One year of SME and entrepreneurship policy responses to COVID-19: Lessons learned to "build back better"

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This paper provides an analysis of the diverse range of SME and entrepreneurship policy measures implemented during the course of a year since the start of the COVID-19 crisis, with a view to identify lessons learned and implications for policy going forward, and assist governments build evidence-based policies to support SME recovery and resilience. The paper documents how SMEs were at the centre of the disruptions at the start of the pandemic and that one year later they stand in an even more precarious position, in particular young firms and start-ups, the self-employed, as well as women-led or minority-owned businesses. Governments acted swiftly to put in place ambitious support for SMEs and entrepreneurs, but one year into the pandemic, they are facing a complex dilemma that emergency liquidity support remains essential but at the same time it is not sustainable over the longer term and may have potential negative effects that need to be addressed to support the recovery. This paper formulates 15 lessons learned to help governments address three challenges: First, to continue support measures to avoid a liquidity crisis among SMEs while minimising the negative side effects; Second, to ensure that the gradual phase out of this emergency support does not create an SME solvency crisis; And third, to introduce effective policies that foster SME recovery.

Key Messages

One year into the pandemic, the following 15 lessons learned provide useful insights into how to design effective, efficient and coherent SME and entrepreneurship policies in a post COVID-19 era.

1. Ensure rapid delivery of SME and entrepreneurship policy support by simplifying access to support and ensuring effective digital delivery systems, while safeguarding accountability and effectiveness;
2. Ensure to the extent possible that policy support focuses on viable existing companies and start-ups;
3. Reboot start-up policies to enhance the potential of innovative new ventures for recovery;
4. Ensure that support measures are inclusive and reach vulnerable segments of the SME population, including women and minority entrepreneurs;
5. Rethink policy approaches with regard to self-employed entrepreneurs;
6. Avoid SME over-indebtedness and an SME solvency crisis by exploring equity, quasi-equity and other non-debt support;
7. Prepare responsible exit strategies for emergency liquidity support measures;
8. Allow processes of creative destruction to take their course, while supporting second chance entrepreneurship and safeguarding a just transition;
9. Ensure that recovery programmes to "build back better" reflect the circumstances and perspectives of SMEs and entrepreneurs and are well-suited to support their recovery;
10. Include a strong focus on the digitalisation of SMEs and new firms as a cornerstone of recovery;
11. Take actions to improve the resilience of SMEs, start-ups and scale-ups;
12. Strengthen the forward looking capacity, resilience and responsiveness of SME and entrepreneurship policy frameworks;
13. Ensure effective and inclusive multi-level governance mechanisms;
14. Ensure that SMEs and entrepreneurs, and the organisations that represent them, are consulted and included in government decision-making processes regarding policy responses to the pandemic and in the development of recovery plans;
15. Consider the unique challenges and opportunities the SME and entrepreneurship policy responses to COVID-19 pose for policy monitoring and evaluation.

Introduction

This paper has been prepared by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) for discussion by the OECD Working Party on SMEs and Entrepreneurship (WPSMEE).[1] The WPSMEE conducts analysis and provides evidence based guidance for the design and implementation of SME and entrepreneurship policies. The paper provides an analysis of the impact of COVID-19 on SMEs and entrepreneurs, and takes stock of SME and entrepreneurship policy measures that were implemented

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since the start of the pandemic one year ago. It aims to distil lessons learned from the experience of the past year to help governments move forward in supporting the recovery of entrepreneurs and SMEs.

The paper builds on and develops further earlier OECD work on the impact of COVID-19 on SMEs, and policy responses by governments prepared for the WPSMEE. This includes "Financing SMEs and Entrepreneurs: An OECD Scoreboard Special Edition: the impact of COVID-19" (OECD, 2020[1]), as well as the policy note on SME policy responses to COVID-19 (OECD, 2020[2]). It is based on an in-depth analysis of the impact of COVID-19 on SMEs and entrepreneurs and of the policy responses to support them, which includes a compendium and timeline of the SME and entrepreneurship policy responses in 60 countries in the twelve months following the outbreak of the pandemic between February 2020 and February 2021, and of 180 surveys of SMEs in 32 countries.[2] The findings of this paper also feed into the SME and Entrepreneurship Outlook 2021 (OECD, 2021[3]).

The paper includes 15 lessons learned for effective, efficient and innovative SME and entrepreneurship policies that address both short- and long-term challenges regarding responsible exit strategies, policy focus, avoiding an SME over-indebtedness, recovery strategies that give due consideration to SME and entrepreneurship issues, and effective and efficient policy delivery. The OECD *SME and Entrepreneurship Strategy* – a flagship project of the WPSMEE aimed to assist governments in strengthening SME and entrepreneurship policies - builds on these lessons learned and will in 2021 develop guiding principles and a set of operational tools for effective, efficient and coherent SME and entrepreneurship policies in the post COVID-19 era.

This paper will first provide background on the impact of COVID-19 on SMEs and entrepreneurship and the various policy instruments put in place since the outbreak of the pandemic one year ago. Thereafter, the paper identifies 15 lessons learned during this challenging year for SMEs and SME policy makers alike, and identifies the challenges and opportunities for effective, efficient and coherent SME and entrepreneurship policy responses in the post COVID-19 world.

Background

The COVID-19 crisis caused major disruption and is likely to have a long-term impact on economies around the world. Although progress in vaccinations allows for some optimism, the short-term outlook remains uncertain. Global output declined by 3.4% in 2020 (OECD, 2021[4]). Economic growth is expected to rebound by 5.6% in 2021, but the recovery will crucially hinge on the spread of variants of the virus and the distribution of an effective vaccine, which will reduce the need for precautionary saving and the need for governments to take containment measures.

Impact on SMEs and entrepreneurs

SMEs have often been more affected than large firms by the COVID-19 crisis, which has exposed their greater vulnerability. The following reasons explain such disproportionate impact:

- First, SMEs are overrepresented in the sectors most affected by the crisis, in particular in wholesale and retail trade, air transport, accommodation and food services, real estate, professional services, and other personal services. In these sectors, the share of SMEs in employment is 75% on average across OECD countries, compared to an SME employment share of about 60% for the economy as a whole. The share also varies greatly by country. In Greece and Italy, for instance, nearly 90%

[2] OECD (2021), "An in-depth analysis of one year of SME and entrepreneurship policy responses to COVID-19: lessons learned for moving forward", *OECD SME and Entrepreneurship Papers*, forthcoming, OECD Publishing, Paris.

of employment in the affected sectors is in SMEs, compared to the United Kingdom, where the share is closer to 50% (OECD, 2020[2]).

- Second, smaller firms are typically more financially fragile and have smaller cash buffers than their larger counterparts. This makes them less resilient to crises. In the United States, for instance, half of SMEs operate with less than 27 days of cash reserve (JP Morgan and Chase Co., 2020[5]). In addition, smaller firms find it harder to tap into different sources of finance, including from the market. In contrast, smaller firms are often very reliant on retained earnings and traditional bank debt.
- Third, small companies have weaker supply chain capabilities than their larger counterparts. SMEs integrated into Global Value Chains (GVCs), either directly or indirectly, were impacted faster and harder from supply chain disruptions than larger firms. SMEs generally have smaller inventories and supplier networks making them more vulnerable to supply chain disruptions and and price increases (WTO, 2020[6]). Similarly, they have less bargaining power to enforce attractive payment conditions. According to a large-scale survey among European SMEs conducted between February and May 2020, 51% of respondents reported that late payments squeezed their liquidity during the COVID-19 crisis, compared to 39% in 2019. In addition, there was a noticeable increase in the percentage of SMEs that had to accept longer payment terms than they are comfortable with (Intrum, 2020[7]).
- Fourth, smaller companies lag behind in terms of the uptake of digital tools and technologies which can help to build resilience in the current pandemic crisis (OECD, 2021[8]). Pre-crisis data from Germany highlights, for instance, that there is a wide gap in the prevalence of telework arrangements by firm size. Larger businesses use trust-based working time arrangements (a necessary condition for telework to function well) more often than their smaller counterparts (OECD, 2020[9]). Surveys show that the pandemic has increased the use of digital technologies by SMEs, although substantial differences exist between countries. At the same time, the difference between SMEs – and in particular small firms – and large firms continues to be significant, with the uptake of digital technologies by SMEs being roughly half of that by larger firms (OECD, 2020[2]).
- Finally, established small firms often struggle to adapt their business operations to the current situation, compared to large firms (and start-ups) and face more operational skills constraints. For example, SMEs are less likely to have managerial capability to comply with new regulatory frameworks to guarantee customers and employees safety. Similarly, SMEs are less likely to innovate both in processes and in goods and services, compared to their larger counterparts and to start-ups (OECD, 2019[10])

These vulnerabilities of smaller enterprises translated into a sharp drop in revenues from the outset of the crisis at a faster rate than they were able to cut operating costs, threatening a potential liquidity crisis among SMEs on a massive scale.

Between 1 January and 1 April 2020, the drop in revenue for SMEs in the United States amounted to 40% to 50% (Kim, Parker and Schoar, 2020[11]),[3] with revenues in January 2021 still 31% down compared to the previous year. In Australia, small business sales declined by 15% between 1 March and 30 September 2020 according to the Central Bank.[4] The Irish Central Bank estimated SME revenue shortfalls for 2020 as a whole of between EUR 10.3 billion and EUR 11.7 billion (Lambert et al., 2020[12]). According to the more than 180 surveys among SMEs in 32 countries that the OECD monitored since February 2020, since the start of the pandemic 70-80% of SMEs experienced a serious drop in revenues/sales. Several surveys

[3] https://tracktherecovery.org/

[4] https://www.rba.gov.au/publications/fsr/2020/oct/

indicate this drop in revenue to be between 30 and 50%.[5] A study by the Spanish SME organisation CEPYME, published in February 2021, indicated 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.[6]

Policies

Governments across the globe responded swiftly and forcefully to the unprecedented challenges that SMEs are facing due to the COVID-19 pandemic, through a wide range of stimulus and support measures. These measures focus on emergency liquidity support in various forms, but were gradually accompanied by structural support and broader recovery packages. Both central and regional and local governments joined in the policy effort.

Types of policies

The SME policy responses can be categorised between those aimed at easing the liquidity concerns highlighted and those aimed at structural support.

Liquidity support measures can generally be classified within the three below categories:

- Job retention schemes including short-time work schemes and wage subsidy schemes. These policies target firms and self-employed and aim to prevent sharp rises in unemployment as well as to lift consumer demand;
- Deferrals of payments including deferrals of income and corporate tax payments, value added tax, social security and pension payments, debt payment moratoria and waivers of rent and utility payments as well as waivers or reductions of financing fees and interest aim to preserve liquidity within SMEs by reducing operating expenses;
- Financial support via debt channels such as: extended and simplified loan guarantees, direct lending through public institutions and support for non-banking finance, through grants and subsidies, or via equity or quasi-equity, including convertible loans.

Structural support measures aim to help SMEs adapt to the changed business environment and build resilience. They include the following categories:

- Support for digitalisation, including for teleworking and E-sales;
- Support for innovation and technology development. In some cases these policies focus on innovations related to the pandemic, in other cases on supporting wider competitiveness;
- Support for upskilling and reskilling;
- Support for start-ups;
- Support for finding new alternative markets;
- Support for sustainability.

For each of these structural support categories, countries use a variety of instruments such as business development services and advice, vouchers, grants, training and networking.

As countries began to shift their focus towards recovery packages to ‘build back better’ starting around June 2020, such structural support measures became part of wider public investment schemes and demand stimulus.

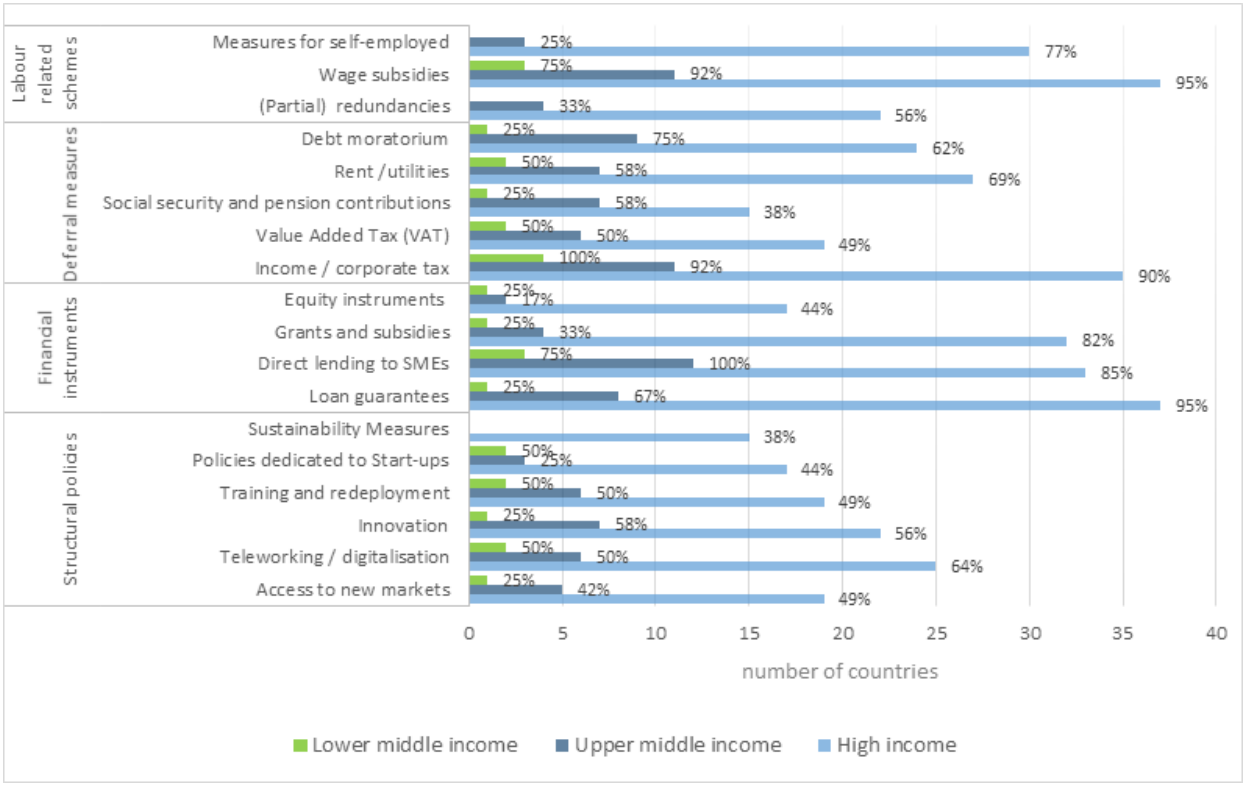
[5] OECD (2021), “An in-depth analysis of one year of SME and entrepreneurship policy responses to COVID-19: lessons learned for the path to recovery”, *OECD SME and Entrepreneurship Papers*, forthcoming, OECD Publishing, Paris.

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

Figure 1 gives an overview of the financial and structural measures that have been introduced to support SMEs as a response to the COVID-19 crisis up to February 2021 (typically in addition to pre-existing public measures to support small businesses and SMEs) across 55 countries. The chart indicates that some measures are more widely used than others. For instance, wage subsidies in one form or another are used by 51 out of 55 countries for which information has been collected and payment deferrals are used by 50 out of 55 countries. The third and fourth most widely adopted policies are within the financial instruments group. Notably direct lending and loan guarantees are employed by 48 and 46 countries respectively. Loan guarantees are most commonly used in high income (37 out of 39) and upper middle income countries (8 out of 12), but not in low middle income countries. Measures for self-employed are also commonly used by high income countries (30 out of 39), while very uncommon in upper middle income (3 out of 12) and not used by low middle income countries. The use of grants and debt moratoria varies significantly across countries.

The chart also highlights that structural measures are less common: for most policies, less than half of countries include such measures in their SME policy response to COVID-19. The most widely used policy within this group is support for teleworking and digitalisation, adopted by 33 countries, and support for innovation of products and services implemented by 30 countries. Measures to support sustainability are least often included in the policy response.

Figure 1. SME support measures introduced as a response to the COVID-19 crisis by group of countries according to their income levels (February 2020 - February 2021)



Note: The bars show the number of countries per income group that introduced a measure. The percentage label on the graph corresponds to the share of countries that use the measure in that income group. The country classification by income is based on World Bank data. 39 countries whose policy response was tracked by the OECD are classified as high income, 12 as upper middle income group and 4 countries as lower middle income group.

Source: Annex A and OECD (2021), "An in-depth analysis of one year of SME and entrepreneurship policy responses to COVID-19: lessons learned for the path to recovery", *OECD SME and Entrepreneurship Papers*, forthcoming, OECD Publishing, Paris.

There is also a wide variation in the intensity of the support efforts. Data from the IMF show that high-income economies in particular spend as a percentage of GDP significantly more on support via loans, equity and guarantees than developing economies. Large differences among OECD countries exist as well with support in Italy and Germany substantially higher than in Canada, Korea or Australia, which rely more heavily on revenue and expenditure measures than below-the-line measures.

Sequencing

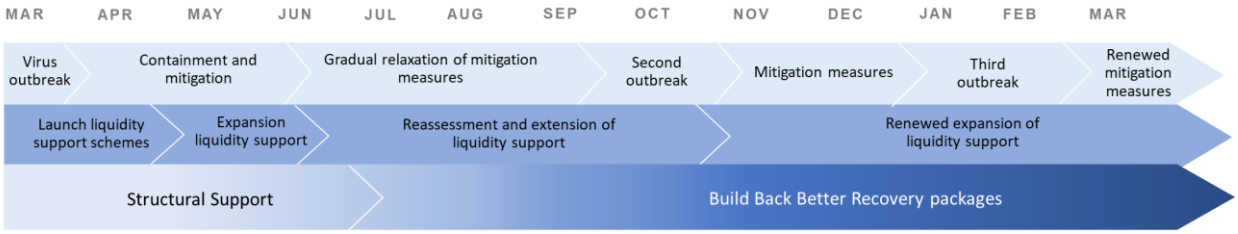
Although the timing of the waves of the pandemic varied, as did the severity of containment measures7, in many cases, the SME policy responses followed a broadly similar sequence (Figure 2):

- When the first wave of the pandemic hit and containment measures were put in place, governments rapidly issued support and advice for SMEs to address the health risks for their workers and customers and introduced various measures to avoid a large scale liquidity crisis among SMEs. Financial support was often provided (through new and/or existing fiscal instruments and monetary policy) to deliver as rapidly as possible to all SMEs in need.
- This rapid initial deployment of support measures, starting around March 2020 in many countries, was followed by a phase where countries improved and expanded their support to ensure this was sufficiently effective and reached all SMEs affected. This phase lasted until approximately June.
- When infection rates started to decrease (in many countries around May/June 2020), most governments nevertheless maintained their liquidity support measures given ongoing challenges for SMEs, but in many cases with more selectivity (and in some cases conditionality), and started preparations for exit strategies.
- However, this tentative trend was reversed after September 2020 when infections rose again and containment measures were reintroduced, although the timing varied across countries. In many cases, the tentative reform of liquidity support anticipated over the summer was replaced by a further prolongation and – in many cases – intensification of SME support which continued in Q1 of 2021, for instance through a greater use of grants and (quasi)-equity instruments.
- Parallel to this development of liquidity support, countries also gradually added structural support measures to the SME policy response, in particular regarding digitalisation, but also to support skills development, innovation and access to new markets. Some countries did so from the outset of the crisis, others followed after April 2020, using both new and existing instruments, with significant variations in intensity. For instance an increasing number of countries have adopted support for SME digitalisation. In July 2020, of the 60 countries monitored 13 countries had adopted SME digitalisation support measures in the context of the pandemic (OECD, 2020[2]). By Q1 2021, this had risen to at least 28 countries, reflecting both the need for further SME digitalisation against the background of new lockdown measures and the recovery packages.
- From June 2020 onwards, various countries shifted from emergency liquidity assistance with a relatively modest structural policy support component, to one centred onrecovery and resilience (last arrow in Figure 2), where measures to support SMEs became part of more generic investments towards greening, digitalisation, innovation and skills, with a view to "build back better". These packages – starting with Germany in June, gaining weight in Europe under the New Generation EU agreement in July 2020, but also including new packages in Australia, Canada,

[7] For instance, in a number of Asian countries, containment measures started before March 2020. In Latin America, containment measures started in March but continued well into July, whereas they had subsided elsewhere by May/June. Some countries (such as Israel) responded with new containment measures to a second wave already in September 2020, and experienced a third wave by December 2020, whereas others (such as New Zealand) managed to avoid further lockdowns. See for an overview of containment measures by country: https://ig.ft.com/coronavirus-lockdowns/.

Japan, Korea and the United States – include structural support measures that had been gradually introduced, but with a much stronger public investment focus, as well as demand stimulus to revive economic growth, and are mostly not specifically targeted to SMEs but to the business community at large.

Figure 2. Sequencing of SME policy responses (March 2020-March 2021)



One year of SME and entrepreneurship policy response to COVID-19: 15 lessons learned

One year since the start of the pandemic, many countries in the world have again imposed lockdown measures. With SMEs even more vulnerable than at the outset of the crisis, countries have extended and expanded liquidity relief measures. An increasing number of governments is launching recovery packages to "build back better", having also learned from the first phase how to deal with the fallout of the pandemic, to balance the need for continued short-term measures with more long-term and structural policies to move forward. Box 1 summarizes the key lessons learned for SME and entrepreneurship policy makers that address both short and longer term challenges, which are discussed in further detail in this section.

Box 1. Lessons learned for SME and entrepreneurship policy responses to COVID-19

1. Ensure rapid delivery of SME and entrepreneurship policy support by simplifying access and ensuring effective digital delivery systems, while safeguarding accountability and effectiveness;
2. Ensure to the extent possible that policy support focuses on viable existing companies and start-ups;
3. Reboot start-up policies to enhance the potential of innovative new ventures for recovery;
4. Ensure that support measures are inclusive and reach vulnerable segments of the SME population, including women and minority entrepreneurs;
5. Rethink policy approaches with regard to self-employed entrepreneurs;
6. Avoid SME over-indebtedness and an SME solvency crisis by exploring equity, quasi-equity and other non-debt support;
7. Prepare responsible exit strategies for emergency liquidity support measures;
8. Allow processes of creative destruction to take their course, while supporting second chance entrepreneurship and safeguarding a just transition;
9. Ensure that recovery programmes to "build back better" reflect the circumstances and perspectives of SMEs and entrepreneurs and are well-suited to support their recovery;
10. Include a strong focus on the digitalisation of SMEs and new firms as a cornerstone of recovery;
11. Take actions to improve the resilience of SMEs, start-ups and scale-ups;

12. Strengthen the forward looking capacity, resilience and responsiveness of SME and entrepreneurship policy frameworks;
13. Ensure effective and inclusive multi-level governance mechanisms;
14. Ensure that SMEs and entrepreneurs, and the organisations that represent them, are consulted and included in government decision-making processes regarding policy responses to the pandemic and in the development of recovery plans;
15. Consider the unique challenges and opportunities the SME and entrepreneurship policy responses to COVID-19 pose for policy monitoring and evaluation.

1. Ensure rapid delivery of SME and entrepreneurship policy measures through simplified access to support and effective digital delivery systems, while safeguarding accountability and effectiveness

SME policy makers across countries responded with unprecedented speed to the pandemic and containment measures, and the impact this had on SMEs. In fact, the months of March and April 2020 will probably enter in history books as the period when the highest number of SME policy initiatives were launched. In ensuring rapid delivery, two factors appear to have been particularly important: low administrative thresholds for accessing government support and digital delivery systems.

First, given the risk of liquidity shortages for the vast majority of SMEs, public support measures were generally open to all SMEs with limited checks and broad eligibility criteria to facilitate fast delivery. Examples from the United Kingdom and the United States suggest that such broad schemes could be successful in reaching a large number of beneficiaries in a short time span. The UK Bounce Back Loans implemented by the British Business Bank for instance allowed for approval of loans for existing customers within 24 to 72 hours, but with expected default ranges of between 35% and 60% (National Audit Office, 2020[13]). Similarly, the United States Paycheck Protection Programme went with broad eligibility criteria and limited targeting (Opportunity Insights, 2020[14]). Various countries further simplified access to support measures over the course of the first wave of the pandemic for the sake of speed.

A second factor for rapid delivery of support was well-developed digital infrastructures. For instance, in Switzerland and Korea simplified and easily accessible digital portals to access support that combined information from various sources and minimised administrative burdens for entrepreneurs, allowed for rapid responses to aid requests. The application process for the Swiss “bridging credit facilities” (a direct loan scheme introduced as a response to the crisis) is fully online and as user-friendly as possible. As a result, loans can be provided in 30 minutes, and this contributed to a very strong growth in uptake in the first weeks after the programme was introduced.

Both aspects provide lessons learned and help explain the differences between countries in how rapidly support was provided. Simplified access was an objective in many countries, including the lifting of fees (such as in Italy and Poland), the shortening of approval procedures (such as in Israel) and the provision of tailor-made support to SMEs for easy access (such as in France). The experience with these rapid handling of procedures may benefit the delivery of SME and entrepreneurship support in the future. Similarly, the broad eligibility and limited ex ante eligibility checks can provide lessons learned for a risk-based delivery of SME policy support. However, such rapid and easy access may also have had side effects, in affecting the accountability and effectiveness of support and raising questions in some countries, whether the support measures reached those for which they were intended or whether they were used by others that were not SMEs or otherwise did not need (or were not entitled to) the support. For instance, in the United States some impact evaluations suggest that the effect of the Paycheck Protection Programme (PPP) on employment retention was only 3% relative to businesses that did not benefit from the PPP (Opportunity Insights, 2020[14]) and that PPP funds did not always go to the intended beneficiaries (CNBC, 2020[15]). One year since the start of the pandemic, time pressure on SME policy makers remains high and

the need for urgent delivery remains of the essence. However, countries have learned from the first phase of the crisis. For instance, the PPP in the US was renewed in December 2020 to address a number of the earlier challenges. The sharing of lessons learned on how to find a better balance between strengthening accountability, rapid delivery and broad eligibility remains important.

Differences in delivery speed appear strongly related to the degree of success of countries in adopting digital tools for delivery. Large differences in the functioning of digital government exist across OECD countries (OECD, 2020[16]), with implications on how countries were prepared for a strong digital delivery of SME and entrepreneurship policy response to the pandemic. For instance, the robust digital infrastructure that existed in Estonia prior to the crisis has proved useful to deploy support for businesses, in particular its digital ID system that provides access to all digital services to businesses and citizens and the use of an X-road platform that enables business data to be collected one time only, which is then made available for all public actors.

Another good example is the Bank of England, which is currently developing a platform to enhance access to finance for SMEs. This platform will leverage on permission data sharing standards to deliver an Open Data Platform and a ''portable credit file'' to make it easier for SMEs to apply for credit and improve transparency to lenders. Using Application Programming Interfaces (APIs), sensitive financial data can be shared securely with third party providers at the SMEs' command. As a result, lenders could access data held at insurance and utilities companies, rating agencies, social media and governmental data sources with an easy authorisation. This will help build richer SMEs credit files and will shorten administrative processes, eliminating barriers for SMEs to access more lenders and thus, decreasing the SME funding gap (Bank of England, 2020[17]). In addition, the shortening of on-boarding processes will allow customers to share their credit files with different providers enhancing choice and competition in the market.

These examples suggest ample possibilities for mutual learning in how countries can use digital tools and data to rapidly deliver support to SMEs (OECD, 2020[18]). One year into the pandemic, the 'need for speed' (OECD, 2021[4]), while ensuring for transparency, accountability and fairness, remains very important.

2. Policy interventions should strive to target viable enterprises that need them the most

By and large, the policy support at the start of the pandemic was open to all SMEs in need and with few strings attached. As a result, the take-up was generally high. As an illustration, an unprecedented 70% of small businesses in the United States were supported by public emergency relief measures in the first half of 2020 (Foroohar, 2020[19]). In Ireland, around 6 out of 10 firms availed of government support (excluding the temporary wage subsidy scheme) between 4 and 31 May 2020 with a similar number of SMEs reporting having made use of the temporary wage subsidy scheme over the same period (Central Bank of Ireland, 2020[20]).

In many respects, this high take-up can be seen as a success, which helped avoid a massive rise in bankruptcies during 2020. However, the wide and relatively easy access to credit and the changes in insolvency and bankruptcy procedures in some jurisdictions may also have unintended consequences. First, it may have led to the situation where support went to firms that did not need it, resulting in a less efficient and more costly provision of aid. Some empirical evidence shows that this indeed may have been the case. (Gourinchas et al., 2020[21]) showed that in some cases SMEs that did not need the support benefited as well, and that the fiscal cost of an intervention that narrowly targets at risk firms can be modest (0.54% of GDP), whereas non-targeted subsidies can be substantially more expensive (1.82% of GDP). However, according to the World Bank small firms world-wide (in particular in developing countries) were among those least likely to receive support (Apedo-Amah et al., 2020[22]).

Second, support measures may have kept unproductive and loss-making firms[8] afloat (Bank for International Settlements, 2020[23]) and hampered processes of creative destruction (see also section 8), with negative effects on economic dynamism and competition in the medium to long run. Evidence on this is limited. (Schivardi, Sette and Tabellini, 2020[24]) in a paper from June 2020 argue that the risk of 'zombie lending' in the COVID-19 crisis is limited. Research from the Netherlands suggests that COVID-19 support primarily went to companies that were well managed (Groenewegen, Hardeman and Stam, 2021[25]). (Anderson, Papadia and Veron, 2021[26]) show that the risk of zombie firms differs by country, depending for instance on how support instruments are designed. (Abay, Tafere and Woldemichael, 2020[27]) point to substantial reallocation from less to more productive sectors because of the pandemic. (OECD, 2020[28]) shows that firms facing a high risk of liquidity shortfalls are mostly profitable and viable companies. Only a relatively small share of firms (around 10%) among those expected to face liquidity shortfalls would be close to insolvency when evaluating their overall net worth. Moreover, even if some aid reached non-viable firms, this can be seen as an inevitable trade-off of the need to rapidly deploy across the board support for SMEs to avoid a massive rise in bankruptcies (Anderson, Papadia and Veron, 2021[26]).

However, one year into the pandemic the risk of negative effects of non-targeted support may be increasing. In particular, the loose monetary policies and the extension of liquidity measures since summer 2020, such as the expansion of loan guarantee coverages to 100% in some countries, could incentivise commercial banks to continue lending to firms with weak profitability or solvency. Moreover, even if viable pre-crisis, a year of hardship may have challenged the viability of many more SMEs beyond short-term liquidity constraints. This risk is especially pronounced during this crisis due to its transformational nature, putting in doubt the long-term viability of certain activities and business models that were thriving before the pandemic hit.

In moving forward, policy makers will need to take these risks into account better. To some extent, when recovery sets in and wages and interest rates rise, less viable firms may find it harder to survive anyway (PIIE, 2020[29]). Moreover, policy makers should increasingly consider tailoring programmes towards viable enterprises that really need the support. This could be done by tightening ex-ante eligibility criteria and/or by introducing conditionality in accessing support. As an example, labour market policies could shift from protecting pre-existing labour relationships towards supporting workers at risk of losing their jobs (in part to find other employment opportunities) in recognition that poorly targeted policies can hinder the transition of labour to firms in expansion. Focusing support measures on sectors and activities that most need them is another example of a more targeted approach, which is increasingly adopted for instance on the hospitality and tourism sector.

However, such a process needs to be carefully managed, since "the risk of supporting potentially non-viable firms needs to be balanced against the risk of forcing viable and productive firms into premature liquidation" (Demmou et al., 2021[30]). That "trade-off" (Anderson, Papadia and Veron, 2021[26]) becomes more complex the longer the pandemic and support measures last (see also section 6). A key challenge is to avoid pushing SMEs that have suffered during the pandemic but in essence remain viable and solvent out of business. Firms may be illiquid or even insolvent according to traditional measures, but still viable, whereas in other cases firms my appear viable but have structurally unsound or unsustainable business models (Group of Thirty, 2020[31]). Applying traditional criteria and processes to identify "viable" businesses – such as balance sheet data or recent credit history and existing insolvency arrangements – may not work with such a large shock, and may need to be reassessed (Kamal-Chaoui, 2020[32]) (OECD, 2020[33]).

Alternative mechanisms enabled by Fintech may offer new ways to assess risks. In fact, business liquidity can be measured by the number of transactions of a company's bank account. Algorithms and big data analysis can categorise data across transactions in different areas, making it possible to further extrapolate future viability of a company (Finextra, 2020[34]).

[8] Often described as "zombie firms" (Andrews, McGowan and Millot, 2017[82]).

3. Boost start-up rates, especially for innovative new ventures

Start-ups were among the most affected and most vulnerable SMEs at the outset of the pandemic. As a consequence of the crisis, more than 40% of new ventures fell into the so-called "red zone" with only three months or less of cash to sustain operations (World Economic Forum, 2020[35]). They may be particularly affected by increasing risk-aversion of financiers, given their elevated risk profile, while at the same time facing particular constraints in accessing government support.

Multiple surveys confirm that young firms created just prior to the crisis were heavily impacted by the pandemic. In the immediate aftermath of the crisis, almost 3 in 4 start-ups saw their revenues decline and their liquidity position challenged. 41% of surveyed start-ups reported needing to raise capital over the next three months to survive (Startup Genome, 2020[36]). Furthermore, start-ups often faced difficulties to access government support in the immediate aftermath of the crisis, which often required proof of existence and having been profitable in preceding years.

The first wave of the pandemic also led to a strong drop in start-up rates. Start-up rates in March and April 2020 dropped by 70% in Portugal, 46% in Hungary, 54% in France and 57% in Turkey compared to the same months of the prior year (Calvino, Criscuolo and Verlha, 2020[37]). In Germany, rates were down by 9.4% in the first half of 2020 compared to the same period in 2019[9], whereas in the United Kingdom new business formations dropped by 19% in March, 29% in April and 3% in May 2020.[10]

However, in the second half of 2020, firm births started recovering, although the pattern differed by country (Djankov and Zhang, 2021[38]). In some countries (such as Australia, Chile, the Netherlands, New Zealand, Turkey, the United Kingdom and the United States), the rise in new business registrations continued over the summer and even soared in the second half of 2020. In other countries (France, Korea), after an initial rise during the summer, birth rates started to decline again from August, reflecting growing uncertainties regarding a second wave and the introduction of new containment measures in the fall. However, with a total growth in business creation of 5.5%, 2020 was still a record year for new businesses in France, with further increases recorded in February 2021.[11] Some countries saw an overall small decline in start-up rates over 2020, such as Belgium, Germany, Hungary and Ireland, whereas in other countries the drop was more than 20% (Portugal, Russia, Spain). Countries with more efficient business formation processes were more likely to see their start-up rates rise in 2020 (Djankov and Zhang, 2021[38]).

It is as yet uncertain how start-up rates will further evolve and if their rise reflects an increase in "necessity-driven entrepreneurship"[12] as witnessed after 2008 or (compared to the global financial crisis) more favourable underlying conditions for more innovative entrepreneurship. The booming market for start-up funding at the end of 2020 in some countries (such as Israel) could suggest that more innovative new ventures play a role. If, due to renewed confinement measures at the end of 2020 and the beginning of 2021 a further decline of start-up rates set in, the implications on employment of such potential "lost generation" of companies could be high, given the large contribution on job creation of young firms and start-ups, and their importance for recovery. Simulation exercises using firm level data of 15 countries evidenced that a 20% decline in the number of firms entering the market is associated with a persistent employment loss of 0.7% of aggregate employment with a lasting effect of three years after the shock, and 0.5% after 14 years after the shock (Calvino, Criscuolo and Verlha, 2020[37]).

[9] https://www.destatis.de/EN/Press/2020/08/PE20_322_52311.html

[10] https://centreforentrepreneurs.org/releases/covid-startups-kick-off-entrepreneurial-recovery/

[11] https://www.lefigaro.fr/flash-eco/les-creations-d-entreprises-repartent-a-la-hausse-en-fevrier-20210312

[12] Necessity-driven entrepreneurship (as opposed to opportunity-driven entrepreneurship) stands for situations where people start a new business because they had no better other options for work.

In the immediate aftermath of the crisis, public response measures typically did not target start-ups specifically and many liquidity relief measures were not easily accessible for new ventures because of their eligibility criteria. In a growing number of countries dedicated start-up packages were launched (for instance in Austria, Canada, Denmark, Germany, France, Italy, Malaysia, the Netherlands, Portugal and Switzerland, United Kingdom), whereas more generally other instruments such as early-stage equity and start-up support were included in liquidity packages (for instance in Australia, Belgium, Germany, Hungary, Lithuania, the Netherlands, Sweden and the United States) (OECD, 2020[2]). For example, France and Germany included the establishment of a start-up fund of respectively EUR 4 billion (USD 4.5 billion) and EUR 2 billion (USD 2.2 billion) (with additional resources from public venture capital investors) as part of their policy responses. Switzerland launched a guarantee scheme to support start-ups that encounter liquidity problems. (State Secretariat for Economic Affairs, 2020[39]). And in Hungary, Hiventures, a state-owned venture capital fund, set up the start-up rescue programme with a budget of HUF 41 billion (USD 139.4 million).

However, as part of the shift from emergency support to recovery support governments need to consider putting more emphasis on policies to boost (innovative) entrepreneurship beyond start-up finance (Potter, 2020[40]). This is particularly important because although in some countries start-up rates have recovered after summer 2020, this may reflect to some extent a rise in necessity-driven entrepreneurship, whereas recovery would benefit from a rise in more innovative entrepreneurship. In fact, longer term changes brought forward by COVID-19 may offer opportunities for innovative start-ups, that are able to redirect their knowledge, skills and networks to new emerging market opportunities which governments can support (World Economic Forum, 2020[35]). Measures should further stimulate early-stage equity finance, but in addition governments can reduce regulatory uncertainty by simplifying administrative procedures, which also reduces transaction costs for start-ups, and adopting e-government procedures (e.g. Australia, Singapore) and support innovation in new ventures.

Several countries are including support for innovative new entrepreneurship as part of their recovery plans to “build back better”. For instance, as part of its comprehensive *France Relance* plan, announced in September 2020, the French government took additional measures to support entrepreneurship, in particular in the area of R&D and innovation, equity capital and support measures for specific activities. Nurturing start-up ecosystems will also be key, as they provide entrepreneurship training and business support in the form of mentoring, idea-sharing platforms and crowdfunding initiatives. Policies that support other actors in the ecosystem can be useful. In Italy, for example, the government introduced support of EUR 10 million to incentivise start-ups to use business incubators and accelerators (OECD, 2020[2]).

In Malaysia the government launched the National Technology Innovation Sandbox (NTIS) in July 2020 which has been introduced as part of the Short-term National Economic Recovery Plan (PENJANA) (Kementerian Sains, Teknologi dan Inovasi, 2020[41]). The NTIS provides direct support for start-ups in the form of sandbox solutions, aimed to help start-ups and SMEs test their business models and delivery mechanisms in a “safe“ environment, under relaxed regulatory requirements and in co-operation with regulators to avoid specific regulations hinder innovation (Digital News Asia, 2020[42]).

The importance of boosting new innovative start-ups can be seen as a further lesson learned from the pandemic.

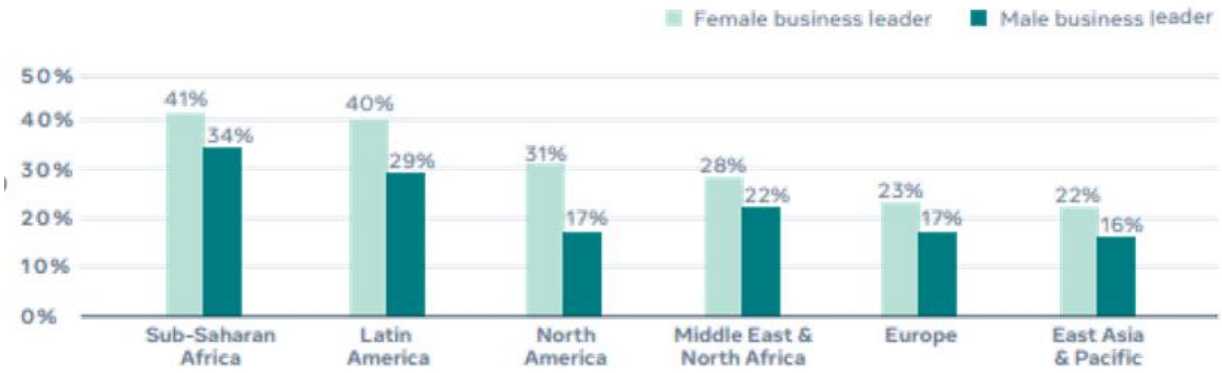
4. Ensure that support reaches vulnerable segments of SMEs and entrepreneurs

The COVID-19 pandemic hit minority and women business owners disproportionately. Reasons include that these businesses tend to be concentrated in the industries most affected by the pandemic, have relatively small financial buffers and limited access to different financial sources. Women-owned businesses are on average smaller and younger compared to male-owned businesses. They are more likely to be self-funded, or funded by friends and family, and have fewer financial assets. In addition, women have less access to external finance, and lower levels of financial skills compared to men. Women

entrepreneurs retain fewer professional contacts, including advisory boards or professional advisors to share advice about managing risks through the pandemic (OECD, 2020[43]).

Data collected by Facebook, the OECD and the World Bank in May 2020 show that female-led SMEs were seven percentage points more likely to close compared to male-led SMEs with some regional variations, with largest gender disparity in business closure rates in North America (14 percentage points) and Latin America (11 percentage points) (Facebook, OECD and World Bank, 2020[44]). Figure 3 illustrates that all regions of the world have at least six percentage points of gender disparity in business closure rates.

Figure 3. SME closures gender gap across regions



Note: The Future of Business Survey was conducted from May 28 to May 31 2020. 30,000 business owners, leaders and managers participated (Facebook, OECD and World Bank, 2020).

The higher impact on women entrepreneurs is confirmed in other studies. In Germany, female self-employed were 35% more likely to experience revenue loss than men (Graeber, Kritikos and Seebauer, 2020[45]). In Canada, women-owned businesses laid off a disproportionally higher share of their workers. 62% of these businesses laid off more than 80% of their workers, against 45% on average for the small business population at large.[13] A report by the US Chamber showed that, even after the first wave subsided, in the US women entrepreneurs remained less optimistic about recovery.[14]

Minority entrepreneurs were significantly affected by the pandemic as well, according to data from the United States. (Fairlie, 2020[46]) looks at the impact of COVID-19 in the United States and finds that, whereas the number of active business owners declined by 3.3 million (22%) between February and April 2020, African-American businesses experienced a 41% drop, Latino business owners fell by 32%, and Asian business owners dropped by 26%. A survey among small businesses by the US Chamber of Commerce taken in the first half of November 2020 showed that 74% of the owners said they need further government assistance to weather the pandemic. That percentage rose to 81% for minority-owned businesses.[15] Results from a Federal Reserve Survey in early 2021 showed that some 54% of white-

[13] https://www.halifaxtoday.ca/coronavirus-covid-19-local-news/has-the-pandemic-turned-back-the-clock-on-womens-entrepreneurship-2537851

[14] https://www.uschamber.com/report/special-report-women-owned-small-businesses-during-covid-19

[15] https://www.reuters.com/article/health-coronavirus-usa-smallbusiness-idUSKBN28P23R; https://www.uschamber.com/series/above-the-fold/small-business-owners-still-feel-pain-of-pandemic-and-fear-more-come

owned firms described their financial condition as “fair” or “poor.” But that share rose to 79% for Asian-owned businesses, to 77% for Black-owned firms and to 66% for Hispanic-owned businesses.[16]

In their continued support efforts, policymakers should take the diversity of SMEs and the specific circumstances of vulnerable groups of SMEs into account, in order to avoid the risk of some segments of the SME population not being able to benefit from the policy response. Specific schemes with a view to gender and racial disparities are key to ensure equal opportunities to recover. Policy makers have learned that it is not only necessary to understand the differential impact of the COVID-19 pandemic on minority and women-owned businesses but also to design inclusive schemes that allow them to have adequate access to support. However, examples of such schemes are so far limited.

Canada, for example, targeted support for women entrepreneurs as part of their pandemic relief measures. CAD 15 million (USD 11.7 million) of funding has been allocated to the Women Entrepreneurship Strategy Fund, which provides a range of support services to women entrepreneurs to strengthen their capacity to manage risks caused by the pandemic. Canada also launched in September 2020 a CAD 221 million initiative for black entrepreneurs.[17] The initiative includes a National Ecosystem Fund, a Black Entrepreneurship Loan Fund and a Black Entrepreneurship Knowledge Hub. In the United States, the renewed Paycheck Protection Programme launched in December 2020 included specific provisions for supporting minority business.

In Ireland, the Women in Business 2020 Action Plan aims to understand the risks faced by female entrepreneurs after the pandemic and identify priority policy areas, such as: monitor relief programmes requiring gender disaggregated data, engaging more women in online support, and raising awareness of the benefits of gender diversity among Irish companies, including through the Part Time Key Manager grant (OECD, 2020[47]). In addition, Canada’s CanExport SMEs programme delivered though the Trade Commissioner Service aims to “provide dedicated support for indigenous and women-owned small business” (Government of Canada, 2020[48]).

In Malaysia, as part of the Short-term National Economic Recovery Plan, two initiatives focused on women entrepreneurs were launched as a response to the crisis. The first initiative involves financing micro financing in collaboration with two private banks; the total invested was MYS 400 million (USD 100 million) with MYS 50 million (USD 12.5 million) to be dedicated exclusively to women entrepreneurs. The second initiative aimed to raise funds to help finance microenterprises especially for women entrepreneurs, MYS 500 million (USD 125 million) were raised (TMF Group, 2020[49]).

The lessons learned during one year of the pandemic regarding the impact on women and minority entrepreneurs and their limited access to support could be taken into account in the recovery packages to “build back better” currently developed.

5. Rethink institutional arrangements regarding the self-employed

The self-employed were strongly affected from the outset of the pandemic (Block et al., 2020[50]), and one year into the pandemic they continue to struggle. For instance, data from April 2020 in Australia showed that hours worked by the self-employed fell by 32% since the start of the pandemic, compared to a 9% reduction in hours worked across the economy,[18] with 80% of them experiencing a negative effect, of

[16] https://www.reuters.com/article/us-usa-fed-smallbusiness/most-u-s-small-businesses-took-sales-hit-due-to-pandemic-fed-survey-finds-idUSKBN2A32OS

[17] https://pm.gc.ca/en/news/news-releases/2020/09/09/prime-minister-announces-support-black-entrepreneurs-and-business

[18] https://www.smartcompany.com.au/coronavirus/self-employed-hours-coronavirus/

which 50% finding the impact substantial (Biddle et al., 2020[51]). This pattern of high impact on the self-employed continued over the summer of 2020. A survey in India published in September 2020 showed that 86% of self-employed had been adversely affected, and 25% had seen their income drop to zero.[19] Data from the United Kingdom show that in the summer of 2020 there were 8% fewer self-employed than in the previous summer[20] and that by November 2020 one million self-employed were pushed into debt by the pandemic and few had recovered from the first wave.[21] Survey data evidenced that, in the European Union, the majority of self-employed are solo self-employed (i.e. they do not have employees), and their likelihood to become unemployed during COVID-19 crisis is much higher (13%) compared to the self-employed with employees (2.3%) (European Foundation for the improvement of Living and Working conditions, 2020[52]).

The self-employed typically lack a strong relationship with public bodies and often find it hard to access government support (OECD, 2020[53]). There is a large diversity within the self-employment segment which proves challenging for policy makers to design access criteria to deploy support and cover all the segments. Self-employed workers not only span a wide range of sectors, they are also distributed from the bottom to the top of the income distribution (OECD, 2020[53]). Additionally, they also vary in how they run their activity (e.g. full or part time, seasonal, or portfolio workers). This diversity may leave certain segments in need of support underserved by public programmes.

From the outset of the pandemic, a large number of countries implemented measures to target self-employed workers in recognition of the fact that existing support measures for entrepreneurs or employees did not sufficiently take their circumstance into account (OECD, 2020[2]) (Biddle et al., 2020[51]) (Blundell and Machin, 2020[54]). In the United Kingdom, highly skilled self-employed, particularly those who provide their service via a limited company, have not been able to benefit from government support, and sometimes felt excluded. The Self Employment Income Support Scheme (SEIS) provides the self-employed with a taxable grant based on 80% of their average monthly income. Although take-up has been spectacular, with more than two and a half million of self-employed individuals applying for such scheme, survey data from the University of Edinburgh showed that three quarters of self-employed are not eligible. Indeed 73% of self-employed are unable to apply because they organised as a limited company rather than as a sole trader. Moreover, the eligibility criteria prevent the newly self-employed or those with annual profits of more than GBP 50,000 (USD 66,500) from applying. As a response, the UK Government relaxed the eligibility criteria and removed the minimum income floor to allow a larger segment of the enterprise population to apply (University of Edinburgh, 2020[55]). Furthermore, in October 2020, the government doubled the amount of the next round of the SEIS to cover 40% of profits instead of 20%. This changed the maximum grant cap from GBP 1,875 (USD 2,500) to GBP 3,750 (USD 5,000).

However, the continued vulnerability of the self-employed, even after the impact of the first wave winded down, led to continued policy support, up into Q1 of 2021, for instance in Israel, Korea, Spain, and the United Kingdom.

Discussions on the incorporation of the self-employed in social security, taxation and health insurance policy frameworks predate the pandemic and were in many countries linked to the rise of the gig economy and the role of self-employment therein. The COVID-19 crisis, which highlighted the vulnerabilities of the

[19] https://www.newindianexpress.com/business/2020/sep/28/nearly-86-per-centself-employed-people-reportincome-loss-due-to-covid-19-survey-2202823.html

[20] https://blogs.lse.ac.uk/businessreview/2020/12/01/self-employment-eight-months-into-the-pandemic/

[21] https://londonlovesbusiness.com/one-million-self-employed-pushed-into-debt-due-to-pandemic/; http://cep.lse.ac.uk/pubs/download/cepcovid-19-012.pdf

self-employed, is likely to put that discussion on the agenda for the coming period and may offer the opportunity to adapt existing arrangements to the new reality of these entrepreneurs and workers.

6. Avoid SME over-indebtedness and an SME solvency crisis

From the start of the pandemic, governments deployed large scale support mainly in the form of debt finance to ease SME liquidity constraints. While this support was necessary in tackling the liquidity crisis of SMEs, a large number of firms will likely struggle to repay their debts, especially those that continue to take on debt to survive the reintroduction of confinement measures.

Estimates on the increase in SME debt vary. The Bank of France estimates that by December 2020, SME debt reached EUR 523.7 billion.[22] In the United Kingdom, where the mid-July 2020 estimates suggested a GBP 50-56 billion rise in SME debt because of the pandemic (TheCityUK, 2020[56]), by late January 2021 it appeared that SMEs have already taken out GPB 68.2 billion in loans since the start of the pandemic through two instruments alone, the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLS).[23] The Canadian small business confederation CFIB estimates that the average small business in Canada would accumulate USD 100,000 in COVID-19 related debt, with total small business debt potentially amounting to CAD 117 billion.[24] In Australia, estimates from October 2020 suggested that AUD 40 billion in unproductive debt will be left on SME balance sheets when the pandemic clears.[25] A survey among SMEs in the UK, released in February 2021, shows that 63% of SMEs are expected to be unable to repay COVID-19 support loans, and may be left with GBP 173,000 in debt.[26]

Research indicates that the use of **equity** or **quasi-equity instruments** over debt instruments to SMEs facing cash flow problems has several advantages, and offers better prospects for its beneficiaries to invest and grow once the recovery sets in. Most importantly, the use of equity over debt reduces the leverage ratio, which lowers the probability of default. A lower leverage ratio also improves the credit rating of its beneficiaries, and is for that reason associated with reduced costs of borrowing and easier access to credit. Finally, equity instruments lend themselves for co-investments from the private sector, thereby enabling more funds to be channelled towards SMEs (OECD, 2020[57]). However, policies should consider the fact that instruments to provide equity to SMEs often have limited take-up and/or are not widely adopted (with the possible exception of high-potential start-ups and mid-sized firms). Demand-side challenges include the reluctance of SME owners to weaken their ownership and give investors voting rights, the lack of familiarity of SME owners regarding equity instruments or high transaction costs.

The key policy take-away is to explore measures to address liquidity shortages, while at the same time, not increasing the leverage ratio of the beneficiaries (Demmou et al., 2021[30]). A range of potential measures, including equity and quasi-equity measures, include:

- **Grant support:** A key advantage of grant support is that a broad spectrum of firms can benefit, including micro-enterprises and SMEs with limited growth potential without adding to their debt.

[22] https://www.lefigaro.fr/conjoncture/les-credits-aux-entreprises-ont-augmente-de-13-3-en-2020-selon-la-banque-de-france-20210210

[23] https://www.globalbankingandfinance.com/crippling-interest-rates-loom-why-we-need-to-write-off-business-loans-for-smes/

[24] https://www.bnnbloomberg.ca/canada/video/the-average-canadian-small-business-has-accumulated-100k-in-covid-related-debt-cfib-ceo~2123471;https://www.mississauga.com/news-story/10076227-small-business-adds-117b-in-covid-debt-cfib/

[25] https://www.afr.com/companies/financial-services/covid-could-kill-160-000-small-businesses-in-australia-judo-bank-20201012-p564a6

[26] https://www.law360.com/articles/1355897/only-63-of-smes-confident-they-ll-repay-covid-19-loans

Grants have been increasingly used for a variety of purposes, from wage subsidies to compensation for lost revenue or fixed costs and vouchers for digital, up-skilling or restart support in countries as varied as Chile, Ireland or Sweden.

- **Convertible loans:** A convertible loan allows a loan to be converted to equity if a borrower is unable to repay it. This type of instrument is beneficial for borrower SMEs as well as for lending banks. SMEs are able to have liquidity at zero interest, companies' growth potential is not impacted, and banks have the opportunity to recoup the capital in the medium and long term. The Future Fund in the United Kingdom has set up convertible loans from GBP 250,000 (USD 332,500) for SMEs. To be eligible, SMEs need to meet some conditions such as a minimum of GBP 250,000 (USD 332,500) previously raised in equity investment (British Business Bank, 2020[58]).
- **Loans eligible for forgiveness**: Some lending facilities convert loans to grants (i.e. the loan does not have to be repaid) under certain conditions. In the United States, the Paycheck Protection Programme is a loan aiming to incentivise small businesses to retain personnel. If certain employee retention criteria are met, the loan is forgiven. As another example, Russia launched specific loans for SMEs that eliminate the interest rate and loan repayment if the company retains 90% of its employees (Russian Small and Medium Business Corporation, 2020[59]).
- **Subordinated loans:** Subordinated loans are already in use in countries like Austria, Belgium, France, Germany and Italy. Such loans bring debt that – in case of liquidation – only needs to be paid back after other primary debts.
- **Equity funds/convertible bonds:** While participation in firms' capital is usually reserved for somewhat larger firms and/or for innovative start-ups, some new schemes have been launched for SMEs, or existing schemes expanded. For example, the French public investment bank Bpifrance launched its Strengthening Fund FDPME with an endowment of close to EUR 100 million (USD 121 million) in March 2020 for mid-sized enterprises. In addition, the government established the French Tech Bridge. The scheme required co-investments from private actors and is aimed at high-potential start-ups, typically in the "high-tech" sector (Caisse des Dépots, 2020[60]). A new fund, Bpifrance Entreprises 1, was also launched on 1 October 2020, which enables non-professional investors to invest in a group of 1,500 SMEs and young firms for a period of six years and thus bring a new source of equity funding to these businesses.
- **Equity crowdfunding:** Crowdfunding instruments could potentially address finance needs of a slightly larger segment of the SME population compared to capital market instruments, allowing them to raise capital by selling securities in the form of equity, revenue share, or convertible notes. In response to the need or raise capital and not debt, some governments have put in place new regulations to facilitate SMEs to tap into funds from retail investors. In the United States, the Securities and Exchange Commission (SEC) announced temporary rules that provide flexibility for issuers that meet specific eligibility criteria to accelerate the offering process and get faster access to funds as stated in the Regulation Crowdfunding. In addition, the rules also exempt issuers offering between USD 107,000 and USD 250,000 in securities, from specific financial statement review requirements (US Securities and Exchange Commission, 2020[61]).

  Tax policies to strengthen SME equity: Governments can also incentivise private investment to SMEs through tax policies. In Belgium, tax incentives have been implemented to attract private investment for start-ups and SMEs affected by the COVID-19 pandemic. For instance, individuals can obtain a tax reduction in personal income tax of 20% if they acquire directly new shares of small companies, whose turnover has decreased by at least 30% from March to April 2020 (Agentschap Innoveren & Ondernemen, 2020[62]). They may also benefit from an income tax reduction of 30% to 45% if they acquire new shares directly from a start-up or via crowdfunding (Agentschap Innoveren & Ondernemen, 2020[62]).

There are also some underexplored or unconventional means to ease SMEs' cash constraints without adding to their debt burden that could be of interest to governments. Cash-against-tax-surcharge schemes,

for instance, transfer cash to companies and, in return, the recipient has to pay higher taxes on profits as soon as the company recovers. In contrast to a debt instrument, the transfer carries no unconditional repayment obligation and its repayment is dependent on the performance of the firm. In addition, the beneficiary could potentially opt out of the scheme prematurely, involving a "buy-out" option at a pre-set price by the firm and the investor. The structure of creating a trade-off between the annual charge and the exit cost incentivises highly successful firms to buy out early. Such a scheme is currently under study to be implemented at the EU level through the European Pandemic Equity Fund (EPEF) (Boot et al., 2020[63]), and has been proposed in various forms and contexts (Brülhart et al., 2020[64]). In similar spirit, the Australian small business and family enterprise ombudsman suggested to introduce public loans whose repayment is contingent on revenues.

Other long-term hybrid schemes under development are investment funds which use flexible revenue sharing instruments, whereby revenues generated by the firm are used for repayment. This enables investors to provide quasi-equity funding to a relatively broad range of small firms, while making repayment contingent on the financial health of the investee enterprises. The European Scale-up Action for Risk capital (ESCALAR), launched on 8 April 2020 and managed by the European Investment Fund (EIF), provides equity investment with the objective to address the financing gap by high growth scale-up companies. It provides risk-adjusted returns that are capped and that share debt and equity characteristics to attract investors who otherwise would not invest in such risky assets. EUR 100 million (USD 121 million) will be invested in single fund commitments with an overall investment envelope of EUR 300 million (USD 363 million) (European Investment Fund, 2020[65]).

Another avenue that can be explored to reduce SMEs' high leverage and insolvency risks, are initiatives to restructure existing SME debt. Various countries are extending maturities on loans and grace periods on principle repayment. In November 2020, Singapore, as one example, introduced two new schemes regarding restructuring of SME debt including lower instalments and an extension of the loan repayment period.[27] In March 2021, Spain went further and introduced a EUR 11 billion economic relief package to provide solvency support to SMEs and self-employed through subsidies, cost reductions and capital reinforcement. The package includes three separate funds: a EUR 3 billion pool to restructure state-guaranteed loans, to be managed by the banking sector, an EUR 1 billion reserve to recapitalise medium-sized companies, run by state-owned financing company Cofides, and a EUR 7 billion in non-refundable direct aid to self-employed workers and SMEs affected by the crisis.[28]

Finally, addressing the impact of rising SME indebtedness may require further reform of insolvency regimes to allow for successful restructuring of insolvent firms. This may require establishing specific procedures for SMEs, including promoting informal debt restructuring and out of court settlements as SMEs run a higher risk of being liquidated in formal insolvency processes (Demmou et al., 2021[30]).

7. Prepare for responsible exit strategies

After the first wave of the pandemic in the spring of 2020 and the SME policy measures deployed, in many countries the focus of their attention increasingly turned to exit strategies from such support. However, with new waves of the pandemic and lockdowns in the fall, countries have typically extended and expanded their emergency support, and placed on hold discussions on exit strategies until progress in vaccinations would allow for this. A too sudden withdrawal of emergency public support measures would unnecessarily risk the bankruptcy of viable businesses, with the end of lockdown measures in sight after large scale vaccinations. At the same time, it is increasingly clear that the policy response has also negative impacts, and that indefinite continuation of emergency support measures is undesirable. As previous sections

[27] https://www.todayonline.com/singapore/2-new-schemes-help-smes-hit-covid-19-restructure-debt

[28] https://english.elpais.com/economy_and_business/2021-03-12/spain-approves-7-billion-in-direct-aid-for-struggling-businesses.html

commented, this could keep unviable firms in business and contribute to rising SME debt. Governments should prepare for responsible exit strategies that do not end support too rapidly and abruptly, and at the same time include a perspective and a roadmap on a responsible exit.

That such exiting is not self-evident can be illustrated by the fact that, in the past, many instruments designed to combat the immediate impact of a crisis in practice outlasted this. For instance, in the aftermath of the 2008-09 financial crisis, governments around the globe introduced new policy tools to their portfolio such as credit guarantee schemes, direct lending facilities, business advisory services or credit mediation. A long-term analysis of government support programmes shows that many of these instruments remained in place ten years after the crisis, even in a (pre-pandemic) environment that is broadly favourable for SMEs to access finance. Even though the demand and take-up decreased significantly as the need for public support waned, instruments were often not scrapped, but modified, for instance in terms of its eligibility criteria, and scaled down in terms of volumes or the number of beneficiaries (OECD, 2020[1]).

In similar fashion, some new instruments in the context of the COVID-19 pandemic, even those designed to be temporary, may become permanent features of the policy landscape when the current crisis subsides. For instance, some countries may choose to retain the newly established credit guarantee programmes introduced in response to the crisis, be it on a smaller scale than in 2020. Countries may also decide to keep possibilities for short term work schemes in place that can be used and mobilised in times of crisis, as is the case for Germany's longstanding *Kurzarbeit* scheme, and can support resilience.

In preparing for responsible exit strategies, countries could take the following perspectives into account:[29]

- Support schemes should be time-limited, with limits that can be adjusted based on the health and economic environment;
- Provide roadmaps on how governments see pathways to recovery, with clear steps and anchor points on how and when support will be periodically assessed based on health and economic data and including a long term vision on the SME sector;
- Allow for a clear time path of gradually phasing out support measures, making support less generous and requiring higher levels of firms' contributions to costs, for instance regarding hours not worked;
- Increasingly accompany liquidity support by structural and transition support measures that help smoothen post-COVID-19 transitions such as support for search and career guidance and training activities for employees and digitalisation;
- Include SMEs and their representatives in decision making regarding support policies and the exiting thereof.

8. Allow processes of creative destruction to take their course again while ensuring a just transition and possibilities for second chance entrepreneurship

The pandemic and containment measures led to the temporary or permanent closure of many SMEs. In many cases this was the result of containment measures, where non-essential businesses were forced to close their doors during lockdowns. In other cases it was the challenges in supply chains and sales that led SMEs to close their business, at least temporarily. Data from selected countries show that closure rates of SMEs strongly increased during the first wave of the pandemic, but did not decline after the first wave of the pandemic and containment measures were gradually lifted. In the United States, the number of small businesses that were open declined continuously in the second half of 2020 and the number was 33.6% lower in January 2021 compared to January 2020.[30] In Mexico, the national statistics agency INEGI

[29] These are in part based on: (OECD, 2020[81]) "Job retention schemes during the COVID-19 lockdown and beyond"

[30] https://tracktherecovery.org/

reported in December 2020 that more than 1 million small and medium-sized businesses have closed permanently since the middle of last year, representing 20.8% of the SME population (Mexico News Daily, 2020[66]). The renewed lockdown measures in many countries introduced in the fall of 2020 and continuing in the first months of 2021 continue to take their toll on SME closure rates. For instance, in Canada, in March 2021, 35% of small businesses remain closed.[31]

However, while the pandemic caused many SMEs to stop their operations, in most cases this did not translate into a rise in insolvencies in 2020. Although some countries witnessed a significant rise in bankruptcies (Israel, Japan, the United States), one year into the pandemic, for most countries this was not the case. For example, in the United Kingdom, bankruptcies in Q4 2020 were 27% lower than in Q4 2019, and have been lower since Q2 2020 than in any quarter since 1990 (The Insolvency Service, 2021[67]). In the Netherlands, the number of bankruptcies in November 2020 was the lowest in 20 years, and 16% less than in 2019, falling continuously for five months in a row (CBS, 2020[68]). In Germany, the Insolvency Index fell by 40 points between March and August 2020 (Reuters, 2020[69]). According to Statistics Canada, insolvencies were down 29.5% in 2020 compared to 2019. In Switzerland, bankruptcy filings in 2020 were 19% lower than in 2019 (Eckert, Mikosch and Stotz, 2020[70]).[32] In France, the number of insolvencies in 2020 was 24% lower than in 2019.[33]

The reason for this difference in bankruptcy rates is twofold. First, the differences illustrate that the so-called insolvency elasticity (the percent responsiveness of insolvencies to a one percent GDP change) varies across countries (Atradius, 2020[71]). Second, and possibly most importantly, the decline in bankruptcy rates reflects the government policy responses to COVID-19, in particular the various forms of liquidity support and the introduction of temporary changes in insolvency and bankruptcy regimes.

However, these deviations from bankruptcy laws and the provision of liquidity support that have put economies in a state of hibernation, cannot be continued indefinitely. While such policies have been effective in avoiding a massive surge in SME insolvencies, they may also have kept firms that would otherwise have gone bankrupt alive. It becomes increasingly important for processes of creative destruction, which provide important drivers of productivity growth, to take their course again. This includes the regeneration of start-up policies and the better targeting of support to viable firms discussed in previous sections. Governments should take into account the consequences of policies on economic dynamism more as time goes by and policies may become entrenched. Measures that make it difficult to lay off personnel in firms and sectors under duress should be carefully reviewed. In a similar spirit, moratoria or restrictions on bankruptcies will need to be gradually lifted.

It is likely that as a consequence insolvencies among SMEs will rise in the coming period, also in countries where this so far has not been the case. Data from Office for National Statistics on the United Kingdom suggest that almost 25% (more than one in seven) businesses are at great risk of imminent closure by April 2021 (Centre for Economic Performance, 2021[72]). Euler Hermes and Atradius, two credit insurance companies, expect a sharp rise in insolvencies in 2021 (Euler Hermes, 2020[73]) (Atradius, 2020[71]). The COVID-19 crisis thus may cause insolvencies to spike with a delay, with the worst still to come.

This expected wave in insolvencies in 2021 will bring up the demand for measures that support training and (re)skilling to allow SME owners and employees opportunities in other economic activities. Given the expected number of insolvencies in many countries, it would require the support for 'second chance'

[31] https://bc.ctvnews.ca/high-debt-low-sales-delayed-retirement-advocates-call-for-continued-support-for-small-businesses-one-year-into-pandemic-1.5348592

[32] https://lenews.ch/2021/01/05/company-bankruptcies-fell-sharply-in-switzerland-in-2020/

[33] https://www.fitchratings.com/research/structured-finance/lower-french-sme-insolvencies-stable-net-debt-mask-disparities-17-03-2021

entrepreneurship, allowing bona fide entrepreneurs a restart. Renewed creative destruction could be accompanied by policies that ensure a just transition for entrepreneurs and their workers.

9. Ensure that recovery programmes to "build back better" take the circumstances and perspectives of SMEs and entrepreneurs well into account

In the spirit "not to let a good crisis go to waste," governments are increasingly taking measures to "build back better" and are implementing broad recovery packages (for instance, Germany, Austria, Korea, Colombia, Spain, France, Canada, Italy, Australia, Ireland, Japan, Slovenia, the United States and the United Kingdom). Sustainability is often at the core of these packages, having a strong emphasis on the transition to clean energy, resource efficiency, and greener consumption. Also, the packages put strong effort on digitalisation, innovation and skills.

Whereas the emergency liquidity measures at the start of the pandemic had a strong SME orientation, given their vulnerabilities, this is less clearly the case for the wider recovery packages which focus more on the business community at large and on public investment in infrastructure and on demand stimulus. This transformation into a less SME specific policy support under the "build back better" flag is a logical reflection that strengthening the growth potential for recovery affects firms of all sizes. Also, more generic support can benefit SMEs as well.

However, it is important that the new packages to "build back better" will continue to take the circumstances of SMEs into account, and include measures that suit their needs. Given how they were impacted during the first year of the pandemic, their recovery is likely to require horizontal as well as more targeted support. The needs of SMEs in dealing with the challenges and opportunities brought forward by digitalisation and sustainability may differ from those of larger entities.

Some countries are including an SME perspective in their recovery packages. Germany's recovery programme has an SME and entrepreneurship component, both to assist SMEs hit by the crisis, for instance through liquidity relief measures, but also to incentivise corporate investments, internationalisation and innovation activities. Colombia included measures to improve the regulatory environment for SMEs. Spain included support for SME digitalisation and measures to safeguard SME solvency. France included measures to strengthen SME equity capital.

In drafting further "build back better" recovery plans, the circumstances and needs of SMEs and entrepreneurs should be further taken into account. SME organisations should be consulted to ensure that their views are sufficiently heard. Impact assessments of recovery plans should include a credible SME test.

10. Digitalisation of SMEs and entrepreneurs will need to be an even more important feature of the policy mix

Support for SME digitalisation should be a central element of both emergency support and policies to strengthen recovery and resilience. An increasing number of countries have included efforts to support SME digitalisation in their policy response, in light of the persistent "digitalisation gaps" between small firms and larger ones. Measures in this area broadly come in three areas: teleworking, e-commerce and digital infrastructure and skills.

The government of Chile, for instance, addressed regulatory barriers to encourage teleworking facilities for SMEs, by introducing changes to the Labour Code regulating teleworking. The new regulation, approved in March 2020, gives flexibility to both employers and employees to adopt or stop teleworking, and although it stipulates a maximum of hours that can be worked, it gives flexibility on how these hours can be distributed. The new law also gives the right to employees of "total disconnection" of 12 hours within a 24-hour window (Universidad de Chile, 2020[74])

The adoption of digital sales channels is supported by several countries as a key method to increase digitalisation of SMEs. In Canada, for example, the Go Digital Canada Initiative in co-operation with Shopify is helping small business sales grow online, by providing free training courses and use of digital marketing channels (OECD, 2020[2]). In Malaysia, the Digital Economy Corporation, set-up by the government as part of the country's digital strategy, offers the E-commerce Campaign jointly funded by the government and 20 e-commerce platforms will provide e-commerce on-boarding training facilities, as well as sales support services to SMEs (OECD, 2020[2]).

Argentina introduced a finance line of ARS 532 million (USD 8.6 million) for SMEs to use specifically on teleworking. Ireland implemented the Digital Trading Online Voucher scheme worth EUR 3.3 million (USD 4 million), where microenterprises can get EUR 2,500 (USD 3,025) worth of online training. This is often complemented by private initiatives. For instance, the Digital Team Austria Initiative consists of companies in the tech industry which have committed themselves to offer services to SMEs free of charge for at least three months (OECD, 2020[2]). In Malaysia, the e-commerce Campaign jointly funded by the government and 20 e-commerce platforms will provide e-commerce on-boarding training facilities, as well as sales support services to SMEs.

Several countries have launched broader digital packages to build a stronger digital infrastructure. The aim of such support is to help SMEs simplify processes, decrease administrative costs and increase regulatory compliance. Australia is a case in point. The government launched a package of AUD 800 million (USD 600,000) with measures to help businesses take their administration and regulatory processes online. The digital package includes spending AUD 256.6 million (USD 192.4 million) to develop a Digital Identity system, AUD 29 million (USD 21.7 million) on the roll-out of 5G high-speed internet and AUD 28.5 million to promote open banking. It also includes AUD 6.9 million (USD 5.2 million) to test the use of blockchain, where information is stored on a network of computers to cut compliance costs (Prime Minister of Australia, 2020[75]). The United Kingdom Government's Digital Access Programme CyberSafe Foundation aims to equip 1,500 SMEs with knowledge and skills to identify and defend from COVID-19 instigated cyber threats (Vanguard, 2020[76]). France announced EUR 100 million in support for small business to build up online operations as new lockdown measures were implemented.[34] In December 2020, New Zealand launched a Government-funded Digital Boost skills training and support initiative. The Digital Boost skills training is the first initiative to be launched from the Digital Boost programme, a partnership between the Ministry of Business, Innovation and Employment (MBIE) and the private sector to support thousands of small businesses in realising the benefits of using digital tools and technologies in their business.[35]

As part of recovery support, these support measures should be intensified and be inclusive, taking into account the capacities and requirements of different types of SMEs (OECD, 2021[8]).

11. Resilience of SMEs and entrepreneurs as an objective for policy

The crisis has shown the vulnerability of SMEs to the pandemic and containment measures. In moving forward, it is not only important to shift from emergency to recovery support, but also to enhance SME resilience. Resilience stands for the capacity to better respond to shocks and for policies that help prevent the negative impact on SMEs of future shocks. SME resilience can refer to internal factors (such as their cash reserves or their digital connectivity) and to external factors (for instance, their incorporation in global supply chains).

Objectives of SME and entrepreneurship policy frameworks vary, but most often focus on objectives such as competitiveness and productivity growth, while few countries include resilience as an objective of their

[34] https://www.reuters.com/article/us-health-coronavirus-france-idUSKBN27H1HZ

[35] https://bizedge.co.nz/story/nz-small-business-to-access-government-digital-boost-training-initiative

SME policies. An exception is the German SME Strategy,[36] which explicitly ranks fostering resilience as an objective. However, in the various "build back better" recovery packages that have been launched since June 2020, strengthening resilience has become a key objective.

Of course, aspects of resilience have played a role in SME and entrepreneurship policies for a long time. Such policies in most countries include measures to improve framework conditions and the functioning of markets, thereby strengthening incentives and capacities to respond to shocks. Policies supporting SME innovation and digitalisation aim to strengthen their capacities to improve business models, products and work processes, and hence be more agile. Measures that support innovative start-ups and help foster processes of creative destruction can also contribute to more resilient entrepreneurial ecosystems.

However, in further developing the policy response to COVID-19, governments need to further reflect how they can contribute to the enhancement of resilience of the SME population. Some aspects of SME vulnerability are not likely to change easily, such as their prevalence in sectors at risk or their dependence on a limited number of suppliers and customers. Their vulnerability also related to their low cash reserves, their lesser use of digital tools, their unfamiliarity with public policy support systems and their lack of inclusion in existing contingency plans on how to address pandemics. An assessment of these factors, and how policies can help enhance them, may contribute to strengthen the resilience of SMEs to new shocks.

12. Forward looking capacity, resilience and responsiveness of SME and entrepreneurship policy frameworks

Resilience not only becomes more important for SMEs and entrepreneurs themselves, but also for the policy frameworks that aim to support them. The pandemic can be seen as a stress-test for SME and entrepreneurship policy frameworks and their ability to deliver under such a massive shock. One aspect of this is if countries that used existing support schemes were better able to deliver rapidly than countries which (had to) set up new schemes. It is too early to fully evaluate this. However, the experience during the first wave suggests that the need to set up new schemes was not a primary cause of differences in speed of delivery. A further assessment of what makes SME and entrepreneurship policy frameworks resilient is important. For instance, an important question could be if countries with existing arrangements for furlough schemes (such as Germany) were able to mobilise wage support more smoothly than others.

Furthermore, the rapid and effective delivery of SME support during the massive upheaval the pandemic caused, also required the ability of governments to learn during the process, and to be responsive and agile enough to change course when needed. One key takeaway from the crisis induced by the COVID-19 pandemic, is that governments mostly did not have a playbook at the ready on how to support SMEs during the pandemic. Without such clear playbook, the response was in many ways based on learning by doing. A prerequisite for this, was the ability of governments to monitor 'real time' the impact on SMEs as well as of the policy response. The pandemic lead to a significant number of new surveys among SMEs and entrepreneurs to monitor developments. Also, in various countries new data sources were used to monitor SME impact and perceptions as well as policies. These new data provide important resources for future effective SME and entrepreneurship policies.

Responsive government also means that policies need to be sufficiently flexible and agile to respond to changing circumstances and evolving needs of beneficiaries when monitoring indicates this. Given how the crisis remains unprecedented in many ways, public policies often needed to be readjusted to meet the evolution of SMEs' difficulties. For instance, many countries significantly simplified their administrative procedures and eligibility checks to access government support when it became clear how urgent SME liquidity shortages were. This was a key feature of the French "PGE" public guaranteed loans scheme. In

[36] https://www.bmwi.de/Redaktion/EN/Publikationen/Mittelstand/german-sme-strategy.html

part because of the simplicity of the application process, the French Government was able to provide support to around 420,000 companies within the first two months of its existence, mostly in the sectors hardest hit by the economic crisis. Similarly, the New Zealand Small Business Cashflow (loan) Scheme (SBCS) was launched in August 2020 when the government became aware of bottlenecks in existing credit provision (Deloitte, 2020[77]). Under this arrangement, SMEs could borrow interest free without a personal guarantee with far fewer compliance requirements, under longer loan terms and with a higher maximum loan amount covered by the scheme (from USD 500 000 to USD 5 million) (Chartered Accountants, 2020[78]). There were 25 000 applications in the first 48 hours.

Further insight in how SME and entrepreneurship policies can be made more resilient, flexible and agile and forward looking in responding to crises and rapid change is important, for instance by a greater use of forecasting in policy design.

13. Ensure effective and inclusive governance mechanisms across government levels

The SME policy response to the pandemic showed the importance of a coordinated policy approach across levels of government for rapid delivery of support and targeted approaches where the impact of containment measures differed across territory. Such a coordinated response, including national, regional/state and local government, is even more important in the recovery phase than during the emergency response, given that effective SME support for recovery and resilience should be embedded in local and regionally specific ecosystems.

Pre-COVID-19, countries had a variety of horizontal (among Ministries and agencies) and vertical (among levels of government) governance mechanisms in place regarding SME and entrepreneurship policies. With respect to horizontal governance, some countries have inter-ministerial councils (Spain, Costa Rica, Germany, Malaysia), others operate working groups (Canada, New Zealand, Ireland, Portugal), or coordinate SME policies in more generic coordination platforms (Belgium, United Kingdom, Italy, Slovenia). For vertical coordination, some countries use dedicated bodies (Spain, Mexico), whereas others work through regionally embedded delivery systems.

With various countries having set-up specific coordination systems for the delivery of COVID-19 support, an important question is how governance mechanisms will transform to support effective SME recovery and resilience. Given the importance of various government levels for effective SME policies, it is essential that a fragmented approach is avoided.[37] Governments may have to find a balance between two partly contradictory trends. One the one hand, the “build back better” recovery packages that are being developed seem less specifically SME oriented, and may also be supported by a more generic horizontal and vertical governance. On the other hand, ensuring the coherence of measures for SME recovery across government levels is even more important than for emergency aid.

14. Consultation of SMEs and entrepreneurs

The inclusion of SMEs and entrepreneurs in consultations on the policy response to the pandemic and recovery is important to take their perspective into account. Although the urgency during the first phase of the SME policy response made the use of instruments such as SME tests and written consultations challenging, which meant that in practice they have hardly been used for the emergency SME policy responses, various countries set-up consultation mechanisms with stakeholders to advice governments on their policy response. These mechanisms usually included a wide variety of stakeholders, and did not focus exclusively on SMEs.

37 http://www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1/#section-d1e182

In the context of the recovery packages that are being developed, it is important that existing SME testing and consultation mechanisms take their course again. Furthermore, to ascertain that the perspective of entrepreneurs and SMEs is taken into account, the inclusion of representatives of SMEs in existing stakeholder groups for consultation on further support measures is important.

15. New challenges and opportunities for monitoring and evaluation

Finally, the pandemic brings up new challenges and opportunities for SME and entrepreneurship policy evaluation. A strong practice and culture of monitoring and evaluation is of general importance for SME and entrepreneurship policies (OECD, 2008[79]) but is of particular relevance in the context of the rapid policy response to a crisis such as the pandemic. In evaluating the SME policy response to the COVID-19 crisis, governments face similar challenges (OECD, Forthcoming[80]). One of the challenges is that support measures were launched in a hurry, with the objectives and target groups are not always specified explicitly and changing during the course of the pandemic. This makes an evaluation tricky. Countries may also have pursued diverse and to some extent conflicting objectives. For instance, the objective of targeting support to businesses that were viable prior to COVID-19 potentially conflicts with the objective of avoiding job losses by saving all existing businesses, which in turn is quite different from the objective to replace businesses that exited the market with higher performing firms, for example in terms of their innovation or digitalisation potential. The transformational nature of the current crisis may also make an assessment of the impact of policies complex, for instance in disentangling which viable firms from unviable ones before, during and after the crisis.

Another challenge in policy evaluation is the frequent lack of documentation regarding the expenditure on the support to SMEs and entrepreneurs (i.e. how the funds were spent), both at the level of individual policies (which are often embedded within broader policies) as well as on the aggregate level. This prevents policy makers from understanding the real impact of the different types of support and extrapolating the effect of future deployments. In order to have a solid understanding of the impact of SME and entrepreneurship policies in response to the crisis, policy makers could aim to collect expenditure data and cross-section and time-series data, as well as develop a clear metric to determine policy performance. International coordination may be helpful in these respects.

At the same time, the pandemic also brings opportunities for evaluation. According to the World Bank, countries have launched 1,600 SME policy support initiatives in response to the pandemic.[38] Through the SME policy response, governments reached large numbers of SMEs and entrepreneurs that previously had not made use of government support. In some countries 60 to 70% of SMEs made use of existing support. This significantly enlarged the number of transactions evaluations can draw upon. Furthermore, although differences in timing and strictness of containment measures exist, as a stress test for SME and entrepreneurship policies, the pandemic offers possibilities for cross country learning on the effectiveness and resilience of SME and entrepreneurship policy frameworks. In this respect, the COVID-19 crisis poses both a challenge and a goldmine for policy evaluation.

Conclusions

This paper presents an analysis of the impact of COVID-19 on SMEs and entrepreneurs, and of the SME and entrepreneurship policy response by governments around the world, one year since the start of the

[38] https://dataviz.worldbank.org/views/SME-COVID19/Overview?:embed=y&:isGuestRedirectFromVizportal=y&:display_count=n&:showAppBanner=false&:origin=viz_share_link&:showVizHome=n

pandemic. It aims to identify challenges and lessons learned during the first year of the pandemic to support effective and efficient SME and entrepreneurship policy responses in the coming period.

The paper documents how SMEs have been at the centre of the impact of the pandemic and confinement measures, with certain groups of entrepreneurs (start-ups, self-employed, women and minority business owners) being particularly vulnerable. The paper shows how SMEs and entrepreneurs were confronted with a severe liquidity crisis through a sharp drop in revenues while fixed costs continued, risking to put many of them out of business. SME business confidence declined sharply in February and March 2020 following lockdown measures to bottom out in April and May 2020, and start rising again during the summer. However, a renewed wave of the pandemic in the second half of 2020 led to a sharp decline in confidence, which continued in the first quarter of 2021. The crisis led to the temporary or permanent closure of thousands of SMEs, although, because of government support measures, the shock did not translate into rising bankruptcies in most countries during 2020. Start-up rates took a strong hit at the start of the crisis, but recovered since then in many countries, partly reflecting a rise in necessity based new entrepreneurship.

Governments around the world have tried to contain the catastrophic effects on SMEs and entrepreneurs in an unprecedented way through a variety of measures, typically consisting of emergency support to ease liquidity concerns and structural support measures, for instance regarding digitalisation. Countries launched their emergency liquidity support measures rapidly after the pandemic outbreak and lockdown measures in March 2020, to further expand this support between April and June 2020. With infection rates in many countries declining over the summer, and confinement measures gradually being lifted, governments extended support schemes, but aimed to make these more targeted to subsequently exit them. However, a new wave of the pandemic and renewed lockdown measures from September 2020 onwards led to a renewed expansion of liquidity support across countries. Structural support measures for SMEs and entrepreneurs were adopted by some countries from the outset of the crisis, but were used by an increasing number of countries during the course of 2020. From June 2020 onwards, countries launched broader recovery packages to “build back better” focusing on investment in innovation, digitalisation, skills and sustainability.

One year into the crisis, countries are confronted with the need to deliver on emergency liquidity support under renewed lockdown measures on the one hand, and to develop policies to strengthen recovery and resilience on the other. Although both short and longer-term support remains essential for the recovery of SMEs and entrepreneurs, in some cases unintended consequences of emergency measures may hamper prospects for longer-term recovery. During 2020, countries increasingly learned how to address this combined challenge. The paper includes 15 lessons learned for effective, efficient and innovative SME and entrepreneurship policies that address both these long and short-term challenges regarding responsible exit strategies, policy focus, avoiding an SME over-indebtedness, recovery strategies that give due consideration to SME and entrepreneurship issues, and effective and efficient policy delivery.

The OECD will continue to monitor new developments in the SME and entrepreneurship landscape, and support governments in tackling the crisis to build a rapid recovery. It will continue to investigate and elucidate country examples in order to identify best practices going forward.

Annex 1.A. Overview of the different types of SME and entrepreneurship policy support instruments

This table gives an overview of the measures introduced as a response to the COVID-19 crisis by OECD and non-OECD countries in Figure A A.1 complete timeline of the policy response by country can be found in: OECD (2021), "An in-depth analysis of one year of SME and entrepreneurship policy responses to COVID-19: lessons learned for the path to recovery", *OECD SME and Entrepreneurship Papers*, forthcoming, OECD Publishing, Paris.

Annex Table 1.A.1. Country SME and entrepreneurship policy responses to COVID-19 by type of policy instrument (February 2020-February 2021)

	Labour related schemes			Deferral measures					Financial Instruments				Structural Policies					
	(Partial) redundancies	Wage subsidies	Self-employed	Income/ corporate tax	Value Added Tax (VAT)	Social security and pension contributions	Rent/utilities	Debt moratorium	Loan guarantees	Direct lending to SMEs	Grants and subsidies	Equity Instruments	New markets	Teleworking/ digitalisation	Innovation	Training and redeployment	Start-ups	Sustainability measures
Argentina	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓		
Australia		✓	✓	✓			✓	✓	✓	✓	✓	✓		✓		✓		✓
Austria	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
Belgium	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Brazil	✓	✓		✓		✓		✓		✓			✓		✓			
Canada	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Chile		✓	✓	✓	✓		✓		✓		✓		✓	✓				
China		✓		✓		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	
Colombia		✓		✓	✓	✓	✓	✓	✓	✓				✓	✓			
Costa Rica	✓			✓	✓				✓	✓			✓	✓	✓	✓		
Croatia		✓		✓		✓		✓	✓	✓								
Czech Republic		✓	✓	✓			✓	✓	✓	✓	✓		✓		✓		✓	
Denmark		✓	✓	✓	✓			✓	✓		✓	✓			✓	✓	✓	
Egypt				✓			✓	✓	✓	✓			✓	✓	✓	✓	✓	
Estonia		✓	✓	✓		✓			✓	✓				✓				
Finland	✓		✓	✓	✓				✓		✓			✓	✓			✓
France	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Germany	✓	✓	✓	✓	✓				✓	✓	✓	✓		✓	✓	✓	✓	✓
Greece		✓	✓	✓	✓	✓	✓		✓	✓	✓			✓		✓	✓	✓
Hong Kong, China				✓			✓	✓	✓	✓								
Hungary	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓				

Iceland		✓		✓	✓				✓	✓	✓							
India		✓		✓						✓		✓					✓	
Indonesia		✓		✓	✓					✓	✓			✓		✓		
Ireland	✓	✓	✓	✓	✓		✓		✓	✓	✓		✓	✓	✓	✓	✓	
Israel	✓	✓	✓		✓	✓	✓	✓	✓		✓		✓	✓	✓			
Italy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
Japan	✓	✓		✓			✓		✓	✓	✓		✓	✓	✓	✓		✓
Korea		✓	✓					✓	✓	✓	✓		✓	✓	✓	✓		✓
Latvia	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓			
Lithuania		✓		✓	✓		✓	✓	✓	✓	✓			✓	✓			
Luxem-bourg	✓	✓	✓	✓	✓		✓		✓	✓	✓						✓	
Malaysia		✓		✓			✓	✓	✓	✓	✓			✓	✓	✓	✓	
Mexico		✓						✓		✓						✓		
Nether-lands	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓				✓	✓	
New Zealand		✓		✓			✓	✓		✓	✓		✓	✓		✓		
Norway	✓	✓	✓	✓	✓	✓			✓		✓				✓	✓	✓	✓
Peru		✓		✓	✓				✓	✓								
Poland		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓		✓	✓	✓		
Portugal	✓	✓		✓	✓	✓	✓	✓	✓	✓			✓			✓	✓	
Romania		✓		✓			✓	✓	✓	✓								
Russia		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓						
Saudi Arabia		✓						✓	✓	✓				✓				
Singa-pore		✓	✓	✓			✓		✓	✓				✓	✓	✓		
Slovak Republic	✓	✓	✓	✓					✓		✓							
Slovenia	✓	✓	✓	✓			✓	✓	✓	✓	✓		✓	✓				✓
South Africa		✓		✓				✓		✓		✓	✓					
Spain	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓
Sweden	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓							
Switzer-land	✓	✓	✓			✓	✓		✓	✓	✓	✓	✓	✓	✓		✓	
Thailand		✓	✓	✓	✓	✓	✓			✓		✓			✓	✓	✓	
Turkey	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓			✓				
United Kingdom	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
United States		✓	✓	✓						✓	✓	✓			✓	✓		
Vietnam		✓		✓	✓	✓	✓											

Disclaimer: This table has been prepared based on official sources and media reporting. Given the rapid developments of events and measures, the information in the table may not be comprehensive or fully up to date. Last update: 6 April 2021.

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