

Brief introduction

- The COVID-19 pandemic and ensuing policy decisions made 2020 a particularly challenging year for small and medium-sized enterprises (SMEs) in Portugal. As a result, SME value added and employment experienced a drop. With the introduction of a more stringent lockdown in mid-January 2021, Portugal's GDP is projected to fall again in the first quarter of 2021, before starting to recover in the second quarter, with a major rebound in the summer months (European Economic Forecast, Winter 2021 (interim), February 2021). There are therefore some indications that the situation could evolve positively later in the year for SMEs.
- The *accommodation and food services* sector experienced a sharp contraction, with SME value added declining by 42.9%. The *information and communication* sector, in contrast, performed particularly well, with value added growing 5.6%.
- SMEs are of particular importance for Portugal's 'non-financial business economy'. However, their productivity, calculated as value added per person employed, was approximately EUR 23 300, around half the EU average.

SME DEVELOPMENT 2019-2020



SMEs in the 'non-financial business sector'. Estimates produced by DIW Econ.

	ENTERPRISES		PERSONS EMPLOYED		VALUE ADDED	
	NUMBER	SHARE	NUMBER	SHARE	€ BILLION	SHARE
SMEs (0 -249 persons employed)	873 242	99.9%	2,556 100	76.2%	57.0	67.4%
LARGE ENTERPRISES (250+ persons employed)	924	0.1%	796 404	23.8%	27.6	32.6%

The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from national and Eurostat databases.

SME-RELATED STRENGTHS AND CHALLENGES

KEY STRENGTHS

- Portugal is one of the EU's strongest performers in entrepreneurship. Its vibrant entrepreneurial ecosystem is based on tech-based start-ups and is supported by vouchers, dynamic non-governmental organisations (e.g. Beta-i), and training activities. In addition, the government has incorporated entrepreneurship into the education curriculum, and it now receives significant media attention.
- Portugal performs well in sustainability, with 96% of SMEs having taken resource-efficiency measures. The government has addressed environmental challenges with political measures such as incentives to improve energy efficiency and subsidies for renewable energy sources.
- According to the European Innovation Scoreboard 2020, Portuguese SMEs are relatively strong innovators. More than half of them innovate in-house and/or have introduced product and process innovations, compared to only 3 in 10 SMEs on average in the EU.

KEY CHALLENGES

- According to the EU Justice Scoreboard 2020, Portugal performs poorly when it comes resolving civil and commercial legal cases. In addition, the country offers little legal protection to borrowers and lenders. These business conditions may have a disproportionate effect on SMEs due to their limited resources.
- Despite some progress, the Portuguese population has a low level of digital skills, as reported by the Digital Economy and Society Index. There is also a concern about the level of skills of workers in SMEs and the digitisation of SMEs. This issue is being partly addressed through programmes such as INCODE.2030, the UpSkill programme and in-depth IT training. In 2020, the government approved a new action plan for digital transition built on the previous policies. The plan gives clear priority to digital skills.
- Access to finance is still a barrier for Portuguese SMEs, as revealed in the World Bank's Doing Business rankings and the 2020 OECD Financing SMEs and Entrepreneurs Scoreboard. SMEs are particularly affected by limited access to alternative sources of finance and non-compliance with payment terms (late payments).

OTHER KEY SME-RELATED BRIEF INSIGHTS



IMPACT OF COVID-19 CRISIS ON SMEs

Over 100 000 companies applied to temporarily lay off staff in 2020, as reported in an International Labour Organisation report. In April 2020, 25% of companies were not able to make payments beyond 1 month, with this number rising to 50% in the *accommodation, restaurant or hospitality* sector, according to the Bulletin for the Portuguese Economy.



MARKET ACCESS

According to the 2020 Single Market Scoreboard, Portugal scored better than the EU average in incorporating single market directives into national law, but infringement procedures are on the rise. Portuguese SMEs also find difficulties in accessing the public procurement market, with the share of public contracts awarded to them one of the lowest in the EU.



REGULATORY BURDEN

Portugal performs in line with the EU average on responsive administration. The main aspect in need of improvement is the relatively long time needed to get permits and licences – among the highest in the EU.

The government is addressing the regulatory and administrative burden by launching initiatives to simplify and digitalise public services (e.g. as part of the SIMPLEX programme to improve the responsiveness of public administration). Regulatory impact analysis has been extended, and now includes a systematic 'SME Test' and coordination mechanisms between different policy areas. Further efforts are needed to reduce the administrative burden for businesses and increase stakeholder involvement in the impact analysis.