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Plenary session on "Small Business: the Heart of the Global Economy"

Intervention by Mr Sergio Arzeni, Director of the OECD Centre for Entrepreneurship, SMEs and Local Development

Now all governments realise why SMEs and entrepreneurship matter: because they are the sources of new jobs.

This is the novelty factor in international and national economic policy if we are looking at the dynamics of the real economy.

When President Putin realised that only 20% of the Russian workforce was employed in SMEs whereas in most countries the contribution of SMEs to employment ranges from 60 to 80%, he became conscious that he had a problem to fix if he wanted a better balanced and wealthier economy.

A diversified economy, based on a fabric of many SMEs in several industries, is more resilient to the ups and downs of erratic international markets.

How can this objective be achieved? By a set of consistent policy initiatives that make the world more entrepreneurial and create a business environment in which SMEs can thrive.

On this, the ICC can play a fundamental role to make the voice of the "Small" heard in a world of predatory finance which has allowed value destruction behaviour to become systematically more profitable than honest and productive work.

Key for any sustainable development strategy is to make honesty pay!

In today's world, "Small" is NOT beautiful because:

- At any slowdown of the economic cycle, too often large firms unload the inevitable adjustments to their supply chain of SMEs;

- Small businesses pay disproportionally more taxes than big multinationals that through the so-called "fiscal optimisation" from one country to another manage to pay

very little if no tax at all. This has eventually been displayed with the OECD report on BEPS, Tax base erosion and profit shifting recently submitted to the G20, which indicates that on average multinational corporation pay 5% on corporate tax whereas SMEs pay 30%.

- Whenever there are tenders for public procurement, for financing R-D and innovation, for supporting export and internationalisation, SMEs are forgotten and rarely get access to these opportunities.

The OECD Scoreboard on *Financing SMEs and Entrepreneurs* which was released in Paris, on 19 April 2013 clearly proved that:

a) Quantitative Easing measures taken by the Central banks have not gone to the real economy and SMEs.

b) SMEs have taken on their shoulders a large part of the price of the Sovereign debt crisis;
c) Tighter financing conditions for SMEs have resulted in heavier collateral requirements and in a widening gap in the spread of interest rate between what the small pay and the big pay.

d) Over-reliance on bank finance along with problems of bank concentration and short-termism are constraining from growth, especially of dynamic and innovative SMEs. Small banks are more suited to deal with SMEs and family businesses are more inclined to take the long view away from the quaterly remuneration of listed companies.

e) Credit mediation is an innovation that allowed France to save 300 000 jobs in16 000 SMEs during the current crisis. A measure imitated also by Germany, the UK, Belgium and Ireland.
f) The massive expansion of credit guarantee lines enabled countries like Turkey and Korea to cope better with the financial crisis over the last few years.

g) As the crisis is longer and deeper than expected, governments have switched to no cost measures, such as moral suasion or even paying a negative interest rate as Denmark is doing with banks excess funds deposited at the central bank.

h) The OECD Scoreboard indicated that while some countries have reduced the delay of payments to SMEs others have increased, worsening the competitive position of the latter.

i) However, overall the birth rate of firms is plummeting under the effect of the crisis to which we have to add a generalised raise of bankruptcies.

In front of the crisis the worst problem for SMEs is the loneliness of the entrepreneur. To tackle this problem the role of social capital, of associations of SMEs and in particular of Chambers of Commerce is absolutely vital.

Chambers of Commerce can also provide efficient services like in Austria where they manage the apprenticeship system so well that they enjoy the lowest unemployment rate in Europe today.

I would invite ICC to team up with the OECD in order to help us to:

a) Get as many countries as possible into the SME finance scoreboard and to
b) Build within the BIAC a network of SME Associations and Chambers of Commerce to promote policies that put small businesses first, that will restore hope to the youth.

This is why we have to work together!