

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

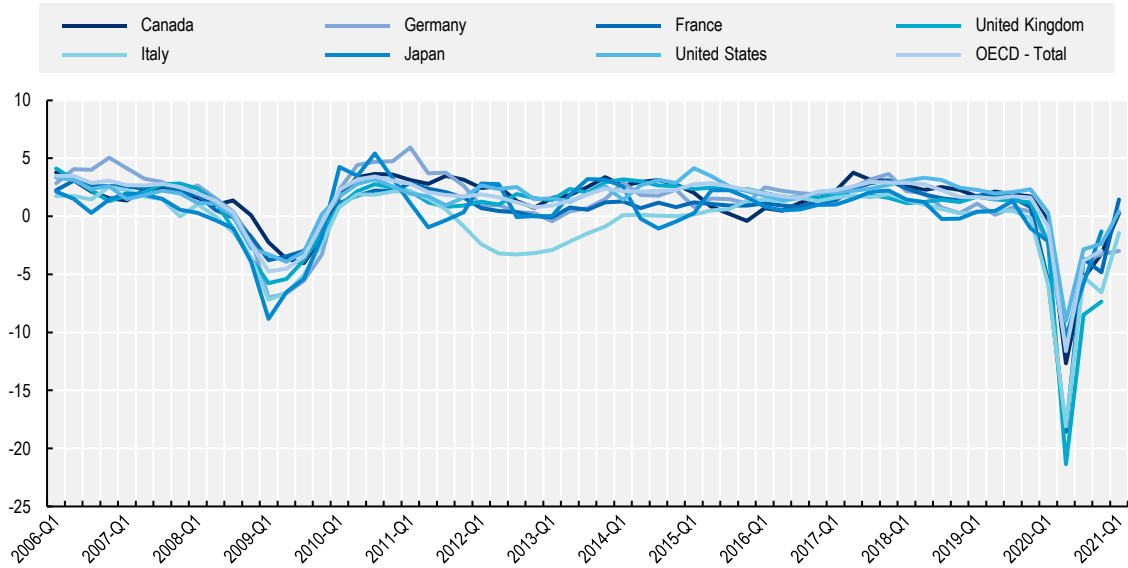
As restrictions to economic activities eased over the summer, GDP rebounded but remained below pre-crisis levels. While overall GDP in the OECD area in the second quarter (Q2) of 2020 was 11.6% below its 2019 Q2 level, the gap reduced to 3.8% in the third quarter of 2020 but, with outbreaks of new variants 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)

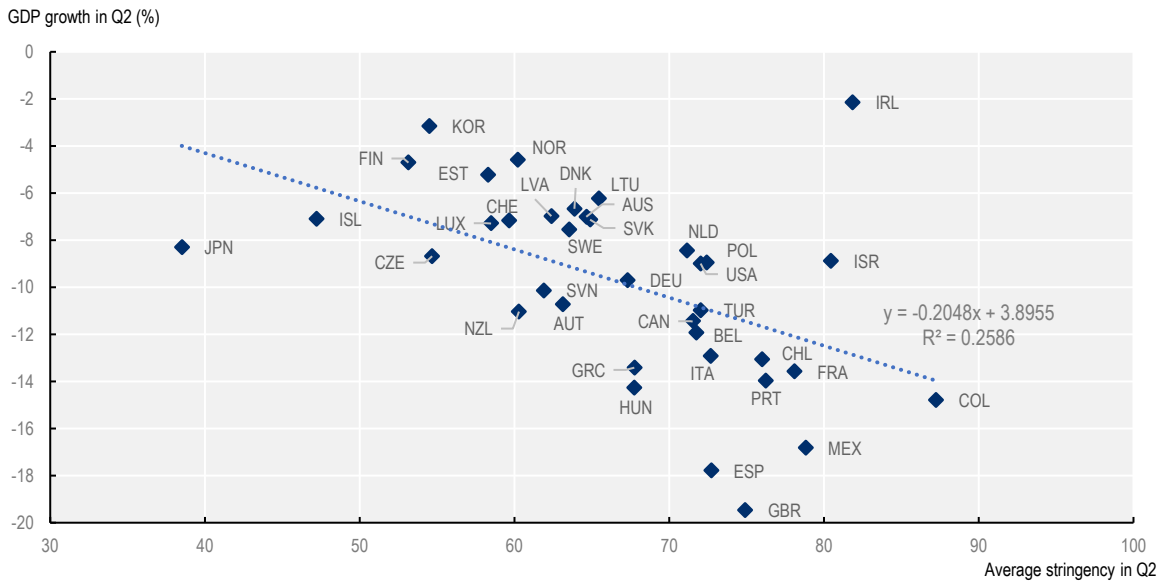


Source: OECD National Accounts database.

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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.

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Table 1.1. A significant but uneven global recovery aheadReal 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	4.6	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.

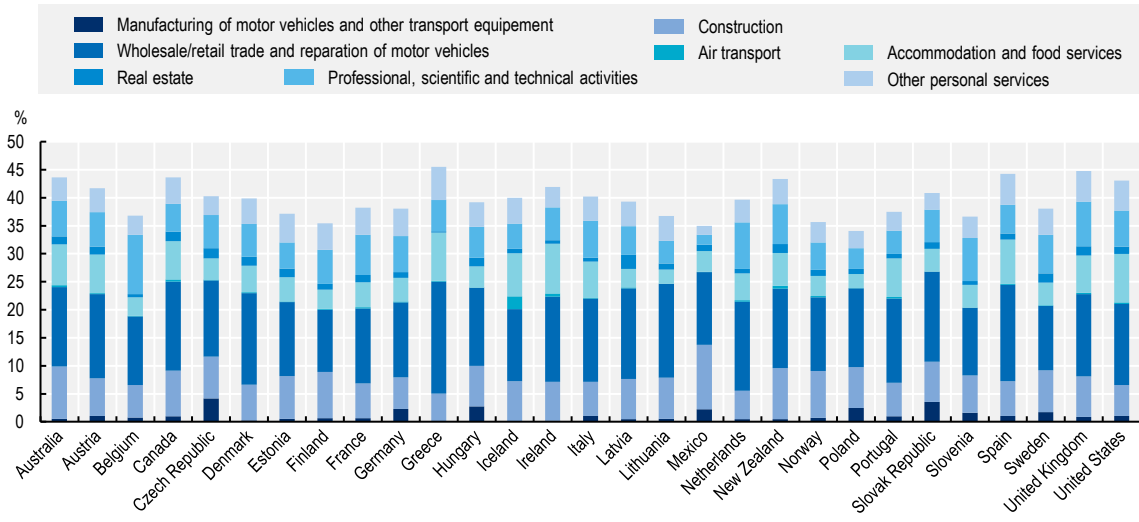
The tourism sector has been particularly affected. International tourism is estimated to have fallen by around 80% in 2020 (OECD, 2020^[2]). Whilst domestic tourism has fared comparatively better, it remains significantly below pre-COVID levels. Spain and the UK, for example, are estimating a 45%-50% 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



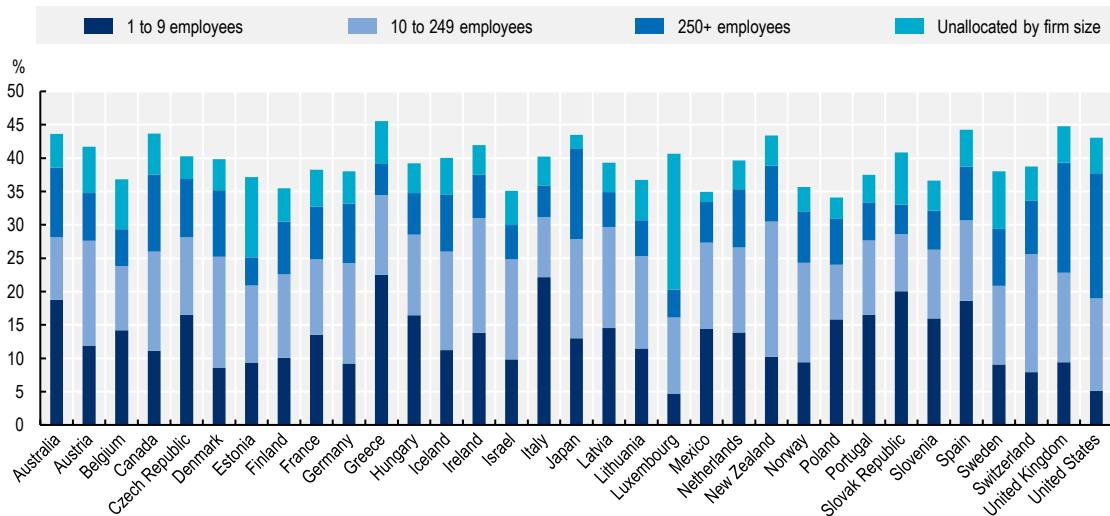
Note: Economic sectors are defined using the [ISIC rev.4 classification](#): manufacturing of motor vehicles and other transport equipment (29-30); construction (41-43); wholesale/retail trade and repair of motor vehicles (45-47); air transport (51); accommodation and food service activities (55-56); 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.

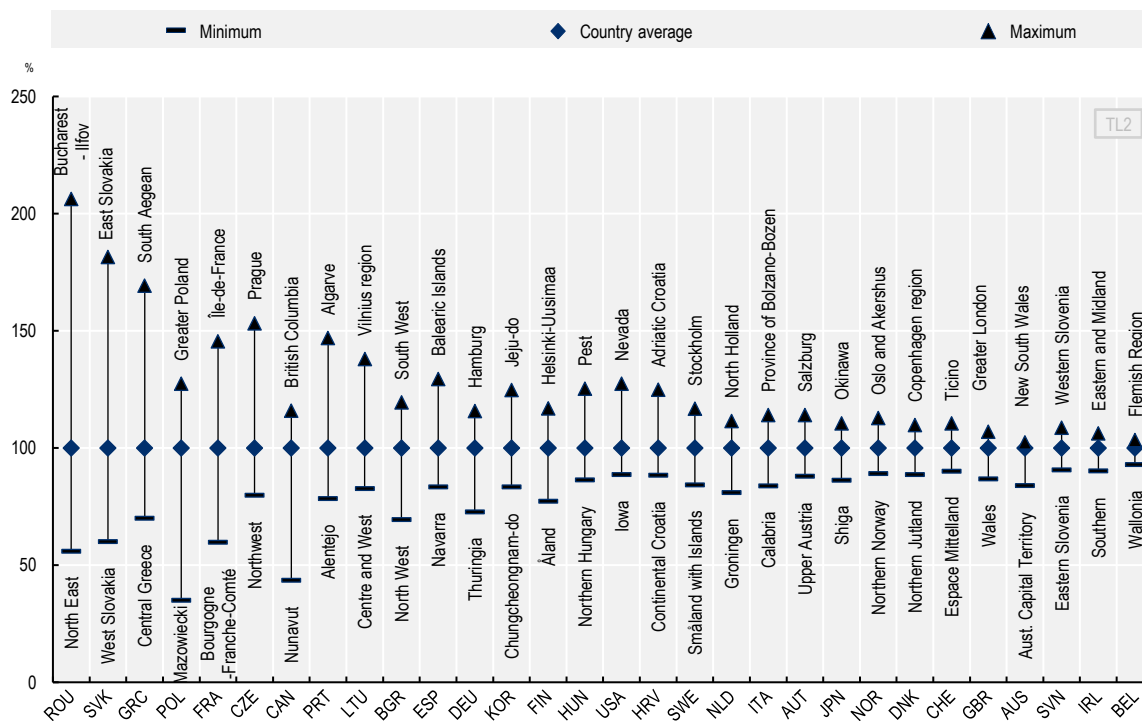
Source: OECD Annual National Accounts database, OECD calculations

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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]).

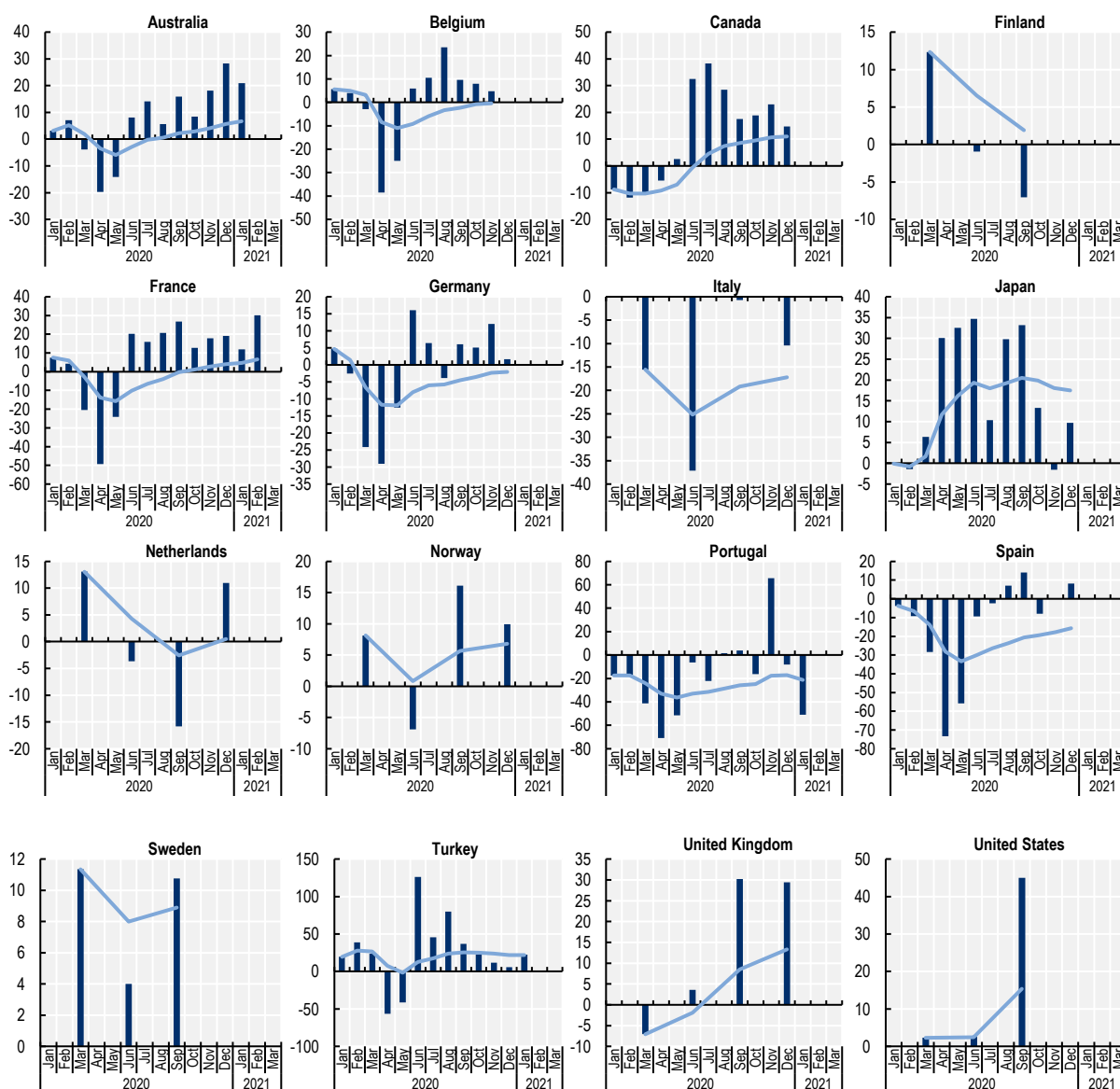
As another example, Demmou et al. (2021^[16]) show that, in the absence of policy interventions, (e.g. deferrals of taxes, financial support for debt repayment or temporary support to wage payments) 18% of firms in their sample of 14 European countries would have run out of liquidity after one month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

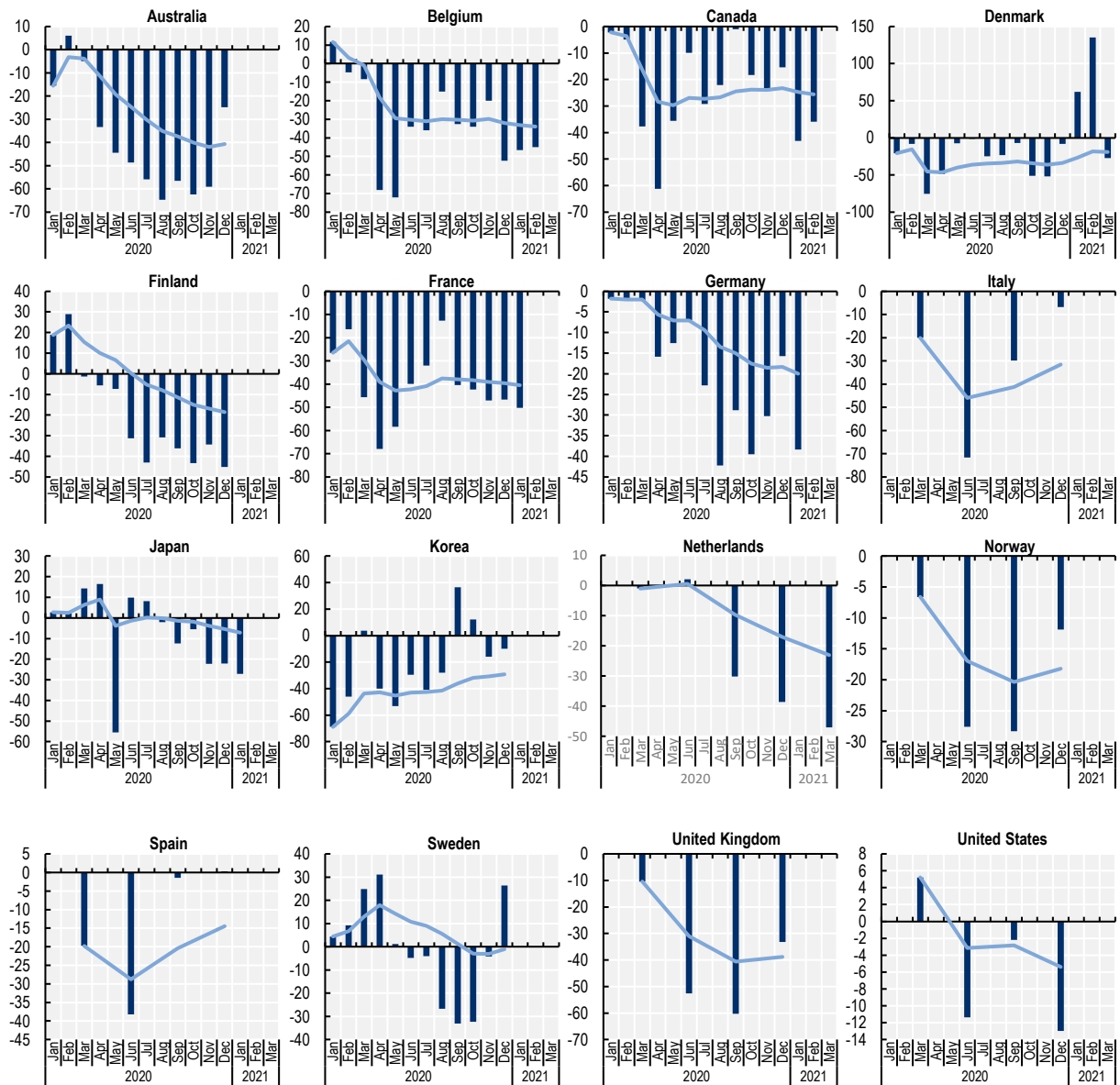


Note: For each month or quarter (depending on data availability), the blue bars indicate the percentage difference in business creations in 2020 and 2021, as compared to the same month or quarter in 2019. The blue lines indicate the cumulated business creations from the beginning of 2020 to the current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

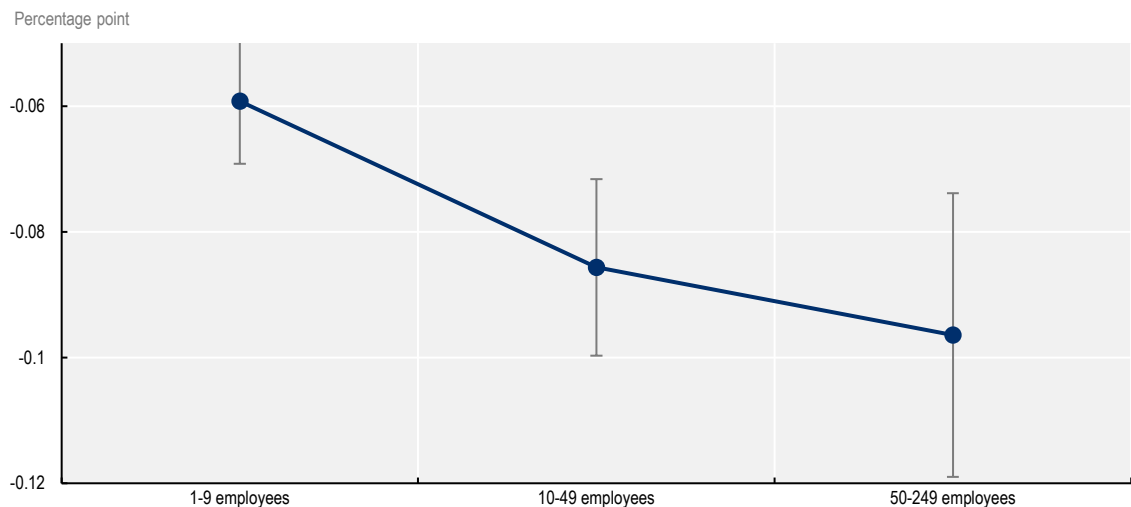
Source: Facebook Data for Good (n.d.^[36]), *2020 Global State of Small Business*, <https://dataforgood.fb.com/global-state-of-smb/>; Scheider, J.W. (n.d.^[37]), *Future of Business Survey Methodology Note*, <https://dataforgood.fb.com/wp-content/uploads/2020/11/Future-of-Business-Survey-Methodology-Note.pdf>.

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 services¹¹ 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)



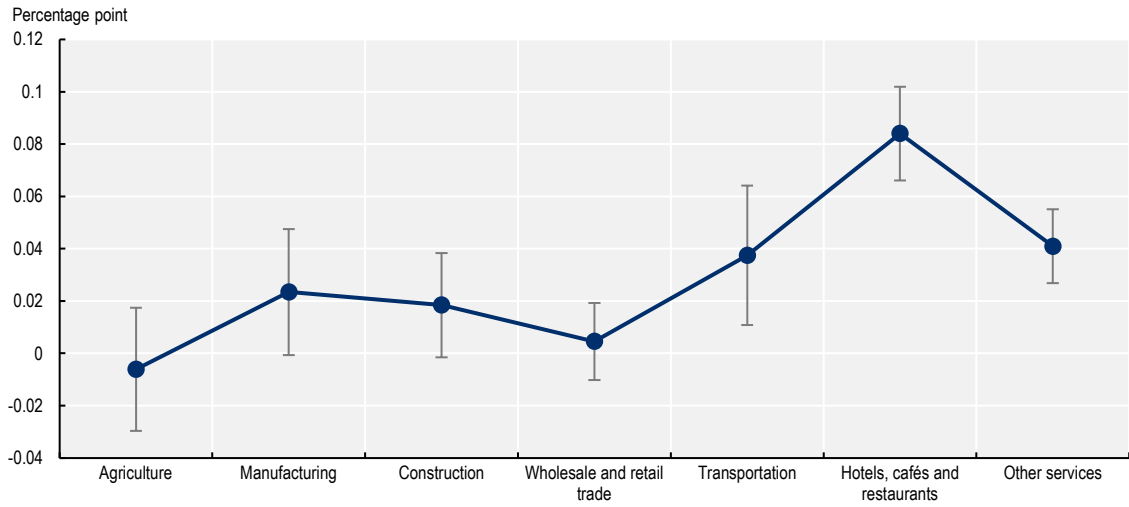
Note: Controlling for economic sector, country, time and country x time fixed effects, SMEs with 50 to 249 employees are on average around 10 percentage points less likely to close operations than SMEs with no employees (reference category in the econometric analysis). 95% confidence intervals are reported 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

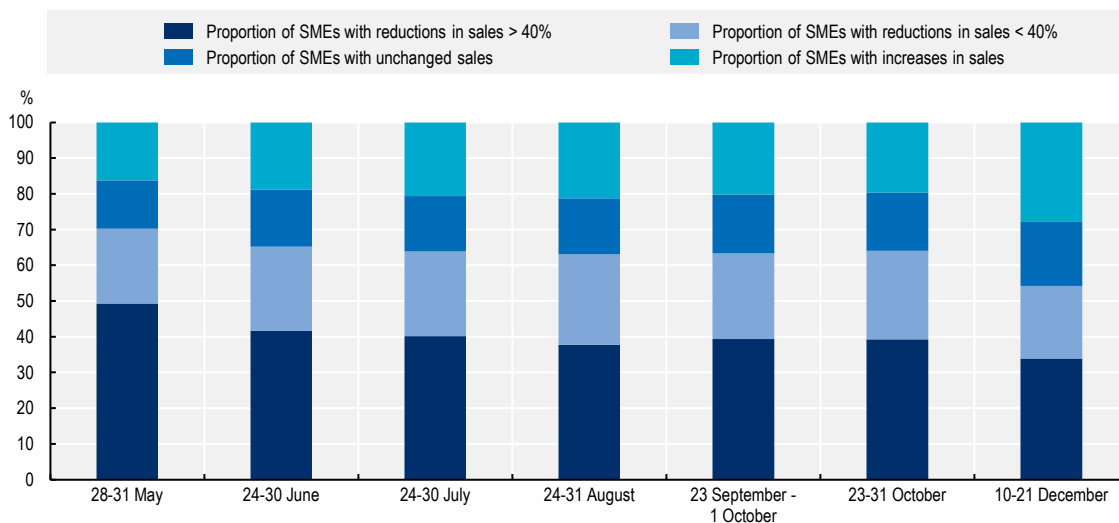
The drop in revenue for SMEs was precipitous during the first wave of the pandemic and revenues remained depressed in most countries afterwards. The monitoring by the OECD of 125 SME surveys carried out across 31 countries since February 2020 shows that a majority of SMEs experienced a serious drop in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

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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.

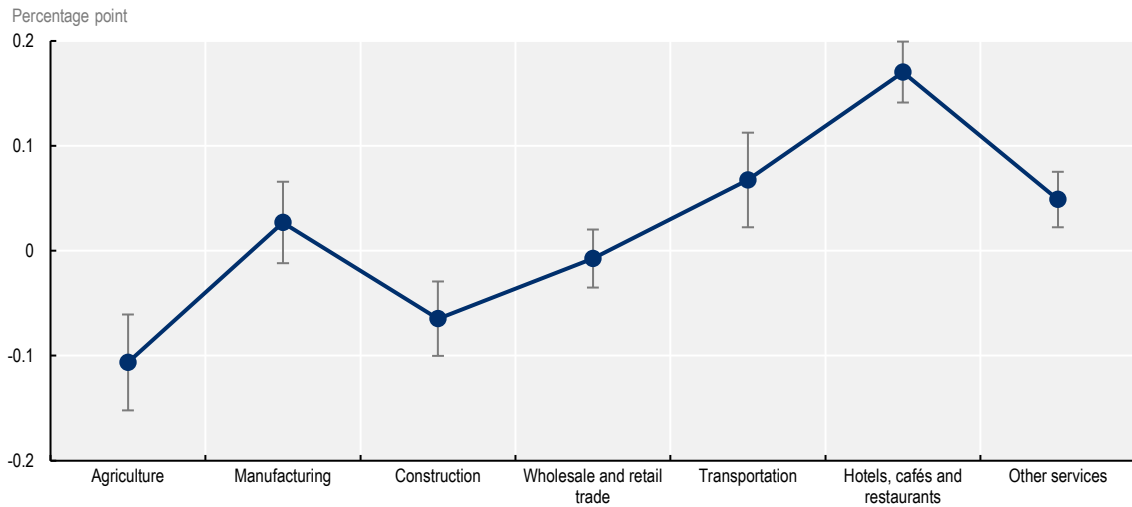
However, SMEs selling online, even in sectors hit hard, did significantly better than their counterparts not selling through digital channels. Other things being equal, SMEs selling a large share (more than 75%) of their products online were nearly 15 percentage points less likely to record a drop in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

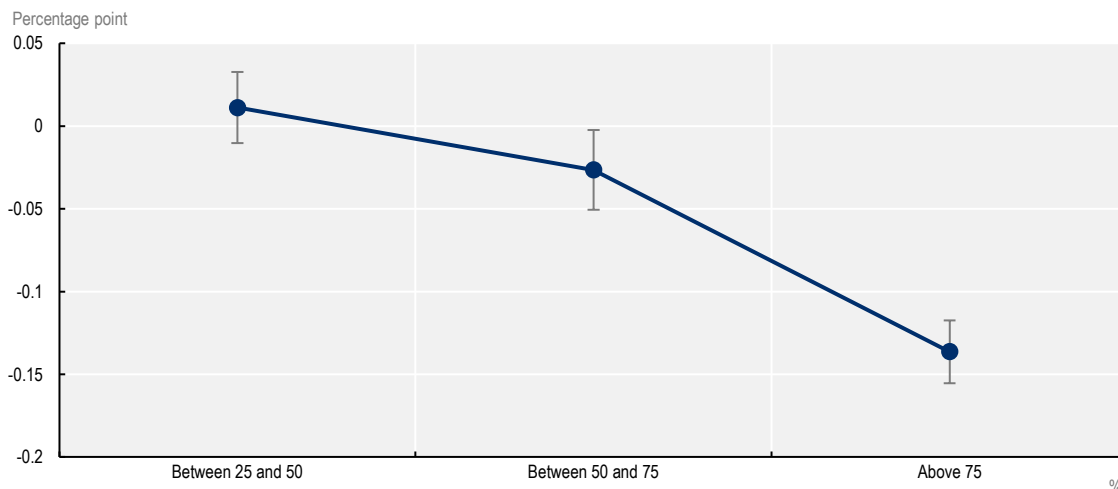
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- HolyBelly (France), a restaurant and café, transformed its business model in response to the COVID-19 restrictions by creating its own website with click and collect capabilities, as well as leveraging the local food delivery platforms to continue 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 Rden 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

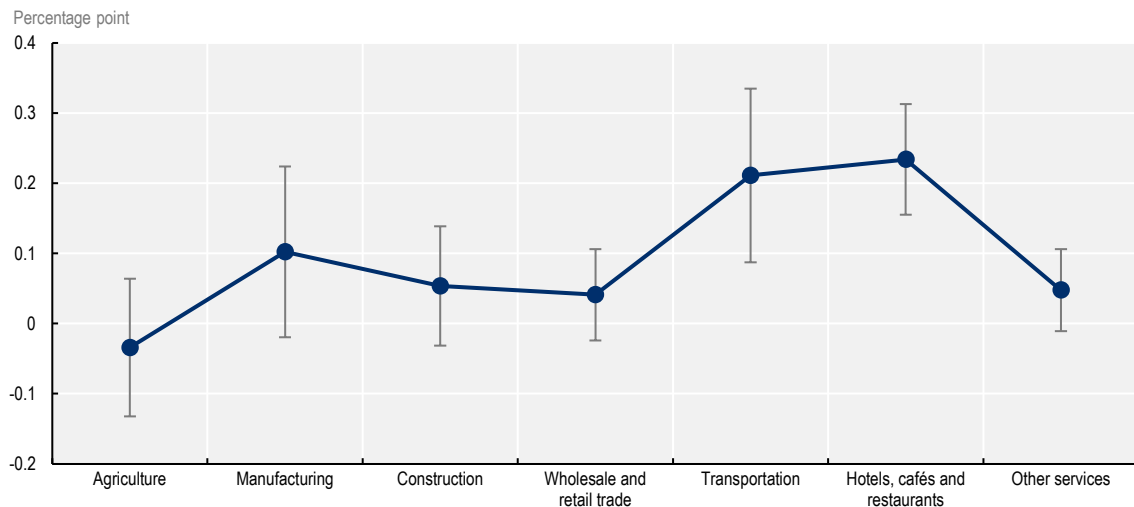
Within countries, SMEs in the sectors most affected by lockdown measures and those with larger declines in sales benefitted most from government support throughout 2020

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



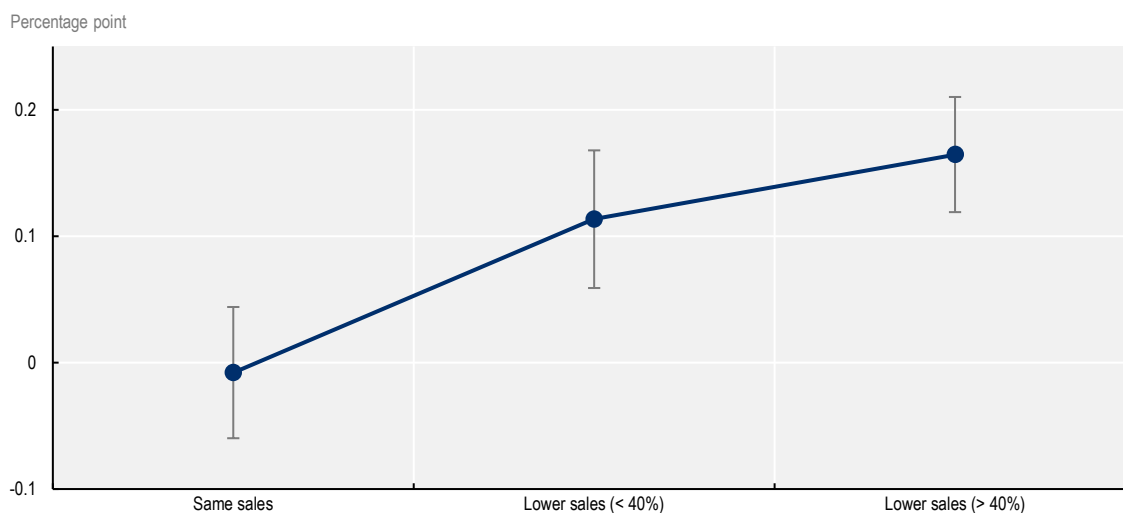
Note: Controlling for firm size, evolution of sales and country fixed effects, SMEs belonging to the hotel, café and restaurant sector were around 20 percentage points more likely to receive government support since the beginning of the crisis than SMEs belonging to the ICT sector (reference category 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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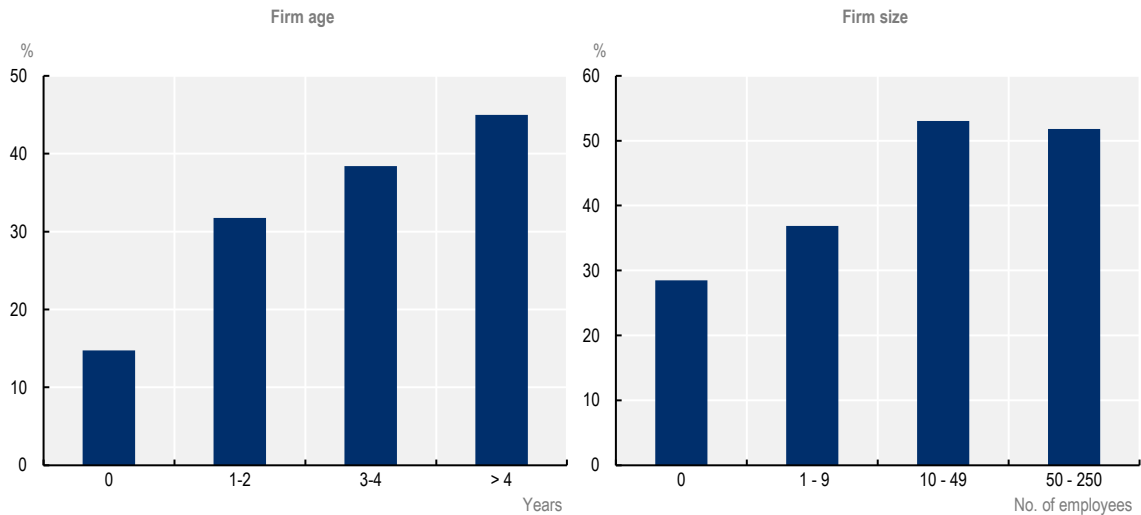
Younger and smaller SMEs were less likely to receive government support

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)



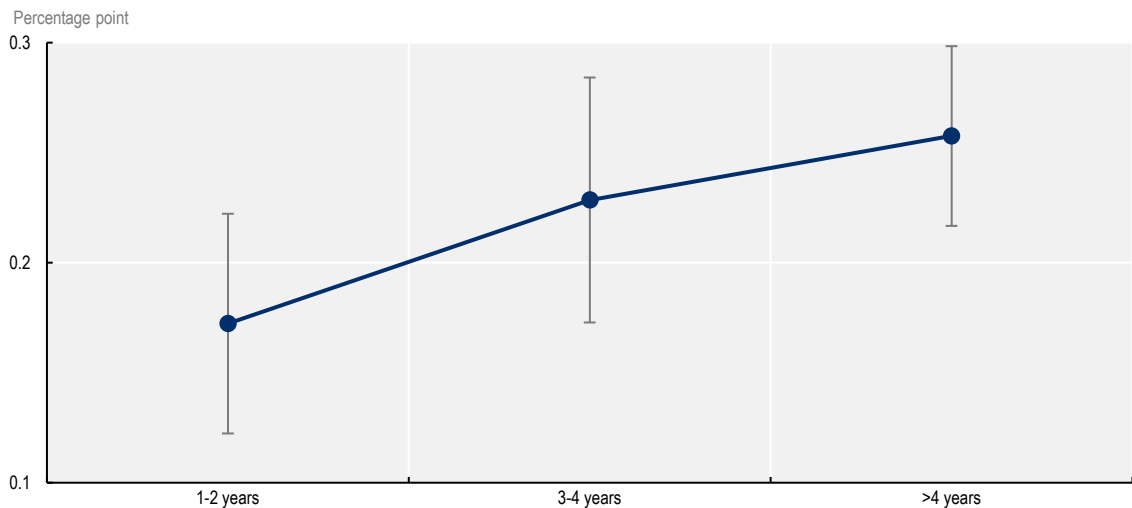
Note: The sample covers SMEs with a Facebook page and observations in 32 OECD countries in December 2020.

Source: OECD calculations based on Facebook-OECD-World Bank (2020_[38]), *Future of Business Survey* (December 2020).

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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 of 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.

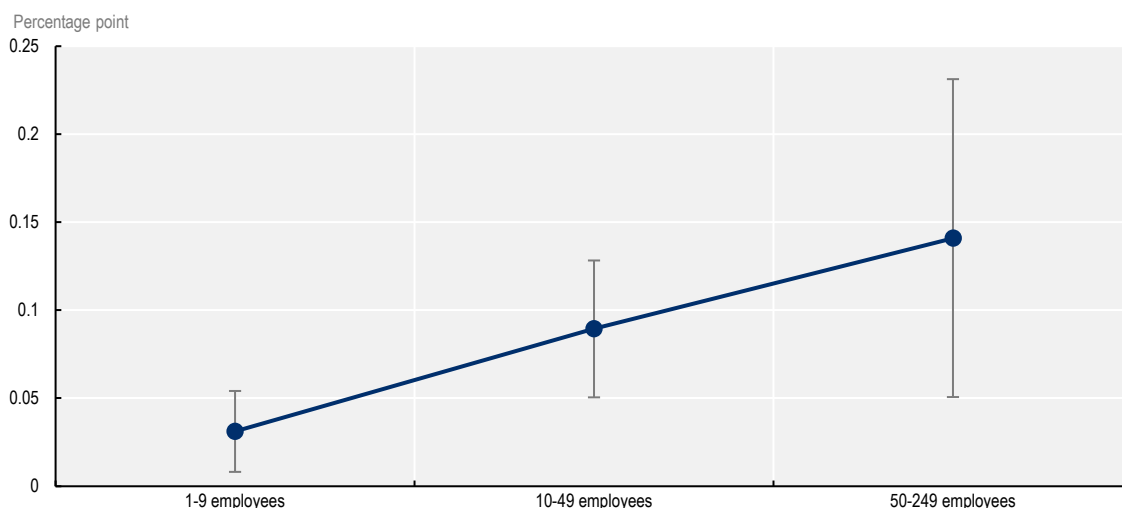
Source: OECD calculations based on Facebook-OECD-World Bank (2020_[38]), *Future of Business Survey* (December 2020).

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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).

StatLink  <https://doi.org/10.1787/888934249870>

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]).

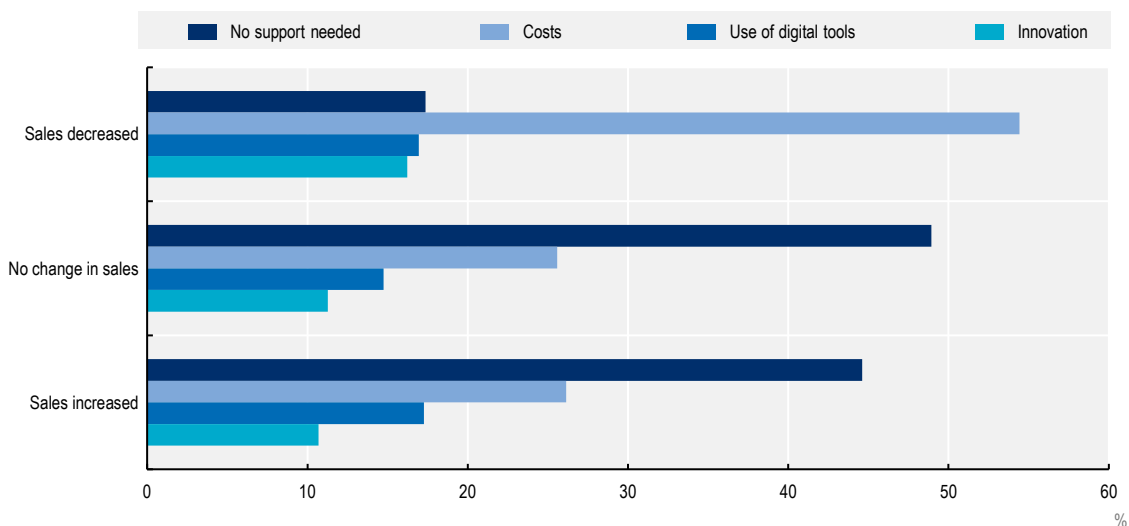
At the end of 2020, the majority of SMEs were still in need of support

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).

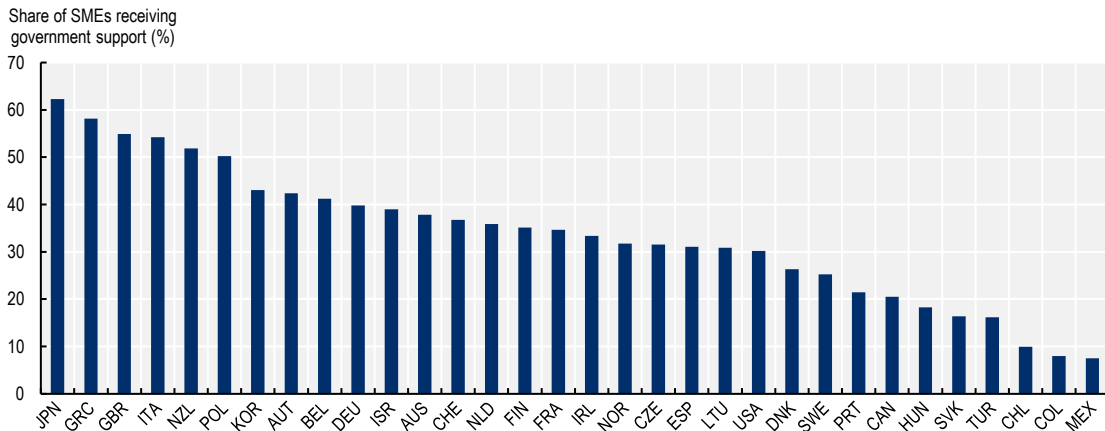
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The proportion of SMEs that benefitted from government support in 2020 varied significantly across countries

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.

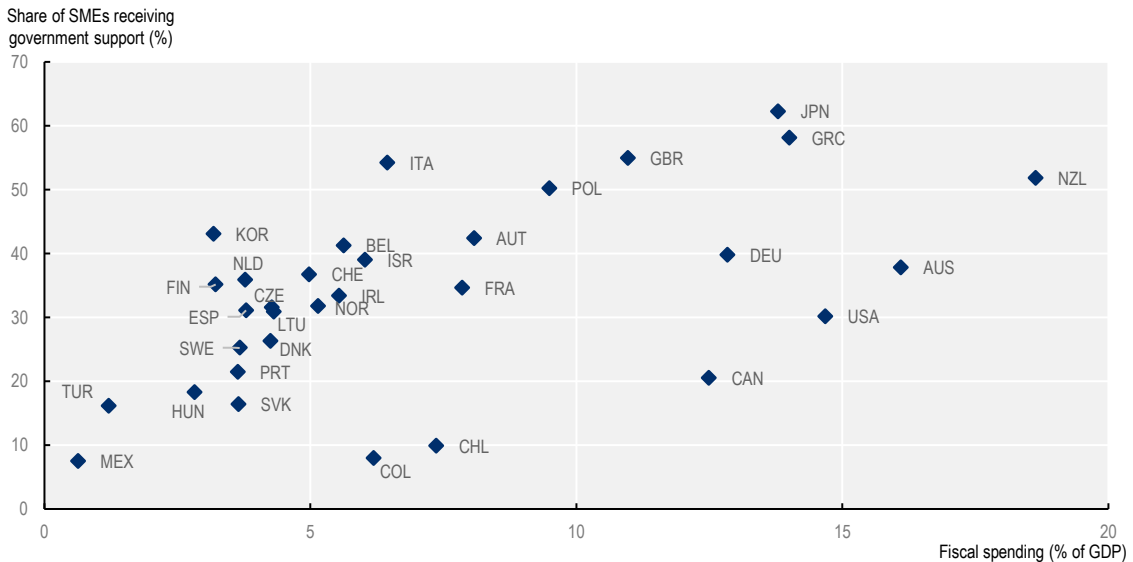
62% of SMEs with a Facebook page in Japan have received financial or non-financial government support since the start of the COVID-19 pandemic.

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.

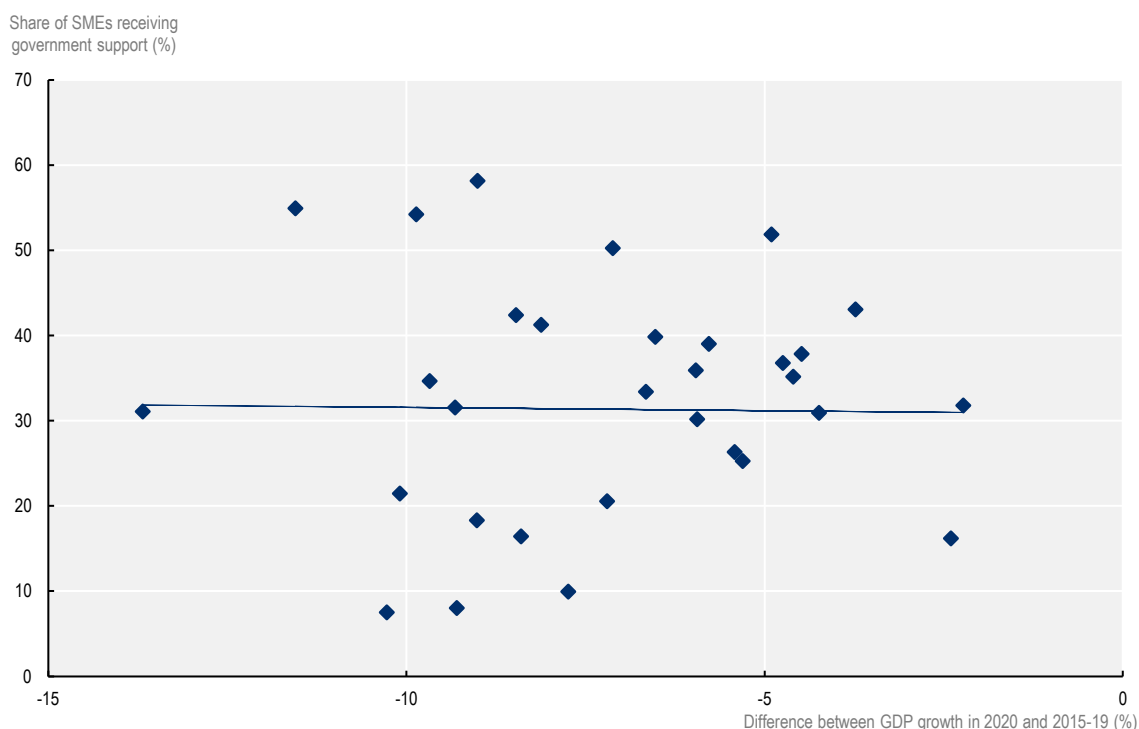
Source: OECD calculations based on Facebook-OECD-World Bank (2020^[38]), *Future of Business Survey* (December 2020) and IMF (2021^[52]), *Database of Fiscal Policy Responses to COVID-19*, <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19> (accessed on 22 April 2021).

StatLink  <https://doi.org/10.1787/888934249927>

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.

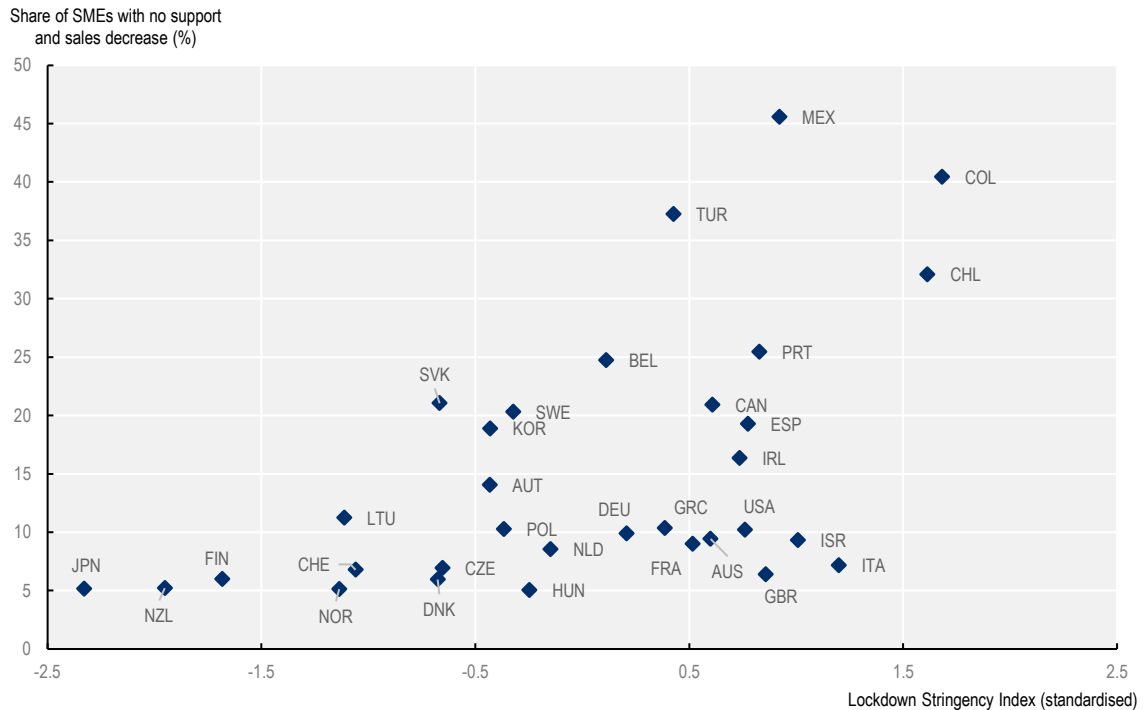
Source: OECD calculations based on Facebook-OECD-World Bank (2020_[38]), *Future of Business Survey* (December 2020).

StatLink  <https://doi.org/10.1787/888934249946>

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>

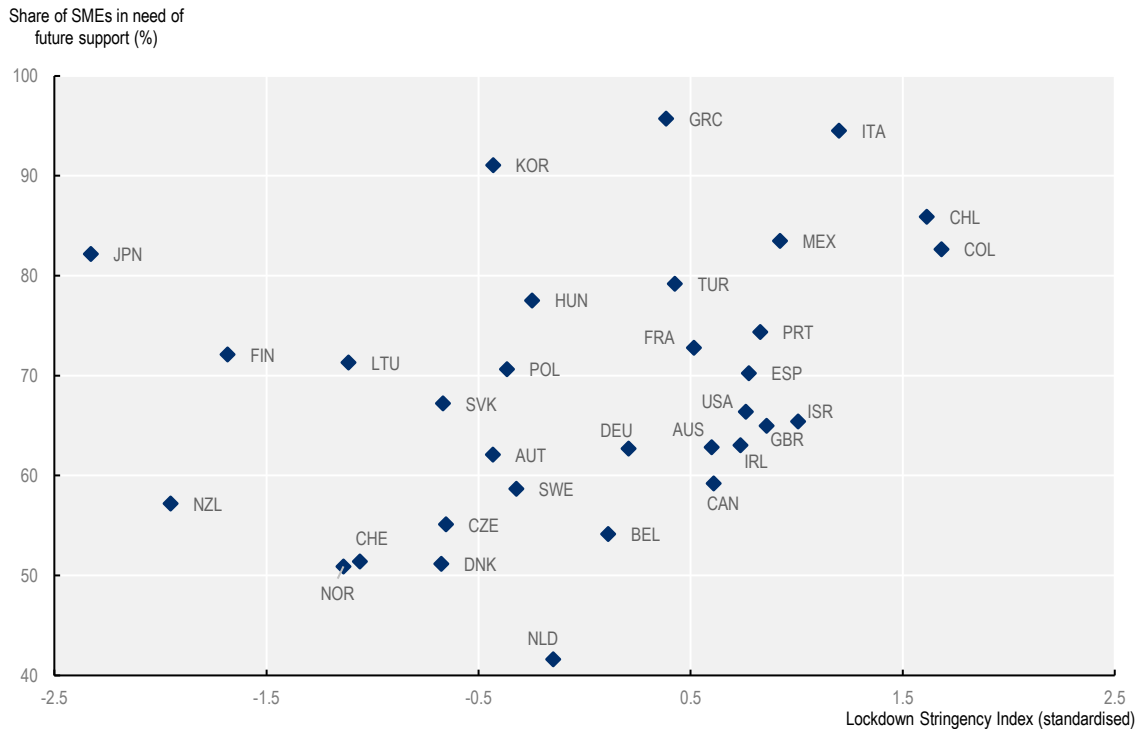
Across countries, the share of “missed” SMEs decreases with the amount of fiscal expenditures. On average, an increase in direct spending by 5% of GDP is linked to a decrease by five percentage points in the share of “missed” SMEs, whereas an increase in the amount of credit guarantees only has a very 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.

StatLink  <https://doi.org/10.1787/888934249984>

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&%3AhowVizHome=n&fbclid=IwAR0vfwlVUpPgT9qn7w9473B7hyi8mVIB4PZVkosOLRJCQR6NgS1ZJPeR5qM.

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.

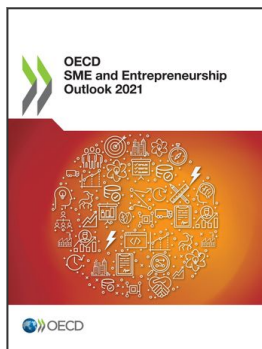
¹⁸ Data for lockdown stringency are sourced from the Oxford COVID-19 Government Response Tracker (OxCGRT). The indicator adds up measures of different indicators for the stringency of lockdown (among

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.



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