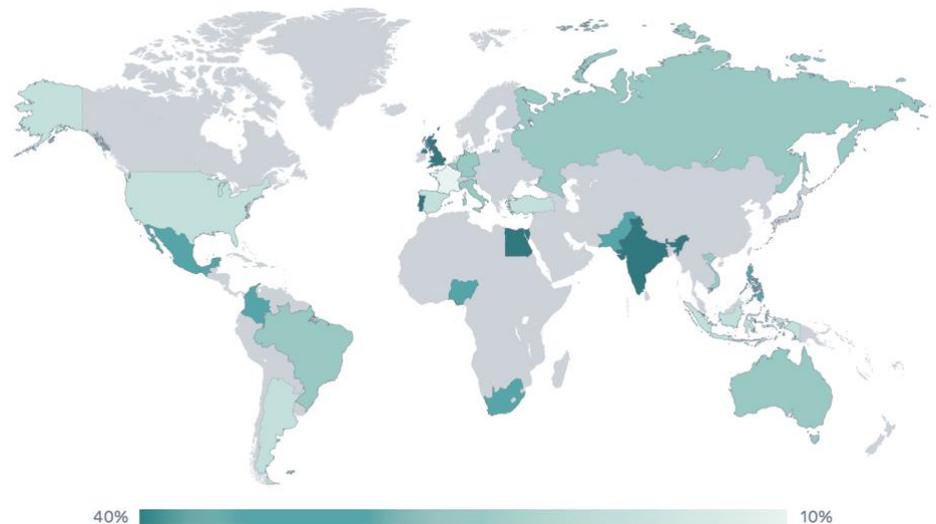


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Introduction

Small and medium-sized enterprises (SMEs) are the backbone of every country's economy. According to the World Bank, SMEs account for around 90% of companies and more than half of all jobs in the globe. Particularly, in the European Union and the United States of America, they represent over 99% of all enterprises and generate jobs for 47.1% of all U.S. employees. They provide the main source of business employment, strengthen productivity and inclusive growth, and play a critical role in driving economic development. In simplest terms, small and medium-sized enterprises are firms with fewer than a set number of employees, and this number varies from 50 to 500 across countries. Not only are SMEs crucial for developed economies, but they also largely contribute to the growth of emerging economies. In the latter, SMEs create about 70% of all formal jobs.

From these numbers, it is evident that SMEs are largely significant for both economic growth and employment worldwide. Thus, when the SME sector suffers a setback, the whole market and employment will suffer as well. Indeed, compared to large companies, small to medium firms are especially vulnerable to external market disturbances and severe economic circumstances. Major entrepreneurial risks for SMEs include low productivity, limited access to finance, poor labor quality, lack of market demand, changes in taxation policy, etc. In contrast, large



Proportion of SMEs with reduced employment since the outbreak of COVID-19, by country or territory.



Numerous SMEs were forced to close due to the pandemic.

corporations possess large amounts of resources, target their products and services at a wider market, and have better productivity. These factors all together produce a wide gap between SMEs and large enterprises.

Consequently, reducing the gap between SMEs and large enterprises is imperative. It is expected that by taking appropriate actions, a developing SME sector would help countries around the world with overcoming productivity, equality, and innovation barriers.

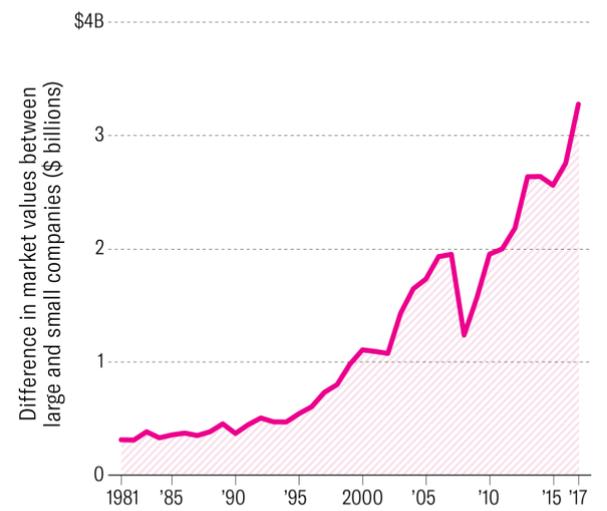
Background

Since the beginning of the global COVID-19 pandemic, small and medium-sized businesses have suffered a substantial blow. According to the 2021 Global State of Small Business Report published by Facebook, almost a quarter (24%) of SMEs are still not operational by February 2021, and around half of all the SME owners are not confident if their businesses can maintain in operation. Despite some partial rebounds from early 2020, the global trend continues because of the resurgence of cases of COVID-19.

It's not new for small businesses to encounter more difficulties in operating than larger companies. The contrast between small-to-medium and large companies has been rising ever since the 1990s, as shown by a study on U.S. companies. This performance gap has reached \$3.5 billion in 2017.

A central method globally used to control the spread of the pandemic is social distancing. While this measure has helped the world with reducing infection cases, it has also exacerbated the pressure on SMEs and enlarged the existing gap between SMEs and large companies. Although the pandemic affected companies regardless of size, SMEs generally experienced harder hits because they are less resilient to economic shocks. A stagnation for merely one month would lead to serious liquidity problems for them. Thus, these public health interventions restricted business activities, which in turn eliminated consumer spending. Then, because of

The Size Difference Between Large and Small U.S. Companies Is Growing



Note: Large companies are defined as those with the top 30% of market values, and small companies are those with the bottom 30%. Market values are medians calculated on an annual basis and are in 1981 values, adjusted for inflation. Source: Vijay Govindarajan et al., based on data from Compustat



Even before COVID-19, the gap between SMEs and large enterprises was increasing.



tightened cash flow, it’s not difficult to understand why many SMEs had to shut down temporarily or fall into insolvency during COVID-19. While the large corporations continue to function or even become bigger, SME owners continue to anticipate growth in the distance between small and large businesses. If only large businesses could survive, the economy and the whole society will ultimately undergo serious disasters such as a sharp drop-in employment rate, decrease in productivity, and intensification of poverty.

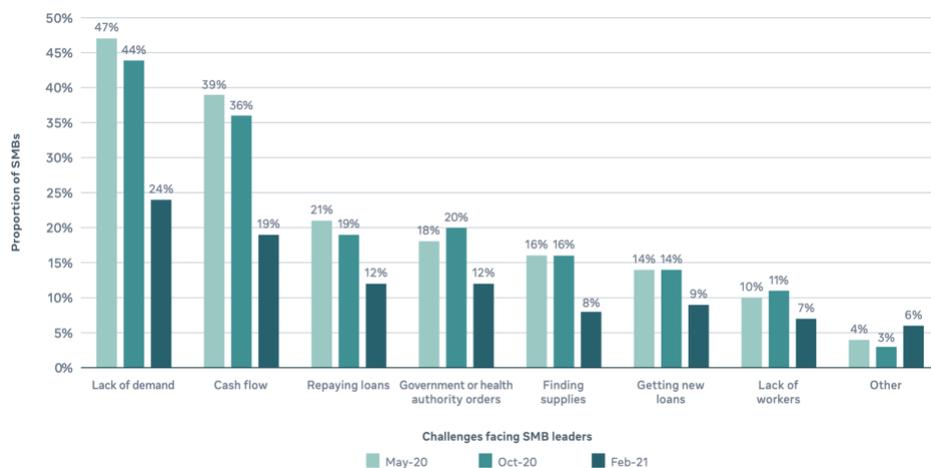
Problems Raised

Decreased Demand

Decreased demand is one of the major, if not biggest, challenges facing small and medium-sized enterprise owners. Customers may minimize purchasing to compensate for lower incomes during the pandemic period. Statistically, 24% of 36,354 surveyed business leaders consider lowered demand as a significant issue for operation. Even if some businesses can continue opening, the demand shock and mobility-reducing public health interventions post restrictions and challenges for them. In January 2021, 55% of SMEs worldwide reported lower sales than the previous year, when COVID-19 has not struck the global market yet. This number varies across the world, while Europe is particularly influenced negatively.

The unpromising future for SMEs is not only shown by the number of businesses indicating a drop in sales, but also by the size of the reductions, which appeared to be associated with the strength of public health interventions. For instance, in the United Kingdom, more than a third (37%) of the businesses reported that their sales have experienced over 50% decrease in demand. This demonstrates that small business sales and lockdown measures are closely connected, meaning that this trend of

decreased sales and demand will likely continue until the end of the pandemic. As such, many SMEs expect that they may not be able to continue to operate if current conditions continue much longer.



Lack of demand and limited cash flow are the two most cited challenges by SME leaders.

Limited Access to Finance

The COVID-19 restrictions put a strain on the financial situations of SMEs. Small and medium-sized enterprises are less likely to gain bank loans in comparison to large companies. Even before the pandemic, statistics show lack of finance has been cited as a major reason for the failure of 29% of new businesses. This means that financing has always been an obstacle in the development of SMEs. The disparity can be seen in the different financing strategies taken by the small and medium-sized business entrepreneurs in contrast to the large company owners. The former relies primarily on personal savings, small loans from banks, or loans from family and friends to raise money for starting businesses or funding projects. In comparison, large businesses can raise funds by issuing public stock and corporate bonds. Globally, there exists a finance gap as large as \$5.2 trillion for formal small and medium-sized enterprises. Around half of formal SMEs don't have access to formal credit. Due to a lack of appropriate finance, SMEs will have difficulty producing the revenues required to continue operating their businesses, finally leading to insolvency. Therefore, finding access to formal financing sources, such as bank loans and governmental grants, is a major issue facing SMEs.

International Actions

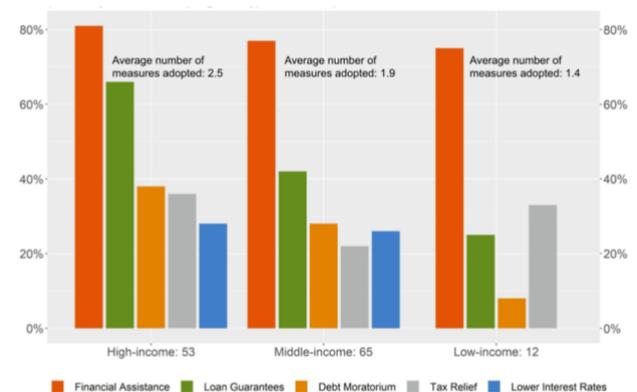
Introduction of SME Specific Policies

Many countries have put measures in place to support SMEs during this special time. Across countries, the most widely used instruments in response to the outbreak are financial assistance such as grants, loan guarantees and direct lending to SMEs, and wage subsidies. However, the pattern of policy response varies across countries. High-income countries generally adopt 2.5 measures on average; on the other hand, no low-income country implements more than two initiatives with their average number of measures adopted being 1.4. An example of an effective fiscal program is the Coronavirus Aid, Relief, and Economic Security (CARES) Act supplied by the U.S. government. This act dedicates a \$367 billion loan and grant program for small businesses.

Support for small firms

Many countries have taken one or more measures to support small businesses during COVID-19. Most used financial assistance and loan guarantees.

(percent of countries adopting each type of measure)



Sources: IMF's Financial Access COVID-19 Policy Tracker and IMF staff calculations.

Note: The information in the policy tracker is collected from publicly available sources, inputs from various departments of the IMF, as well as feedback received from country authorities. The policy tracker is regularly updated and the chart uses information from the latest version (January 2021).

INTERNATIONAL MONETARY FUND

The types and numbers of assistance measures taken by countries vary among high-, middle-, and low-income countries.



TIANMUN

International SME Support

Besides governments, numerous organizations have also issued SME grants, some designed especially for women, minorities, and veterans. Taking the British Business Bank as an example, the Coronavirus Business Interruption Loan Scheme (CBILS) delivered by this organization focuses on assisting SMEs in the UK that are losing income and experiencing cash flow problems.

Key Players

The World Bank

The World Bank is an international financial institution that aims to eliminate world poverty. Made up of 188 member countries and 5 body institutions, the World Bank “provides financing, policy advice, and technical assistance to governments of developing countries.” A major component of the World Bank’s activity is helping SMEs obtain funding and facilitate innovation.



A significant work done by the World Bank to help SMEs is the Advisory and Policy Support for SME. Diagnostics, implementation assistance, and worldwide awareness promotion are the main categories. For example, the organization’s loan operations include SME Lines of Credit, Partial Credit Guarantee Schemes (PCGs), and the Early-Stage Innovation Finance, all of which are targeted to help SMEs with financing. The World Bank has provided billions of dollars to support small and medium-sized companies around the world.

International Trade Center

Established in 1964, the International Trade Center is “the only international organization fully dedicated to supporting the competitiveness of micro, small and medium-sized enterprises (MSMEs).” It helps SMEs in emerging and transitioning economies become more competitive and connect to worldwide markets. In terms of SMEs during the pandemic, it actively tracks the impact of COVID-19 on SMEs and specially focuses on those in developing nations.



Possible Solutions

Continue with Tax, Finance, and Labor Support

When asked what kind of support they want, 64% to 70% of small and medium-sized companies responded that tax waivers or temporary tax breaks are the most demanded ones, followed by financial programs (61% to 63%) and employment programs (28% to 37%). Enterprises are still concerned about maintaining liquidity and retaining their workforce. Hence, countries, with the support from NGOs, should continue adopting and implementing tax, finance, and labor policies measures to help SMEs survive in the pandemic. This may include deferral of tax, loan guarantees, direct lending, wage subsidies, working time shortening, and sick leave.

Micro	Small	Medium	Large
Financial programmes 59%	Tax waivers or temporary tax breaks 64%	Tax waivers or temporary tax breaks 70%	Tax waivers or temporary tax breaks 71%
Tax waivers or temporary tax breaks 54%	Financial programmes 61%	Financial programmes 63%	Financial programmes 64%
Support to self-employed people 36%	Rent subsidies 34%	Employment programmes 37%	Employment programmes 39%
Rent subsidies 31%	Cash transfers 33%	Rent subsidies 29%	Rent subsidies 28%
Employment programmes 27%	Support to self-employed people 29%	Support to self-employed people 22%	Reduction of tariffs on imported inputs 27%
Cash transfers 24%	Employment programmes 28%	Reduction of tariffs on imported inputs 21%	Cash transfers 17%
Reduction of tariffs on imported inputs 16%	Reduction of tariffs on imported inputs 15%	Cash transfers 19%	Support to self-employed people 15%
Other 6%	Other 4%	Other 4%	Other 4%

Most corporations favor tax waivers and financial programs.

Increase Digitalization

Digital tools are vital for SMEs in adapting and reaching customers when the in-person connection is disabled, as over one quarter (26%) of SMEs have confirmed this statement. Businesses can increase their participation in e-commerce, digitize their methods of communicating with customers, and develop an online working environment. This would help SMEs with narrowing the digital gap relative to larger firms.

Although several countries¹ have already introduced relevant measures, less developed countries, where small businesses especially lack support, still need to follow up with this trend. Thus, they can take policies issued by more developed countries for reference. For instance, China initiated a program that helps SMEs with utilizing new technology and



A thriving street filled with small and medium-sized enterprises.

¹ By July 15, 2020, countries who have implemented teleworking/digitalization measures include Argentina, Austria, Chile, China, Estonia, France, Germany, Greece, Indonesia, Ireland, Italy, Japan, South Korea, Latvia, Mexico, Malaysia, Slovenia, and Spain (this may not be an exhaustive list).



business practices and developing teleworking. Examples of new digital business practices include unmanned retail, remote office, and online shopping.

Support Innovation

After sustaining themselves in COVID-19, SMEs must foster their innovation and competitiveness as compared to large firms. Researchers from Harvard Business Review point out that innovation and flexibility are the key factors that allow large companies to maintain their dominant positions. On the other hand, smaller companies must accommodate with the economy by producing new ideas. They can treat COVID-19 as an opportunity rather than a challenge, and innovation assistance measures display their significance at this point because they help reduce the gap from the root. Governments may launch grants programs and introduce subsidies targeting SMEs to promote their innovation.

Glossary

Small and Medium-sized Enterprises (SMEs)

Small and Medium-sized enterprises are defined as “non-subsiary, independent firms which employ fewer than a given number of employees.” Each country sets its own limit for defining SMEs, and the most frequently appearing number is 250 employees as in the European Union nations. Some other countries restrain this number to 200 employees, while the United States defines corporations with less than 500 employees as SMEs.



Financial assets, revenue, and other factors are also used to classify small and medium-sized enterprises. Taking the European Union standard as an example, to be a SME, a company’s turnover must not exceed 50 million euros. Common types of SMEs include dental clinics, law offices, hair salons, gyms, etc.

Large Enterprises

According to Insee, a large enterprise is defined as one that meets at least one of the following two criteria: “has at least 5,000 employees,” and/or “has an annual turnover greater than 1.5 billion euros and a balance sheet total of more than 2 billion euros.” Another site statistically defines a large enterprise as

one with 250 or more employees. Generally, large enterprises share characteristics such as wide access to funding and strong resilience to an economic shock.



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