



ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT



ORGANISATION DE COOPÉRATION ET
DE DÉVELOPPEMENT ÉCONOMIQUES

SUPPORTING SMEs IN A TIME OF CRISIS: HOW TO CHOOSE THE RIGHT ACTIONS

**A Capacity Building Seminar for Policy Makers and Local Development
Practitioners**

12-15 October 2009, Trento, Italy

Main Lessons and Recommendations

The issue

Small and medium-sized enterprises are key sources of dynamism, innovation, and flexibility. In OECD countries they account for over 95 percent of enterprises, generate two-thirds of employment

1. INTRODUCTION

1.1. The OECD Capacity Building Seminar on 'Supporting SMEs in a Time of Crisis: How to Choose the Right Actions' was aimed at policy makers and local development practitioners from transition economies. Most, if not all of the participants were from states in Central and Eastern Europe and Latin America, countries which have either only recently emerged from a command economy or those which have embraced market economy structures and practices in a more direct fashion than

before. Their economies are facing a double bind of structural change and financial crisis, thus creating unique conditions for economic policy interventions.

1.2. The focus on SMEs is of particular significance. While the overriding features of the current economic crisis and its reporting has largely engulfed the banks and larger firms, SMEs have not been as prominent on the news pages for a substantial period of time. Yet the disproportionate, negative effects of any crisis on the ability of SMEs to obtain contracts, attract credit, remain liquid, and innovative, are legendary! Against this backdrop of disproportionate effects lies the importance of SMEs in terms of sheer numbers, their capacity to create employment and generate new products and services.

1.3. The capacity building seminar was, therefore, organised to explore three key policy strands:

1. supporting SMEs in a time of crisis;
2. SME needs and policy responses: a selection of business support instruments, the problems they address and how they are delivered; and
3. Creating entrepreneurship and SME strategies.

1.4. To this end and with a view to achieving critical and practical outcomes, the three days of interactive sessions addressed the following issues:

- a. the role of local economic leaders in a time of crisis;
- b. enhancing new entrepreneurship – people, policies and instruments;
- c. supporting SME growth; and
- d. creating entrepreneurship and SME strategies.

1.5. The idea was to identify and diagnose the current state of play and then follow it up with a range of recommendations based on close observation, and recent responses and potential good practice from various environments. This paper outlines the main recommendations and conclusions under each of these four headings. What follows are four sets of recommendations that connect with the critical issues referred to above. Ten types of recommendation are made for each set of recommendations, and each type is accompanied by a reference to the possible scope and coverage of the type of recommendation. This arrangement allows for the reader to consider both the specific recommendation made and how and where they could be implemented.

2. THE ROLE OF LOCAL ECONOMIC LEADERS IN A TIME OF CRISIS (RECOMMENDATION SET 1)

2.1. Local economic leaders and policy makers have a distinctive role to play in a time of crisis. While national leaders are concerned with overall fiscal, monetary and industrial policy, local economic leaders can play a strategic role in fostering new values, opening up access to local opportunities, enabling better networking, promoting good practice locally and, in some cases, introducing new legislation or tariffs aimed at easing the burden on entrepreneurs and small business people. These issues were discussed at the seminar and the main recommendations that flow from the discussions include the following:

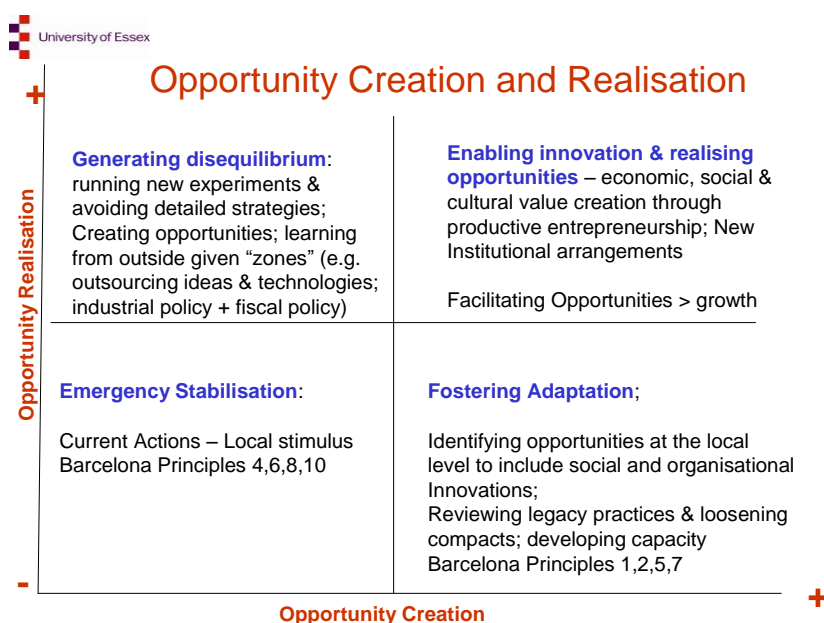
Table 1: Main Recommendations for the Role of Local Economic Leaders

TYPE OF RECOMMENDATION	SCOPE AND LEVERAGE
1. Identification of the specific problems that have affected their local economies – e.g. disproportionate effect on particular industry; particular type of jobs being most affected than others; drying up of specific investment opportunities	Distinguish between specific problems arising from crisis and other underlying economic problems in area
2. Benchmark, compare and contrast level of impact against and with similar regions in the country and in the wider region	Measure unevenness of impact between one's own region and others with a view to learning from others and establishing common links
3. Establish critical job protection and retention measures within and related to industries affected directly	Consider jobs transfer where common, transferable skills are available
4. Identify alternative or new industries where jobs could be transferred and/or created	Enable re-training possibilities through direct funding opportunities and in partnership with private sector
5. Identify new industries where entrepreneurial, self-employment and new job opportunities are possible	Create platforms for new industries where current skills can be harnessed for entrepreneurial outcomes (new business creation)
6. Identify new industries which enhance higher levels of community participation, reaching out to local markets, local purchase	Consider development of environmental, and social enterprises; absorption of current skills into new technology skills areas

7. Adopt new measures such as Social Insurance and work schemes as in Germany	Consider application of shorter working hours, shared work programmes between existing employees and unemployed in specific communities
8. Provide financial incentives for sustainable economic opportunities	Promote ecologically and ethically sustainable businesses
9. Investigate new organisational and business models	Encourage universities and communities to work together to generate new revenue and business models
10. Adopt the Barcelona principles (see attached) and apply local principles based on local needs while engaging with global partnerships	Establish local networks connected with networks in fast growing regions and compatible industry sectors. Adopt an entrepreneurial approach to change based on opportunity creation and realisation (see figure 1 below)

2.2. These actions can be organised into 4 categories in a matrix like structure to enable a line of progression and the evaluation of progressive actions, as demonstrated in the following diagram. As Figure 1 shows policy development can follow or be organised according to the different stages of development for a particular economy and the corresponding impact of the crisis.

Figure 1: An entrepreneurial approach to local leadership: Generating and Realising Opportunity at the Local level



Source: Mitra, J (2009)

3. ENHANCING NEW ENTREPRENEURSHIP – PEOPLE, POLICIES AND INSTRUMENTS (RECOMMENDATION SET 2)

3.1. Adopting an entrepreneurial approach to local economic leadership provides for a fertile ground for fostering new entrepreneurship or the identification, stimulation and realisation of new opportunity through people, new forms of organisation enabled by particular policies and instruments. New entrepreneurship means the creation of new ventures which accommodates innovation in new spheres of economic and social activity which meets the critical needs of people in specific economies and societies. Given the devastating effects of the financial crisis on the economic, environmental, institutional and social aspects of people’s lives, the need of the hour is for new entrepreneurship.

3.2. The opportunities that arise do not lie in the refashioning of old mores and practices but on genuinely identifying the right set of creative people, supporting policies and instruments to seek out possibilities in areas which are likely to have lasting impact on people’s lives. These areas include, for example the implications of high carbon emission, the fostering of human and social capital necessary to tackle changes and the devising of instruments such as new forms of finance with which to enable such change to be monetised. The main recommendations that emanate from these considerations include the following:

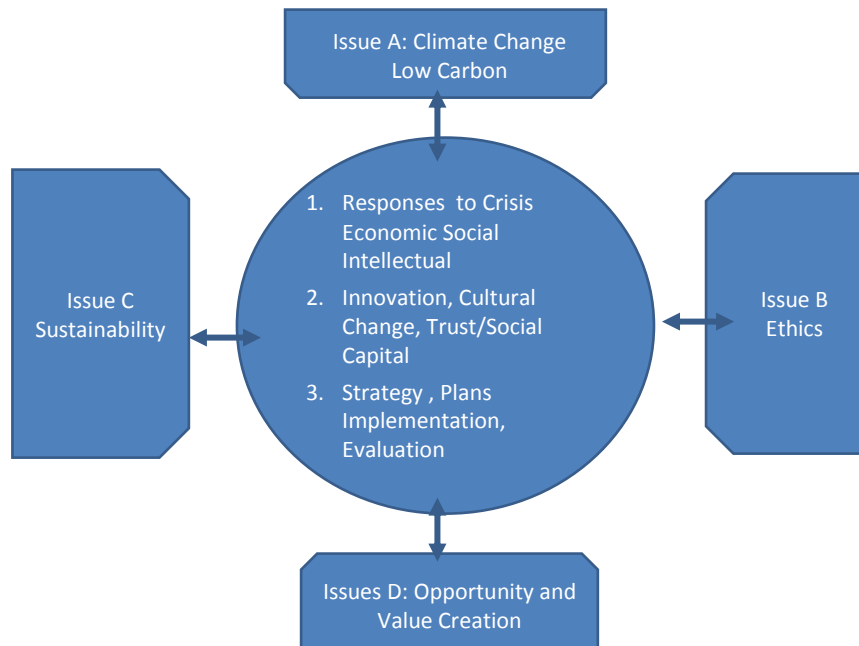
Table 2: Main Recommendations for New Entrepreneurship

TYPE OF RECOMMENDATION	SCOPE AND COVERAGE
1. Identify key global issues which a particular local resonance and are most likely to have a specific local impact;	Take into account critical global issues and prioritise locally from a list to include energy consumption, low carbon emission, ethical investment; innovation with new, relevant and sustainable technologies
2. Generate local campaign for new business innovations addressing sustainability issues;	Establish alternative local funding mechanisms, and job incentive schemes for new and growing businesses offering new products along sustainable lines; promotion of these actions with local chambers of commerce
3. Generate new financial instruments through partnership with the private sector	Adopt local purchasing and procurement schemes aimed at SMEs; create new partnership funds and schemes such as LETS or Credit Union models;
4. Establish global partnerships for new local initiatives for new entrepreneurship	Connect with key regions adopting such practice and open up information lines, opportunities for shared resources, IT enabled networking facilities

5. Establish new schemes that connect entrepreneurs with social projects such as housing, road repairs and other community-centric activities	<ul style="list-style-type: none"> ■ Encouragement of co-operative initiatives along the ■ lines of the Green project in Trento
6. Develop new hard and soft infrastructure schemes to support new entrepreneurship	<ul style="list-style-type: none"> ■ Consider both enhancement of IT connectivity including wiring for or wireless broadband facilities; ■ for and softer projects of skills development ; ■ parachuting initiatives from elsewhere which can ■ enhance local capabilities
7. Specific focus on human capital development through schools, colleges and universities, and including the identification and development of migrant talent	<ul style="list-style-type: none"> ■ Consider new training schemes in conjunction with the private sector and the community (based on deferred payment models); peer group training; a ■ small local, voluntary levy for training provided to unemployed by those at work, and also for global ■ project management skills
8. Establish ‘Responsible Business’ badging schemes for local businesses	<ul style="list-style-type: none"> ■ Create a local platform for “Responsible Business” based on membership and subscriptions
9. Identify web-based and cloud computing opportunities for new business	<ul style="list-style-type: none"> ■ Develop volunteer schemes for IT players to operate ■ in local market with a view to developing local ■ capacity
10. Establish a community managed entrepreneurship bank scheme to contain information on all new entrepreneurship projects and how they can be developed further	<ul style="list-style-type: none"> ■ Consider networks of students, communities and businesses to help develop such a “bank”.

3.3. The following diagram shows how people, policies and instruments can be brought together to support new forms of entrepreneurship based on addressing critical issues of our times.

Figure 2: Promoting and Supporting New Forms of Entrepreneurship: A Framework



Source: Mitra, J (2009)

4. SUPPORTING SME GROWTH (RECOMMENDATION SET 3)

4.1. New forms of entrepreneurship allow for new ventures to be created in any given economy. These new ventures add to the stock of existing SMEs disturbing the market equilibrium of the latter or enabling equilibrium through the supply of new products and services demanded in the market place. The entry of the former has implications for the growth of SMEs and supporting growth in productive ways is critical to the development of local economies.

4.2. Financial crises and recessions put the break on growth especially for SMEs with the drying up of credit, a drop in customer order as frugality rules the day, and the fragmentation of contractual or supply chain relationships with larger firms. Against these negatives there are paradoxically new opportunities for SMEs. These include the potentially greater supply of labour as more people become available in the market because of unemployment. The excess of supply of over demand for labour reduces the cost of wages which can make it attractive for prospective employers. Customers become more selective about what they buy and this provides niche opportunities for businesses. Growth opportunities, therefore, can be found even in inclement economic conditions. Many prominent businesses were indeed founded during previous recessions. These conditions also call for higher

levels of networking between businesses, greater degrees of co-operation and clustering based activity which can help to minimise transaction costs and the risk of large firm contracts being disrupted. Similarly, opening up access to global networks and supply chains through information, training and investment opportunities can offset for the drop in local markets. At the heart of all these measures is the need for enhanced innovation at the level of the SME made possible by way of innovative policy design.

4.3. The following table summarises the recommendations for supporting SME growth in local economies.

Table 3: Recommendations for Supporting SME Growth

TYPE OF RECOMMENDATION	SCOPE AND COVERAGE
1. Identify new wants and needs that can be satisfied by changing conditions;	Creation of an information service which could be peer-group led and community-based to establish a data base of possible opportunities;
2. Link local SMEs to a new Information Data base of needs and wants centred round consumers;	Use of web-based information platforms;
3. Establish new networks connecting firms and especially those with weak ties;	Creating supply side conditions through policy development aimed at new works based around new technologies, skills, and new markets;
4. Generating opportunities for groups of SMEs through access to global supply chains, based on information networks, fiscal incentives for network participation and open innovation business models.	Creating a network-centric information platform for Global supply chain participation for local SMEs, which can help to search for business opportunities;
5. Opening up investment opportunities including foreign direct investment to enable local SMEs to be part of the supply chain for investing firms	Establishing and inward investment strategy based on linking local capability with foreign firms;
6. Opening up inward investment opportunities together with export promotion in specific regions	Considering region to region networking opportunities based on compatible and complementary resources, technologies, goods and services;
7. Identifying clusters of firms in same or related industries and promoting global market opportunities for firms and the sharing of resources with other clusters	Developing a cluster-based strategy for international co-operation among local clusters

8. Developing strategies for identification, promotion and development of firms which are working on new technology frontiers	<ul style="list-style-type: none"> Information management based on a suitable data bases and supply side incentives to promote, train and develop support technology based diversification of industry
9. Developing strategies for identification, promotion and development of firms which are working on new technology frontiers together with clearly identifiable social goals	<ul style="list-style-type: none"> Information management based on a suitable data bases and supply side incentives to promote, train and develop support both technology and social/ethical based diversification of industry
10. Identify community-based growth prospects to legitimise operations in the “hidden economy” combined with tough measures for unproductive and destructive forms of entrepreneurship which impede growth	<ul style="list-style-type: none"> Fiscal and other forms of “amnesty” for firms in “hidden economy” to become part of regular, productive economy

4.4. The following diagram provides an insight into different policies that have been adopted in different countries and regions.

Figure 3: Local responses to the downturn



Local Responses to the downturn #2

- v. **Infrastructure.** e.g. London: MPs to support the GBP 9 billion plan to build a third runway at Heathrow Airport.
- vi. **Advocacy with central government.** e.g. New York City: ‘Financial Recovery Bill: Priorities for the City of New York’ Report.
- vii. **Investing in human capital skill building and SME support.** e.g. Lyon: support targeted at the SME community.
- viii. **Bail out key sectors/attractions.** e.g. Miami: the city commission rescue theme park Jungle Island with a \$2.4 million subsidy.
- ix. **Branding.** e.g. Mumbai. Chief minister suggested that the entire metropolitan region be branded to enable it to have a higher profile.
- x. **Innovative financing & PPPs.** e.g. Miami: Miami-Dade County \$2.5 million over 3 years to firms with financial expertise in structuring PPPs.



5. CREATING ENTREPRENEURSHIP AND SME STRATEGIES (RECOMMENDATION SET 4)

5.1. Enabling local leadership, encouraging new entrepreneurship, and supporting SME growth can be made possible through the creation of innovative entrepreneurship and SME strategies. This implies, inter-alia, the establishment of framework conditions that are conducive to new venture creation and growth, avoiding deadweight (avoiding policies and strategies which would have been adopted irrespective of the crises), and displacement, adopting challenging innovative approaches to public-private and community partnerships, new private-public financial and credit arrangements. These arrangements can be brought together by effective policy recommendations as enumerated below.

Table 4: Strategies for Entrepreneurship and SME Growth

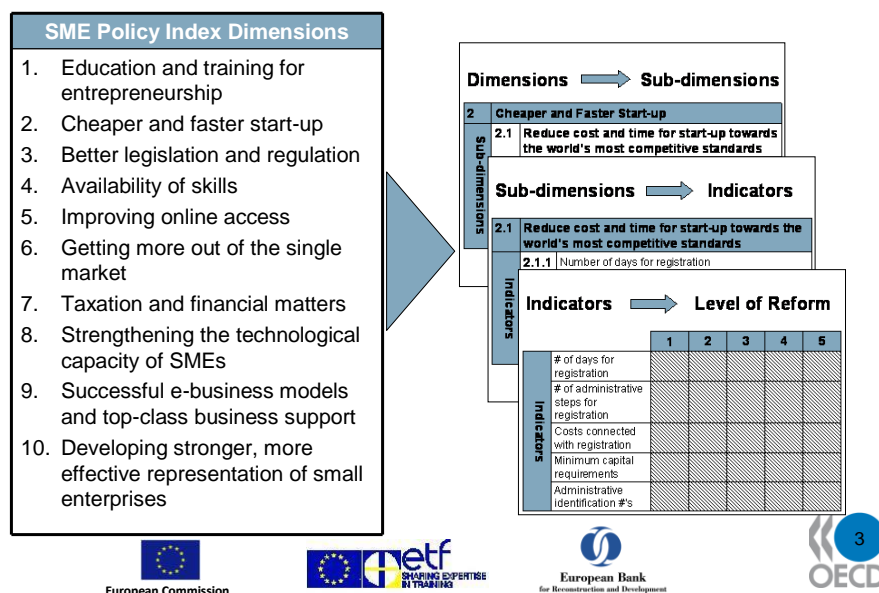
TYPE OF RECOMMENDATION	SCOPE AND COVERAGE
1. Identifying region/local specific new entrepreneurship and growth opportunities centred round new technologies, social objectives and private-public-community partnerships	Establishing new forums to capture public interest and involvement in the 3 strands of technologies, public-private and community partnerships, and social objectives
2. Organise entrepreneurial learning opportunities at the formal and informal levels to generate economic, social, cultural and personal value	Formal education and training in universities coupled with R&D and knowledge transfer activities, and informally through broad based entrepreneurship education, training and community-based workshops centred round mind-set change
3. Develop new financing instruments centred round public-private partnerships and the adoption of measures of return on both economic, social and cultural capital	Encouragement of new forms of returns on and measures of financial and social investment through better information provision
4. Developing transient financial instruments that leverage grants with low interest or scaled interest loans and/or equity schemes, coupled with easier credit flows for SMEs	Transient schemes directed towards new entrepreneurship and growth-oriented businesses that have 'high impact' – forms which demonstrate combination job creation ('green jobs'), use of new technologies, and social goals
5. Developing framework conditions for entrepreneurial outcomes in regions and societies	Programmes and projects for not only business start-ups, but social and community enterprises,

	<ul style="list-style-type: none"> ■ novel projects that promote self-sufficiency, public services provided by community organisations, global networks of community projects, etc.
6. Capacity Building for institutions to promote entrepreneurship and growth	<ul style="list-style-type: none"> ■ Mandatory and voluntary programmes to promote entrepreneurship education and training, ■ incorporation of entrepreneurial outcomes in public sector projects
7. Entrepreneurship programmes closely linked to environmental/green projects; climate change programmes; ethical and healthy living projects	<ul style="list-style-type: none"> ■ Entrepreneurship embedded in critical projects that reflect global need by addressing both social concerns and new forms of organisations with which to address such concerns
8. Development of embedded monitoring and evaluation schemes which combine audit with governance measures	<ul style="list-style-type: none"> ■ Monitoring and evaluation that is built into the programmes (ex-ante, during the project and post-event), affords a mix of traditional audit functions carried out independently by experts but also by beneficiary communities. Possible use of web-based interrogation facilities by communities of decisions relating to live projects allowing for better governance
9. Creating new opportunity identification and development scenarios to allow for constant innovation and productive change at both micro and macro levels	<ul style="list-style-type: none"> ■ Information platforms that allow people to register new ideas which are then floated for public discussion for adoption and use
10. Public campaign programme to outline benefits and advantages of productive entrepreneurship and SME strategies, and the disadvantages of destructive or unproductive entrepreneurship	<ul style="list-style-type: none"> ■ Annual campaigns including a range of initiatives supporting projects developed by firms and communities, including entrepreneurship in science and technology, entrepreneurial methods and outcomes of community welfare, healthy living, climate change

5.2. Many of the generic approaches to creating worthwhile entrepreneurship and SME strategies are found in standard public policy statements in many organisations and by numerous governments (see below for an example of the European Charter). What they often lack is the necessary practical and/or local interpretation of those generic ideas. This can result in either an impasse or limited and even fragmented actions. The list above allows for specific interventions necessary at a time of crisis.

Figure 4:

The SME Policy Index Measures Support to Small Enterprises Along the 10 Dimensions of the European Charter



Source: A. Fanelli (2009)

6. CONCLUSIONS

6.1. The four sets of recommendations made above represent an interconnected assembly of strategies and putative actions that provide a basis for response to the economic crisis that has plagued economies all round the world. The recommendations are aimed at SMEs who invariably bear the brunt of the fallout from such crises in terms of order books, access to resources, employment opportunities and the ability to develop new projects, products and services. Yet every crisis presents an opportunity for productive change alongside myopic possibilities for unproductive gain and exploitation.

6.2. Harnessing the opportunities for productive change requires the working out of effective strategies that address local needs supported by various forms of global connectivity. In doing so two considerations stand out. The first is the need to effect policies and decisions that take into account the link with structural issues that is the need to accommodate the impact of wider change on SMEs generated by underpinning economic and social forces. The second consideration relates to an approach that helps to avoid local isolationism. There is a tendency in times of crisis to pull down the shutters and focus solely at local issues without any reference to global dynamics and connectivities. Many of the structural issues referred to earlier have a global dimension and the critical issues affecting

economies and society are also global issues. It is, therefore, crucially important for decision makers to emphasise the local issues which carry both the burden of and the opportunities from global connections.

6.3. These recommendations do not offer a specific recipe, a ready-made formula or a template for policy makers. Rather, they provide pointers to action based on good practice around the world. Many of these practices were discussed at the seminar. These recommendations crystallise some of the discussions, draw from the presentations made by experts, and offer reflections and suggestions for survival at and emergence from a time of crisis.

References:

All drawn from presentations made at the Trento Seminar 12-15 October, 2009