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.

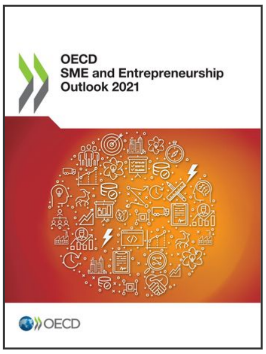
The pace of the recovery will also depend on SMEs' ability to access appropriate and diversified sources of financing. In this context, emerging global trends in sustainable finance, with the aim of incorporating environmental, social and governance (ESG) considerations in investment plans, are fast 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.



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