THE GLOBAL FINANCIAL CRISIS: IMPACTS ON SMES AND PUBLIC POLICY RESPONSES

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The study analyses responses from senior government officials from 12 APEC economies that provide extensive descriptions of SME policies that had been in place prior to the GFC and that also detail how programs may have been expanded, and describes new programs that may have been added, specifically to deal with the GFC. This analysis is combined with a parallel OECD assessment to arrive at a comprehensive taxonomy of initiatives. In order to assess the extent to which the governments’ measures address the challenges faced by SMEs, the taxonomy of initiatives is tabulated against a rank-ordered listing of the issues identified by SMEs. This allows identification of gaps that existing and new government schemes have yet to deal with.

INTRODUCTION

Since 2008, the global financial crisis (GFC) had, and continues to have, profound effects on all sectors and across most economies. SMEs have been particularly affected by crisis: demand has fallen, suppliers are less likely to sell on credit; clients are more likely to postpone payments; banks and investors are more conservative; and national and international markets are shrinking. Relative to large firms, SMEs possess more limited capital and other resources; SMEs have fewer financing sources; they have weaker financial structures; and, due to their small sizes, it is extremely challenging for SMEs to downsize or diversify economic activities. Therefore, it is relatively more difficult for SMEs to survive this difficult economic situation. Accordingly, this research examines the ways in which the global financial crisis (GFC) has impacted small- and medium-sized enterprises (SMEs) together with programs and initiatives with which governments have responded in efforts to mitigate the effects of the downturn.

The survival (and growth) of SMEs is essential for economies all over the world. It is widely understood that the birth and growth of SMEs disproportionately create job opportunities and add to the well-being of national and regional economies. For instance, employees of SMEs account for more than 50 percent of the private sector labour force in the Organization for Economic Co-operation and Development (OECD) member countries. SMEs also contribute substantively to countries’ Gross Domestic Product (GDP). Moreover, SMEs spur innovation. Consequently, governments often craft policy measures designed to improve the environment for SMEs. Given the importance of SMEs and the difficult situation they face due to the global financial crisis, this work explores the impact that the financial crisis had on SMEs and governments’ responses to the issue. Specifically, this paper seeks to answer the following questions:

- In what ways has the GFC had an impact on SMEs and how severe were the repercussions? It is understood that the GFC has affected SMEs’ financing and markets; however, to what extent did it also impact other aspects of SMEs’ business and how severe were any such impacts? This research will seek to detail the impacts of the GFC on SMEs.
In which ways have governments responded to SMEs' needs? Because SMEs are so important to economic prosperity, it stands to reason that governments should help them to survive this financial crisis. This work will describe policy measures that several national governments enacted to assist SMEs in coping with the GFC.

Finally, the work will map the goals of policy measures enacted by governments against the needs of SMEs to explore the extent to which gaps between needs and remedial measures might persist.

To address these issues, the paper is organized as follows. A review of salient literature follows this introductory section. On the basis of the literature, a series of research propositions is developed and are set forth in the third section. A description of the data and methods employed in the work follows along with empirical findings. The paper closes with a summary, discussion and consideration of limitations and future research.

**LITERATURE REVIEW**

**Background**  
SMEs play a particularly important role in economic development: SMEs generate a disproportionate share of job opportunities; SMEs contribute substantively to the Gross Domestic Product (GDP); and SMEs spur innovation. Prior to the global financial crisis, SMEs already faced multiple obstacles. For example, a 2004 survey by Statistics Canada, reports that SMEs’ main impediment to growth was levels of taxation: 47% of SMEs reported this as a serious problem. This was followed by low profitability: 38% of SMEs reported this as a severe issue. Business owners also identified finding qualified labour, consumer instability, insurance rates, and government regulations as barriers to SME growth, with about one third of SMEs reporting each of the above issues as serious problems. When the same survey was repeated in 2007, 56% of SMEs listed rising business costs as a severe obstacle. Finding qualified labour was the second most-frequently cited issue, with 41% SMEs considering it as a serious obstacle. Chart 1 is drawn from a 2007 survey undertaken by the Canadian Manufacturers & Exporters Association and shows challenges SME owners’ anticipate.

**Chart 1: SME Owners Anticipated Challenges**

<table>
<thead>
<tr>
<th>Keeping costs under control</th>
<th>Responding to dollar appreciation</th>
<th>Improving workforce productivity/flexibility</th>
<th>Attracting &amp; retaining skilled workers</th>
<th>Growing market share in Canada</th>
<th>Responding to customer demand</th>
<th>Defending market share in Canada</th>
<th>Keeping pace with innovation</th>
<th>Growing market share in the U.S.</th>
<th>Defending market share in the U.S.</th>
<th>Growing market share in other countries</th>
<th>Accessing capital</th>
<th>Defending market share in other countries</th>
<th>Managing mergers or acquisitions</th>
<th>Attracting investment &amp; product mandates</th>
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<tr>
<td></td>
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<td>57%</td>
<td>40%</td>
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Source: Canadian Manufacturers & Exporters, 2007-2008 *Management issues survey*

These problems were not only issues for Canadian firms. In order countries, SMEs face these and other problems, including bureaucratic red tape, fiscal constraints (including high taxes), financial constraints, and the institutional environment (Bartlett, 2001; Hashi, 2001). For these reasons, governments at all levels
have implemented a variety of programs and initiatives to encourage the formation, survival and growth of small enterprises (see Lundström and Stevenson (2005) for a comprehensive discussion of these. Some policies (such as tax reduction) aim at expanding the market; others (such as loan guarantee programs) seek to redress financing difficulties; and others (such as reducing social security charges) target the labour market (OECD, 2009c). Examples include:

- **Tax policy.** For example, tax rates for small firms in Canada included low rates (12% for firms with income less than $200,000 in income (RBC 2002).
- **Regulatory frameworks.**
- **Bureaucratic delays.** For example, the ease with which—and the time it takes—to start a new business varies widely across countries.
- **Labour market policies.** For example, the regulatory burden associated with labour market controls on hiring and firing employees varies widely.
- **Product market regulatory barriers.** These may include regulations governing labeling, safety, etc.
- **Access to finance.** For example, more than 170 countries had implemented loan guarantee programs prior to the GFC.
- **Government procurement.** In some nations, governments have clearly-articulated policies with respect to SMEs’ access to government business.

Among the various approaches there is a belief that governments have tended to focus on remedies that relate to access to financial capital. For example, according to Aernoudt (2005, p.359):

“Government policy to stimulate growth, innovation and especially the creation of new enterprises is rather focused on access to finance mainly through increasing the supply of capital. As formal venture capitalists are moving towards larger deals and shifting their investments to a later stage of development, creating a ‘second’ equity gap, business angels become more important in the financing of seed, early stage and second round phases. Government policy to stimulate [angel] financing should hence be considered as a priority”.

### Impacts of the GFC on SMEs

The GFC has severely impacted SMEs. SMEs are more vulnerable because they are smaller and, relative to large firms, rely more on external financial resources. Their small size makes it difficult for them to downsize during a crisis, less diversified in economic activities, and weakens their financial structures. Moreover, they often have lower or no credit ratings, and fewer financing options, but were still heavily dependent on credit (OECD, 2009c). These factors have made SMEs more sensitive to the GFC.

The impacts of the GFC originate in the product markets. Of course, the virtual collapse of the housing market in the US has had a global effect. The resulting drop in demand for construction services and materials has depressed the demand for commodities and energy, and has had a ripple (tidal wave?) effect on new automobile sales and the auto industry that has been widely reported. Hodorogel (2009, p. 81) observes that many SME customers have gone bankrupt, and international trade also decreased drastically: that “[there was] a market decline in the demand for products and services, considerable variations in the exchange rate, and inflation.”

One result is an endemic shortage of working capital and a decrease in liquidity. This results, in part, from increased payment delays on receivables and increases in unsold inventories. Constrictions in working capital have also followed from an increase in reported defaults, insolvencies and bankruptcies. For example, the OECD (2009c, p.7), reports that:

“... in Belgium 43% of surveyed SMEs recently experienced extended delays in their receivables and in the Netherlands 50% of SMEs have to deal with longer payment terms from their customers. In New Zealand, the share of enterprises waiting over 60 days for payment has risen dramatically from 4.8% to 29.5% between February 2007 and 2008. In Denmark, Italy, Ireland, Norway and Spain, the surge in corporate insolvencies was higher than 25%. In Sweden ... bankruptcies increased over 50% in the first two months of 2009 compared to the same period in 2008.
Although the OECD reports distinguish between a shortage of working capital and decrease of liquidity, the former is actually a symptom of the later. The GFC has made it much harder for SMEs to access bank financing:

“The stagnation in lending is true even of banks in countries where governments have deliberately strengthened banks’ balance sheets to allow them to grant additional credit to SMEs and/or where credit guarantee schemes exist” (OECD, 2009c, p.7).

In Europe, debt offerings and private placements decreased by 77% to $1.1 B (Dorey, 2009, p.16-17). In Canada, the overall debt approval rate fell to 79% in 2009 from 94% in 2007 and 83% in 2004. For young entrepreneurs, the 2009 the loan approval rate was only 51% (Industry Canada, 2009). In the United States, lending to SMEs fell from $710 billion to $670 billion, a decrease of almost six percent during a period when consumer demand had dropped precipitously (Robertson, 2010). Consequently, SMEs have faced severe constraints on liquidity. This has manifested in various ways, for example (Anonymous, 2010):

I have had six vendors to our company, all smaller firms which have asked for early billing and payment of invoices for their services. Some are not shy about describing a need for cash. ... One part of the economy is small business which is cash strapped, not hiring, fearful of the future, and which sees a raft of new regulation/costs headed its way, which it will find difficult to handle -- so small business pulls in its horns. Creator of about 2/3 of all new jobs, small business is sending a very negative signal on the economy.

The shortage of financial capital is not limited to the banking system. According to the OECD (2009b, p.5), “Access to venture capital and private equity also appears to be constrained.”

Fund raising has dropped since the GFC. Tam (2010, wsj.com) notes that in 2009, “125 venture funds in the U.S. collected $13.6 billion, down from 203 funds that raised $28.7 billion in 2008 and down from 217 funds that raised $40.8 billion in 2007.”

Investment amounts have also dropped dramatically. According to Dorey (2009, p.16-17), “Overall capital raised by European biotechs fell from €5.5bn in 2007 to less than €2bn in 2008.”

In the US., OECD (2009a, p.3) reports that “total [venture capital] investment in the first quarter of 2009 was down 60 percent as compared with the first quarter of 2008, while first sequence investment was down 65 %.”

“IPOs are virtually non-existent in the current financial crisis; in Europe, the amount of capital raised in IPOs in 2008 plummeted by 89% to $111 M” (Dorey, 2009, p.16-17).

Although risk capital financing from institutional investors does not constitute a large proportion of total external financing, the downturn of venture capital and private equity has a major impact on the growth-oriented SMEs that account for a disproportionate share of job creation and economic welfare. Hence, innovation is also affected by the GFC. As the availability of financing becomes further constrained, investment in R&D is compromised: “Corporate reports for the fourth quarter of 2008 in many cases already show a decline or slower growth in R&D spending” (OECD, 2009a, P.3) and “High tech industries (like IT, aeronautics or pharmaceuticals) and knowledge-intensive services (like financial services) are announcing layoffs almost daily” (OECD, 2009a, p.5).

Of course, it is not entirely negative as the GFC also has created opportunities for new businesses (OECD, 2009a, p.4):

“New business models and new technologies, particularly those allowing a reduction in cost, often arise in downturns, as was the case with low-cost airlines which grew out of the recession of the early 1990s. Many of today’s leading firms such as Microsoft or Nokia were born or transformed during economic contractions. As dominant players weaken, they open space for new players and innovators”.

In summary, the literature details the ways in which the GFC has impacted the situation of SMEs with respect to the product market, working capital, and innovation. Although the literature provides a sense of the negative impacts of the GFC on SMEs, it largely ignores that impacts are inter-related and may exacerbate each other. Governments have responded by implementing “anti-crisis packages” that include a variety of measures to assist SMEs.
Government responses to assist SMEs after the GFC

After the financial crisis, many governments adopted “anti-crisis packages” which often included measures to help SMEs survive the collapse. The OECD reports that these policy responses typically included (OECD, 2009c, p.9):

“three lines of action: stimulation of demand (consumption packages, infrastructure programs, tax policies); credit enhancement measures, including recapitalization of banks which, in some cases, include explicit provisions or mechanisms to preserve or enhance banks’ capacity for financing SMEs such as public credit guarantees; and labour-market measures (reduced employment taxes or social security charges and extended temporary unemployment programs)”.

Stimulation of demand. The measures for demand stimulation included a number of short-term actions to support cash flow, working capital, and sales:

- To help maintain or increase cash flow, some countries such as France and Germany, allowed accelerated depreciation for investments already undertaken. Other countries, such as Japan, Netherlands, Canada, the Czech Republic, France, and Spain, provided tax credits, cuts, deferrals, and refunds (OECD, 2009c). In Vietnam, “SMEs may benefit from 30% Corporate Income Tax (CIT) payable deduction; an extension of up to nine months for the deadline of submission of the tax payable of 2009; and a temporary refund of 90% input Value Added Tax (VAT) for exported goods without justifiable payment documents” (LE Thi Thuy Van, 2009).
- To help address the depletion of SMEs’ working capital and easing SMEs’ liquidity, governments adopted “either legal moves to shorten payment delays and enforce payment discipline (France) or reduction of government payment delays (Australia, France, Hungary, Italy, the Netherlands, New Zealand, UK)” (OECD, 2009a, p.31).
- To help alleviate the sales shock on export markets and strengthen enterprises’ liquidity, some highly internationalized countries have put in place or reinforced existing export financing or guarantee facilities, including “dedicated export credit lines (Canada, Chile, Czech Republic, Denmark, Mexico, Slovenia), credit insurance mechanisms (Germany, Luxembourg, New Zealand and the Netherlands), investment credit for exporting SMEs (Mexico), and general support for internalization and competitiveness of SMEs (Austria, Italy, Spain)” (OECD, 2009c, p.31).

Credit enhancement measures are aimed at enhancing SMEs’ access to liquidity, particularly with regard to bank lending. According to the OECD (2009c, p.31), governments are using two different approaches:

- “on the incentive side, the creation and extension of guarantee schemes for loans to SMEs, or when that fails direct public lending” (loan guarantee schemes);
- “on the discipline or sanction side, setting targets for SME lending for banks that have been recapitalized by public monies, putting them under administrative monitoring or putting in place specific procedures to solve problems between individual SMEs and banks” (mediation and monitoring schemes).

Loan guarantee schemes have been widely used. For EU member countries (OECD, 2009c, P.32), “... the potential leverage effect of public guarantees on SME bank lending has been further extended by the decision of the European Commission to temporarily authorize Member States to ease access to finance for companies through subsidies guarantees and loan subsidies for investments.”

For example, “Greece introduced a new credit guarantee scheme which recorded €2.2 billion credit guarantee provision for SME working capital for its first three months” (OECD, 2009c, P.32). In France, this easing of rules made it possible for the guarantee schemes to cover up to 90% of the risks related to a loan as compared to what was previously 50 to 60% on average. The UK guarantees 75% of the loan and Korea, 100%. Japan, in principle, guarantees 80% of the loan, however there are some exceptional cases of 100% coverage. Almost all reporting countries have enhanced, or implemented, a SME-specific or general credit guarantee scheme. The exceptions are Australia and New Zealand, which do not have a credit guarantee scheme at all as well as Denmark, which has maintained its credit guarantee scheme as it was
before the crisis (OECD, 2009c). There are also some private guarantee schemes. “The Association Europeenne de Cautionement Mutuel (AECM), which is composed of non-profit organizations giving SME credit guarantees, has provided 55 billion Euros for 1.6 million SMEs (roughly 8% of total SMEs in the EU). AECM members have knowledge of the local context and the SME sector and therefore they can undertake a reliable individual risk analysis of each loan” (OECD, 2009c, p.33).

Certain countries also use mediation and monitoring schemes. OECD (2009c, p.34) reports that, “Belgium and France have appointed a credit mediator, who at regional and central levels, may intervene to ease difficulties and help solve divergences between enterprises and banks. The UK has established the SME Lending Monitoring Panel. In the US, the Government has chosen to strictly monitor, on a monthly basis, the credit activities of banks that have been rescued by public funding.”

**Strengthening pro investment measures.** To encourage SMEs’ long-term investments, some governments have used measures to strengthen SMEs’ capital base or to develop their productive capacities, or to undertake both activities. Countries such as the U.S. used tax incentives; countries such as Germany, Austria, the Czech Republic, Hungary, and Spain, provided specific funding possibilities such as grants or credit to SMEs (OECD, 2009c).

**Strengthening the capital base, private equity and venture capital.** Governments also used measures to strengthen the equity base of SMEs. These measures “... range from private public partnerships (Finland) to ad hoc programmes (Austria, Chile, Hungary, Mexico) and international projects like the Japanese-Hungarian Venture Capital Fund. The UK is setting up the capital for Enterprise Fund with 75 million pounds (£85 million) in equity and quasi-equity. It is a mix of government and private sector funds. Korea is improving exit opportunities by activating an M&A market and enhancing the KOSDAQ” (OECD, 2009c, p.36).

In summary, governments have carried out three types of measures to help SMEs in response of the global financial crisis. The first category of intervention comprise measures to stimulate demand. This seeks to assist SMEs to coping with product market recession. It includes consumption packages, infrastructure programs, and tax policies. The second type of measure deals with financing problems and includes credit enhancement measures such as loan guarantee programs, strengthening the capital base, and stimulating private equity and venture capital. The third type of action assists SMEs on a long term basis. This includes strengthening pro-investment measures and labour-market functioning.

What is not clear is the extent to which the recently-designed programs and initiatives that seek to help SMEs over the GFC actually address SMEs challenges. The net section describes the data and methodology employed to address the question. To this end, the following research questions are posed.

- In what ways has the GFC had an impact on SMEs and how severe were the repercussions? It is understood that the GFC has affected SMEs’ financing and markets; however, to what extent did it also impact other aspects of SMEs’ business and how severe were any such impacts? This research will seek to detail the impacts of the GFC on SMEs.
- In which ways have governments responded to SMEs’ needs? Because SMEs are so important to economic prosperity, it stands to reason that governments should help them to survive this financial crisis. This work will describe policy measures that several national governments enacted to assist SMEs in coping with the GFC.

To address these questions, the work will map the goals of policy measures enacted by governments against the needs of SMEs to explore the extent to which gaps between needs and remedial measures might persist.

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**METHODOLOGICAL FRAMEWORK**

To answer the research questions, qualitative data analysis is employed. Three types of qualitative data are used. The first source of data comprises the responses to a survey commissioned by the APEC Small
Business Working Group in Fall, 2009. The survey is divided into 3 sections: the financial markets for SMEs, June 2005-June 2008; the financial markets for SMEs, June 2008 to the present (2009); and sample scenarios. Section 1 and Section 2 contain questions on the sources of credit-based financing, before and after the financial crisis, and government loans and other policies, before and after the financial crisis. Most the questions are open questions. Section 3 contains four scenarios, followed by several questions in which respondents must indicate if they agree or disagree with the statements. This survey was sent to 23 APEC member economies via the SMEWG (APEC SME working group) network, and the Small Business and Tourism Branch of Industry Canada undertook it. Completed surveys were collected by e-mail during the week of September 21, 2009. A total of 11 states completed the survey and the report on this survey is also a data source.

The second source of data is the OECD (2009) report “The impact of the global crisis on SME and entrepreneurship financing and policy responses.” This report is based on responses from 29 OECD Members and non-Members (as well as the European Commission and the European Investment Fund) to a questionnaire which covered the supply of financing to SMEs, their demand for financing, the credit conditions, loan approvals and defaults as well as information on equity financing. The responses also described in detail the policy measures taken by governments for SME and entrepreneurship financing. The shortcoming of the report is that it was published in early 2009, before the full scope of the GFC and government responses was known.

The final source of data comprises two interviews conducted with a senior policy analyst at Industry Canada and with the researcher who analyzed and reported on the APEC survey. These interviews were conducted in Fall, 2009.

Qualitative data analysis were used to analyze the data. The data were first coded, sorted by N’Vivo, analyzed, and then observed for patterns. Using the qualitative data, governments; policy responses were mapped on the various types of problems that were related to the GFC.

EMPIRICAL FINDINGS

GFC-related challenges faced by SMEs

GFC-related problems experienced by SMEs include the following.

Financing. It is a widely accepted view, in most economies, that financing is a challenge. Table 1 presents a series of statements advanced in the APEC questionnaire with which respondents were asked to agree or disagree.

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<th>Table 1: Perceptions of availability of financing</th>
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<tr>
<td><strong>Statement</strong></td>
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<td>“It was a widely-accepted view within my economy that small businesses generally face disproportionate difficulties with respect to obtaining business loans.”</td>
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<tr>
<td>“It was a widely-accepted view within economy that innovative small businesses generally face disproportionate difficulties with respect to obtaining business loans.”</td>
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<tr>
<td>“It was a widely-accepted view within my economy that the demand for credit available to small firms exceeds the supply of credit.”</td>
</tr>
<tr>
<td>“It was a widely-accepted view within my economy that the demand for venture capital to small firms exceeds the supply of venture capital.”</td>
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Access to credit problems have been exacerbated by the Global Financial Crisis (GFC). This, the GFC has severely impacted SME financing. In some countries, banks went into bankruptcy and other banks tightened up credit. With less collateral and credit history, SMEs are now more likely to be turned down by banks. Other investors are also becoming more cautious about investing. Venture capital and angel capital have shrunk since the GFC. Other than financial institutions and professional investors, additional informal sources of financing are less available to SMEs. For example, due to their vulnerability as a result of the crisis, small firms are currently less likely to receive trade credit from suppliers.

**Product Market Recession.** The GFC also caused the global recession in the product markets for SMEs. The demand for SMEs’ goods is decreasing and international trade is seriously impacted. The recession also caused a sharp drop in the fair value of SMEs’ assets. In part, this is because there has been a clear downturn in demand for goods and services since Q4-2008; for example, 44% of firms in New Zealand reported a drop in activity in Q4-2008. Moreover, there is an expectation of further weakening; for example, the December 2008 Business Barometer in Canada reported that 40 percent of SME owners saying performance is worse, with 17 percent expecting improvement but 44 percent anticipating worsening performance.

**Liquidity.** SMEs are also facing liquidity problems due to the financial crisis. SME clients were more likely to delay payment and suppliers were less likely to sell on credit. APEC survey respondents noted extended delays of payment on receivables (Australia, Canada, Korea, Mexico, New Zealand) and reduced collection of payments on receivables due to increase in insolvencies and bankruptcies. The result is pressure on cash flows and depletion of working capital. The normal recourse to this problem would be bank borrowing; however, financing is also compromised by the GFC. Together with the difficulty of getting financing from financial institutions and other investors, SMEs face a serious lack of working capital.

**Interactions.** The poor financing situation also exaggerated the effects of the recession. With less financing, SMEs are less likely to invest or otherwise purchase from other SMEs. On the other hand, the decrease in value of assets due to the recession of the SME market made it even more challenging to obtain financing because the value of collateral has dropped. The drop of demand during the recession has reduced SMEs’ earning capability and cash flows, which made them even less likely to receive financing. Yet, already facing or expecting to face a liquidity problem, more SMEs require financing. This situation, in turn, has also intensified the liquidity problem. The market recession also increased liquidity problem. The recession made it more difficult for SMEs to sell their inventory, that is to say, it was challenging to turn their inventory into cash. Meanwhile, some SME or even larger firms went bankrupt due to liquidity problems, or at least, reduced their purchasing power, which, in turn, increased the effects of the recession. This has led to a vicious cycle:
According to the OECD, SMEs have reacted to this crisis in logical ways. First, they have reduced their demands for external credit (OECD, 2009a, 21):

"...entrepreneurs are not willing to increase their indebtedness despite the fact that sales fall and payment delays increase ... reaction is fully rational ... when these enterprises are confronted with tightened credit conditions imposed by banks and other creditors."

However, SMEs also react by increasingly relying of owners’ funds and by extending their own trade credit and loan obligations, thereby exacerbating the vicious cycle. Given a context of poor sales and the prospect of continued downturn, SMEs’ investment intentions have been scaled back or cancelled such that the demand for long-term lending has significantly fallen.

Government policies and initiatives on behalf of SMEs

In seeking to mitigate the effects of the GFC, governments implemented a variety of programs. Table 2 presents the scope of programs reported by the APEC economies that participated in the survey. Table 3 maps policy responses against the categories of challenges facing SMEs.

The various initiatives generally fall within three groups.

Strengthening the Capital Base. In seeking to expand the capital base, while some economies employed new programs, most expanded or extended existing programs. Specific measures sought to stimulate sales, cash flows, working capital, enhance access to bank loans, strengthen the climate for investment, and focus on exports. Taipei, for example, initiated its so-called “Three-Pillars-of-Support Policy,” in which government supports banks first, and the banks can then support enterprises, so that the enterprises can support their employees. Chile, Mexico, and Japan have established venture capital funds and Korea is sought to improve exit opportunities by activating a M&A market and enhancing the KOSDAQ. In New Zealand, a program called BizHealth aimed to help make SMEs “investment ready”, with the Government providing specialized training assistance to small firms.

Stimulating Sales, Cash Flows and Working Capital. These initiatives involved measures that attempt to stimulate demand through consumption or investment. Examples include Japan, in which the corporate tax rate for SMEs was reduced from 22 percent to 18 percent. Likewise, Canada increased the income threshold for which the (low) small business tax rate applies. Australia and New Zealand adopted explicit policies to reduce government payment delays. Several economies (for example, Canada, Chile, Mexico) established incentives for exporters. On the demand side, this has been accomplished through tax incentives and training initiatives. The approach to the supply side has been to add to the stock of venture capital (e.g., Australia) and by promoting business angel co-investment schemes (e.g., New Zealand).

Facilitating Access to Bank Borrowing. Perhaps the most frequently-adopted approach to facilitating access to capital (Korea, Japan, Canada, Chile, Taipei) was the adoption or extension of loan guarantee programs. Other, less frequently-used approaches included direct and indirect public lending and mediation and monitoring of targets for SME lending for banks that had been recapitalized by public monies.

From Table 3, it seems that governments have focused on trying to facilitate access to capital, perhaps at the expense of dealing directly with the recession itself, essentially “treating the symptoms.” In particular, there has been an almost universal reliance on implementing or expanding loan guarantee programs. This is understandable because many countries had already adopted loan guarantees and the GFC prompted them to expand such initiatives. This begs several important questions.

First, to what extent have efforts to deal with liquidity and other means of stimulating the economy out of recession been overlook in the emphasis on easing access to finance? Second, it is not clear that loan guarantee programs are suitable interventions (Llisteri, 1997; Levitsky, 1997). The history of loan guarantee schemes is rife with failures. Finally, to the extent that loan guarantees have been the weapon of choice, there does not appear to be any efforts to identify best practices for such endeavors.
Table 2: GFC Measures, APEC Economies

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<th>Economy</th>
<th>Increase Working Capital</th>
<th>Reduce taxes</th>
<th>Increase exports</th>
<th>Expedite payments</th>
<th>Expanded or new loan guarantees</th>
<th>Stimulating investment</th>
<th>Strengthen capital base (VC etc)</th>
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<td>Japan</td>
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<td>Korea</td>
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<td>New Zealand</td>
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<td>Philippines</td>
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<td>Taipei</td>
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<td>Thailand</td>
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<td>USA</td>
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</tbody>
</table>
### Table 3: Policy initiatives and type of challenges

<table>
<thead>
<tr>
<th>Category of Problem Addressed</th>
<th>Specific programs &amp; initiatives</th>
<th>Financing (35)</th>
<th>Market recession</th>
<th>Liquidity(9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan guarantee</td>
<td>Taipei, New Zealand, Australia, Chile, Hong Kong, Philippines, Austria, Belgium, Canada, Czech Republic, Finland, France, Germany, Greece, Hungary, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Spain, UK, USA, EC, Brazil, Chile, Estonia, Romania, Russia, Slovenia, Thailand, EIB/EIF</td>
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<tr>
<td>Direct government lending</td>
<td>Australia, Brunei, Canada, Chile, New Zealand, Peru, Philippines, Thailand</td>
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<tr>
<td>Risk capital measures</td>
<td>New Zealand, Thailand, Australia, Austria, Denmark, Finland, Hungary, Mexico, UK, Chile, Slovenia, EIB/EIF</td>
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<tr>
<td>Reduce market risk/ monitor whole economy</td>
<td>New Zealand, Philippines, Peru, Belgium, France, Italy, USA</td>
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<tr>
<td>Working Capital measures</td>
<td>Australia, New Zealand, Chile, Hong Kong, Canada, France, Italy, Netherlands</td>
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<tr>
<td>Leasing market measures</td>
<td>Canada</td>
<td></td>
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<tr>
<td>Reduce tax</td>
<td>Japan, Canada</td>
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<tr>
<td>Export facilitation</td>
<td>Canada, Czech Republic, Denmark, Germany, Luxembourg, Mexico, Netherlands, New Zealand, Chile, Slovenia</td>
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<tr>
<td>Easing Procurement Payments</td>
<td>Australia, France, Netherlands, New Zealand, UK</td>
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</tbody>
</table>
SUMMARY

Since 2008, the GFC has had profound effects on all sectors and across all economies. With limited capital and resources, SMEs have been particularly impacted by the financial crisis. Yet the survival (and growth) of SMEs is essential for governments across the world. This research examined the impacts of the GFC on SMEs and catalogued a sample of governments’ responses to this issue.

From the literature, it seems clear that, prior to the GFC, SMEs were already facing obstacles. Consequently, many governments had already implemented tax, regulatory, financing and innovation policies to assist SMEs. With the advent of the GFC, SMEs face additional challenges that interact with each other to exacerbate the situation. In particular, SMEs are especially facing additional obstacles with respect to financing, working capital, and demand. In response, governments have carried out a variety of “anti-crisis packages” that seek to help SMEs. Generally, these packages include measures to stimulate demand, enhance credit, and stimulate the labour-market.

It was found that while governments have indeed implemented various anti-crisis packages, the focus of these initiatives was primarily geared to facilitating access to capital. In particular, governments often chose to inaugurate or expand loan guarantee programs. Three implications follow from this finding.

First, loan guarantee programs only address one dimension of the GFC-related challenges faced by SMEs. This is not a new approach. Aernoudt (2005, p.25) had noted, well before the GFC, that “government policy to stimulate growth, innovation and especially the creation of new enterprises is rather focused on access to finance.” It would appear that governments have resorted to the familiar with relatively few measures that help other needs of SMEs.

Second, loan guarantee programs have, in many countries, simply not worked. Levistsky (1997) has chronicled several cases where governments have implemented loan guarantee programs that have not been good value for taxpayers’ funds. Conversely, loan guarantee programs in other countries – such as Canada – have been successful in terms of providing incremental access to capital and effective means of job creation. To the extent that loan guarantee programs were so widely used, there remains a need for research to understand better the design and the parameters of loan guarantee schemes that are associated with effectiveness and efficiency.

Third, loan guarantees provided by government create contingent liabilities that may need to be funded by tax monies. To some degree, this approach potentially understates the quantum of funds that governments must allocate for recovery from the GFC. Depending, of the size of the program, the contingent liability could be substantial.

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