



SMEs DEVELOPMENT TASK FORCE

**POLICY PAPER
2018**

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FOREWORD BY THE TASK FORCE CHAIR INÉS BERTON

Small and medium-sized enterprises (SMEs) and entrepreneurs constitute the backbone of national economies. SMEs are decisive for economic development and account for the largest portion of employment.

The B20 community emphasized the critical role SMEs play in achieving Sustainable Development Goals (SDGs) and promoting inclusive economic growth. Strengthening SMEs' capacity—in terms of improving their access to finance, fostering talent attraction and entrepreneurial skills development, providing simplified regulatory frameworks, and promoting active participation in the digital economy—is crucial to achieve economic development while reducing social inequality.

The micro, small and medium enterprises sector is dynamic and ever-changing. As its composition varies across countries and industries, a comprehensive view needs to be undertaken when designing national policies in order to enhance SMEs' opportunities. SMEs' heterogeneity can also be classified according to their growth stage. The development stage portrays the nature, particular characteristics and challenges SMEs face at each level. Knowledge of SMEs' life cycle as well as knowledge of entrepreneurship determinants and of the environment that drives SMEs' sectoral and national birth rate is crucial.

While SMEs' contribution to economic development cannot be overstated, they remain disproportionately affected by political and economic barriers and by inefficiencies that constrain their potential for scaling up, thus reducing their positive impact on societies.

Digitalization is changing the economic landscape and creating new opportunities for SME development. Often, new and small enterprises are the leading forces of innovation due to their ability to work outside established paradigms, which is a competitive advantage over larger firms. The relationship between digital economy and SMEs' opportunities for growth needs to be acknowledged and prioritized. Given their nature, SMEs can better adapt to changes, be creative and add value that will ultimately contribute to the development of more inclusive and innovative societies.

The B20 Argentina SMEs Development Task Force endeavor is addressing SMEs' real, day-to-day, concrete challenges, thinking outside the box and compiling better and more powerful ideas to propose to G20 leaders. As entrepreneurs, we are bold and disruptive and we feel the responsibility to provide our unique perspective regarding the design of policies that foster global economic growth.

Sincerely,

A handwritten signature in black ink that reads "Inés Berton". The signature is written in a cursive style and is underlined.

Inés Berton

Chair of the B20 Argentina SMEs Development Task Force
CEO and Founder Tealosophy

EXECUTIVE SUMMARY

Small and Medium Enterprises (SMEs) account for over 95% of enterprises, 60-70% of employment and 55% of the gross domestic product and are essential to strengthening productivity and delivering more inclusive growth.

Even though there is a wide acknowledgement of SMEs importance to national economies, they yet face already identified roadblocks such as informality, low productivity and scarce access to finance that need to be addressed with a fresh impetus.

While SMEs heterogeneity in terms of their diversity, ecosystem and life cycle need to be properly considered, policy makers should focus on advancing concrete actions for each of SMEs' stages of development: creation, survival and growth. When grouped around their stage of growth, it quickly becomes apparent that SMEs face common barriers that therefore should be tackled comprehensively.

In order to foster SMEs generation, G20 leaders should focus on ensuring a necessary competitive and stable economic environment to start their business and thrive.

Entrepreneurship is at the core of the SMEs formation, their survival and growth. Governments should aim at promoting entrepreneurship skills through education and training broadening the funding alternatives and financial assistance and introducing special entrepreneurship programs that may, for instance, temporarily reduce tax burden.

Equally relevant is the fact that **SMEs need to develop capabilities to attract and maintain talent.** Even if this is an issue transversal issue is common to enterprises of all sizes, SMEs often find this task particularly troublesome due to a lack of resources, that typically tied to their ability to compete with larger firms in terms of salaries, recruitment and on the job training opportunities.

The B20 also encourages the **development of clusters and innovation networks to provide SMEs with an alternative way of sharing knowledge and best practices.** Cooperation between different stakeholders -namely industries, research institutions, and universities- can improve SMEs' productivity, competitiveness and foster innovation.

Across all stages of their life cycle, SMEs require access to sources of financing to start-up, survive and grow. SMEs' "financing gap" is increasingly becoming one of the main challenges to development, particularly in developing countries. Since SMEs are often the most vulnerable link in national economies, financial inclusion should be at the center of any SMEs policy. While bank lending is the most common source of external financing for SMEs, other forms of funding should be considered. Public-private investment to reduce the risk of business failure or crowd funding could be some of the alternative financial instruments to be encouraged. In addition, enhancing financial literacy of SMEs simplifying capital market procedures and lowering the accessibility cost structure especially for the unbanked, is key.

Similarly, **institutional and regulatory settings are fundamental to ensure**

that all businesses compete on a level playing field. As complex regulatory frameworks inflict higher burden for small enterprises than larger businesses, tailored policies that advance regulation simplification schemes should also be implemented. Increasing tax burdens and high administrative costs impacts negatively is on job creation reduction and/or rises informality. Administrative simplification, regulatory coherence and reduction of tributary weight is necessary for SMEs to scale up. An effective regulatory framework can help SMEs to improve their productivity and competitiveness, inclusion in global value chains becoming a part of the global economy.

Internationalization offers opportunities to SMEs expansion as it allows firms to specialize and benefit from knowledge spillovers from participation in global value chain. In order take full advantage of internationalization potential, G20 leaders should promote SMEs upscaling by investing in skill development, management organization and processes. In these respect Digital economy offers new opportunities for SMES inclusion

Digital transformation also opens new opportunities for SMEs scaling up, reducing the cost of access to skill, talent, enhancing recruitment and knowledge partners through new communication channels and by enabling disruptive ways for business models to succeed, typically referring to e-commerce platforms. Furthermore, the use of digital tools grants SMEs access to global value chains and international markets.

Finally, a large number of SMEs have not been able to take advantage of the benefits of the digital economy. **Adoption of digital technologies has not been equal between SMEs and larger firms. To narrow this gap, policies should target not only connectivity and digital infrastructure, but access to digital-enabled platforms, e-commerce and mobile applications.**

The B20 SMEs Cross-Thematic Group is confident that the implementation of the recommended actions will allow for SMEs to deliver valuable contributions towards inclusive growth sustainable economic development.

KEY POLICY RECOMMENDATIONS AND ACTION PLAN

TOPIC 1: TALENT ATTRACTION AND ENTREPRENEURIAL SKILLS DEVELOPMENT

RECOMMENDATION 1: G20 leaders should promote productivity-enhancing skills in education while providing SMEs formal training for talent management

Policy Action 1.1: Strengthen SME capabilities to attract and preserve needed skills

A deeper pool of managers allows for better strategy development. New forms of work may provide SME's with tools and skills to better evolve in their competitive environment. Policies that encourage and preserve new forms of work with adequate social protection are therefore required.

Policy Action 1.2: Create a collaboration network to review and propose adjustments to the curricular content of technical schools and university programs to address the changing needs of the working environment

Collaboration networks between the business and public sector can be crucial to promote concrete actions and work agreements with schools and universities. Education programs should foster clear programs to increase youth entrepreneurship.

Policy Action 1.3: Increase awareness of the importance and complexity of business transfer planning

Fostering local institutions investment in knowledge exchange platforms for succession and to raising awareness of the importance of the process. Promoting market-oriented business management and entrepreneurship courses in schools and universities, cultivating curiosity and creative thinking in a potential new generation of successors.

TOPIC 2: ACCESS TO FINANCE

RECOMMENDATION 2: Improve access to finance by diversifying financing instruments and simplified financial procedures

Policy Action 2.1: Introduce policy measures to promote a better balance between public and private investments to reduce the risk of business failure

Development of credit guarantee schemes. Favor the approach of public banks to support investments in SMEs.

Policy Action 2.2: Facilitate accessibility to low interest rate loans

Establishing a transparent framework for eligibility requirements related to grants and subsidies. Increasing credit availability by lowering the cost and administrative burden for banks, relative to loan amount for qualified SMEs.

Policy Action 2.3: Favor access to funding via alternative financial sources

Developing and setting awareness programs to educate SMEs with access to suitable instruments along their lifecycle and depending on their objectives.

Policy Action 2.4: Develop a comprehensive policy framework with extensive policies and strategies for SME access to capital markets, including actions to reduce cost and administrative burdens for application and listing

Simplifying access procedures and low-cost structures (application and listing fee reductions/exemptions). Tax incentive schemes for SMEs, reducing taxation, depending on the duration of the investment.

TOPIC 3: SIMPLIFIED AND SME-FRIENDLY REGULATORY FRAMEWORK

RECOMMENDATION 3: G20 leaders should promote simplified regulatory environments for SMEs, specially providing the necessary conditions for SMEs integration into the formal economy.

Policy Action 3.1: Facilitate an effective and timely transition from the informal to the formal economy, respecting and ensuring informal workers' rights and social protection

Integrating a policy framework, to guarantee that the transition to the formal economy is included in national development strategies. Safeguarding employment in the transition to the formal economy and fostering a policy response that differentiates among the various types of informal enterprises.

Policy Action 3.2: Encourage special support for new ventures

Encouraging a tax and administrative framework that creates a level-playing field for new ventures, grace period regarding direct taxation, special treatment for SME indirect taxes and special deductions against taxable income.

Policy Action 3.3: Reduce disproportionate tax compliance cost

Creating tax systems for SMEs with reduced tax burden and lower compliance obligations, which would be gradually and progressively increased over a certain period of time.

Policy Action 3.4: Promote the application of policies to reduce costs associated with the hiring of workers by SMEs

Encouraging first-job promotional benefits. Allowing the labor relationship of local workers with foreign employers through the creation of a registry for the latter.

Policy Action 3.5: Develop and install SME knowledge programs to improve the level of business information accessibility in order to close the gap related to information asymmetries

Making information available through as many communication channels as possible. Coordinating financial literacy training and developing a single portal for SMEs which provides technical advice, training services, and mentoring programs.

TOPIC 4: SMES PARTICIPATION IN DIGITAL ECONOMY

RECOMMENDATION 4: G20 leaders should enhance innovative inclusion through digital transformation, providing SMEs the necessary instruments to equally benefit from digitalization

Policy Action 4.1: Promote technological clusters to enhance knowledge sharing and innovation

Promoting linkages among SMEs, as well as between enterprises and their institutional environment, to support scale-up and knowledge absorption through innovative practices and approaches.

Policy Action 4.2: Invest in digital infrastructure to foster SME connectivity and close the digital gap

Accelerating investments in digital infrastructure developing national plans to close the digital gap. Clear and measurable standards must be set to ensure broadband can be effectively accessed. Helping promote the adoption of digital technologies among SMEs.

Policy Action 4.3: Promote awareness across SMEs on productivity monitoring and introduce policy measures to improve the efficiency of resource allocation

Promoting awareness across SMEs on the importance of defining and measuring productivity. Fostering a legal system that allows an easy entry for new firms and a quick exit for inefficient firms to restructure, and improves the efficiency of resource allocation (capital and talent) to the most productive and innovative firms in order to facilitate up-scaling entry into global markets. Supporting productivity-enhancing investments, particularly in knowledge-based capital, through tax benefits combined with a broader set of direct support policies.

SMES' NEEDS ACCORDING THEIR DEVELOPMENT STAGES

Recommendation 1: Foster talent attraction and entrepreneurial skills development

1

Seed

Action 2.3: Favor access to funding via alternative financial sources

Action 3.2: Encourage special support for new ventures

Action 3.5: Develop and install SMEs knowledge programs to improve the level of business information accessibility in order to close the gap related to information asymmetries

Recommendation 4: Enhance innovative inclusion through digital transformation

Recommendation 1: Foster talent attraction and entrepreneurial skills development

2

Start-up

Action 2.1: Introduce policy measures to promote a better balance between public and private investments to reduce the risk of business failure

Action 2.2: Facilitate accessibility to low interest rate loans

Action 2.3: Favor access to funding via alternative financial sources

Action 3.1: Facilitate an effective and timely transition from the informal to the formal economy, respecting and ensuring informal workers' rights and social protection

Action 3.2: Encourage special support for new ventures

Action 3.3: Reduce disproportionate tax compliance cost

Action 3.4: Promote the application of policies to reduce costs associated with the hiring of workers by SMEs

Action 3.5: Develop and install SMEs knowledge programs to improve the level of business information accessibility in order to close the gap related to information asymmetries

Recommendation 4: Enhance innovative inclusion through digital transformation

Recommendation 1: Foster talent attraction and entrepreneurial skills development

3

Expansion

Action 2.1: Introduce policy measures to promote a better balance between public and private investments to reduce the risk of business failure

Action 2.2: Facilitate accessibility to low interest rate loans

Action 2.3: Favor access to funding via alternative financial sources

Action 3.1: Facilitate an effective and timely transition from the informal to the formal economy, respecting and ensuring informal workers' rights and social protection

Action 3.4: Promote the application of policies to reduce costs associated with the hiring of workers by SMEs

Action 3.5: Develop and install SME knowledge programs to improve the level of business information accessibility in order to close the gap related to information asymmetries

Recommendation 4: Enhance innovative inclusion through digital transformation

Recommendation 1: Foster talent attraction and entrepreneurial skills development

4

Growth

Action 2.3: Favor access to funding via alternative financial sources

Action 2.4: Develop a comprehensive policy framework with extensive policies and strategies for SMEs access to capital markets including actions to reduce cost and administrative burdens for application and listing

Action 3.1: Facilitate an effective and timely transition from the informal to the formal economy, respecting and ensuring informal workers' rights and social protection

Action 3.5: Develop and install SME knowledge programs to improve the level of business information accessibility in order to close the gap related to information asymmetries

Action 3.6: Promote the international best practice of customs bonding

Recommendation 4: Enhance innovative inclusion through digital transformation

INTRODUCTION

While there is no universally agreed upon definition for Small and Medium-Sized Enterprises (SMEs), everyone agrees that SMEs play a key role in economic development around the world. In the Organization for Economic Cooperation and Development (OECD) economies, SMEs account for over 95 percent of enterprises, 60-70 percent of employment, and 55 percent of gross domestic product (GDP), and they generate the lion's share of new jobs¹.

SMEs are heterogeneous in size, age, ownership, growth intentions, and business goals. One way to address this heterogeneity is to group SMEs' needs and challenges according to their stage in the evolution cycle, which typically relates to their creation, survival and growth. As the birth of new enterprises plays a dynamic role through which employment growth can be achieved, the determinants of SMEs' creation should take a central place in government strategies. New firms are agents of change in national economies, as they introduce innovation and new forms of work.

The stock of companies in a country and the enterprise birth rate are essential indicators of future development². The exhibit below shows the number of inhabitants per nascent company in certain countries.

Enterprise Birth Rate ³	
Country/Region	Inhabitants per each nascent company*
Australia	67
United Kingdom	78
South Africa	153
European Union (EU)	166
Russian Federation	238
Brazil	347
Italy	431
South Korea	435
France	442
Germany	775
Canada	781
Japan	869
Mexico	1,064
Turkey	1,272
Argentina	2,326
Indonesia	3,448
India	8,118
United States	n/a
Saudi Arabia	n/a

¹ World Business Council for Sustainable Development, Promoting Small and Medium Enterprises for Sustainable Development, 2007.

² PyME Observatory Foundation, Business Birth and Productive Development, 2018.

³ PyME Observatory Foundation based on data from the World Bank, 2014.

** Number of inhabitants aged 15 to 64 years old per nascent company formed as a mixed or capital company*

To promote small enterprises creation, a systemic-approach needs to be undertaken.

- G20 leaders should work on improving financial and regulatory environments, especially at the early phases of these projects. Access to finance through credit guarantee schemes, low interest rate loans and simplified administrative costs are some of the tools policy-makers should consider. Incremental finance needs are one of the main factors that explain greater variation between SMEs in terms of survival and growth and the differences between existing and new firms and between those which grow slowly and those which grow rapidly.
- Regulatory uncertainty, complexity and inconsistency puts burdens on SMEs that are typically less capable of navigating through the regulatory environment and getting access to relevant information and procedures than larger firms. Information gaps are highly problematic for SMEs and should be addressed by policy-makers in a transparent way.
- Furthermore, one of SMEs' challenges is to build trust and long-term relationships with banks as well as enforcing contracts and developing networks with public officers.
- The creation of formal work by small enterprises should be at the core of any policy strategy. Labor oriented policies need to place a special focus on this important issue that affects the economy and its growth potential. Governments should create a level playing field for SMEs to compete with larger firms in a more suitable environment. Informality does not only affect workers, leaving them more vulnerable and exposed, but also inhibits investment in bigger businesses and constrains their ability to insert in global value chains because informal links "often lack the necessary size to exploit economies of scale fully"⁴.
- The International Labor Conference (ILC) 2014-15 discussions resulted in the adoption of the Transition from the Informal to the Formal Economy Recommendation. This new standard constitutes a historic landmark for the world of work and is the first international standard that provides guidance to assist workers and economic units undergoing such transitions⁵. Promoting SMEs' inclusive development would help to eradicate poverty and reduce inequality.
- Considering the financing/funding and tax/regulations areas, recommendations and actions need to be focused on and directed to providing SMEs with the capital they need to support their businesses at every stage of their growth journey.
- Other transversal constraint faced by SMEs has to do with the attraction of the right talent. About a quarter (23%) of startups fail primarily because they lack the right team to execute or contribute to their vision. One of the hardest decisions a founder faces is hiring the right people at early stages as it is tough to find people who not only have the right talent but also believe in and are aligned with their vision. In addition to access to finance, SMEs

⁴ <https://issme.org/about-issme/focus-areas/informality/>

⁵ ILO, Transition from the Informal to the Formal Economy Recommendation, 2015.

often struggle to find qualified personnel that suits the firm's values and main objectives.

- Stimulating the creation of new enterprises also requires particular skillsets and capabilities development. Entrepreneurship has long been associated with innovation and firm creation. Boosting innovation by strengthening entrepreneurs' abilities remains fundamental for development in the digital economy context. Education, namely universities, research centers and other training institutions, have an important role to play in providing entrepreneurship training. These policy actions should also be enhanced at lower educational levels.
- Entrepreneurship skills refer to specific skills required for creating and developing new business ventures. As OECD's work on entrepreneurship and innovation suggests, these skills are not only technical but also managerial. They refer to the ability to "involve risk assessment and warranting, strategic thinking, self-confidence, the ability to make the best of personal networks, motivating others to achieve a common goal and the capability to deal with other challenges and requirements"⁶.
- To remain competitive, SMEs around the world need to adapt and transform themselves, their products, and their services through innovation that benefits the customer. Thus, the evolution of technology, globalization, and demographics is upending business and organizational models, changing customer and citizen behaviors and transforming the competitive landscape. An agile and diverse workforce is a critical enabler to thrive in this transformative age, to remain competitive and adapt to rapidly shifting market dynamics. In order to drive innovation and inclusive growth, the active pursuit of a diverse workforce must be a central pillar of a firm's long-term business strategy, not an addition to it.
- Digitalization has opened new ways for knowledge-sharing through digital platforms and better access to information. Moreover, information technology is a crucial factor to narrow the information gap by providing one unified platform where necessary information that affects strategies and decisions is available.
- E-commerce will also play an important role in helping SMEs overcome some of the barriers to access foreign markets by helping them reach foreign consumers and distribution networks and enabling them to exploit certain economies of scale they could not otherwise attain. Data from e-commerce platforms show that SMEs which use online platforms are five times more likely to export than those in the traditional economy. Furthermore, company leaders are using customer data to deliver innovation (29% up from 17% last year). As a consequence, digital infrastructure and increased connectivity are central for all SMEs, regardless of their geographical location.
- Entrepreneurship education transcends formal structures for learning and can also be encouraged through "clustering in knowledge-driven sectors" that represent sectoral and geographical concentrations of enterprises that face common challenges and opportunities and act in collaborative networks. Local skills ecosystems promote the "interdependence of multiple actors and policies creating and sustaining the local conditions under which

⁶ OECD (2010), SMEs, Entrepreneurship and Innovation, OECD Studies on SMEs and Entrepreneurship, OECD Publishing, Paris, <https://doi.org/10.1787/9789264080355-en>.

appropriate skills can be developed and deployed in particular regions"⁷. This concept advances the idea of collaboration between different social actors that ultimately contribute to broader approaches and knowledge spillovers that benefit SMEs.



Considering the impact of SMEs on the global economy, it is vital that the G20 Governments support initiatives to accelerate SMEs' potential and sustainability. Many ideas and specific recommendations have been shared and discussed, yet, they have not been implemented by governments, mostly because of a lack of accountability, commitment, and funding. A robust evidence base is also essential for informing SME-related policies and interventions. SMEs' access to knowledge needs to be expanded through enhanced coordination among stakeholders, in particular researchers and policy makers.

Therefore, the G20 should foster and enhance policy actions and be committed to allocating the necessary resources to drive and implement the recommendations presented by the task force. The most important areas to be addressed are the following:

- Fostering talent attraction and entrepreneurial skills development
- Improving access to finance
- Promoting simplified and SME-friendly regulatory frameworks
- Enhancing innovative inclusion through digital transformation

⁷ OECD (2010), SMEs, Entrepreneurship and Innovation, OECD Studies on SMEs and Entrepreneurship, OECD Publishing, Paris, <https://doi.org/10.1787/9789264080355-en>.

TOPIC 1: TALENT ATTRACTION AND ENTREPRENEURIAL SKILLS DEVELOPMENT

CONTEXT

A crucial factor in achieving SME growth and development is recruiting the right talent. Hiring the right people isn't just about hiring the people who have the technical abilities required; it is about finding a diverse work force and those people who will enable the business to succeed⁸. Once the right people are recruited, holding them by enabling their growth inside the company is very important. In general, SMEs have fewer tools to attract and maintaining talent compared to big multinational companies. Moreover, 41 percent of leaders say a deeper pool of managers would allow them to spend time on strategy⁹.

Moreover, a significant proportion of SMEs are family enterprises, characterized by family involvement in ownership, governance, and management and by family values. Only a subset of SMEs is interested in growing or seeking maximum return and many choose to remain small or not to grow. This group may attach considerable importance to non-financial objectives and pursue a range of other goals in addition to or instead of, growth.

In addition, retirement of the business owner is one of the main reasons for the business transfer. Successful business transfer of SMEs at different stages of their life cycle is key to preserving employment and the value of assets (tangibles and intangibles) and ensure continuity in production processes and business relations.

There is a need to raise entrepreneurs' awareness on the importance of early succession planning and the effect of such succession on employees. Internal talent should be identified early, and developed where possible through training. Critical staff may leave, but the business world keeps turning and SMEs need to be ready for those situations.

RECOMMENDATION 1: G20 LEADERS SHOULD PROMOTE PRODUCTIVITY-ENHANCING SKILLS IN EDUCATION WHILE PROVIDING SMES FORMAL TRAINING FOR TALENT MANAGEMENT

POLICY ACTIONS

- 1.1: Strengthen SME capabilities to attract and preserve needed skills**
- 1.2: Create a collaboration network to review and propose adjustments to the curricular content of technical schools and university programs to address the changing needs of the working environment**
- 1.3: Increase awareness of the importance and complexity of business transfer planning**

⁸ CIPD, Recruiting and developing talented people for SME growth, 2014.

⁹ EY, Growth Barometer, 2018.

Policy Action 1.1: Strengthen SME capabilities to attract and preserve needed skills

Attracting and preserving talent is essential to achieving SME business goals and the ability to grow. According to several studies¹⁰, finding and retaining skilled and high-qualified personnel is identified as one of the main factors that hinders SMEs opportunities for scaling-up. Informality and SMEs organizational culture often imply that they do not adopt formal approaches to talent management.

Identifying and preserving the right talent is likely to vary according to SMEs life cycle. The relationship between SMEs development stages and their challenges and opportunities should be correctly identified by G20 leaders to assess a correct diagnosis and therefore develop tailored responses to skills shortages and SMEs needs.

At the creation stage, SMEs face higher financial limitations to hire new personnel. Furthermore, owners are most concerned with selling their idea or product to investors and customers, and therefore not focused on staffing concerns.

Nevertheless, investment in human resources (HR) practices has been found to be truly beneficial for business performance. Even if owners are not inclined to incur in such costs early on, the potential productivity gains could offset the costs specially at the scale-up stages of SMEs lifecycle.

As the firm evolves, new positions and new skillset may be needed to match the firm growth and complexities- “from commercial e.g. marketing and serving of new offers), to project management (e.g. logistics, organizations of events), financial (e.g. capital and cash flow management) and strategic thinking skills (e.g. building internal leadership, coordinating sets of actions to fulfil new strategic objectives)”¹¹. Whereas large organizations have more resources allocated to human resources and sophisticated staffing strategies, SMEs hurdle to find spaces to appear visible at the labor market creating a legitimacy disadvantage over larger business.¹²

SMEs have less institutional resources to develop relations with job seekers, to be part of job fairs in education centers or universities. However, as SMEs typically are more innovative and creative thinking-oriented, they have the opportunity to use non-traditional recruitment channels to attract different talent pools that are less concerned with career or legitimacy concerns such as semi-retired individuals¹³. Another ally for talent attraction is online job platforms that typically require less time and resources than other approaches to target and attract specialist talents while helping them to construct their image and visibility.

Another way to attain this objective is to work alongside government agencies or larger firms developing tailored HR programs that could give SMEs managers the necessary tools for hiring the right talent while providing insight of best practice models. Further, these partnerships could be useful for advising on the legislation in force and the conditions to be respected for those SMEs that need to venture into the new modalities. G20’s challenge would be to identify new collaborative types of

¹⁰ OECD Ministerial Conference on SMEs, DECLARATION ON STRENGTHENING SMES AND ENTREPRENEURSHIP FOR PRODUCTIVITY AND INCLUSIVE GROWTH. 2018, Mexico City.

¹¹ OECD Ministerial Conference on SMEs, DECLARATION ON STRENGTHENING SMES AND ENTREPRENEURSHIP FOR PRODUCTIVITY AND INCLUSIVE GROWTH. 2018, Mexico City.

¹² Krishnan, T.N., & Scullion, H., Talent management and dynamic view of talent in small and medium enterprises, Human Resource Management Review (2016), <http://dx.doi.org/10.1016/j.hrmmr.2016.10.003>

¹³ Krishnan, T.N., & Scullion, H., Talent management and dynamic view of talent in small and medium enterprises, Human Resource Management Review (2016), <http://dx.doi.org/10.1016/j.hrmmr.2016.10.003>

work focusing on those actors, such as intermediary organizations, like private funding organizations, that can provide SMEs with tools and skills to better evolve in their competitive environment, improve productivity, gain access to knowledge and new technologies, and generate differential experiences for their clients or customers.

As SMEs need employees to play multiple roles and adapt to the different challenges the organization faces, promoting education and training staff remains crucial for SMEs growth and participation in a digital economy labor market.

Moreover, competition with larger firms also affect SMEs in terms of salaries, career development, access to training and educational opportunities and related overall benefits larger business can offer. Nevertheless, SMEs' own flexible nature could be used to their favor as they could adopt alternative work arrangements. New forms of work such as "part-time workers, job sharing and contracting out"¹⁴ could provide SMEs with tools and skills to better evolve in their competitive environment.

Other way for SMEs to compete with established firms has to do with offering benefits from the employee perspective like "better job quality and less bureaucracy, better job satisfaction due to higher flexibility, a better working atmosphere and more informality in the workplace."¹⁵

Recognition of the relation between entrepreneurial skills and innovation and business formation has been widely pointed at. Promoting entrepreneurship education to provide the necessary tools start-ups need to sustain themselves is a necessary condition to boost SMEs potential of job creation.

There are four categories of entrepreneurship skill sets¹⁶:

- Entrepreneurship skills: entrepreneurship skills help us recognize the economic opportunities and act upon them. This includes inner discipline, the ability to take risk, being innovative, change-oriented, and persistent.
- Technical skills: technical skills help produce a successful business product or service. The technical skills that are required to be a successful entrepreneur include operations specific to industry, communications, design, research, and development, environmental observation.
- Management skills: management skills help running the company and in day-to-day management of the company. The required management skills that are required are planning, decision making, motivation, marketing, finance, and selling.
- Personal maturity: this includes self-awareness, accountability, creativity, and emotional skills.

Policy Action 1.2: Create a collaboration network to review and propose adjustments to the curricular content of technical schools and university programs to address the changing needs of the working environment

In many OECD countries, schools, vocational education, training institutions and higher education institutions are enriching their study programs with dedicated courses on how to start a business, either as self-standing modules or embedded

¹⁴ Krishnan, T.N., & Scullion, H., Talent management and dynamic view of talent in small and medium enterprises, *Human Resource Management Review* (2016), <http://dx.doi.org/10.1016/j.hrmmr.2016.10.003>

¹⁵

¹⁶India Education, Building Entrepreneurship Skills in Students, 2018.

into the curricula. Capabilities for entrepreneurship need to be developed over the full course of education, with the focus on business start-ups being increased in later years¹⁷.

In this respect, the creation of a collaboration network between the business and public sector for the elaboration of suggestions and channeling updates of curricular content of technical and university studies is essential. These collaboration networks should include women-only spaces that foster women's self-confidence in entrepreneurship and showcase female role models in business. Each country will evaluate the most appropriate institutional and regulatory framework for the creation and facilitation of the operation of its collaboration networks. Collaboration networks will identify obsolete content as well as new content to be incorporated into the education programs mostly required or demanded by SMEs. To ensure the effectiveness of the school curricula and their relevance to the world of work, the involvement of the business community is crucial.

In addition, teachers need to be supported in their new roles of promoting entrepreneurship competencies. According to the Ministerial policy note on "Developing entrepreneurship competencies¹⁸", continuous professional development, temporary mobility programs to gain work experience in industry and civil society, the involvement of teachers in new curricula design, and sharing monitoring and evaluation information on the success of different entrepreneurship education approaches are promising ways of support. Inter-sectoral mobility is a key mechanism to shortening the cognitive distance between "the world of work" and academia. More financial resources should be allocated to Vocational Education and Training, as this is a crucial tool to tackling the skills mismatch between what employers need and what the labor market offers.

Exhibit 1 | HEInnovate¹⁹

HEInnovate (HEI), a joint initiative of the EU and the OECD, is a guiding framework to establish effective approaches to support entrepreneurship and innovation through higher education. Part of this is an on-line development platform (www.heinnovate.eu) that supports higher education institutions to design and implement graduate start-up support actions, as well as entrepreneurship education and knowledge exchange mechanisms more generally.

The framework also provides guidance on how to create effective linkages between HEIs and SMEs. It allows assessing one's institution using a number of statements related to its entrepreneurial activities, including leadership, staffing and links with business. Extensive training and support materials, including practical case studies, are available to support workshops and further development within the institution.

HEInnovate covers seven areas for self-assessment:

- Leadership and Governance
- Organizational Capacity: Funding, People and Incentives
- Entrepreneurial Teaching and Learning
- Preparing and Supporting Entrepreneurs
- Knowledge Exchange and Collaboration
- The Internationalized Institution
- Measuring Impact

¹⁷ Ministerial Policy Note on Developing Entrepreneurship Competencies, 2018.

¹⁸ Ministerial Policy Note on Developing Entrepreneurship Competencies, 2018.

¹⁹ Ministerial Policy Note on Developing Entrepreneurship Competencies, 2018.

Exhibit 2 | ABC Projects

ABC PROJECTS (Academia Business Cooperation) is a pilot initiative that was launched in St. Petersburg, Russia, in 2014.

ABC PROJECTS aims to create professional community in digital format, whose members could cooperate to solve problems under conditions of uncertainty.

It is a project that ties together educators, students, entrepreneurs, and SMEs in a network that provides hands-on experience to students, facilitates exchange of ideas and practices between educators, academics and businesses, develops new business ideas, helps in adjusting curricular to market needs, creates a ranking of educational institutions, and promotes innovative regional growth and development.

The approach pioneered within ABC PROJECTS attempts to integrate, in an optimal way, achievement of several important goals:

- Build trust and understanding among participants with different educational and professional backgrounds, in order to form the basis for a professional digital community uniting students, academics, educators, entrepreneurs, professionals and experts.
- Implement a multidisciplinary approach to solving practical problems of economic agents. The wide variety of challenges that were posted to participants since 2014 encompass technical, financial, architectural, technological, IT, marketing and other spheres.
- Bring students into hands-on projects during their course of study, to help them with their professional career choice, build a portfolio for future employment, get practical experience in subject matters, and acquire the skills needed for project-based teamwork.
- Build infrastructure for open innovation, accessible to economic agents of all types and forms (entrepreneurs, SMEs, socially-oriented organizations, municipalities, etc.).
- Provide an opportunity for educators to get the feed-back needed to correlate educational activities of their universities with technological and business developments.
- Balance offline consultations with online formats of work; practical tasks with humanitarian educational program.
- Enable cross-border cooperation with universities and entrepreneurs from other countries.

- Collaboration networks to promote concrete actions and work agreements with schools and universities will have to be ensured by the G20, so that suggestions can be made concrete and tangible and represent relevant changes in the education system.
- Promote women inclusion through women-only training programs, incubators and accelerators aimed at developing entrepreneurial and leadership skills²⁰.
- A challenge to G20 members would be to develop clear programs in order to increase youth entrepreneurship.

Policy Action 1.3: Increase awareness of the importance and complexity of business transfer planning

Transferring a business can be a complex task, which demands adequate planning and competencies. The passing of an SME from one generation to the other is a big challenge for the owners as they are concerned about the sustainability of the firm.

Successful business transfer of SMEs is fundamental to preserve employment, ensure continuity in production processes, service delivery and business relations, and preserve the value of tangible and intangible assets.

A survey conducted by the Family Firm Institute in 2017 illustrates that while 79 percent of family-owned businesses plan to transfer the management within the

²⁰ T20, Achieving "25 by 25": Actions to make Women's Labor Inclusion a G20 Priority, 2018.

family, only 16 percent of these firms have prepared a consolidated family succession plan²¹.

Governments can collaborate to improve the conditions for business transfer, such as through gift and inheritance tax preferences, special financial facilities, the development of platforms for business transfer, and encouraging access to professional intermediaries and advisors. National awareness campaigns are useful to inform upcoming entrepreneurs through brochures, seminars, innovative digital tools, such as webinars and social media, as well as through personal consultations.

- G20 members would be in charge of fostering local institution investment in knowledge exchange platforms for succession and to raise awareness of the importance of the process, providing customized mechanisms of knowledge sharing and exchanging services required for different types of succession.
- Promoting market-oriented business, service and hospitality management and entrepreneurship courses in schools and universities, cultivating curiosity and creative thinking in a potential new generation of successors, become a must to the G20 agenda
- G20 governments will be faced with the task of making further efforts to introduce entrepreneurship education in curricula of all forms of education and training, starting with primary school. This is crucial to furnishing individuals from a young age with an entrepreneurial mindset.

Enhancing a legal framework for business transfer making the process easier, faster, and cheaper. G20 members would be in charge of reducing the tax on business transfer and improving the single dataset on 'exits' and 'transfers' under a confidential environment.

TOPIC 2: ACCESS TO FINANCE

CONTEXT

SMEs have incremental finance needs in their early stages and in the expansion/growth phases. Moreover, they are one of the most vulnerable links in the economy in the case of financial crises and macroeconomic cycles.

This phenomenon, often referred to as the “the SME financing gap”, is more pronounced in developing countries and its effects are getting stronger and more widespread. Insufficient cash flow is the number one challenge to growth for a third of leaders (34%), more than double as compared to 2017 (15%)²². Both business birth and survival rates depend heavily on financial inclusion, during financial turmoil and sudden changes in macroeconomic variables. Furthermore, there is a gender gap in access to finance, as women face “higher hurdles” in financing their businesses²³. However, nearly 1 in 5 (18%) of women-led companies cite access to capital as a barrier to growth (as compared to 11% of male-led peers)²⁴. In addition, evidence indicates that other groups also face distinct challenges, such as particular ethnic minority businesses.

As presented in “New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments”²⁵, bank lending is the most common source of external financing for many SMEs. Traditional bank financing poses challenges to SMEs, in particular to newer, innovative and fast-growing companies, with a higher risk-return profile. For example, rejection rate from banks in the United States for SMEs is approximately 45 percent. Access to bank credit for SMEs has been an increasing problem since 2008. There are a number of reasons for this, such as:

- Requirements imposed by the regulators or risk management departments of the banks for high collateral or equity to be provided by SMEs.
- Lack of credit history.
- Banks’ reluctance to process small loans due to comparable costs of loans to large enterprises.
- Inability of SMEs to submit acceptable/reliable financial statements.

Although there is a wide range of financing options available for SMEs, for most of them it is hard to navigate among new forms of financing beyond their already established contacts and sources. Due to the increasing complexity of financing tools and business models, there is a strong need to equip SMEs with the knowledge they need to remain alive and scale up.

The digital economy is disrupting the SME finance practices positively and providing solutions to the above-mentioned traditional problems, especially through utilization of Fintech and Blockchain Technologies. Many small businesses are knowledge-based and their assets primarily consist of intellectual property. Usually, owners are reluctant to use formal methods of registering intellectual property, and there is a lack of knowledge and understanding about intellectual property, which may be used as basis for the business valuation and used when raising finance. Alternative financing instruments other than debt financing should

²² EY, Growth Barometer, 2018.

²³ OECD, and European Commission, Policy Brief on Women’s Entrepreneurship, 2017.

²⁴ EY, Growth Barometer, 2018.

²⁵ OECD, New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments, 2015.

become more widely used by SMEs, together with access to professional advisers and networks.²⁶ Therefore, promoting information about and, the development of, alternative financial instruments for new and existing SMEs will contribute towards filling the existing SME funding gap.

RECOMMENDATION 2: G20 LEADERS SHOULD IMPROVE ACCESS TO FINANCE BY DIVERSIFYING FINANCING INSTRUMENTS AND SIMPLIFIED FINANCIAL PROCEDURES

POLICY ACTIONS

2.1: Introduce policy measures to promote a better balance between public and private investments to reduce the risk of business failure

2.2: Facilitate accessibility to low interest rate loans

2.3: Favor access to funding via alternative financial sources

2.4: Develop a comprehensive policy framework with extensive policies and strategies for SME access to capital markets, including actions to reduce cost and administrative burdens for application and listing

Policy Action 2.1: Introduce policy measures to promote a better balance between public and private investments to reduce the risk of business failure

It is important G20 members foster the development of a healthy investment environment, which comprises the diversity of SMEs, the financial and banking sector, government agencies, among others.

Action towards the abovementioned promotion includes:

- G20 members are to streamline the development of credit guarantee schemes (CGSs) in order to alleviate the credit constraints faced by SMEs²⁷. This public policy instrument should be tailored to the risk of each industry/sector and growth stage of SMEs. CGSs should be designed jointly with the financial sector and intermediaries so that administrative and regulatory burden do not become a barrier for any type of SMEs, such as start-ups, businesses with a high-risk profile, companies in period of transition, family companies, etcetera.

Exhibit 5 | Credit Guarantee Scheme for Small & Rural Enterprises (CGS)

State Bank of Pakistan launched 'Credit Guarantee Scheme (CGS) for Small and Rural Enterprises' in March 2010 in collaboration with UK's Department for International Development. Under this scheme, risk coverage of up to 60 percent is provided against credit losses of participating financial institutions on their lending to micro, small and rural enterprises. The extent of risk coverage is linked with the level of loan collateralization. The lower the loan collateralization, the higher the risk coverage extended under the scheme. Through this, the scheme aims to encourage lending towards fresh and collateral deficient borrowers. In addition to this, risk coverage of 60 percent is provided against all loans extended to women borrowers, start-up businesses and small, rural and micro enterprises

²⁶ IFAC, The Relationship between Accountancy Expertise and Business Performance, 2016.

²⁷ European Investment Fund (EIF), Credit Guarantee Schemes for SME lending in Western Europe, 2017.

operating in the under-served areas of the country.

The current Credit Guarantee Scheme is for small and rural enterprises only. Going forward, new low-end MEs will also be included under the scheme. In this respect, parameters and eligibility criteria will be announced in 2018²⁸.

- Governments should reinforce specific provisions in terms of:
 - coverage of the initiatives
 - guarantee over amounts and rates
 - longer terms and conditions for R&D and capital expenditure
 - support in case of contingencies (“black swan events”, natural disasters, etc.)
 - better access to sources of funding are well-functioning credit markets and public banks with a clear working focus
- Favor the approach of public banks to support investments in SMEs

Exhibit 6 | European Investment Bank (EIB)

In 2017, the European Investment Bank Group financed SMEs and mid-caps across the globe to the tune of a record 29.6 billion euros. They supported 285.800 smaller companies, which employ 3.9 million people.

The EIB cooperates with a wide range of financial intermediaries that offer financial products targeting small and medium-sized companies (also including micro-enterprises). They benefit from their partners’ expertise, local knowledge and proximity to the businesses themselves.

The EIB provides financing to:

- micro-enterprises (0-9 employees)
- small enterprises (10-49 employees)
- medium-sized enterprises (50-249 employees*)
- mid-caps (250-3 000 employees*)

The EIB Group continuously works to strengthen its support for SMEs and mid-caps working together with EU Member States and public promotional institutions to develop innovative products and partnerships that facilitate access to finance for SMEs and mid-caps at all stages of their development.

Policy Action 2.2: Facilitate accessibility to low interest rate loans

Accessibility, affordability, and sustainability are major challenges relating to SME competitive funding for their projects and working capital.

Exposure to financial risks, such as market risk (e.g. exchange rate, interest rate), credit risk, and liquidity risk are not equal for SMEs and other economic actors (multinationals, big enterprises, etc.).

Regarding SME financial competitiveness, the following concrete actions need to be developed by G20 members:

- Establish a transparent and simplified framework for eligibility requirements related to grants and subsidies together with SME friendly financial institutions. The process should be digital, fast, and with assistance by government officials.
- Develop solutions that consider the variety of risks and constraints that SMEs may face, such as:
 - Public subsidies to achieve low interest rates that are affordable for SMEs.

²⁸ State Bank of Pakistan, Policy for promotion SME Finance, 2017.

- Tools to hedge or minimize SME exposure to variable interest rates (swaps), exchange rate risk, and specific programs for import/export-oriented companies.
- Increase credit availability by lowering the cost and administrative burden for banks, relative to loan amount for qualified SMEs.
- Deliver mechanisms that foster SME access to multilateral organizations credit facilities in public and private projects (e.g. disseminating available credit programs and cooperating to identify which SMEs are able to apply).

Policy Action 2.3: Favor access to funding via alternative financial sources

In general, banks have been hesitant to lend money to SMEs, due to their risk profile and/or simply the cost versus the benefit of providing relatively small-sized loans. Although new financial models and tools have expanded access to funding, SMEs still opt for traditional bank loans mostly due to a lack of understanding of alternative financial sources.

Moreover, to enable SMEs to develop a long-term strategic approach to finance and improve business prospects, public policies should champion SME²⁹ enhanced financial literacy; their awareness and understanding of the broad range of available financial instruments; and changes in legislation and programs for SMEs. Providing such enterprises with access to suitable instruments along their lifecycle and depending on their objectives is essential.

²⁹ OECD, G20/OECD High-level principles on SME financing, 2015.

Exhibit 7 | Suitability of alternative financing instruments for different firm profiles and stages³⁰

Table 1. Suitability of alternative financing instruments for different firm profiles and stages

	Type of financing instrument	Profile and stage of firm
Low risk/ return	Asset-Based Finance <ul style="list-style-type: none"> • <i>Asset-based lending</i> • <i>Factoring</i> • <i>Purchase order finance</i> • <i>Warehouse receipts</i> • <i>Leasing</i> 	<ul style="list-style-type: none"> • Start-ups • Firms with limited credit history and lack of collateral • Fast growing and cash-strapped firms • Firms with solid base of customers but high investments in intangibles • High-risk and informationally non-transparent firms • Firms changing their capital assets frequently • Producers and traders of commodities
	Alternative Debt <ul style="list-style-type: none"> • <i>Corporate bonds</i> • <i>Securitised debt</i> • <i>Covered bonds</i> • <i>Venture debt</i> • <i>Private placements</i> • <i>Crowdfunding (debt)</i> 	<ul style="list-style-type: none"> • Large to mid-size firms with stable earnings and relatively low cash flow volatility • Firms responding to reporting requirements linked to issuance • Firms undertaking investment or seizing growth opportunities • Firms that do not wish dilution of ownership and control • Smaller companies with limited visibility in public markets (<i>private placements</i>) • Firms lacking collateral or credit history (<i>debt crowdfunding</i>)
Medium risk/ return	"Hybrid" Instruments <ul style="list-style-type: none"> • <i>Subordinated loans/ bonds</i> • <i>Silent participations</i> • <i>Participating loans</i> • <i>Profit participation rights</i> • <i>Convertible bonds</i> • <i>Bonds with warrants</i> • <i>Mezzanine finance</i> 	<ul style="list-style-type: none"> • Young high-growth firms seeking cheaper expansion capital than VC and less dilution of control • Established firms with emerging growth opportunities • Firms undergoing transition and restructuring • Firms seeking to strengthen capital structure • Firms with well-established and stable earning power and market position
High risk/ return	Equity Instruments	
	<i>Business angel investments</i>	<ul style="list-style-type: none"> • Firms in their seed and early investment stage • Innovative ventures requiring investment and business-building skills
	Private equity <ul style="list-style-type: none"> • <i>Crowdfunding (equity)</i> • <i>Venture capital</i> 	<ul style="list-style-type: none"> • Firms in their seed, early and late investment stage • High-growth-potential firms, with capacity for high returns in a short time frame
	<i>Other private equity</i>	<ul style="list-style-type: none"> • Mature businesses undertaking restructuring or ownership change • Distressed businesses with potential for rescue
	Public equity <ul style="list-style-type: none"> • <i>Specialised platforms for public listing of SMEs</i> 	<ul style="list-style-type: none"> • Young, innovative and high-risk small firms • Firms with highly structured governance and management systems, and extensive disclosure

For certain situations, crowdfunding is a viable alternative to traditional funding. In fact, by reaching out to a large pool of potential backers over the internet without face-to-face contact, crowdfunding has provided female SME founders with the possibility to overcome the historical discrimination in accessing financing to start new ventures. According to the OECD, women on average get 1.3 more contributors than male-led campaigns and raise an average of 10.8 percent more money³¹.

However, despite the growth of this alternative in the past few years, the parties involved are requesting more trust and better information.

Crowd-lending requires reliable:

- Internet connectivity
- Access to the banking sector

³⁰ OECD, Enhancing SME access to diversified financing instruments, 2018.

³¹ OECD and European Commission, Policy Brief on Women's Entrepreneurship, 2017.

- Online payment systems for the funds to be transferred

Supporting an efficient bank-level encryption when handling personal information and providing the infrastructure for payments will promote and protect development of crowdfunding platforms.

Actions to foster the development of alternatives to traditional funding include:

- Facilitating the development of wide standards and strengthening public trust towards crowdfunding platforms, establishing clear rules and providing accurate information about the invested companies, as well as enhancing advice and execution support to ensure the offering is conducted appropriately.
- Using public programs to develop industry and service networks that will disseminate crowdfunding opportunities with platform transparency and protection of investors.
- Adopting rules of crowdfunding platforms specific to each country in order to better manage the expectations of all the parties. Crowdfunding needs coherent international standards and common rules since it is an international business.
- Developing and setting awareness programs to educate SMEs on the range of financing options available to them such as leasing, factoring, securitization, etcetera. Such awareness programs could be facilitated via public banks and would be meant to educate SMEs on the available strategies, evaluation methods for the alternatives, selection of the most suitable instrument for their needs and the importance of obtaining professional expert advice³².

Exhibit 8 | Invest Horizon

Invest Horizon is an EU project financed under Horizon 2020. It was designed to increase investment in innovative European SMEs through investment readiness development and investor sensitization. Invest Horizon's objectives were being met through promoting better readiness programs & policy practices; raising awareness amongst SMEs about investment sources, options & requirements; improving investors' knowledge of innovation sectors and investment models; coaching & benchmarking SMEs towards investment readiness and improving proposals & presentations; matching investment-ready SMEs with specialized investors; disseminating knowledge, sources, better practices and success stories.

- Promoting and developing cooperative finance, including cooperative banks and credit unions as these institutions have shown a greater propensity to finance SMEs.

Policy Action 2.4: Develop a comprehensive policy framework with extensive policies and strategies for SME access to capital markets, including actions to reduce cost and administrative burdens for application and listing

Capital market financing for SMEs is one of the financing modalities which requires more sophisticated and innovative institutional arrangements in order to respond effectively to SME needs. Long-term financing is important to SME sustainable growth and job creation. However, in countries where SMEs try to collect equity in order to remain independent, capital market financing is less prominent.

³² IFAC The Role of SMPs Providing Business Support to SMEs, New Evidence, 2016.

For SMEs to fill their finance needs in the capital markets, the development of a comprehensive policy framework is key. In this sense:

- G20 members' task would be to promote extensive national policies and strategies for SME access to capital markets with simple procedures and low cost structures, with application and listing fee reductions or exemptions, coupled with programs for early preparation of companies to capital markets. They should consider the costs related to SME listings and work on reducing them so the imposed requirements do not impede SME growth but still ensure sufficient investor protection.

Exhibit 10 | ELITE Connecting companies with capital

ELITE was launched by Borsa Italiana in 2012 with the support of Confindustria and Italian Institutions, such as the Ministry of Economic Development and the Ministry of Finance to help fast growing SMEs prepare and structure for their next stage of growth by giving them access to skills, qualified networks, and capital.

Elite is dedicated to SME orientation, it is a digital self-assessment tool to evaluate company readiness by identifying key strengths of the business, and providing suggestions on growth strategy to make companies internationally competitive.

- **GROWTH** (established program): dedicated to SME education, it is a dedicated capacity building program for companies, helping them to accelerate their long-term growth through a diverse and established network of qualified partners, such as company peers, corporate advisors and institutional bodies. It is a program for ambitious companies designed to share best practices and enhance growth opportunities also through a better understanding of financial markets.

Elite also offers a platform dedicated to access to finance, it is a newly launched web-based alternative financing pan-European platform that aims to streamline the capital raising process for fast growing companies. ELITE Club Deal offers multiple funding and investing options ranging from debt to equity. The platform aims to facilitate the capital raising process for SMEs by using a standard workflow and standard documentation.

By now, 890 companies joined ELITE, 552 of which are Italian. Almost 35 percent of these companies accessed financial and capital market through listing insurance of bonds, private equity operations, etcetera.

- The G20 would be in charge of fostering policy coordination among capital market regulators to develop a comprehensive policy framework with actions to reduce cost burden and tax incentive schemes for all types of SMEs (urban, rural, industrial, IT based, services).

Exhibit 11 | Borsa Italiana launches ExtraMOT PRO for the corporates' funding needs

ExtraMOT PRO is the "multilateral trading facilities" which was launched in Italy by Borsa Italiana in February 2013 to help private SMEs issue debt instruments, taking the opportunity and the tax benefit of the new Italian regulatory framework.

This initiative allows Italian companies to have access to institutional investors such as insurers or pension funds with a flexible approach, simpler, and easier than the regulated market.

The market development was articulated on the following steps:

- SIMPLIFIED and SME-FRIENDLY REGULATORY FRAMEWORK - ExtraMOT PRO is reserved only to professional investors: so listing requirements are essential and modular in line with the needs of investors.
- COST EFFECTIVE - Low listing fees and low indirect complainant cost.
- BUSINESS INFORMATION ACCESSIBILITY - Standardized platform (ExtraMOT PROLinK) to manage the ongoing information in order to reduce the gap related to information asymmetries and to facilitate next market deals for issuers.
- GROWTH - Education on SMEs about the international best practice (guidelines, training seminars, one-to-one support), visibility to issuers (press website and social media) and promotion of market players with different skills and excellences focused on SMEs (fixed income partnership).

The new segment was born to offer corporations and, in particular SMEs, a flexible and cost

effective national market where they could take opportunities and tax benefits arising from the new regulatory framework.

The regulatory infrastructure of the new segment provides corporations with easy and effective first access to capital markets. The only listing requirements are publishing the annual financial statements for the previous two years, the last ones audited, and providing an admission document in Italian or in English with some essential information. No listing prospectus is required in accordance with the Prospectus Directive. After the admission to listing, it is mandatory to publish audited financial statements, the disclosure of the rating if a public rating is assigned, the data concerning any changes in the bond holders' rights, and any technical information related to the characteristics of the instruments (e.g. payment dates, interest coupons, sinking schedule).

Since the launch, almost 200 Italian companies have issued over 300 debt instruments, raising 16 billion euros.

- Governments should also be encouraged to develop actions to reduce taxation, depending on the duration of the investment, in order to build a regular and sustainable capital flow for SMEs.

Exhibit 12 | Case of Study "Piani Individuali di Risparmio (PIR)"

Piani Individuali di Risparmio (PIR) are a form of tax-privileged medium/long-term investment introduced by the 2017 budget law and earmarked for individuals resident in Italy.

If the investment lasts for at least five years, the investor will avoid any tax on any gain deriving from the investment, such as capital gains or distributions. Therefore, due to the high level of taxation on capital gain in Italy (from 12.5% on government bonds to 26% on shares, corporate bonds, shares in mutual funds), the tax incentive makes PIRs a very appealing investment.

In Italy, mutual funds allow customers to benefit from the tax privileges offered by the PIR and to participate in the development of the country, by supporting national companies, in particular, SMEs.

What makes PIRs a novelty is the provision of an additional restriction on the investment choice that must be fulfilled in order to access the tax benefit. In addition to the need to bind the investment for five years, a PIR must have invested 70 percent of its assets in financial instruments issued by companies having their headquarters in Italy or in a European Member State, provided, in the second case, that the company is permanently established in Italy. A total of 30 percent of this 70 percent must be invested in Italian small and medium cap companies, whose shares are not included in the main Italian stock exchange index (FTSE MIB) or in the equivalent indexes of other countries. Consequently, only 30 percent of the overall amount can be invested free from any constraint.

PIRs are basically built as an alternative way to fund Italian Enterprises, especially SMEs, and this goal is achieved by setting limits to the possibility to diversify. PIRs are meant to solve one big problem of the Italian industrial system, where there are many SMEs, which are often family-owned companies, with noticeable difficulties in raising capital and accessing capital markets. These SMEs have a limited possibility to attract new shareholders and managers which could contribute to the growth of the company bringing about new know-how and experience.

In 2017, the first year after the PIR launch, collection significantly exceeded the Italian Ministry of Economy and Finance forecast, reaching 10.9 billion euros (out of which 2.3 billion euros will be invested in SMEs), with expectations to collect 50 billion euros (out of which 10.5 billion euros will be invested in SMEs) within a five-year term.

- It is important that G20 members encourage OECD Scoreboard on Financing SMEs and that Entrepreneurs be publicized broadly, be updated annually, and be featured prominently at high level G20 meetings, especially those focused on finance and/or SME issues.
- Strengthening financial market infrastructure for SMEs by consulting the private sector on the reform of the credit reporting framework, collateral registries, and insolvency rules, as well as by mandating the Financial Stability Board (FSB) to

improve the impact assessment of financial regulation with respect to lending to SMEs must be part of the G20 agenda³³.

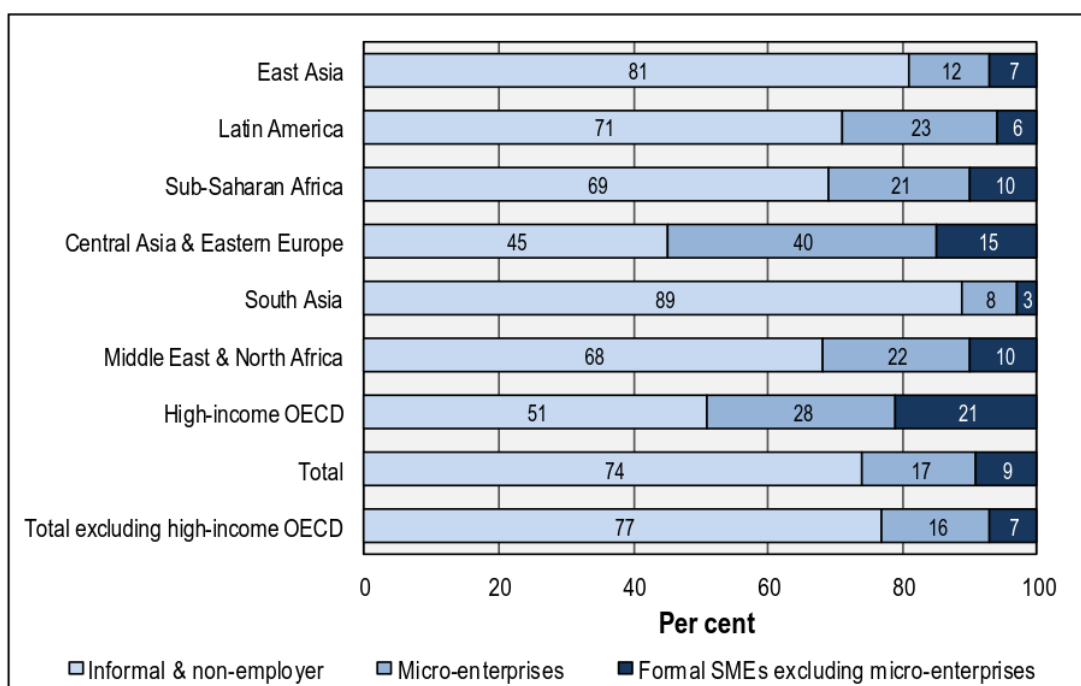
³³ B20 Germany, B20 SMEs Policy Paper, 2017.

TOPIC 3: SIMPLIFIED AND SME-FRIENDLY REGULATORY FRAMEWORK

CONTEXT

A total of two billion workers, representing more than 61 percent of the world's employed population and more than 90 percent of SMEs worldwide, are in informal employment. It is estimated that there are 420 to 510 million SMEs worldwide, out of which only 9 percent are formal (excluding micro-enterprises) and 80 to 95 percent are located in low- and middle- income countries³⁴. The high cost of doing business in the formal sector drives the SMEs into the informal sector.

Exhibit 13 | Estimated share of SMEs worldwide by region³⁵



Source: IFC: *Scaling-up SME access to financial services in the developing world* (Washington, DC, 2010).

Labor relations -where they exist- are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees. The informal sector is largely characterized as presenting low barriers to entry for entrepreneurship in terms of skills and capital requirements, family ownership, small scale of operation, outdated technology; and unregulated and competitive markets³⁶. Moreover, the informal economy is generally associated with a lack of decent working conditions, including limited rights, long working hours with very low pay (although not everyone in the informal economy is in poverty), and very strong gender segmentation, where women and youth are most likely to suffer marginalization. Thus, informal economies are disproportionately comprised of rural, poorly-educated, and female workers.

³⁴ ILO, Formalization of SMEs in supply chains in Latin America, 2016.

³⁵ ILO, SMEs and decent and productive employment creation, 2015.

³⁶ Innovaciones de Negocios, Reducing SMEs informal economy through institutionalization, 2014.

The effects of the informal sector on the economies are mainly related to low tax collection due to evasion, as well as the existence of workers with a lack of healthcare or retirement plans amongst other social security provisions, such as parental and sick leave. Informal activities could represent an obstacle for productivity and SMEs growth³⁷.

Countries which do not fully embrace the growing diversity of forms of work in their regulatory framework will either lack job creation or will push employment into the informal sector. For SMEs, regulatory frameworks involve much more than paying taxes regularly. They demand time, skills, resources, compliance, and set obstacles to compete in global markets and exposure to risks and contingencies.

Therefore, simplifying and reducing complexity for investors, entrepreneurs, SME owners and stakeholders of new companies is key to promoting sustainable growth and scalability, at all stages of operations.

Besides simplifying the current regulatory environment, in order to promote an SME-friendly policy and regulatory framework it is essential to draft future legislation assessing its potential impact on SMEs. This is crucial to avoid the excessive and unnecessary burdens that affect SMEs and will require reduction efforts later on.

SMEs need to develop budgets and projections, with investment in high value-added activities. Simplifying the administrative burden when applying for an incentive program, a subsidy or a credit at a public or private bank will make SMEs save a lot of time and money they sometimes cannot afford to invest.

Furthermore, the need for access to accurate and relevant information is necessary to ensure SME survival in today's competitive business world. Therefore, SME growth and development depend on their ability to access clear information in a timely manner and develop it efficiently.

RECOMMENDATION 3: G20 LEADERS SHOULD PROMOTE SIMPLIFIED REGULATORY ENVIRONMENTS FOR SMES, SPECIALLY PROVIDING THE NECESSARY CONDITIONS FOR SMES INTEGRATION INTO THE FORMAL ECONOMY.

POLICY ACTIONS

3.1: Facilitate an effective and timely transition from the informal to the formal economy, respecting and ensuring informal workers' rights and social protection

3.2: Encourage special support for new ventures

3.3: Reduce disproportionate tax compliance cost

3.4: Promote the application of policies to reduce costs associated with the hiring of workers by SMEs

3.5: Develop and install SMEs knowledge programs to improve the level of

³⁷ OECD, Informal economies, 2009.

business information accessibility in order to close the gap related to information asymmetries

Policy Action 3.1: Facilitate an effective and timely transition from the informal to the formal economy, respecting and ensuring informal workers' rights and social protection

to enter the formal economy by simplifying their labor laws and procedures, reducing or eliminating the cost of registering enterprises with the authorities and simplifying the procedures for hiring workers.

Moreover, in more formal enterprises, employment is of a better quality. A high incidence of enterprise informality is indeed associated with several negative developments, such as low productivity, a poor tax base, precarious working conditions and unfair competition.

Through an integrated strategy and a policy mix to promote employment and income opportunities, rights and social protection will facilitate the transition to the formal economy.

Exhibit 14 | Case of study: ILO Recommendation No 204

ILO Recommendation No 204 acknowledges the broad diversity of situations of informality including specific national contexts and priorities for the transition to the formal economy and it provides practical guidance to address these priorities. It provides guidance to members to achieve a threefold objective³⁸:

- 1) Facilitate the transition of workers and economic units from the informal to the formal economy, while respecting the workers' fundamental rights and ensuring opportunities for income security, livelihood, and entrepreneurship;
- 2) Promote the creation, preservation and sustainability of enterprises and decent jobs in the formal economy and the consistency of macroeconomic, employment, social protection and other social policies; and
- 3) Prevent the informalization of formal economy jobs.

- G20 members would be in charge of ensuring an integrated policy framework to guarantee that the transition to the formal economy is included in national development strategies or plans, as well as in poverty reduction strategies and budgets, considering, where appropriate, the role of different levels of government³⁹. It is key to reduce registration and compliance costs by introducing incentives, simplified tax and contribution regimes, and payment systems.

Exhibit 16 | Case of study: The informality Combat Program

This program was launched and implemented by the Ministry of Finance and Public Credit through the Tax Administration Service Department in Mexico in October, 2011. The way in which the government thought to eliminate informal business practices was through cash deposit tax, consisting in a 3 percent withholding on a fixed amount of cash deposits, which had the dual purpose of collecting taxes and detecting citizens who were not registered or who did not report all their income. More recently, online billing and complementary transaction procedures required

³⁸ ILO, Promoting Jobs, protecting people web page, 2016.

³⁹ ILO, Transition from the informal to the formal economy recommendation 2015 (No. 204), 2015.

when conducting transactions involving large figures have been implemented.

- Fostering a policy response that differentiates among the various types of informal enterprises finding specific ways to attend them will be core to the G20 agenda.

Exhibit 15 | Case of study: Training program for sidewalk vendors

In January 2016, when Buenos Aires City government decided to evict the sidewalk vendors in one of the neighborhoods of the city, the CAME (Argentine Confederation of Medium-Sized Enterprises) launched the crafting skills training program to provide the attendants with the tools to join the legal job market.

The courses were organized in 17 commissions under the following modules: “tools to boost sales”, “entrepreneur tools” and “employability tools”, where participants studied communication theories and elements, leadership and business plans. It also offered an overview to labor law and coexistence rules at the workplace, and an analysis of the IT tools for job searching, among other essential issues.

From this innovative experience, 940 entrepreneurs were born since they started designing or manufacturing their own products, whereas others forged alliances to think of their own business.

Policy Action 3.2: Encourage special support for new ventures

The creation of new ventures provides economies with a strong foundation for future growth and for developing a broader entrepreneurial culture. New ventures in the start-up stage often need to invest in people, equipment, product development and research. Such investments should have the necessary tax incentives and relief. These benefits and incentives should be targeted to each stage of the SME life cycle. The challenge for G20 members would then be:

- When developing new legislation, consider SME needs and concerns at the early policy development stage, in line with the ‘Think Small First’ principle (the ‘Think Small First’ principle is a key principle of policy making to ensure that legislation does not create excessive and unnecessary regulatory and administrative burdens on SMEs. It includes an assessment of the policy and legislative impacts on SMEs). In order to achieve this, the impact of future legislation on SMEs should be thoroughly and systematically assessed (e.g. through a consultation and a cost-benefit analysis).

Exhibit 17 | Argentina’s entrepreneurship law⁴⁰

The Argentine Senate approved Entrepreneurship Law, in March, 2017. This new law consists of a number of measures aimed at increasing entrepreneurial and investment activity in the country by improving the ease of doing business, providing new channels of financing and, perhaps most importantly, providing attractive new tax breaks and incentives for those interested in investing in Argentine startups and venture capital funds.

The following measures will play a significant role in launching the next wave of startups “Made in Argentina”:

Some of the mechanisms to support new business creation are:

- Creation of a new type of business entity called the “simplified shares company” (S.A.S.) which can be formed in 24 hours. Before the law, organizing a company in Argentina required an average of 45 to 60 days, which raised the costs of opening a business significantly, and favored the informal economy.
- Establishment of a National Trust Fund for Entrepreneurial Capital (FONDCE), through which the government can invest together with the private sector generating incentives for investors in high-impact projects. The FONDCE will be composed of 10 funds, 40 percent of

⁴⁰ CAC, Argentina’s entrepreneurship law, 2018.

which will represent public investment. The funds will be of a minimum of 30 million dollars each and will be run by private fund managers.

- Selection of 13 accelerators that may receive financial support to cover operational costs, as well as co-investment in local entrepreneurial projects.
- Regulation of crowdfunding mechanisms.
- Access to loans without interest (“Fondo semilla”) for entrepreneurs who are just taking their business projects off the ground.

- Establish a grace period regarding direct taxation, applicable to new ventures without granting extraordinary exceptions, in order to boost success and reduce the rate of failure.
- Consider encouraging a gradualist perspective in direct tax application, considering key factors easily ascertainable by taxpayers (e.g. reinvesting, talent attraction and preservation, turnover growth, etc.).
- Develop a special treatment for SME indirect taxes. VAT systems are complex for businesses generally, but particularly for SMEs which bear on average proportionally higher VAT compliance costs than large enterprises.

Exhibit 18 | European Commission SME VAT Proposal

On 18 January 2018 the European Commission proposed new simplification rules to help reduce VAT compliance cost for small businesses.

The Commission proposes that all small enterprises, VAT-exempt or not, with an annual turnover in the EU of up to 2 million euros be allowed to benefit from simplification measures relating to the VAT obligations.

Member States will also be allowed to continue exempting small businesses with a maximum turnover of 85,000 euros in one Member State, which will apply as the maximum exemption threshold common to all Member States. Moreover, the Commission proposes that small enterprises not established in a Member State could also avail of the exemption there, provided that they do not exceed the applicable threshold. Further, a safeguard threshold of 100,000 euros overall total turnover in the EU will prevent companies with large turnover from taking advantage of the SME exemption.

The proposal will reduce overall compliance costs that SMEs face to comply with VAT obligations by up to 18 percent per year and it will provide a more level playing field for small businesses, whether operating domestically or cross-border in the single market.

- Foster special deductions against taxable income for SMEs. A channel through which investment incentives may be provided is via special tax provisions that lower the effective price of acquiring capital. One such measure is an investment allowance (e.g. accelerated and enhanced depreciation allowances)⁴¹.

Exhibit 19 | Case of study: Accelerated depreciation⁴²

Australia’s 2015-16 Budget includes a number of tax measures that apply specifically to small businesses that will reduce tax payable. The combined impact of these tax-related measures over the forward estimates is to reduce tax revenue by over 5 billion dollars.

The Government will significantly expand accelerated depreciation for small businesses by allowing them with aggregate annual turnover of less than 2 million dollars, to immediately deduct assets they start to use or install ready for use, provided the asset costs are smaller than 20,000 dollars. This will apply for assets acquired and installed ready for use between 12 May 2015 and 30 June 2017. Assets valued at 20,000 dollars or more (which cannot be immediately deducted) can

⁴¹ OECD, Tax Policy Studies Taxation of SMEs in OECD and G20 Countries, 2015.

⁴² Australian Taxation Office, Budget 2015-2016, 2016.

continue to be placed in the small business simplified depreciation pool (the pool) and depreciated at 15 percent in the first income year and 30 percent each income year thereafter. The pool can also be immediately deducted, if the balance is smaller than 20,000 dollars over this period.

- Encourage a tax and administrative framework that creates a level-playing field for new ventures to boost success and reduce the rate of failure (e.g. simplifying SME taxation systems).

Exhibit 20 | Small and Medium Sized Enterprises Promotion Law

On July 2016, SME Promotion Law was passed in Argentina (the “Promotion Law”). The purpose of the Promotion Law is to foster the recovery of SMEs contemplating certain financial and tax benefits to that end.

The Promotion Law and its regulations set out two main aspects: a special tax treatment for SMEs by means of certain tax benefits and a series of measures to bolster productive investments. For example, in relation to tax benefits, the Promotional Law established a Value Added Tax (“VAT”) payment deferral. “Micro” and “Small” enterprises may pay the resulting amount in VAT returns on the second month following the original due date. Thus, the tax will still be assessed and reported by the taxpayer on its original due date (according to AFIP [Federal Public Revenue Agency] regulations), but taxpayers will be able to defer payment for 90 days. It is important to bear in mind that the benefit will be effective once the categorization is approved and that it will be rightfully lost when the beneficiary fails to file three monthly returns and /or fails to pay the tax.

The Promotion Law also establishes a series of measures to promote productive investments done by SMEs between 1 July 2016 and 31 December 2018. The following are understood to be productive investments: (i) capital goods to be used in the company’s economic activity and not for regular sale (purchase, construction, manufacture, elaboration or definite importation of new or used goods which are depreciable for income tax purposes, including the acquisition of reproductive cattle and excluding vehicles), and (ii) infrastructure projects.

The promotion measures are:

- Fiscal stability until 31 December 2018 for every tax (direct taxes, fees, and contributions). The Argentine provinces may adhere to this benefit by passing a Law in which they should expressly invite municipalities to pass similar laws for their jurisdictions;
- Computing as payment on account of income tax the amount arising from applying a 10 percent rate over productive investments (net of VAT), with a certain cap;
- Granting a non-transferable bond which may be used for payment of federal taxes, including customs duties, for the maximum amount of VAT credit arising from the productive investments. This bond may be used within 10 years as from its issuance.

The regulation provides that, in order to access to those benefits, the potential beneficiaries must file an affidavit through the Tax Authority’ website, together with a legal opinion issued by a public accountant backing the investments and the VAT tax credit arising from them.

Furthermore, it is regulated that benefits hereby provided will expire if, in the fiscal year in which the benefit was computed and/or in the following, the company reduces its employment level by 5 percent, in relation to the average employees declared during the previous fiscal year, considering certain circumstances.

Finally, it is provided that infrastructure projects under construction must be concluded within 4 years after the granting of the benefit and must remain as an asset of the beneficiary for a certain period of time once the project is concluded.

Policy Action 3.3: Reduce disproportionate tax compliance cost

SMEs competitiveness does not solely depend on structural factors such as infrastructure, but also relies on access to innovation and workforce education and training. Given the fact that tax compliance costs are largely made up of fixed and quasi-fixed expenses⁴³ and that investments in digitization/automation require certain scale and significant capital expenditure, reducing tax burden for SMEs

⁴³ The Use of SME Tax Incentives in the European Union. Discussion Paper No. 17-006. Centre for European Economic Research, 2017.

plays an important role in reducing the load and allows them to invest in scaling their business. It also allows SMEs to compete more fairly with international corporations that operate in an environment of reduced tax burdens themselves.

Digitization is helping make governments stronger, faster, and smarter as tax authorities are harnessing the power of digital to improve tax administration, counter fraud, and facilitate taxpayer compliance.

The lifecycle of digital tax administration can be divided into 5 levels⁴⁴:

- Level 1 “*E-file*”: Use of standardized electronic form for filing tax returns required or optional; other income data (e.g., payroll, financial) filed matched annually.
- Level 2 “*E-accounting*”: Submit accounting or other source data to support filings (e.g., invoices, trial balances) in a defined electronic format to a defined timetable; frequent additions and changes at this level.
- Level 3 “*E-match*”: Submit additional accounting and source data; government accesses additional data (bank statements), begins to match data across tax types and potentially across taxpayers and jurisdictions in real time.
- Level 4 “*E-audit*”: Level 2 data analyzed by government entities and cross-checked with filings in real-time to map the geographic economic ecosystem; taxpayers receiving electronic audit assessments with limited time to respond.
- Level 5 “*E-access*”: Government entities using submitted data to assess tax without the need for tax forms; taxpayers allowed a limited time to audit government-calculated tax.

Due to the administration of taxes performed by different taxing authorities, digital impacts and readiness of certain taxes can be considered more advanced than others within the same country.

Exhibit 21 | Brazil Digital Tax Administration

Brazil has detailed digital tax requirements including a public digital bookkeeping system directly through the tax authority. Tax authority regulations in Brazil have a complex digital tax administration environment where taxes are administered by varying levels of taxing authorities at the Federal, State and Municipal level where each authority is competing with each other for tax revenue. The information required by the different authorities might have overlapping requirements; however, file transmission formats might differ from one another. Electronic invoicing and digital bookkeeping are required by the tax authority to track and monitor all transactions (digitization level 4).

Therefore, the G20 member’s objectives should comprise:

- Promoting the creation of reduced tax systems for SMEs which may contain a reduced tax burden and lower compliance obligations (e.g. cash accounting) which would be gradually and progressively increased over a certain period of time. The transition for companies exceeding the SME status should be smooth, so as not to discourage SMEs from moving to the next level.
- Fostering analysis of current procedures to detect duplication, delays, and inefficiencies and then develop the provision of administrative reliefs and reduction or elimination of many compliance obligations (e.g. filings of returns, accounting books, informative systems, etc.).

⁴⁴ Ernst & Young, Tax Authorities Going Digital, 2018.

- Encouraging the coordination of government agencies at all levels (federal/national, provincial/regional, municipal/local) inside each country, with the clear objective to reduce superseded requirements and harmonize administrative duties.
- Promoting one-stop shop solution for filling documents and filling out forms. It should be enough to submit all the information of the SME once a year to one single- agency (e.g. Tax Institution). In this way, all other governmental agencies should simply access that data base and prevent SMEs from repeating all the paperwork.

Policy Action 3.4: Promote the application of policies to reduce costs associated with the hiring of workers by SMEs

Insufficient health coverage, informality, inadequate working conditions, uncertainty regarding retirement, risks arising from collective conflicts and job terminations, obstacles for reallocation, and recruitment of international workers are some of the most relevant factors that diminish SME productivity and ability to compete fairly, both locally and in global markets.

Nowadays, SMEs face barriers and constraints related to hiring new employees. Filling the abovementioned asymmetry will result in fair development for all the stakeholders and governments which will benefit from more economic activity, cross-border transactions and tax collection.

Thus, social protection and new job creation in SMEs are key investments that should be sponsored by governments as public policies.

In this respect, it would be crucial that G20 members:

- Encourage first-job promotional benefits. Benefits might include reduction of social security costs for SMEs that can be subsidized by the government and/or subsidies for salaries for a certain time period.
- Allow the labor relationship of local workers with foreign employers; through the creation of a registry for the latter, in order to apply the labor laws of the country where the work is performed, as well as requiring that foreign employers comply with local tax regulations to ensure fair competition, without the need for the foreign employer to establish a legal presence if such presence, is not required by corporate or tax regulations without increasing bureaucracy costs.

Policy Action 3.5: Develop and install SME knowledge programs to improve the level of business information accessibility in order to close the gap related to information asymmetries

Information accessibility is a corner-stone for the growth and development of SMEs. SMEs are limited in their capacity to access business information.

SMEs enhanced performance and development through availing professional expertise and advice is important, especially the support for SMEs lacking business, regulation and technological resources.⁴⁵

⁴⁵IFAC, The Relationship between Accountancy Expertise and Business Performance, 2016.

While the issue is central to the establishment, growth, and sustainability of SMEs, access to information is not given the same attention as other constraints faced by SMEs.

Filling such gap should be an important milestone in the G20 agenda. In this sense, the following actions are to be considered:

- Making trade information available for SMEs, through specific SME platforms and through the regular circulation via as many communication channels as possible prioritizing information sharing through mobile/smartphone, given the popularity of such devices. Regardless of the channel, published information should be “prompt, non-discriminatory and easily accessible”.

Exhibit 22 | Korean internet portal service

In 2011, the Korean government opened an internet portal service (<http://tradenavi.or.kr>) providing export-related service and information for SMEs. Through this portal, they provide one-stop information services connecting systems of various organizations including public agencies and business associations.

It provides all the necessary linked and integrated information for export. You can discover related tax rates, regulation, marketing, support information, and trade statistics through country name and sectors.

- Developing a single portal to be made available and accessible by SMEs which provides technical advice, training services, and mentoring programs.

Exhibit 23 | Singapore Single Window

Currently, there are two platforms which serve as National Single Windows for trade and logistics in Singapore.

TradeNet is the National Single Window for trade declaration. Launched in 1989, TradeNet integrates import, export and transshipment documentation processing procedures and enables the trade and logistics communities to fulfill their trade formalities. Through TradeNet, Singapore Customs and other competent authorities monitor the movement of goods and enforce health, safety and other regulatory requirements. Singapore's TradeNet is one of the best practice cases in implementing a Single Window environment. It is regarded as a successful case not only in the region but also in the world. One of the main benefits was a reduction in the turnaround time for processing of typical trade documents, which was reduced from 2-4 days to as little as 15 minutes. Most transactions are actually completed in less than 10 minutes. This resulted in productivity improvements. Studies suggest that TradeNet reduced trade documentation processing costs by 20 percent or more. Users of this platform found that there were significant savings accruing from filling out a single online form, versus over 20 paper forms in the past.

Launched in 2007, TradeXchange is the platform connecting the trade and logistics community. It offers a single electronic window for integrated workflow, submissions and inquiries to the sea ports, airports, maritime authorities, customs, and competent authorities.

In 2016, the National Trade Platform (NTP), developed by Singapore Customs in collaboration with the Government Technology Agency of Singapore (GovTech), was one of the potentially game-changing projects. The NTP was introduced and presented as an example of 'industry-level transformation'. It would bring an estimated 600 million Singapore dollars-worth of person-hour savings each year for Singapore's firms. NTP is designed to be a trade and logistics IT ecosystem connecting businesses, community systems and platforms, and government systems. It is going to be a one-stop trade portal for Business-to-Government (B2G) and Business-to-Business (B2B) services.

The NTP will help businesses improve productivity through digital exchange and re-use of data with their business partners and the government. In addition, NTP will be developed on an open architecture where third party solution providers or IT developers can leverage the toolkits provided to develop new services and applications based on market needs.

- Coordinating financial literacy training and technical assistance for SMEs and establishing monitoring programs that are easily accessible and achievable. Engaging with civil societies in organizing a regular event (such as a Financial

Literacy Week) in various online and physical locations to improve financial knowledge with education and digital tools.

Exhibit 24 | U.S. Small Business Administration⁴⁶

The U.S. Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise, and to maintain and strengthen the overall economy of the United States.

SBA aids primarily through its four programmatic functions:

Access to Capital (Business Financing): SBA provides small businesses with an array of financing for small businesses from the smallest needs in microlending -to substantial debt and equity investment capital (venture capital).

Entrepreneurial Development (Education, Information, Technical Assistance and Training): SBA provides free individual face-to-face, and internet counseling for small businesses, and low-cost training to nascent entrepreneurs and established small businesses in over 1,800 locations throughout the United States and U.S. territories.

Government Contracting (Federal Procurement): the SBA's Office of Government Contracting sets goals with other federal departments and agencies to reach the statutory goal of 23 percent in prime contract dollars to small businesses. This office also provides small businesses with subcontracting procurement opportunities, outreach programs, and training.

Advocacy (Voice for Small Business): Created in 1978, this Office reviews Congressional legislation and testifies on behalf of small business. It also assesses the impact of the regulatory burden on behalf of small businesses. Additionally, it conducts a vast array of research on American small businesses and the small business environment. The Chief Counsel of this office is appointed by the President of the United States.

The Financial Literacy and Education Commission was established under Title V of the Fair and Accurate Credit Transactions (FACT) Act of 2003 to improve the financial literacy and education of persons in the United States. The SBA wishes to bring financial literacy not only to America as a whole, but specifically to small businesses and future entrepreneurs. The commission was asked to develop a national financial education website (MyMoney.gov), along with a hotline (1-888-My Money) and a national strategy on financial education. It is chaired by the Secretary of the Treasury and comprises the heads of 22 federal entities, including SBA.

- Promoting a one stop shop institution for SMEs to receive advice about all the aspects the company has to fulfill, with a reasonable time schedule and keeping them up to date.
- Promoting Financial Technology (FinTech) and its potential to assist in narrowing the unmet demand for trade finance among SMEs with a view to develop specific policies and legislative initiatives, considering the huge potential FinTech has in enabling SME growth in terms of simplification, operational efficiency and access to finance.

⁴⁶ SBA, About the SBA: <https://www.sba.gov/about-sba/what-we-do/mission>, 2017.

TOPIC 4: SMES' PARTICIPATION IN THE DIGITAL ECONOMY

CONTEXT

We are well into an era of unprecedented disruption generated from rapid, intersecting shifts in business, technology, politics, and society. However, as different ideas, technologies, and industries collide –the unknown colliding with the known– new opportunities arise alongside new risks. A way to learn in this disruptive business environment is to use new technology collisions to detect unknown opportunities⁴⁷.

SMEs play a key role in innovation. The establishment of industry clusters is one of the most highly effective approaches to foster innovation. Technological clusters are an accessible way of familiarizing business people with new technology in order to incorporate new products or services. SMEs that are cluster-based have the potential to facilitate the growth of productivity and networks of global distribution. Technological clusters encourage a positive effect on the supply side in terms of jobs created, increased competitiveness of firms, upskilling of workers, etcetera.

Exhibit 26 | Technological Clusters

Clusters are sectoral and geographical concentrations of enterprises of any size as well as other key players in the local innovation ecosystem (i.e. research centers, universities, associations, financial institutions and public administrations) that develop, produce, and sell a range of related or complementary products and, thus, face common challenges and opportunities.

In 2014, the European Commission with its Communication “For a European Industrial Renaissance” highlighted clusters as being able to facilitate cross-sectoral and cross-border collaboration, helping SMEs to grow and internationalize. The Commission has launched several initiatives under COSME and Horizon2020 to support SME innovation and growth through clusters.

SMEs could become more competitive by fostering inter-enterprise linkages as well as collaborative relations with local support institutions.

Understanding the complexity of each business, the specificity related to each industry or service and its speed of change requires a collaborative open approach. Promoting technological clusters responds and facilitates all of the above being sectorial, open to innovative (or to-be) companies of any size (including large enterprises favoring access to GVCs), as well as various ecosystem players including research centers and local/regional authorities.

It is essential for the dynamics of the SME clusters to be able to penetrate the wider market. The ability to reach a wider market will spur talent development, productivity growth, and cause higher returns as well. Recent changes in the global trading landscape, such as the rise of global value chains (GVCs) and the digital transformation, offer new opportunities for SMEs to integrate into the global economy. Greater flexibility and the capacity to customize and differentiate products can give SMEs a competitive advantage in global markets, relative to larger firms, as they are able to respond rapidly to changing market conditions and increasingly shorter product life cycles⁴⁸.

Hence, fostering innovation in established SMEs can enhance aggregate productivity. SMEs can scale up and innovate at different stages of their life cycle.

⁴⁷ Carmine Di Sibio EY, When innovation emerges from unexpected collisions, 2018.

⁴⁸ Fostering greater SME participation in a globally integrated economy, 2018.

However, growth is not only important in itself, the type and quality of growth matters. To achieve sustainable growth a coordinated and comprehensive approach involving stability, economic growth and productivity is needed⁴⁹. Governments need to balance their actions. They must not only be guardians of stability, but also enablers of growth and investment.

Mechanisms such as platforms and portals that enable SMEs to find appropriate technology suppliers should be promoted by governments. This may be achieved by the free market; however, governments should provide an efficient infrastructure.

Investment in infrastructure and innovation are crucial drivers of economic growth and development. Digital transformation must be geographically inclusive and must focus on all types of businesses, from industry to services, rural to urban. An OECD report prepared for the G20 German Presidency identified digital infrastructure as a foundational element for businesses, as those economies that do not have strong digital infrastructures, do not perform as well in many other areas⁵⁰. In fact, inadequate infrastructure leads to a lack of access to markets, jobs, information and training, creating a major barrier to doing business⁵¹. Investment in infrastructure is thus a requirement for SME sustainability and competitiveness.

RECOMMENDATION 4: G20 LEADERS SHOULD ENHANCE INNOVATIVE INCLUSION THROUGH DIGITAL TRANSFORMATION, PROVIDING SMES THE NECESSARY INSTRUMENTS TO EQUALLY BENEFIT FROM DIGITALIZATION

POLICY ACTIONS

4.1: Promote technological clusters to enhance knowledge sharing and innovation

4.2: Invest in digital infrastructure to foster SME connectivity and close the digital gap

4.3: Promote awareness across SMEs on productivity monitoring and introduce policy measures to improve the efficiency of resource allocation allowing the most productive SMEs to achieve sufficient scale to enter global market

Policy Action 4.1: Promote technological clusters to enhance knowledge sharing and innovation

G20 members are to:

- Encourage the formation of a group of companies and systems that are able to develop concrete actions and promote linkages among SMEs, to support scale-

⁴⁹ OECD, The productivity challenge in financing inclusive and sustainable growth, 2018.

⁵⁰ OECD, Key Issues for Digital Transformation in the G20: Report prepared for a joint G20 German Presidency, 2017.

⁵¹ United Nations Development Program, Goal 9: Industry, innovation and infrastructure, 2017.

up and accelerate the diffusion and development of knowledge, through innovative practices and approaches, while promoting healthy interactions among industries, research institutions, and universities at the same time.

Exhibit 27 | Medellín's Business and Innovation Centre

With the aim of creating an innovation ecosystem for the city, Medellín's local authorities developed *Ruta N*, a business and innovation center for entrepreneurship promotion in technology and knowledge-based sectors. *Ruta N* focuses on four elements as enablers of innovation: entrepreneurial talent, strong networks both inside and outside the ecosystem, available capital for innovation and adequate and sufficient infrastructure for start-ups and innovative companies within the city's innovation district.

The search for entrepreneurial talent has been one of the driving forces in the initiative, by developing capabilities, especially among the youth, for addressing the city's biggest challenges. With initiatives such as *Horizontes*, created in 2014, more than 7,000 underprivileged students (11-17 years old) have joined training programs in technology sectors, including robotics, nanotechnology, and engineering. Another example is *Web Bootcamp*, a fast-track training program to develop aptitudes in programming and software development, skills highly in demand in the ICT sector and with little supply in the city. Nearly 150 students have benefited from the program. Connecting university knowledge with business is also a priority. For this, *Ruta N* started the *Innovation Challenge*, an initiative that connects undergraduate students and firms to solve industry challenges jointly.

Another priority for *Ruta N* has been to promote innovative capital solutions for young entrepreneurs in the city. Emerging projects require appropriate financial instruments that consider their inherent risk, and the current offer of the financial sector is limited. To close this gap, *Ruta N* has structured *Ruta N Capital*, a mechanism with flexible financing and specialized mentoring services to support projects with potential. *Ruta N Capital* selects projects using a "scoring for innovation" evaluation tool to measure the risk, "novelty" degree and social impact of the project, allowing to determine the amount and conditions of financing. The mechanism can incorporate both private and public resources. It also combines flexible financing, with low interest rates and grace periods, with a specialized mentoring service for experts.

Ruta N has also introduced a local development strategy to link its initiatives to the city. The center has articulated a *market access network (MAN)*, with more than 50 allies that offers knowledge and specialized services to facilitate innovative businesses to reach new markets and increase exports. Other networks, such as the *smart capital network* that gathers 14 venture capital funds and connects them to startups, the *co-working spaces network* and the *business accelerator network* have been introduced. Finally, citizen participation has also been encouraged in these initiatives. In 2015, Medellín created the *Cities for Life* global platform to connect with other innovation ecosystems. In recent years, the city facilitated the landing of more than 135 companies from 21 different countries, creating more than 2,000 qualified new jobs and laying the grounds for a 172-hectare innovation district.

Medellín's efforts to reinvent itself have shown that innovation, entrepreneurship and the empowerment of the youth can be valuable tools to enhance local development⁵².

- Encourage action plans for SME cluster development, design, execution, and guidance.
- Foster skill development within the enterprises with specific programs for entrepreneurs and their colleagues, as well as supportive platforms. In this way, G20 members would face the task of encouraging the relevant institutions to support the establishment of Competence Centers and Digital Innovation Hubs aimed to boost awareness and digital innovation in SMEs, to create stronger

⁵² Latin American Economic Outlook Youth, Skills and Entrepreneurship, 2017.

links between research institutions and enterprises and to promote cross-border cooperation.

Exhibit 28 | Digital Innovation Hubs

On 19 April 2016, the European Commission launched the first industry-related initiative of the Digital Single Market package. One of the most important components of the Digitized European Industry effort is the push to develop a network of Digital Innovation Hubs (DIHs).

DIHs are one-stop shops that help companies to become more competitive with regard to their business/production processes, products or services using digital technologies. They are based upon technology infrastructure (competence center) and provide access to the latest knowledge, expertise, and technology to support their customers with piloting, testing, and experimenting with digital innovations. DIHs also provide business and financing support to implement these innovations, if needed across the value chain. As proximity is considered crucial, they act as a first regional point of contact, a doorway, and they strengthen the innovation ecosystem. A DIH is a regional multi-partner cooperation (including organizations like RTOs, universities, industry associations, chambers of commerce, incubator/accelerators, regional development agencies and even governments) and can also have strong linkages with service providers outside their region supporting companies with access to their services.

In addition, G20 members should:

- Encourage the formation of groups of companies and systems that may develop clear actions to speed up the dissemination and development of knowledge, while promoting healthy interactions among industries, research institutions, and universities at the same time.
- Design innovation policies and establish clear rules to set up or acquire innovation funds, looking for the continuous sustainable technological innovation of SME core products/services (e.g. foster a more effective and efficient policy and business environment for cross border e-commerce development and raise awareness and upgrade the skills of SMEs to take full advantage of cross-border e-commerce platforms to engage in international markets and global value chains)

Policy Action 4.2: Invest in digital infrastructure to foster SME connectivity and close the digital gap

Technology must be embraced by all SMEs, regardless of the industry and sector they operate in. Moreover, it is important to widen their knowledge and make them aware of all technologies offered by the digital economy. A critical success factor for digital transformation is investment in infrastructure.

The G20 member's role in this field would be to:

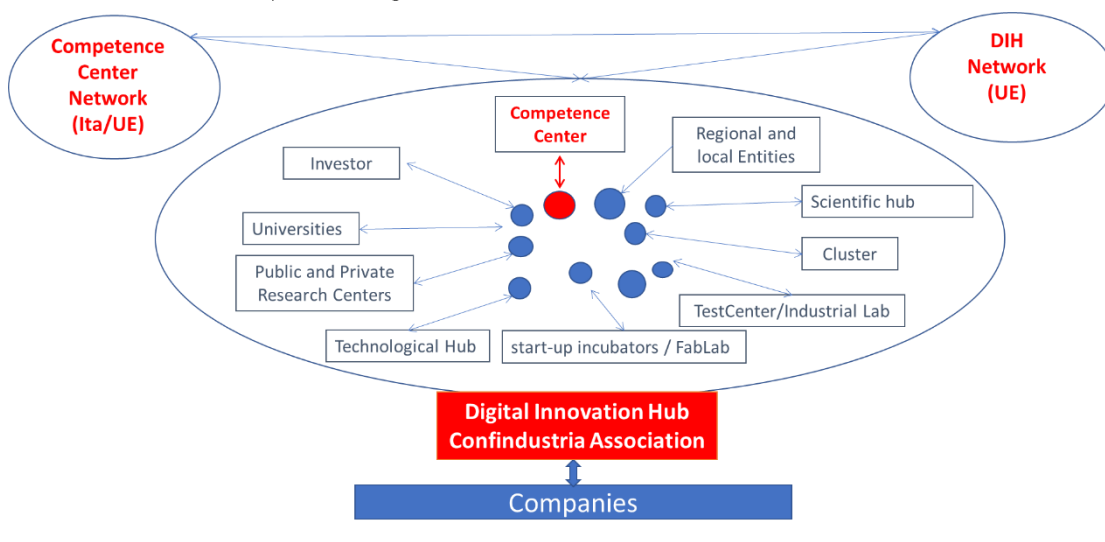
- Accelerate investments in digital infrastructure by developing national plans to close the access and usage gaps, and bridge other digital divides. Clear, measurable standards must be set to ensure broadband can be effectively accessed.
- Help promote the adoption of digital technologies among SMEs, including the incorporation of cloud computing and other sophisticated digital technologies, by eliminating the traditional barriers to investing in digital technologies (e.g. incentives should be directed in a way that support innovation).

Exhibit 29 | Piano Nazionale Industria 4.0

In order to boost productivity and accelerate technological upgrading, the national plan “Industria 4.0” of the Italian Government is focusing on strategic measures to support innovative investments and develop skills, such as: Super and Hyper amortization schemes, tax credits on R&D and on profits from intangible and patented assets, strengthening of the vocational training, creation of I4.0 Technological Clusters and Industrial PhDs. Moreover, complementary measures being implemented are the establishment of Competence Centers and of a network of Digital Innovation Hubs, Ultra Broadband with a fiber to the factory approach, cooperation on the internet of things (IoT) open standards and interoperability, easier access to financing and productivity salary taxation exchange.

Industria 4.0 includes:

- Roadshow I4.0 local/regional level: training seminars (presentations, video, private tributes) in order to increase confidence among SMEs on digital innovation topics.
- Assistance to high-potential SMEs: one to one support to high-potential SMEs that aim to integrate the I4.0 guidelines in their business process and step up to an industrial scale.
- National communication plan: a national communication plan enforced through the press, websites, and social media, with the aim of making the industrial sector keener on I4.0 and digital innovation.
- Competence Centers/DIHs: pitching and instructing on the latest digital and manufacturing technologies (about how to use them, benefits in terms of innovation, productivity and firm competition, etc.). DIHs service portfolio includes: awareness dissemination (meetings, workshops, etc.); supporting the activities of industrial companies for Industry 4.0-based project implementation; access to tax breaks provided by Piano Industria 4.0; activities for assessing digital readiness; activities to facilitate manufacturing company access to innovation regional ecosystem; design and delivery of training initiatives and coordination activities for implementing I4.0-based factories.



Policy Action 4.3: Promote awareness across SMEs on productivity monitoring and introduce policy measures to improve the efficiency of resource allocation allowing the most productive SMEs to achieve sufficient scale to enter global markets

Around the globe SMEs are the main providers of employment but show significantly lower levels of productivity than large enterprises. Productivity reflects the ability to produce more output by better combining inputs, through fostering new ideas, technological innovations and enhanced business models. An SME cannot raise its productivity without doing new things or doing old things better.

Key to both global competitiveness and national prosperity is business productivity, facilitated by investment in and adoption of tools and technologies that deliver efficiencies and cost savings.

A deeper trade integration through GVCs will create new markets and raise productivity by creating, capturing, developing, and delivering value to customers. In this way, the digital transition opens a range of new opportunities for scaling up. Innovation and expansion to international markets are fundamental drivers in boosting productivity.

Only an integrated approach, coordinating the efforts of business and governments, can offer an adequate response to global challenges. Policy consistency is also needed to encourage SMEs to pursue productivity improvements and undertake the necessary innovations and investments.

SMEs should not just be able to carry out isolated, short-term productivity projects. They should be capable of looking into their long-term goals and developing a sustainable productivity culture and strategy.

The G20 member's role in this field would be to:

- Promote awareness on the importance of defining and measuring productivity across SMEs.
- Foster a legal system that allows an easy entry for new firms and a quick exit for inefficient firms to restructure. Bankruptcy regimes can foster experimentation with risky technologies if they do not sanction business failure too severely.
- Promote well designed framework policies improving the efficiency of resource allocation (capital and talent) to the most productive and innovative firms, in order to facilitate up-scaling entry into global markets. For example, lowering the cost to close a business increases the ability of economies to learn from new innovations and releases resources to underpin the reallocation of capital toward more innovative business ventures.

Exhibit 30 | Case of study: Fast Track Exit Mode

The Indian Ministry has issued, in 2011, guidelines for "Fast Track Exit (FTE) Mode" to give the opportunity for companies to get its name struck off from the Register. It is a fast process to close a company.

Companies can proceed for FTE if:

- They have not commenced any business activity or operation since incorporation or at least one year must have been passed since last business activity or operation.
- They voluntarily want to close, after clearing all its liabilities, by obtaining the consent of at least 75% or more shareholders in terms of paid-up capital.

Inoperative companies which are not generating any revenue nor complying with its annual filing, have got a new option to close company without paying huge additional fees. It is a short process in which company can be closed without huge documentation and it is time-saving.

- Set programs in sectors / industries that are already competitive and have high potential of growth to promote insertion of SMEs in GVCs. GVCs boost productivity via a number of channels, including stronger competitive pressures that reduce the cost of intermediate inputs and access to a wider variety of foreign inputs that embody more productive technologies.

- Support productivity-enhancing investments, particularly in knowledge-based capital, such as R&D investments and organizational capital through tax benefits combined with a broader set of direct support policies (e.g. grants, loans and guarantees).

ANNEX I: LIST OF ABBREVIATIONS

B2B	Business-To-Business
B2C	Business-To-Consumers
CGS	Credit guarantee schemes
DIH	Digital Innovation Hubs
FACT	Fair and Accurate Credit Transactions
FinTech	Financial Technology
FTE	Fast Track Exit
FSB	Financial Stability Board
GDP	Gross Domestic Product
GVC	Global Value Chains
HR	Human Resources
ILC	International Labor Conference
ILO	International Labor Organization
MAN	Market Access Network
NTP	National Trade Platform
OECD	Organization for Economic Cooperation and Development
SDG	Sustainable Development Goals

ANNEX II: SCHEDULE OF TASK FORCE EXCHANGES

#	Date	Location	Theme
1	March 1st	Teleconference	Inception Document and Participation Chanel Results
2	April 5th	Córdoba	1st Policy Paper Draft Discussion
3	April 25th	Teleconference	2nd Policy Paper Draft Discussion
4	May 8th	Paris	3rd Policy Paper Draft Discussion
5	July 13th	Teleconference	4th Policy Paper Draft Discussion & Advocacy Process
6	October 4th& 5th	Buenos Aires	B20 Summit, 2nd advocacy meeting

ANNEX III: TASK FORCE MEMBERSHIP LIST

Name	Company/Organization	Deputy	Country
COORDINATION GROUP			
Chair			
Inés Berton	TEALOSOPHY	ARGENTINA	
Co-Chairs			
Martin Castelli	BLUE STAR GROUP		ARGENTINA
Victor Dosoretz	CÁMARA ARGENTINA COMERCIO Y SERVICIOS (CACCS)	Maria Laura Sluga	ARGENTINA
Pedro Cascales	CONFEDERACION ARGENTINA DE LA MEDIANA EMPRESA (CAME)	Micaela Tommasini	ARGENTINA
Luca G. Donelli	EUROPEAN CONFEDERATION OF YOUNG ENTREPRENEURS		ITALY
Graciela Fresno	FED. EMPR. HOTELERA GASTRONÓMICA DE LA REP. ARG. (FEHGRA)	Verónica Sanchez	ARGENTINA
Mary Andringa	VERMEER CORPORATION	Daryl Bouwkamp	UNITED STATES
B20 Sherpa			
Fernando Landa	BUSINESS 20	Paula Ini	INTERNATIONAL
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Fernando Coccaro	EY		ARGENTINA
Fernando Paci	EY	Alejandro Kelman	ARGENTINA
Concept Partner			
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Ayelén Bargados	OBSERVATORIO PYME		ARGENTINA
Maria Paula Cellone	OBSERVATORIO PYME		ARGENTINA
Network Partner			
Norman	INTERNATIONAL CHAMBER OF	Rachel Dignam	UNITED

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Tomas Canosa	UNION INDUSTRIAL ARGENTINA		ARGENTINA

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Rafael Paz	ACEITERA GENERAL DEHEZA	Margarita Fux	ARUBA
Pablo Galeano	ALESTE		ARGENTINA
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