

Regulation and Innovation: Supporting SMEs

**THE INTERNATIONAL CONFERENCE:
BETTER REGULATION AS A DRIVER OF
SUSTAINABLE GROWTH IN THE EUROPEAN UNION**

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Administrative formalities are an integral part of modern economies

- Formalities are the main link between authorities and businesses and citizens
- Governments require standard information to implement regulations and provide public services and products
- As policies become more targeted to specific issues and populations, the need for information increases
- But many regulations abuse of *ex ante* “paper” controls (‘command and controls’) rather than controlling actual compliance and change of behaviors (performance-oriented)

Main impacts of regulatory costs

On businesses

- Reduces economic efficiency
- hamper entry into markets
- impose unnecessary costs (time & money)
- divert resources away from productive investments
- Cumulative effects
- Impedes innovation and business responsiveness
- Discourages entrepreneurship

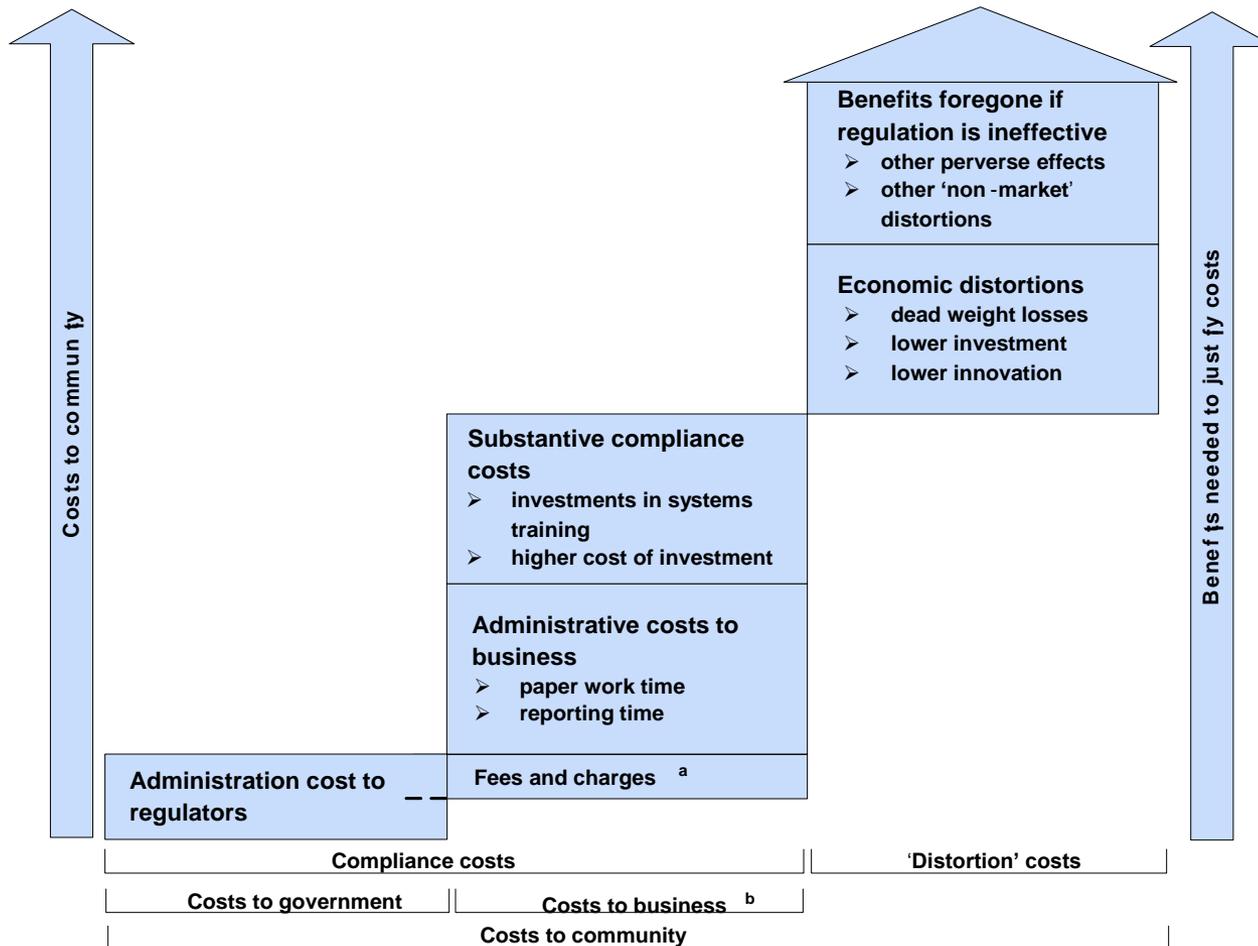
On the economy

- Encourages informality and growth of the grey sector
- Fosters corruption and discretionary abuses

On government

- Paper renders it own costs
- Hinders achieving policy goals

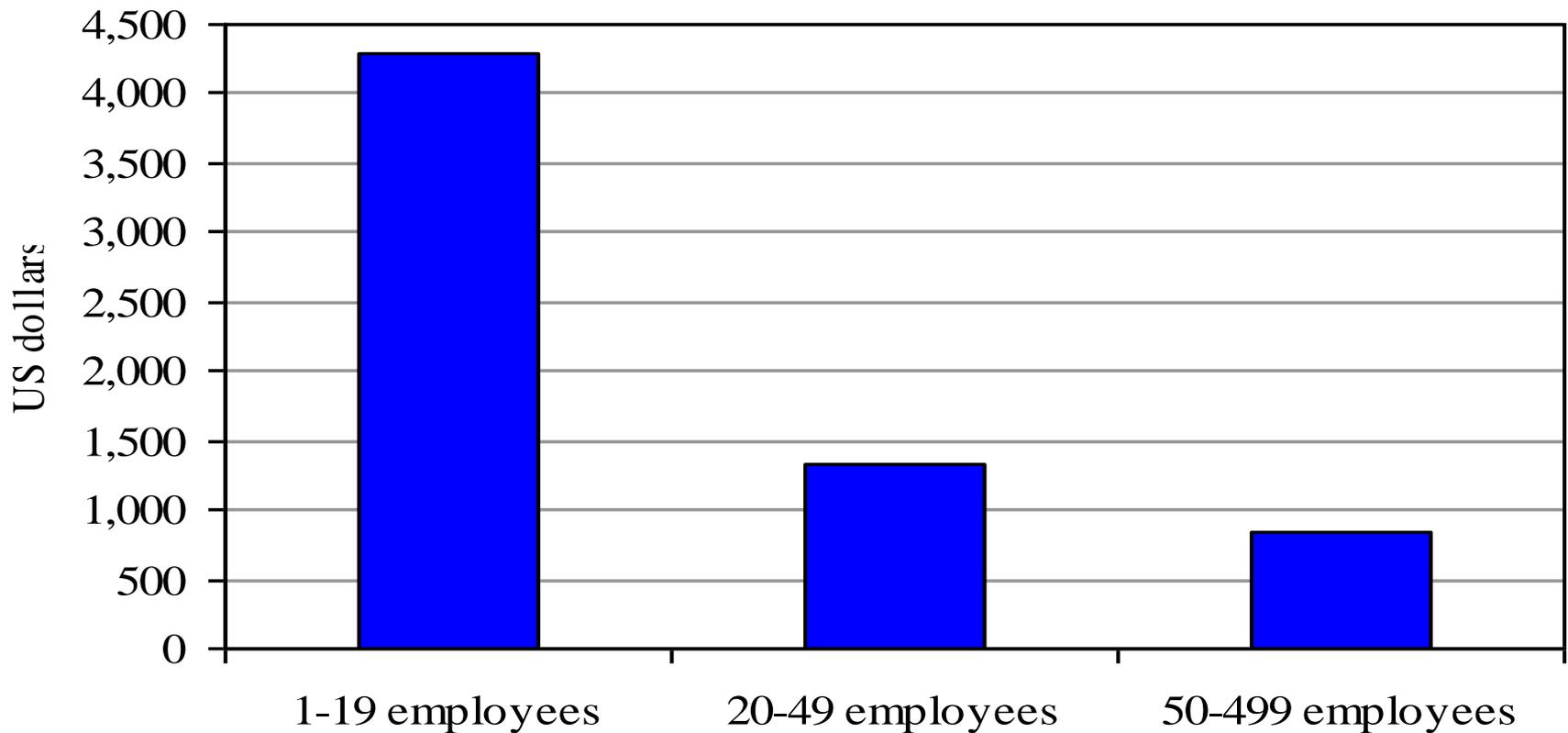
Multiple costs of regulation



Regulatory costs on SMEs; a “dramatic effect”

- Small business bear a disproportionate share to the burdens of regulation

Annual administrative costs
per employee by company size, average all countries



Regulatory practices for SMEs

One-Stop Shops

- Reduce search costs

- Improve awareness of requirements

Time-limits on administrative decision making

- 'Silence is Consent' / Statutory time limits enforces accountability

Licences reduction programmes

- From ex ante licensing to ex post control

Technological means of reducing transaction costs

- Rationalisation/reduction

- Single identification number

- Forms on-line ("dematerialisation")

- On-line on-way transactions (electronic signatures)

Special SME activities

- Institutional support

- Special financing measures

- Exemptions from requirements

SMEs and Innovation (1)

- The importance of new and small firms to the innovation process has increased
 - upgrading the aggregate productivity
 - commercialisation of knowledge
 - breakthrough innovations
 - participate strongly in the flow of knowledge
- But there is an uneven distribution of small firm innovation
 - a few highly innovative and high-growth-potential firms and the great majority of SMEs that innovate very little compared to their larger counterparts
 - policies will need to distinguish clearly between these two groups of firms

SMEs and Innovation (2)

- SMEs innovate less than large firms
 - product innovation,
 - process innovation,
 - non-technological innovation,
 - new-to- market product innovations
 - collaboration in innovation activities.
- Significant burdens on SME innovation performance
 - new firms and SMEs do not innovate alone
 - strong spatial clustering in knowledge-driven sectors
 - connecting to global knowledge flows
- Social entrepreneurship
 - aims to provide innovative solutions to unsolved social problems through some form of business

THANK YOU