



BIAC policy priorities for SMEs to drive growth

SMEs AND ENTREPRENEURSHIP: A VITAL PART OF THE ECONOMY

OECD studies show that SMEs are a vital source of growth. They account for 99% of all firms in OECD countries, and 50-75% of value added across OECD markets¹. The share of trade with emerging markets is expected to continue its expansion over the coming years, offering SMEs a wealth of opportunities. The G20 Turkish Presidency has acknowledged this fact, and we welcome the work undertaken in the G20 and B20 arenas to consider the role of SMEs in the wider macroeconomic policy context. The 2% goal for growth in G20 economies by 2018, as postulated in the 2014 G20 Summit declaration in Brisbane, can only be achieved if the private sector, and particularly SMEs, can take a leading role.

Whether in large or small companies, entrepreneurs increasingly compete in international markets and must navigate complex regulatory regimes. They must secure financial resources, and find ways to sift through large amounts of information, often with limited resources. Smart and timely policies can help SMEs and entrepreneurs over economic and financial hurdles and facilitate job creation and economic prosperity.

The OECD has a pivotal role to play in developing a proactive multi-point work program to help SMEs drive growth. SMEs require policy coherence across government agencies, and the OECD is uniquely placed to foster dialogue on this subject among governments and the private sector. With these opportunities in mind, BIAC members have identified the following 10 policy priorities for SMEs, making a case for horizontal action.

¹ OECD Report "SMEs, Entrepreneurship and Innovation", Centre for Entrepreneurship, SMEs and Local Development, 05 March 2010, page 5

1.	2.	3.	4.	5.
Calibrate the burden of regulation and encourage good governance	Develop a pro-entrepreneurial tax system	Nurture a culture of innovation	Promote job market flexibility	Improve access to finance
6.	7.	8.	9.	10.
Facilitate access to international markets	Encourage horizontal collaboration and sustainable business practices	Increase participation in the digital economy	Boost access to training and education opportunities	Identify and encourage potential entrepreneurs

1. Calibrate the burden of regulation and encourage good governance

Businesses of all sizes need to comply with an ever increasing number of domestic and international regulations that carry significant operational costs. These regulations aim to guarantee the operation of markets, promote business development, and warrant a level playing field, including participation in public procurement tenders. However, regulatory burdens carry disproportionate costs to SMEs related to financial management, record keeping, employment, and tax regulations. Compliance costs can be so high that it can either discourage entrepreneurs from starting up or drive SMEs out of business. Meanwhile, as SMEs expand, principles of good governance can help entrepreneurs build trust and sustainable practices with their growing set of public interlocutors and the communities where they do business. Governments should also be encouraged to consider the effects of new regulations on small and medium businesses, as they tend to be disproportionately affected by even small legal changes.

Policy recommendations include:

- Establish “one-stop shops” and e-government solutions for SMEs to file all administrative paperwork across agencies
- Maintain a stable regulatory environment, through Regulatory Impact Assessments and fixed dates for the implementation of new regulations
- Set governance sessions for entrepreneurs at predefined milestones of their company’s growth

2. Develop a pro-entrepreneurial tax system

Tax policy is a critical factor of the capacity of a new business to grow and thrive. Bracket effects when companies grow beyond a predefined threshold, or after a certain amount of time, can have a significant effect on the prospects of the firm. Profitability developed in the early stages of new businesses can be fragile and easily reversed by small

additional expenses. Thus, tax policy encouraging startups and new business creation should be one of the factors taken into account in determining a balanced policy to encourage growth and development, both in the short and medium to long terms.

Policy recommendations include:

- Consider tax incentives to support investment through peer-to-peer and crowdfunding platforms, or by business angels
- Provide local/state tax breaks on property taxes and on social security charges where possible
- Ensure tax policy allows for SMEs adaptability without prohibitive bracket effects, and a tax regime that allows for certainty and predictability of outcome over time

3. Nurture a culture of innovation

The creation of wealth and employment greatly depends on how quickly scientific and technological breakthroughs are converted into innovative solutions that can be brought to consumers. Efficient flows of technology and ready supplies of skills should complement adequate government policies to create a dynamic and sustainable culture of innovation.

Policy recommendations include:

- Create ecosystems focused on business collaboration—including industry clusters and business incubators – so as to improve SMEs’ access to cutting-edge technology and product testing capabilities
- Launch training programs for entrepreneurs and public servants on new technologies, innovation and latest business trends, and increase public investment in science and R&D policies—especially through pre-competitive R&D platforms
- Guarantee high quality IPR protection and enhance SME awareness on their use

4. Promote job market flexibility

Joining—as much as creating—a small company can be a prime opportunity for motivated people to start or develop a career while contributing to the growth of the business. Government policies should therefore accompany the employment potential of SMEs through targeted policy approaches, including flexible labor market policies.

Policy recommendations include:

- Promote flexible ways of work, recruiting personnel (apprenticeship, tax credits for specific hires, including integrating the silver economy), and adapted to market conditions
- Encourage and support self-employment
- Encourage and provide access to affordable and flexible training programs

5. Improve access to finance

There is relatively higher-risk associated with many start-ups and smaller enterprises, due to their lower creditworthiness and shorter credit history. Thus one of the possible unintended effects of recent financial regulatory requirements is that SMEs face more demanding credit conditions in the form of higher interest rates (due to higher probabilities of default), shortened maturities, and higher collateral requirements. In addition to credit, SMEs increasingly need more tailored (in some cases sophisticated) financial services relating to international expansion, risk hedging solutions, and mergers and acquisitions, but their access to (and frequently knowledge of) such services is also affected by some regulatory approaches. Financial access should therefore be a top priority for governments, where a greater understanding is needed on the possible consequences of financial regulations on SME financing.

Policy recommendations include:

- Build greater coordination between financial regulators and government bodies to support SMEs, including their participation in global value chains
- Support small business credit guarantee schemes and adapt financial infrastructure tools (e.g. payments platforms, credit registries, e-invoicing adoption), currently not available for SMEs
- Support alternative financing channels, such as business angels and microcredit outlets, for example through the creation of cross-borders crowd-sourced funding platforms

6. Facilitate access to international markets

The globalization of business has enhanced the role of SMEs as important contributors to global value chains through the goods and services they exchange with larger companies. By engaging in trade, SMEs can deliver value to customers worldwide and unlock growth potential on a much larger scale. Heightened international competition and barriers to international trade and investment hinder SMEs' ability to develop and sustain business operations in larger and new niche markets. Gaining access to global markets through trade can be a strategic instrument for strengthening the global trading potential.

Policy recommendations include:

- Simplify customs control mechanisms and regulations on export control, and support movement across borders for entrepreneurs
- Provide effective export support by easing transportation regulations, improving infrastructure and the involvement of state agencies dedicated to helping businesses abroad
- Encourage international regulatory cooperation and a minimum level of comparability of SME financial information to facilitate supplier / customer due diligence across borders and foster SME exports

7. Encourage horizontal collaboration and sustainable business practices

Sharing the same energy and vision, entrepreneurs can put together contacts to assist in the sharing of information,

capital and data between sectors, countries, and markets. These collaborative efforts could help to create more efficient capital markets for SMEs by building on the trust already created among existing actors. Furthermore, sustainable business practices are becoming pivotal in SMEs' ability to grow beyond a limited threshold through collaborative solutions among firms, government, and the local society in which the business is developing.

Policy recommendations include:

- Encourage the integration of SMEs into their local environment through the spread of best practice manuals and the exposure of entrepreneurs to local challenges.
- Provide small businesses with shared facilities and give them affordable access to essential but costly resources (internet, printers, conference rooms, etc.).
- Facilitate the transfer of ownership between SMEs and entrepreneurs

8. Increase participation in the digital economy

E-commerce and the use of information and communications technologies (ICT) increase the average sales of SMEs, allow them to reach new markets, and make their businesses more competitive globally. The adoption of e-business solutions for business-to-business online transactions and electronic exchanges with government transactions drastically reduce costs and improve market opportunities—but some essential policy challenges need to be overcome.

Policy recommendations include:

- Strengthen the technological competence of SMEs through specialized training and access to advice, public data, and global information
- Allocate resources for investments in ICT and infrastructure in rural and remote areas
- Establish and promote standards for data-enabled enterprise – i.e. enterprises able to use open and big data in their business planning and/or operations

9. Boost access to training and education opportunities

Strong competitiveness, productivity and growth of SMEs are all linked to employee skills from trusted advisors and knowledge sharing networks. Entrepreneurship comprises a set of transversal competences and attitudes as well as more specialized knowledge and business skills. Equipping people with entrepreneurship skills requires a comprehensive policy response and closer cooperation between the education system and employers.

Policy recommendations include:

- Increase the quality of education systems for individuals of all ages, including through updating curricula, improving teaching practices, fostering work-based learning opportunities, and expanding vocational education and training (VET)
- Remove barriers to entrepreneurship through well-designed qualifications frameworks, formal recognition of skills acquired in non-formal or informal learning, high-quality entrepreneurship education, and strong cooperation between universities and employers.

- Promote apprenticeships as a method of acquiring knowledge and developing practical on-the-job skills while also encouraging management training

10. Identify and encourage potential entrepreneurs

OECD reports show a strong diversity in the current pool of potential entrepreneurs. By applying targeted policies, states can help more people move into entrepreneurship, including women, veterans, or people with disabilities.² The silver economy, with its large experienced and skilled workforce could also be a prime target of governmental action. Females account for only 24% of total entrepreneurs in OECD countries, despite the encouraging improvement in the number of women running businesses during the past decade. Proactively supporting female entrepreneurial activity can considerably increase SME-led growth.

Policy recommendations include:

- Design policies that allow for more flexibility to achieve work/life balance by providing easier access to family support and by promoting access to a number of public facilities (starting with schools or hospitals)
- Develop government-funded training programs for under-represented social groups
- Encourage business networks between aspiring entrepreneurs and business mentors

² OECD Report “The Missing Entrepreneurs”, Centre for Entrepreneurship, SMEs and Local Development, 2014

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