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Messages from T20 Tokyo Summit 2019: Challenges and proposals for SME policies in G20 countries

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KEYWORDS

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Introduction

On behalf of the G20 Summit 2019, which was held in Osaka, Japan on June 28–29, 2019 under the Japanese presidency, 10 task forces (TFs) 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 Technologies* is one of the TFs proposed by the host institution (Asian Development Bank Institute [ADBI]). It is noteworthy that T20 2019 established a TF for small and medium-sized enterprise (SME) policy, probably for the first time in the history of G20 and T20, recognizing its increasing importance for G20 countries. It is surely useful to share this information with all the members of the International Council for Small Business and its affiliations, including researchers, policy makers, practitioners, and entrepreneurs.

As the lead cochair of TF 9, I present in this report some major challenges and proposals for SME policy (covering micro firms) in G20 member countries based on the Policy Briefs of TF 9. I have been working as the lead cochair of TF 9 since September 2018. Closely collaborating with ADBI and the Research Institute of Economy, Trade, and Industry, I was able to recruit some top researchers and experts of SME policy worldwide, including Prof. Massimo Colombo (Politecnico di Milano, Italy), Prof. Erik Stam (Utrecht University, the Netherlands), Dr. Dong-Soo Kang (Korean Development Institute, South Korea), and Dr. Ing-Kuen Lai (ITRI-ISTI, Taiwan) who supported the Asia Council for Small Business (ACSB) Tokyo Conference in September 2018 as keynote speakers or invited panelists. More information about T20 2019 can be found at the official website (<https://t20japan.org/>), as well as more details of the TFs and the policy briefs.

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) account for 99.7 percent of firms, employing approximately 70 percent of the workforce. In the manufacturing sector, they produce about half of the value added. 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 of no use to propose one-fits-all policy proposals for all types of SMEs in each country. Nevertheless, we selected some 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 focuses on the following six fields in providing Policy Briefs for the T20 in 2019:

- (1) Promoting Support for Start-ups (lead author: Yuji Honjo, Chuo University, Japan)
- (2) Promoting SME R&D [research and development] and Innovation (lead author: Hiroyuki Okamuro, Hitotsubashi University, Japan)
- (3) Digital Innovation Can Improve Financial Access for SMEs (lead author: Naoko Nemoto, Asian Development Bank Institute and Waseda University, Japan)
- (4) Promoting Investment in Human Capital and Labor Mobility: Making the Entrepreneurial Economy Work (lead author: Erik Stam, Utrecht University, the Netherlands)
- (5) Fostering Greater SME Participation in a Globally Integrated Economy (lead author: Miriam Koreen, Organisation for Economic Co-Operation and Development [OECD])
- (6) Business Transfer as an Engine for SME Growth (lead author: Miriam Koreen, OECD)

Let me explain in detail the first three of these policy proposals (start-ups, innovation, and financial access), which have been headed by Japanese researchers, including myself, in the following sections. Because the topics of business transfers and human capital (labor mobility) are closely related to start-up support, I will briefly refer also to these subjects in the next section.

Challenges and policy proposals for start-ups

Start-ups are often expected to contribute to the development and revitalization of national and regional economies. Some start-ups play a critical role in innovation and market competition, which in turn creates employment and

spurs growth both in local and national economies. 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 start-ups 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:

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

2. Building effective entrepreneurial ecosystems:

- (a) Stimulate younger firms to develop entrepreneurial ecosystems.
- (b) Develop financial channels related to private equity capital, including venture capitalists, angel investors, and crowdfunding.
- (c) Improve access to technological knowledge, including licensing of intellectual property from universities and public research institutes and support for collaboration in a timely manner.
- (d) Support joint research leading to commercialization of unused technologies developed in universities and large companies.
- (e) Provide effective support for high-tech start-ups, including financial incentives related to tax breaks to encourage investment.
- (f) Establish governance rules to sustain vibrant entrepreneurial ecosystems.
- (g) Improve private equity markets to facilitate strategic exits.
- (h) Reduce both exit and entry barriers for entrepreneurial recycling.
- (i) Share information to develop ecosystems.

3. Promotion of global start-ups:

- (a) Ease time-consuming and costly administrative procedures.
- (b) Simplify systems and procedures for business start-ups and tax systems.
- (c) Understand the conditions of global start-ups 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, which is especially serious in Japan, the volume of business transfers is expected to increase sharply. Successful business transfers of economically sound SMEs are crucial to retaining 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 policy programs: (a) raising awareness of the business transfer problems, (b) increasing the number of potential business successors, (c) ensuring appropriate financing conditions for business successors, and (d) considering tax consequences of business transfers. These proposals for successful business transfers are explained in more detail in the policy brief, “Business Transfer as an Engine for SME Growth.”

Promoting start-ups 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. These issues are discussed in more detail in the policy brief, “Promoting Investment in Human Capital and Labor Mobility: Making the Entrepreneurial Economy Work.”

Challenges and policy proposals for R&D and innovation

Innovation is a major engine of economic growth. SMEs are expected to contribute to innovation. However, it is widely known that SMEs’ contribution to 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:
 - (a) Rebuild incentive schemes based on empirical evidence.
 - (b) Pay more attention to demand-side support (public procurement of innovative products) and “soft” support for R&D, including matching, networking, consulting, and mentoring.
2. Promoting public–private partnership for R&D investment in SMEs:
 - (a) Develop human resources who can appropriately evaluate growth and innovation potential.
 - (b) Build intensive networks of investors, banks, and SMEs that provide open access to investment opportunities.
 - (c) Encourage combinations of public and private investments to increase SMEs' opportunities (matching funds and public venture capital).
3. More efficient search for potential R&D partners:
 - (a) Construct comprehensive databases to link SMEs with other firms, universities, and public research institutes.
 - (b) 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 intellectual property rights (IPR):
 - (a) Improve the IP literacy of SMEs and design more “SME-friendly” IP systems.
 - (b) Provide professional and legal support to protect SMEs' innovation against IPR litigation.
 - (c) Provide better and easier access to the IPR database, including trademarks and copyrights.

Challenges and policy proposals for SME financing with FinTech

SMEs go through several phases in their life cycles—start-ups, 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 start-up firms. In general, SMEs in G20 countries face the problems of limited access to bank lending due to information asymmetry and (nevertheless) over-reliance on bank debt. Therefore, we propose to improve SMEs' financial

access by utilizing new financial technologies (FinTech) in the following way.

1. Improving traditional lending using new technology and big data:
 - (a) Develop process automation, including the online application, automation of underwriting, and so on; cloud-based accounting; and digital payment.
 - (b) Encourage innovative use of technology and data sharing, such as credit scoring, e-commerce transactions, and evaluating intangible assets.
 - (c) Enhance credit guarantee programs.
2. Broadening the range of financing:
 - (a) Form special investment funds for SMEs, initiated by the public sector.
 - (b) Improve SME access to capital markets (including foreign markets).
3. Enhancing the consultative functions of financial institutions:
 - (a) Develop an effective ecosystem more broadly among public entities, universities, and the private sector.
 - (b) Take proactive steps to support business succession.
4. Designing an appropriate regulatory environment for FinTech:
 - (a) 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.
 - (b) Run a regulatory sandbox to allow selected firms to test new models on the market.
 - (c) 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 matters for SMEs in each G20 country. Here, however, we focused on economic challenges and policy issues and discussed 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 policymaking (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 international scientific journals. It is not a coincidence that the conference topic of the ACSB 2018 Tokyo Conference was EBPM for SMEs. It is also noteworthy from the viewpoint of efficient EBPM that every support program for SMEs should be subject to constant, independent monitoring and evaluation by a third party, which should be inserted into relevant laws and ordinances.

Our proposals in the Policy Briefs of TF 9 with key recommendations were presented and discussed at the T20 Tokyo Summit at the end of May 2019. I sincerely hope that our proposals for SME policy will be seriously considered and reflected in actual policy making soon and contribute to substantial improvement in SME policies worldwide, even beyond the G20 countries, in the near future. I recognize that it is not easy even for an optimal policy program to be implemented appropriately because of political biases and incapability. Therefore, more effective collaboration of academic researchers, policy makers, and practitioners for SME policy making is necessary.

Disclosure statement

No potential conflict of interest was reported by the author.

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