

Challenges & Proposals for SME Policies in G20 Countries

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Introduction

On behalf of the G20 Summit in 2019, 10 task forces (TF) were established within Think 20 (T20), a research and policy advice network where academic researchers and policy experts from universities, institutes and think-tanks can discuss major problems and challenges and make useful policy proposals to cope with them. TF 9: SME Policy Faced with Development of Financial Technology is one of the task forces proposed by the Japanese side that chairs the G20 this year. As the lead co-chair of TF 9, I will present some major challenges and proposals for small and medium-sized enterprises in G20 member countries based on the Policy Briefs of TF 9.

SMEs have a dominant share in the number of firms and employment in all G20 countries, and so can play an important role in economic development and job creation in each country. In Japan, for example, SMEs (firms with either less than 300 employees or 300 million yen in capital in general) account for 99.7% of firms, employing approximately 70% of the workforce. In the manufacturing sector, they produce about a half of value added.

Of course, the legal or statistical definitions of SMEs differ across countries and also across sectors. Moreover, SMEs are quite heterogeneous even within a single country. Therefore, it is difficult and even no use to propose one-fits-all policy proposals for all types of SMEs in each country. Nevertheless, we selected major issues that may be common challenges for SMEs in the G20 countries and proposed some policy measures that may help SMEs to play their roles appropriately in the economy.

TF 9 for SME Policy will focus on the following six fields in providing Policy Briefs for the T20 in 2019.

- Startups (lead author: Yuji Honjo, Chuo University)
- R&D and innovation (lead author: Hiroyuki Okamuro, Hitotsubashi University)
- Financial access (lead author: Naoko Nemoto, Asian Development Bank Institute)
- Human capital and labor mobility (lead author: Erik Stam, Utrecht University)
- Internationalization (lead author: Miriam Koreen, OECD)
- Business transfers (lead author: Miriam Koreen, OECD)

Let me explain in detail the first three of these policy proposals (startups, innovation and financial access), which have been headed by Japanese researchers including myself, in the following sections.

Because the topics on business transfers and human capital (labor mobility) are closely related to startup support, I will briefly refer also to these subjects in the next section.

Challenges & Policy Proposals for Startups

Startups are often expected to contribute to the development and revitalization of national and regional economies. Some startups play a critical role in innovation and market competition, which in turn creates employment and spurs economic growth. However, many, if not all, potential entrepreneurs face difficulties in securing various types of resources, so that even those with high ability may lose the desire to start up their own businesses. Therefore, public support for startups and entrepreneurship is useful for economic development. Specifically, based on recent research trends and empirical evidence, we focus on the following three aspects: diversity, ecosystems, and international orientation.

1) Targeting various types of entrepreneurs:

- * Establish an environment in which potential entrepreneurs, regardless of gender, race and age, can access entrepreneurial networks
- * Provide more opportunities for individuals with a wide range of backgrounds to acquire knowledge and skills
- * Deregulate for business startups to stimulate interest in entrepreneurial activities

2) Building effective entrepreneurial ecosystems:

- * Stimulate younger firms to develop entrepreneurial ecosystems
- * Develop financial channels related to private equity capital, including venture capitalists, angel investors and crowd funding
- * Improve access to technological knowledge, including licensing of intellectual property from universities and public research institutes, and support for collaboration in a timely manner
- * Support joint research leading to commercialization of unused technologies developed in universities and large companies
- * Provide effective support for high-tech startups, including financial incentives related to tax breaks to encourage investment
- * Establish governance rules to sustain vibrant entrepreneurial ecosystems

- * Improve private equity markets to facilitate strategic exits
- * Reduce both exit and entry barriers for entrepreneurial recycling
- * Share information to develop ecosystems

3) Promotion of global startups:

- * Ease time-consuming and costly administrative procedures
- * Simplify systems and procedures for business startups and tax systems
- * Understand the conditions of global startups better to sustain their internationalization through appropriate support programs

Moreover, business transfers (successions) represent a critical stage in the life of many SMEs. With the aging of populations in many G20 countries, the volume of business transfers is expected to increase sharply. Successful business transfers of economically sound SMEs are crucial to retain employment, drive business dynamism, ensure continuity in business relations and preserve asset values. Thus, there is an increasing need for policy support for successful business transfers. In this regard, we propose the following: raising awareness, increasing the number of potential business successors, ensuring appropriate financing conditions, and considering tax consequences of business transfers.

Promoting startups and business transfers is closely related to promoting human capital investment and labor mobility. How can a sufficiently high level of investment in human capital and organizational knowledge be achieved, while ensuring an optimal level of labor mobility between and within organizations? Public policies can stimulate labor mobility between established organizations, new ventures and especially young growing firms by loosening employment protection and making social security portable over all occupations. Businesses can change their work organization in order to enable labor mobility.

Challenges & Policy Proposals for Innovation

Innovation is a major engine of economic growth. SMEs are expected to contribute to innovation. However, it is known that SMEs' contribution to research and development (R&D) and innovation is limited, mainly due to constraints in internal business resources (capital, human resource and knowledge), constraints in accessibility to external resources, and difficulties in protection and

utilization of intellectual property rights (IPR).

The most important issues in policy making for SMEs' innovation are the targets of such public support programs and the most binding constraints for them. We argue that it is important to consider "backing challengers" rather than "backing losers" or "picking winners" and that not only capital and human resource constraints, but also access to external knowledge and protection of their own innovation are binding constraints for innovative SMEs. Based on these arguments, we propose the following policy measures.

1) Improving public support schemes for SMEs' R&D activities:

- * Rebuild incentive schemes based on empirical evidence
- * Pay more attention to demand-side support and "soft" or indirect support for R&D including matching, networking, consulting and mentoring

2) Promoting public-private partnership for R&D investment in SMEs:

- * Develop human resources who can appropriately evaluate growth and innovation potential
- * Build intensive networks of investors, banks and SMEs that provide open access to investment opportunities
- * Encourage combinations of public and private investments to increase SMEs' opportunities (matching funds and venture capital)

3) More efficient search for potential R&D partners:

- * Construct comprehensive databases to link SMEs with other firms, universities and public research institutes
- * Encourage information disclosure on the market needs and scientific seeds of R&D activities and utilize networking intermediaries

4) More efficient protection and utilization of IPR:

- * Improve the intellectual property literacy of SMEs and design more "SME-friendly" intellectual property systems
- * Provide professional and legal support to protect SMEs' innovation against IPR litigation
- * Better and easier access to intellectual property database

Challenges & Policy Proposals for Financing

SMEs go through several phases in their life cycles – startups, growth, maturity and renewal/rebirth or decline – and their need for finance varies depending on those phases. We focus on the growth and renewal phases, although our proposal to utilize new “FinTech” is also useful for startup firms. In general, SMEs in G20 countries face the following problems: limited access to bank lending due to information asymmetry and (nevertheless) over-reliance on bank debt. Therefore, we propose to improve SMEs’ financial access utilizing new financial technologies in the following way.

- 1) Improving traditional lending using new technology and big data:
 - * Develop process automation including online application, automation of underwriting etc., cloud-based accounting, digital payment etc.
 - * Encourage innovative use of technology and data sharing: credit scoring, e-commerce transactions, evaluating intangible assets
 - * Enhance credit guarantee programs
- 2) Broadening the range of financing:
 - * Form special investment funds for SMEs, initiated by the public sector
 - * Improve SME access to capital markets (including foreign markets)
- 3) Enhancing the consultative functions of financial institutions:
 - * Develop an effective ecosystem among public entities, universities and the private sector more broadly
 - * Take proactive steps to support business succession
- 4) Designing an appropriate regulatory environment for FinTech:
 - * Design an appropriate regulatory environment to protect against systemic risks, ensure compliance with regulations on personal data and maintain a fair, safe and competitive market
 - * Run a regulatory sandbox to allow selected firms to test new models on the market
 - * Share several banks’ account information with an account aggregator

Concluding Remarks

SMEs do not only play a role in the economy, but also in society and culture. Hence, not only economic policy, but also other types of policies including social policy matter for SMEs in each G20 country. Here, however, we focus on economic challenges and policy proposals and discuss policy proposals based on the economic way of thinking. Moreover, because policies are subject to resource constraints, appropriate design of relevant policies is important to make them efficient and effective. Therefore, we intended to apply evidence-based policy making (EBPM) to our Policy Briefs by not only showing data, but also (and more importantly) by referring to empirical evidence from previous research published in scientific journals.

Our proposals in the Policy Briefs of TF 9 shall be further discussed and presented finally at the T20 Tokyo Summit at the end of May and at the G20 Osaka Summit at the end of June 2019. We sincerely hope that our proposals for SME policy will be seriously considered in real policymaking and contribute to substantial improvement in SME policies worldwide in the near future. **JS**

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