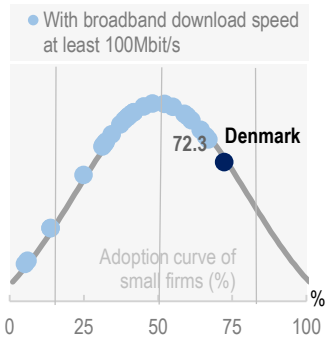
Source: Size of the MSME sector (2016): OECD SME&E Outlook 2019; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

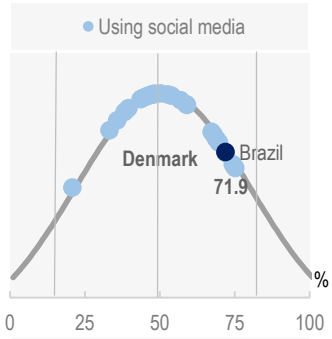
StatLink https://doi.org/10.1787/888934250801

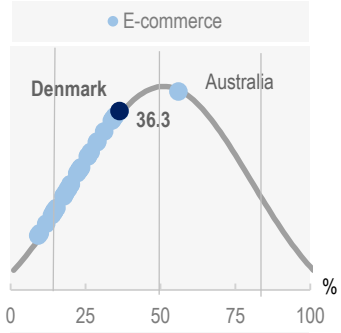
Figure 6.27. Sources of SME&E resilience in Denmark

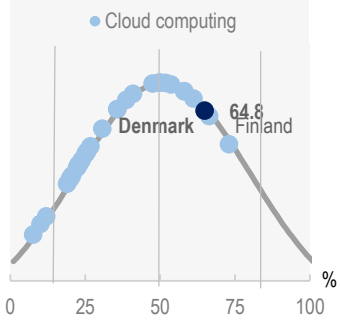
Digital readiness

Danish SMEs are ahead in their digital transformation as compared to OECD peers.

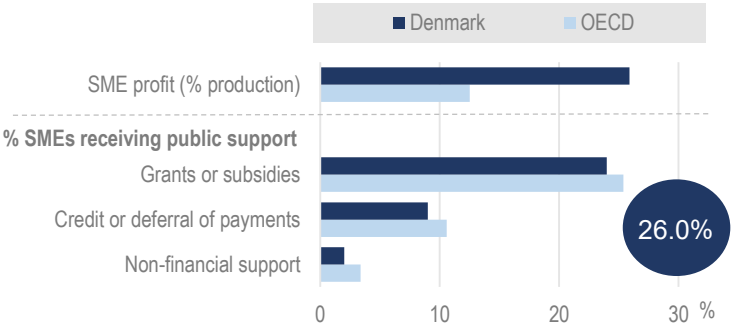








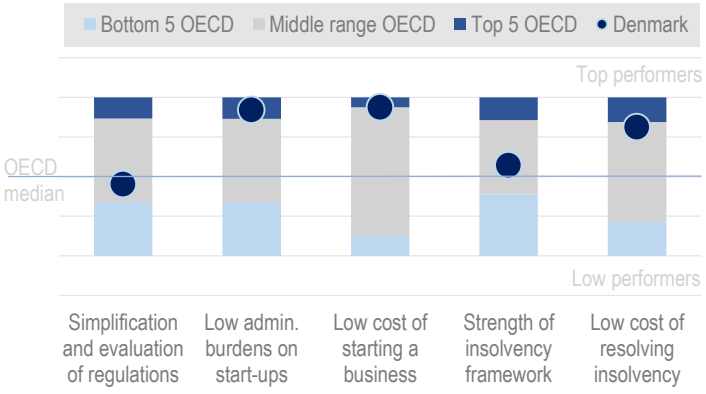
Cash reserves and government liquidity support



26% SMEs in Denmark have been able to access and combine government support (as compared to 33.6% in the OECD).

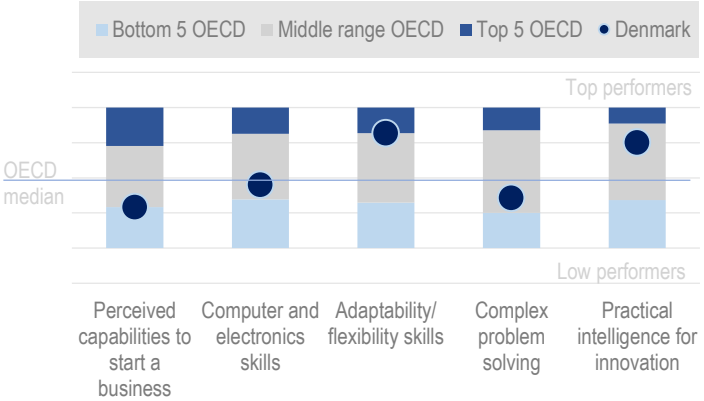
Non-repayable forms of support have been the most popular (24% of SMEs).

Entrepreneurship regulatory framework



Denmark offers a favourable regulatory and administrative environment for entrepreneurship and start-ups.

Innovation skills



There is a very good balance for some innovation skills on the Danish labour market, and emerging gaps for others that could hamper the recovery.

Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2014 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

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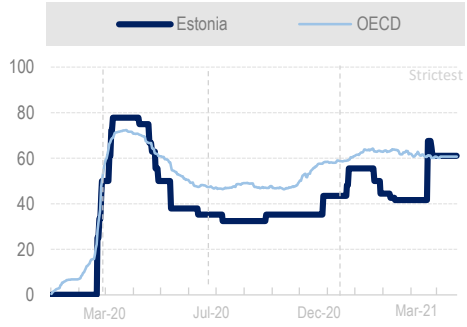
Estonia

Figure 6.28. COVID-19 impact on business dynamics and policy responses in Estonia

Stringency of government measures



After the first peak of COVID-19 in Spring 2020, Estonia was able to relax its containment measures.

Policy spotlight

Significant national economic support has been provided in the following areas:

- ***EUR 386 million provided by the Kredex Foundation*** for loans and guarantees ;

- ***EUR 44 million scheme by Enterprise Estonia*** to support the tourism sector ;

- ***Estonian Unemployment Insurance Fund***, with EUR 277 million allocated to the Salary Subsidy Program ;

- ***EUR 134 million from the Rural Development Foundation*** in form of loans and guarantees for regional companies implemented across the country.

National SME and entrepreneurship policy framework

SME&E policies in Estonia are defined **as part of wider strategies and policy frameworks**.

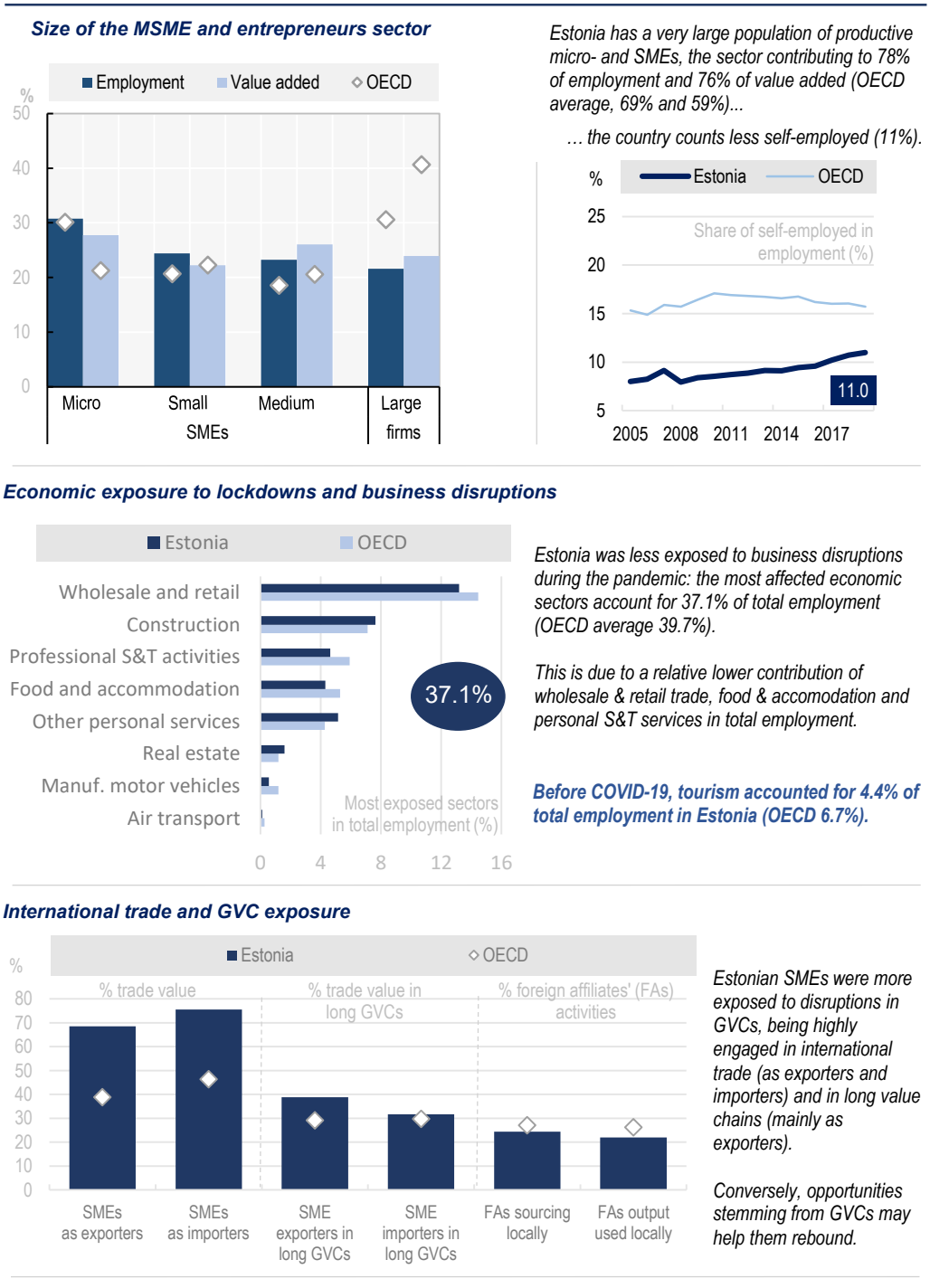
Estonia's **"Entrepreneurship Growth Strategy 2014-20"** is linked to the wider Estonia 2020 Strategy and other national strategies on innovation, regional development and digitalisation. It aims to enhance competitiveness and employment of all Estonian enterprises, i.e. both emerging and established entrepreneurs. It focuses on a number of areas, including access to finance, skills, innovation, the reduction of red tape, the creation of friendly business environment, as well as the attraction of foreign investment.

Estonian agencies such as **Enterprise Estonia or KredEx,** focus on the broader business community, not exclusively on SMEs.

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250839

Figure 6.29. Factors of SME&E structural vulnerability in Estonia



Source: Size of the MSME sector (2016): OECD SME&E Outlook 2019; Share of self-employed (2005-19): OECD LFS database 2020 and ILO ILOSTAT database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250858

Figure 6.30. Sources of SME&E resilience in Estonia

Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2017 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250877

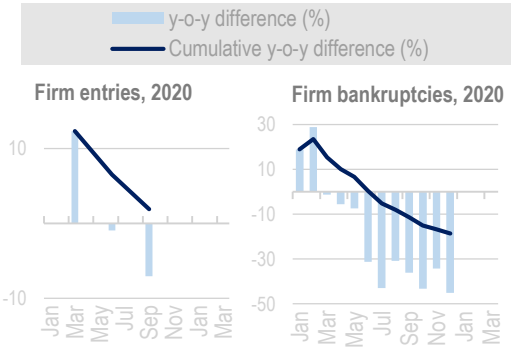
Finland

Figure 6.31. COVID-19 impact on business dynamics and policy responses in Finland

Stringency of government measures

Since the beginning of the pandemic, Finland has experienced less stringent restrictions than other OECD countries.

Business dynamics



Firm creation has slowed down in the second half of 2020, yet remaining above 2019 levels. At the same time, the number of bankruptcies has drastically receded.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include:

- EUR 10 billion Stimulus Package, with EUR 50 million earmarked for SMEs in the service sector; and EUR 150 million for businesses in the creative sector, tourism and supply chains.

- EUR 350 million SME Initiative Finland for financing small businesses at preferential terms.

Further structural support has been implemented:

- Finland's Sustainable Growth Programme, including the ***Growth Accelerator Programme for Small Businesses*** and the ***Programme for the Promotion of Low-Carbon, Circular Economy and Digital Transformation*** (targeted at export business companies, especially SMEs).

- EUR 100 million Regional Recovery Plans to help reform economic structure, promote digitalisation and create a sustainable and carbon neutral society. ***EUR 53 million*** are devoted to the development of SMEs.

- National digital innovation hub roadmap, a long-term strategy to provide SMEs with tech support and enable them to drive business renewal and scale-up growth prospects.

National SME and entrepreneurship policy framework

SME&E policies in Finland are defined **as part of a multi-annual Action Plan**.

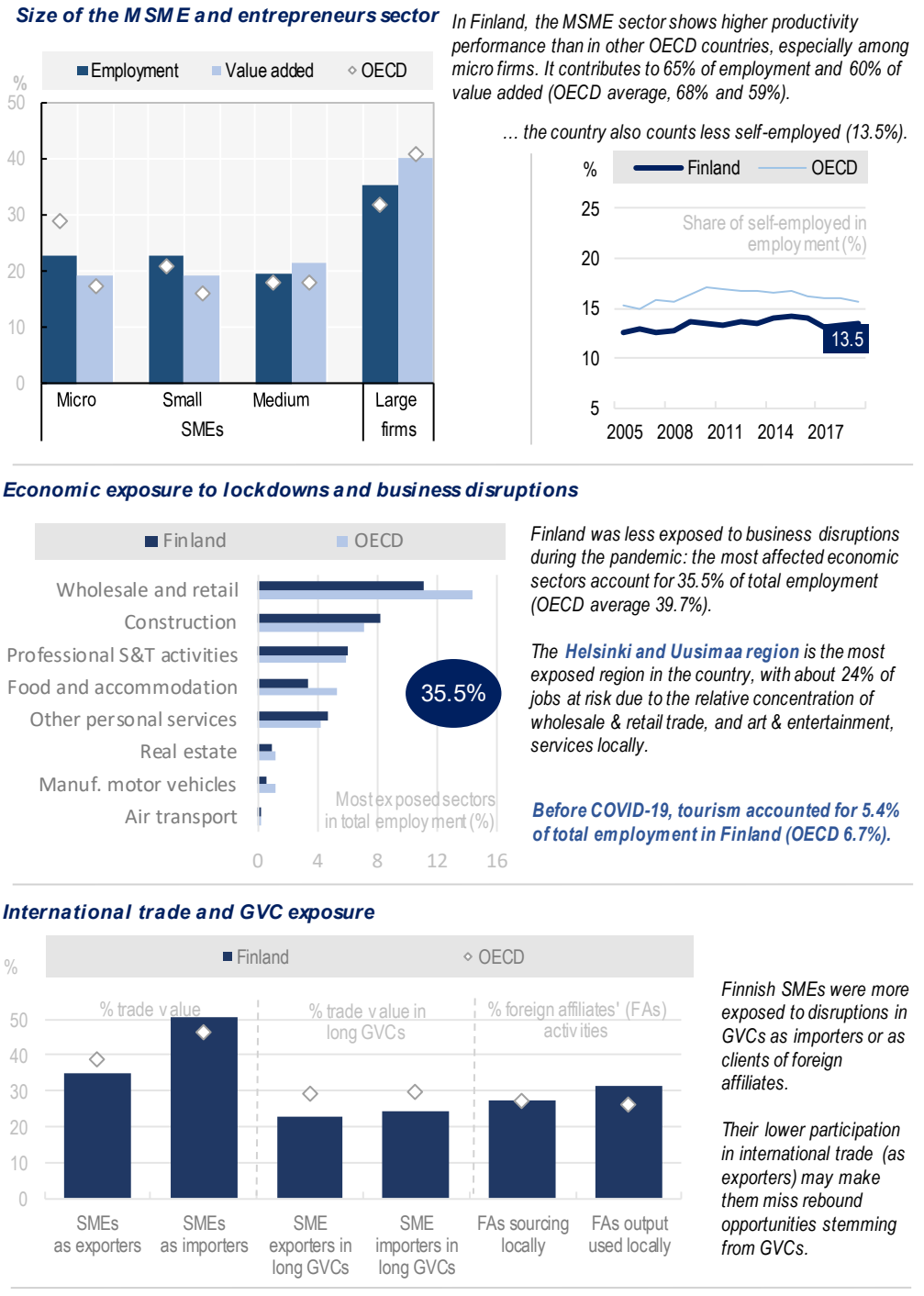
Finland launched its first strategic **"Strategic Action Plan to promote entrepreneurship" (2018-28)** to improve the efficiency of entrepreneurship policy in a context of changing nature of work. The goal is to achieve an employment rate of 78% at the end of the strategy period in 2028.

The Action plan includes measures for labour market reform, taxation and social security, second chance entrepreneurship, restricting the role of public sector business in competitive markets and reducing the red tape.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250896

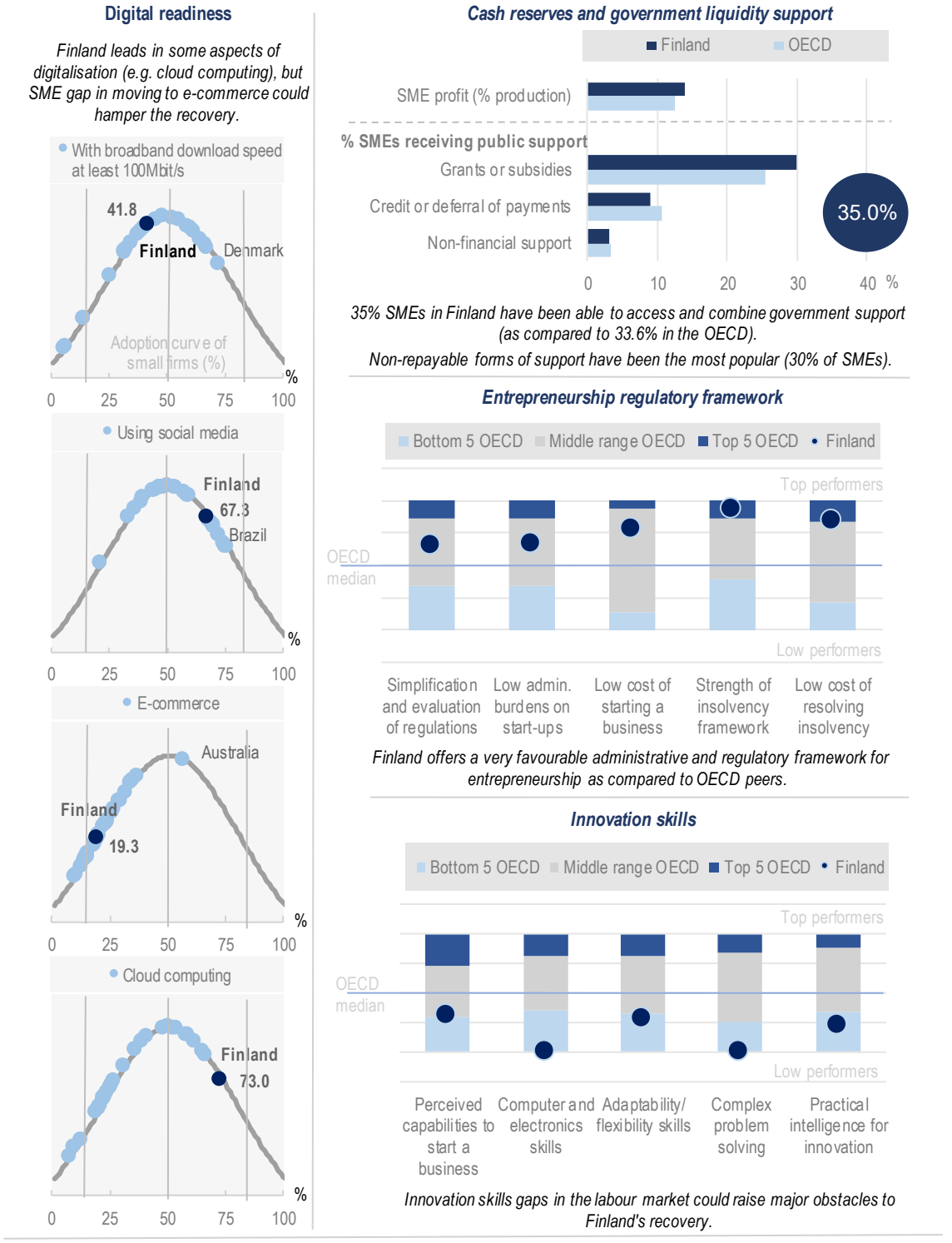
Figure 6.32. Factors of SME&E structural vulnerability in Finland



Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250915

Figure 6.33. Sources of SME&E resilience in Finland



Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2016 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250934

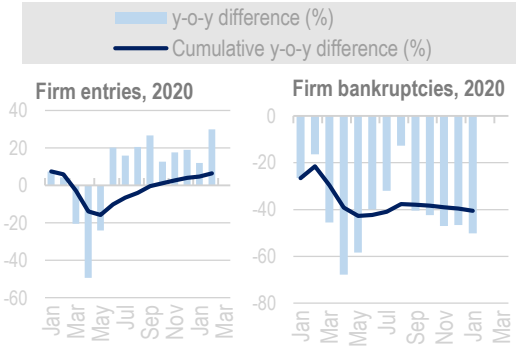
France

Figure 6.34. COVID-19 impact on business dynamics and policy responses in France

Stringency of government measures

France experienced more stringent restrictions during the first two COVID-19 waves as compared to OECD peers.

Business dynamics



After an initial collapse, firm creation rebounded in the second half of 2020, with overall more firms created in 2020 than 2019. The number of bankruptcies remained much below what it was the year before as well.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include a ***EUR 470 billion Liquidity Support,*** including deferrals of payment, loan guarantees, partial unemployment, and targeted support for very small enterprises and self-employed.

Further structural support have been implemented:

- EUR 100 billion "France Relance" Recovery Package, with:
- EUR 35 billion to ***competitiveness and innovation***, of which EUR 385 million for the digitalisation of SMEs and micro-firms ;
- EUR 30 billion for the ***transition to a zero-carbon economy*** ;
- EUR 35 billion for ***social cohesion***.

- EUR 4 billion emergency plan for start-ups, including state-guaranteed loans and anticipated refund of R&D tax credits (CIR).

National Recovery and Resilience Plan with a special focus on the ecological transition and energy renovation of micro- and SMEs, and the digitalisation of MSMEs.

New Guide to Public Procurement for Craftsmen, and MSMEs: a minimum of 10% of contract value should be spared for SMEs or craftsmen.

National SME and entrepreneurship policy framework

SME&E policies in France are defined **as part of wider strategies and policy frameworks**.

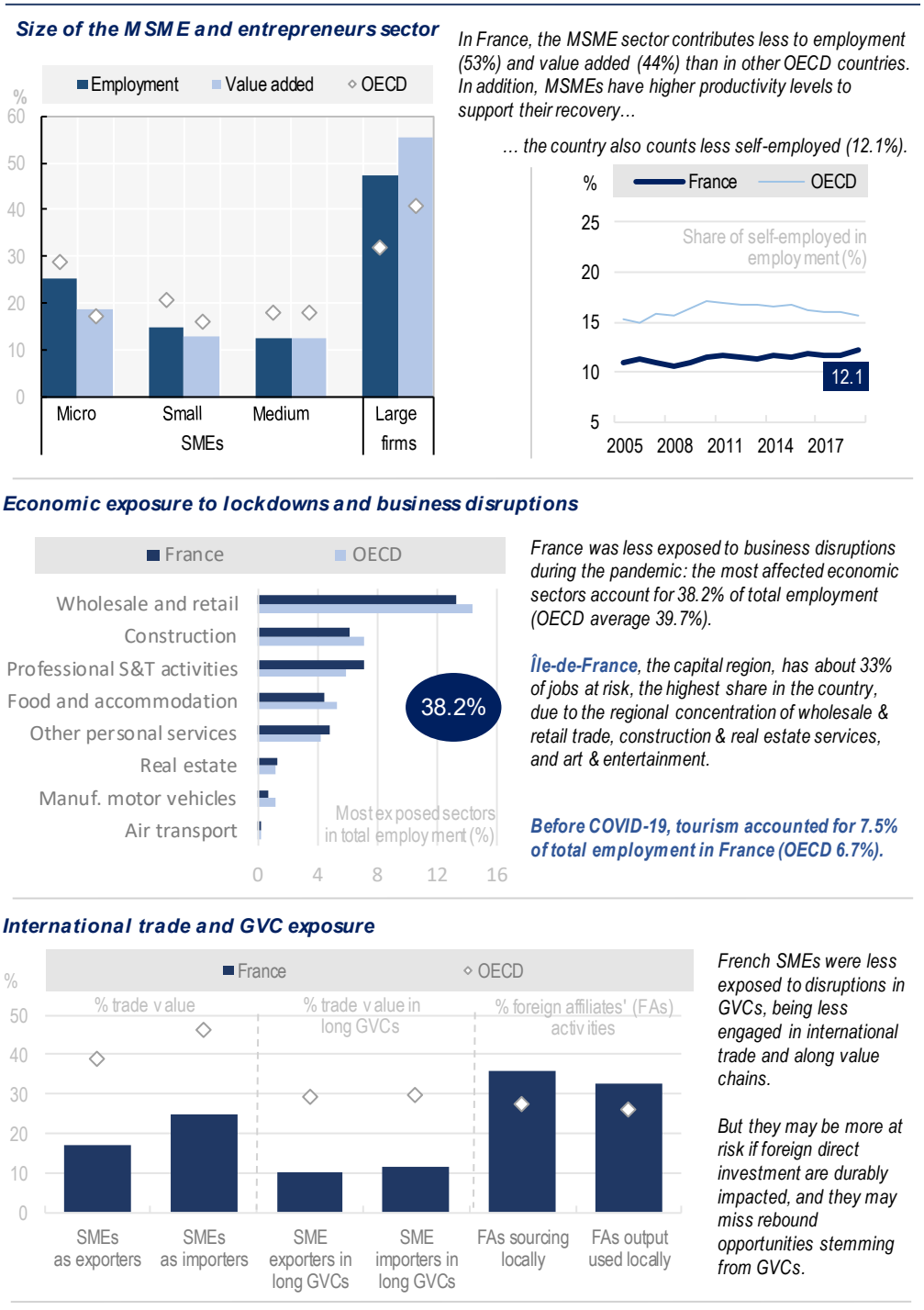
France positions its support for SMEs and entrepreneurs as part of wider industrial, innovation and regional policies, such as the **Action Plan for Business Growth and Transformation** - "*Plan d'Action pour la Croissance et la Transformation des Entreprise*" (PACTE) (2019). The SME perspective therein focuses particularly on measures to simplify and reduce burdens for SMEs, and on new entrepreneurship.

France has a "Ministre délégué" for small business within the Ministry for the Economy, Finance and Recovery. In January 2019, with a view to improving business access to public support measures, **BpiFrance**, the public investment bank, has become the main agency to deliver support to SME&Es.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250953

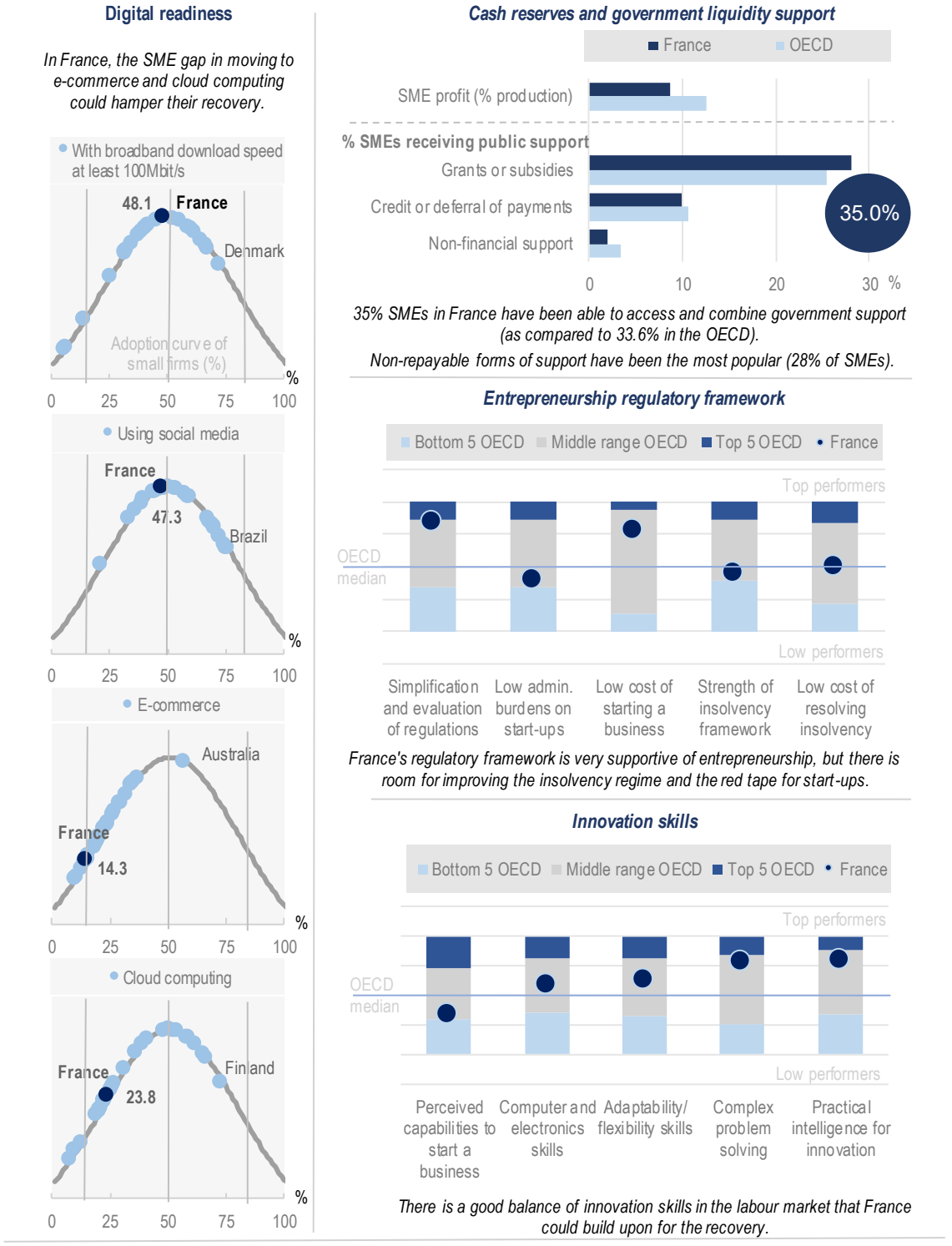
Figure 6.35. Factors of SME&E structural vulnerability in France



Source: Size of the MSME sector (2017): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250972

Figure 6.36. Sources of SME&E resilience in France



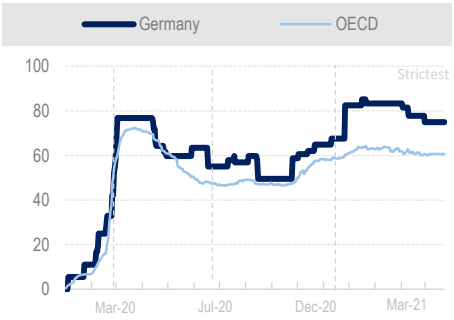
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2018 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934250991

Germany

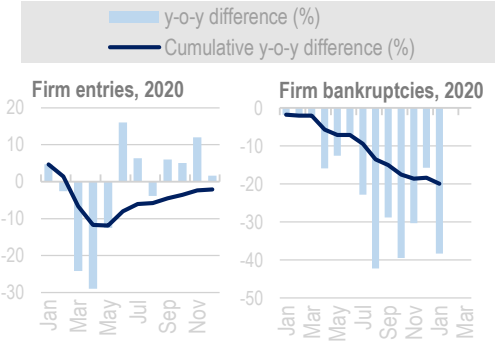
Figure 6.37. COVID-19 impact on business dynamics and policy responses in Germany

Stringency of government measures



Since the beginning of the pandemic, Germany has applied more stringent restrictions than OECD peers.

Business dynamics



Firm creation rebounded in the second half of 2020, but with overall fewer firms created than in 2019. The number of bankruptcies remained much below what it was the year before.

Policy spotlight

Key measures to support SMEs and entrepreneurs through the COVID-19 crisis include: a ***EUR 750 billion Emergency Budget*** with loan guarantees and grants, including for small businesses, self-employed and liberal professions, as well as short-time work allowances; and a ***EUR 600 billion Economy Stabilisation Fund*** to ring-fence businesses of critical importance for the economy.

Structural measures have also been implemented:

- German Recovery and Resilience Plan (DARP) including ***Project-Related Research and Climate Protection Research*** to enable SMEs to implement sustainable solutions, or to secure and expand their position and competitiveness on global markets. On digital, the "***Development of Skills Alliances***" Programme aims to increase SME participation in training, enhancing futureproof skills and supporting regional business and innovation networks.

- EUR 130 billion support package for:
- ***Boosting demand***, by a temporary VAT cut and simplified access to income support for job seekers ;
- ***Promoting investment*** by business and local authorities, with a focus on housing and transport ;
- ***Investing in a future-ready Germany***, to address climate change, sustainable mobility, innovation and digital technology (EUR 50 billion).

National SME and entrepreneurship policy framework

SME&E policies in Germany are defined **as part of specific SMEs strategies**.

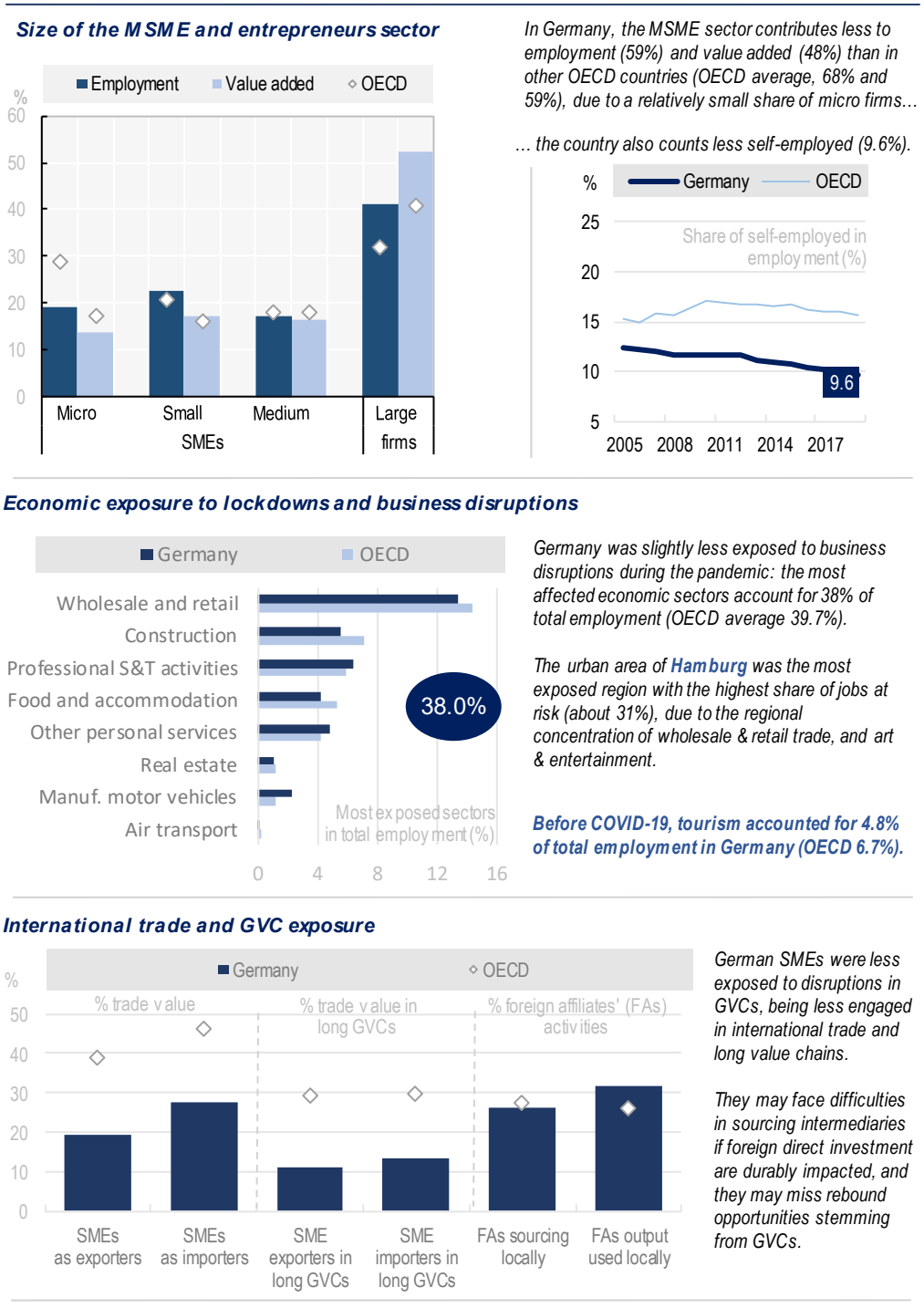
The **"Valuing SMEs – Strengthening Opportunities – Reducing the Burden: The German SME Strategy"** (2019) supports SMEs in overcoming the economic challenges in a changing world, and in maintaining and consolidating their position in the face of national and international competition. It emphasises strengthening resilience as well as long-term competitiveness.

Germany has an **SME Advisory Board** at the Federal Ministry for Economic Affairs and Energy made of independent experts. It focuses on the current situation and future economic prospects facing SMEs as well as professional services. The board advises the Federal Minister on the impacts that structural changes are likely to have on SMEs. In addition, it analyses the effects that domestic economic policies are having on SMEs.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251010

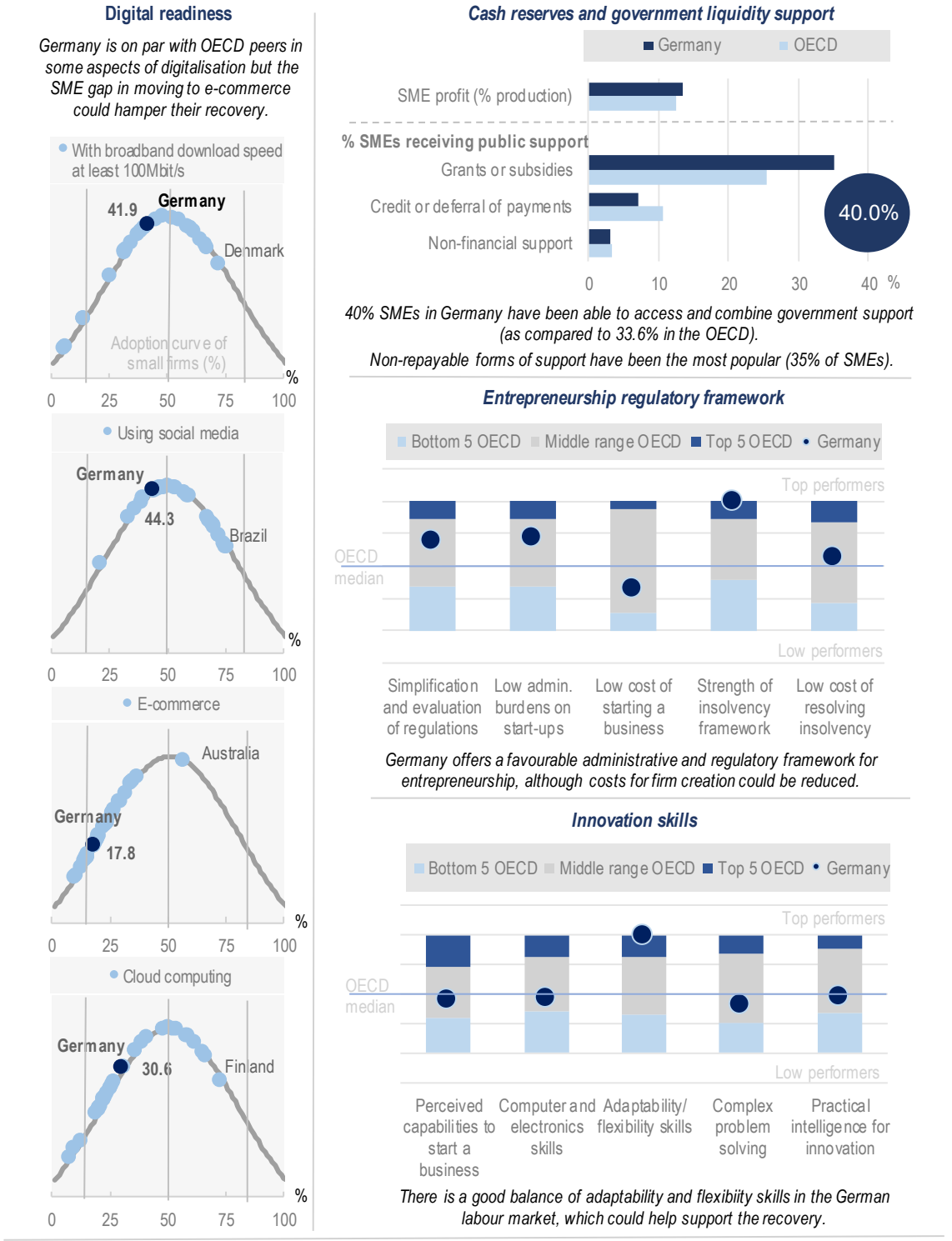
Figure 6.38. Factors of SME&E structural vulnerability in Germany



Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2017): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251029

Figure 6.39. Sources of SME&E resilience in Germany



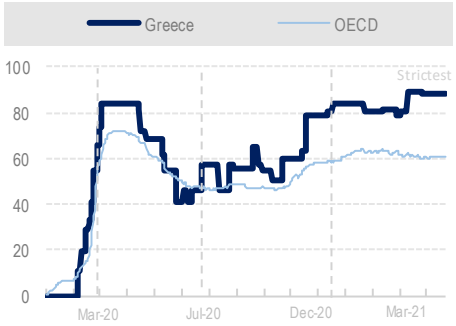
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251048

Greece

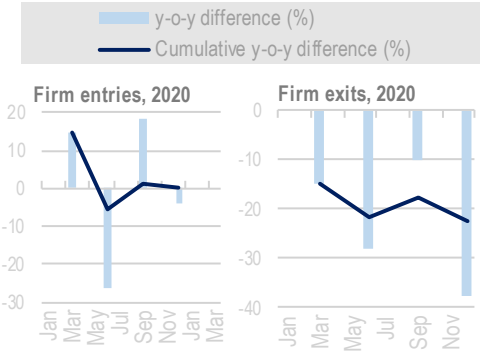
Figure 6.40. COVID-19 impact on business dynamics and policy responses in Greece

Stringency of government measures



Greece has experienced more stringent restrictions than OECD peers over most of 2020 and early 2021.

Business dynamics



In 2020 Q2, the number of firm created declined sharply as compared to 2019, and rebounded in 2020 Q3. The number of closures was significantly lower throughout 2020 as compared to previous year.

Policy spotlight

Key measures to support SMEs and entrepreneurs through the COVID-19 crisis include:

National Recovery and Resilience Plan to foster "customer-centric" digital, transition to 5G technology and development of innovative digital services, transition to fast broadband connections, and digital transformation of SMEs.

EUR 1.75 billion Business Funding Program to provide low cost loans for the implementation of sustainable business plans and SME liquidity.

EUR 600 Training Voucher for six scientific jobs (economists/accountants, engineers, lawyers, doctors, teachers and researchers, i.e. 180 390 beneficiaries) as part of the EUR 6.8 billion package to support companies amidst the outbreak.

EUR 400 Subsidy for some 100,000 professionals (lawyers, engineers, dentists, veterinarians, accountants, economists, notaries etc.) to be paid.

Digital Solidarity Initiative, a platform where large tech corporations provide free online marketing and account management training to SMEs.

Support for digital and greening fixed capital investments as part of the EUR 10 billion support plan for business and workers.

National SME and entrepreneurship policy framework

SME&E policies in Greece are defined **as part of wider strategies and policy frameworks.**

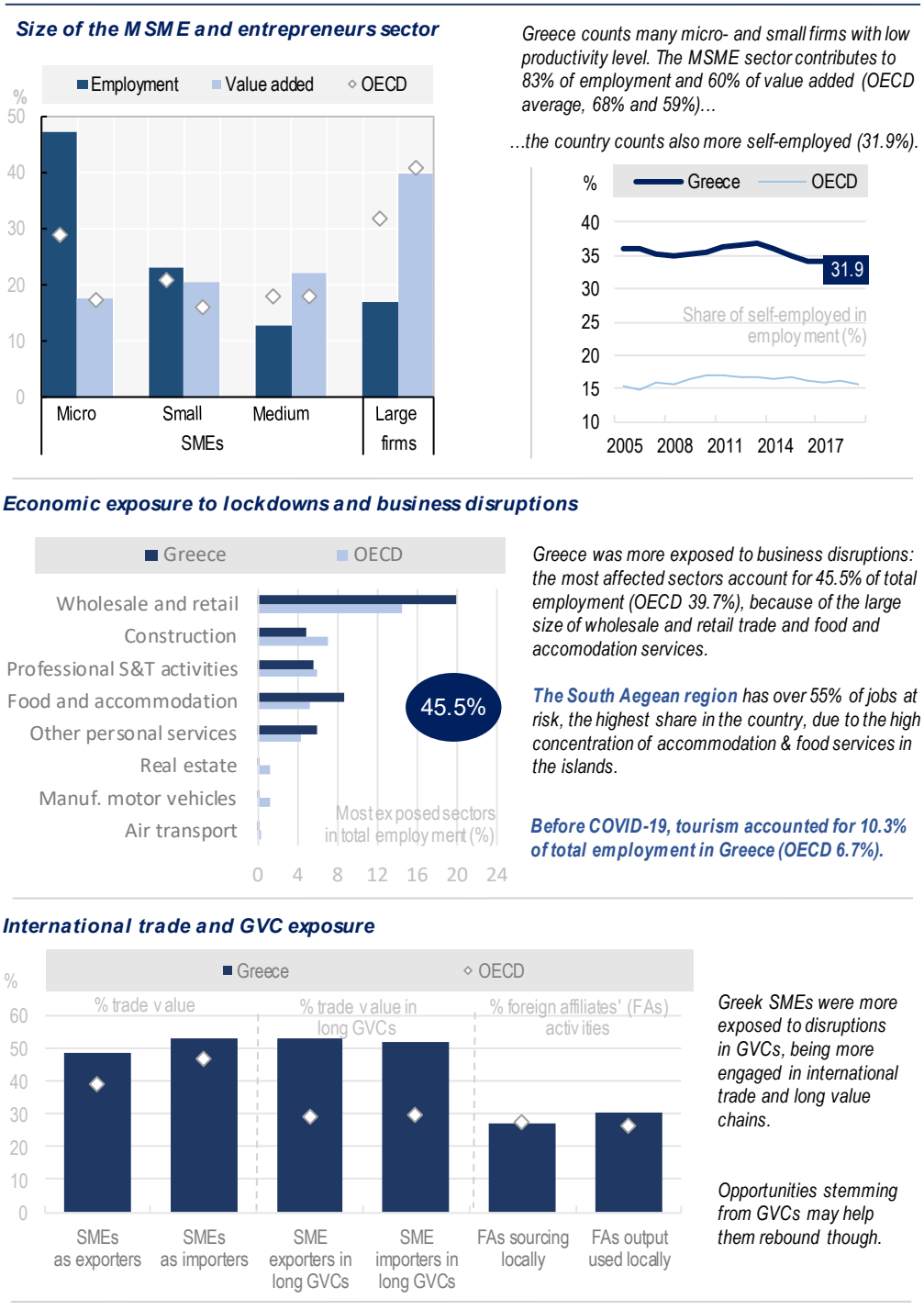
The **"National Strategy for Sustainable and Fair Growth"** (2018) provides SME and entrepreneurship policies as part of the wider National Strategy for Growth which reinforces Greece actions in the context of the EU Small Business Act, as well as regional development. It focuses on creating jobs, enhancing productivity and improving the business environment, in addition to measures from framework conditions to more targeted policies.

Greece also has a **National Observatory for SMEs** that provides analysis, monitoring and advice on SME aspects of policy making, and play a role in policy coordination.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251067

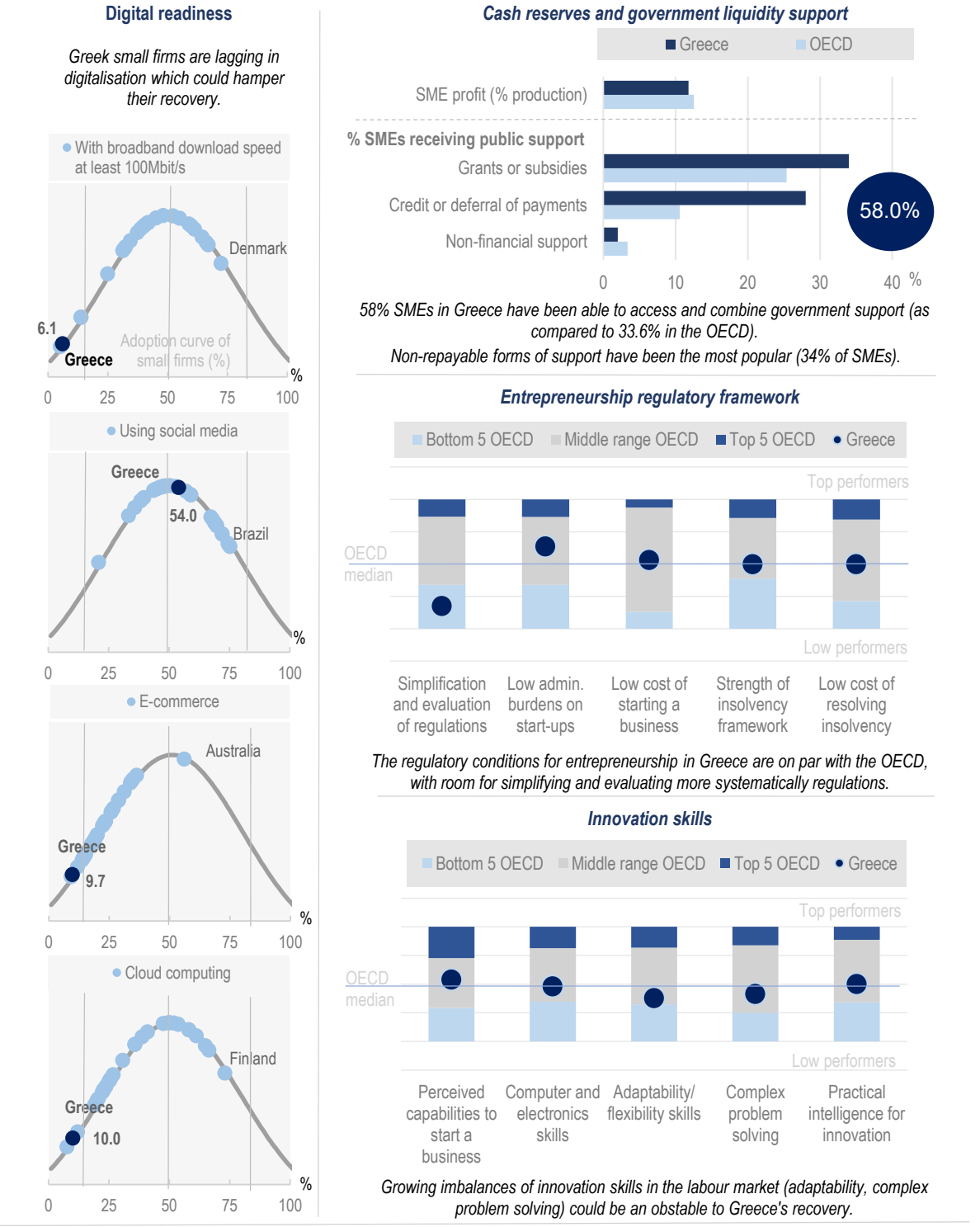
Figure 6.41. Factors of SME&E structural vulnerability in Greece



Source: Size of the MSME sector (2017): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251086

Figure 6.42. Sources of SME&E resilience in Greece



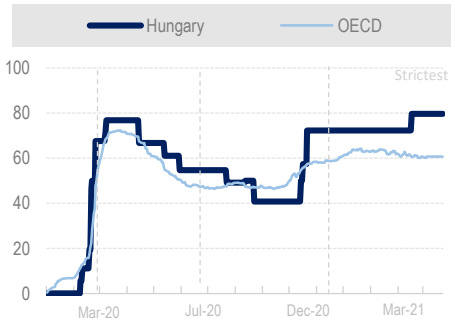
Source: Broadband (2019), social media (2019), e-commerce (2019), cloud computing (2018): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251105

Hungary

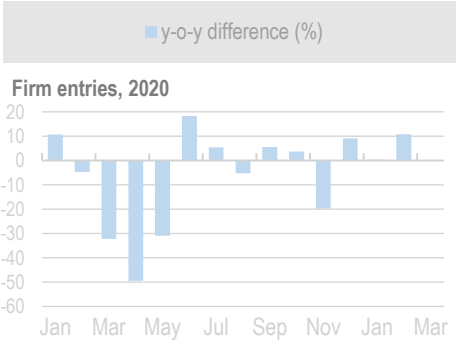
Figure 6.43. COVID-19 impact on business dynamics and policy responses in Hungary

Stringency of government measures



Hungary experienced overall stringent restrictions over the course of the pandemic.

Business dynamics



Firm entries in Hungary took a hit from March to June 2020 compared to the previous year, but recovered broadly thereafter.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include: the ***HUF 9 500 billion Economic Protection Action Plan*** to preserve jobs and support businesses, the ***HUF 3 000 billion "Funding for Growth Scheme Go",*** providing refinancing loans to banks at zero interest, and the ***HUF 214 billion Relief and Liquidity Support to SMEs***, including reduce local business tax and related advance payments.

Structural measures have also been implemented:

- ***Hungary Recovery and Adaptation Plan*** to support digitalisation through: (1) broadband infrastructure and digital prosperity backbone network, (2) comprehensive digital skills system, including for Artificial Intelligence (AI), (3) the digitalisation of enterprises, and (4) the digital capacities of the state.

- The ***Economic Relaunch Action Plan*** with a HUF 100 billion Interest Free Restart Fast Loan in a first phase. Second and third phases focus on higher education, and green energy, circular economy, construction and digitalisation.

- ***HUF 41 billion Start-up rescue programme*** by Hiventures, a state-owned venture capital fund.

- ***HUF 1 000 billion investment support***, which could lead to nearly HUF 2 000 billion development in the near future.

National SME and entrepreneurship policy framework

SME&E policies in Hungary are defined **as part of specific SME strategies**.

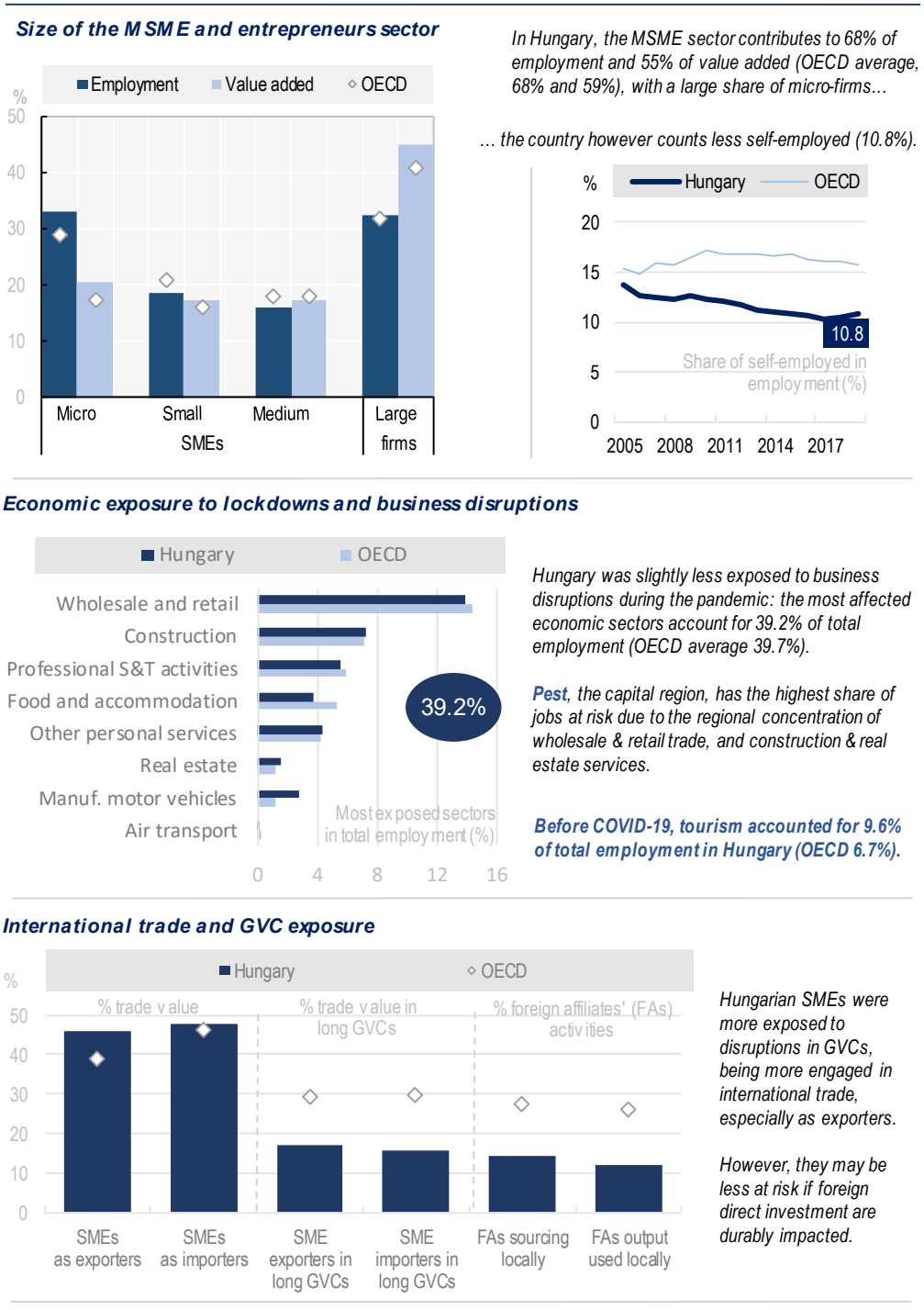
"The Strategy for a Competitive SME Sector in Hungary 2019-30", that was developed in cooperation with the OECD, puts emphasis on improving SME productivity and competitiveness. It includes quantitative targets towards 2030, and covers areas such as support for technology change and digitalisation, reduction of administrative burdens and red tape, and support for inter-generational transfer.

The government has also established a new **SME inter-ministerial Council**, in charge of assigning clear implementation and monitoring responsibilities for the specific policy components of the strategy, as well as for monitoring the Strategy's outcomes and updating its policy priorities.

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251124

Figure 6.44. Factors of SME&E structural vulnerability in Hungary



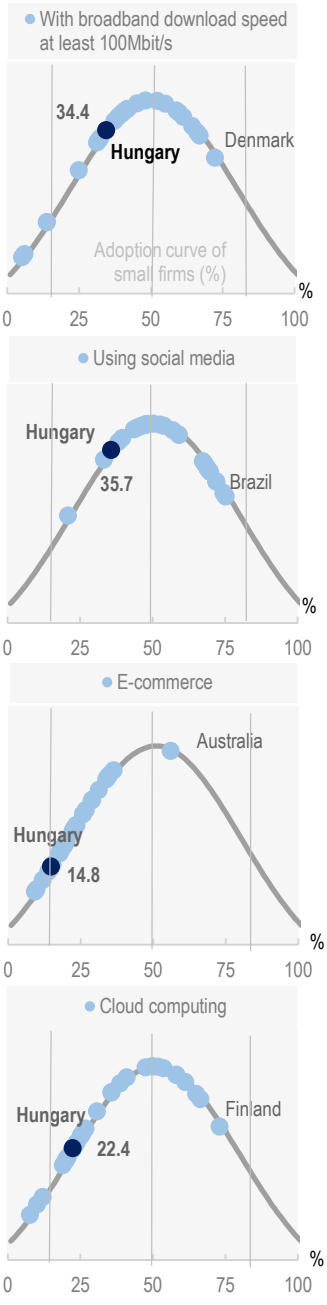
Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2017): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251143

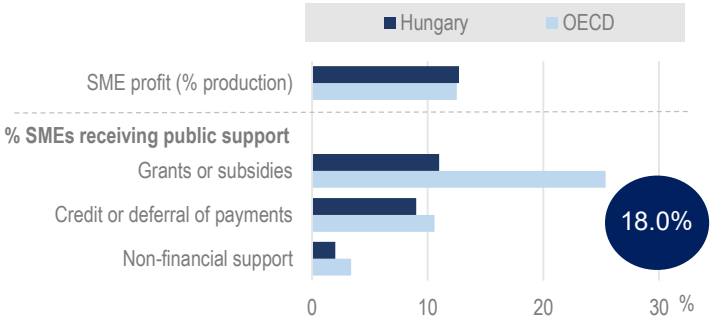
Figure 6.45. Sources of SME&E resilience in Hungary

Digital readiness

Small firms in Hungary are lagging behind OECD peers in most aspects of digitalisation, which could hamper their recovery.



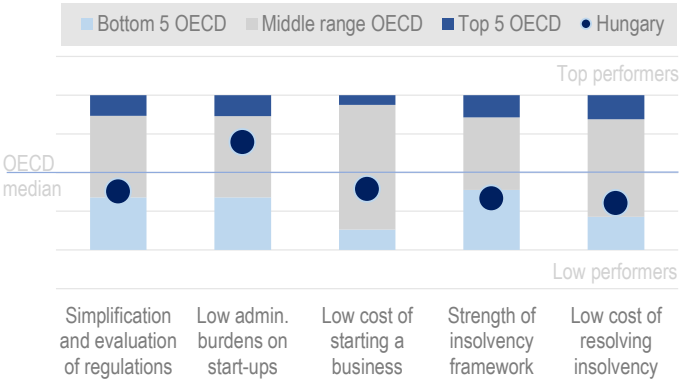
Cash reserves and government liquidity support



18% SMEs in Hungary have been able to access and combine government support (as compared to 33.6% in the OECD).

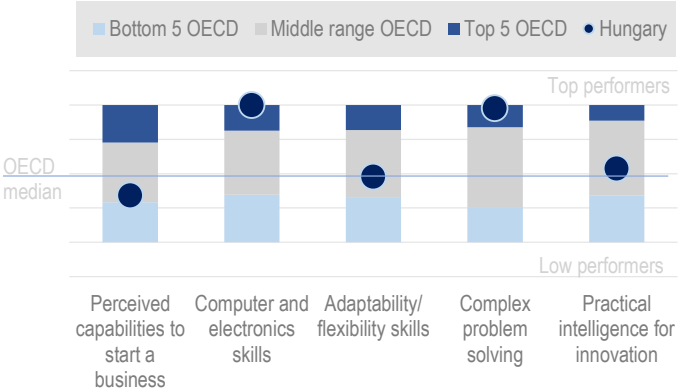
Non-repayable forms of support have been the most popular (11% of SMEs).

Entrepreneurship regulatory framework



In Hungary, there is room for improving the regulatory framework for entrepreneurship, and strengthening the insolvency regime.

Innovation skills



There is a good balance on innovation skills in the Hungarian labour market, but adult population has a low perception of its capabilities to start a business.

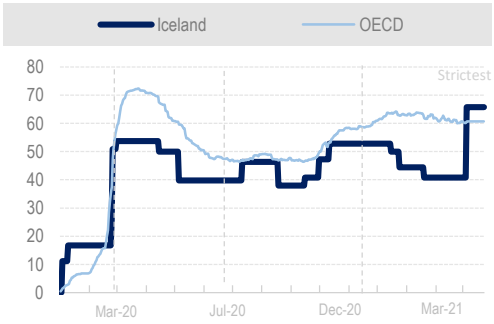
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2016): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2016 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251162

Iceland

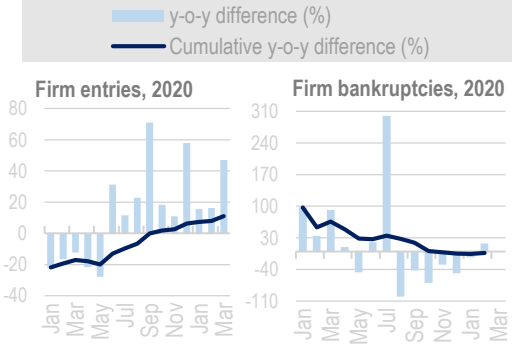
Figure 6.46. COVID-19 impact on business dynamics and policy responses in Iceland

Stringency of government measures



Iceland implemented looser restrictions over 2020 , with signs of a tightening as of March 2021.

Business dynamics



After a decrease in early 2020, firm entries have increased steadily throughout the year, largely exceeding the 2019 level in cumulative terms. Bankruptcies have receded, with overall less firms exiting the market than the year before.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include a ***USD 1.6 billion Support Package*** with state-backed bridging loans; deferral of tax payments; financial support for tourism sector; access to third-pillar pension savings; VAT refund for construction projects; or accelerated public investment in technical infrastructure.

In addition, ***Icelandic Tax Authority*** allows self-employed to apply for temporary suspension of operations and unemployment benefits.

Structural measures have also been implemented:

- ***Smá Hjálp Community Platform*** supports local businesses and SMEs hit by the pandemic to help them link up with each other at national level.

- ***EUR 20 million loan guarantees*** for the Icelandic Regional Development Institute (Byggðastofnun) to increase lending possibilities with a focus on green loans, innovation, female entrepreneurs, young farmers, and fisheries in fragile communities (backed by the EU's "COSME" programme).

- ***Increasing R&D Tax Relief*** with a new headline rate of 35% for SMEs in 2020 (as compared to 20% previously).

National SME and entrepreneurship policy framework

SME&E policies in Iceland are defined **as part of wider strategies and policy frameworks**.

"**Iceland 2020**", for example, is the country's policy statement for an efficient economy and society. It includes policies directed at the business community at large across a number of dimensions such as digitalisation, innovation, trade and investment.

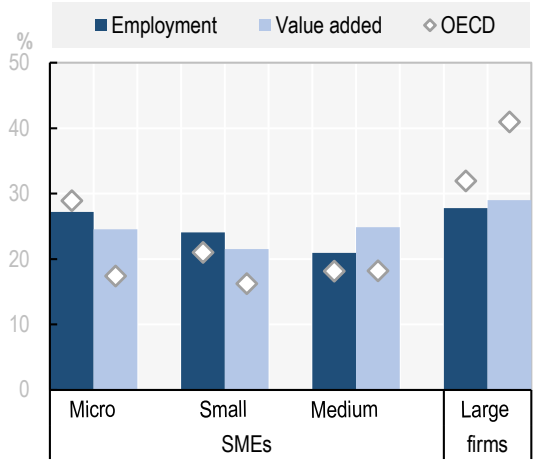
The new **Economic Activity Plan (EAP) for Iceland** aims at facilitating the foundation and operation of companies through simplified regulation and a strong and easy-to-navigate innovation environment, including a focus on the needs of SMEs.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251181

Figure 6.47. Factors of SME&E structural vulnerability in Iceland

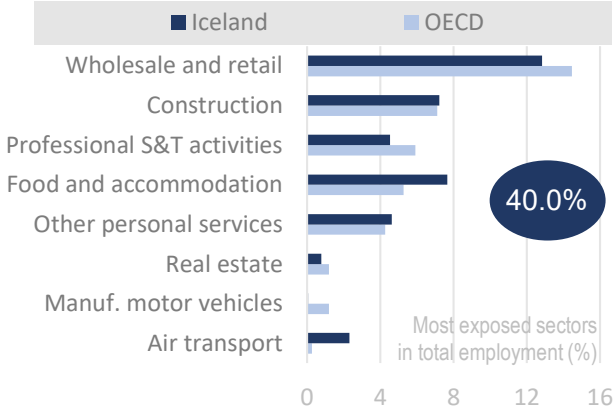
Size of the MSME and entrepreneurs sector



Iceland has a large population of very productive MSMEs, the sector contributing to 72% of employment and 71% of value added (OECD average, 68% and 59%)...

… the country also counts less self-employed (11.9%).

Economic exposure to lockdowns and business disruptions

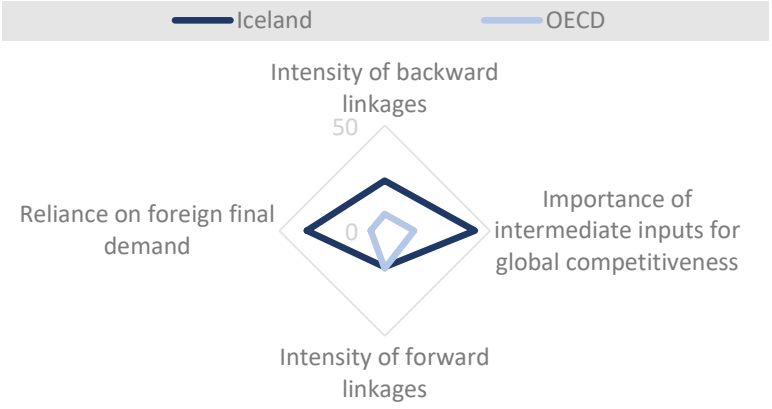


Iceland's exposure to business disruptions is similar to OECD average: the most affected sectors account for 40% of total employment (OECD average 39.7%).

Accommodation & food services were particularly hard hit at national level, while the effects of the pandemic were felt most acutely in the wider tourism sector.

Before COVID-19, tourism accounted for 15% of total employment in Iceland (OECD 6.7%).

International trade and GVC exposure



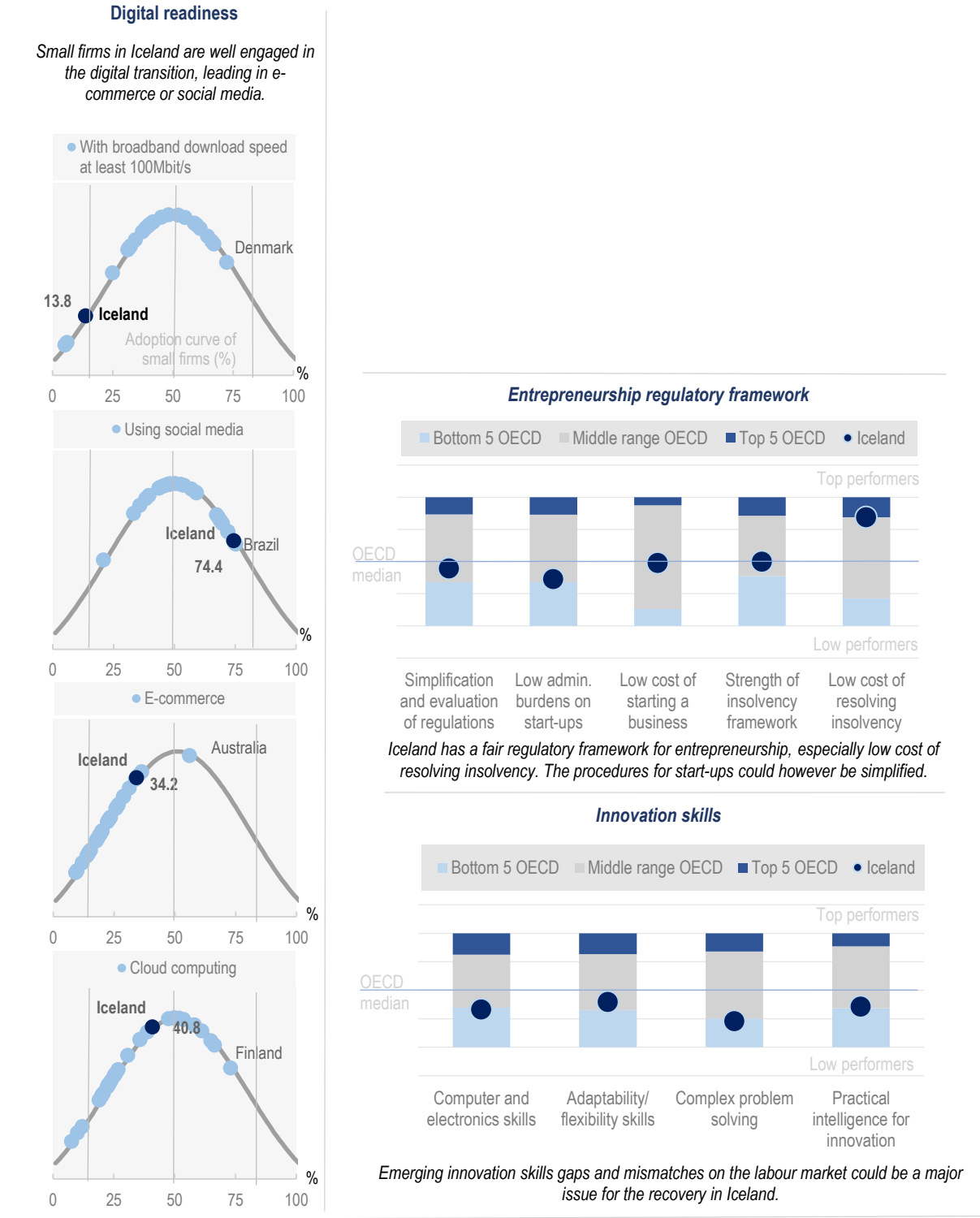
Iceland was exposed to chain reactions along GVCs due to its strong backward linkages as importer.

The country relies heavily on imports of intermediate inputs for global competitivess and foreign demand for market prospects.

Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020 and ILO ILOSTAT database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2016): OECD TiVA database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251200

Figure 6.48. Sources of SME&E resilience in Iceland



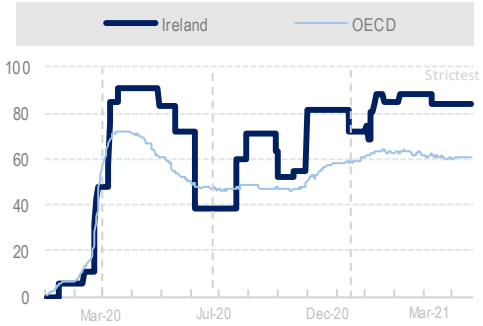
Source: Broadband (2013), social media (2019), e-commerce (2020), cloud computing (2014): OECD ICT Usage by Businesses database 2021; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2015): OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251219

Ireland

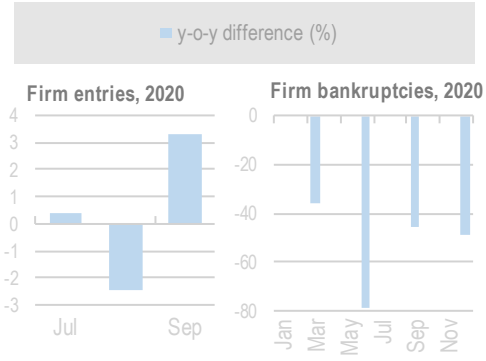
Figure 6.49. COVID-19 impact on business dynamics and policy responses in Ireland

Stringency of government measures



In 2020, Ireland experienced several waves of more stringent restrictions, as compared to its OECD peers.

Business dynamics



The decline in firm entries in August 2020 was followed by a rebound in the following month, compared to the previous year. The level of bankruptcies was lower throughout 2020 compared to 2019.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include: the ***EUR 2 billion Credit Guarantee Scheme*** and the ***EUR 450 million Irish Liquidity Scheme*** to provide lending to SMEs at below market interest rates and fund future working capital requirements.

Structural measures have also been implemented:

- ***Provisions for mentoring and consultancy*** as part of liquidty measures to boost SME skills
- ***Digital Trading Online Vouchers scheme*** (worth EUR 2 500) for micro-enterprises to trade more online, boost sales and reach new markets, with a 13-fold increase in approvals.
- ***"Pointy" Digital Platform*** to help Irish SMEs promote their merchandise online without having to invest in technological equipement.
- ***Women in Business 2020 Action Plan*** to identify priority policy areas, such as gender disaggregated data, women in online support, and awareness about the risks faced by female entrepreneurs.
- ***National Economic Recovery Plan (NERP)*** to be launched with the National Recovery and Resilience Plan, that aims to improve SME productivity, exporting activity, internationalisation and business diversification, digitalisation, business dynamism, as well as greening of enterprises.

National SME and entrepreneurship policy framework

SME&E policies in Ireland are defined **as part of specific SMEs strategies**.

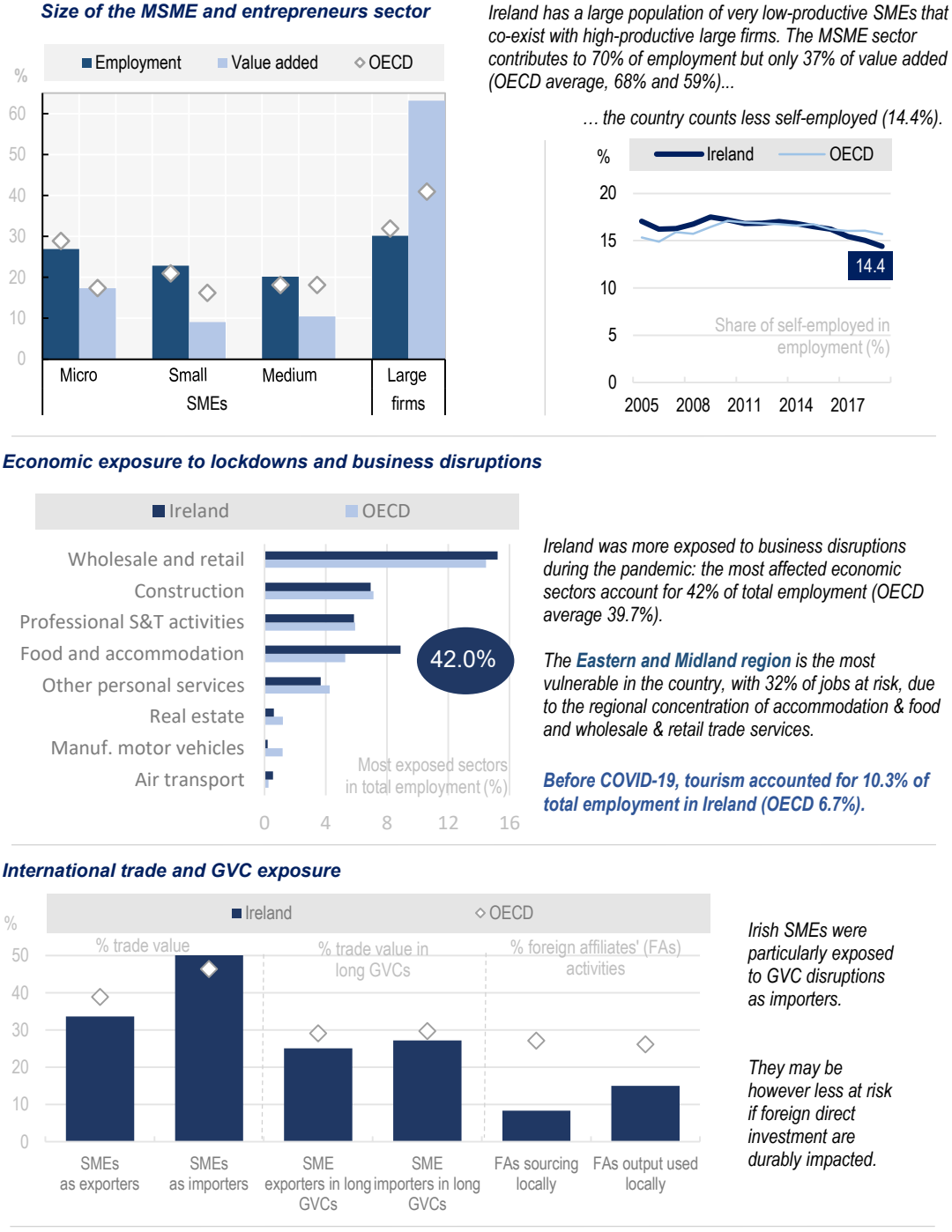
After cooperation with the OECD in the context of the SME and Entrepreneurship Policy Review, Ireland created an **SME Growth Task Force**. The Department of Enterprise, Trade and Employment (DETE) is the Ministry with the lead responsibility for coordinating SME&E policies across government.

In January 2021, the Task Force launched the **"National SME and Entrepreneurship Growth Plan"**, a long term strategic blueprint for Irish SMEs, including recommendations for entrepreneurship, productivity, digitalisation and competitiveness, internationalisation, as well as networks and clusters. The plan makes up one element of the National Economic Recovery Plan (NERP).

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251238

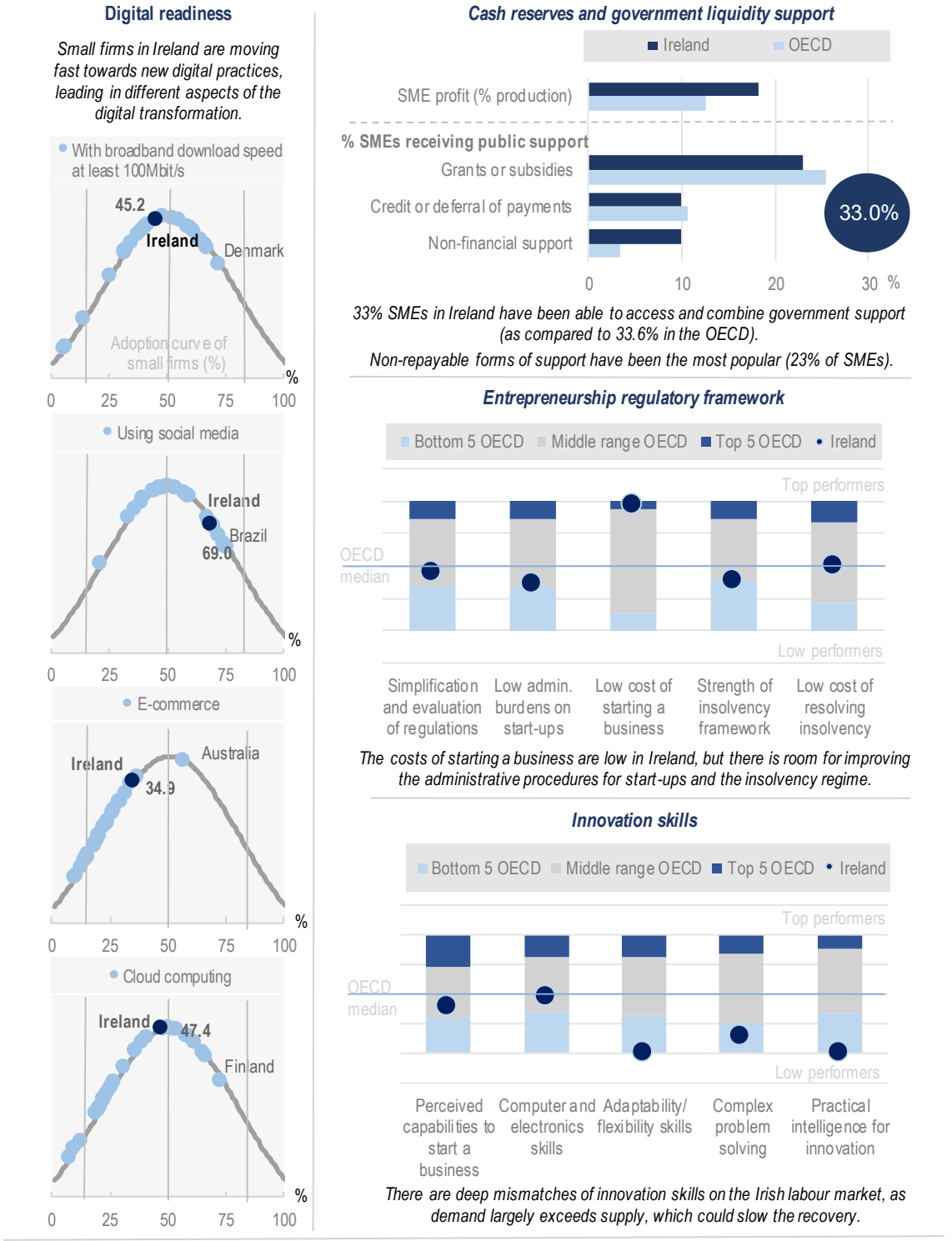
Figure 6.50. Factors of SME&E structural vulnerability in Ireland



Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251257

Figure 6.51. Sources of SME&E resilience in Ireland



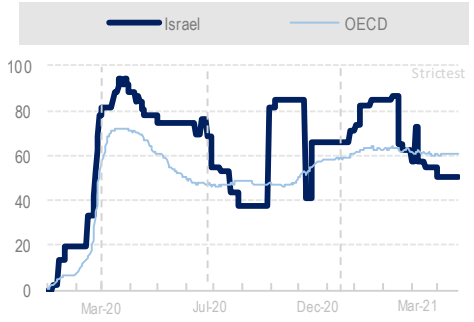
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2016): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251276

Israel

Figure 6.52. COVID-19 impact on business dynamics and policy responses in Israel

Stringency of government measures



Israel applied strict containment measures since the beginning of the pandemic, with a brief easing over summer 2020.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include the ***State Guarantee Fund for Small Businesses***, with a NIS 10 billion support package to finance working capital needs, and the ***NIS 5 billion Supply of Credit Plan*** through which the Bank of Israel provides the banking system with fixed-rate 3-year loans for SMEs.

Structural measures have also been implemented:

- ***"Growth Engines" Boost Package*** with a specific NIS 1.5 billion support to ***SMEs in the high-tech sector***;

- Efforst to ***integrate SMEs in public procurement markets*** and encourage local authorities to buy from local SMEs ;

- A ***national project to support SME digitalisation***, developed jointly with Facebook Israel, the Israel Social Economic Forum and 2B Friendly, along with other efforts in this area, such as ***a NIS 1000 grant scheme*** for small business to acquire a fibre optic internet connection.

National SME and entrepreneurship policy framework

SME&E policies in Israel are defined **as part of a multi-annual Action Plan** and developed by several Ministries and agencies, with an overall emphasis on innovation and new entrepreneurship.

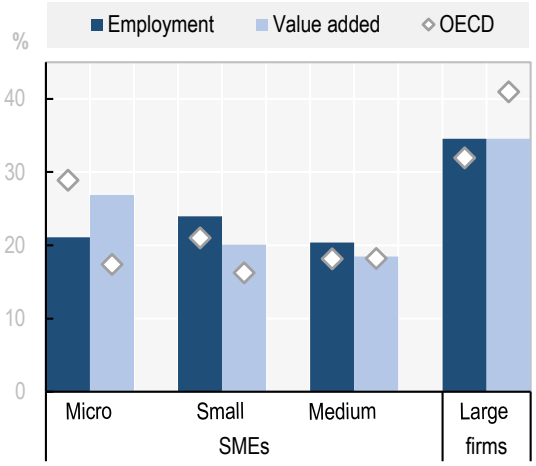
The Agency for Small and Medium Sized Businesses (SBA) publishes an annual overview of the various initiatives, entitled the **"Periodic Report on the State of Small and Medium Sized Businesses in Israel"**. The SBA also plays a wider role in policy coordination and delivery, e.g. by consulting businesses, co-operating with other government players, and providing an entry point to a range of government support. The Agency also runs a network of business development service centres throughout the country.

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251295

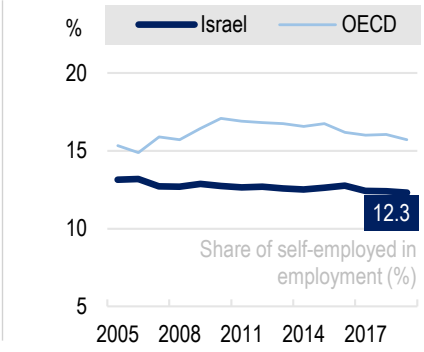
Figure 6.53. Factors of SME&E structural vulnerability in Israel

Size of the MSME and entrepreneurs sector



Israel counts a large population of very productive micro-firms, the MSME sector contributing to 65% of both employment and value added (OECD average, 68% and 59%)...

... the country also counts less self-employed (12.3%).



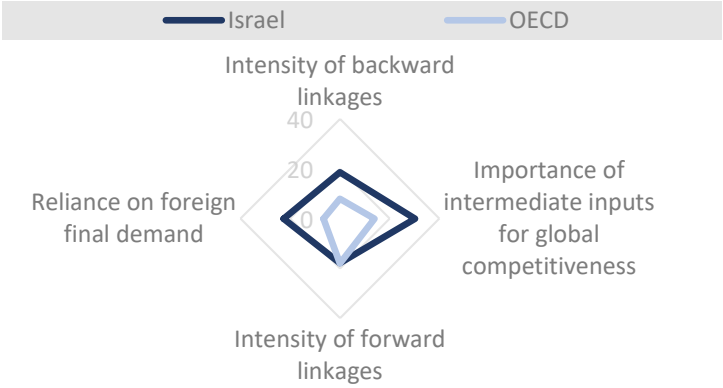
Economic exposure to lockdowns and business disruptions

The pandemic may widen productivity disparities in Israel, between the vibrant high-tech sector and more traditional sectors, that employ most of the workforce and account for most of the productivity shortfall vis-à-vis the best performing OECD countries.

High-tech sectors have been less affected, partly due to the resilience of global demand and greater ability to adapt to

Before COVID-19, tourism accounted for 3.8% of total employment in Israel (OECD 6.7%).

International trade and GVC exposure



Israel was exposed to chain reactions along GVCs due to its integration in international trade, especially as importer (backward linkages).

The country relies heavily on imports of global competitiveness (e.g. high-tech components), and on foreign demand for market outcome.

Yet, much of exports are made of high-tech services that have been resilient during the crisis.

Source: Size of the MSME sector (2015): OECD SME&E Outlook 2019; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): Economic Policy Reforms 2021, Going for Growth - Israel (OECD, 2021); Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2016): OECD TiVA database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251314

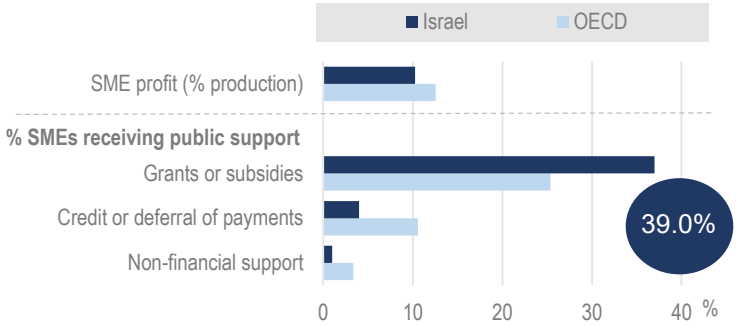
Figure 6.54. Sources of SME&E resilience in Israel

Digital readiness

Israel has a world class IT sector, with a vibrant ecosystem of start-ups connected to large digital players, one of the most intensive system of business research in the world, and a revealed comparative advantage in ICT technologies.

Nonetheless, challenges remain in digital technology and innovation diffusion, such achieving a broad mobile broadband coverage.

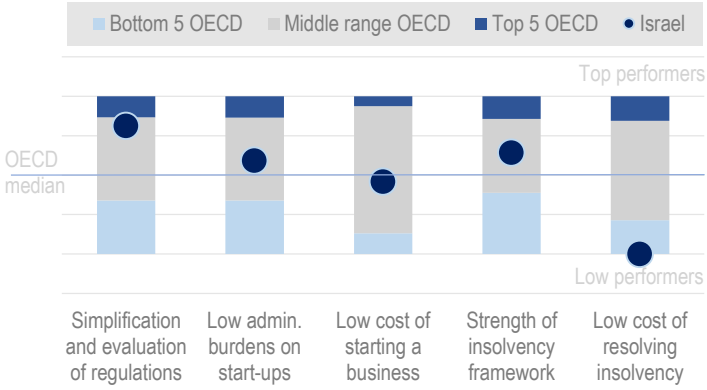
Cash reserves and government liquidity support



39% SMEs in Israel have been able to access and combine government support (as compared to 33.6% in the OECD).

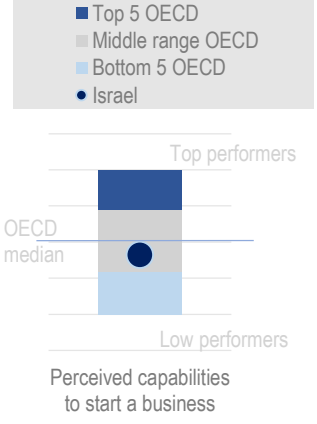
Non-repayable forms of support have been the most popular (37% of SMEs).

Entrepreneurship regulatory framework



Israel has a favourable regulatory framework for business creation and dynamics, but the costs of resolving insolvency could be reduced.

Innovation skills



The adult population in Israel has a low perception of its capabilities to start a business, which could raise barriers to the recovery.

The country also counts adults with outstanding skills together with a large share of adults without basic skills. This high skills dispersion contributes to a segregated labour market.

There are also larger mismatches on the labour market in Israel, than in other OECD countries.

Source: ICT Use by Businesses: (OECD, 2020; 2021); SME profit (2011): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019): GEM 2019, OECD Economic Surveys of Israel 2018 (OECD, 2018) (see country-specific references and definitions).

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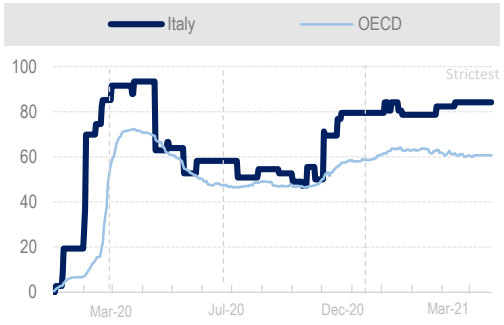
Italy

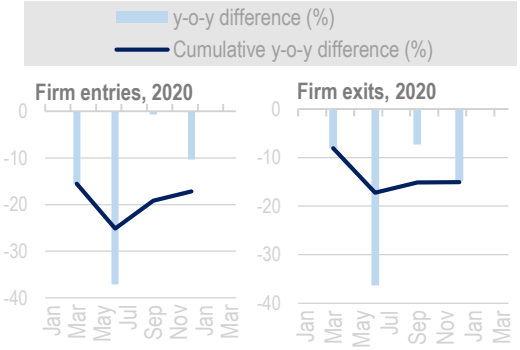
Figure 6.55. COVID-19 impact on business dynamics and policy responses in Italy

Stringency of government measures



Italy has experienced stringent restrictions since the start of the pandemic.

Business dynamics



Business dynamics have been altered in Italy. Firm creation collapsed and remains end 2020 much below 2019 levels. The number of firm exits has slowed and remains low by past records.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include ***Cura Italia Decree*** and ***Liquidity Decree*** (2020) to assist businesses by providing them loan guarantees, tax relief and liquidity support, including EUR 1.5 billion to the Central Guarantee Fund for SMEs.

Structural measures have also been taken.

The ***Relaunch Decree*** (Law. No 77/2020) earmarks EUR 155 billion to support the economy, employment and social policies, with particular attention to ***exports, internationalisation and investments***, including :
- EUR 4 billion package from the Italian export credit agency (SACE) to help SMEs address cash flow needs and diversify export markets ;
- A ***new co-insurance system*** to strengthen public export support through 90% of state insurance and 10% of company insurance.

National Recovery and Resilience Plan with measures, such as fiscal incentives and training support, aimed at strengthening SME digitalisation and investment in intangibles, internationalisation (especially in “Made in Italy” sectors), and participation to innovative supply chains.

National SME and entrepreneurship policy framework

SME&E policies in Italy are defined **as part of wider strategies and policy frameworks**

The **Ministry of Economic Development (MiSE)** is in charge of developing SMEs policies, whereas coordination with other ministries involved in SME actions takes place on a case-by-case basis. The **INVITALIA Agency** is in charge of implementing support measures related to SMEs policies developed by the MiSE.

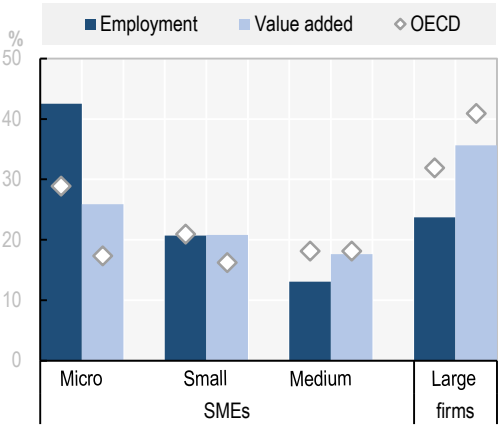
Italy has a range of policy initiatives that target specific SME groups or issues. Examples include **legislation for innovative start-ups and SMEs**, which provides a system of periodic monitoring, and the **"Transition 4.0" Plan** for the digitalisation of enterprises.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251352

Figure 6.56. Factors of SME&E structural vulnerability in Italy

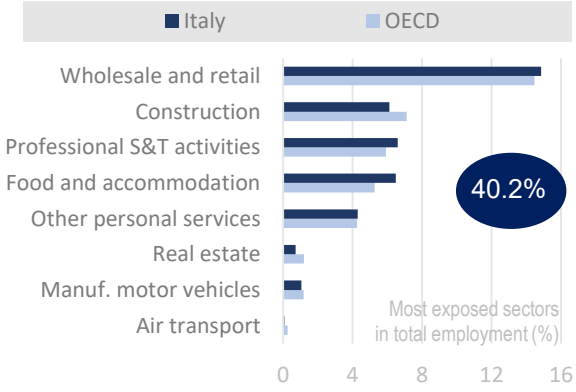
Size of the MSME and entrepreneurs sector



In Italy, the MSME sector contributes to 76% of employment and 64% of value added (OECD average, 68% and 59%), which reflects a very large population of low-productive micro-enterprises...

… the country also counts many self-employed (22.7%).

Economic exposure to lockdowns and business disruptions

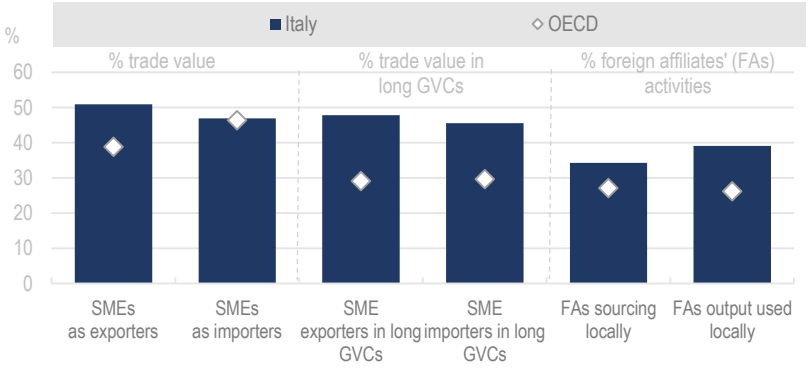


Italy was more exposed to business disruptions during the pandemic: the most affected sectors account for 40.2% of total employment (OECD average 39.7%).

***The Province of Bolzano-Bozen,** in Alto Adige (Alps), is the most exposed region, with about 34% of jobs at risk. This is due to the high regional concentration of wholesale & retail trade, and accommodation & food services.*

Before COVID-19, tourism accounted for 8.8% of total employment in Italy (OECD 6.7%).

International trade and GVC exposure



Italian SMEs were more exposed to disruptions in GVCs, being more engaged in international trade (especially as exporters) and in long value chains.

They may also be more at risk if foreign direct investment are durably impacted, as per the footprint of foreign affiliates in the country.

Source: Size of the MSME sector (2017): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2017): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

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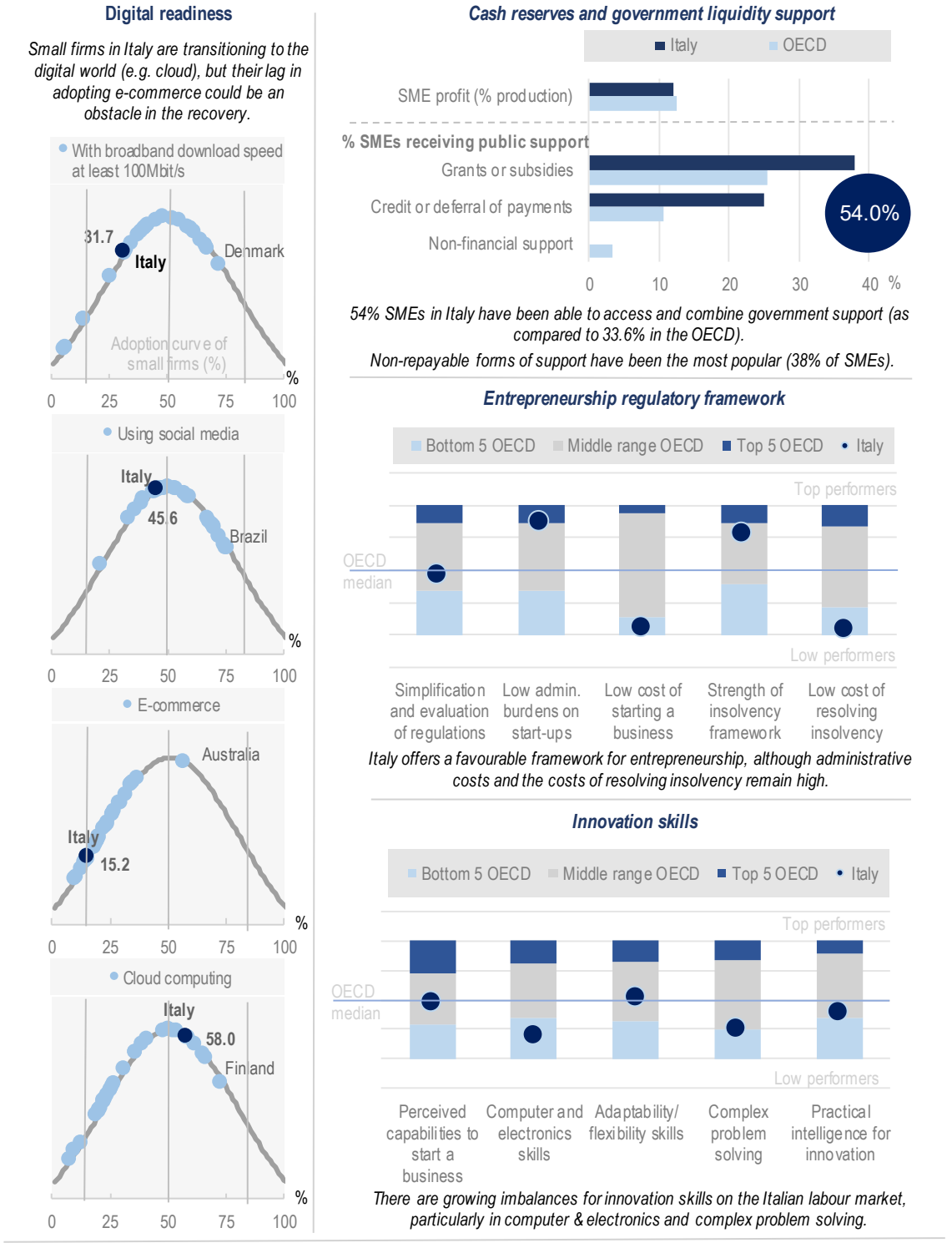
Figure 6.57. Sources of SME&E resilience in Italy



Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

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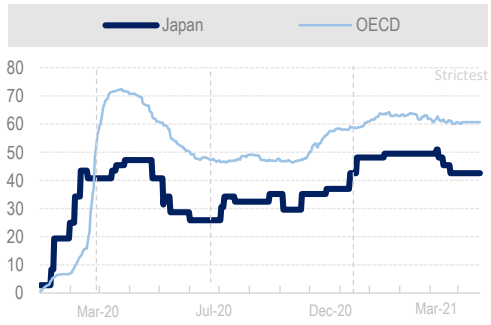
Japan

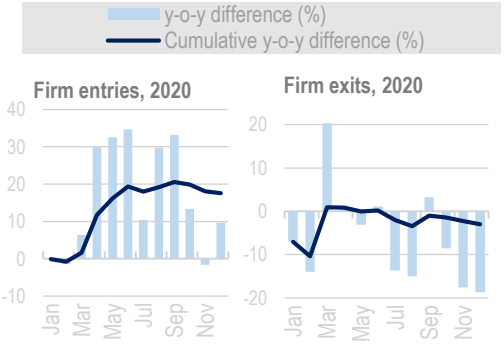
Figure 6.58. COVID-19 impact on business dynamics and policy responses in Japan

Stringency of government measures



Building on past experience in managing viral outbreaks, Japan has adopted less restrictive measures than other OECD countries.

Business dynamics



Firm creation has increased steadily in Japan in 2020, resulting in a +17.5% increase in firm entries as compared to 2019. Firm exits have been below 2019 records as well.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include:

- ***JPY 720 million Safety Net Loan Scheme and JPY 300 million Loan for Crisis Response*** to support SMEs through low interest rate loans by governmental financial institutions.

- ***Cash Grants for SMEs*** (of up to JPY 2 million) for those seeing declines of 50% or more in year-on-year monthly revenue.

Structural measures have also been taken:

- ***JPY 117 trillion Economic Stimulus Package*** for the establishment of rent fee support benefits for SMEs.

- ***JPY 430 billion (USD 4.1 billion) Package partly directed at SMEs***, including in particular subsidies to support teleworking, and encouraging SMEs to adopt IT solutions and develop e-commerce sales channels.

National SME and entrepreneurship policy framework

SME&E policies in Japan are defined **as part of a multi-annual Action Plan**.

At national level, the **SME Agency**, under the Ministry for Economy, Trade and Industry (METI), executes and coordinates SME policy towards other actors. **SME Support Japan** and the **Regional SME Support Centres** deliver further support measures to small businesses, and wider SME support. METI and the local prefectures cooperate to ensure **vertical coherence of policy delivery**.

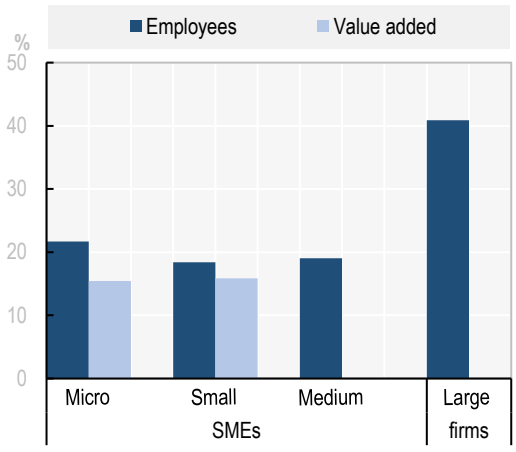
The SME Agency also prepares annual reports. Recently, the "**White Paper on SMEs in Japan**" (2020) stresses the importance of SMEs and small firms for value creation, also at regional level, and underlines differences in performance and objectives of SMEs, and the need for policy to take that into account. It also calls for further cooperation between SME support organisations.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251409

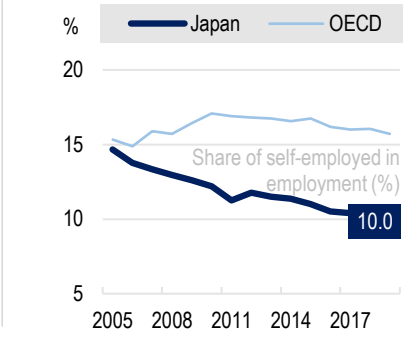
Figure 6.59. Factors of SME&E structural vulnerability in Japan

Size of the MSME and entrepreneurs sector



In Japan, SMEs [1-299 employees] employ 60% of all employees in the business economy, and micro firms 22% of them....

... the country counts less self-employed than in OECD (10%).



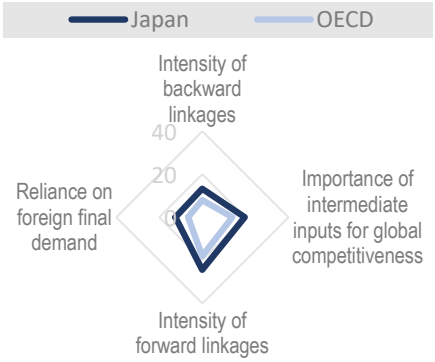
Economic exposure to lockdowns and business disruptions

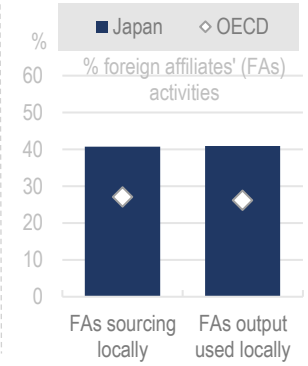
Japan's GDP increased by 5.0% in Q3 2020, following a contraction of 8.2% in the previous quarter. Despite this being the highest quarterly growth on record since 1980, the level of GDP remains 4.3% lower than Q4 2019. The main contributors to growth came from increases of household consumption, government consumption and net exports. In particular, private consumption grew by 4.7%, driven by the rebound after confinement measures were relaxed and as a consequence of government support mainly raising consumption of services (especially restaurants, recreation and sports) and durable goods (notably cars). Government consumption increased by 2.2% due to policy support measures, including subsidies for traveling. Net exports accounted for a sizeable contribution to growth in the third quarter.

***Okinawa**, the most exposed region in the country, has about 38% of jobs at risk, especially due to the regional concentration of activities related to wholesale & retail trade, and accommodation & food services.*

Before COVID-19, tourism accounted for 9.8% of total employment in Japan (OECD 6.7%).

International trade and GVC exposure





Japan was exposed to chain reactions along GVCs due to its integration in international trade (backward and forward linkages) and the footprint of foreign affiliates.

The country is also reliant on foreign intermediate inputs for competitiveness and foreign final demand for market prospects.

Source: Size of the MSME sector (2016): OECD SME&E Outlook 2019; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251428

Figure 6.60. Sources of SME&E resilience in Japan

Source: Social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019): GEM 2019 and OECD Skills Strategy for Japan (OECD, 2019) (see country-specific references and definitions).

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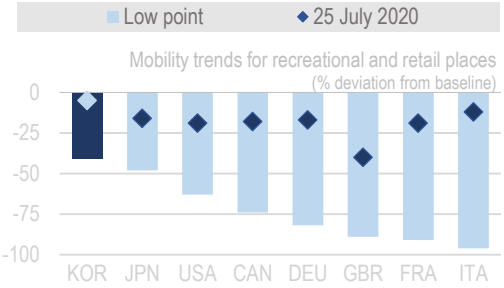
Korea

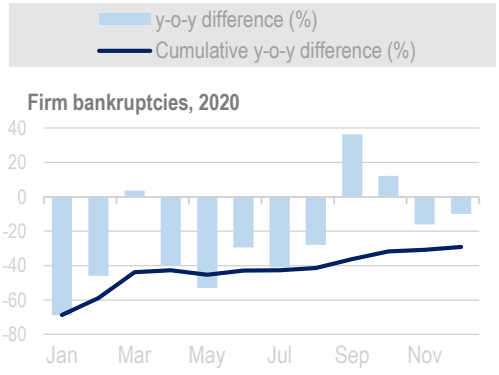
Figure 6.61. COVID-19 impact on business dynamics and policy responses in Korea

Stringency of government measures



Korea was among the first countries hit by the pandemic, but effective policy responses allowed to avoid extensive lockdowns (data until 27 July 2020).

Business dynamics



The level of firm bankruptcies has remained significantly lower in Korea in 2020, as compared to 2019, dropping by almost 30% on a year-on-year basis.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include: the ***KRW 1.6 trillion Plan from the Ministry of SMEs and Startups*** with an ***emergency fund*** for SMEs and self-employed, ***government loans guarantees***, and ***simplified procurement processes*** by limiting on-site inspections.

Structural measures have also been implemented:

- KRW 5.1 trillion "New Deal" projects which is based on three pillars: the Digital New Deal, the Green New Deal, and the Strengthening Social Safety Net ;

- KRW 1.5 trillion initiative to reshore specific economic activities and encourage well-performing SMEs to bring their production facilities back to Korea ;

- "Comprehensive Plan for Fostering SMEs 2020-22" , consisting of three key pillars:
i) digitalisation of SMEs and micro-enterprises,
ii) personalised support for traditional SMEs, micro-enterprises, and traditional markets, and
iii) business safety nets for second chance entrepreneurship and support infrastructure to help SMEs weather COVID-19.

National SME and entrepreneurship policy framework

Korea combines a **dedicated SME Ministry with specific SMEs strategies.**

In 2017, Korea created **the Ministry of SMEs and Startups (MSS)** to replace the previous Small Medium Business Administration (originally within the Ministry of Trade, Industry and Energy). The Ministry is responsible for the coordination of national SME and micro-enterprise policies and operates 13 regional offices.

SME policies increasingly focuses on innovative ventures and a 'win-win growth strategy', involving both SMEs and large corporates, as laid out in the **Comprehensive Plan for Fostering Small and Medium Enterprises.**

Source: Google COVID-19 Community Mobility Report (27 July 2020); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251466

Figure 6.62. Factors of SME&E structural vulnerability in Korea

Size of the MSME and entrepreneurs sector

Korea has a large population of low-productive micro-firms that co-exist with high-productive large conglomerates (chaebols). The MSME sector contributes to 86% of employment and 61% of value added (OECD 69% and 59%)…

… the country also counts many self-employed (24.6%).

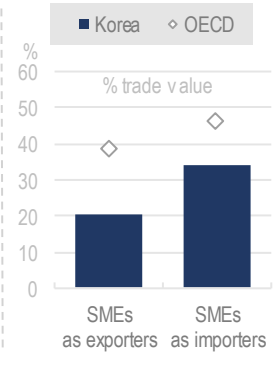
Economic exposure to lockdowns and business disruptions

Travel and leisure-related sectors have been hit hard in Korea and are recovering only gradually.

Manufacturing is affected by the global collapse in demand, notably for petrochemicals and cars. The market of semi-conductors has also been under strains. Services remain below pre-pandemic levels.

***Jeju-do,** the country's largest island, is the most exposed region, with about 37% of jobs at risk. This is due to the high regional concentration of accommodation & food, and wholesale & retail trade services.*

International trade and GVC exposure



Korea was exposed to chain reactions along GVCs mainly due to its strong integration into international trade as importer (backward linkages).

The country is heavily reliant on imported intermediate inputs for its global competitiveness, but also on foreign demand for market prospects.

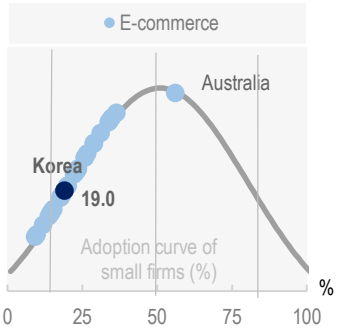
Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2015 and 2016): OECD TEC database 2021 and TiVA database 2018 (see country-specific references and definitions).

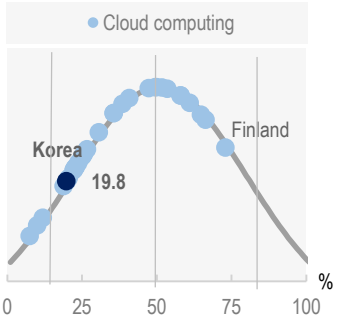
StatLink https://doi.org/10.1787/888934251485

Figure 6.63. Sources of SME&E resilience in Korea

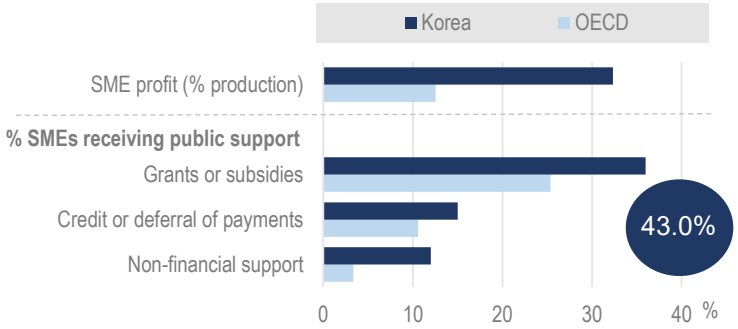
Digital readiness

Small firrms in Korea are engaging in the digital transition, but lag in some aspects of the transformation, as compared to OECD peers. Their lower uptake of e-commerce or cloud computing services for instance could hamper their recovery.





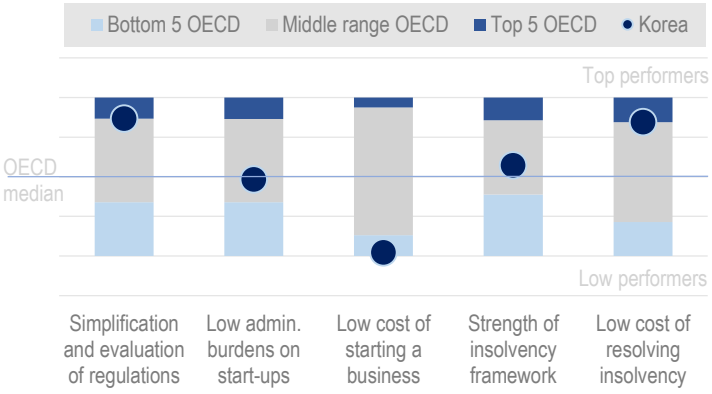
Cash reserves and government liquidity support



43% SMEs in Korea have been able to access and combine government support (as compared to 33.6% in the OECD).

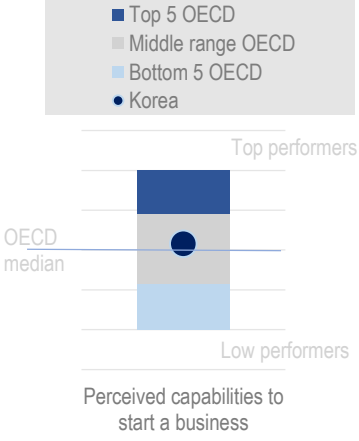
Non-repayable forms of support have been the most popular (36% of SMEs).

Entrepreneurship regulatory framework



Korea has a favourable regulatory framework for entrepreneurship, although the costs of starting a business are high as compared to other OECD countries.

Innovation skills



Korean people value education highly, but their skills do not always match labour market needs. Many graduates spend a long time searching for a job, or report that their qualification exceeds their job requirements. At the same time, SMEs struggle to fill positions.

The perception of Korean adult population of their entrepreneurial capabilities is on par with the OECD median.

Source: E-commerce (2019), cloud computing (2018): OECD ICT Usage by Businesses database 2021; SME profit (2016): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019): GEM 2019, OECD Investing in Youth: Korea (OECD, 2019) (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251504

Latvia

Figure 6.64. COVID-19 impact on business dynamics and policy responses in Latvia

Stringency of government measures

Latvia set itself apart from OECD countries from the second half of 2020 with less stringent government measures.

Policy spotlight

Key measures to support SMEs and entrepreneurs through the COVID-19 crisis focus on liquidity issues:

EUR 60 million Liquidity Scheme for firms from all sectors: refund of approved amount of VAT to all taxpayers within 30 days after VAT return has been submitted, as well as a VAT refund that has been carried forward in previous periods.

EUR 35 million Personal Income Tax (PIT) where taxpayers are exempt from advance payments for the taxation year 2020.

ALTUM, the national development finance institution, has provided guarantees for SMEs :
- ***Individual guarantees*** of up to EUR 5 million per beneficiary, offering 50% guarantee for a maximum of two years ;
- ***Working capital loans*** of up to EUR 1.5 million per beneficiary, for 24 months ;
- **Interest rates cut** on loans for tourism sector businesses, by 50% for SMEs and by 15% for larger enterprises.

Fintech Initiatives to support SME finance in the context of the pandemic.

National SME and entrepreneurship policy framework

SME&E policies in Latvia are defined **as part of wider strategies and policy frameworks**.

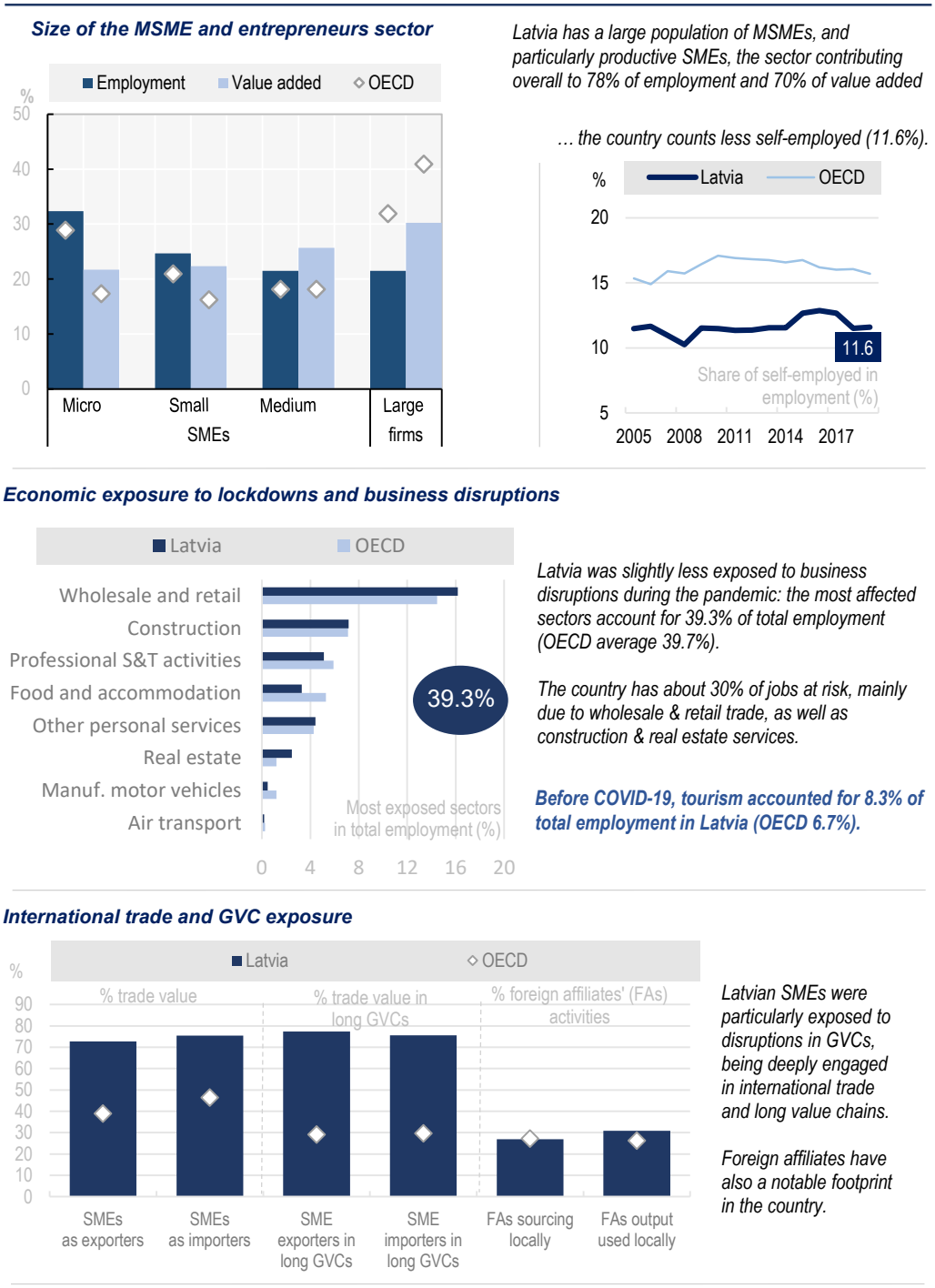
The "**National Industrial Policy Guidelines**" (2014) were developed in response to the Global Financial Crisis, and aim to strengthen the long term sustainability of the economy. They include a focus on competitiveness and exports, digitalisation, innovation and the reduction of energy costs, as well as an entrepreneurship focus directed to the reduction of red tape and support to start-ups and micro-enterprises.

Latvia provides **one-stop-shops for business**, usually physically as virtually, which are open to SMEs. Since smaller businesses are often less well informed on government support measures, an important challenge for such generic enterprise agencies is to be sufficiently accessible for SMEs.

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251523

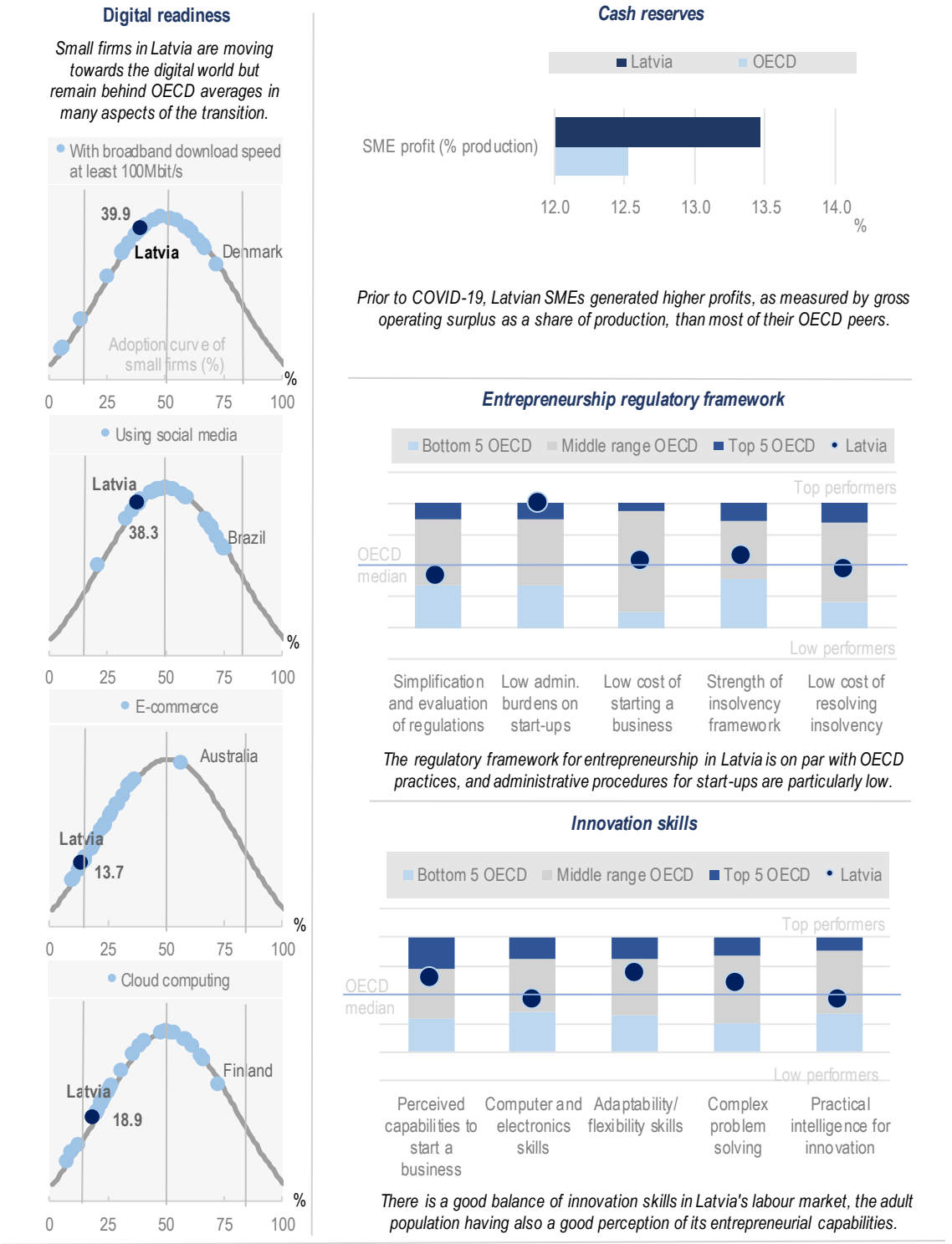
Figure 6.65. Factors of SME&E structural vulnerability in Latvia



Source: Size of the MSME sector (2017): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2017): (OECD, 2020), based on OECD ANA data; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251542

Figure 6.66. Sources of SME&E resilience in Latvia



Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2016): OECD SDBS database 2021; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

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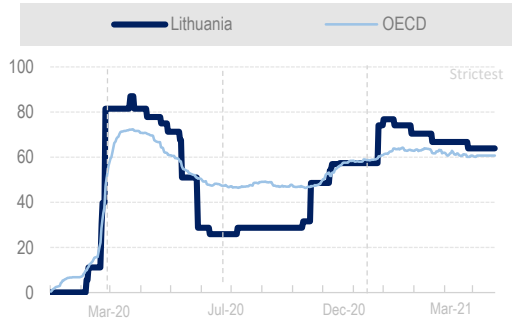
Lithuania

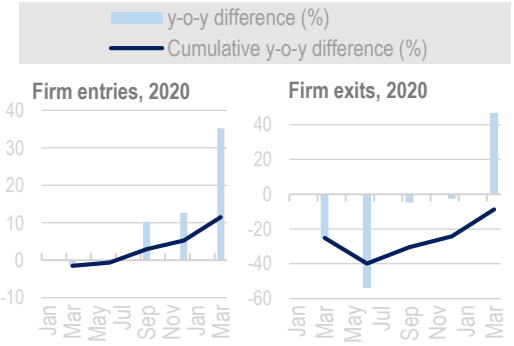
Figure 6.67. COVID-19 impact on business dynamics and policy responses in Lithuania

Stringency of government measures



Lithuania has implemented more stringent restrictions since early 2021.

Business dynamics



There has been more firm entries in Lithuania in 2020 than in 2019. After a drop in Q1 and Q2 on y-o-y basis, firm exits have accelerated in the second half of 2020.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include: ***EUR 1.3 billion Liquidity Allocation*** to SMEs facing financial problems; ***wage subsidies*** to pay employees at least the minimum wage during downtime; ***exemption from fines and default interest*** for failure to comply with tax obligations on time; new ***borrowing instruments*** to enable SMEs to apply for soft loans when they have run out of working capital.

Structural measures have also been implemented:

- ***EUR 5 billion National Support Plan***, with EUR 500 million for maintaining business liquidity and EUR 1 billion for speeding up investment.

- ***"Next Generation Lithuania" - Recovery and Resilience Facility 2021-26*** to develop workers skills required from SMEs in specialisation areas, and to develop other skills of staff involved in the process of exploring entrepreneurial opportunities.

National SME and entrepreneurship policy framework

SME&E policies in Lithuania are defined **as part of the multi-annual** "**Entrepreneurship Action Plan**" (2014) which sets out three tasks aiming to raising the level of entrepreneurship:

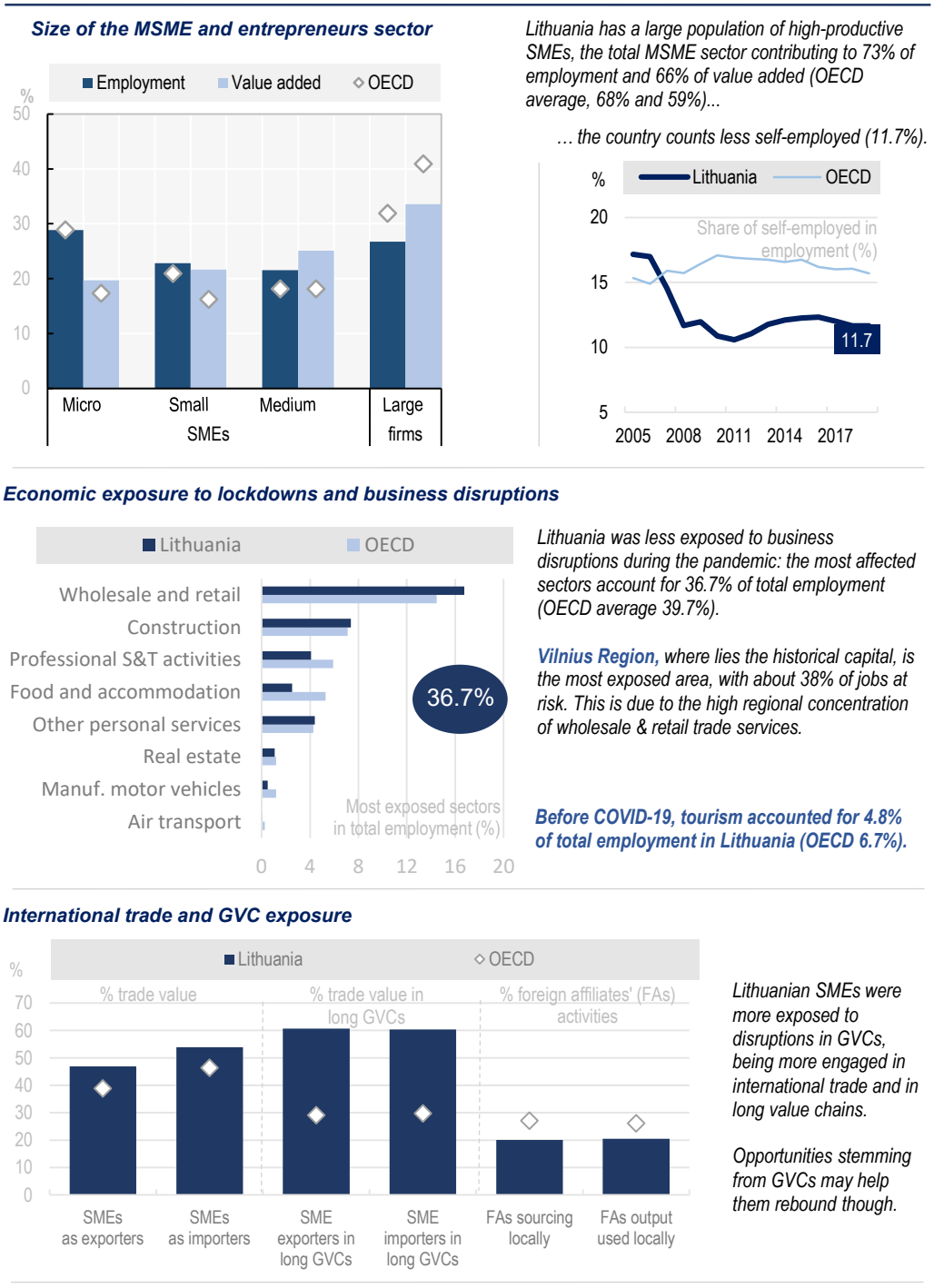
(i) Establishing a consistent and continuous system of entrepreneurship education ;
(ii) Creating a favourable environment for starting and developing a business, and ;
(iii) Ensuring accessibility of public services to businesses, distinguishing entrepreneurship of target groups (youth, women) and start-ups as well as social and regional entrepreneurship.

Training vouchers are provided to help SMEs purchase training hours from accredited individuals or institutions.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251580

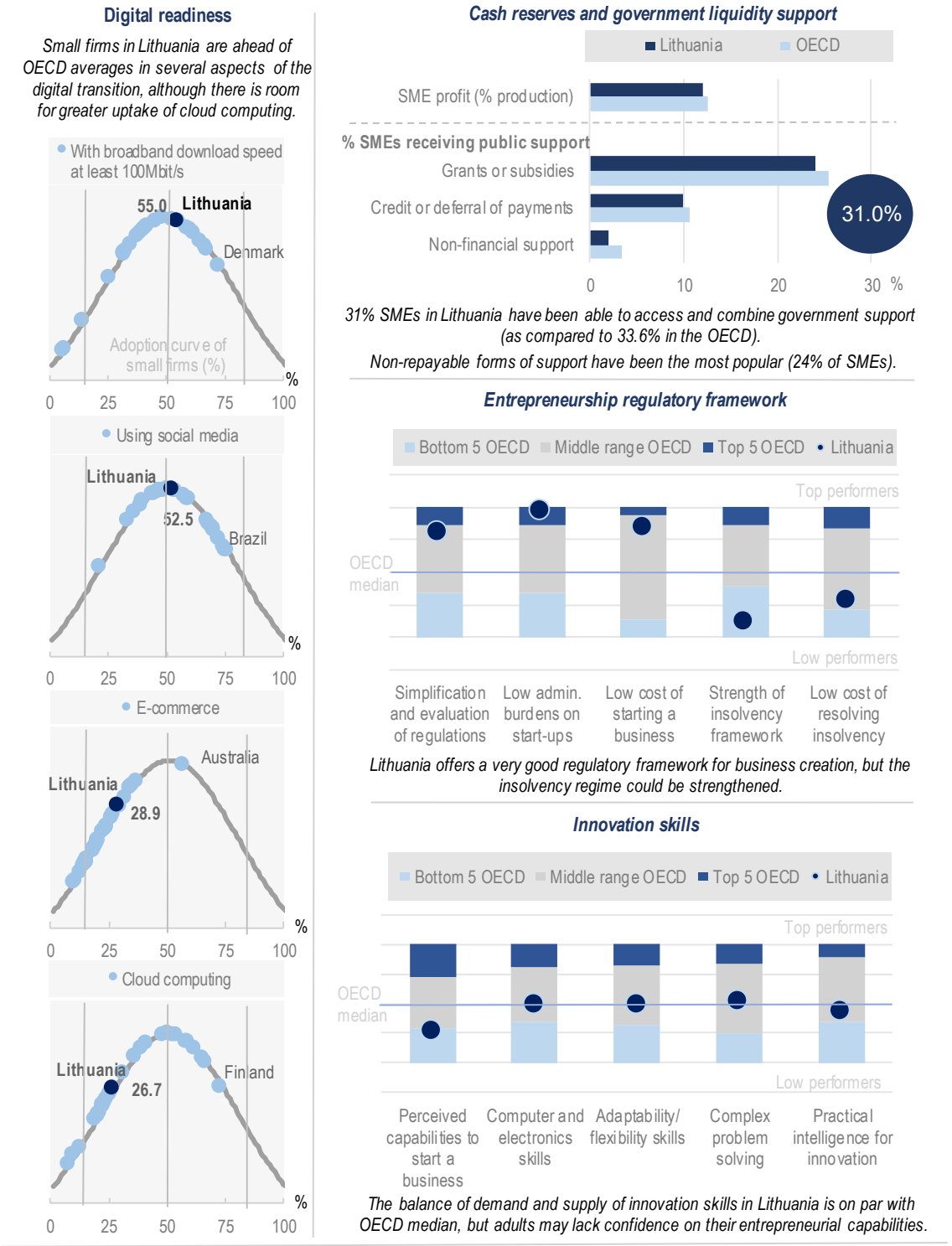
Figure 6.68. Factors of SME&E structural vulnerability in Lithuania



Source: Size of the MSME sector (2017): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2017): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251599

Figure 6.69. Sources of SME&E resilience in Lithuania



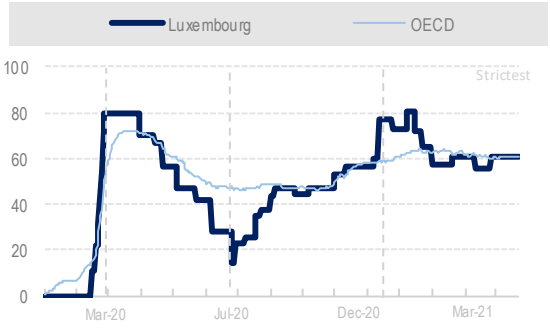
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2014 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251618

Luxembourg

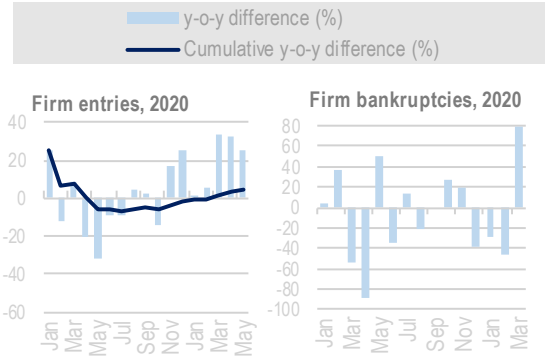
Figure 6.70. COVID-19 impact on business dynamics and policy responses in Luxembourg

Stringency of government measures



Government measures have become more stringent in Luxembourg at the beginning of 2021.

Business dynamics



After an initial decrease at the beginning of the pandemic, firm entries increased again in late 2020 and early 2021, compared to the previous year. In 2020, firm bankruptcies oscillated around their 2019 levels, with a record increase of +80% on a year-on-year basis in March 2021.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include:

EUR 8.8 billion Support Package with:
- ***Tax measures*** to alleviate the liquidity situation of businesses and self-employed ;
- ***Oustanding VAT credits*** below EUR 10 000 automatically reimbursed ;
- ***Modalities regarding cross-border workers*** resorting to teleworking, based on bilateral agreement with France, Belgium and Germany ;
- ***Administrative flexibility*** granted to firms for the payment of social contributions ;
- ***EUR 5 000 Lump-Sum Grant*** for less than 10 employees companies ;
- ***Expansion of the short-time working scheme*** ("chômage partiel") to all firms impacted by the pandemic.

Structural measures have also been implemented:

- "Le Plan pour la Reprise et la Résilience", based on three pillars: Social Cohesion and Resilience; Green Transition; and Digitalisation, Innovation and Governance.

In particular, the ***"Skilling, Reskilling and Upskilling"*** component ensures that the single market functions well with strong SMEs in the country.

National SME and entrepreneurship policy framework

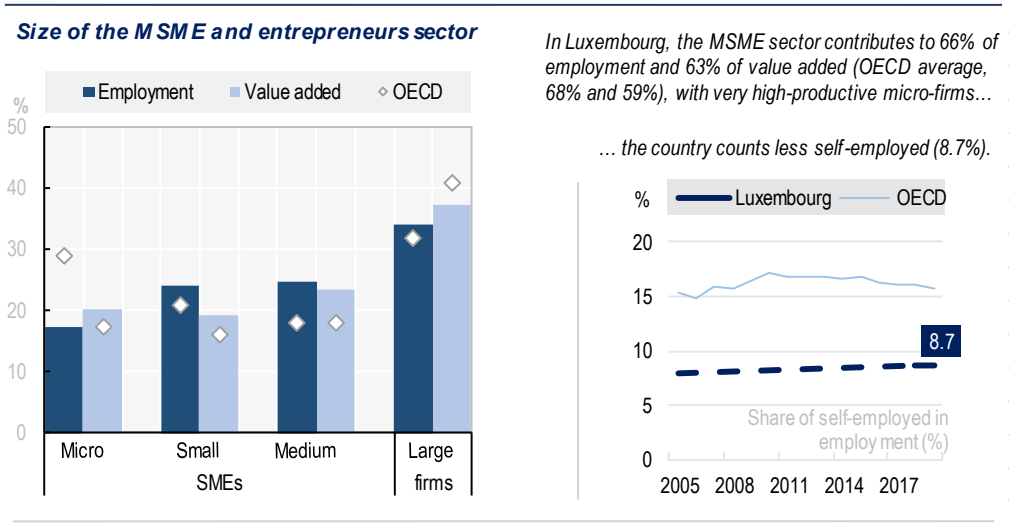
SME&E policies in Luxembourg are defined **as part of the multi-annual** "**Fourth National Action Plan to Support SMEs**" (2017) that promotes an entrepreneurial spirit, adapts regulations for changing labour markets, fosters better access to finance and seeks to set up an environment conducive to research and innovation. The Luxembourg Chambers of Commerce also hosts various support schemes for business and SMEs.

SME&E policies are co-ordinated by the **Ministry of the Economy** and implemented through various public and private actors and associations, including the national innovation agency Luxinnovation, the Chamber of Commerce, the Chamber of Crafts, the Public Employment Service (ADEM), the House of Entrepreneurship, the House of Startup and the *Mutualité de Cautionnement*.

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251637

Figure 6.71. Factors of SME&E structural vulnerability in Luxembourg



Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed regions: Beine, M., et al. (2020), Economic effects of Covid-19 in Luxembourg; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251656

Figure 6.72. Sources of SME&E resilience in Luxembourg

Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2016): OECD SDBS database 2021; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251675

Mexico

Figure 6.73. COVID-19 impact on business dynamics and policy responses in Mexico

Stringency of government measures

The year 2020 was marked by strict restriction measures in Mexico, before some relax in 2021 Q2.

Business dynamics

The National Study on Business Demography (EDN) estimates that, from May 2019 to September 2020, more than 1 milllion MSMEs close operations definitely, i.e. 20.8% of the population at the beginning of the period.

The number of business units decreased by 8.06%, and SMEs experienced a slightly higher rate of permanent closures (21.2%) as compared to micro firms (20.8%).

During the same time period, 619 443 new firms were also created, representing 12.75% of the country's business population.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include: the ***Emergency Program for Economic Reactivation*** providing loans at preferential rates to small firms (<50 employees) in priority industries, and the ***National Economic Support Package***, including in particular ***Credit Payments for Workers*** from the National Institute for Workers' Housing (INFONAVIT); ***MXN 25 billion (USD 1 billion) SMEs Support*** from the National Delevlopent Bank, providing credit products and loans to businesses in the formal and informal economy; and ***Financial Support Provisions*** from the National Banking and Securities Commission (CNBV), consisting in partial or total deferral of capital and/or interest payments.

Structural measures have also been implemented:

- MXN 3.4 billion "Tandas para el Bienestar" Programme to reinforce existing social programmes to support SMEs through the Mexican Social Security Institute (IMSS).

- ***Leveraging fintech solutions to support financial inclusion***, including participation from the private sector to channel funding to SMEs and support their digitalisation.

- SME Telecommunications Financing Program to support MSMEs linked to the digital industries and telecommunications infrastructure sectors.

National SME and entrepreneurship policy framework

SME&E policies in Mexico are defined **as part of wider strategies and policy frameworks**.

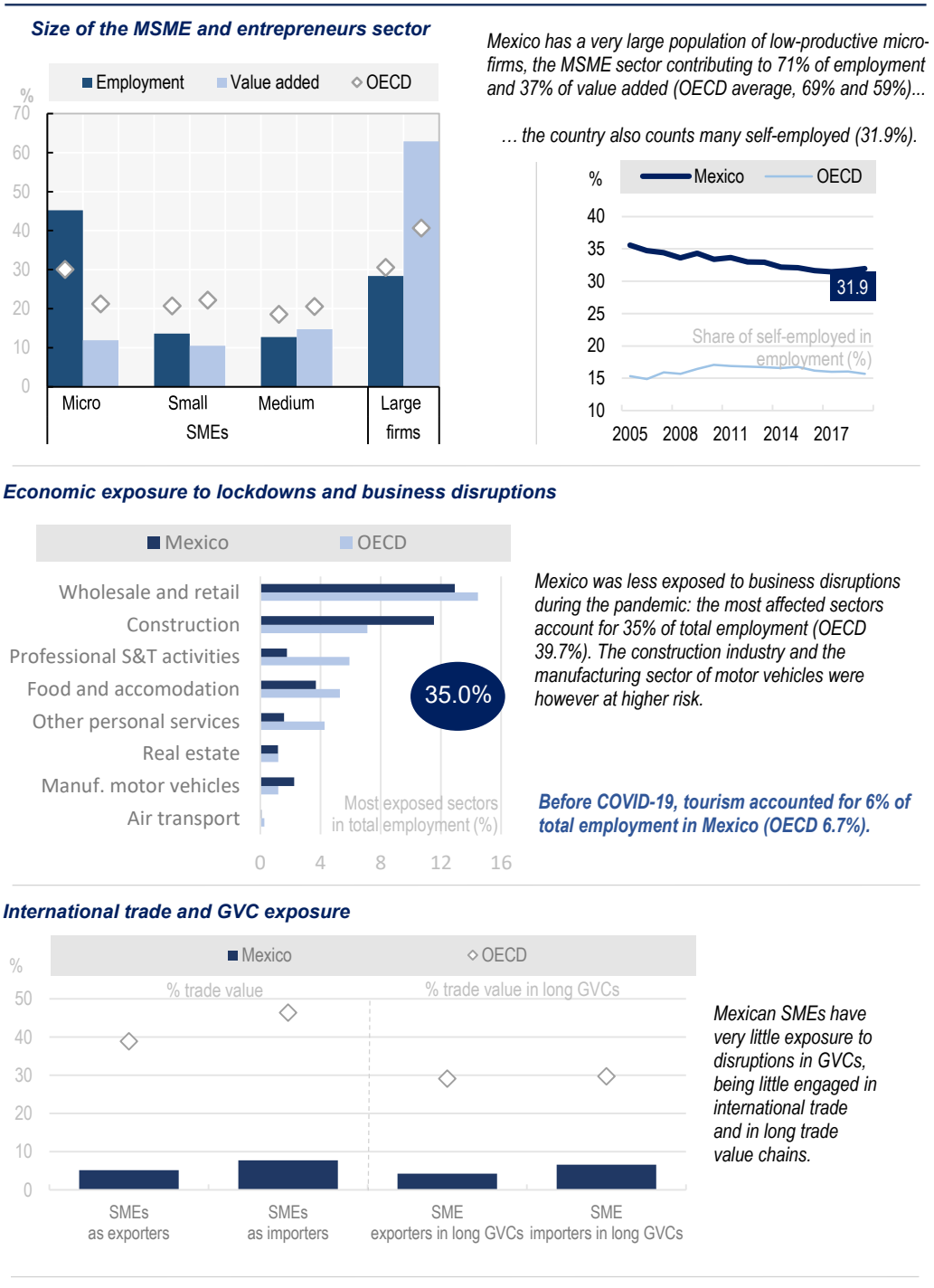
The "**Economy's Sectoral Program 2020-24**" is managed by the Ministry of Economy and is part of the National Development Plan 2019-24. The third objective of the Program is "to promote the creation and consolidation of productive MSMEs for creater productive inclusion". It focuses in particular on improving MSME access to finance, strengthening entrepreneurship competences, and fostering technological innovation.

The Unit of Productive Development (UDP) is in charge of promoting, designing, coordinating, executing and reviewing the public policy to support MSMEs, with a view of reducing inequality between people and regions. The UDP also operates various coordination bodies with different government agencies.

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251694

Figure 6.74. Factors of SME&E structural vulnerability in Mexico



Source: Size of the MSME sector (2013): OECD SME&E Outlook 2019; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2015): OECD TEC database 2021 (see country-specific references and definitions).

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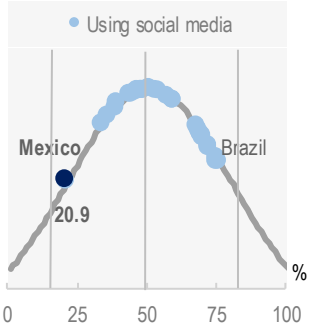
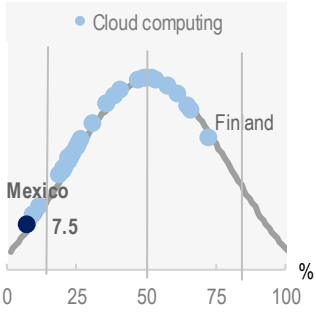
Figure 6.75. Sources of SME&E resilience in Mexico

Digital readiness

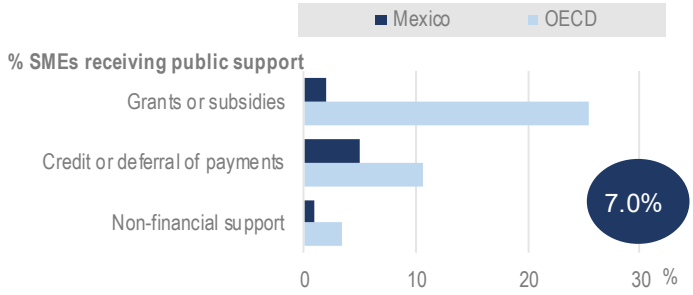
Small firms in Mexico are lagging behind in digital uptake, but the country has made progress in the digitalisation of firms, especially during the COVID-19 crisis.





According to a recent ECLAC report, the online business presence grew by 800% in Colombia and Mexico, and 360% in Brazil and Chile during the recent crisis.

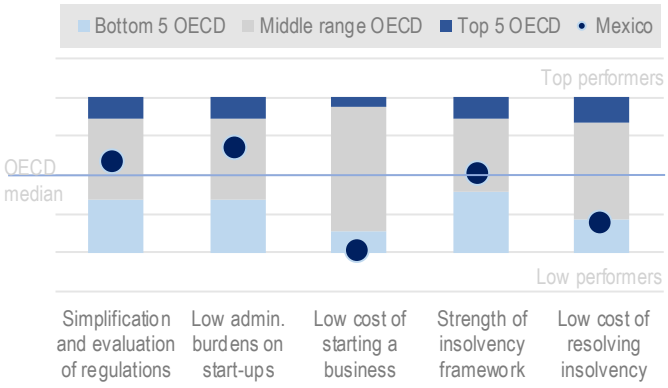
Government liquidity support



Only 7% SMEs in Mexico have been able to access and combine government support (as compared to 33.6% in the OECD).

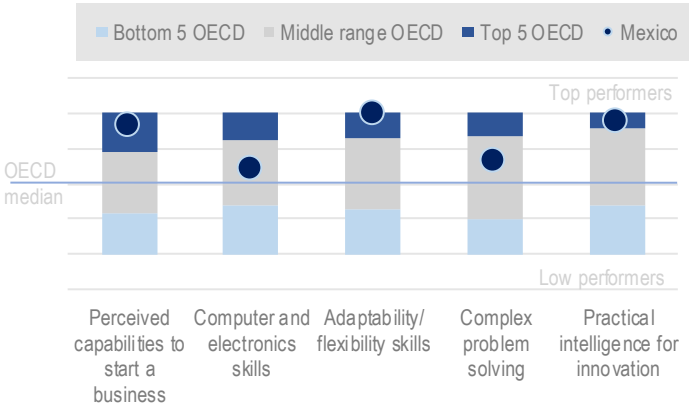
Repayable forms of support have been the most popular (5% of SMEs).

Entrepreneurship regulatory framework



In Mexico, the administrative framework for entrepreneurship is good, but administrative costs for starting a business or resolving insolvency could be significantly reduced.

Innovation skills



There is a good balance of innovation skills in Mexico, but gaps are emerging in computer/electronic skills and complex problem solving as demand increases.

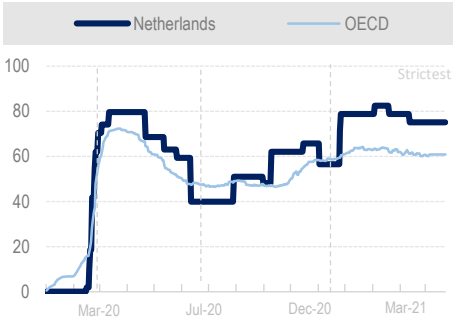
Source: Social media (2012), cloud computing (2012): OECD ICT Usage by Businesses database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251732

The Netherlands

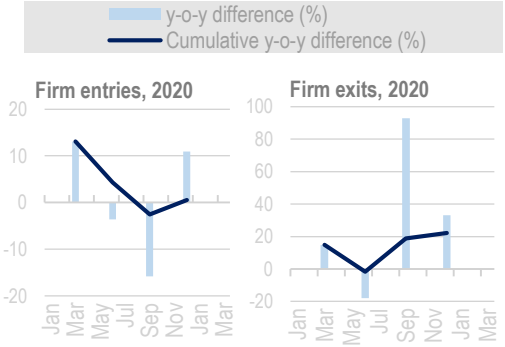
Figure 6.76. COVID-19 impact on business dynamics and policy responses in the Netherlands

Stringency of government measures



The Netherlands have gone through a series of restrictive periods with stringent measures, especially since early 2021.

Business dynamics



Firm creation has collapsed in 2020 and rebounded in the last quarter, being back to 2019 levels at the end of year. Firm exits have increased markedly over the period.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include:

- EUR 750 million Small Credit Corona guarantee scheme (KKC) with 95% of public guarantee for small credits (EUR 10 000 to EUR 50 000) against a maximum of 4% interest rate.

- EUR 1.18 billion scheme to support Dutch SMEs with three direct grant measures. The largest one (estimated budget of EUR 970 million) consists of aid for SMEs that lost at least 30% of their turnover between January to March 2021 compared to the same period in 2019.

- EUR 300 million extra credit for SMEs in the form of a temporary bridging loan facility.

Structural measures have also been implemented:

- A ***scale-up facility*** encompassing multiple funds of which the Dutch Future Fund (DFF) ;

- ***Time out arrangement*** (TOA) credits to help entrepreneurs restart their business after debt restructuring under certain conditions ;

- ***Adjustment in the growth facility*** that allows for private investments to strengthen the equity position of companies.

National SME and entrepreneurship policy framework

SME&E policies in the Netherlands are defined **as part of a multi-annual Action Plan**.

The **2018 SME Action Plan** articulates the approach of the government towards SMEs with a number of targeted measures. A central ambition is for the country to be a frontrunner in the transition to a sustainable and digital economy.

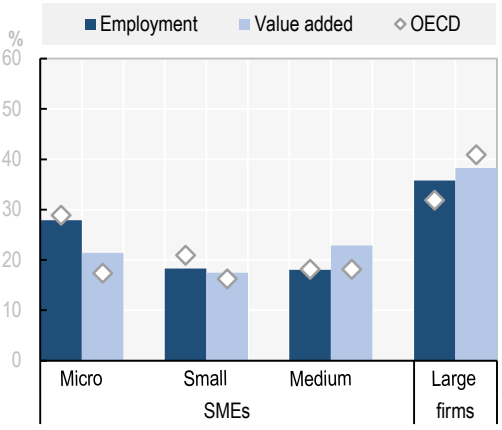
The Action Plan puts strong emphasis on the existence of different types of SMEs, and distinguishes between **frontrunners** (innovative/fast growing SMEs and start-ups) and the wider group of '**broad SMEs**'. Within these broad SMEs, the Action Plan distinguishes between those SMEs who want to grow but lack the resources or knowledge, and those SMEs for whom growth is not their (main) objective (e.g. social entrepreneurs).

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251751

Figure 6.77. Factors of SME&E structural vulnerability in the Netherlands

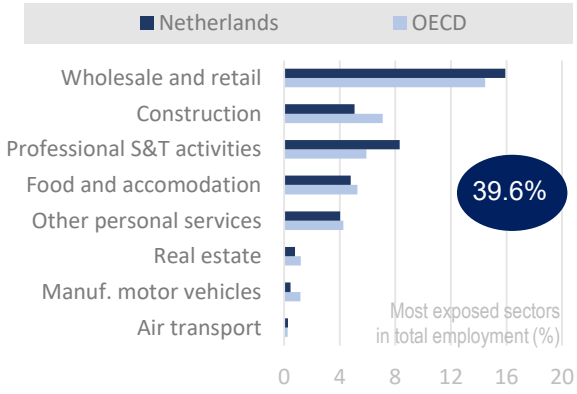
Size of the MSME and entrepreneurs sector



In the Netherlands, the MSME sector contributes to 64% of employment and 62% of value added (OECD average, 68% and 59%), signalling higher productivity, especially among medium-sized enterprises...

… the country however counts more self-employed (16.6%).

Economic exposure to lockdowns and business disruptions

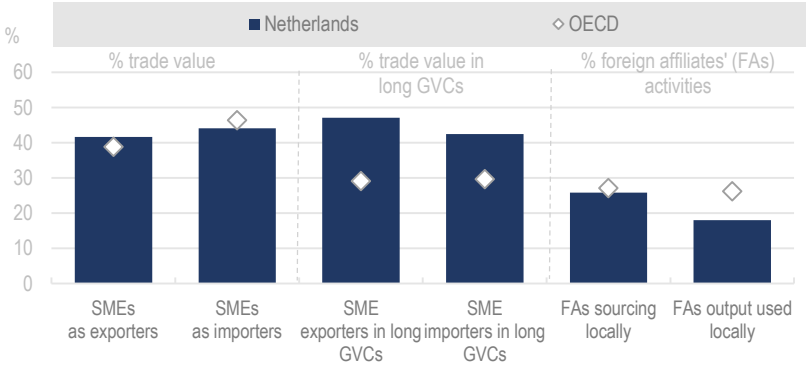


The Netherlands were exposed to business disruptions as most of OECD countries : the most affected sectors account for 39.6% of total employment (OECD average 39.7%). But this hides uneven sectoral vulnerability, e.g. due to the greater contribution of wholesale and retail trade and professional S&T services to total employment.

***Flevoland**, a province in the centre, has about 30% of jobs at risk, the highest share in the country, especially due to the regional concentration of wholesale & retail trade services.*

Before COVID-19, tourism accounted for 6.4% of total employment in Netherlands (OECD 6.7%).

International trade and GVC exposure



Dutch SMEs are more exposed to disruptions in GVCs, being engaged in international trade and especially within long value chains.

They are however less likely to suffer disruptions in foreign direct investments, since they are less likely to source from foreign affiliates.

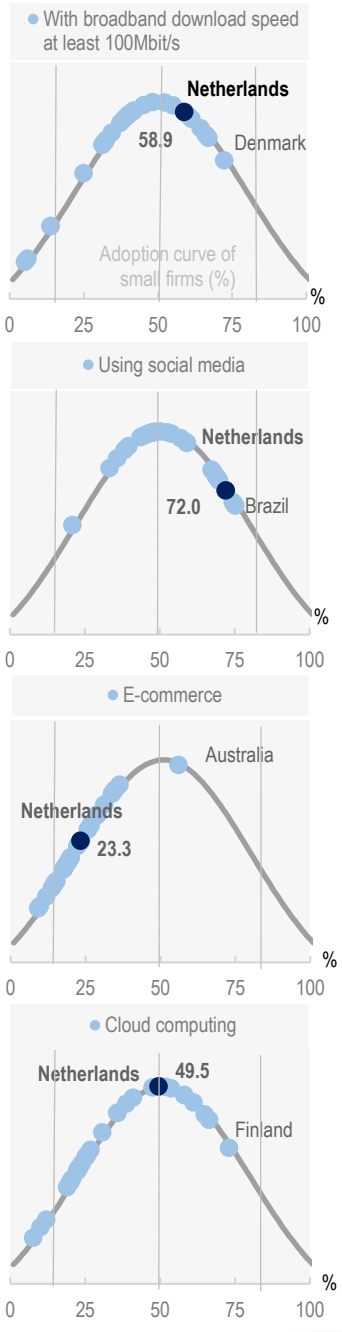
Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251770

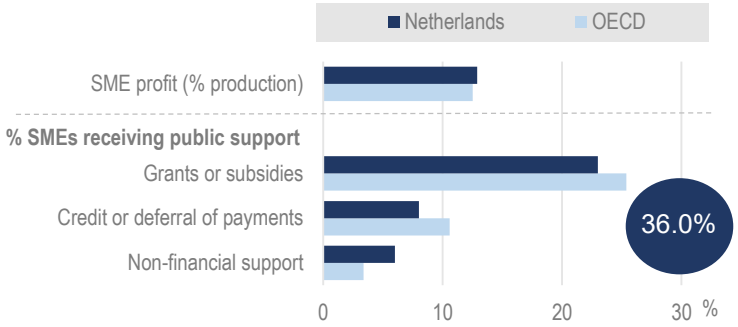
Figure 6.78. Sources of SME&E resilience in the Netherlands

Digital readiness

Dutch small firms have an edge on different aspects of digitalisation. This is an asset for their recovery, but the low uptake of e-commerce could raise challenge.



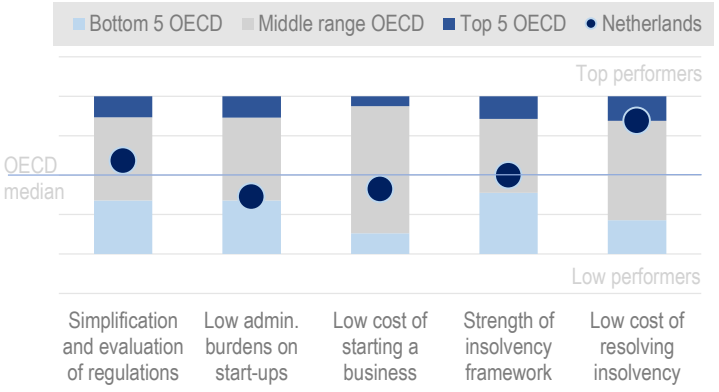
Cash reserves and government liquidity support



36% SMEs in Netherlands have been able to access and combine government support (as compared to 33.6% in the OECD).

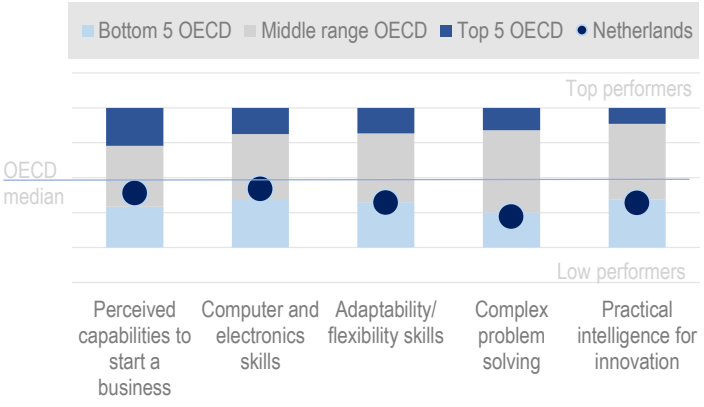
Non-repayable forms of support have been the most popular (23% of SMEs).

Entrepreneurship regulatory framework



In the Netherlands, there is room for easing administrative procedures for start-ups and reducing costs of starting a business.

Innovation skills



A skills gap could be a major issue for future recovery in the Netherlands. There is currently a growing imbalance for a range of innovation skills.

Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2016): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

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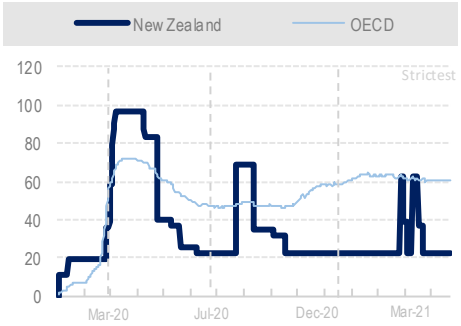
New Zealand

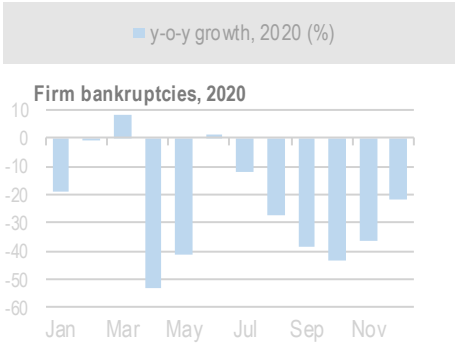
Figure 6.79. COVID-19 impact on business dynamics and policy responses in New Zealand

Stringency of government measures



New Zealand has taken strict measures episodically since the start of the pandemic, keeping overall restrictions low.

Business dynamics



Despite a slight increase in March and June, the number of bankruptcies in 2020 remained consistently and significantly below 2019 levels.

Policy spotlight

The government introduced a range of liquidity support measures, e.g. ***business continuity package***, with wage support and tax measures (NZD 12.1 billion), ***Business Finance Guarantee Scheme for SMEs*** for short-term credit (NZD 6.25 billion), or the ***Small Business Cashflow Loan Scheme***.

Assistance amidst the crisis is also provided through NZD 25 million ***business consultancy support***.

Structural policies have been reinforced with:

- ***Digital Boost Skills Training*** (Digital Boost programme) to support small businesses in realising the benefits of digital tools and technologies.
- ***NZD 20 million Digital Capability Funding Scheme*** to provide training and advice for SMEs, in particular in the tourism sector. Free digital bill boarding space for SMEs was also set.
- ***Trade Recovery Strategy*** that extend the NZTE Regional Business Partner network to SMEs, providing them with advice on how to navigate the policy landscape and use public support, as well as international market intelligence to diversify export and import markets.

National SME and entrepreneurship policy framework

SME&E policies in New Zealand are defined as part of **specific SMEs strategies**.

The "**Empowering Small Businesses to Aspire, Succeed and Thrive**" Strategy (2019) shifts the government's role from ensuring compliance with rules and regulations, to creating an enabling environment for SMEs. It covers a broad set of issues, including regional development, the digital economy, export growth, tax policy, access to finance, sustainability, social enterprises, and streamlining government support.

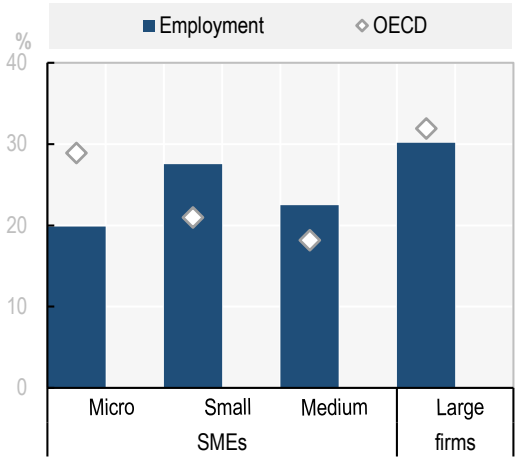
Within the Ministry of Business, Innovation and Employment (MBIE), New Zealand has **a dedicated Minister for Small Business**, whose portfolio has broadened since November 2020 to include Economic Development, Regional Development, Tourism and Forestry. The **Small Business Collective (SBC)** is a dedicated entity to small businesses within the MBIE, which focuses on representing the voice of New Zealand's small and micro businesses in the design and delivery of policies and services.

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251808

Figure 6.80. Factors of SME&E structural vulnerability in New Zealand

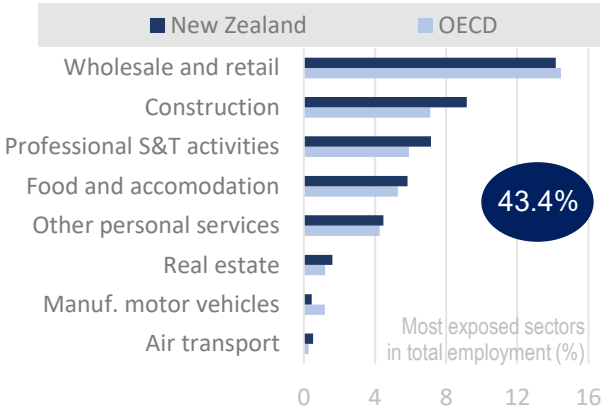
Size of the MSME and entrepreneurs sector



New Zealand has comparatively a large population of small firms, the MSME sector contributing to 70% of employment (OECD average 68%)...

… the country also counts more self-employed (18.2%).

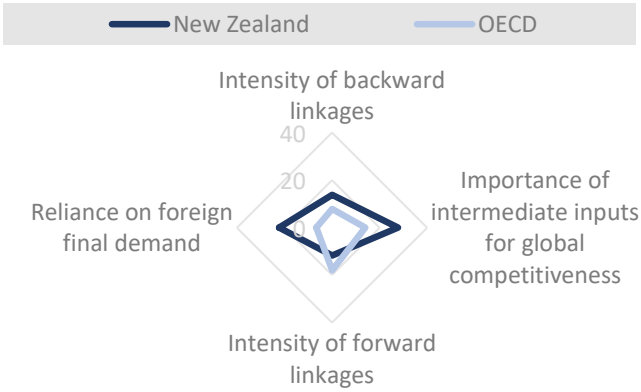
Economic exposure to lockdowns and business disruptions



New Zealand was more exposed to business disruptions during the pandemic: the most affected sectors account for 43.4% of total employment (OECD average 39.7%).

Before COVID-19, tourism accounted for 8% of total employment in New Zealand (OECD 6.7%).

International trade and GVC exposure



International trade is an essential element of New Zealand's economy, which is a small and very open economy.

New Zealand was particularly exposed to chain reactions along GVCs through strong backward linkages (as importer) and high dependence on intermediate inputs for competitiveness and foreign demand for market prospects.

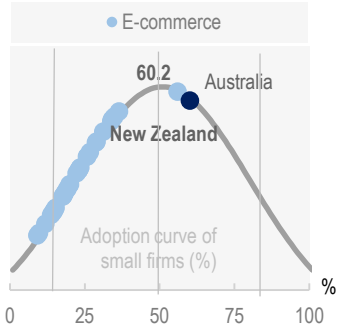
Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2016): OECD TiVA database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251827

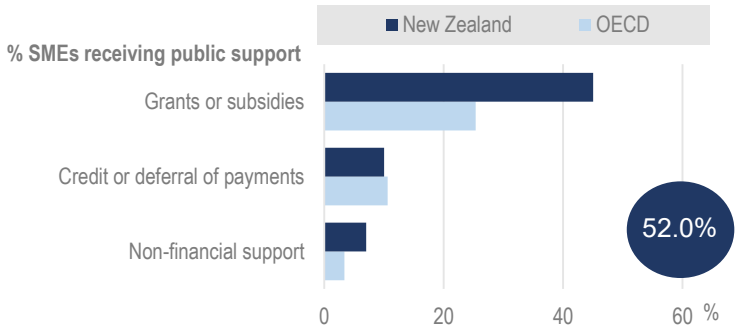
Figure 6.81. Sources of SME&E resilience in New Zealand

Digital readiness

Small firms in New Zealand are very active in e-commerce, with a 60.2% rate of adoption among the highest in the OECD area in 2018.



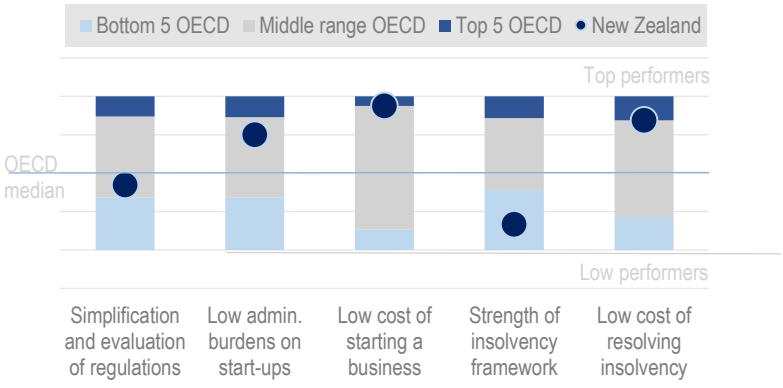
Cash reserves and government liquidity support



52% SMEs in New Zealand have been able to access and combine government support (as compared to 33.6% in the OECD).

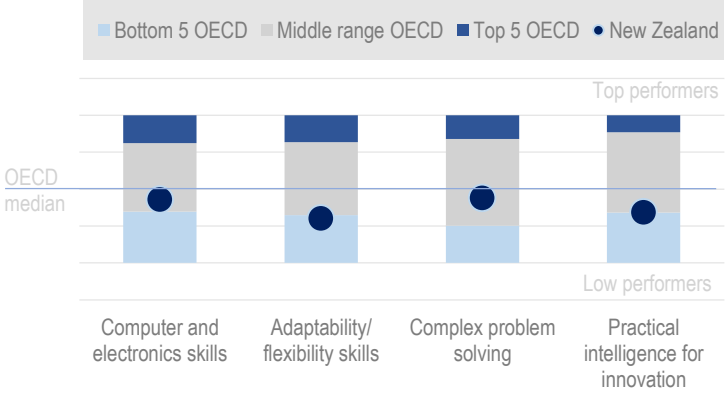
Non-repayable forms of support have been the most popular (45% of SMEs).

Entrepreneurship regulatory framework



In New Zealand, the regulatory framework for entrepreneurship is very favourable, although there is room for strengthening the insolvency regime.

Innovation skills



There is a growing imbalance of innovation skills in New Zealand, especially adaptability/flexibility skills and innovation workstyle.

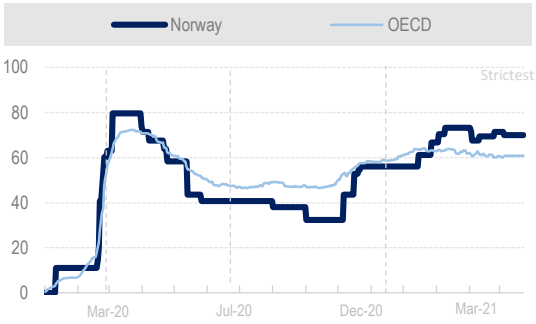
Source: E-commerce (2018): OECD ICT Usage by Businesses database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2015): OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251846

Norway

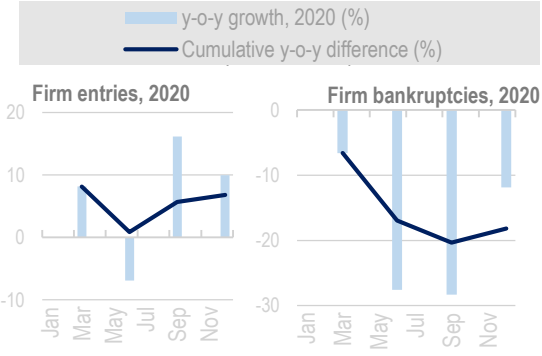
Figure 6.82. COVID-19 impact on business dynamics and policy responses in Norway

Stringency of government measures



While Norway experienced less stringent restrictions over 2020, government measures have tightened in 2021.

Business dynamics



Firm creation has kept momentum in 2020 (apart Q2) with more firm entries than in 2019. The number of bankruptcies fell sharply over the same period.

Policy spotlight

The government has deployed a number of liquidity support measures, e.g. ***loan guarantees for SMEs*** (NOK 50 billion), ***compensation scheme*** for revenue losses (NOK 4 billion), or ***subsidy scheme*** for re-hiring temporarily laid-off workers (NOK 4 billion).

Particular attention is given to support ***innovative and research businesses*** through:

- ***Additional funding to Innovation Norway and the Research Council*** (NOK 3 billion), e.g. grants for young growth companies, business-oriented research support, an Innovation Norway's innovation loan scheme (NOK 1.6 billion) ;

- Increasing ***investment capital*** in Investinor AS (NOK 1 billion) ;

- Measures to underpin activity in the ***construction*** (NOK 4 billion) and ***tourism*** (NOK 1.5 billion) sectors ;

- Increased ***education and skills funding*** (NOK 1 billion) ;

- A ***green transition package*** (NOK 3.6 billion).

National SME and entrepreneurship policy framework

SME&E policies in Norway are defined **as part of a multi-annual Action Plan**.

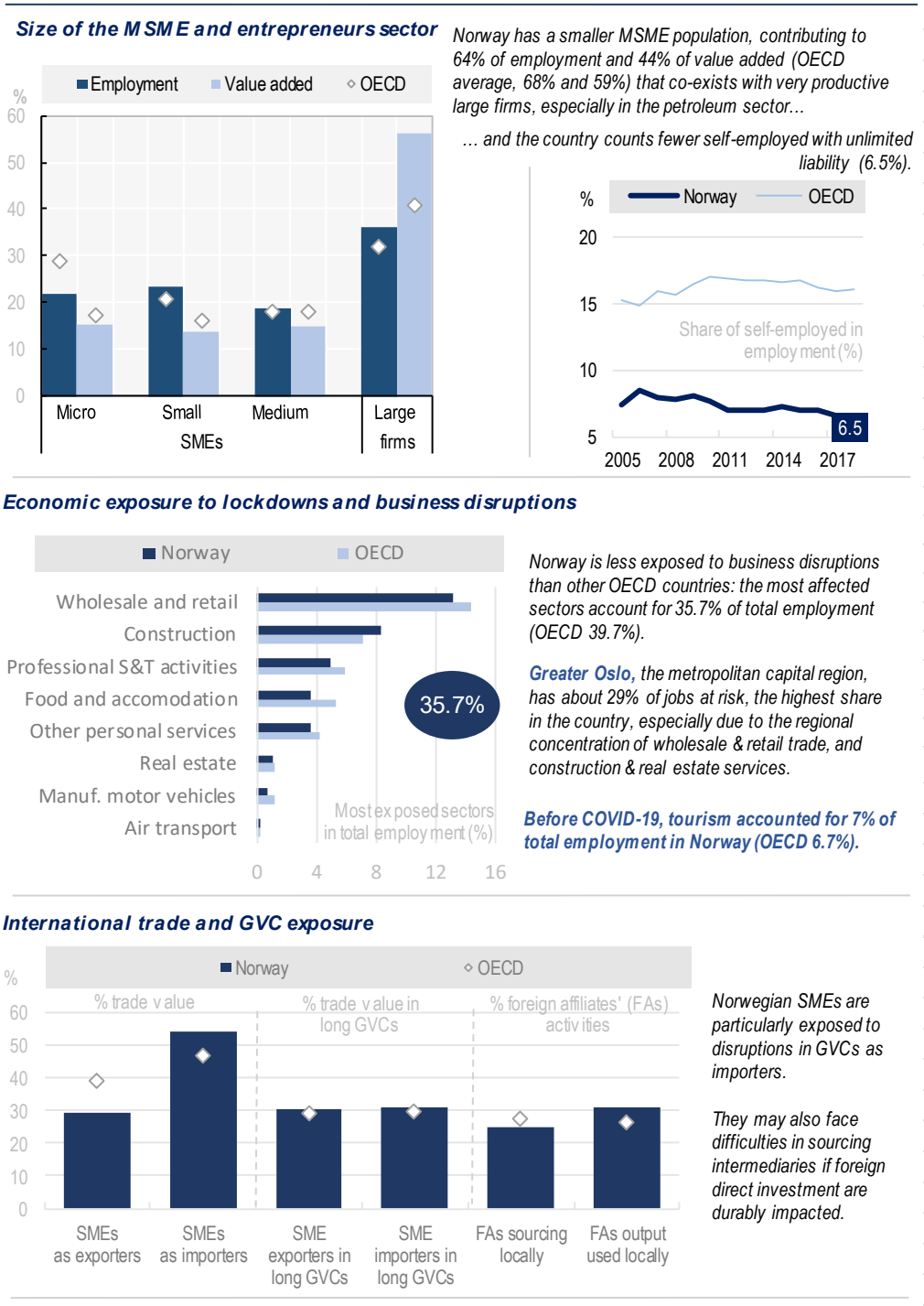
The "**Good ideas – Future jobs: The Government Entrepreneurship Plan**" (2016) aims to enhance innovation, and puts strong emphasis on new firm creation and sustainability. It includes three main pillars: better access to capital at an early stage, increased access to competence, and making Norway a more attractive entrepreneurial country for a variety of people.

Regarding internationalisation**, helping Norwegian SMEs** overcome their difficulties **in accessing global markets** is a key dimension of the national export strategy. Norway also lists **skills and education** among its priority support efforts for SMEs.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251865

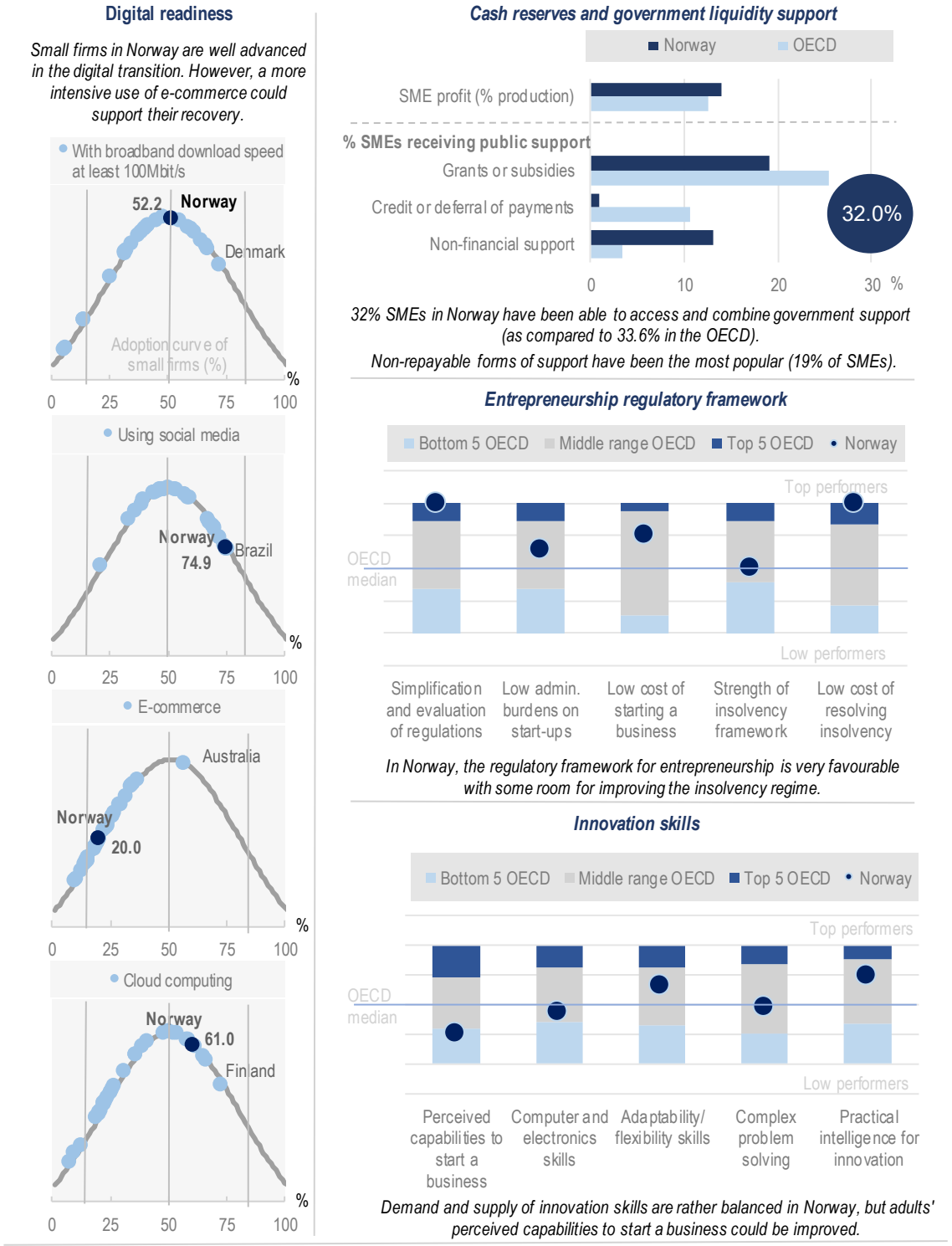
Figure 6.83. Factors of SME&E structural vulnerability in Norway



Source: Size of the MSME sector (2017): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2017): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2018): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251884

Figure 6.84. Sources of SME&E resilience in Norway



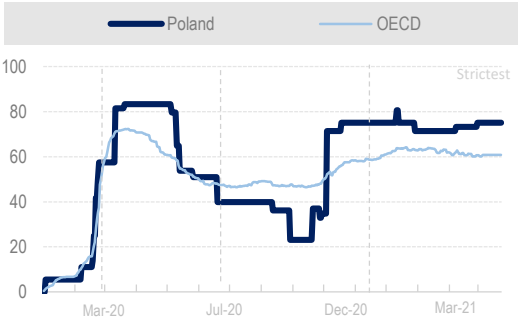
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251903

Poland

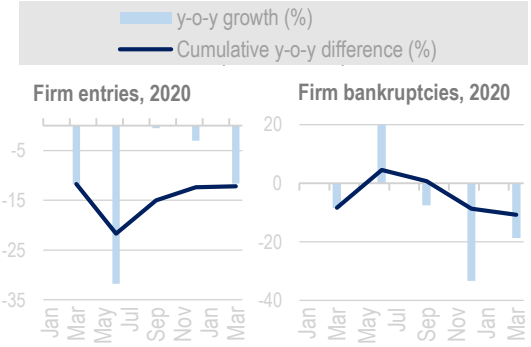
Figure 6.85. COVID-19 impact on business dynamics and policy responses in Poland

Stringency of government measures



Poland has experienced several phases of stringent restrictions since the beginning of the pandemic.

Business dynamics



Firm entries were strongly impacted, with overall less start-ups created in 2020 than the previous year. After an increase of almost 20% compared to 2019 in 2020Q2, firm bankruptcies decreased and remain below 2019 level.

Policy spotlight

Key measures to support MSMEs' liquidity include: the ***PLN 68 billion Financial Shields 1.0 and 2.0*** (total for 2020-21) for MSMEs in sectors particularly hit by the pandemic (e.g. retail, trade, tourism, food services, culture), managed by the Polish Development Fund; and the ***PLN 153 billion Anti-Crisis Shield*** to support MSMEs and entrepreneurs via social insurance exemptions, wage subsidies or guarantee schemes.

Structural measures have also been implemented:

- National Recovery and Resilience Plan, focusing on green energy and sustainable mobility, increasing access and strengthening the quality of the healthcare system, a resilient and competitive economy and digital transformation, with a strong emphasis on additional access to finance for SMEs.

- New Chance Policy for SMEs to support businesses in difficulty and second chance entrepreneurship via **Rescue Aid** in the form of loans, as well as loans for **temporary/ long-term restructuring**

- Policy for Artificial Intelligence Development (2019-27), including a focus on strengtheing collaboration between businesses, public sector, academia and non-governmental organisations.

National SME and entrepreneurship policy framework

SME&E policies in Poland are defined **as part of wider strategies and policy frameworks**.

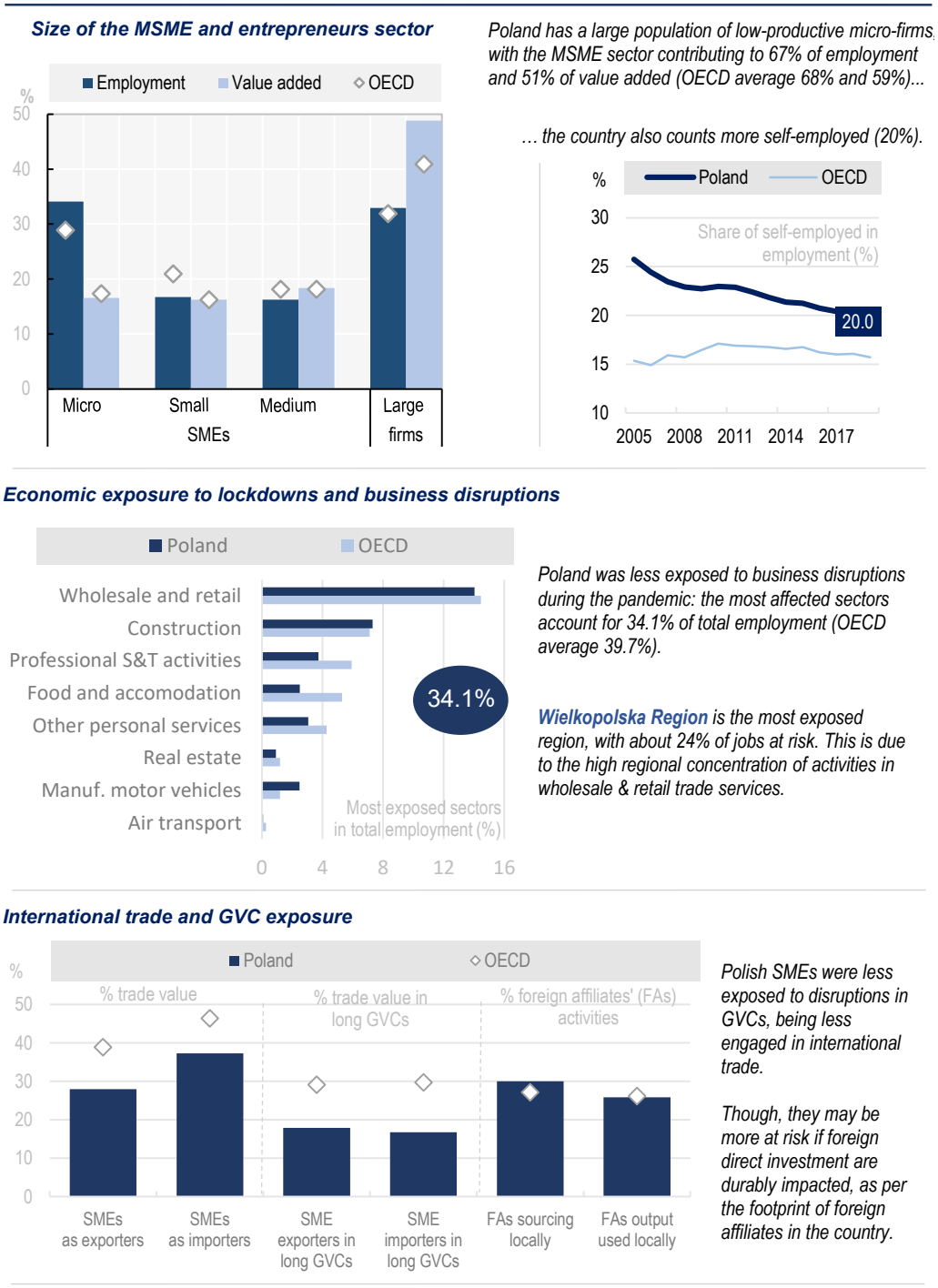
Principles of SME policy are laid out in the **Strategy for Responsible Development, the Strategy for Innovation and Efficiency of the Economy (Dynamic Poland 2020), and the Enterprise Development Programme 2020**. The Polish Government is also to adopt the **Productivity Strategy 2030** and the complementary **Polish Industrial Policy**.

The **2018 Business Constitution reform** (Konstytucja Biznesu) establishes new and easier principles for doing business, including through simplified relations with the public administration. SME policies aim to, among other things, faciliate the succession in family-run firms, support start-ups and firm innovation (via the Start In Poland programme), reduce licensing costs, and speed up legal proceedings.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251922

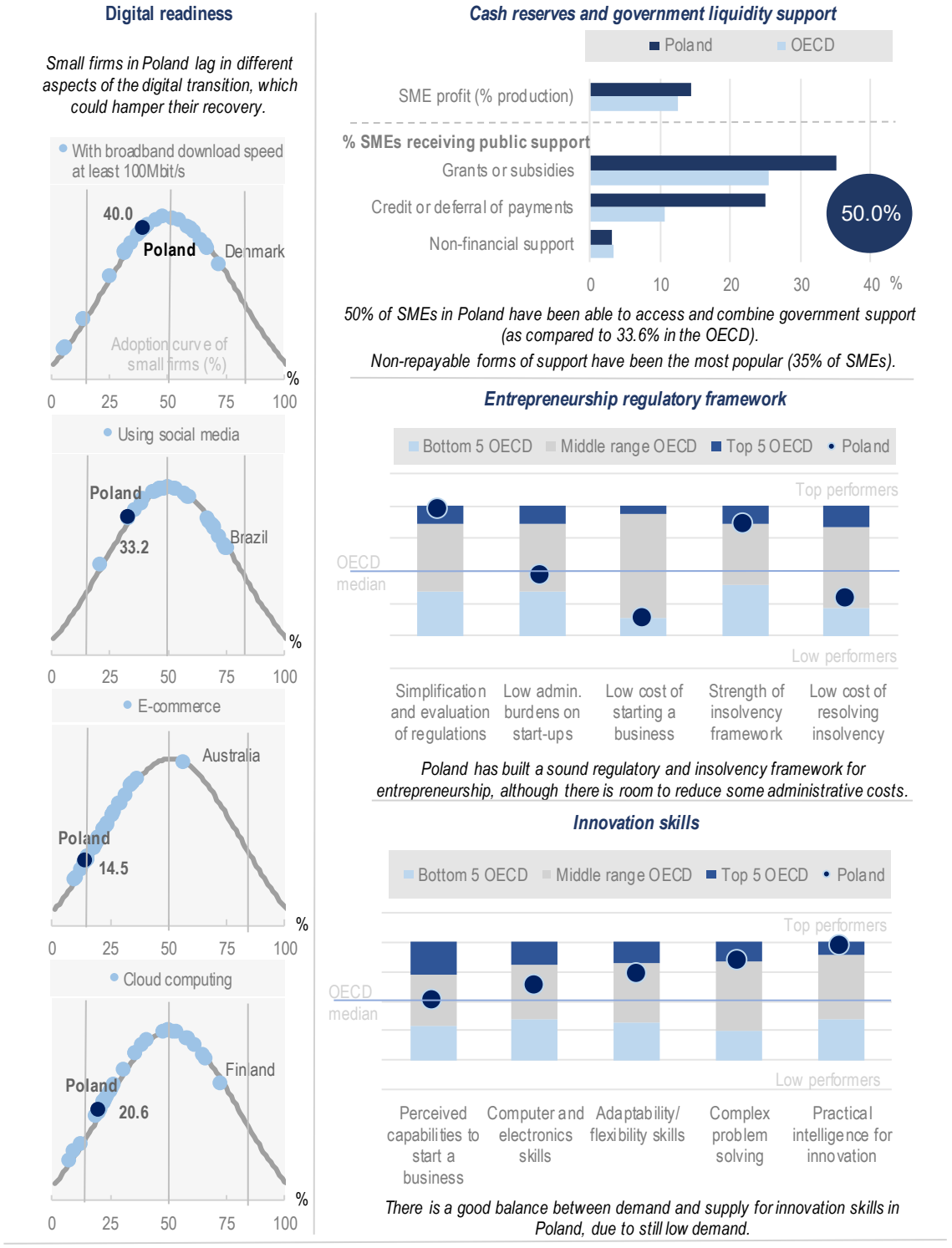
Figure 6.86. Factors of SME&E structural vulnerability in Poland



Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251941

Figure 6.87. Sources of SME&E resilience in Poland



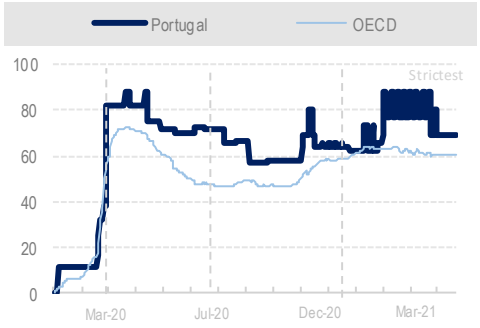
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251960

Portugal

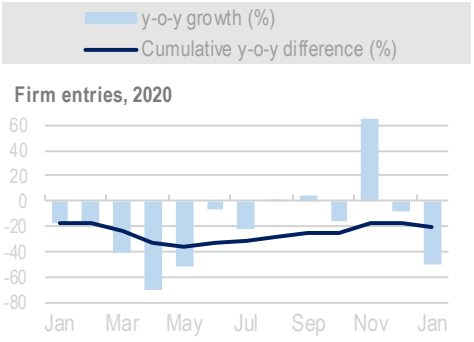
Figure 6.88. COVID-19 impact on business dynamics and policy responses in Portugal

Stringency of government measures



Portugal has remained under particularly restrictive conditions since the start of the pandemic.

Business dynamics



Firm creation has declined in 2020 as compared to 2019 in Portugal, with a cumulative difference of firm entries on a year-on-year basis of more than -40%.

Policy spotlight

Portugal has several ***COVID-19 Credit Lines with State Guarantee*** to support SME and entrepreneurs' liquidity, including:

- ***EUR 6.2 billion Economy Support*** for sectors under stress (restaurants, entertainment, tourism);
- ***EUR 1 billion*** for micro and small enterprises;
- ***EUR 1.05 billion*** for SMEs, small mid-caps and mid-caps from the industry and tourism sectors with an export share of at least 20% in 2019;
- ***EUR 1.1 billion APOIAR measures*** to foster the maintenance of business activity.

Structural measures have also been implemented:

- ***EUR 25 million fiscal package*** to support the entrepreneurship and start-up ecosystem;
- ***EUR 1.7 million to Digital Education***, businesses 4.0, and digital public administration
- ***Portugal Digital Plan*** that aims at the digital transformation of businesses with dedicated support for SMEs in the countryside;
- ***Recovering Portugal, Building the Future*** with policy priorities and investments towards ***Resilience, Climate Transition, and Digital Transformation***;
- ***Portugal 2030 Strategy*** to recover the economy and protect employment while ensuring greater territorial and social cohesion;
- ***2030 Economic Internationalisation Programme*** for greater integration of SMEs in GVCs.

National SME and entrepreneurship policy framework

SME&E policies in Portugal are defined as part of **wider strategies and policy frameworks**.

The "**Action Plan for the Digital Transition**" (2020) sets a comprehensive strategic vision for the digital transition and is structured under three main pillars: (i) Capacity building and digital inclusion ; (ii) Businesses digital tansformation and ; (iii) Public services digitization. "**Startup Portugal**" also encompasses Portugal's approach towards entrepreneurship, focusing on ecosystems, funding, and internationalisation.

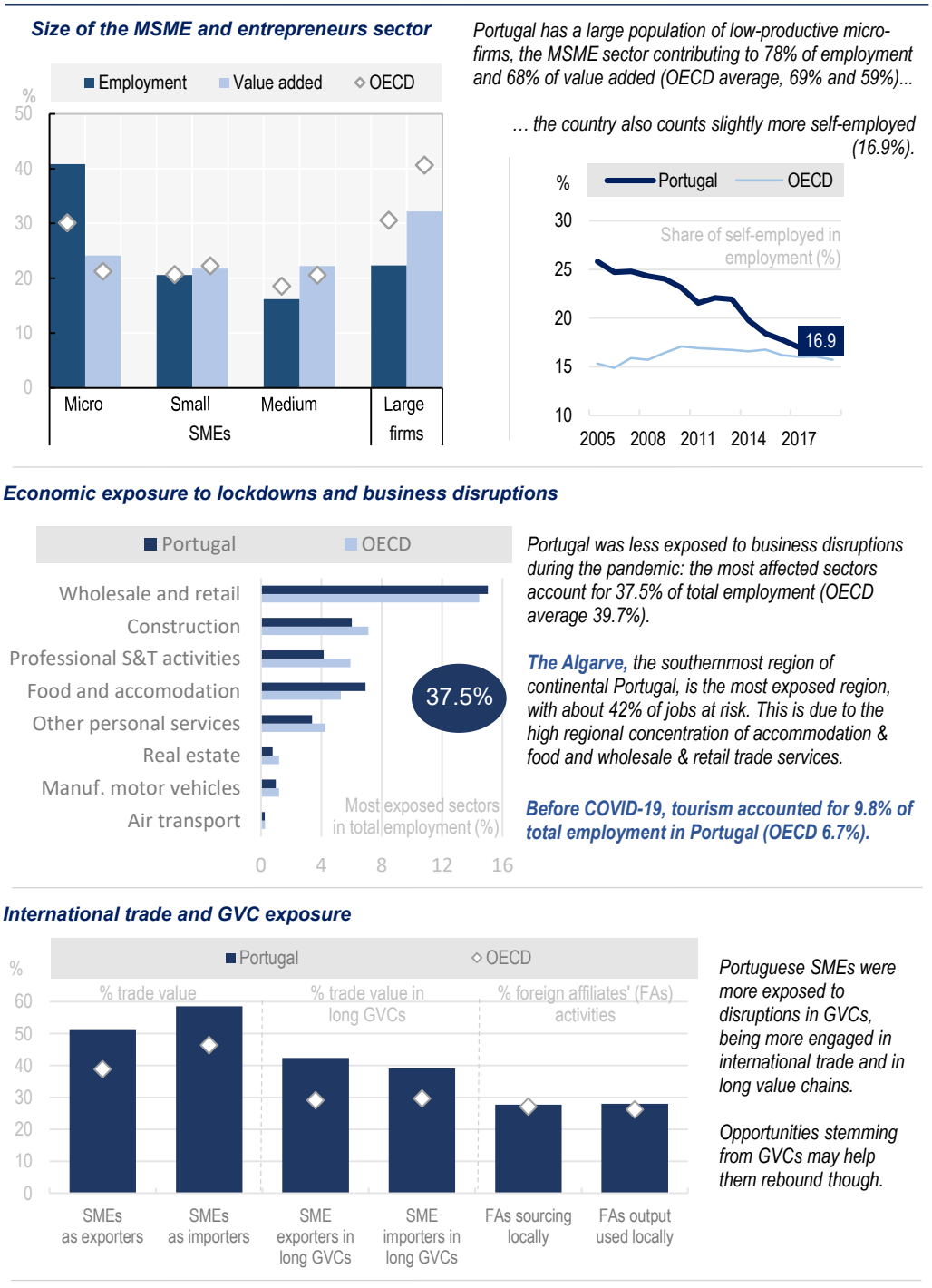
The **Think Small First principle** guides the mainstreaming of an SME dimension across policies, as required by the EU Small Business Act (SBA) to establish a governance mechanism at national level.

"**Entrepreneur's Desk**" aims to simplify the regulatory process for entrepreneurs.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251979

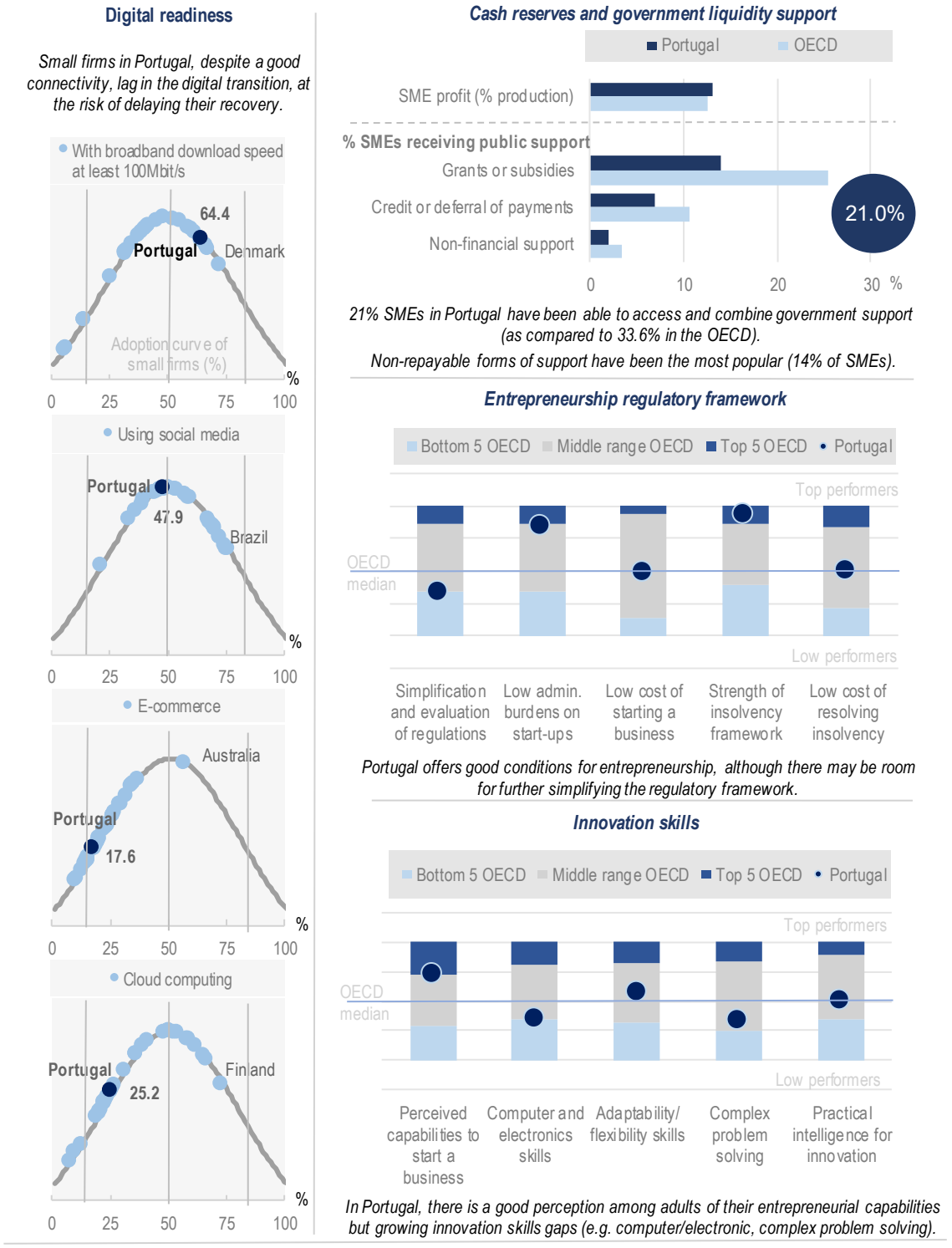
Figure 6.89. Factors of SME&E structural vulnerability in Portugal



Source: Size of the MSME sector (2016): OECD SME&E Outlook 2019; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2017): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2016): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934251998

Figure 6.90. Sources of SME&E resilience in Portugal



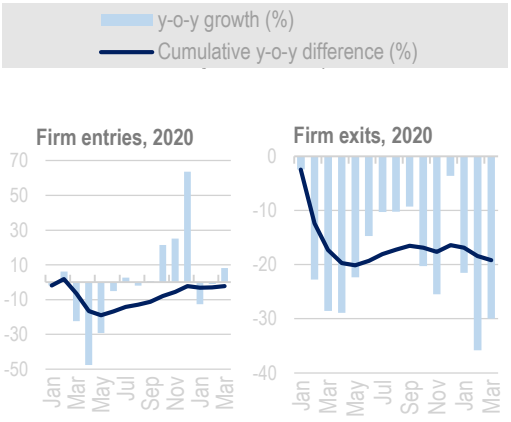
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252017

Slovak Republic

Figure 6.91. COVID-19 impact on business dynamics and policy responses in the Slovak Republic

Business dynamics



After a sharp decrease at the beginning of the pandemic, firm entries recovered steadily, remaining still below 2019 levels at the end of the period.

In turn, firm exits were much lower throughout 2020 as compared to 2019.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include:

- **Short-Time Work Scheme** to compensate for workers' salaries in companies that have suspended operations or whose revenue has dropped.

- ***Financial Aid Guarantee*** to loans and/or payment of interest costs from loans, mainly to preserve employment and performance in SMEs.

- ***Mortgage Installments Postponement*** for individuals, self-employed, and SMEs.

More structural measures are also implemented:

- ***Interest-Free Loans for start-ups*** (mainly SMEs) via the Export-Import Bank (EXIMBANKA) and the Slovak Guarantee and Development Bank (SZRB).

- ***National Recovery Plan*** with five key priorities: i) green Slovakia, ii) better education, iii) science, research, innovation, iv) healthy life, and v) efficient state and digitalisation promoting an ecosystem for innovation in digital technologies.

National SME and entrepreneurship policy framework

SME&E policies in the Slovak Republic are defined **as part of an annual Action Plan**.

The national SME policy is outlined in the "**Report on the State of SMEs**" (2018) where it is intended to strengthen policy coordination and consultation, and integrate the report in a new strategic document on **National Council for Productivity and Competitiveness**.

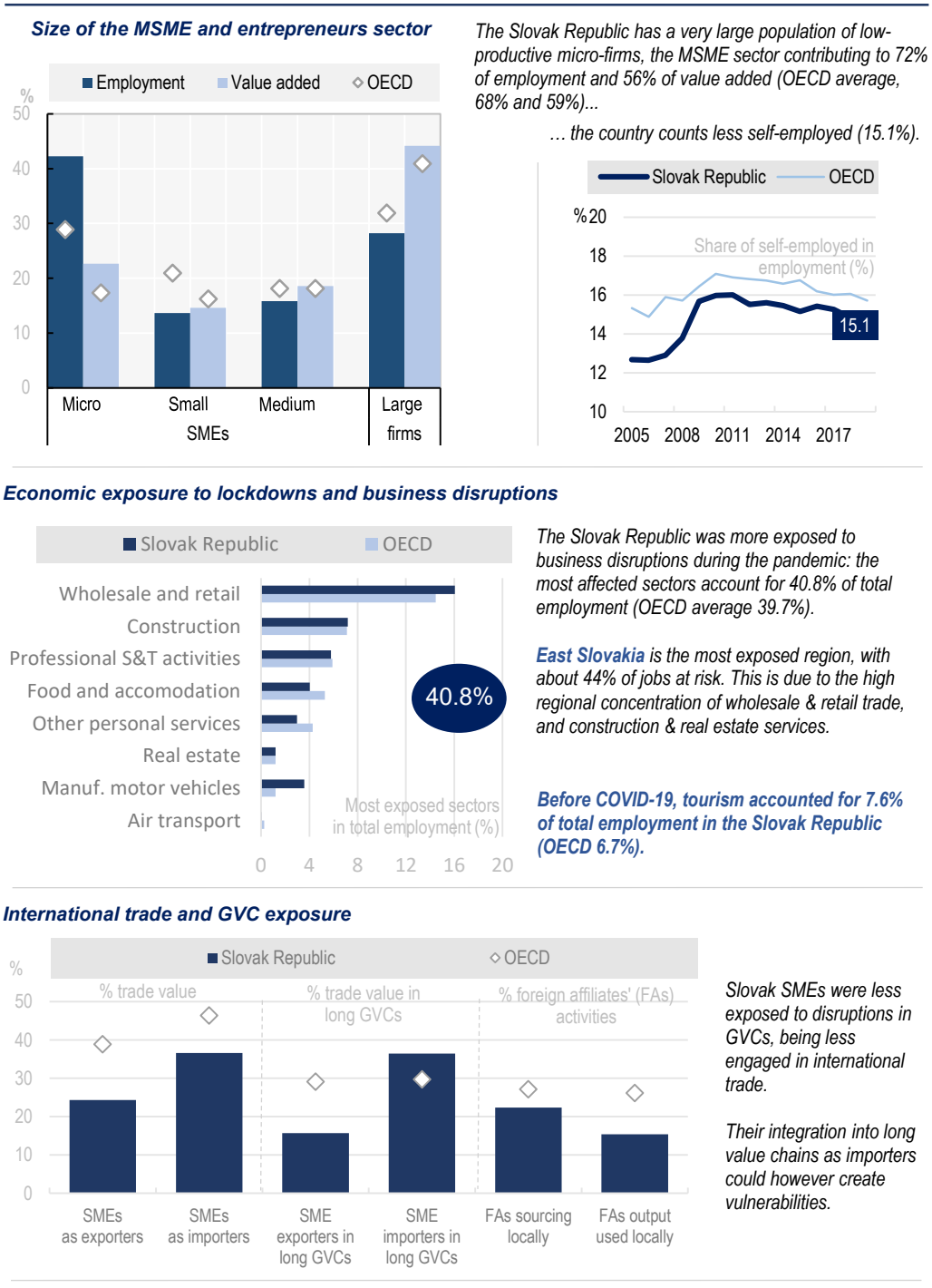
The **Ministry of Economy** is the central body responsible for SME support, including for the implementation of the SME Support Law. It places emphasis on the integration of SMEs into national sectoral strategies.

The "**Manifesto of the Slovak Republic 2020-24**" commits to create a business environment with simple laws and low administrative, financial and regulatory burdens.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252036

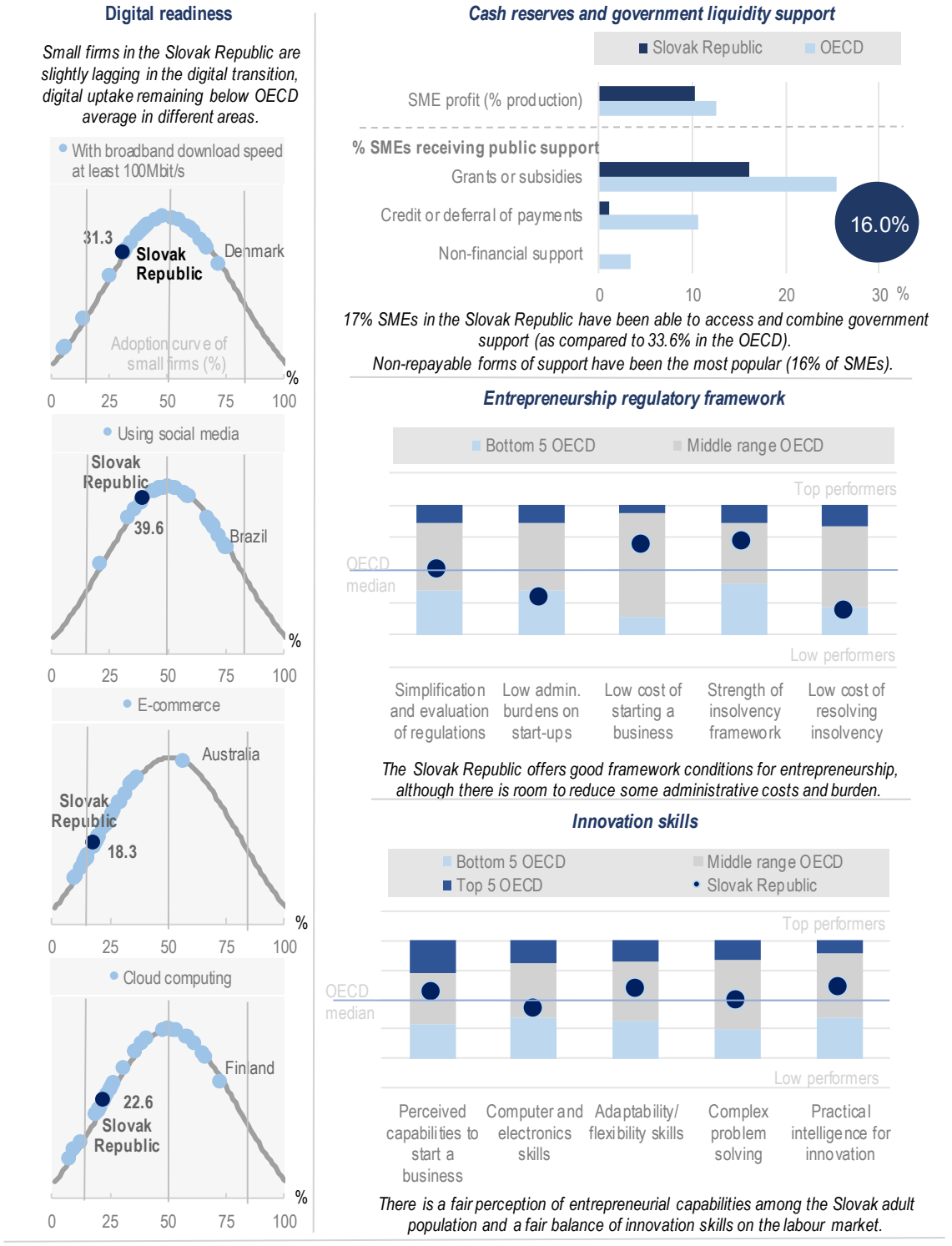
Figure 6.92. Factors of SME&E structural vulnerability in the Slovak Republic



Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020 and ILO ILOSTAT database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2017): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252055

Figure 6.93. Sources of SME&E resilience in the Slovak Republic



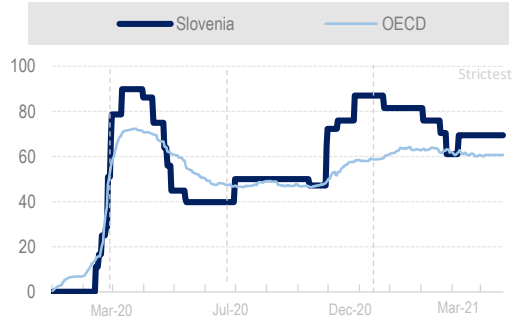
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2016): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252074

Slovenia

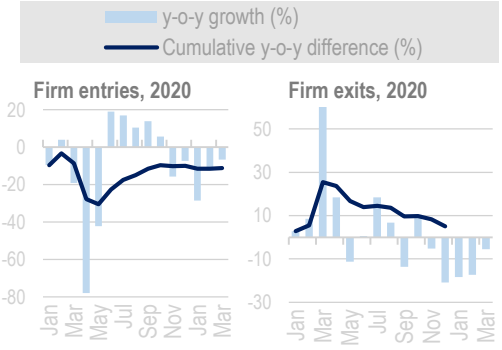
Figure 6.94. COVID-19 impact on business dynamics and policy responses in Slovenia

Stringency of government measures



Slovenia has experienced a series of stringent restriction periods since the beginning of the pandemic.

Business dynamics



After a sharp drop in firm entries and sharp increase in firm exists in the first quarter of 2020, business dynamics slowly restored towards 2019 levels, the shock having not been fully absorbed still.

Policy spotlight

Key measures to support SMEs and entrepreneurs' liquidity include: ***EUR 2 billion Liquidity Aid*** of loan guarantees for micro firms and SMEs (up to 80% guarantee); a ***EUR 378 million Support Scheme for self-employed*** in the form of grants; or ***EUR 115 million Slovenian Enterprise Fund*** for SMEs where the Slovenian Regional Development Fund offers companies to roll over debt.

Structural measures have also been implemented:

- ***EUR 660 million Recovery Scheme***, including EUR 248 million in grants. The scheme focuses on SMEs, liquidity, the green transition and digitalisation.

- ***National Recovery and Resilience Plan*** with developments in green transition (fostering cooperation between energy-intensive industries and innovative SMEs to strengthen energy efficiency), and in digital technologies (fostering SMEs/start-ups and blockchain, e-commerce and the cloud computing, as well as cooperation between SMEs and start-ups).

- ***EUR 100 million Support Scheme for SMEs and R&D*** with grants and zero interest loans.

National SME and entrepreneurship policy framework

SME&E policies in Slovenia are defined **as part of the "Industrial Strategy 2021-30**". The Strategy includes a focus on SMEs and entrepreneurship with guidelines for digitalisation, start-ups, innovation, internationalisation, investment, skills, sustainability and the business climate.

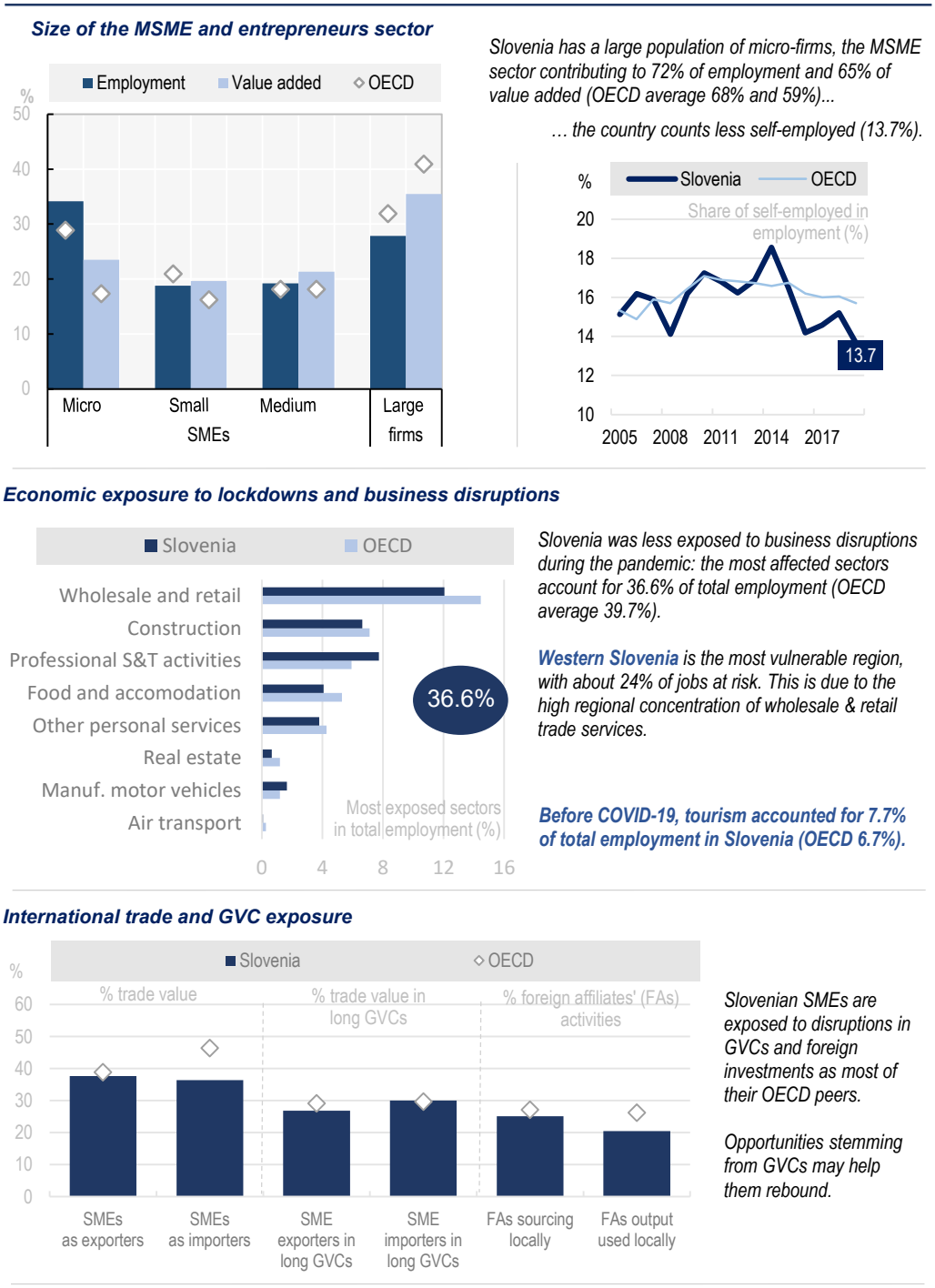
The "**Action Plan - Slovenia - Land of Innovative Start-ups**" (2018) sets the strategic directions for start-ups.

The **Government Office for Development and European Cohesion Policy** (GODE) supports and coordinates SME policy development. Several cities support SME&E and have set-up steering boards to coordinate action.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252093

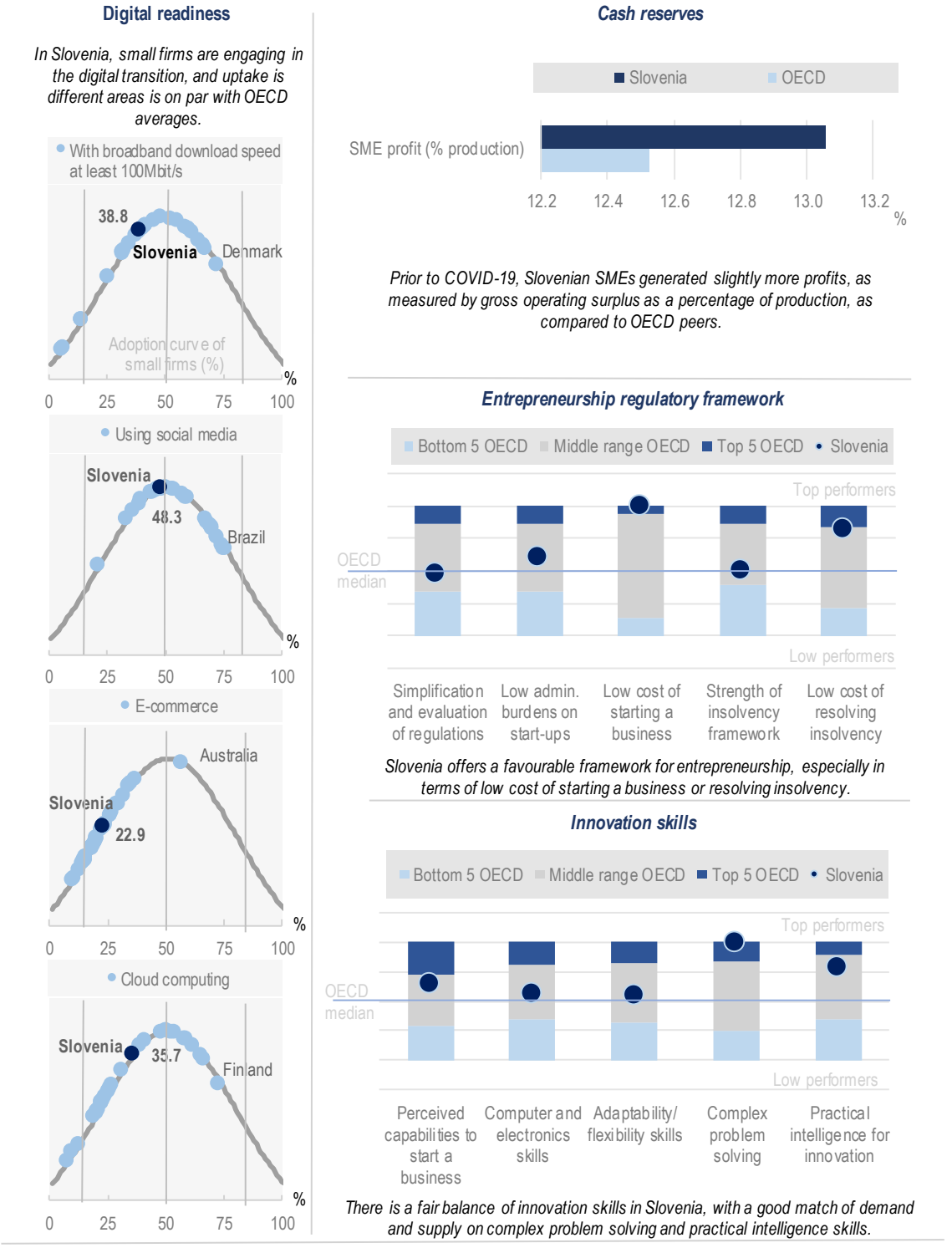
Figure 6.95. Factors of SME&E structural vulnerability in Slovenia



Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252112

Figure 6.96. Sources of SME&E resilience in Slovenia



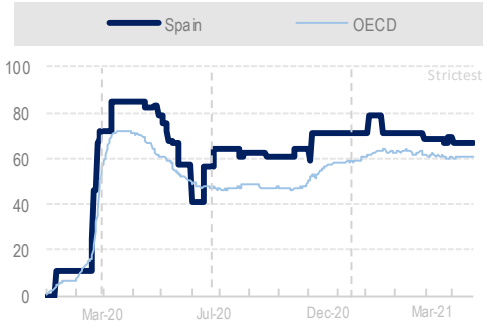
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2016): OECD SDBS database 2021; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252131

Spain

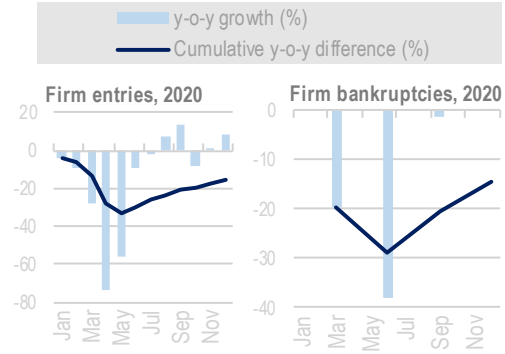
Figure 6.97. COVID-19 impact on business dynamics and policy responses in Spain

Stringency of government measures



Spain has applied stronger restrictive measures than other OECD countries in 2020 and 2021.

Business dynamics



In 2020, firm entries in Spain contracted sharply (-16% cumulative y-o-y difference to 2019). The number of bankruptcies also decreased significantly (-14%).

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include: ***EUR 140 billion public credit guarantees*** and ***EUR 7 billion of direct support*** for SMEs and self-employed; a ***EUR 10 billion Solvency Support Fund*** for strategic enterprises in difficulties; or a ***EUR 1 billion Recapitalization Fund*** for midcaps with solvency issues.

Structural measures have also been taken:

- EUR 216 million loans for the digitalisation and R&D&innovation projects of enterprises in the tourism sector.

- "España Puede" - Plan de Recuperación, Transformación y Resiliencia, for the modernisation and digitisation of the industrial fabric and SMEs, with a commitment to SME internationalisation as well as their digital transition.

- EUR 70 billion Recovery and Resilience Plan of Spain (2021-23) for promoting the green transition and the digital transformation. 23.1% (EUR 16.07 billion) aims to improve the business environment, investment and promote start-ups and SME growth. It also supports strategic sectors (e.g. industry, tourism and commerce) through four components: Industrial Policy 2030; fostering SME growth; the modernisation and competitiveness of the tourism sector; and digital connectivity, cybersecurity, 5G deployment.

National SME and entrepreneurship policy framework

SME&E policies in Spain are defined within the comprehensive multi-level "**National Strategic Policy Framework for SMEs**" (2019) that has been developed by the **National SME Council**, a multi-stakeholder advisory body chaired by the Minister of Industry, Trade and Tourism (Mincotur).

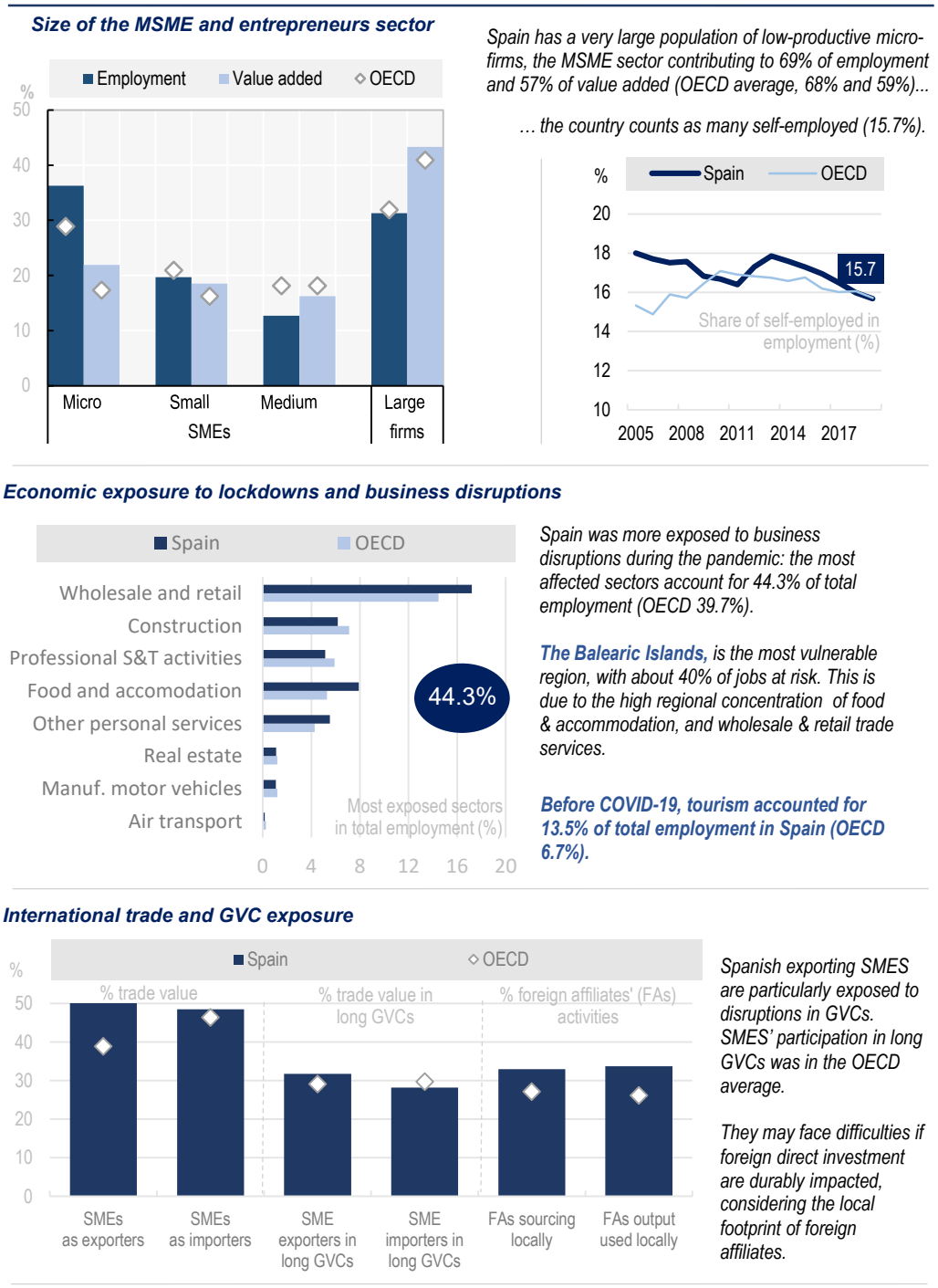
Several strategies/plans have been approved, with direct impact on SMEs competitiveness: the **Digitalization Plan for SMEs (2021-25);** the **National Plan of Digital Skills;** the **Action Plan for the Internationalization of the Spanish Economy (2021-22);** and the **Strategy "Spain Entrepreneurship Nation".**

The **General Secretary of Industry and Small and Medium Enterprises** (Mincotur) is responsible, at national level, of the general coordination of SME Policy, and represents Spain in international organisations and networks for SME issues such as the OECD and the European Union.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252150

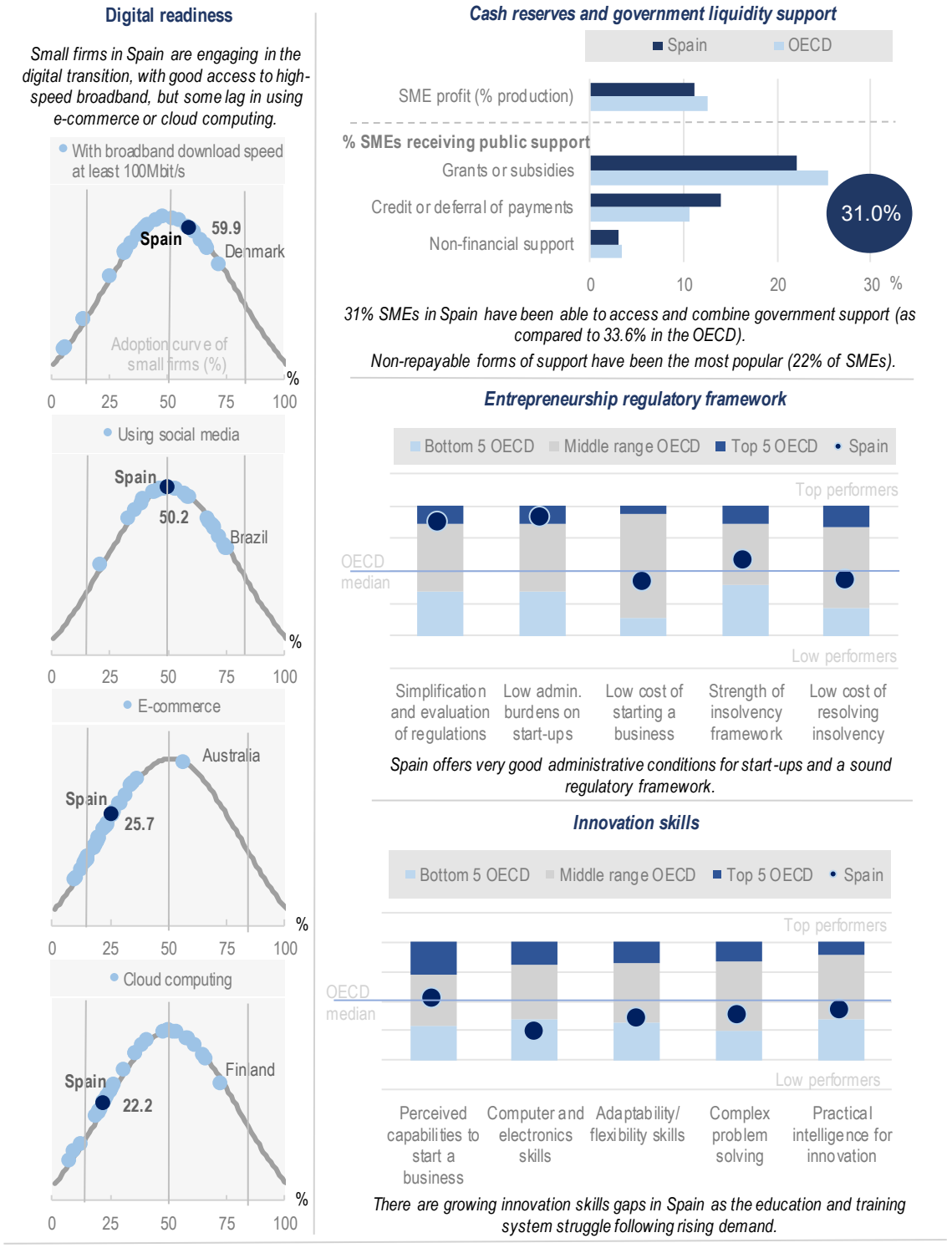
Figure 6.98. Factors of SME&E structural vulnerability in Spain



Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (data on trade value refer to 2019, other indicators on GVC exposure refer to 2018): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252169

Figure 6.99. Sources of SME&E resilience in Spain



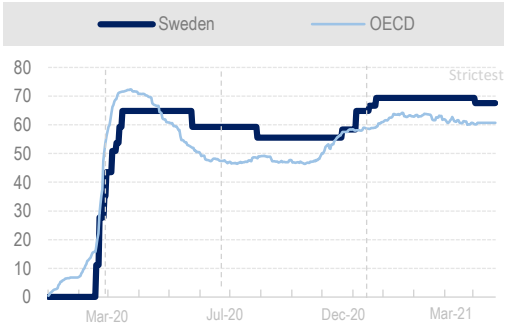
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252188

Sweden

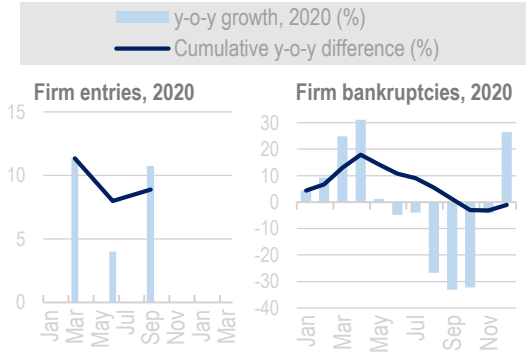
Figure 6.100. COVID-19 impact on business dynamics and policy responses in Sweden

Stringency of government measures



Sweden has adopted stringent measures of restriction since the start of the pandemic, while emphasising individual responsibility.

Business dynamics



Firm creation in Sweden was higher in 2020 than the year before. After an initial increase (2020Q1), bankruptcies declined steadily and rebounded sharply in December.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include ***SEK 5 billion Government Loan Guarantee*** to small business (SEK 120 000 per business) to replace income lost during the pandemic.

Structural measures have also been taken:

- SEK 3 billion Capital Grant to lend more to SMEs through Almi, a state agency which offers loans to companies with ***growth potential*** and assists in their business development ;

- SEK 200 billion Extended Loan Limit from the Swedish Export Credit Agency to insure ***export SMEs*** against the risk of non-payment in export transactions ;

- National Recovery and Resilience Plan, including powerful ***green restart package*** for the Swedish economy and long-term reforms so that Sweden can emerge from the crisis stronger. In total, investments in the Budget Bill are set at SEK 105 billion in 2021 and SEK 85 billion in 2022.

National SME and entrepreneurship policy framework

SME&E policies in Sweden are defined **as part of wider strategies and policy frameworks**.

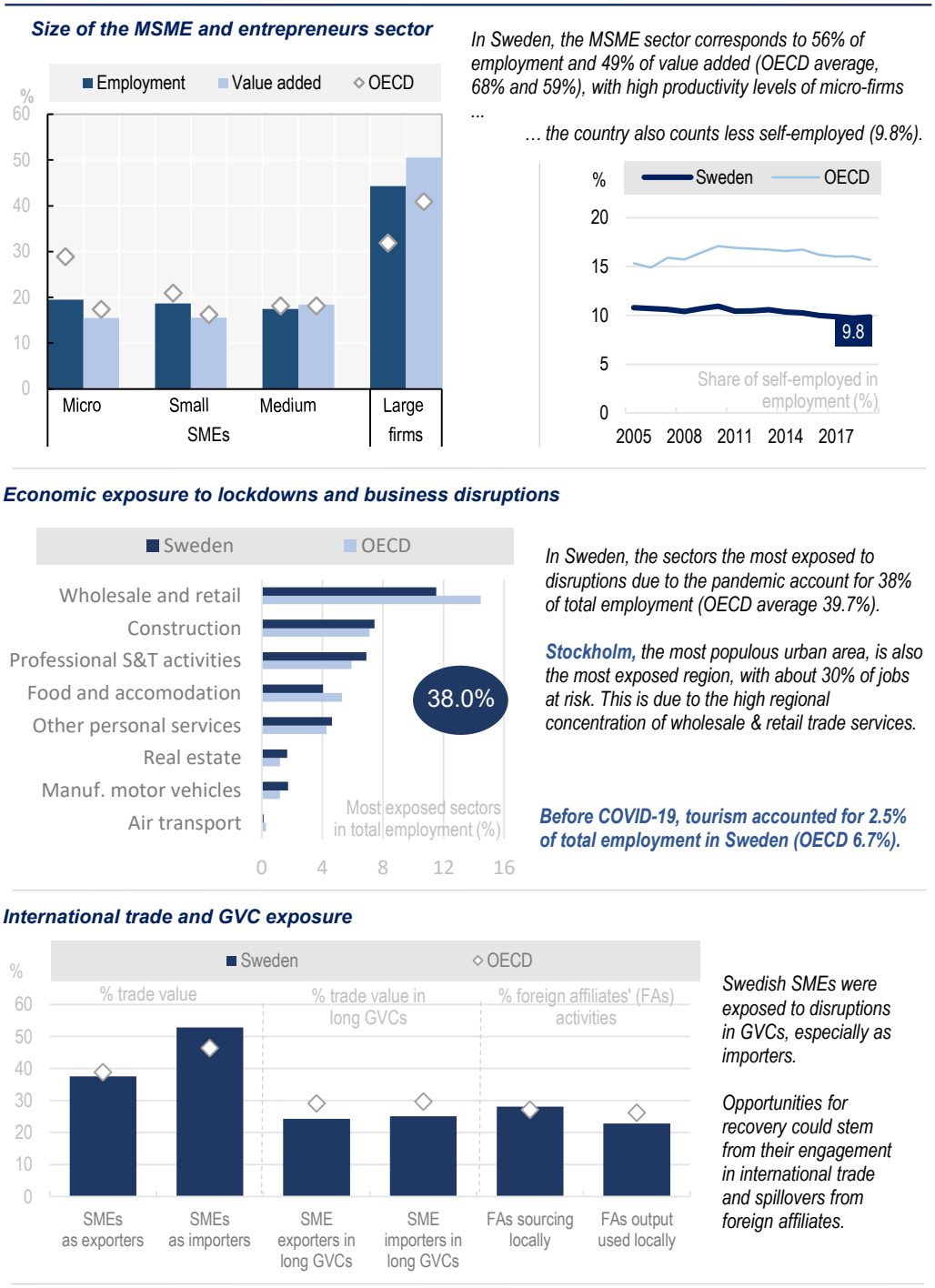
Sweden has adopted a mainstreaming approach to SME&E policy, within **Innovation Policy and Regional Development Strategies**. The website "verksamt.se" opens up government services for business by different authorities.

The national SME&E policy framework is characterised by a **decentralised decision structure**, where the government sets the general policy goals and distributes the grants to the organisations (national, but operating regionally and locally) that are responsible for implementation. Non-grant measures (e.g. tax, regulation, incentives, credit instruments) are also affected by this decentralised structure.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252207

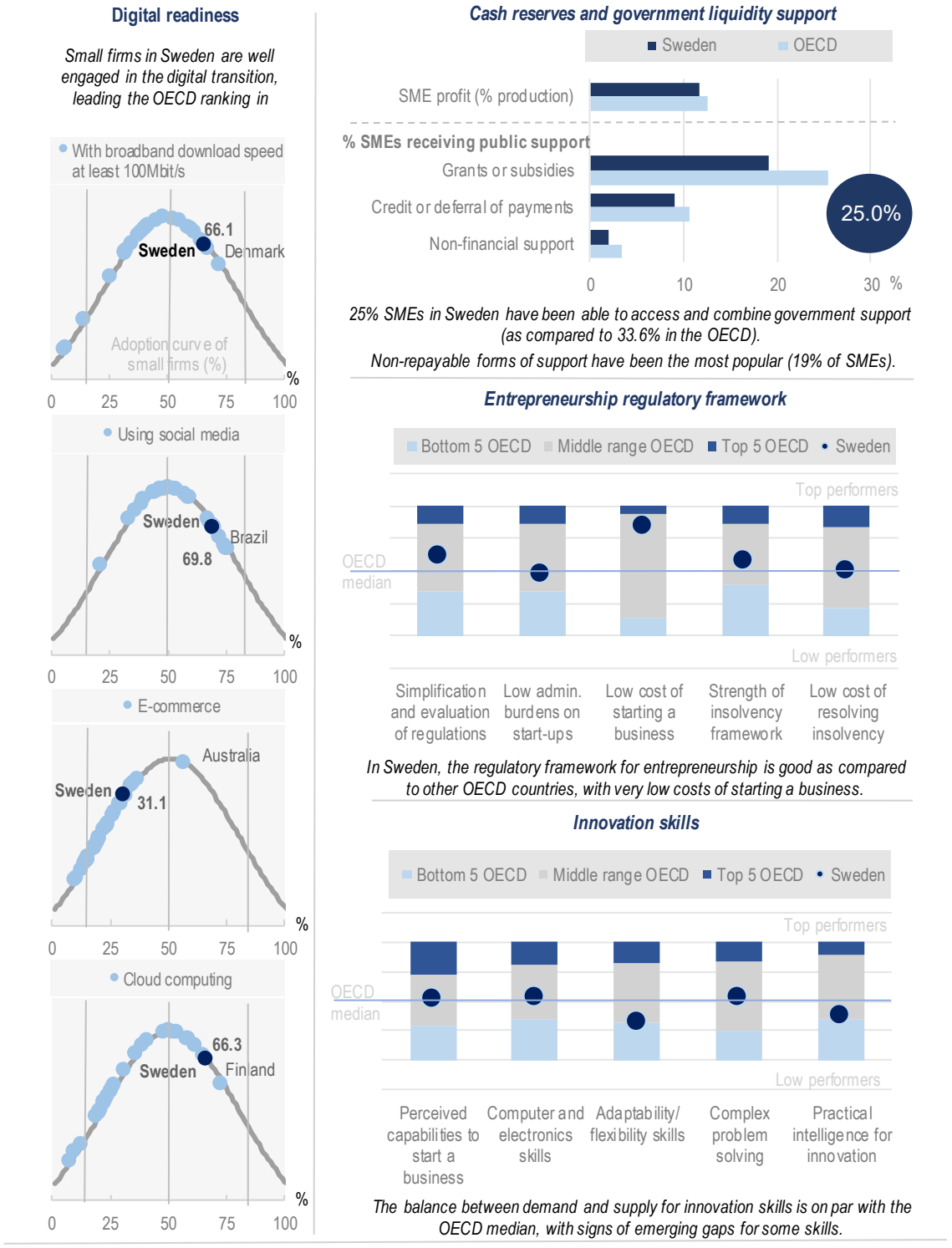
Figure 6.101. Factors of SME&E structural vulnerability in Sweden



Source: Size of the MSME sector (2017): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2017): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252226

Figure 6.102. Sources of SME&E resilience in Sweden



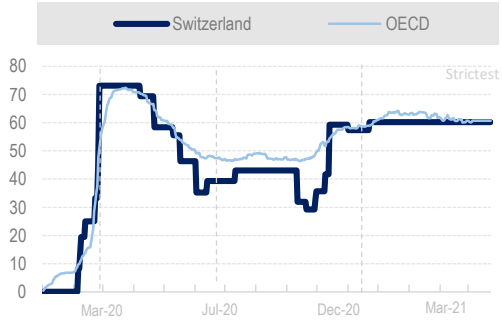
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252245

Switzerland

Figure 6.103. COVID-19 impact on business dynamics and policy responses in Switzerland

Stringency of government measures



Overall, Switzerland had experienced less stringent measures throughout 2020, as compared to other OECD countries.

Business dynamics

In 2020, 46 842 new firms were added to the Swiss Commercial Register, an increase of 5.3% compared to the previous record year of 2019.

The total number of bankruptcy proceedings opened against businesses and individuals declined by 6.6% compared with 2019. The number of bankruptcy proceedings closed were part of the same overall dynamic.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include:

- CHF 40 billion Guarantee Program ensuring that affected SMEs (sole proprietorships, partnerships and legal persons) obtain credits transitional banking. To date, CHF 17 billion have been disbursed under this program ;

- ***Temporary Relief*** from the requirement to report indebtedness that could lead to immediate bankruptcy, as well as an option for a ***deferral of debt*** linked to the epidemic, in particular for SMEs ;

- Special guarantee procedure decided to support promising startups with corona-related liquidity bottlenecks via the ***Guarantee System for SMEs***. A total of 359 loans with a volume of CHF 98.7 million were guaranteed.

Structural measures have also been taken, such as:

- CHF 28.1 billion in education, research and innovation including measures to support the export industry and SMEs that want to invest in research and development projects.

National SME and entrepreneurship policy framework

SME&E policies in Switzerland are defined **as part of wider strategies and policy frameworks**.

The **SME Policy Section** of the State Secretariat for Economic Affairs is responsible for the parameters regarding SME financial support, reduction of administrative burden and e-government for SMEs.

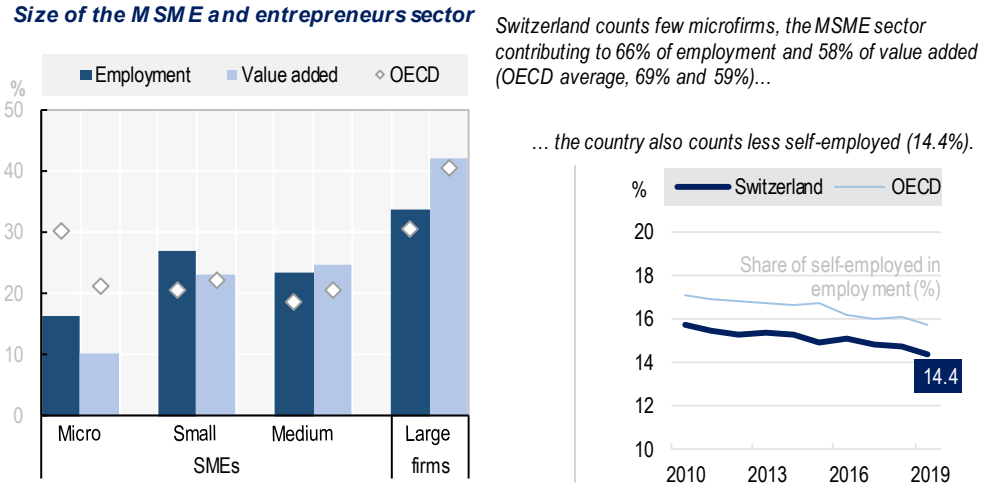
Policy support measures tailored to the specific needs of SMEs are provided by the Federal government to improve framework conditions and support in access to finance, internationalisation, skills and innovation.

The **SME Forum** is an extra-parliamentary commission of experts and SME owners that plays an important role in the decision-making process when primary laws or ordinances are being developed.

Source: Oxford stringency Index (April 2021); and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252264

Figure 6.104. Factors of SME&E structural vulnerability in Switzerland



Economic exposure to lockdowns and business disruptions

Switzerland was relatively less exposed to economic disruptions during the pandemic. In 2020, the GDP only contracted by 2.9%. This reflects strong fiscal, financial, and household buffers, a specialisation in highly-competitive export industries that weathered the turmoil better (e.g. pharmaceuticals), low dependency on contact-intensive sectors (e.g. tourism), a large and well-capitalised financial sector, and a well-resourced health system and carefully-targeted containment measures (e.g. no widespread closure of manufacturing).

***Ticino**, the southernmost canton of Switzerland, was the region the most exposed with about 28% of jobs at risk, the highest share in the country, especially due to the regional concentration of wholesale & retail trade services and construction.*

Before COVID-19, tourism accounted for 4.4% of total employment in Switzerland (OECD 6.7%).

International trade and GVC exposure

In Switzerland, there was actually three and a half times as many enterprises engaged in import activities as in exporting in 2018.

Export business is dominated by large enterprises (250 or more employees) that accounted in the same year for 54% of exports, although in terms of numbers they represented only 2% of the enterprises active in foreign trade.

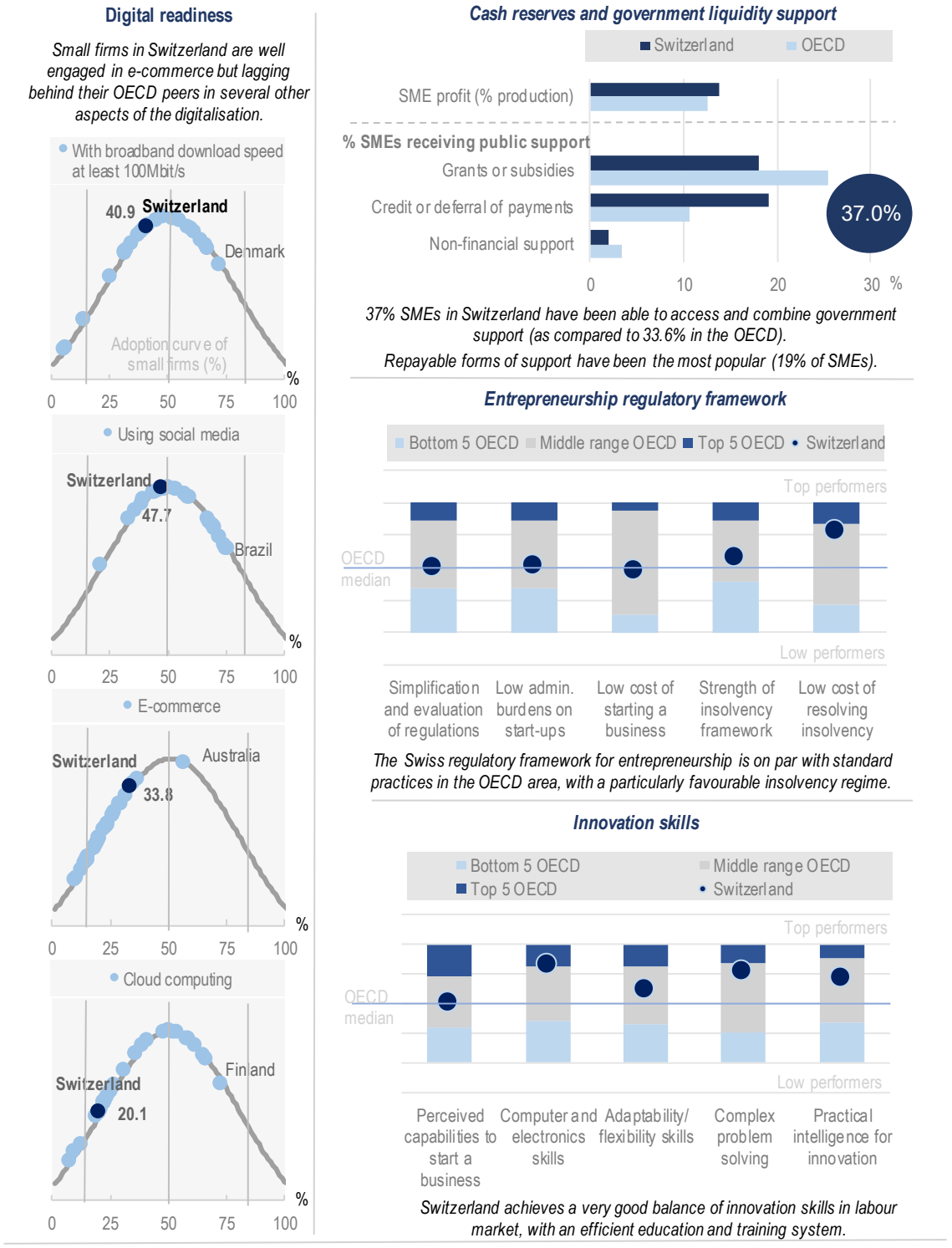
On the import side, SMEs set the tone : they accounted for 57% of total imports (and 99% of the import enterprises). In particular 26% of import value is made by small firms import for 13% of export value.

SMEs are very active in sectors where they act as intermediaries or suppliers of accessories; they have a strong presence in imports and exports of the wholesale trade services and the manufacture of basic metals.

Source: Size of the MSME sector (2016): OECD SME&E Outlook 2019; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2020): (IMF, 2021); most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2017): OECD Tourism database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252283

Figure 6.105. Sources of SME&E resilience in Switzerland



Source: Broadband (2017), social media (2017), e-commerce (2011), cloud computing (2017): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252302

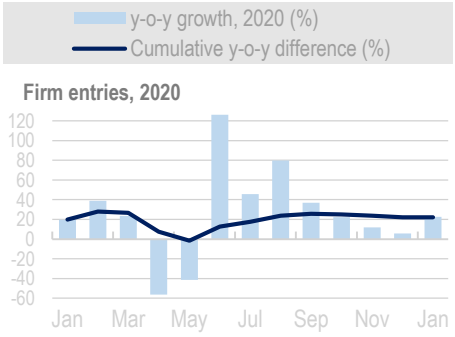
Turkey

Figure 6.106. COVID-19 impact on business dynamics and policy responses in Turkey

Stringency of government measures

Turkey set restrictive measures over the year, as compared to other OECD countries.

Business dynamics



Overall, firm creation has remained strong in Turkey during the year, the number of firm entries increasing by +22% on a cumulative year-by-year basis. January 2021 shows a slowdown.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include a **USD 7.7 billion Credit Guarantee Fund** dedicated to SMEs and companies with liquidity needs and collateral deficit; a **USD 859 million Loan Package** for SMEs with no principal and interest payments, and **Postponed Loans and Reimbursable Supports** where SMEs do no pay deferral expenses.

Structural measures have also been implemented:

- **USD 15.4 billion Recovery Plan "Turkey Relance"** whose main orientations are dedicated to ecology, competitiveness and cohesion.
- **International Market Support Programme** aims to support Turkish SMEs to enter the international market and develop their export capacities.
- **KOBİGEL/SME Development Support Programme** to increase SME productivity and competitiveness with the help of digital technologies, with a focus on the manufacturing sector.
- **E-Academy** providing online entrepreneurship trainings across the country covering all urban and rural areas.
- **SME Technology Support Programme**, providing professional services (coaching, consultancy, mentoring) to enterprises through Technology Development Centers (TEKMER).

National SME and entrepreneurship policy framework

SME&E policies in Turkey are defined **as part of a multi-annual Action Plan**.

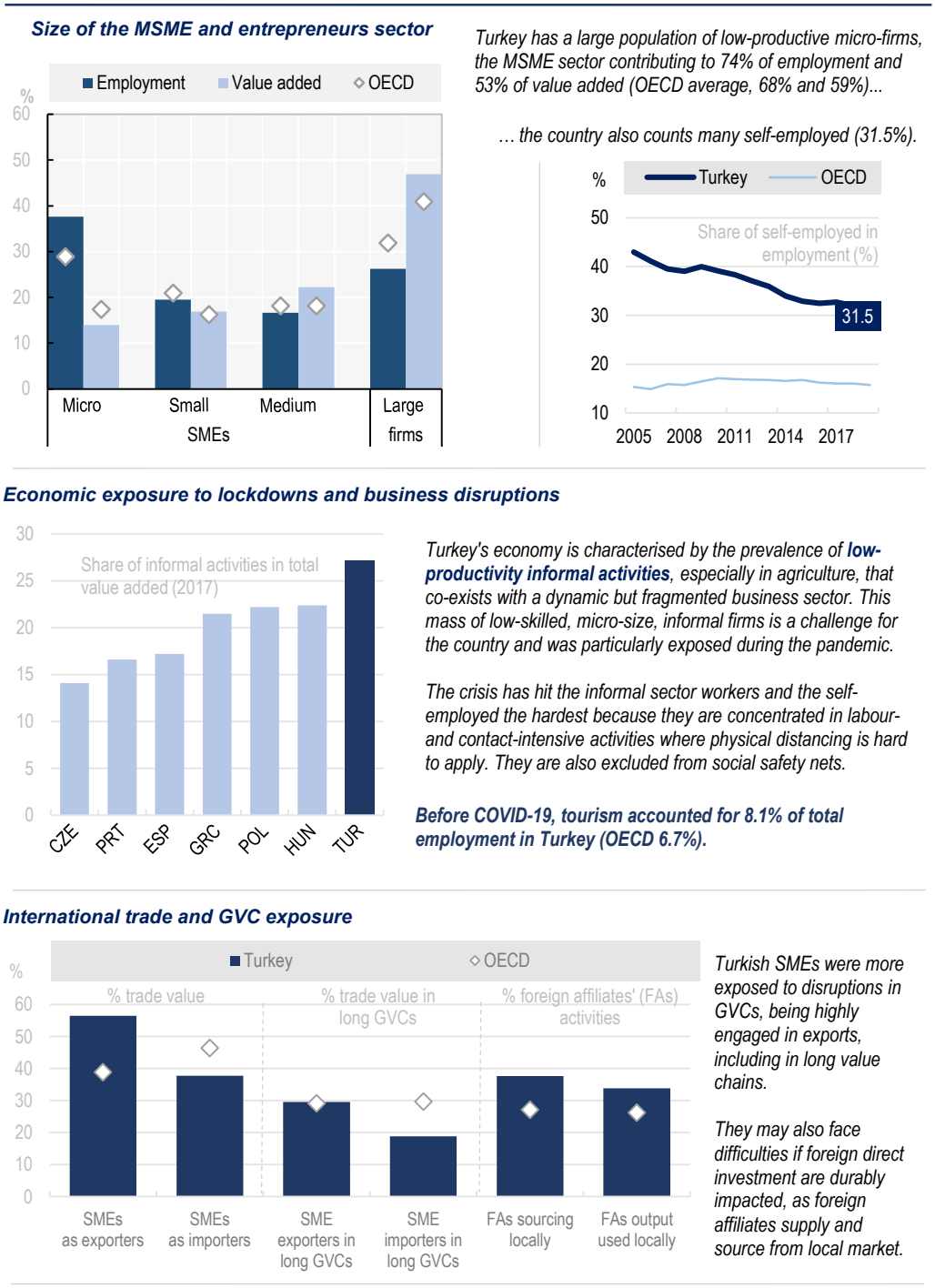
The Turkish SME Agency (KOSGEB) has developed the "**KOSGEB Strategic Plan 2019-23**" (2019) to contribute to a coordinated SME policy delivery. The main objectives regard innovation, technology and R&D, fostering entrepreneurship, and strengthening skills, internationalisation and productivity of SMEs. It also provides for specific provisions for monitoring and evaluation.

The Strategic Plan also fits within the wider objectives of **Turkey's Development Plan towards 2023**.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252321

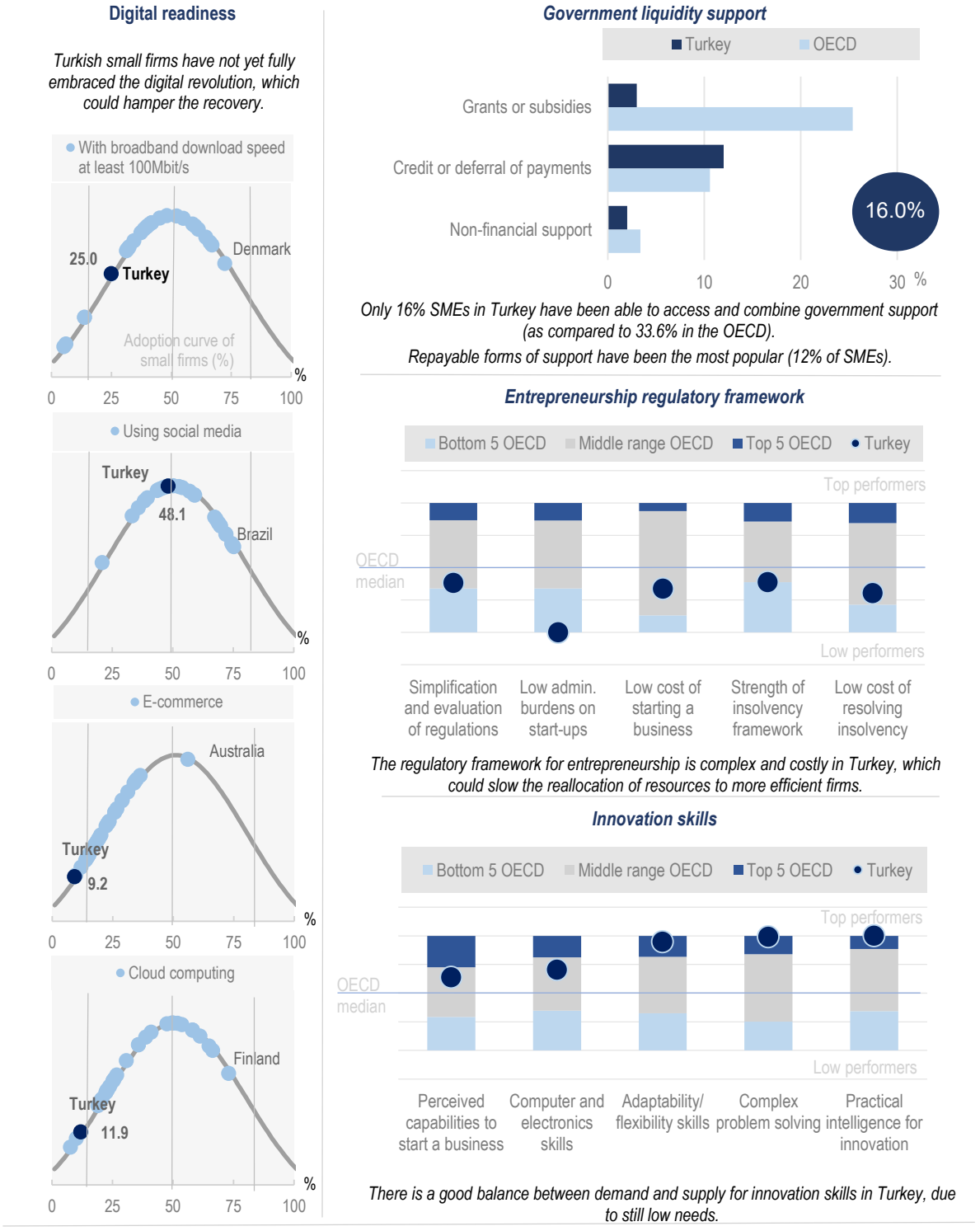
Figure 6.107. Factors of SME&E structural vulnerability in Turkey



Source: Size of the MSME sector (2019): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; informal activities (2017): OECD Economic Survey of Turkey (OECD, 2021); Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2014): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252340

Figure 6.108. Sources of SME&E resilience in Turkey



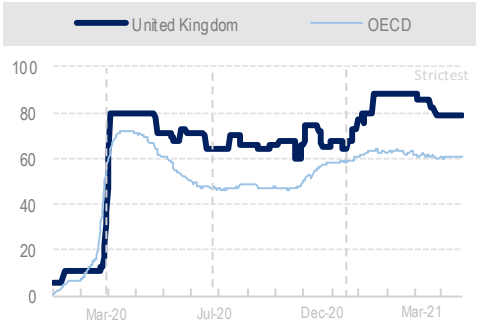
Source: Broadband (2020), social media (2019), e-commerce (2020), cloud computing (2020): OECD ICT Usage by Businesses database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2018 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252359

United Kingdom

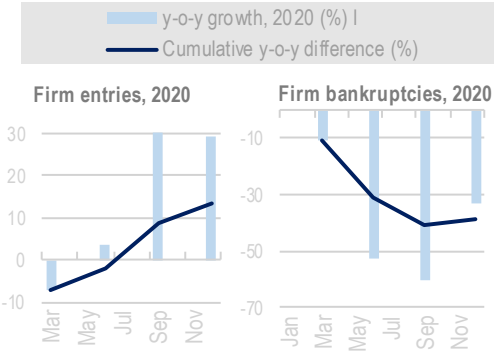
Figure 6.109. COVID-19 impact on business dynamics and policy responses in the United Kingdom

Stringency of government measures



The United Kingdom has experienced very stringent conditions since the beginning of the pandemic.

Business dynamics



Firm entries quickly regained momentum after the initial shock, with a cumulative balance in 2020 of +13% compared to 2019. Bankruptcies also receded markedly in 2020, remaining well below 2019 levels.

Policy spotlight

Key measures to support SME and entrepreneurs' liquidity include the ***Bounce Back Loan Scheme*** with a fast-track finance scheme for small businesses, and the ***Coronavirus Business Interruption Loan Scheme,*** providing SMEs with access to loans, overdrafts, invoice finance and asset finance of up to GBP 5 million and for up to 6 years.

Structural measures have also been implemented:

- ***GBP 1.25 billion Start-ups Support Plan*** including the **Future Fund** for high-growth companies affected by the crisis (public and private financing), and **GBP 750 million Support for SMEs** focused on research and development.
- ***Sustainable Innovation Fund,*** accessible to businesses and start-ups ho wish to develop smart, sustainability-focused projects
- ***GBP 3 billion "Green Stimulus"*** with GBP 1 billion commitment to decarbonising public sector buildings, and GBP 2 billion to foster homes retrofitting. At sub-national level, it includes the ***Low Carbon Workspaces Programme*** open to SMEs in Hertfordshire, Buckinghamshire, Bedfordshire, Berkshire, Milton Keynes and Northamptonshire to take on green initiatives.
- ***Digital Access Programme CyberSafe Foundation*** to equip SMEs with knowledge and skills to identify and defend from COVID-19 instigated cyber threats

National SME and entrepreneurship policy framework

SME&E policies in the United Kingdom are defined **as part of wider strategies and policy frameworks**.

The United Kingdom has developed various SME support actions through its "**Industrial Strategy**" (2017), with a focus on raising productivity and innovation, and on improving framework conditions.

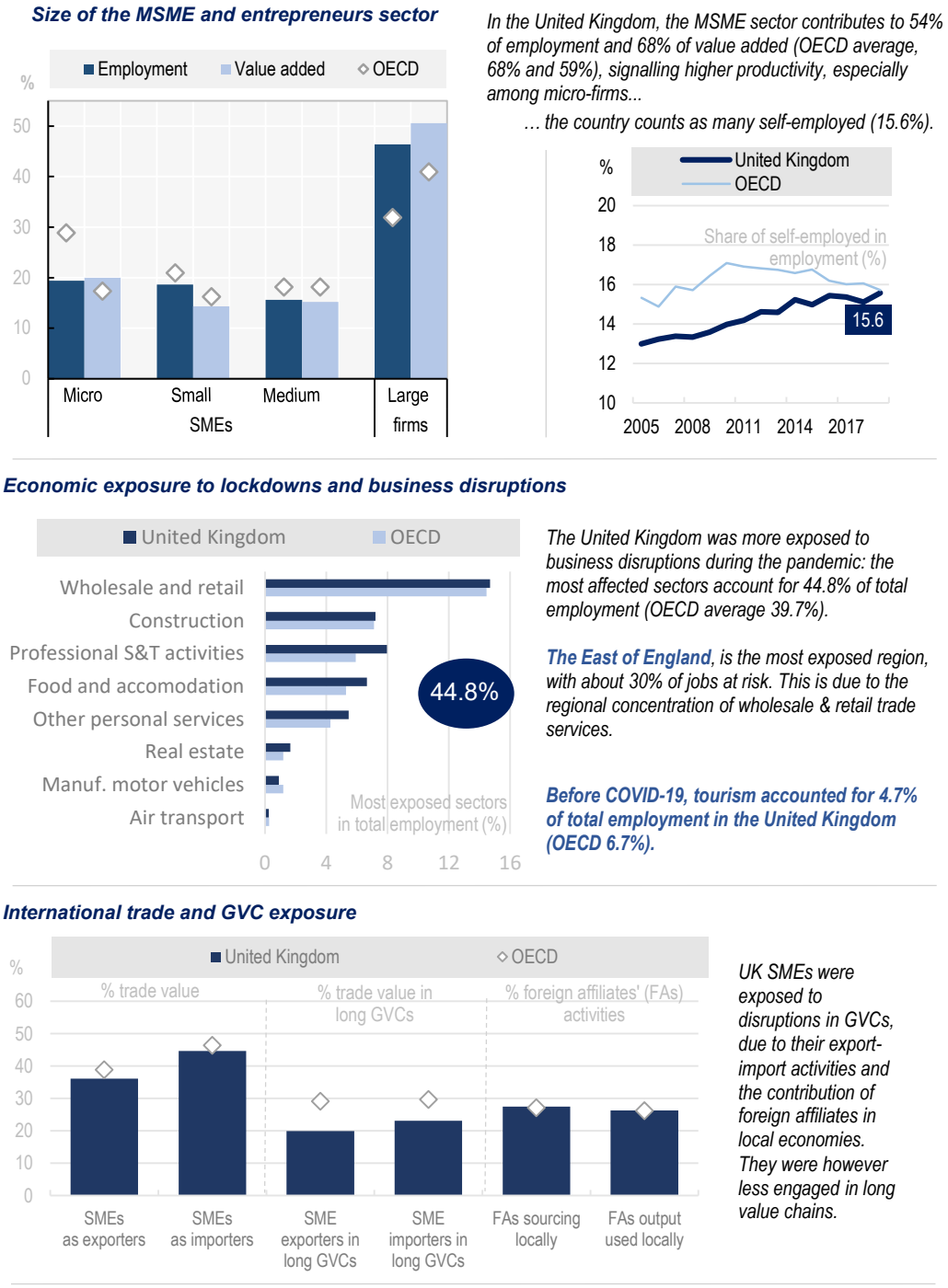
The **Department for Business, Energy & Industrial Strategy** (BEIS) focuses on small businesses and plays a coordinating role within the government, although SME perspectives may be discussed in the wider Cabinet Committee on Domestic and Economic Strategy.

SME policy is a **devolved competency**, with different policy frameworks for each part of the UK and few formal coordination structures across government.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252378

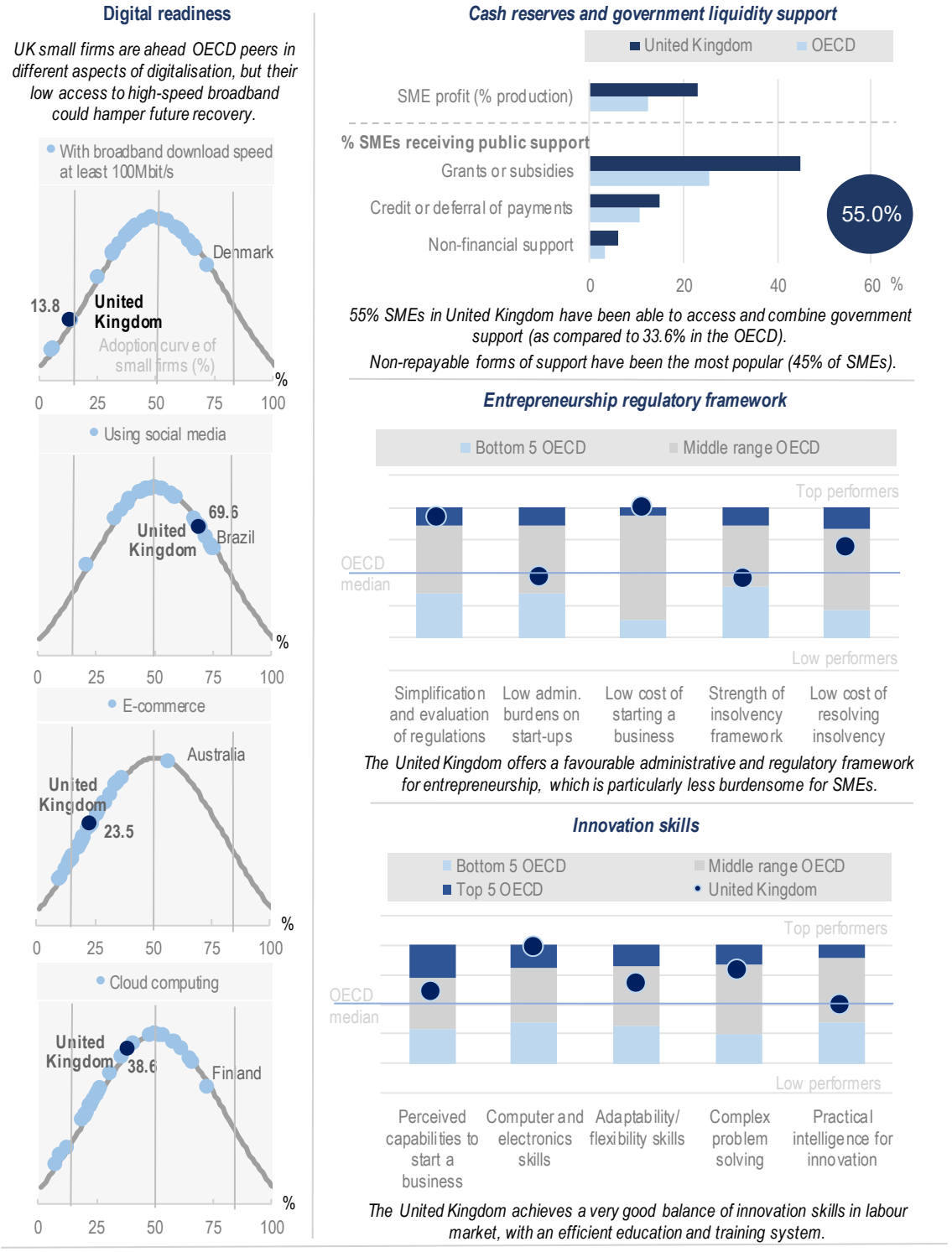
Figure 6.110. Factors of SME&E structural vulnerability in the United Kingdom



Source: Size of the MSME sector (2018): OECD SDBS database 2021; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2016): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252397

Figure 6.111. Sources of SME&E resilience in the United Kingdom



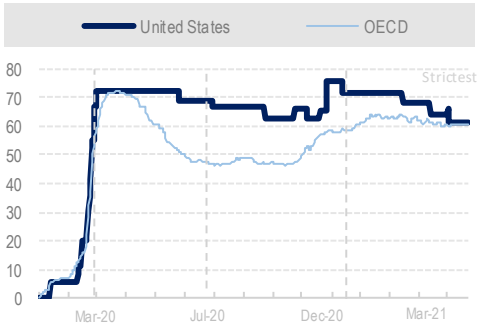
Source: Broadband (2019), social media (2019), e-commerce (2019), cloud computing (2018): OECD ICT Usage by Businesses database 2021; SME profit (2018): OECD SDBS database 2021; Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2018 and 2019): OECD PMR database 2018 and WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252416

United States

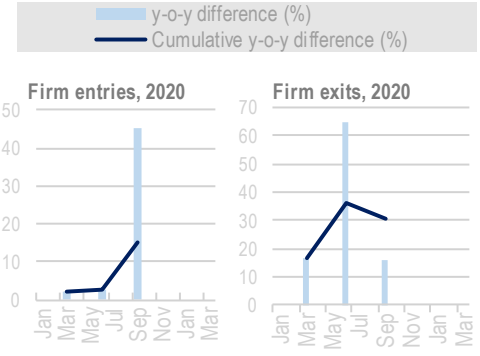
Figure 6.112. COVID-19 impact on business dynamics and policy responses in the United States

Stringency of government measures



The United States has gone through very strict restrictions since the start of the pandemic, governments measures steadily easing in the early 2021.

Business dynamics



More firms have been created in the first semester of 2020 than in the same period the year before. Firm exits have also significantly increased over the period.

Policy spotlight

Key measures to support SMEs and entrepreneurs through the COVID-19 crisis include:

USD 349 billion Keeping American Workers Paid and Employed Act managed by the SBA to provide loan guarantees and relief to small business borrowers and lenders. The Act includes:
- ***Paycheck Protection Program*** under the SBA's Section 7(a) Loan program ;
- ***Economic Injury Disaster Loans (EIDL)*** whose eligibility has been extended ;
- **Indebtedness eligibility threshold** increased for businesses (max. USD 7.5 million indebtedness).

USD 51 billion American Rescue Plan Act, with:
- USD 5 billion ***for Supplemented Targeted Economic Injury Disaster Loan*** payments ;
- USD 2.86 billion for a new ***Restaurant Revitalization Fund*** ;
- USD 7.25 billion for the ***Paycheck Protection Program***, with new eligibility for non-profits ;
- USD 100 million for ***community navigator programs*** to help SMEs access COVID-19 assistance programs.

USD 600 billion Main Street Lending Program to provide loans to small and medium-sized businesses that were in sound financial condition before the onset of the pandemic.

National SME and entrepreneurship policy framework

SME&E policies in the United States are defined **as part of a multi-year Action Plan** (every five years).

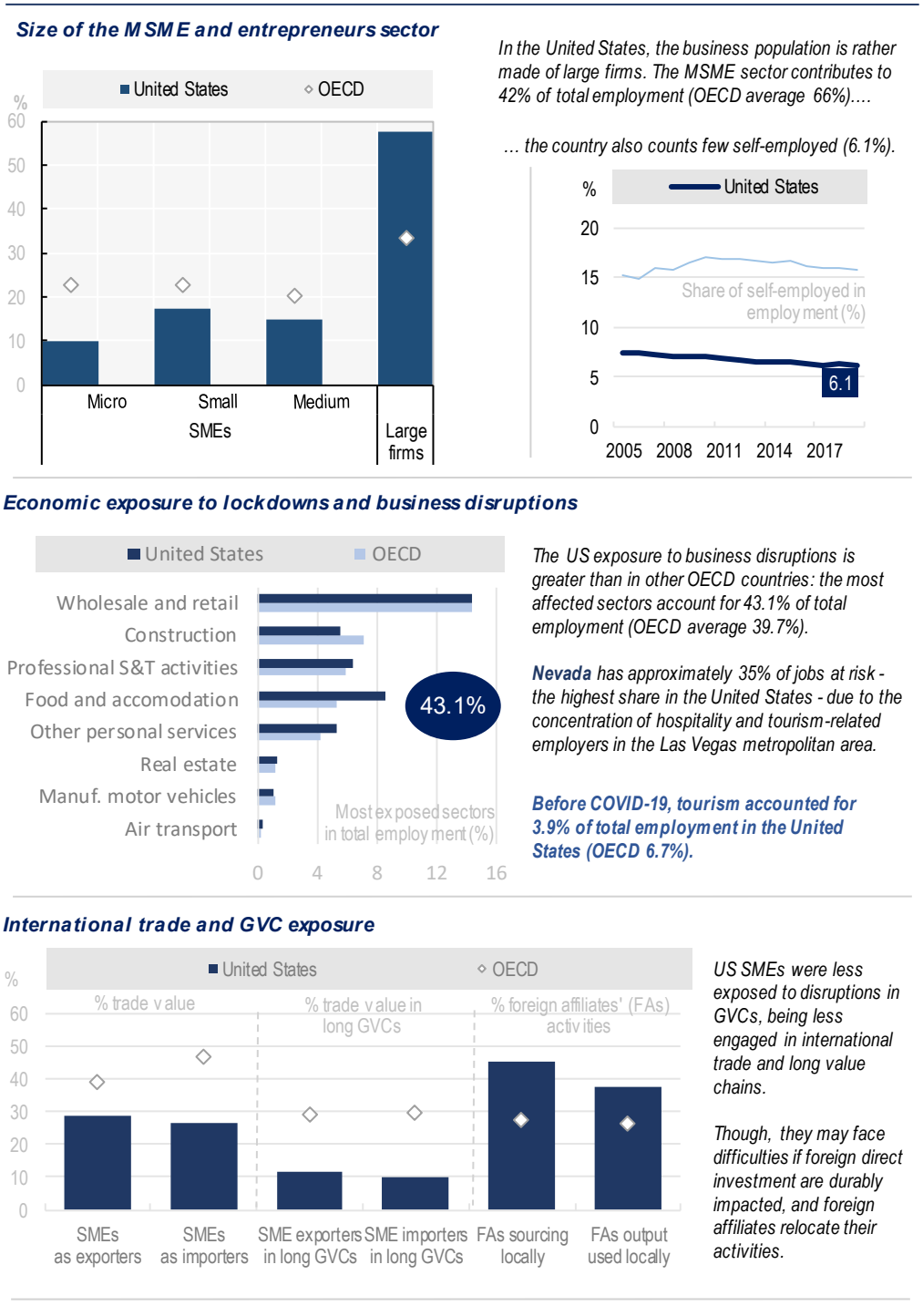
The 1953 Small Business Act, which established the **Small Business Administration (SBA)**, is the cornerstone of SME policy at Federal level. The SBA aims at improving access to finance, entrepreneurial development, government contracting and small business advocacy. The SBA is represented in every state, and is also responsible for the Small Business Support Centres at local level.

The "**SBA Strategic Plan 2018-22**" (2018) has four strategic goals: 1) Support small business revenue and job growth; 2) Build healthy entrepreneurial ecosystems and create business friendly environments; 3) Restore small businesses and communities after disasters; and 4) Strengthen SBA's ability to serve small businesses.

Source: Oxford stringency Index (April 2021); OECD TEI database 2021; and national sources (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252435

Figure 6.113. Factors of SME&E structural vulnerability in the United States



Source: Size of the MSME sector (2015): OECD SME&E Outlook 2019; Share of self-employed (2005-19): OECD LFS database 2020; Most exposed sectors (2018): (OECD, 2020), based on OECD ANA data; most exposed regions (2017): OECD Regional Outlook 2021; Tourism employment (2019): OECD Tourism database 2021; GVC exposure (2015 or 2016): OECD TEC database 2021 and Analytical AMNE database 2017 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252454

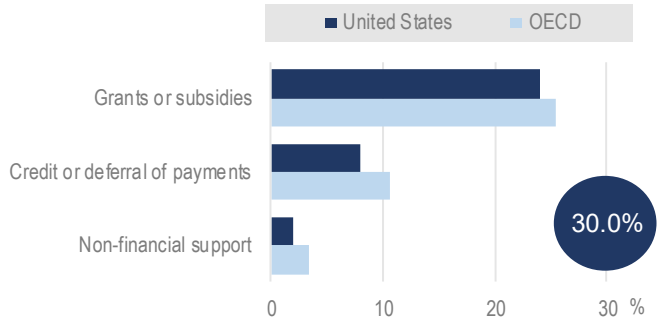
Figure 6.114. Sources of SME&E resilience in the United States

Digital readiness

The COVID-19 pandemic has strongly accelerated the expansion of e-commerce in 2020. Social distancing rules have moved companies and consumers increasingly online over the year. In the United States, the share of e-commerce in total retail sales jumped from an average of 10-12% in the period spanning from 2018 Q1 to 2020 Q1 to 17% in 2020 Q2.

One key element for SMEs is that online marketplaces enable them to trade across regions and countries and provide a wide range of complementary services (e.g. logistic, data analytics). This happens in both developed and developing economies.

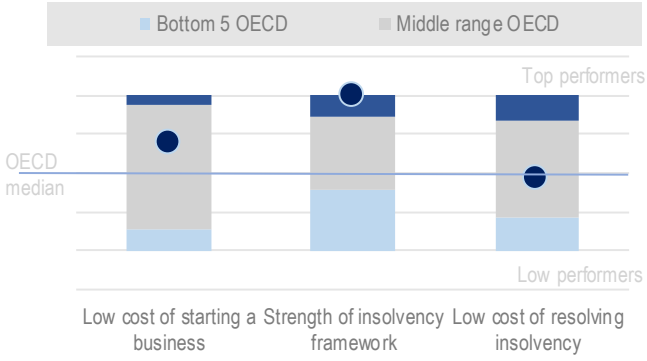
Cash reserves and government liquidity support



30% SMEs in the United States have been able to access and combine government support (as compared to 33.6% in the OECD).

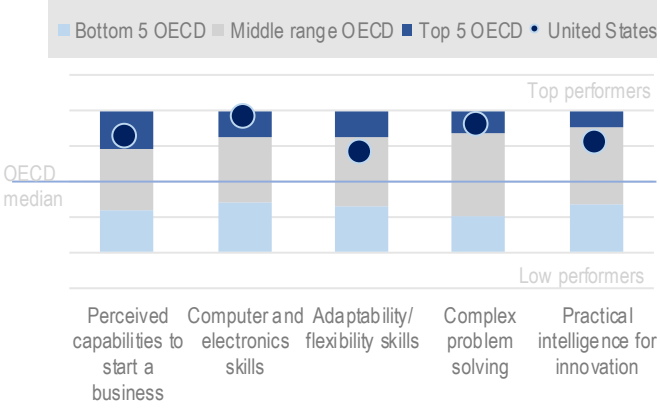
Non-repayable forms of support have been the most popular (24% of SMEs).

Entrepreneurship regulatory framework



The United States offers a good regulatory framework for entrepreneurship, with a particular strong insolvency regime.

Innovation skills



There is a very good balance of innovation skills in the US labour market and strong perceived capabilities for entrepreneurship.

Source: Digital readiness (2020): OECD E-commerce in the time of COVID-19 (OECD, 2020); Liquidity support (2020): Facebook/OECD/World Bank FBS Survey 2020; Entrepreneurship regulatory framework (2019): WB Doing Business 2020; Innovation skills (2019 and 2015): GEM 2019 and OECD Skills for Jobs database 2018 (see country-specific references and definitions).

StatLink https://doi.org/10.1787/888934252473

Country notes

Australia

- Structural business statistics refer to 2016 instead of 2018. Annual national accounts data refer to 2017 instead of 2018. Regional statistics refer to 2019 instead of 2017. Tourism statistics refer to 2018 instead of 2019.
- For structural business statistics: small enterprises are firms with 1-19 persons employed. Medium enterprises are: for Australia: 20-199; for OECD average: 20-249. Large enterprises: for Australia 200+; for OECD average: 250+.
- Data on cloud computing services refer to 2018 instead of 2020. Data on e-commerce refer to 2019 instead of 2020. Structural business statistics (profit) refer to 2010 instead of 2018.

Austria

- Structural business statistics refer to 2016 instead of 2018. Tourism statistics refer to 2017 instead of 2019.
- Structural business statistics (profit) refer to 2016 instead of 2018. Global entrepreneurship monitor's data refer to 2018 instead of 2019.

Belgium

- Structural business statistics (profit) refer to 2016 instead of 2018. Global entrepreneurship monitor's data refer to 2015 instead of 2019.

Canada

- Regional statistics refer to 2018 instead of 2017. Tourism statistics refer to 2018 instead of 2019. Data on trade by entreprise characteristics refer to 2016 instead of 2015.
- Structural business statistics come from national sources (Govenrment of Canada, 2020) and refer to 2019. They present the distribution of private sector employees by business size.
- Data on cloud computing services refer to 2019 instead of 2020. Data on e-commerce refer to 2019 instead of 2020.

Chile

- Data on business dynamics come from national sources (Superintendencia de Insolvencia y Reemprendimiento, 2021).
- Tourism statistics refer to 2018 instead of 2019.
- Structural business statistics come from Chile's Internal Revenue Service (2019) Estadísticas de Empresa and refer to 2018. The definition is the dependant workers informed by employers to the IRS. Size classes are defined by net annual turnover.
- Data on self-employed come from the International Labour Organisation ILOSTAT database 2020. OECD LFS statistics on self-employed follows the ILO guidelines.
- Data on informal workers come from the OECD Economic Survey of Colombia 2020 (OECD, 2020), based on the Inter-American Development Bank SIMs database.
- Structural business statistics (profit) refer to 2016 instead of 2018.

- Data on ICT use come from the OECD Economic Survey of Chile (OECD, 2020). They are drawn from the national ICT survey 2019 (Ministry of Economy) for Chile and refer to 2018. The total OECD is calculated based the OECD ICT Access and Usage by Businesses database and refer to 2019.

Colombia

- Data on business dynamics come from national sources (Confederación Colombiana de Cámaras de Comercio, 2020).
- Structural business statistics come from the OECD Financing SMEs and Entrepreneurs 2020. An OECD Scoreboard (OECD, 2020).
- Data on informal workers come from the OECD Economic Survey of Colombia 2020 (OECD, 2020), based on the Inter-American Development Bank SIMs database.

Data on broadband connection refer to 2018 instead of 2020. Data on e-commerce refer to 2018 instead of 2020. Structural business statistics (profit) refer to 2017 instead of 2018

Costa Rica

- Data on business dynamics come from national sources (Instituto Nacional de Estadística y Censos, 2021).
- Tourism statistics refer to 2018 instead of 2019. Data on trade by enterprise characteristics refer to 2013 instead of 2015.
- National business statistics on employment come from national sources (MEIC, 2019).
- Data on self-employed for Costa Rica come from the International Labour Organisation ILOSTAT database 2020. OECD LFS statistics on self-employed follows the ILO guidelines.
- Data on informal workers come from the OECD Economic Survey of Colombia 2020 (OECD, 2020), based on the Inter-American Development Bank SIMs database.
- Data on economic exposure come from Costa Rica's profile of the OECD Economic Outlook, Volume 2020 Issue 1 (OECD, 2020).
- Data on digital uptake in Costa Rica come from the OECD Latin American Economic Outlook 2020 (OECD et al., 2020).
- Data on liquidity support are based on an own elaboration of national data from the National Development Bank (Banca de Desarollo, 2021)
- Data on government support come from a dedicated OECD report on Costa Rica's public finances (OECD, 2020).
- Global entrepreneurship monitor's data refer to 2014 instead of 2019.

Czech Republic

- The Google mobility index is drawn from the OECD Economic Surveys of the Czech Republic 2020 (OECD, 2020), based on Google Community Mobility Report. The level during the baseline period was established based on the median value of the volume of visits for each day of the week during the period January 3–February 6, 2020.
- Data on bankruptcies come from national sources (Czech Credit Bureau, 2020).
- Tourism statistics refer to 2018 instead of 2019.
- Global entrepreneurship monitor's data refer to 2013 instead of 2019.

Denmark

- Tourism statistics refer to 2018 instead of 2019.
- Structural business statistics come from the OECD SME&E Outlook 2019 and refer to 2016.
- Global entrepreneurship monitor's data refer to 2013 instead of 2019.

Estonia

- Data on self-employed for Estonia come from the International Labour Organisation ILOSTAT database 2020. OECD LFS statistics on self-employed follows the ILO guidelines.
- Structural business statistics come from the OECD SME&E Outlook 2019 and refer to 2016.
- Global entrepreneurship monitor's data refer to 2017 instead of 2019.

Finland

- Tourism statistics refer to 2018 instead of 2019.
- Global entrepreneurship monitor's data refer to 2016 instead of 2019.

France

- Annual national accounts data refer to 2017 instead of 2018. Tourism statistics refer to 2018 instead of 2019.
- Global entrepreneurship monitor's data refer to 2018 instead of 2019.

Germany

- Annual national accounts data refer to 2017 instead of 2018. Tourism statistics refer to 2017 instead of 2019.

Greece

- Annual national accounts data refer to 2017 instead of 2018.
- Data on broadband connection refer to 2019 instead of 2020. Data on cloud computing services refer to 2018 instead of 2020. Data on e-commerce refer to 2019 instead of 2020.

Hungary

- Tourism statistics refer to 2017 instead of 2019.
- Structural business statistics (profit) refer to 2016 instead of 2018. Global entrepreneurship monitor's data refer to 2016 instead of 2019.

Iceland

- Data on self-employed for Iceland come from the International Labour Organisation ILOSTAT database 2020. OECD LFS statistics on self-employed follows the ILO guidelines.
- Data on broadband connection refer to 2013 instead of 2020. Data on cloud computing services refer to 2014 instead of 2020.

Ireland

- Tourism statistics refer to 2018 instead of 2019.
- Structural business statistics (profit) refer to 2016 instead of 2018.

Israel

- Structural business statistics come from the OECD SME&E Outlook 2019 and refer to 2015.
- Structural business statistics (profit) refer to 2011 instead of 2018.
- Information on digital uptake come from a dedicated OECD report on blockchain in Israel (Bianchini and Kwon, 2020).
- Information on skills mismatches come from the OECD Economic Surveys of Israel 2018 (OECD, 2018).

Italy

- Annual national accounts data refer to 2017 instead of 2018. Tourism statistics refer to 2017 instead of 2019.

Japan

- Tourism statistics refer to 2018 instead of 2019.
- Structural business statistics come from the OECD SMEs and Entrepreneurship Outlook 2019 and refer to 2016.
- Data on digital uptake refer to medium-sized firms, unlike other country profiles where they refer to small firms. Data for Japan are for 2019 for coud computing and 2018 for e-commerce and social media (instead of 2019).
- PIAAC data on problem solving skills come from the OECD Skills Strategy for Japan (OECD, 2019).

Korea

- Mobility trends come from the OECD Economic Surveys of Korea 2020 (OECD, 2020), based on Google COVID-19 Community Mobility Report (27 July 2020), and refer to trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters.
- Data on cloud computing services refer to 2018 instead of 2020. Data on e-commerce refer to 2019 instead of 2020. Structural business statistics (profit) refer to 2016 instead of 2018.
- Information on skills mismatches come from a dedicated OECD report on "Investing in Youth in Korea" (OECD, 2019).

Latvia

- Annual national accounts data refer to 2017 instead of 2018.
- Structural business statistics (profit) refer to 2016 instead of 2018.

Lithuania

- Annual national accounts data refer to 2017 instead of 2018. Tourism statistics refer to 2018 instead of 2019.
- Global entrepreneurship monitor's data refer to 2014 instead of 2019.

Luxembourg

- Bankruptcies and firm entries data come national sources (Portail des statistiques du Grand-Duché de Luxembourg, 2021).
- Tourism statistics refer to 2018 instead of 2019.
- Data on sectoral exposure come from academic litterature (Beine, M et al., 2020).
- Structural business statistics (profit) refer to 2016 instead of 2018.

Mexico

- Data on business dynamics come from national sources (INEGI, 2020).
- Tourism statistics refer to 2018 instead of 2019.
- Data on social media refer to 2012 instead of 2019. Data on cloud computing services refer to 2012 instead of 2020. Structural business statistics (profit) refer to 2013 instead of 2018. Data on digital uptake during the COVID-19 crisis are drawn from (ECLAC, 2021).

The Netherlands

- Structural business statistics (profit) refer to 2016 instead of 2018.

New Zealand

- Tourism statistics refer to 2018 instead of 2019.

Norway

- Annual national accounts data refer to 2017 instead of 2018. Tourism statistics refer to 2018 instead of 2019.

Portugal

- Annual national accounts data refer to 2017 instead of 2018. Tourism statistics refer to 2016 instead of 2019.
- Structural business statistics come from the OECD SME&E Outlook 2019 and refer to 2016.

Slovak Republic

- Tourism statistics refer to 2017 instead of 2019.
- Data on self-employed for the Slovak Republic come from the International Labour Organisation ILOSTAT database 2020. OECD LFS statistics on self-employed follow the ILO guidelines.
- Structural business statistics (profit) refer to 2016 instead of 2018.

Slovenia

- Structural business statistics (profit) refer to 2016 instead of 2018.

Spain

- Data on trade value refer to 2019 instead of 2018; other indicators on GVC exposure refer to 2018.

Sweden

- Annual national accounts data refer to 2017 instead of 2018.

Switzerland

- Tourism statistics refer to 2018 instead of 2019. Structural business statistics come from the OECD SME&E Outlook 2019 and refer to 2016. Data on economic exposure come from the International Monetary Fund (IMF, 2021). Data on trade come from national sources (FDF, 2020).
- Data on broadband connection refer to 2017 instead of 2020. Data on social media refer to 2017 instead of 2019. Data on cloud computing services refer to 2017 instead of 2020. Data on e-commerce refer to 2011 instead of 2020.

Turkey

- Structural business statistics refer to 2019 instead of 2018. Data on trade by enterprise characteristics refer to 2014 instead of 2015.
- Structural business statistics (profit) refer to 2019 instead of 2018. Global entrepreneurship monitor's (GEM) data refer to 2018 instead of 2019.

United Kingdom

- Structural business statistics come from the OECD SME&E Outlook 2019 and refer to 2015.
- Data on broadband connection refer to 2019 instead of 2020. Data on cloud computing services refer to 2018 instead of 2020. Data on e-commerce refer to 2019 instead of 2020.

United States

- Structural business statistics come from the OECD SME&E Outlook 2019 and refer to 2015.
- Information on digital readiness is drawn from OECD (2020), “E-commerce in the time of COVID-19”, based on a survey undertaken by the US Chamber of Commerce (5 May 2020).

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Annex 6.A. Sources and definitions of benchmarking indicators

COVID-19 impact			
Stringency of government measures	Oxford Government Stringency Index	Government response stringency index, as a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest). If policies vary at the subnational level, the index is shown as the response level of the strictest sub-region. Country values from January 2020 to April 2021.	https://ourworldindata.org/grapher/covid-stringency-index
Business dynamics	Firm entries (%)	New enterprise creation January 2020-March 2021, year-on-year difference and cumulative year-on-year difference as a %. For the definition of enterprise creation, see methodology in primary source.	OECD Timely Indicators of Entrepreneurship (TIE) database
	Firm exits (%)	Bankruptcies, January 2020-March 2021, year-on-year difference and cumulative year-on-year difference as a %. For the definition of bankruptcies, see methodology in primary source.	OECD Timely Indicators of Entrepreneurship (TIE) database
Factors of vulnerability			
Size of the SME&E sector	Share of SMEs in total employment (%)	Employment by enterprise size as a percentage of all persons employed in business economy. Micro firms include firms with 1-9 persons employed; small firms: 10-49 persons employed; medium-sized firms: 50-249 persons employed; and large firms: more than 250 persons employed. Data refer to 2018 or latest year available.	OECD Structural and Demographic Business Statistics database (SDBS)
	Share of SMEs in total value added (%)	Value added by enterprise size as a percentage of total business economy value added. Micro firms include firms with 1-9 persons employed; small firms: 10-49 persons employed; medium-sized firms: 50-249 persons employed; and large firms: more than 250 persons employed. Data refer to 2018 or latest year available.	OECD Structural and Demographic Business Statistics database (SDBS)
	Share of self-employed in total employment (%)	Self-employment is defined as the employment of employers, workers who work for themselves, members of producers' co-operatives, and unpaid family workers. It is expressed as a percentage of total employment. Trends between 2005 and 2019.	OECD Annual Labour Force Statistics database
Economic exposure to lockdowns and business disruptions	Most affected sectors, share in total employment (%)	The most affected sectors by COVID-19 containment measures, share of total employment (%), 2018 or latest year available.	OECD Statistical Insights: Small, Medium and Vulnerable (2020), calculations based OECD Annual National Accounts database.
	The region most at risk	Regions with the highest share of jobs at risk by country, TL2 regions, 2017.	OECD (2021), Regional Outlook 2021 based on OECD Job Creation and Local Economic Development 2020: Rebuilding Better
	Direct contribution of tourism in total employment (%)	Tourism as a % of total employment, 2019 or latest year available.	OECD Tourism database

International trade and GVC exposure	SMEs as exporters (%)	Share of SMEs in trade value, exports, 2015 or latest year available	OECD Trade by Enterprise Characteristics database
	SMEs as importers (%)	Share of SMEs in trade value, imports, 2015 or latest year available	OECD Trade by Enterprise Characteristics database
	SME exporters in long GVCs (%)	Share of SMEs in trade value, exports, long GVCs, 2015 or latest year available	Calculations based on OECD Trade by Enterprise Characteristics database
	SME importers in long GVCs (%)	Share of SMEs in trade value, imports, long GVCs, 2015 or latest year available	Calculations based on OECD Trade by Enterprise Characteristics database
	Foreign affiliates (FAs) sourcing locally (%)	Sourcing structure of foreign affiliates, percentage of foreign affiliates' sourcing that comes from domestic multinationals (MNEs) and non-MNEs, total economy, 2016.	OECD Analytical AMNE database
	FAs output used locally (%)	Output use of foreign affiliates, as a percentage of the output of foreign affiliates that is used by domestic MNEs and non-MNEs for intermediary consumption, total economy, 2016	OECD Analytical AMNE database
Sources of resilience			
Digital readiness	Broadband connection (%)	Percentage of small businesses [10-49] with a broadband download speed at least 100 Mbit/s (%). All activities in manufacturing and non-financial market services. Data refer to 2020 or latest year available. Distribution along a stylised curve of adoption (OECD, 2021).	OECD ICT Access and Usage by Businesses and OECD (2021), The Digital Transformation of SMEs.
	Use of social media (%)	Percentage of small businesses [10-49] using social media (%). All activities in manufacturing and non-financial market services. Data refer to 2019 or latest year available. Distribution along a stylised curve of adoption (OECD, 2021).	OECD ICT Access and Usage by Businesses and OECD (2021), The Digital Transformation of SMEs
	E-commerce (%)	Percentage of small businesses [10-49] receiving orders over computer networks (%). All activities in manufacturing and non-financial market services. Data refer to 2020 or latest year available. Distribution along a stylised curve of adoption (OECD, 2021).	OECD ICT Access and Usage by Businesses and OECD (2021), The Digital Transformation of SMEs
	Cloud computing (%)	Percentage of small businesses [10-49] purchasing cloud computing services (%).All activities in manufacturing and non-financial market services. Data refer to 2020 or latest year available. Distribution along a stylised curve of adoption (OECD, 2021).	OECD ICT Access and Usage by Businesses and OECD (2021), The Digital Transformation of SMEs
Cash reserves	SME profit, as a share of production (%)	Gross operating surplus of firms with less than 250 employees as a percentage of their production. Industry (excluding construction) only. Data refer to 2018 or latest year available.	OECD Structural and Demographic Business Statistics database (SDBS)
Liquidity support	SMEs receiving government support, total (%)	Percentage of SMEs with a Facebook page that received government support, December 2020.	Facebook/OECD/World Bank (2020), Future of Business Survey
	SMEs receiving grants and subsidies (%)	Percentage of SMEs with a Facebook page that received government support in the form of grants or subsidies, December 2020.	Facebook/OECD/World Bank (2020), Future of Business Survey
	SMEs receiving credits and deferrals (%)	Percentage of SMEs with a Facebook page that received government support in the form of credit or deferral of payments, December 2020.	Facebook/OECD/World Bank (2020), Future of Business Survey
	SMEs receiving non-financial support (%)	Percentage of SMEs with a Facebook page that received non-financial government support (e.g. information, technical assistance or advisory services), December 2020.	Facebook/OECD/World Bank (2020), Future of Business Survey

Entrepreneurship regulatory framework	Simplification and evaluation of regulations (index)	Composite index that captures the government's communication strategy and efforts to reduce and simplify the administrative burden of interacting with the government, including impact assessment on competition, interaction with interest groups and the complexity of regulatory procedures. Scores from 0 - least restrictive - to 6 - most restrictive. Data refer to 2018.	OECD Product Market Regulation Indicators
	Low administrative burdens on start-ups (index)	Component of the composite index "Barriers to domestic and foreign entry". Covers the administrative burden on joint-stock companies and personally-owned enterprises, as well as administrative burden related to licenses and permits procedures. Scores from 0 - least restrictive - to 6 - most restrictive. The indicator is treated as a potential barrier to SME performance and country benchmark has been reversed (the higher the index performance is, the lower the administrative burdens are). Data refer to 2018.	OECD Product Market Regulation Indicators
	Low cost of starting a business (in % of income per capita)	Captures the cost (in % of income per capita) for starting a business, registering property and to prepare, file and pay taxes. The indicator is treated as a potential barrier to SME performance and country benchmark has been reversed (the higher the index performance is, the lower the cost). Data refer to 2019.	World Bank Doing Business 2020 – Starting a business
	Strength of insolvency framework (index)	Measures the insolvency law de jure. Calculated as the sum of the scores on 4 other indices: i) commencement of proceedings index (with a range of 0–3), ii) management of debtor's assets index (0–6), iii) reorganization proceedings index (0–3) and iv) creditor participation index (0–4). The strength of insolvency framework index ranges from 0 to 16, with higher values indicating insolvency legislation that is better designed for the rehabilitation of viable firms and the liquidation of nonviable ones. Data refer to 2019.	World Bank Doing Business 2020 – Resolving insolvency
	Low cost of resolving insolvency	Resolving insolvency (cost, % of estate). Indicator on the actual cost (in % of estate) to close a business. The indicator is treated as a potential barrier to SME performance and country benchmark has been reversed ((the higher the index performance is, the lower the cost). Data refer to 2019.	World Bank Doing Business 2020 - Resolving insolvency
Innovation skills	Perceived capabilities to start a business (%)	Perceived entrepreneurial capabilities among adult population (%), as a percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who believe they have the required skills and knowledge to start a business. Scoring from 0 (low) to 100 (high). Data refer to 2019 or latest year available.	Global Entrepreneurship Monitor (GEM) - Adult Population Survey
	Computer and electronics skills	Skills shortage or surplus of computer and electronics skills, i.e. knowledge of circuit boards, processors, chips, electronic equipment, and computer hardware and software, including applications and programming. Positive values indicate skill shortage while negative values point to skill surplus. The larger the absolute value, the larger the imbalance. Results are available on a scale that ranges between -1 and +1. The indicator is treated as a potential barrier to SME performance and country benchmark has been reversed ((the higher the index performance is, the lower the imbalance in skills use and availability in the country). Data refer to 2015.	OECD Skills for Jobs Database
	Adaptability/ flexibility skills	Skills shortage or surplus of adaptability/flexibility skills. Positive values indicate skill shortage while negative values point to skill surplus. The larger the absolute value, the larger the imbalance. Results are available on a scale that ranges between -1 and +1. The indicator is treated as a potential barrier to SME performance and country benchmark has been reversed ((the higher the index performance is, the lower the imbalance in skills use and availability in the country). Data refer	OECD Skills for Jobs Database

		to 2015.	
	Complex problem solving skills	Skills shortage or surplus of complex problem solving, i.e. developed capacities used to solve novel, ill-defined problems in complex, real-world settings. Positive values indicate skill shortage while negative values point to skill surplus. The larger the absolute value, the larger the imbalance. Results are available on a scale that ranges between -1 and +1. The indicator is treated as a potential barrier to SME performance and country benchmark has been reversed ((the higher the index performance is, the lower the imbalance in skills use and availability in the country). Data refer to 2015.	OECD Skills for Jobs Database
	Practical intelligence for innovation	Skills shortage or surplus of practical intelligence for innovation (workstyle). Positive values indicate skill shortage while negative values point to skill surplus. The larger the absolute value, the larger the imbalance. Results are available on a scale that ranges between -1 and +1. The indicator is treated as a potential barrier to SME performance and country benchmark has been reversed ((the higher the index performance is, the lower the imbalance in skills use and availability in the country). Data refer to 2015.	OECD Skills for Jobs Database

OECD SME and Entrepreneurship Outlook 2021

Small and medium-sized enterprises (SMEs) and entrepreneurs have been hit hard during the COVID-19 crisis. Policy responses were quick and unprecedented, helping cushion the blow and maintain most SMEs and entrepreneurs afloat. Despite the magnitude of the shock, available data so far point to sustained start-ups creation, no wave of bankruptcies, and an impulse to innovation in most OECD countries. However, government support has been less effective at reaching the self-employed, smaller and younger firms, women, and entrepreneurs from minorities. Countries were not all even in their capacity to support SMEs either. As vaccine campaigns roll out and economic prospects brighten, governments have to take the turn of a crisis exit and create the conditions to build back better. The OECD SME and Entrepreneurship Outlook 2021 brings new evidence on the impact of the crisis and policy responses on SMEs and entrepreneurs. It reflects on longer-term issues, such as SME indebtedness or SME role in more resilient supply chains or innovation diffusion. The report contains country profiles that benchmark impact, factors of vulnerability, and sources of resilience in OECD countries, and give a policy spotlight on liquidity support and recovery plans for SMEs.

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